Dragon
Mining

ASX ANNOUNCEMENT **21 MARCH 2007**

DRAGON MINING LIMITED 31 DECEMBER 2006 FINANCIAL STATEMENTS

Dragon Mining Limited ("Dragon" or the "Company") is pleased to report a net profit after tax and minority interests for the 6 month period ended 31 December 2006 of $4.1 million (12 months to 30 June 2006: loss of $30.8 million). The Company's maiden profit is principally attributed to the sale of the Pampola Gold Project.

Svartliden produced 22,814 ounces in the 6 months to 31 December 2006 at a cash cost of US$457/oz and the Company has reported net cash inflows from operations of $2.1 million. Due to the high depreciation and amortisation charges at Svartliden, the company made a gross loss from operations of $1.1 million.

The average selling price of gold shipped (including gold delivered into the existing hedge book) for the 6 months ended 31 December 2006 was US$529/oz.

The Company has changed its financial year to 31 December to match its overseas subsidiaries and therefore the financial statements represents the 6 months from 1 July 2006 to 31 December 2006.

The development of the Sarvisuo Mine is progressing well and the Company anticipates the recommissioning of the Vammala Process Facility in June 2007, production soon thereafter and ore from the Sarvisuo stopes before year end.

In 2007, the Company is undertaking an aggressive exploration program in the highly prospective tenure around each of its key assets in Sweden and Finland with the goal of increasing the reserve base.

Dragon has transitioned into a cash flow positive gold mining company and is now well positioned to become a long life, multi mine gold producer.

For and on behalf of
Dragon Mining Limited

Peter G Cordin
Managing Director

DRAGON MINING LIMITED

(FORMERLY DRAGON MINING NL)

ABN 19 009 450 051

FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDED
31 DECEMBER 2006

DIRECTORS' REPORT

Your Directors submit the report of Dragon Mining Limited ("Dragon Mining" or "the Company") for the 6 month period ended 31 December 2006.

Directors

The names and details of the Company's Directors in office during the period 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 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 was employed by the Outokumpu Group from 1985 until October 2006 and was a member of the Outokumpu Group Executive Committee during years 2000-2005. He is currently President and CEO of Outokumpu Technology Oy, a publicly listed company as of 10 October 2006. Mr Järvinen is a Board member of the Finnish RFID–antenna producer Intune Circuits Oy and International Copper Association Ltd and Chairman of the Board of the Finnish-Latin American Trade Association. He was also a Board member of the Swedish mining and metals group Boliden AB (publ) during years 2003-2005 and Chairman of the Board of Outokumpu Mining Oy during 2002-2006.

DIRECTORS' REPORT (continued)

Peter Lawson Munachen
FCA
Non-Executive Director

Mr Munachen was appointed 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.

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	-	-	2,000,000	-	-	40,000
PG Cordin	-	-	4,000,000	-	-	-
TT Järvinen	-	-	1,000,000	-	-	-
PL Munachen	-	-	1,000,000	-	-	-

Corporate Information

Dragon Mining Limited is a company limited by shares that is incorporated and domiciled in Australia and whose shares are publicly traded on the Australian Stock Exchange. Prior to 16 February 2007, Dragon Mining was a no liability company. Dragon Mining is the ultimate parent entity.

Nature of Operations and Principal Activities

The principal activities of entities within the consolidated entity during the period 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 period.

DIRECTORS' REPORT (continued)

Results
The Company has changed its financial year end from 1 July to 31 December to match its overseas subsidiaries. The 31 December 2006 financial data represents the 6 months from 1 July 2006 to 31 December 2006, while the comparative information for the previous reporting period represents 12 months from 1 July 2005 to 30 June 2006.

The net profit after tax and minority interests of the consolidated entity for the 6 month period ended 31 December 2006 was $4,132,582 (12 months to 30 June 2006: loss of $30,861,228). The net profit was mainly attributable to a $7,384,048 gain on the disposal of the Pampalo Gold Project.

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

Employees
The consolidated entity had 87 employees as at 31 December 2006 (30 June 2006: 75 employees).

Review of Operations

(a) Production
The Svartliden Gold Mine in Sweden produced 22,814 ounces of gold in the 6 months to 31 December 2006 at a cash cost of A$598/oz (or US$457/oz) compared to gold production of 49,141 ounces at a cash cost of A$470 (or US$352/oz) for the 12 months ended 30 June 2006.

Problems with the process plant once again hindered production, which resulted in lower throughput and recoveries. A thorough review of the process plant was completed by an experienced Australian consultant during the 6 months and a report was submitted to the Company which identified effective ways to improve availability, recoveries and reduce operating costs. The recommendations have been reviewed and the Company is committed to implementing them over the coming 12 months. Capital expenditure will be required.

(b) Exploration and Development
Exploration programs recommenced in mid 2006 and concentrated on advancing Dragon Mining's exploration properties located in Sweden and Finland.

Svartliden Gold Mine, Sweden
Encouraging results were obtained from step out drilling at Svartliden, extending gold mineralisation 50m beyond the previous known limit and 150m beyond the previous limit of detailed drilling.

Orivesi Gold Mine, Finland
With positive results from the first round of verification drilling at the 300m level at Sarvisuo, development work for the project continued and the Sarvisuo decline reached the 340m level which will enable the second round of verification drilling to commence in the first quarter of 2007.

Vammala Plant
A timetable for recommencing mining operations at Orivesi is being finalized. It is expected that the mill will be started in the third quarter of 2007 with production following shortly thereafter.

(c) Corporate
The following significant activities occurred during the 6 month period ended 31 December 2006:

- The sale of the Pampalo Gold Project was completed following the receipt of the outstanding balance of the purchase price of € 5.4 million from Endomines AB.
- Dragon Mining entered into a Sale and Purchase Agreement with Eurogold Limited for the purchase of the Saulyak Gold Project in Ukraine.
- Dragon Mining repaid the balance of the Svartliden Project Debt Facility of approximately US$ 2.0 million provided by Macquarie Bank.

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.

DIRECTORS' REPORT (continued)

Significant Events after Period End

Purchase of Saulyak Gold Project, Ukraine
Dragon Mining has agreed with Eurogold Limited that it will not be proceeding with the purchase of the Saulyak Gold Project in Ukraine as announced on 21 December 2006.

The Directors believe that the receivable from Eurogold Limited is fully recoverable at the date of this report.

Sale of Vulcan Shares and Options
In February 2007, Dragon Mining sold its interest in Vulcan Resources Limited for a total cash consideration of $2.05 million.

Change of Company Name
On 16 February 2007, Dragon Mining changed its corporate structure from that of a public no liability company to a public company limited by shares, and now trades as Dragon Mining Limited.

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

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 the Orivesi Gold Mine;
- 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 29,825,000 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.

	Number of Options
Balance at the beginning of the period	24,350,000
Share options issued	
Exercisable at $0.14	1,000,000
Exercisable at $0.175	1,000,000
Exercisable at $0.21	6,075,000
Total options issued from 1 July 2006 to the date of this report	**8,075,000**
Share options exercised during the period	-
Share options cancelled during the period	(2,600,000)
Total number of options outstanding as at the date of this report	**29,825,000**

Refer to the Remuneration Report and notes 20 and 28 for further details of Company options.

Subsequent to year end, 75,000 options were issued, and are included in the above reconciliation.

DIRECTORS' REPORT (continued)

Partly paid shares
No shares were issued on exercise of partly paid shares during the 6 months to 31 December 2006 (12 months to 30 June 2006: nil), and 75,000 partly paid shares were cancelled. No partly paid shares were outstanding at the date of the report.

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

Convertible notes
23,645,289 convertible notes were issued during the 2005-06 financial year at $1.05 per note. The notes have a 10% coupon rate and are convertible into ordinary shares in February 2011 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 (Audited)
This report outlines the remuneration arrangements in place for Directors and executives of Dragon Mining.

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 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. It should be noted 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.

DIRECTORS' REPORT (continued)

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 Directors' fees not exceeding an aggregate of $300,000 per annum have been approved by shareholders at the Annual General Meeting in November 2006.

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.

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.

DIRECTORS' REPORT (continued)

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.

Variable Remuneration – Long Term Incentive (LTI)

Objective

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

As such LTIs are made to executives and directors 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 and directors 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 PG 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 Cordin receives fixed remuneration of $300,000 per annum.

DIRECTORS' REPORT (continued)

Mr MD Naylor, the 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).
- Mr Naylor receives fixed remuneration of $200,000 per annum.

<u>LTI Options</u>

All executives' and directors' 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)

Compensation of Key Management Personnel (Consolidated)

		Short Term		Post Employment	Long Term	Termination Benefits	Equity	
		Salary & Fees	Non-Monetary Benefits	Superannuation	Other		Share-based Payment	Total
		$	$ (1)	$			$ (2)	
Directors								
AE Daley	Dec 2006	37,500	-	-	-	-	113,364	150,864
	Jun 2006	41,250	-	-	-	-	-	41,250
PG Cordin	Dec 2006	137,500	-	12,375	-	-	257,720	407,595
	Jun2006[3]	169,617	-	14,437	-	-	-	184,054
PL Munachen	Dec 2006	18,750	-	-	-	-	56,682	75,432
	Jun 2006	31,750	-	-	-	-	-	31,750
TT Järvinen	Dec 2006	18,750	-	-	-	-	56,682	75,432
	Jun 2006	31,750	-	-	-	-	-	31,750
CT Ansell[4]	Dec 2006	-	-	-	-	-	-	-
	Jun 2006	37,500	-	3,375	-	-	-	40,875
DJ Searle[4]	Dec 2006	-	-	-	-	-	-	-
	Jun 2006	127,787	-	9,611	-	50,000	-	187,398
Executives								
MD Naylor[5]	Dec 2006	83,117	8,827	8,100	-	-	-	100,044
	Jun 2006	19,391	1,371	1,848	-	-	23,740	46,350
DW Wilkins	Dec 2006	26,650	-	-	-	-	-	26,650
	Jun 2006	108,549	-	-	-	-	-	108,549
N Edwards	Dec 2006	66,420	-	5,978	9,784	-	-	82,182
	Jun 2006	100,000	-	9,000	17,928	-	-	126,928
R Uusitalo[6]	Dec 2006	48,406	4,230	-	-	-	-	52,636
	Jun 2006	143,142	12,296	-	-	-	-	155,438
U Kuronen	Dec 2006	66,261	201	-	-	-	-	66,462
	Jun 2006	119,740	390	-	-	-	-	120,130
KE Marttala[7]	Dec 2006	152,040	1,281	30,060	-	-	-	183,381
	Jun 2006	68,243	-	27,623	-	-	-	95,866
I Haga[8]	Dec 2006	-	-	-	-	-	-	-
	Jun 2006	188,285	390	43,305	-	-	-	231,980
S Solomons[9]	Dec 2006	-	-	-	-	-	-	-
	Jun 2006	162,454	-	14,428	-	-	-	176,882
F Bowman[10]	Dec 2006	-	-	-	-	-	-	-
	Jun 2006	91,142	-	42	-	-	-	91,184
	Dec 2006	655,394	14,539	56,513	9,784	-	484,448	1,220,678
	Jun 2006	1,440,600	14,447	123,669	17,928	50,000	23,740	1,670,384

(1) 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.

(2) 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.

(3) 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.

(4) Resigned 20 March 2006.

(5) Appointed 22 May 2006.

(6) Resigned 20 November 2006.

(7) Appointed 16 January 2006.

(8) Resigned 10 February 2006.

(9) Resigned 28 February 2006.

(10) Resigned 15 November 2005.

The current period is the six months ended 31 December 2006, while the comparative period is the twelve months ended 30 June 2006.

None of the remuneration is performance based. However, annual salary reviews are based on performance.

DIRECTORS' REPORT (continued)

Compensation options: granted and vested during the period (Consolidated)

During the period options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel and directors as disclosed above. 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.

	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
6 months to 31 Dec 2006							
Director							
AE Daley	2,000,000	7 Dec 2006	0.06	0.210 (i)	-	7 Dec 2006	(ii)
PG Cordin	1,000,000	7 Dec 2006	0.08	0.140	-	7 Dec 2006	(ii)
PG Cordin	1,000,000	7 Dec 2006	0.07	0.175	-	7 Dec 2006	(ii)
PG Cordin	2,000,000	7 Dec 2006	0.06	0.210	-	7 Dec 2006	(ii)
TT Jarvinen	1,000,000	7 Dec 2006	0.06	0.210 (i)	-	7 Dec 2006	(ii)
PL Munachen	1,000,000	7 Dec 2006	0.06	0.210 (i)	-	7 Dec 2006	(ii)
Total	8,000,000						
12 months to 30 June 2006							
Executive							
MD Naylor	500,000	22 May 06	0.05	0.175	-	22 May 06	(ii)
Total	500,000						

(i) In order to exercise these options, the volume weighted share price of Dragon Mining must exceed $0.25 for 5 consecutive days.

(ii) There is no expiry date on the options, though for valuation purposes they have an expected life of 3 years.

Options granted as part of remuneration

	Value of options granted during year	Value of options exercised during year	Value of options lapsed during year	Total value of options granted, exercised and lapsed during year	% remuneration consisting of options for the year
Directors					
AE Daley	113,364	-	-	113,364	75
PG Cordin	257,720	-	-	257,720	63
TT Jarvinen	56,682	-	-	56,682	75
PL Munachen	56,682	-	-	56,682	75

Shares issued on exercise of remuneration options (Consolidated)

No key management personnel or director exercised remuneration options in the periods ended 31 December 2006 or 30 June 2006.

DIRECTORS' REPORT (continued)

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 period were:

	Board		Audit		Remuneration	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
AE Daley	4	4	1	1	-	-
PG Cordin	4	4	-	-	-	-
TT Järvinen	4	4	-	-	-	-
PL Munachen	4	4	1	1	-	-

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

Rounding
The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

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.

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 period the following fees were paid or payable for non-audit services provided by the auditor of the parent entity.

	6 months to 31 Dec 2006 $
Tax compliance services	12,500
	12,500

DIRECTORS' REPORT (continued)

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 period ended 31 December 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 20th day of March, 2007 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 Limited, 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 31 December 2006 and of their performance, for the 6 month period 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 31 December 2006.

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

PL Munachen
Director

Dated at Perth this 20th day of March 2007

CORORATE GOVERNANCE STATEMENT

The Board of Directors of Dragon Mining Limited 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.

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. The Company complies 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 matter specified below.

Recommendation Reference	Notification of Departure	Explanation for Departure
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 and Risk Management Committee only has 2 members.

A description of the Company's main corporate governance practices are set out below.

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 removing 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.

CORORATE GOVERNANCE STATEMENT (continued)

1. The Board of Directors (continued)

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;
- 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 PG 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.

CORORATE GOVERNANCE STATEMENT (continued)

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 PG Cordin.

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the MD and senior management. 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.

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.

CORORATE GOVERNANCE STATEMENT (continued)

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.

8. External Auditors

The Company's current external auditors are Ernst & Young. 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.

Ernst & Young'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 period ended 31 December 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.

CORORATE GOVERNANCE STATEMENT (continued)

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 PERIOD ENDED 31 DECEMBER 2006

	Note	Consolidated Entity		Parent Entity	
		6 months to 31 Dec 2006 $'000	**12 months to 30 Jun 2006 $'000**	**6 months to 31 Dec 2006 $'000**	**12 months to 30 Jun 2006 $'000**
Continuing Operations					
Revenue from gold sales	2(a)	16,008	29,679	-	-
Cost of sales	2(c)	(17,063)	(30,143)	-	-
Gross loss		(1,055)	(464)		-
Other income	2(b)	8,390	675	1,789	2,227
Exploration expenditure written off		(591)	(9)	-	-
Other expenses	2(e)	(2,738)	(5,438)	(1,697)	(30,975)
Profit/(loss) from continuing operations before treasury, tax and finance costs		4,006	(5,236)	92	(28,748)
Finance costs	2(d)	(1,712)	(2,842)	(1,619)	(1,306)
Profit/(loss) before treasury and tax		2,294	(8,078)	(1,527)	(30,054)
Treasury – gains/(losses)	2(f)	2,151	(16,152)	(882)	2,033
Profit/(loss) before tax		4,445	(24,230)	(2,409)	(28,021)
Income tax expense	3	(309)	(6,632)	-	-
Profit/(loss) from continuing operations after income tax		4,136	(30,862)	(2,409)	(28,021)
Net (profit)/loss attributable to outside equity interests		(3)	1	-	-
Net profit/(loss) attributable to members of Dragon Mining Limited		4,133	(30,861)	(2,409)	(28,021)
Earnings per share (cents per share)					
Basic profit/(loss) per share	22	0.94	(7.21)		
Diluted profit/(loss) per share	22	0.94	(7.21)		

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

BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	Consolidated Entity		Parent Entity	
		31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
CURRENT ASSETS					
Cash and cash equivalents	4	11,553	12,627	4,783	11,346
Trade and other receivables	5	3,177	3,810	736	-
Inventories	6	2,347	2,778	-	-
Investments and other financial assets	7	2,311	1,917	-	-
Other current assets	11	505	299	31	33
TOTAL CURRENT ASSETS		19,893	21,431	5,550	11,379
NON-CURRENT ASSETS					
Trade and other receivables	5	-	-	37,163	32,765
Property, plant and equipment	9	15,848	18,088	14	8
Mineral exploration and development costs	10	36,437	34,338	1,080	1,234
Investments and other financial assets	7	-	-	7,420	7,420
Other non-current assets	11	2,772	2,434	-	-
TOTAL NON-CURRENT ASSETS		55,057	54,860	45,677	41,427
TOTAL ASSETS		74,950	76,291	51,227	52,806
CURRENT LIABILITIES					
Trade and other payables	12	6,419	6,848	764	810
Interest bearing loans and borrowings	13	145	325	-	-
Provisions	14	156	414	40	31
Derivative financial instruments	29	31,622	35,111	-	-
Other liabilities	15	456	198	-	-
TOTAL CURRENT LIABILITIES		38,798	42,896	804	841
NON-CURRENT LIABILITIES					
Trade and other payables	12	-	-	3,678	3,677
Interest-bearing loans and borrowings	13	23,426	26,141	23,127	22,760
Provisions	14	4,121	4,034	36	21
Deferred tax liabilities	3	309	-	-	-
Other liabilities	15	133	394	-	-
TOTAL NON-CURRENT LIABILITIES		27,989	30,569	26,841	26,458
TOTAL LIABILITIES		66,787	73,465	27,645	27,299
NET ASSETS		8,163	2,826	23,582	25,507
EQUITY					
Contributed equity	16	71,677	71,677	71,677	71,677
Reserves	17	1,532	331	2,576	2,092
Accumulated losses		(65,050)	(69,183)	(50,671)	(48,262)
Total parent entity interest		8,159	2,825	23,582	25,507
Minority interest	18	4	1	-	-
TOTAL EQUITY		8,163	2,826	23,582	25,507

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

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2006

	Attributable to Equity Holders of the Parent					
CONSOLIDATED	***Contributed Equity $'000***	***Accumulated Losses $'000***	***Reserves $'000***	***Total $'000***	***Minority Interests $'000***	***Total Equity $'000***
At 1 July 2005	65,793	(38,322)	472	27,943	2	27,945
Currency translation differences	-	-	(2,233)	(2,233)	-	(2,233)
Total expense for the period recognised directly in equity	-	-	(2,233)	(2,233)	-	(2,233)
Loss for the period	-	(30,861)	-	(30,861)	(1)	(30,862)
Total recognised income and expense for the period	-	(30,861)	(2,233)	(33,094)	(1)	(33,095)
Share based payment	-	-	24	24	-	24
Issue of share capital	6,200	-	-	6,200	-	6,200
Issue of convertible notes	-	-	2,068	2,068	-	2,068
Share capital issue costs recognised directly in equity	(313)	-	-	(313)	-	(313)
Forfeit of partly paid shares	(3)	-	-	(3)	-	(3)
At 30 June 2006	71,677	(69,183)	331	2,825	1	2,826
Currency translation differences	-	-	717	717	-	717
Total income for the period recognised directly in equity	-	-	717	717	-	717
Profit for the period	-	4,133	-	4,133	3	4,136
Total recognised income and expense for the period	-	4,133	717	4,850	3	4,853
Share based payment	-	-	484	484	-	484
At 31 December 2006	71,677	(65,050)	1,532	8,159	4	8,163

PARENT						
At 1 July 2005	65,793	(20,241)	-	45,552	-	45,552
Loss for the period	-	(28,021)	-	(28,021)	-	(28,021)
Total recognised income and expense for the period	-	(28,021)	-	(28,021)	-	(28,021)
Share based payment	-	-	24	24	-	24
Issue of share capital	6,200	-	-	6,200	-	6,200
Issue of convertible notes	-	-	2,068	2,068	-	2,068
Share capital issue costs recognised directly in equity	(313)	-	-	(313)	-	(313)
Forfeit of partly paid shares	(3)	-		(3)	-	(3)
At 30 June 2006	71,677	(48,262)	2,092	25,507	-	25,507
Loss for the period	-	(2,409)	-	(2,409)	-	(2,409)
Total recognised income and expense for the period	-	(2,409)	-	(2,409)	-	(2,409)
Share based payment	-	-	484	484	-	484
At 31 December 2006	71,677	(50,671)	2,576	23,582	-	23,582

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

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2006

	Note	Consolidated Entity		Parent Entity	
		6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000	6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000
Cash flows from operating activities					
Receipts from customers		16,528	28,698	-	-
Payments to suppliers and employees		(13,076)	(26,760)	(1,083)	(3,135)
Interest received		278	361	229	329
Interest expenses		(1,375)	(1,327)	(1,245)	(687)
Payment of government security		(236)	(2,264)	-	-
Proceeds on close out of foreign exchange forward contracts		-	3,537	-	-
Net Operating Cash Flows	4	2,119	2,245	(2,099)	(3,493)
Cash flows from investing activities					
Payments for property, plant and equipment		(2,286)	(3,357)	(9)	(4)
Proceeds from sale of property, plant and equipment		34	851	-	2
Proceeds from sale of Pampalo gold project		9,279	968	-	-
Proceeds from sale of shares		-	296	-	296
Payment for exploration, evaluation and development expenditure capitalised		(6,190)	(5,910)	-	-
Advances to controlled entities		-	-	(3,721)	(12,678)
Loans to other entities		(734)	-	(734)	-
Net Investing Cash Flows		103	(7,152)	(4,464)	(12,384)
Cash flows from financing activities					
Proceeds from issue of shares		-	6,200	-	6,200
Share issue costs		-	(313)	-	(313)
Proceeds from issue of convertible notes		-	24,828	-	24,828
Repayment of bank loans		(3,280)	(15,781)	-	(4,886)
Net Financing Cash Flows		(3,280)	14,934	-	25,829
Net increase/(decrease) in cash and cash equivalents		(1,058)	10,027	(6,563)	9,952
Cash and cash equivalents at the beginning of the period		12,627	2,497	11,346	1,394
Effects of exchange rate changes on cash and cash equivalents		(16)	103	-	-
Cash and cash equivalents at the end of the period	4	11,553	12,627	4,783	11,346

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

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate Information
The financial report of Dragon Mining Limited for the 6 month period ended 31 December 2006 was authorised for issue in accordance with a resolution of the Directors on 19 March 2007.

Dragon Mining Limited is a company limited by shares that is incorporated and domiciled in Australia and 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 Preparation
The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

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 and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

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 Company has changed its financial year end from 1 July to 31 December to match its overseas subsidiaries. The 31 December 2006 financial data represents the 6 months from 1 July 2006 to 31 December 2006, while the comparative information for the previous reporting period represents 12 months from 1 July 2005 to 30 June 2006.

The ability of the Company and the consolidated entity to develop the projects as planned and meet business objectives for the next 12 months is dependent upon the Svartliden Gold Project being profitable and producing positive cash flow to meet all its obligations, the Orivesi Gold Project being cash flow positive after the planned recommissioning of the Vammala Processing Facility, and the Company securing funding to meet any unanticipated shortfall.

(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").

The following new accounting standards have recently been issued or amended. These standards have not been adopted for the reporting period ended 31 December 2006, and no change to the Group's accounting policy is required.

- AASB 2005-10 Amendments to Australian Accounting Standards AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 123 & AASB 1038;
- AASB 7 *Financial Instruments: Disclosures*;
- AASB 101 *Presentation of Financial Statements;*
- Interpretation 8 *Scope of AASB 2;*
- Interpretation 9 *Reassessment of Embedded Derivatives*; and
- Interpretation 10 *Interim Financial Reporting and Impairment.*

The following amendments are not applicable to the consolidation entity and therefore have no impact:
- AASB 1049 *Financial Reporting of General Government Sectors by Governments;* and
- Interpretation 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies.*

(d) Basis of Consolidation
The consolidated financial statements comprise the financial statements of Dragon Mining Limited and its subsidiaries (the "consolidated entity" or "Group") as at the end of each reporting period.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of Consolidation (continued)
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 for 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income Taxes (continued)
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.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

Tax consolidation legislation
Dragon Mining Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

(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 from 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 period-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.

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 differences 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Foreign Currency Transactions and Balances (continued)
(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 period-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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

(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%

The assets residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, Plant and Equipment (continued)
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 the income statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.

Disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carry amount of the asset) is included in the income statement in the year the asset is derecognised.

(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 period 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 income statement, 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 (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

Financial assets classified as held-for-trading are included in the category 'financial assets at fair value through profit and loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit and loss.

(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 assets, 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 (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 period 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
(i) Wages, salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave
The liability for long service leave is recognised and measured as the present value of expected future payments to be made is respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash flows.

Contributions to defined contribution superannuation plans are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Employee Benefits (continued)
(iii) Share based payments
Equity-based compensation plans are provided to employees via the Group's share option plan. Under AASB 2 *Share Based Payments*, the Group determines the fair value of options issued to directors, executives and members of staff as remuneration and recognises that amount as an expense in the income statement over the vesting period with a corresponding increase in equity.

The fair value at grant date is determined using a Black & Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

(t) 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.

(u) 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.

(v) 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.

(w) 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 the income statement immediately.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Interest on the liability component of the convertible note is recognised as an expense in the income statement.

During the year ended 30 June 2006 the Group raised funds by issuing convertible notes as disclosed in note 13. The 30 June 2006 balance sheet allocated the full amount of funds raised of $24,827,553 to interest bearing loans and borrowings. The convertible note has now been allocated between the equity portion and the debt portion. This has resulted in a decrease of $2,067,000 in the 30 June 2006 interest bearing loans and borrowings balance and corresponding increase in reserves at that date. These amounts have been amended in the financial statements for comparative purposes. The change in allocation has no impact on the income statement or earnings per share for the twelve months ended 30 June 2006.

(y) 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.

(z) 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.

(aa) 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.

(ab) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Significant Accounting Judgments, Estimates and Assumptions

(i) Determination of mineral resources and ore reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for decommissioning and restoration. The information in this report as it relates to ore reserves, mineral resources or mineralisation is reported in accordance with the Aus.IMM "Australian Code for reporting of Identified Mineral Resources and Ore Reserves". The information has been prepared by or under supervision of competent persons as identified by the Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(ii) Mine Rehabilitation provision

The consolidated entity assesses its mine rehabilitation provision half-yearly in accordance with the accounting policy stated in note 1(t). 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.

(iii) 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(w). 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 Group's 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 known.

(iv) 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.

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 6 month period to 31 December 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 estimated 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.

Write-downs of controlled entities are based upon the net assets of the Company's subsidiaries.

(v) 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 that 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 period.

(vi) 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 (continued)

2 REVENUE AND EXPENSES

	Consolidated Entity		Parent Entity	
	6 months to 31 Dec 2006 $'000	**12 months to 30 Jun 2006 $'000**	**6 months to 31 Dec 2006 $'000**	**12 months to 30 Jun 2006 $'000**
(a) Revenue				
Gold sales	16,008	29,679	-	-
(b) Other income				
Net gain on disposal of exploration assets	7,384	-	-	-
Finance revenue	706	433	1,789	2,048
Gain on sale of plant and equipment	34	8	-	2
Other	266	234	-	177
Total other income	8,390	675	1,789	2,227
Total Revenue	24,398	30,354	1,789	2,227
Breakdown of finance revenue				
Bank interest	266	433	217	402
Subsidiaries	-	-	1,572	1,646
Total finance revenue (on historical cost basis)	266	433		2,048
Fair value change on held-for-trading investments	440	-	-	-
	706	433	1,789	2,048
(c) Cost of sales				
Cost of production	13,492	22,871	-	-
Depreciation of mine properties	2,525	4,744	-	-
Amortisation of exploration and development costs	1,046	2,528	-	-
Total cost of sales	17,063	30,143	-	-
(d) Finance costs				
Interest	1,345	1,946	1,252	1,306
Borrowing costs	367	-	367	-
Fair value change of held-for-trading investments	-	896	-	-
	1,712	2,842	1,619	1,306
(e) Other expenses				
Management and administration expenses	2,095	3,110	1,540	3,275
Depreciation of non-mine site assets	351	768	157	318
Impairment of plant and equipment	292	1,317	-	-
Loss on sale of plant and equipment	-	243	-	-
Write down of subsidiary loans	-	-	-	27,382
	2,738	5,438	1,697	30,975

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 REVENUE AND EXPENSES (continued)

	Consolidated Entity		Parent Entity	
	6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000	6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000
(f) Treasury				
Realised gain on gold forward contracts	2,234	-	-	-
Unrealised gain/(loss) on gold forward contracts	1,217	(23,451)	-	-
Realised gain on close out of foreign exchange forward contracts	-	1,582	-	-
Net foreign currency gains/(losses)	(1,300)	5,717	(882)	2,033
	2,151	(16,152)	(882)	2,033

3 INCOME TAX

The major components of income tax are:

	Consolidated Entity 6 months to 31 Dec 2006 $'000	Consolidated Entity 12 months to 30 Jun 2006 $'000	Parent Entity 6 months to 31 Dec 2006 $'000	Parent Entity 12 months to 30 Jun 2006 $'000
Income statement				
Current income tax				
Current income tax charge/(benefit)	309	-	-	-
Deferred income tax				
Deferred tax asset not bought to account as realisation is not considered probable	-	6,632	-	-
Relating to origination and reversal of temporary differences	-	-	-	(203)
Relating to recognition of previously unrecognised tax losses	-	-	-	203
Income tax expense/(benefit) reported in the income statement	309	6,632	-	-

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:

	Consolidated Entity 6 months to 31 Dec 2006 $'000	Consolidated Entity 12 months to 30 Jun 2006 $'000	Parent Entity 6 months to 31 Dec 2006 $'000	Parent Entity 12 months to 30 Jun 2006 $'000
Accounting profit/(loss) before income tax	4,445	(24,230)	(2,409)	(28,021)
At the Group's statutory income tax rate of 30% (30 June 2006: 30%)	1,334	(7,269)	(723)	(8,406)
Share issue costs	(157)	(158)	(157)	(158)
Option expense	145	-	145	-
Borrowing costs	101	-	101	-
Unrealised foreign exchange	264	-	264	-
Effect of different rates of tax on overseas income	(278)	516	-	-
Deferred tax asset not recognised that was booked in previous periods	-	6,632	-	-
Provision for non-recoverability of loans	-	-	-	8,215
Other	(466)	115	321	-
Tax asset offset against tax liability	(634)	-	49	-
Unrecognised tax losses/deferred tax assets	-	6,796	-	349
Income tax expense/(benefit) reported in the income statement	309	6,632	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 INCOME TAX (continued)

	Balance Sheet		Income Statement	
	31 Dec 2006 $'000	30 Jun 2006 $'000	6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000
Deferred income tax				
Deferred income tax at reporting date relates to the following:				
CONSOLIDATED				
Deferred tax assets				
Convertible note interest	188	214	26	(214)
Deferred expenses	-	-	-	6
Leave entitlements	22	16	(6)	6
Rehabilitation provision	49	-	(49)	1,091
Depreciation expense	83	-	(83)	
Unrealised losses on gold forward contracts	8,854	6,566	(2,288)	(3,301)
Other	20	-	(20)	-
Unrecognised tax losses/deferred tax assets	(9,216)	(6,796)	2,420	10,657
Gross deferred income tax assets	-	-		
Deferred tax liabilities				
Prepayments	(9)	(10)	(1)	3
Property, plant and equipment	11	10	(1)	(14)
Capitalised exploration expenditure	(3,910)	(370)	3,540	(93)
Rehabilitation asset	(510)	(792)	(282)	(195)
Unrealised gains on foreign currency forward contracts	-	-	-	(601)
Foreign exchange on loans	(2,220)	(2,113)	107	1,070
Other	-	-	-	(25)
Deferred tax asset netted off against deferred tax liability	6,329	3,275	(3,054)	(1,758)
Gross deferred income tax liabilities	(309)	-		
Deferred tax expense			309	6,632
PARENT				
Deferred tax assets				
Convertible note interest	188	214	26	(214)
Deferred expenses	-	-	-	6
Leave entitlements	22	16	(6)	6
Other	20	-	(20)	
Unrecognised deferred tax assets	(230)	(230)	-	-
Gross deferred income tax assets	-	-		
Deferred tax liabilities				
Prepayments	(9)	(10)	(1)	3
Property, plant and equipment	11	10	(1)	(14)
Capitalised exploration expenditure	(323)	(370)	(47)	(93)
Deferred tax asset netted off against deferred tax liability	321	370	49	103
Gross deferred income tax liabilities	-	-		
Deferred tax income			-	(203)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 INCOME TAX (continued)

Future benefits of tax losses total approximately $6,046,612 (30 June 2006: $10,923,274) (Consolidated) and $2,570,280 (30 June 2006: $2,196,280) (Parent). These benefits have not been brought to account. The Consolidated and Parent Entities have available capital losses at a tax rate of 30% amounting to $2,861,519 (30 June 2006: $2,861,519).

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 periods;
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.

Tax consolidation
Effective July 1 2003, for the purpose of income taxation, Dragon Mining Limited and its 100% Australian owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement whereby each entity in the tax consolidated group has agreed to pay a tax equivalent amount to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. The nature of the tax funding arrangement for the Dragon Mining Limited tax consolidated group is such that no tax consolidation contributions by (or distributions to) equity participants would be expected to arise. The head entity of the tax consolidation group is Dragon Mining Limited. 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	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Cash on hand	1	1	-	-
Cash at bank and short-term deposits	11,552	12,626	4,783	11,346
	11,553	12,627	4,783	11,346

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 31 December 2006, there were no undrawn committed borrowing facilities.

The fair value of cash and cash equivalents is $11,553,303.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 CASH AND CASH EQUIVALENTS (continued)

	Consolidated Entity		Parent Entity	
	6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000	6 months to 31 Dec 2006 $'000	12 months to 30 Jun 2006 $'000
Reconciliation of cash flows from operating loss after income tax				
Operating profit/(loss) after income tax	4,133	(30,861)	(2,409)	(28,021)
Non-cash flows in operating profit/(loss)				
- Depreciation and amortisation	3,922	8,040	157	318
- Impairment of plant and equipment	292	1,317	-	-
- Exploration expenditure written off	591	9	-	-
- Group loans provided for	-	-	-	27,382
- Unrealised (gain)/loss on gold forward contracts	(1,217)	23,451	-	-
- Realised gain on gold forward contracts	(2,234)	-	-	-
- Realised gain on close out of foreign exchange forward contracts	-	(1,583)	-	-
- Net unrealised foreign currency (gains)/losses	1,300	(5,717)	882	(2,033)
- Net loss/(profit) on disposal of property, plant and equipment	(34)	235	-	(2)
- Net gain on disposal of exploration assets	(7,384)	-	-	-
- Net (profit) on disposal of investment	-	(177)	-	(177)
- Fair value change on held-for-trading investments	(440)	896	-	-
- Tax	309	6,632	-	-
- Share option expenses	484	24	484	24
- Borrowing expenses on convertible notes	367	-	367	-
- Movement in minority interest	3	(1)	-	-
Changes in assets and liabilities				
- (Increase)/decrease in receivables	1,367	(2,441)	13	-
- (Increase) in interest receivable	-	-	(1,572)	(1,647)
- (Increase)/decrease in other debtors	-	(28)	(3)	1
- (Increase)/decrease in prepayments	(206)	230	2	(9)
- (Increase)/decrease in inventories	431	(1,128)	-	-
- Increase/(decrease) in trade creditors and accruals	666	4,456	(44)	689
- Increase/(decrease) in provisions	(170)	(1,015)	24	(18)
- Increase/(decrease) in accrued income	(61)	(94)	-	-
Net operating cash flows	2,119	2,245	(2,099)	(3,493)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 TRADE AND OTHER RECEIVABLES

	Consolidated Entity		Parent Entity	
Current	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**
Other debtors (i)	1,980	2,828	2	-
Eurogold Ltd (ii)	734	-	734	-
Bullion on hand	463	982	-	-
	3,177	3,810	736	-
Non-current				
Receivables from controlled entities (iii)	-	-	69,657	65,259
Provision for doubtful debts	-	-	(32,494)	(32,494)
	-	-	37,163	32,765

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

(ii) On 20 December 2006, Dragon Mining announced the proposed acquisition of the Saulyak Gold Project from Eurogold Limited. As part of the transaction Dragon Mining has provided limited recourse working capital loans to Eurogold Limited to cover corporate overheads and to enable the work programme at the Saulyak Gold Project to be progressed without interruption until the acquisition is completed. The loans are secured against, and repayable out of, Eurogold Limited receivables, which includes a US$3m loan (less costs) to Transgold S.A. (in liquidation) and a US$0.7m loan to S.C. Explorer S.A (in liquidation).

Interest is charged at 12% on the corporate loan ($261,000) and if the transaction is not competed, interest will be charged on the full loan amount at 12%. Refer to subsequent event note.

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

6 INVENTORIES

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	**30 Jun 2006 $'000**	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**
Work in progress – at cost				
- Ore stockpile	595	1,193	-	-
- Gold in circuit	1,033	844	-	-
Raw materials and stores – at cost	719	741	-	-
	2,347	2,778	-	-

7 INVESTMENTS AND OTHER FINANCIAL ASSETS

		Consolidated Entity		Parent Entity	
	Note	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**
Current					
At fair value					
Available-for-sale listed shares		1,962	1,650	-	-
Available-for-sale financial assets - unlisted		349	267	-	-
		2,311	1,917	-	-
Non-current					
At cost					
- Shares in subsidiaries – unlisted		-	-	15,537	15,537
- Provision for write-down		-	-	(8,117)	(8,117)
	8	-	-	7,420	7,420

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

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 processes 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.

8 INVESTMENTS IN SUBSIDIARIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding		Cost of Parent Entity's Investment	
			Dec 2006 %	Jun 2006 %	31 Dec 2006 $'000	30 Jun 2006 $'000
Dragon Resources Limited	Australia	Ord	100	100	5,097	5,097
Less: Provision for diminution in value					(5,097)	(5,097)
					-	-
Pyrosmelt NL	Australia	Ord	100	100	-	-
Firegold NL	Australia	Ord	100	100	-	-
Dragon Mining (Ontario) Inc	Canada	Ord	100	100	3,018	3,018
Dragon Mining (Sweden) AB (formerly Svartliden Guld AB)	Sweden	Ord	80	80	2,844	2,844
Viking Gold & Prospecting AB	Sweden	Ord	100	100	-	-
Polar Mining Oy	Finland	Ord	100	100	4,578	4,578
Less: allowance for impairment					(3,020)	(3,020)
					1,558	1,558
Kivijärvi OAO	Russia	Ord	84.98	84.98	-	-
					7,420	7,420

9 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Land				
At cost	1,451	940	-	-
	1,451	940	-	-
Buildings				
At cost	788	818	-	-
Less accumulated depreciation	(184)	(153)	-	-
	604	665	-	-
Mine properties, plant and equipment				
At cost	22,799	24,116	48	66
Less accumulated depreciation	(9,006)	(7,633)	(34)	(58)
	13,793	16,483	14	8
Total property, plant and equipment	15,848	18,088	14	8

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliations
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the reporting period:

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Land				
Carrying amount at beginning of period	940	874	-	34
Additions	529	-	-	-
Transfers	-	-	-	(34)
Net foreign exchange movement	(18)	66	-	-
Carrying amount at end of period	1,451	940	-	-
Buildings				
Carrying amount at beginning of period	665	650	-	-
Additions	-	31	-	-
Depreciation	(46)	(67)	-	-
Net foreign exchange movement	(15)	51	-	-
Carrying amount at end of period	604	665	-	-
Mine properties, plant and equipment				
Carrying amount at beginning of period	16,483	19,359	8	13
Additions	1,757	3,326	9	4
Disposals	-	(1,104)	-	-
Impairment	(292)	(1,317)	-	-
Reclassification to development costs	(1,176)	-	-	-
Depreciation	(2,830)	(5,445)	(3)	(9)
Net foreign exchange movement	(149)	1,664	-	-
Carrying amount at end of period	13,793	16,483	14	8

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 31 December 2006 (30 June 2006: nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 MINERAL EXPLORATION AND DEVELOPMENT COSTS

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Exploration and evaluation				
Balance at beginning of financial period	25,607	22,210	-	-
Current period expenditure	1,617	3,087	-	-
Expenditure written off	(591)	(9)	-	-
Sale of exploration assets	(2,894)	-	-	-
Amortisation	(284)	(569)	-	-
Net foreign exchange movement	(598)	887	-	-
Total exploration expenditure	22,857	25,606	-	-
Development				
Balance at beginning of financial period	8,732	8,204	1,234	1,543
Current period expenditure	4,573	2,823	-	-
Development expenditure amortised	(762)	(1,959)	(154)	(309)
Reclassification from property, plant and equipment	1,176	-	-	-
Net foreign exchange movement	(139)	(336)	-	-
Total development expenditure	13,580	8,732	1,080	1,234
Total mineral exploration and development expenditure	36,437	34,338	1,080	1,234

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

Borrowing Costs
No borrowing costs were capitalised into the cost of mineral exploration and development costs during the period.

11 OTHER ASSETS

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Current				
Prepayments	378	127	31	33
Government security	57	159	-	-
Other assets	70	13	-	-
	505	299	31	33
Non-current				
Government security	2,772	2,434	-	-

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 TRADE AND OTHER PAYABLES

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	**30 Jun 2006 $'000**	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**
Current				
Trade payables and accruals	6,419	6,848	764	810
	6,419	6,848	764	810
Non-current				
Loans from subsidiaries	-	-	3,678	3,677
	-	-	3,678	3,677

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	
		31 Dec 2006 $'000	**30 Jun 2006 $'000**	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**
Current					
Other bank loans (i)	*2010*	73	251	-	-
Obligations under finance leases (ii)	*2008*	72	74		
		145	325	-	-
Non-current					
Macquarie Bank project facility (iii)	*2007*	-	2,763	-	-
Other bank loans (i)	*2010*	185	547	-	-
Obligations under finance leases (ii)	*2008*	114	71		
Convertible notes (iv)	*2011*	23,127	22,760	23,127	22,760
		23,426	26,141	23,127	22,760

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

(ii) Finance leases over vehicles, plant and equipment.

(iii) This refers to the Svartliden project facility. This loan, which was due to be repaid in full on or before 31 August 2007, was repaid in September 2006.

(iv) 23,645,289 convertible notes were issued during the 12 months to 30 June 2006 at $1.05 per note. The notes have a 10% coupon rate and are convertible into ordinary shares in February 2011 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 Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 PROVISIONS

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Current				
Employee entitlements	156	414	40	31
Non-current				
Employee entitlements	36	21	36	21
Rehabilitation	4,085	4,013	-	-
	4,121	4,034	36	21
Number of employees at balance date	87	75	6	4

	Rehabilitation $
Balance at 1 July 2006	4,013
Arising during the period	218
Utilised	(7)
Unused amounts reversed	(84)
Net foreign exchange movement	(55)
Balance at 31 December 2006	4,085

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	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Current				
Other	346	88	-	-
Accrued hedge fee income	110	110		
	456	198	-	-
Non-current				
Accrued hedge fee income	122	194	-	-
Other	11	200	-	-
	133	394	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 CONTRIBUTED EQUITY

	31 Dec 2006	30 Jun 2006	31 Dec 2006	30 Jun 2006
Share Capital	**Thousands of Shares**		**$'000**	**$'000**
Ordinary shares, fully paid	440,394	440,394	71,677	71,677
Partly paid employee incentive scheme shares	-	75	-	-
Less: uncalled capital			-	-
			-	-
			71,677	71,677

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 to directors and executives to subscribe for the Company's shares. Details of the options are provided at note 28.

(a) Ordinary shares movements during the period	**6 months to 31 Dec 2006**	**12 months to 30 Jun 2006**	**6 months to 31 Dec 2006**	**12 months to 30 Jun 2006**
	Thousands of shares		**$'000**	**$'000**
Balance at beginning of period	440,394	397,767	71,677	65,790
Shares issued				
At $0.165 per share for cash pursuant to a placement	-	23,150	-	3,820
At $0.165 per share for cash pursuant to a placement	-	8,366	-	1,380
At $0.09 per share for exercise of unlisted options	-	11,111	-	1,000
Transaction costs arising from issue for cash pursuant to placement	-	-	-	(313)
	440,394	440,394	71,677	71,677

(b) Partly paid employee incentive scheme shares				
Balance at beginning of period	75	3,325	-	3
Cancelled	(75)	(3,250)	-	(3)
	-	75	-	-
	440,394	440,469	71,677	71,677

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 RESERVES

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Foreign currency translation reserve (a)	(1,044)	(1,761)	-	-
Option reserve (b)	508	24	508	24
Convertible note premium reserve (c)	2,068	2,068	2,068	2,068
	1,532	331	2,576	2,092
(a) Movements in foreign currency translation reserve				
Balance at the beginning of period	(1,761)	472	-	-
Translation of foreign entities' balance sheets	717	(2,233)	-	-
Balance at the end of period	(1,044)	(1,761)	-	-
(b) Movements in option reserve				
Balance at the beginning of period	24	-	24	-
Value of options vested	484	24	484	24
Balance at the end of the period	508	24	508	24
(c) Movements in convertible note premium reserve				
Balance at the beginning of period	2,068	-	2,068	-
Issue of convertible notes	-	2,068	-	2,068
Balance at the end of the period	2,068	2,068	2,068	2,068

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.

Convertible Note Premium Reserve
The convertible note premium reserve is used to record the equity component of the convertible notes.

18 MINORITY INTEREST IN CONTROLLED ENTITIES

Outside equity interest comprises:	31 Dec 2006 $'000	30 Jun 2006 $'000
- Share capital	4	4
- Accumulated losses	(3)	(2)
- Current profit/(loss) for the period	3	(1)
	4	1

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 DIVIDENDS PAID OR PROVIDED FOR

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

20 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

AE Daley	Chairman (non-executive)
PG Cordin	Managing Director
TT Järvinen	Director (non-executive)
PL Munachen	Director (non-executive)

(ii) Executives

MD Naylor	Chief Financial Officer
DW Wilkins	Company Secretary
NM Edwards	Chief Geologist
RU Uusitalo	Operations Manager (Polar Mining Oy) - resigned 20 November 2006
UO Kuronen	Manager Geology (Polar Mining Oy)
KE Marttala	General Manager - Dragon Mining (Sweden) AB

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

(b) Compensation of Key Management Personnel

	Consolidated		Parent	
	6 months to 31 Dec 2006	12 months to 30 Jun 2006 *	6 months to 31 Dec 2006	12 months to 30 Jun 2006
	$	$	$	$
Key Management Personnel				
Short-term	669,933	1,455,047	397,515	668,965
Post-employment	56,513	123,669	26,453	38,271
Other long term benefits	9,784	17,928	9,784	17,928
Termination benefits	-	50,000	-	50,000
Share-based payment	484,448	23,740	484,448	23,740
	1,220,678	1,670,384	918,200	798,904

Dragon Mining has applied the option under *Corporation Amendments Regulation 2006* to transfer key management personnel remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Option holdings of Key Management Personnel

	Balance at beginning of period	Granted as remuneration	Options exercised	Forfeited	Balance at end of period	Vested as at 31 December 2006	
	1 July 2006				31 December 2006	Exercisable	Not Exercisable
Directors							
AE Daley	-	2,000,000	-	-	2,000,000	2,000,000	-
PG Cordin	-	4,000,000	-	-	4,000,000	4,000,000	-
TT Jarvinen	-	1,000,000	-	-	1,000,000	1,000,000	-
PL Munachen	-	1,000,000	-	-	1,000,000	1,000,000	-
Executives							
I Haga[1]	1,000,000	-	-	(1,000,000)	-	-	-
MD Naylor	500,000	-	-	-	500,000	500,000	-
R Uusitalo[1]	240,000	-	-	(240,000)	-	-	-
U Kuronen[1]	240,000	-	-	(240,000)	-	-	-
Total	1,980,000	8,000,000	-	(1,480,000)	8,500,000	8,500,000	-

[1] These options were cancelled as certain performance criteria were not met.

	Balance at beginning of period	Granted as remuneration	Options exercised	Forfeited	Balance at end of period	Vested as at 30 June 2006	
	1 July 2005				30 June 2006	Exercisable	Not Exercisable
Executives							
I Haga[2]	1,000,000	-	-	-	1,000,000	1,000,000	-
MD Naylor	-	500,000	-	-	500,000	500,000	-
R Uusitalo[2]	240,000	-	-	-	240,000	240,000	-
U Kuronen[2]	240,000	-	-	-	240,000	240,000	-
Total	1,480,000	500,000	-	-	1,980,000	1,980,000	-

[1] Mr Cordin was granted 4,000,000 options which were to be issued after shareholder approval.
[2] These options were in the process of being cancelled as certain performance criteria were not met.

(d) Ordinary shareholdings of key management personnel

Shares held in Dragon Mining Limited	Balance 1 July 2006	Granted as remuneration	Convert partly paid to	Net change other	Held at the date of resignation	Balance 31 December 2006
(number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors						
TT Järvinen *	20,000,000	-	-	-	(20,000,000)	-
Total	20,000,000	-	-	-	20,000,000	-

* During the 6 months ended 31 December 2006, Mr Järvinen resigned as Director of Outokumpu Mining Oy, a 100% owned subsidiary of Outokumpu Oy, which holds 20,000,000 shares in Dragon Mining Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

Shares held in Dragon Mining Limited	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						
TT Järvinen *	20,000,000	-	-	-	-	20,000,000
CT Ansell	592,627	-	-	-	(592,627)	-
DJ Searle	1,219,845	-	-	-	(1,219,845)	-
Total	21,812,472	-	-	-	(1,812,472)	20,000,000

* During the 6 months ended 31 December 2006, Mr Järvinen resigned as Director of Outokumpu Mining Oy, a 100% owned subsidiary of Outokumpu Oy, which holds 20,000,000 shares in Dragon Mining Limited.

(e) Holdings of partly paid shares of Key Management Personnel

No key management personnel held partly paid shares during the period ended 31 December 2006.

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

[1] Partly paid shares were forfeited upon resignation.

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

21 REMUNERATION OF AUDITORS

The auditor of Dragon Mining Limited is Ernst & Young.

	Consolidated Entity		Parent Entity	
	6 months to 31 Dec 2006	12 months to 30 Jun 2006	6 months to 31 Dec 2006	12 months to 30 Jun 2006
Remuneration of Ernst & Young (Australia) for:				
- auditing or reviewing accounts	38	-	38	-
- tax consulting	13	-	13	-
	51	-	51	-
Remuneration of Ernst & Young (other than Australia) for:				
- auditing or reviewing accounts	42	-	-	-
- tax consulting	-	-	-	-
	42	-	-	-
Remuneration of non-Ernst & Young audit firms for:				
- auditing or reviewing accounts	12	121	12	79
- other services	8	38	-	-
	20	159	12	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit/loss attributable to ordinary shareholders (after adding back interest of convertible notes) by the weighted average number of ordinary shares outstanding during the period (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	
	6 months to 31 Dec 2006 $	**12 months to 30 Jun 2006 $**
Basic earnings per share		
Profit/(loss) used in calculation of basic EPS ($'000)	4,133	(30,861)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share.	440,393,549	428,272,356
Basic EPS (cents per share)	0.94	(7.21)
Diluted earnings per share		
Profit/(loss) used in calculation of basic EPS ($'000)	4,133	(30,861)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share.	440,393,549	428,272,356
Weighted average of notional shares outstanding during the period used in the calculation of diluted EPS.	24,915	-
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted EPS.	440,418,464	428,272,356
Number of potential ordinary shares that are not dilutive and hence not included in calculation of diluted EPS.	52,395,289	47,995,289
Diluted EPS (cents per share)	0.94	(7.21)

At 30 June 2006, there is no impact of dilutive shares as the Group made a loss for the period, 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 Limited at any time during the period were:
AE Daley
PG Cordin
TT Järvinen
PL Munachen

(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 $18,750 for the 6 months ended 31 December 2006 (12 months to 30 June 2006: $16,500).

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

(c) The Company has an agreement with Sub-Sahara Resources NL ("Sub-Sahara"), of which Mr PL Munachen is a Director, whereby Sub-Sahara can potentially acquire up to 70% of Dragon Mining's 66.66% interest in the Zara Gold Project in Eritrea. Sub-Sahara can earn 70% of Dragon Mining's interest by producing a bankable feasibility study ("BFS") or by spending US$3.3 million on exploration. If Sub-Sahara has not completed a BFS after spending US$3.3 million, it will free-carry Dragon Mining to the completion of a BFS.

(d) During the 12 months to 30 June 2006, Cordin Pty Ltd, an entity run by Mr PG Cordin, received consulting fees for technical and corporate services amounting to $10,120.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 RELATED PARTY TRANSACTIONS (continued)

(e) During the 12 months to 30 June 2006, Investor Relations Finance Pty Limited, of which Mr AE Daley is a Director, received consulting fees related to the convertible note issue amounting to $43,024.

(f) During the 12 months to 30 June 2006, Earthsciences Pty Ltd, of which Mr DJ Searle is the Managing Director, received consulting fees related to the convertible note issue amounting to $23,100.

Wholly Owned Group
Proceeds were transferred from Dragon Mining Limited 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 10.0% (year ended 30 June 2006: 5%) on the Dragon Mining (Sweden) AB loan giving rise to $1,032,655 interest (year ended 30 June 2006: $1,277,319) during the 6 month period. A 65 million Swedish Krona capital loan was advanced to Dragon Mining (Sweden) AB that does not attract interest.

Interest is charged at 10% (year ended 30 June 2006: 5%) on the loan to Polar Mining Oy, payable on first written demand of the lender. Interest of $539,523 for the 6 month period ended 31 December 2006 (year ended 30 June 2006: $368,999) has arisen as a result of this loan. An 11 million euro capital loan was advanced 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 Limited and its controlled entities is disclosed in notes 5 and 12.

24 SEGMENT REPORTING

	Australia 6 months to 31 Dec 2006 $'000	Sweden 6 months to 31 Dec 2006 $'000	Finland 6 months to 31 Dec 2006 $'000	Total 6 months to 31 Dec 2006 $'000
Revenue				
Sales	-	16,008	-	16,008
Profit on sale of exploration asset	-	-	7,384	7,384
Other revenue	217	110	679	1,006
Total revenue	217	16,118	8,063	24,398
Results				
Pre-tax segment profit/(loss)	(2,413)	349	6,506	4,442
Income tax				(309)
Consolidated entity profit				4,133
Assets	7,178	28,731	39,041	74,950
Liabilities	23,992	39,274	3,521	66,787
Acquisition of non-current assets	8	1,350	7,119	8,477
Depreciation and amortisation	3	3,571	349	3,923
Other significant non-cash expenses				
Exploration expenditure written off	-	591	-	591

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 SEGMENT REPORTING (continued)

	Australia 12 months to 30 Jun 2006 $'000	Sweden 12 months to 30 Jun 2006 $'000	Finland 12 months to 30 Jun 2006 $'000	Total 12 months to 30 Jun 2006 $'000
Revenue				
Sales	-	29,679	-	29,679
Other revenue	581	76	18	675
Total revenue	581	29,755	18	30,354
Results				
Pre-tax segment loss	(667)	(21,811)	(1,751)	(24,229)
Income tax				(6,632)
Consolidated entity loss				(30,861)
Assets	13,147	32,979	30,165	76,291
Liabilities	57,169	11,175	5,121	73,465
Acquisition of non-current assets	4	3,229	6,034	9,267
Depreciation and amortisation	318	6,993	729	8,040
Other significant non-cash expenses				
Unrealised loss on gold forward contracts	-	23,451	-	23,451
Impairment of plant and equipment	-	1,317	-	1,317
Fair value change on held-for-trading investments	-	-	896	896

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 Mining'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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Within one year	1,321	565	-	-
One year or later and no later than five years	5,777	657	-	-
	7,098	1,222	-	-

(b) Operating lease expense commitments
Future operating lease commitments not provided for in the financial statements and payable are as follows:

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Within one year	165	-	-	-
	165	-	-	-

(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	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Within one year	72	74	-	-
One year or later and no later than five years	114	71	-	-
Total minimum lease payments	186	145	-	-
Less amounts representing finance charges	(14)	(11)	-	-
Present value on minimum lease repayments	172	134	-	-

The weighted average interest rate for the Group is 5.0% (year ended 30 June 2006: 5.6%).

(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	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Within one year	500	500	500	500
One year or later and no later than five years	546	801	546	801
	1,046	1,301	1,046	1,301

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 EXPENDITURE COMMITMENTS (continued)

(e) Derivative commitments
Gold forwards
Under the terms of Dragon Mining's gold forward sale contracts, at 31 December 2006 the Company is obligated to deliver 96,449 ounces of gold into gold forward sale contracts at a weighted average price of US$402.92 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.

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.

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 SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

	Consolidated Entity		Parent Entity	
	31 Dec 2006 $'000	30 Jun 2006 $'000	31 Dec 2006 $'000	30 Jun 2006 $'000
Arising from equity-settled share-based payment transactions	484	24	484	24
Arising from cash-settled share-based payment transactions	-	-	-	-
Total expense arising from share-based payment transactions	484	24	484	24

(b) Director and 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 SHARE-BASED PAYMENT PLANS (continued)

(b) Director and Executive share options (continued)
The following share options were on issue during the period:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
8 Dec 2004 (1)	2,600,000	8 Dec 2004	8 Dec 2004	22 Oct 2009	$0.400	$0.03
22 May 2006 (2)	500,000	22 May 2006	22 May 2006	n/a	$0.175	$0.05
7 Dec 2006 (3)	1,000,000	7 Dec 2006	7 Dec 2006	n/a	$0.14	$0.05
7 Dec 2006 (3)	1,000,000	7 Dec 2006	7 Dec 2006	n/a	$0.175	$0.04
7 Dec 2006 (3)	6,000,000	7 Dec 2006	7 Dec 2006	n/a	$0.21 (4)	$0.04
Options forfeited during the period	(2,600,000)					
Options balance at end of period	8,500,000					

(1) Issued to Polar Mining Oy executives. These options were cancelled during the period.
(2) Issued to Mr MD Naylor.
(3) Issued to Directors as outlined in the Remuneration Report section of the Directors' Report and Note 20.
(4) 4,000,000 of these options were issued with terms specifying that in order to exercise the options, the volume weighted share price of Dragon Mining Limited must exceed $0.25 for 5 consecutive days.

i) Options granted during the financial period
The weighted average fair value of the share options granted during the period is $0.06 (12 months to 30 June 2006: $0.05). 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 Limited 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 is three years, and assumes that options are exercised 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 Limited 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 period due to the large ongoing capital commitment.

The following table gives the assumptions made in determining the fair value of options granted during the period:

Grant date	Dividend yield	Expected volatility	Risk free interest rate	Expected life of option	Option exercise price	Share price at grant date
7 Dec 2006	0%	50%	5.6%	3 years	$0.14	$0.14
7 Dec 2006	0%	50%	5.6%	3 years	$0.175	$0.14
7 Dec 2006	0%	50%	5.6%	3 years	$0.21	$0.14

The options above do not have an expiry date, however three years has been used for valuation purposes.

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

WAEP = weighted average exercise price

	6 months to 31 Dec 2006		12 months to 30 June 2006	
	Number	WAEP	Number	WAEP
Outstanding at start of period	3,100,000	$0.29	2,600,000	$0.40
Granted during period	8,000,000	$0.20	500,000	$0.175
Forfeited during period	(2,600,000)	$0.40	-	-
Balance at end of period	8,500,000	$0.20	3,100,000	$0.29
Exercisable at the end of period	8,500,000	$0.20	3,100,000	$0.29

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 SHARE BASED PAYMENT PLANS (continued)

(b) Director and Executive share options (continued)
ii) Balance at end of period
The share options at the end of the period had an exercise price of between $0.14 and $0.21 and a weighted average remaining life of 3 years.

(c) Employee Share Incentive Scheme
All party paid shares issued under the Employee Incentive Scheme were cancelled during the period in preparation for the change of company type to a limited company. These partly paid shares were replaced with options issued in January 2007.

Information with respect to the number of shares issued under the employee share incentive scheme is as follows:

	6 months to 31 Dec 2006		12 months to 30 Jun 2006	
	Number of partly paid shares	Weighted Average price	Number of partly paid shares	Weighted Average price
Balance at beginning of period	75,000	0.40	3,325,000	0.23
- cancelled	(75,000)	0.40	(3,250,000)	0.19
Balance at end of period	-	-	75,000	0.40

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 $171,693 (30 June 2006: $133,575).

(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 assets 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 (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:

31 December 2006	**Maturing**						**Total**	**Weighted Average Effective Interest Rate**
CONSOLIDATED	**< 1 year $'000**	**>1 to <2 Years $'000**	**>2 to <3 Years $'000**	**>3 to <4 Years $'000**	**>4 to <5 Years $'000**	**>5 Years $'000**	**$'000**	**%**
Financial Assets								
Fixed Rate								
Term deposits	4,295	-	-	-	-	-	4,295	*6.0%*
Weighted Average effective interest rate	*6.0%*	-	-	-	-	-		
Floating Rate								
Cash	7,258	-	-	-	-	-	7,258	*2.8%*
Government Bonds	57	96	-	-	-	2,675	2,828	*2.6%*
Weighted Average effective interest rate	*2.8%*	*2.6%*	-	-	-	*2.6%*		
Financial Liabilities								
Fixed Rate								
Convertible notes	-	-	-	-	23,127	-	23,127	*10.0%*
Finance lease liability	72	114	-	-	-	-	186	*5.0%*
Weighted Average effective interest rate	*4.6%*	*5.3%*	-	-	*10.0%*	-		
Floating Rate								
Bank and other loans	73	73	73	35	4	-	258	*4.8%*
Weighted Average effective interest rate	*4.8%*	*4.8%*	*4.8%*	*4.9%*	*5.9%*	-		

31 December 2006	**Maturing**						**Total**	**Weighted Average Effective Interest Rate**
PARENT	**< 1 year $'000**	**>1 to <2 Years $'000**	**>2 to <3 Years $'000**	**>3 to <4 Years $'000**	**>4 to <5 Years $'000**	**>5 Years $'000**	**$'000**	**%**
Financial Assets								
Fixed Rate								
Term deposits	4,295	-	-	-	-	-	4,295	*6.0%*
Group loans	-	-	-	-	-	37,163	37,163	*6.0%*
Weighted Average effective interest rate	*6.0%*	-	-	-	-	*6.0%*		
Floating Rate								
Cash	488	-	-	-	-	-	488	*4.3%*
Weighted Average effective interest rate	*4.3%*	-	-	-	-	-		
Financial Liabilities								
Fixed Rate								
Convertible notes	-	-	-	-	23,127	-	23,127	*10.0%*
Weighted Average effective interest rate	-	-	-	-	*10.0%*	-		

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL INSTRUMENTS (continued)

d) Interest rate risk (continued)

30 June 2006 CONSOLIDATED	Maturing < 1 year $'000	>1 to <2 Years $'000	>2 to <3 Years $'000	>3 to <4 Years $'000	>4 to <5 Years $'000	>5 Years $'000	Total $'000	Weighted Average Effective Interest Rate %
Financial Assets								
Fixed Rate								
Term deposits	10,241	-	-	-	-	-	10,241	5.6%
Weighted Average effective interest rate	5.6%	-	-	-	-	-		
Floating Rate								
Cash	2,385	-	-	-	-	-	2,385	3.8%
Government Bonds	159	95	-	-	-	2,340	2,593	1.2%
Weighted Average effective interest rate	3.8%	1.2%	-	-	-	1.2%		
Financial Liabilities								
Fixed Rate								
Convertible notes	-	-	-	-	22,760	-	22,760	10.0%
Finance lease liability	74	71	-	-	-	-	145	5.6%
Weighted Average effective interest rate	5.6%	5.6%	-	-	10.0%	-		
Floating Rate								
Bank and other loans	251	3,017	221	58	14	-	3,561	6.6%
Weighted Average effective interest rate	4.5%	7.0%	4.5%	4.7%	5.4%	-		

30 June 2006 PARENT	Maturing < 1 year $'000	>1 to <2 Years $'000	>2 to <3 Years $'000	>3 to <4 Years $'000	>4 to <5 Years $'000	>5 Years $'000	Total $'000	Weighted Average Effective Interest Rate %
Financial Assets								
Fixed Rate								
Term deposits	10,241	-	-	-	-	-	10,241	5.6%
Group loans	-	-	-	-	-	32,765	32,765	2.3%
Weighted Average effective interest rate	5.6%	-	-	-	-	2.3%		
Floating Rate								
Cash	1,105	-	-	-	-	-	1,105	4.7%
Weighted Average effective interest rate	4.7%	-	-	-	-	-		
Financial Liabilities								
Fixed Rate								
Convertible notes	-	-	-	-	22,760	-	22,760	10.0%
Weighted Average effective interest rate	-	-	-	-	10.0%	-		

e) Foreign exchange risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL INSTRUMENTS (continued)

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.

	31 December 2006		30 June 2006	
	Volume Ounces	Forward Price US$	Volume Ounces	Forward Price US$
3 months or less	15,650	402.25	7,750	402.25
Over 3 months to 12 months	22,050	402.25	22,750	402.25
Over 12 months to 24 months	39,650	402.25	35,250	402.25
Over 24 months to 36 months	19,099	402.25	37,212	402.25
Over 36 months to 48 months	-	-	1,637	430.10
	96,449		104,599	

The security for this facility consists of:

- a first ranking fixed and floating charge over all the assets and undertakings each of Dragon Mining Limited, 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.

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 56% of Svartliden Gold Mine's (30 June 2006: 53%) current reserves. The Orivesi Gold Mine has 93,150 oz of reserves which are unhedged.

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:

	31 December 2006	
	Gains/(Losses) US$'000	Gains/(Losses) AU$'000
3 months or less	(3,676)	(4,658)
Over 3 months to 12 months	(5,506)	(6,976)
Over 12 months to 24 months	(10,511)	(13,316)
Over 24 months to 36 months	(5,267)	(6,672)
	(24,960)	(31,622)

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 FINANCIAL INSTRUMENTS (continued)

f) Commodity price risk

	30 June 2006	
	Gains/(Losses) US$'000	Gains/(Losses) AU$'000
3 months or less	(1,672)	(2,290)
Over 3 months to 12 months	(5,148)	(7,051)
Over 12 months to 24 months	(8,642)	(11,836)
Over 24 months to 36 months	(9,763)	(13,373)
Over 36 months to 48 months	(410)	(561)
	(25,635)	(35,111)

At 31 December 2006, the gold price was US $636.60/oz (30 June 2006: US $613.10/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 PERIOD END

Purchase of Saulyak Gold Project, Ukraine
Dragon Mining has agreed with Eurogold Limited that it will not be proceeding with the purchase of the Saulyak Gold Project in Ukraine as announced on 21 December 2006.

The Directors believe that the receivable from Eurogold Limited is fully recoverable at the date of this report.

Sale of Vulcan Shares and Options
In February 2007, Dragon Mining sold its interest in Vulcan Resources for a total cash consideration of $2.05 million.

Change of Company Name
On 16 February 2007, Dragon Mining changed its corporate structure from that of a public no liability company to a public company limited by shares.

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

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	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**	**31 Dec 2006 $'000**	**30 Jun 2006 $'000**
Receivables from controlled entities	-	-	69,657	65,259
Provision for doubtful debts	-	-	(32,494)	(32,494)
Total non-current receivables	-	-	37,163	32,765

The net assets of subsidiaries were not sufficient to cover parent entity loans and hence an impairment write-down occurred.

(b) Property, Plant and Equipment
At 31 December 2006, certain items of property, plant and equipment were written down as they were considered obsolete.

At 30 June 2006, property, plant and equipment was written down due to the sale (which occurred after period end) of certain items of equipment at a price which was substantially lower than the book value.

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Independent audit report to members of Dragon Mining Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, and accompanying notes to the financial statements and the directors' declaration for Dragon Mining Limited (the company) and the consolidated entity, for the period ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 of the financial report 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 in Australia, 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 audit 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, signed on 20 March 2007.

Audit Opinion

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

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of Dragon Mining Limited and the consolidated entity at 31 December 2006 and of their performance for the period ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
20 March 2007

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Auditor's Independence Declaration to the Directors of Dragon Mining Limited.

In relation to our audit of the financial report of Dragon Mining Limited for the financial year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
20 March 2007