



FULL YEAR RESULTS AND FINANCIAL STATEMENTS

For the year ended 31 December 2010

Dragon Mining Limited is pleased to announce a **record profit after tax** of **\$24.7m** for the year ended 31 December 2010. The Company has consolidated its position as a profitable gold producer with **gross profit from operations increasing for the fourth consecutive year to \$35.0m**. The Svartliden Gold Mine in Sweden and the Orivesi and Jokisivu Gold Mines in Finland continued to perform well.

STATEMENT OF COMPREHENSIVE INCOME

- Revenue from gold sales has increased by 23% to \$91.9m (2009: \$74.7m).
- Gross profit from operations has increased by 146% to \$35.0m (2009: \$14.2m).
- Profit before foreign currency, treasury and tax increased by 252% to \$38.2m (2009: \$10.8m).
- Net profit after tax (\$2.8m) and foreign currency losses (\$10.7m) increased to \$24.7m (2009: loss of \$8.0m).

CASH, TRADE RECEIVABLES AND LISTED INVESTMENTS

- Group cash of \$23.5m (2009: \$4.4m).
- Trade receivables from gold concentrate delivered and bullion on hand of \$6.1m (2009: \$6.2m).
- Cash flow from operations increased by 168% to \$42.0m (2009: \$15.7m).
- \$12.1m spent on repurchasing convertible notes (2009: \$6.7m).
- 2.3m Chalice Gold Mines Limited shares are held (escrowed until June 2011) with a market value of \$1.8m.

OPERATIONS

- Gold production for the year of 71,598 ounces at an average cash cost per ounce of US\$678/ounce (2009: 66,149 ounces at an average cash cost of US\$630/ounce).
- Svartliden produced 40,135 ounces at an average cash cost of US\$624/ounce (2009: 37,400 ounces at an average cash cost of US\$584/ounce).
- Production from the Vammala Production Centre of 31,463 ounces at an average cash cost of US\$747/ounce, including refining costs of US\$159/ounce. (2009: 28,749 ounces at an average cash cost of US\$690/ounce, including refining costs of US\$122/ounce). Ore was sourced from the Jokisivu and Orivesi Gold Mines.
- The average cash price received per ounce of gold sold from Svartliden was US\$1,371 and the average sales price booked was US\$1,386 per ounce of gold from the Vammala Production Centre.

DEVELOPMENT

Svartliden Gold Mine, Sweden

- The success of exploration drilling in the eastern portion of the Svartliden open pit will enable production to be extended into 2014. Optimisation studies have shown that the eastern portion of the open cut can be expanded and deepened, extending open pit production until July 2012. Extending the open pit has resulted in the deferral of the commencement of the decline until mid-2011.

Orivesi Gold Mine, Finland

- A staged development of the Kutema Deeps deposit commenced following an internal study which highlighted the prospectively of the project to 1080m level, the initial objective is to extend the decline to the 800m level with development ore expected to be processed in the third quarter of 2011.

Jokisivu Gold Mine, Finland

- The underground development at Jokisivu commenced in September 2010 and had advanced 364 metres at the end of December 2010. The Company completed an internal study which highlighted the prospectively of the project and the first development ore is expected to be processed in the second quarter of 2011.

EXPLORATION

The Company continues to invest (\$8.3m in 2010) in exploration on the very prospective tenure around each of its key assets, which has resulted in the Company closing in on a five year mine life at each mine. There have been a series of excellent exploration results from Svartliden, Orivesi and Kuusamo.

Svartliden Gold Mine, Sweden

- An aggressive exploration campaign commenced with the objective of 22,000 metres of drilling being completed over a 12 month period. As at 31 December 2010, 17,800m metres of this program has been drilled. Production from the open pit has been extended until June 2012 and along with the underground, extended production into 2014.

Orivesi Gold Mine, Finland

- Diamond drilling results have confirmed the presence of mineralisation below the current planned base of the Sarvisuo decline at the 620m level.
- Results from a diamond drilling campaign returned a significant intercept of **20.0m @ 34.67 g/t gold** from testing of the up-dip extensions of the Sarvisuo lode system. The intercepts confirm that the Sarvisuo lode system extends to shallower depths, at widths and grades that potentially are amenable to mining. In addition, results were received from a diamond drilling campaign designed to evaluate the area west of Sarvisuo which included a number of highlights including **6.45m @ 31.18 g/t gold, 4.00m @ 7.01 g/t gold, 1.65m @ 63.89 g/t gold** and **1.45m @ 56.40 g/t gold**. These intercepts have provided further evidence of the existence of a new mineralised pipe or pipe cluster west of Sarvisuo, in close proximity to the existing development.

Kuusamo Gold Project, Finland

- Exploration at Kuusamo recommenced in late 2010 with an initial 1,700m campaign of diamond core drilling targeting depth extensions at the Juomasuo deposit. This program was designed to follow up historical drill intercepts at Juomasuo that includes highlights of **19.20m @ 179.52 g/t gold, 3.70m @ 426.98 g/t gold, 19.60m @ 63.70 g/t gold, 4.12m @ 265.50 g/t gold, and 8.00m @ 48.85 g/t gold**.
- A new Mineral Resource was completed totalling **2.19 million tonnes @ 5.4 g/t gold for 383,500 ounces**, an increase of **204,700 ounces** (114%) in contained gold ounces. The new Resource includes an Indicated Resource of 0.79mt @ 7.0 g/t gold and an Inferred Resource 1.40mt @ 4.6 g/t gold.

INVESTMENTS

Sale of Zara Joint Venture, Eritrea

- In June 2010, Dragon Mining sold its interest in the Zara Gold Project to Chalice Gold Mines Limited ("Chalice") for \$8.0 million in cash and 2 million Chalice shares which are escrowed for 12 months. This resulted in an \$8.9m profit. Dragon Mining is entitled to a further payment of \$4.0 million from Chalice on the delineation of a 1 million ounce gold Reserve at the Zara Gold Project. On 4 June 2010, Chalice announced a maiden gold Reserve at the Zara Gold Project of 760,000 ounces from an Indicated gold Resource of 840,000 ounces.

Weld Range Metals (40% Interest)

- Weld Range Metals Limited received positive scoping study results with an after tax NPV (at an 11% real discount rate) of A\$681m. The scoping study completed by ProMet Engineers, found that the Weld Range Metals Project is technically and economically feasible using process equipment and technology currently used by the steel industry. The Company continues to evaluate various capital raising opportunities to fund a definitive feasibility study.

DIVIDENDS

- The Directors considered a dividend payment for the current year. However, in light of exploration and development needs, it was decided that it is in the best interest of shareholders to not pay a dividend. The Directors review the Company's dividend policy on a regular basis.



PG Cordin

Executive Chairman

25 February 2011

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Neale Edwards BSc (Hons), a Member of the Australian Institute of Geoscientists, who is a full time employee of the company and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mr Neale Edwards consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



APPENDIX 4E

For the 12 months ended 31 December 2010

REPORTING PERIOD

The reporting period is the year ended 31 December 2010 with the corresponding reporting period being for the year ended 31 December 2009.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Results	A\$'000		
Revenue from ordinary activities	up	23%	to 91,888
Profit before treasury and tax	up	252%	to 38,206
Profit from ordinary activities after income tax attributable to members (Loss in the prior year)	up	na	to 21,361
Net Profit attributable to members (Loss in the prior year)	up	na	to 21,361

Dividends	Amount per security	Franked amount per security
Final dividend – no final dividend is proposed	n/a	n/a
Interim dividend	n/a	n/a
Record date for determining entitlements to the dividend	n/a	

	31 December 2010	31 December 2009
Net Tangible Asset Per Security	\$0.96	\$0.06

The above results should be read in conjunction with Dragon Mining Limited's 2010 Financial Report. An explanation of the results is included in the covering pages to this ASX release.

DRAGON MINING LIMITED

ABN 19 009 450 051

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2010**

For personal use only

DIRECTORS' REPORT

Your Directors submit the report on the consolidated entity (referred to hereafter as the "Dragon Mining" or the "Group") consisting of Dragon Mining Limited and the entities it controlled at the end of or during the year ended 31 December 2010.

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.

Peter George Cordin

BE, MIEAust, CPEng, FAusIMM (CP)
Executive Chairman

Mr Cordin was appointed Managing Director on 20 March 2006 and subsequently Executive Chairman on 4 March 2010. He is a civil engineer with 38 years experience in the evaluation and operation of resource projects within Australia and overseas. He has direct experience in the construction and management of diamond and gold operations in Australia and Indonesia. Mr Cordin was Managing Director of Grant's Patch Mining Limited (100,000 ounces 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 was involved in the development of resource projects in Kazakhstan and New Caledonia.

He is a Non-Executive Director of Coal of Africa Limited (appointed December 1997) and Vital Metals Limited (appointed September 2009).

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

Michael Dylan Naylor

BComm, CA, ICSA
Finance Director

Mr Naylor was appointed Finance Director on 1 July 2008. He has been the Chief Financial Officer of the Company since May 2006 and was joint Company Secretary between 4 July 2007 and 1 July 2008. Mr Naylor is a Chartered Accountant and Chartered Secretary with 15 years of resources related financial experience in Australia, Canada, Europe and Africa. Prior to his involvement with Dragon Mining, Mr Naylor was the Financial Controller of an ASX-listed company with extensive gold operations in Australia and Africa, and held senior management positions in both Perth and Toronto with a major international accounting firm.

Peter Lynton Gunzburg

BComm
Non-Executive Director

Mr Gunzburg was appointed a Non-Executive Director on 8 February 2010. Mr Gunzburg has over 20 years experience as a stockbroker. He has a Commerce Degree from the University of Western Australia and has previously been a director of Resolute Limited, the Australian Stock Exchange Limited, Eyres Reed Limited and CIBC World Markets Australia Limited.

Mr Gunzburg was appointed Executive Chairman of Eurogold Limited in September 2001. Mr Gunzburg was appointed Chairman of Fleetwood Corporation Limited on February 2002, however stepped down from that role and is a Non-Executive Director, appointed Chairman of PieNetworks Limited in April 2002 and appointed Non-Executive Director of AIM listed Brinkley Mining Plc (delisted 22 December 2010) in September 2009 and appointed Executive Chairman on 22 December 2009.

He was formerly a Non-Executive Director of AIM listed Matra Petroleum PLC (appointed July 2006 and resigned September 2009) and Non-Executive Director of Strike Oil Limited (appointed October 2006 and resigned 16 December 2008).

Mr Gunzburg is Chairman of the Audit and Risk Management Committee and the Remuneration and Nomination Committee.

DIRECTORS' REPORT (continued)

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 (2000-2005) and President of Outokumpu Technology Oy (2003-2006). Until his retirement on 31 December 2009, he was President and CEO of Outotec Oy (appointed October 2006), a publicly listed company on the OMX Nordic Exchange Helsinki. Mr Järvinen is also a senior advisor to VTT, the Technical Research Centre of Finland.

Mr Järvinen is a Board member of Normet Oy (appointed March 2007), Okmetic Oyj, a publicly listed company on the OMX Nordic Exchange Helsinki (appointed March 2008), Konecranes Plc, a publicly listed company on the NASDAQ OMX Helsinki (appointed March 2009), Outotec Oyj, a publicly listed company on the OMX Nordic Exchange Helsinki (appointed March 2010), Talvivaara Mining Company Plc, a publicly listed company on the OMX Nordic Exchange Helsinki and London Stock Exchange (appointed April 2010), Chairman of the Board of the Finnish-Latin American Trade Association (appointed November 2003), Chairman of the Cleantech Finland Business Forum (appointed September 2009), Chairman of Laatukeskus Excellence Finland Oy (appointed March 2009) and Chairman of the Industry Council of Technology Academy of Finland (appointed October 2009).

Mr Järvinen was formerly a Board Member of International Copper Association Ltd (October 1995 to December 2009) and the Association of Finnish Steel & Metal Producers (December 2006 to December 2009).

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

Dr Markku Juhani Mäkelä

Prof PhD
Non-Executive Director

Professor Mäkelä was appointed a Non-Executive Director on 13 November 2008. He majored in geology and mineralogy at the University of Helsinki and has over 38 years experience from a variety of scientific, operational and administrative activities in the economic geological and mining sector in Finland and globally, latest as a Director of the Geological Survey of Finland (GTK) until his retirement in October 2008. Prior to joining GTK in 1994, Dr. Mäkelä spent six years as a Technical Manager and Alternate Director of the UN Revolving Fund for Natural Resources Exploration and he remains a member of the UN Committee on Energy and Natural Resources for Development.

He is a Non-Executive Director of Kopylovskoye AB (appointed June 2010) which is listed on Nasdaq OMX First North in Sweden.

Mr Mäkelä is a member of the Audit and Risk Management Committee.

Christian Russenberger

BBA
Non-Executive Director

Mr Russenberger was appointed a Non-Executive Director on 18 November 2009. Mr. Russenberger is Principal and Director of 2004 founded CR Innovations AG, Baar, Switzerland, which is specialised in strategic and financial consulting to private and public micro-cap companies. Prior to his current position he worked with Finter Bank in Zurich, Switzerland (1993-2004) as a relationship manager and analyst. Before joining Finter Bank, he worked in Zurich as an analyst with Anlage-und Kreditbank AKB (1991-1993) and Bank Leu AG (1990-1991). He also serves as a member of the board of directors of Swiss company Mobility Cooperative. Mr Russenberger holds a Bachelor of Science Administration, SIB Juventus Zürich, Zürich.

He is currently a Non-Executive Director of Providence Resources Inc., a company listed on the "Over The Counter" market in the United States of America.

Mr Russenberger is a member of the Audit and Risk Management Committee.

DIRECTORS' REPORT (continued)

Andrew Edward Daley

BSc (Hons), Grad Dip (Geo Sc), C. Eng, FAusIMM, MIOM3
Non-Executive Chairman (resigned 4 March 2010)

Mr. Daley was appointed as a Non-Executive Director on 2 March 2005 and Non-Executive Chairman on 20 March 2006. He is a mining engineer and worked initially for Anglo American and Rio Tinto in Africa before moving to Australia in 1981. Moving into the resource finance sector in the mid 1980s he held executive roles in the National Australia Bank, Chase Manhattan and Barclays Capital, in Australia and UK. After returning to Australia in 2003 he was, until recently, a Principal in a boutique resource finance advisory group in Melbourne. He is also a Non-Executive Director of PanAust Limited (appointed August 2004), and Kentor Gold Limited (appointed November 2004), all ASX listed.

In the past three years he has also been a director of AIM-listed companies Gladstone Pacific Nickel Limited (appointed February 2005 and resigned December 2007), Minerva Resources Plc (appointed July 2007 and resigned July 2009) and Non-Executive Chairman of Uranex NL (appointed as a Non-Executive Director in November 2007 and Chairman in November 2009 and resigned 27 August 2010).

Peter Lawson Munachen

FCA
Non-Executive Director (resigned 1 March 2010)

Mr Munachen was appointed a Non-Executive Director on 24 March 2005. Mr Munachen is a Fellow of the Institute of Chartered Accountants of Australia and a Fellow of the Australia Institute of Company Directors. He has 37 years corporate and administration experience in mineral and hydrocarbon resources companies.

He has served as a director or officer of a number of listed companies specialising in corporate finance and project acquisition.

He is currently CEO of ASX listed Norwest Energy NL (appointed November 2003 and as CEO December 2008), a Non-Executive Director of Currie Rose Resources Inc (appointed April 2005) which is listed on the Toronto Stock Exchange (TSX) and East Africa Resources Limited (appointed March 2010).

He was formerly a Director of Pancontinental Oil & Gas NL (appointed February 1991, resigned 5 January 2009), Sub-Sahara Resources NL (appointed April 2004 and resigned August 2009) and Newland Resources Ltd (appointed August 2001 and resigned October 2009).

Company Secretary

Pauline Anne Collinson

Mrs Collinson was appointed Company Secretary on 4 July 2007. She is also Company Secretary of ASX-listed Eurogold Limited and has over 25 years of experience in the mining industry.

Craig Eon Hasson

Mr Hasson was appointed Joint Company Secretary on 25 November 2010 and is also the Group Financial Controller. He is a Chartered Accountant with 9 years of mining and resource related financial experience in Australia, Europe and Africa. He has previously held positions with listed resource companies in Australia and the United Kingdom, and a major international accounting firm.

DIRECTORS' REPORT (continued)

Interests in the Shares and Options of the Company

As at the date of this report, the relevant interests of the Directors in the shares of the Company are:

	Ordinary Shares		Options	
	Direct	Indirect	Direct	Indirect
PG Cordin	400,000	-	400,000	-
MD Naylor	71,650	-	100,000	-
TT Järvinen	-	-	100,000	-
MJ Mäkelä	-	-	-	-
C Russenberger	-	30,000	-	-
PL Gunzburg*	84,000	14,096,000	-	-

*Mr Gunzburg is a Director of ASX listed Eurogold Limited which owns 14,096,000 ordinary shares.

Nature of Operations and Principal Activities

The principal activities of entities within the consolidated entity during the period were:

- Gold mining in Sweden and Finland; 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.

Dividends

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

The Directors considered a dividend policy for the current year in light of exploration and development needs, balance sheet strength and the absence of any franking credits. Accordingly, it was decided that it is in the best interest of shareholders to not pay a dividend. The Directors will review the Company's dividend policy on a regular basis.

Results

The net profit after tax and non-controlling interests of the consolidated entity for the year ended 31 December 2010 was \$21,361,000 (2009: loss of \$7,977,000). Dragon Mining has consolidated its position as a profitable gold miner with a gross profit from operations at both the Svartliden Gold Mine in Sweden and the Orivesi and Jokisivu Gold Mines in Finland. Gross profit from operations increased 146% to \$34,992,000 which reflects higher production, lower costs and a higher gold price.

The profit for the 2010 financial year included:

- gross profit from operations of \$34,992,000;
- a gain on the sale of Dragon Mining (Eritrea) Limited, a wholly owned subsidiary of Dragon Mining which held the interest in the Zara Gold Project of \$8,900,000;
- unrealised foreign currency losses on intercompany loans, not considered to be part of the net investment in the foreign operations, which have arisen from large swings in the Australian dollar against the euro and Swedish krona of \$10,723,000;
- a provision for a payment to Outokumpu Oyj (expected to be paid in 2011) of \$1,314,000;
- finance costs of \$1,034,000;
- tax expense of \$2,796,000; and
- other net expenses of \$3,289,000.

Financial Position

As at 31 December 2010 the Company had net assets of \$71,049,000 and an excess of current assets over current liabilities of \$28,314,000.

DIRECTORS' REPORT (continued)

Review of Operations

Production

The Group's gold production for the year was 71,598 ounces at an average cash cost of US\$678 per ounce compared to gold production of 66,149 ounces at an average cash cost of US\$630 per ounce in 2009.

Svartliden Gold Mine, Sweden

The Svartliden Gold Mine produced 40,135 ounces of gold for the year at a cash cost of US\$624 per ounce compared to gold production of 37,400 ounces at a cash cost of US\$584 per ounce in 2009.

The success of exploration drilling in the eastern portion of the Svartliden open pit will enable production to be extended into 2014. Optimisation studies have shown that the eastern portion of the open cut can be expanded and deepened, extending open pit operations until July 2012.

Vammala Production Centre, Finland

The Vammala Production Centre in Finland produced 31,463 ounces of gold for the year at a cash cost of US\$747 per ounce (including refining costs of US\$159 per ounce) compared to gold production of 28,749 ounces of gold at a cash cost of US\$690 per ounce (including refining costs of US\$122 per ounce) in 2009. Ore was sourced from the Orivesi and Jokisivu Gold Mines.

Open cut mining from Kujankallio at the Jokisivu Gold Mine was completed in August 2010 and yielded a total of 10,176 ounces at a cash cost of US\$620 per ounce.

Development

Svartliden Gold Mine, Sweden

The high grade and consistent geometry of the underground Resource resulted in a positive internal study which confirmed the economic viability of an underground mining operation. Extending the open pit has resulted in the deferral of the commencement of the decline until mid-2011.

Orivesi Gold Mine, Finland

Dragon Mining committed to a staged development of the Kutema Deeps deposit. An internal study highlighted the prospectively of the project to the 1080m level, the immediate objective is to extend the decline to the 800m level. This involves purchasing new key mining equipment for the development, raise boring a new fresh air ventilation shaft to the surface and establishing additional infrastructure including a workshop.

Jokisivu Gold Mine, Finland

The underground development of the Kujankallio deposit commenced in September and had advanced 364 metres at the end of December 2010. The Company completed an internal study which highlighted the prospectivity of the project and an infill drilling campaign is currently underway at Kujankallio to improve the category of Resources and to allow for more detailed planning and scheduling.

Further internal studies are underway to determine the viability of developing the Arpola deposit, located 200 metres to the east of Kujankallio.

Exploration

Exploration programs in 2010 focussed on advancing the Company's tenements in Sweden and Finland, particularly concentrating on increasing the resources near existing operating facilities.

In addition, Dragon Mining recommenced exploration at the Kuusamo Gold Project in north-eastern Finland with the undertaking of the first phase of an aggressive drilling campaign.

Corporate

Convertible Note Redemption

All outstanding Convertible Notes ("Notes") were redeemed on 30 September 2010. Of the total 23,645,289 Notes issued in February 2006, Dragon Mining repurchased 18,322,810 Notes on market (2010: 6,277,675), redeemed 5,249,479 Notes on 30 September 2010 (5 months early) and 73,000 Notes were converted into 438,000 ordinary shares.

Share Consolidation

In November 2010, the Company undertook a one-for-ten consolidation of its issued capital. This resulted in the share capital being reduced to 73,778,508 shares. In addition, all outstanding options were consolidated on the same ratio resulting in 1,017,500 options on issue.

DIRECTORS' REPORT (continued)

On-Market Share Buyback

In September 2010, the Company implemented an On-Market Share Buy-Back ("Buy Back") of up to 7 million ordinary shares, representing approximately 9.5% of the Company's issued capital. As at the date of this report, the Company has not purchased any shares.

Investments

Sale of 20% Interest in the Zara Gold Project

In June 2010, Dragon Mining sold Dragon Mining (Eritrea) Limited, which held the 20% interest in the Zara Gold Project in Eritrea to Chalice Gold Mines Limited ("Chalice") for \$8,000,000 in cash and 2 million Chalice shares which are escrowed for 12 months.

In addition, Chalice has the obligation to pay Dragon Mining a further \$4,000,000 on the delineation of 1 million ounces of gold Reserves at the Zara Gold Project.

Weld Range Metals Limited (39.95% interest)

Weld Range Metals Limited ("WRM") released positive Scoping Study results for the first stage of the Weld Range Metals Project, a stainless steel project based on the chromium resources of WRM containing chromium, iron and nickel located in the Mid-West region of Western Australia. The Scoping Study completed by Promet Engineers Pty Limited, resulted in an after tax NPV (at an 11% real discount rate) of A\$681m and found that the Weld Range Metals Project is technically and economically feasible using the process technology currently used by the steel industry.

WRM continued to evaluate various capital raising opportunities to fund a definitive feasibility study.

Significant Changes in the State of Affairs

There have been no significant changes in the state of affairs of the Group other than those listed above.

Significant Events after the Balance Date

In February 2011 Dragon Mining sold under forward sale agreements 16,000 ounces of gold for delivery between February and December 2011. The flat forward rate achieved is SEK 8,700 (USD 1,353) per ounce. No other circumstances or events have arisen subsequent to balance date 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 open cut at the Svartliden Gold Mine;
- Continued production of gold concentrate at the Vammala Production Centre from ore mined at the Orivesi and Jokisivu Gold Mines;
- Development of Kutema Deeps at the Orivesi Gold Mine;
- Development of the Svartliden Gold Mine underground operation; and
- Continued gold exploration.

Environmental Regulation

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

Sweden

At Svartliden, an environmental breach reported in 2008 concerning levels of arsenic and other metals contained in surface runoff and ground water which is pumped from the mining area to a water storage facility, termed the Clear Water Dam (CWD), continues to be addressed. Several corrective measures were implemented during 2010 which resulted in a decrease in the levels of arsenic and metals contained in the water pumped to the CWD. Further corrective measures are to be implemented during 2011. All levels and corrective measures are continually reported to the inspecting authority.

Water discharged from the CWD to the environment complies in every respect with the Environmental Permit.

DIRECTORS' REPORT (continued)

During 2009 the company which operates Svartliden was reported by the inspecting authority, of supposedly discharging water to a nearby stream which is prohibited under the operating licence. The accusation is based on the company's report of elevated levels of dissolved metals in the water collected and tested from the nearby stream. An internal review has confirmed that no discharge occurred. An external investigation is expected to be conducted during 2011.

In 2010, the company submitted to the authorities a new operating licence application that includes underground operations and aims to achieve environmental requirements for the entire operation, which can be realistically and practically achieved. Other than what is stated, the Directors are not aware of any other significant breaches during the period covered by this report.

Share Options

Unissued Shares

As at the date of this report there are 1,017,500 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	13,375,000
Share options cancelled from 1 Jan 2010 to the date of this report	(3,200,000)
One-for-ten consolidation of options	(9,157,500)
Total number of options outstanding as at the date of this report	1,017,500

Refer to the Remuneration Report and notes 19 and 27 for further details of Company options.

No options were exercised during the year.

Convertible Notes

All outstanding Notes were redeemed or converted during the year. 73,000 Notes were converted into 438,000 ordinary shares.

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.

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 and Risk Management		Remuneration and Nomination	
	Held	Attended	Held	Attended	Held	Attended
PG Cordin	10	10	-	-	2	2
MD Naylor	10	10	-	-	-	-
PL Gunzburg	9	9	2	2	2	2
TT Järvinen	10	10	-	-	2	1
MJ Mäkelä	10	10	3	3	-	-
C Russenberger	10	10	2	2	-	-
PL Munachen	2	2	1	1	-	-
AE Daley	3	3	1	1	-	-

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

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)

The following information has been audited.

The remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

Details of Key Management Personnel (including the five highest paid executives of the Company and Group)

(i) *Directors*

PG Cordin	Executive Chairman
MD Naylor	Finance Director
TT Järvinen	Director (non-executive)
MJ Mäkelä	Director (non-executive)
C Russenberger	Director (non-executive) (appointed 18 November 2009)
PL Gunzburg	Director (non-executive) (appointed 8 February 2010)
AE Daley	Chairman (non-executive) (resigned 4 March 2010)
PL Munachen	Director (non-executive) (resigned 1 March 2010)

(ii) *Executives*

NM Edwards	Chief Geologist
UO Kuronen	Manager Geology (Polar Mining Oy)
JD Stewart	Manager - Operations – Dragon Mining (Sweden) AB (appointed 20 July 2010)
HO Pöyry	Manager - Operations (Polar Mining Oy)
CE Hasson	Financial Controller and Joint Company Secretary (commenced 31 March 2010 and appointed Joint Company Secretary 25 November 2010)
PA Collinson	Joint Company Secretary
KE Marttala	Manager - Operations – Dragon Mining (Sweden) AB (passed away in July 2010)

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

Dragon Mining Remuneration Policy

The board recognises that the Company's performance 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;
- structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive within Australia, Sweden and Finland;
- benchmarks remuneration against appropriate industry groups; and
- aligns executive incentive rewards with the creation of value for shareholders.

There are performance levels that link executive's remuneration to Company performance including cash bonuses. In addition, options are used as part of compensation packages to strengthen the alignment of interest between management and shareholders in an effort to enhance shareholder value.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited) (continued)

Company Performance

The table below shows the Company's financial performance over the last five years.

	2010	2009**	2008**	2007**	2006* **
Net profit/(loss) after tax (\$'000s)	21,361	(7,977)	7,539	2,080	4,133
Basic earnings per share (cents)	28.96	(10.80)	10.20	3.80	9.40
Diluted earnings per share (cents)	28.96	(10.80)	10.20	3.80	9.40
Market Capitalisation (\$'000s)	121,365	73,734	29,494	95,855	70,463
Closing Share Price (\$)	1.645	1.00	0.40	1.30	1.60

* Denotes 6 months ending 31 December 2006.

** Adjusted to reflect a 1 for 10 share consolidation that occurred on 5 November 2010.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the directors themselves, the Executive Chairman and the executive team.

Executive remuneration is reviewed annually having regard to individual and business performance, 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. The remuneration structure for the executive directors is the same as that of the executive team.

Non-Executive Director Remuneration

Objective

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

Structure

The Company's constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. 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 receives a fee for being a director of the Company. An additional fee is payable for each board committee on which a Director sits due to the extra workload and responsibilities.

The Chairman of the Company receives additional fees due to the extra workload and responsibilities.

Each Non-Executive Director may also receive an equity based component where approval has been received from shareholders in a General Meeting. Non executive directors have share price hurdles in order to exercise their options. During 2006 the non-executive directors were issued STIs in the form of options and in order to exercise these options, the volume weighted average share price of Dragon Mining must exceed \$2.50 for 5 consecutive days.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited) (continued)

Executive Directors 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, to 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 executive directors. 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.

Options (LTIs) granted to executives do not have performance conditions attached to them, however the strike price of the options are determined so as to ensure that the options only have value if there is an increase in shareholder wealth over time.

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 and relevant comparable remuneration in the mining industry.

Structure

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

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of the STI is to reward performance that exceeds expectation and is linked to the achievement of the Company's performance measures (as set out below) by the executives charged with meeting those targets. The total potential STI available is set at a level that provides sufficient incentive to the executives to achieve the operational targets at a reasonable cost to the Company.

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 outcomes are at the discretion of the Remuneration and Nomination Committee and take into account the following factors:

- performance of business unit;
- operational performance of a business unit;
- risk management;
- health and safety; and
- leadership/team contribution.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited) (continued)

These factors were chosen to ensure the STI payments are only granted when value has been created for shareholders and results are consistent with the strategic plans of the Group.

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.

It is solely at the Remuneration and Nomination Committee's discretion if STI payments are granted to executives even if an executive demonstrates outstanding performance during the preceding year. In addition, 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 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.

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.

The Company prohibits directors or executives from entering into arrangements to protect the value of any Dragon Mining Limited shares or options that the director or executive has become entitled to as part of his/her remuneration package. This includes entering into contracts to hedge their exposure.

Employment Contracts

The Managing Director, Mr PG Cordin, is employed under contract. His employment contract has been extended for three months (expires March 2011) and is able to be rolled by a further three months by mutual agreement between the board and Mr Cordin. 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 three 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 \$430,000 per annum.
- The Company will pay Mr Cordin a completion bonus of \$200,000 based on certain criteria being met by the end of his contract.
- Upon completion of Mr Cordin's contract, the Board may also determine to pay Mr Cordin an additional bonus of up to \$200,000 if, in the view of the Board, the Company has entered into a corporate or project acquisition that is in accordance with Dragon Mining's corporate objectives.

Mr MD Naylor, the Finance Director, is also employed under contract. There is no termination date in his current employment contract. 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 \$300,000 per annum.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited) (continued)

LTI Options

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.

Compensation Options: Granted and Vested During the Period (Consolidated)

No options vested or were granted during the years ended 31 December 2010 or 31 December 2009.

Shares Issued on Exercise of Remuneration Options (Consolidated)

No Director or key management personnel exercised remuneration options in the year ended 31 December 2010 or 31 December 2009.

Compensation Options: Alteration of Terms to Key Management Personnel (Consolidated)

On 5 November 2010, the Company undertook a one-for-ten consolidation of its issued capital. This resulted in all outstanding options being consolidated on the same ratio resulting in 1,017,500 options on issue.

Options issued to KMP's immediately before and after the consolidation were as follows:

	Balance held immediately before consolidation			Balance held immediately after consolidation		
	Balance	Exercise Price	Expiry Date	Balance	Exercise Price	Expiry Date
Directors						
PG Cordin	1,000,000	0.14	Na	100,000	1.40	Na
PG Cordin	1,000,000	0.175	Na	100,000	1.75	Na
PG Cordin	2,000,000	0.21	Na	200,000	2.10	Na
MD Naylor	500,000	0.175	Na	50,000	1.75	Na
MD Naylor	500,000	0.175	08/06/2012	50,000	1.75	08/06/2012
TT Järvinen*	1,000,000	0.21	Na	100,000	2.10	Na
Executives						
NM Edwards	500,000	0.175	08/06/2012	50,000	1.75	08/06/2012
UO Kuronen	500,000	0.175	08/06/2012	50,000	1.75	08/06/2012
JD Stewart	250,000	0.175	08/06/2012	25,000	1.75	08/06/2012
HO Pöyry	500,000	0.175	08/06/2012	50,000	1.75	08/06/2012

* Immediately before the consolidation, the terms of these options were that the volume weighted share price of Dragon Mining Limited must exceed \$0.25 for 5 consecutive days before they become exercisable. Immediately after the consolidation, the terms changed to the volume weighted share price of Dragon Mining Limited must exceed \$2.50 for 5 consecutive days.

There was no difference in the fair value of the options immediately before and after the consolidation.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited) (continued)

Compensation of Key Management Personnel (Consolidated)

		Short Term			Post Employment Super- annuation	Long Term Other	Equity Share- based Payment	Total
		Salary & Fees	Cash Bonus	Non- Monetary Benefits				
		\$	\$	\$ ⁽¹⁾	\$	\$	\$	
Directors								
PG Cordin	Dec 2010	394,495	74,591 ⁽²⁾	5,421	40,913	-	-	515,420
	Dec 2009	310,471	100,000 ⁽³⁾	87,481	35,005	-	-	532,957
MD Naylor	Dec 2010	263,716	29,790 ⁽⁴⁾	6,477	23,945	-	-	323,928
	Dec 2009	226,103	27,523 ⁽⁵⁾	28,495	24,896	-	-	307,017
TT Järvinen	Dec 2010	43,745	-	-	-	-	-	43,745
	Dec 2009	40,000	-	-	-	-	-	40,000
MJ Mäkelä	Dec 2010	45,000	-	-	-	-	-	45,000
	Dec 2009	43,333	-	-	-	-	-	43,333
C Russenberger	Dec 2010	48,572	-	-	-	-	-	48,572
	Dec 2009	4,822	-	-	-	-	-	4,822
PL Gunzburg	Dec 2010	39,814	-	-	3,583	-	-	43,397
AE Daley	Dec 2010	15,173	-	-	-	-	-	15,173
	Dec 2009	90,000	-	-	-	-	-	90,000
PL Munachen	Dec 2010	8,333	-	-	-	-	-	8,333
	Dec 2009	50,000	-	-	-	-	-	50,000
Executives								
NM Edwards	Dec 2010	160,000	-	-	14,400	-	-	174,400
	Dec 2009	170,231	-	-	15,321	-	-	185,552
UO Kuronen	Dec 2010	177,116	-	346	29,755	-	-	207,217
	Dec 2009	193,211	-	425	32,459	-	-	226,095
J Stewart ⁽⁶⁾	Dec 2010	247,492	-	8,161	27,764	-	-	283,417
HO Pöyry	Dec 2010	175,492	-	346	29,483	-	-	205,321
	Dec 2009	205,943	-	425	34,598	-	-	240,966
CE Hasson ⁽⁷⁾	Dec 2010	88,525	-	-	7,967	-	-	96,492
PA Collinson ⁽⁸⁾	Dec 2010	18,859	-	-	-	-	-	18,859
	Dec 2009	13,357	-	-	-	-	-	13,357
KE Marttala	Dec 2010	186,730	-	-	73,040	-	-	259,770
	Dec 2009	354,208	-	-	124,947	-	-	479,155
Total	Dec 2010	1,913,062	104,381	20,751	250,850	-	-	2,289,044
Total	Dec 2009	1,701,679	127,523	116,826	267,226	-	-	2,213,254

(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) The cash bonus paid to Mr Cordin in 2010 was based on performance and represented 14% of his total remuneration. His annual performance appraisal was conducted by the Remuneration and Nomination Committee's non-executive directors. Mr Cordin was assessed based on his contribution to operational performance, share price performance, health and safety and company leadership. The grant date was 24 September 2010.

(3) Refer to Mr Cordin's employment contract outlined in the remuneration report for more details. This bonus structure was established in 2008 and due to the need to meet performance criteria, the bonus has not yet vested. Based on performance criteria, Mr Cordin may not receive a bonus but may be eligible to receive a maximum bonus of \$400,000. This bonus will be determined and finalised in 2011. In 2009, Mr Cordin's bonus represented 19% of his total remuneration.

(4) The cash bonus paid to Mr Naylor in 2010 was based on performance and represented 9% of his total remuneration. His annual performance appraisal was conducted by the Executive Chairman. Mr Naylor was assessed based on his contribution to operational performance, risk management and company leadership. The grant date was 24 September 2010.

(5) The cash bonus paid to Mr Naylor in 2009 was based on performance and represented 10% of his total remuneration. His annual performance appraisal was conducted by the Managing Director. Mr Naylor was assessed based on his contribution to operational performance, risk management and company leadership. The grant date was 29 May 2009.

(6) Mr Stewart became Manager Operations – Dragon Mining (Sweden) AB on 20 July 2010. Mr Stewart's entire 2010 remuneration is disclosed. His remuneration was unchanged for the entire year.

(7) Mr Hasson commenced 31 March 2010 as Group Financial Controller and was appointed Joint Company Secretary 25 November 2010. Mr Hasson's entire 2010 remuneration is disclosed.

(8) Ms Collinson is an employee of Eurogold Limited. Eurogold Limited has charged Dragon Mining for Company Secretarial services.

End of Remuneration Report.

DIRECTORS' REPORT (continued)

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 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; and
- 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 Ernst & Young.

	31 Dec 2010
	\$
Tax compliance services	60,995
	<hr/>
	60,995
	<hr/> <hr/>

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 31 December 2010. 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 accordance with a resolution of the Directors.



MD Naylor
Finance Director
24 February 2011

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 of Dragon Mining Limited for the financial year ended 31 December 2010 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of its financial position as at 31 December 2010 and performance
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(c)
 - (c) 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 the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2010.

On behalf of the board



MD Naylor
Finance Director
24 February 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Dragon Mining Limited is responsible for establishing the corporate governance framework of the consolidated entity having regard to the ASX Corporate Governance Council published guidelines as well as its corporate governance principles and recommendations. 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.

The Board has adopted the "Corporate Governance Principles and Recommendations" established by the ASX Corporate Governance Council and published by the ASX in August 2007.

Unless otherwise stated, Dragon Mining Limited's corporate governance practices were in place throughout the year ended 31 December 2010.

There is a corporate governance section on the Company's website which sets out the various policies, charters and codes of conduct which have been adopted to ensure compliance with the principles and recommendations referred to above.

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

The Board of Directors

Board Role and Responsibilities

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

The key responsibilities of the Board include:

- appointing and removing the Managing Director ("MD");
- where appropriate, ratifying the appointment and the removal of senior executives;
- providing input into and final approval of senior executives' development of corporate strategy and performance objectives;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- overseeing the management of safety and occupational health, environmental issues, native title, cultural heritage and community development;
- monitoring senior executives' performance and implementation of strategy;
- ensuring appropriate resources are available to senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestments;
- reviewing and approving remuneration of the MD and senior executives;
- 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;
- appointment, re-appointing or removing the Company's external auditors (on the recommendation of the Audit and Risk Management Committee); and assuring itself that proper audit procedures are in place; and
- monitoring and overseeing the management of shareholder and community relations.

Board Composition

The Board is comprised of four Non-Executive Directors and two Executive Directors being the Executive Chairman and the Finance Director. The MD role is currently being performed by the Executive Chairman.

CORPORATE GOVERNANCE STATEMENT (continued)

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
Peter George Cordin	Executive Chairman	March 2006	No	No
Michael Dylan Naylor	Finance Director	July 2008	No	No
Toivo Tapani Järvinen	Non-Executive Director	December 2003	Yes	Yes
Markku Juhani Mäkelä	Non-Executive Director	November 2008	Yes	Yes
Christian Russenberger	Non-Executive Director	November 2009	Yes	Yes
Peter Lynton Gunzburg	Non-Executive Director	February 2010	Yes	No

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

Review of Performance of Senior Executives

Details of the performance review process for senior executives are set out in the Remuneration Report, which forms part of the Directors' Report.

Structure of the Board

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 Director's 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.

Notification of departure

The Board has reviewed and considered the positions and associations of each of the six Directors in office at the date of this report and consider that three of the Directors are independent, therefore a majority of the Directors are not independent. Mr PG Cordin, Mr MD Naylor and PL Gunzburg (substantial shareholder) are not considered to be independent. Even though only half of the Board are independent, the Board believes that the current composition of the Board is adequate for the Group's current size and operations, and includes an appropriate mix of skills and expertise, relevant the Group's business.

CORPORATE GOVERNANCE STATEMENT (continued)

Structure of the Board (continued)

Chairman and Managing Director

The roles of the Chairman and the MD are not to be 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 executives.

The Remuneration and Nomination Committee ensure that the Board members are appropriately qualified and experienced to discharge their responsibilities and have in place procedures to assess the performance of the MD and senior executives. The MD is accountable to the Board for all authority delegated to that position and senior executives.

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

Notification of departure

From 4 March 2010 the company has departed from this principle when Andrew Daley resigned and the MD Mr PG Cordin became the Executive Chairman. The Board believes that Mr PG Cordin is the most appropriate person for the position as Chair because of his seniority and industry experience.

Board Evaluation Process

The Board reviews its performance and the performance of individual Directors (including the Managing Director), the committees of the Board, the Company and senior executives regularly (this is achieved with the assistance of the Remuneration and Nomination Committee). This is an important element of the Board's monitoring role, especially with regard to long term growth of the Company of shareholder value.

External consultants are engaged where it is seen to be beneficial to the Company when undertaking the performance evaluation process.

In relation to the term of office, The Company's constitution specifies that one third of all Directors (with the exception of the MD) must retire from office annually and are eligible for re-election.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of two Non-Executive Directors, Mr PL Gunzburg (Chairman) and Mr TT Järvinen 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 executives. The MD is excluded from determining his own salary. In addition, the Committee is 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.

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 senior executives 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.

CORPORATE GOVERNANCE STATEMENT (continued)

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.

The Company prohibits Directors or executives from entering into arrangements to protect the value of any Dragon Mining Limited shares or options that the director or executive has become entitled to as part of his/her remuneration package. This includes entering into contracts to hedge their exposure.

Corporate Reporting

In accordance with ASX Principle 7, the MD and Finance Director 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.

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of three Non-Executive Directors, Mr PL Gunzburg (Chairman), Mr C Russenberger and Dr Markku Juhani Mäkelä.

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.

Annually the Board reviews the risks facing the Company, assesses these risks and ensures there are controls for these risks which are designed to reduce identified risk to an acceptable level. In accordance with the ASX Principle 7, the Board has established a Risk Management policy, 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 Finance Director 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 and that the Company's risk management and internal compliance and control systems is operating effectively and efficiently in all material respects.

CORPORATE GOVERNANCE STATEMENT (continued)

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 2010.

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 2001 relating to continuous disclosure.

The MD, Finance Director and the Company Secretary have been nominated as the people responsible for communication with the 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.

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 shareholders on request and is available as an interactive document on the Company's website, www.dragon-mining.com.au;
- Half yearly and quarterly reports and all ASX announcements which are posted on the Company website;
- The annual general meeting and other meetings so called to obtain approval for Board action as appropriate; and
- Continuous disclosure announcements made to the ASX.

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.

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".

Under the remuneration policy, Non-executive Directors are entitled to participate in equity based remuneration schemes but not to an extent where perceived independence has been jeopardised. During 2006 the non-executive directors were issued STIs in the form of options. The Board believes that the independence of the Non-executive Directors has not been jeopardised.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 \$'000	2009 \$'000
Revenue from gold sales		91,888	74,658
Cost of sales	2(a)	(56,896)	(60,419)
Gross profit		34,992	14,239
Other revenue	2(b)	836	365
Other income	2(c)	8,999	483
Exploration expenditure written off		(510)	(74)
Other expenses	2(d)	(4,996)	(3,558)
Profit before treasury, tax and finance costs		39,321	11,455
Finance costs	2(e)	(1,034)	(2,064)
(Loss)/Gain on buyback and redemption of convertible notes		(81)	1,450
Profit before treasury and tax		38,206	10,841
Foreign exchange losses		(10,723)	(21,360)
Derivatives gains	2(f)	49	3,245
Profit/(loss) before tax		27,532	(7,274)
Income tax expense	3	(2,796)	(712)
Profit/(loss) after income tax		24,736	(7,986)
Other comprehensive income			
Foreign currency translation		1,818	7,744
Gain on financial assets classified as available-for-sale		710	-
Income tax on items of other comprehensive income		(213)	-
Total comprehensive profit/(loss) for the period		27,051	(242)
Profit/(loss) attributable to:			
Members of Dragon Mining Limited		21,361	(7,977)
Non-controlling interest		3,375	(9)
		24,736	(7,986)
Total comprehensive profit/(loss) attributable to:			
Members of Dragon Mining Limited		23,622	(233)
Non-controlling interest		3,429	(9)
		27,051	(242)
Earnings/(loss) per share attributable to ordinary equity holders of the parent (cents per share)			
Basic earnings/(loss) per share	21	28.96	(10.80)
Diluted earnings/(loss) per share	21	28.96	(10.80)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 \$'000	2009 \$'000
CURRENT ASSETS			
Cash and cash equivalents	4	23,478	4,397
Trade and other receivables	5	9,123	9,514
Inventories	6	5,411	7,035
Derivative financial instruments	28	4	-
Other assets	11	119	115
TOTAL CURRENT ASSETS		38,135	21,061
NON-CURRENT ASSETS			
Property, plant and equipment	9	6,122	7,713
Mineral exploration costs	10	29,712	28,465
Development costs	10	6,793	7,203
Investments in associate	8	262	326
Available-for-sale investments	7	1,750	-
Deferred tax assets	3	554	3,314
Other assets	11	4,144	3,978
TOTAL NON-CURRENT ASSETS		49,337	50,999
TOTAL ASSETS		87,472	72,060
CURRENT LIABILITIES			
Trade and other payables	12	6,753	6,624
Interest bearing loans and borrowings	13	1	3,205
Provisions	14	3,067	1,288
TOTAL CURRENT LIABILITIES		9,821	11,117
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	13	-	11,987
Provisions	14	6,055	5,026
Deferred tax liabilities	3	539	-
Other liabilities	15	8	9
TOTAL NON-CURRENT LIABILITIES		6,602	17,022
TOTAL LIABILITIES		16,423	28,139
NET ASSETS		71,049	43,921
EQUITY			
Contributed equity	16	103,565	103,488
Reserves	17	6,102	3,841
Accumulated losses		(42,047)	(63,408)
Total parent entity interest		67,620	43,921
Non-controlling interest		3,429	-
TOTAL EQUITY		71,049	43,921

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

Attributable to Equity Holders of the Parent

	<i>Contributed Equity</i>	<i>Accumulated Losses</i>	<i>Foreign Currency Translation</i>	<i>Option Reserve</i>	<i>Convertible Note Premium Reserve</i>	<i>Available- for-sale Reserve</i>	<i>Total</i>	<i>Non- controlling interest</i>	<i>Total Equity</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
At 1 January 2009	103,488	(55,431)	(6,682)	711	2,068	-	44,154	9	44,163
Loss for the period	-	(7,977)	-	-	-	-	(7,977)	(9)	(7,986)
Other comprehensive income	-	-	7,744	-	-	-	7,744	-	7,744
Total comprehensive income / (loss) for the period	-	(7,977)	7,744	-	-	-	(233)	(9)	(242)
At 31 December 2009	103,488	(63,408)	1,062	711	2,068	-	43,921	-	43,921
Profit for the period	-	21,361	-	-	-	-	21,361	3,375	24,736
Other comprehensive income	-	-	1,764	-	-	497	2,261	54	2,315
Total comprehensive income for the period	-	21,361	1,764	-	-	497	23,622	3,429	27,051
Transactions with owners in their capacity as owners:									
Issue of shares	77	-	-	-	-	-	77	-	77
At 31 December 2010	103,565	(42,047)	2,826	711	2,068	497	67,620	3,429	71,049

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers		92,027	76,646
Payments to suppliers and employees		(48,969)	(59,019)
Interest received		585	115
Interest expenses		(1,141)	(1,861)
Payments for rehabilitation		(370)	-
Proceeds from derivative transactions		72	-
Payment of environmental bonds		(224)	(171)
Net Operating Cash Flows	4	41,980	15,710
Cash flows from investing activities			
Payments for property, plant and equipment		(2,132)	(3,010)
Proceeds from sale of property, plant and equipment		52	17
Payments for mineral exploration		(8,367)	(6,246)
Payments for development		(4,661)	(4,469)
Purchase of investments		(140)	-
Proceeds on disposal of subsidiary	2(c)	8,000	-
Advances to associate		(245)	(940)
Net Investing Cash Flows		(7,493)	(14,648)
Cash flows from financing activities			
Buyback of convertible notes		(6,548)	(6,697)
Redemption of convertible notes		(5,512)	-
Repayment of short-term factoring facility		(1)	(1,100)
(Repayment of)/ proceeds from bank loans		(2,874)	3,216
Net Financing Cash Flows		(14,935)	(4,581)
Net increase/(decrease) in cash and cash equivalents		19,552	(3,519)
Cash and cash equivalents at the beginning of the period		4,397	8,534
Effects of exchange rate changes on cash and cash equivalents		(471)	(618)
Cash and cash equivalents at the end of the period	4	23,478	4,397

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate Information

The financial report of Dragon Mining Limited ("consolidated entity" or the "Group") for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors on 24 February 2011.

Dragon Mining Limited ("the Parent") is a company limited by shares that is incorporated and domiciled in Australia and whose shares are publicly listed on the Australian Securities Exchange.

The nature of operations and principal activities of the Group are described in the Directors' Report.

(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, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale assets which are measured at fair value through profit and loss and equity respectively.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

(c) Compliance Statement

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The accounting policies adopted are consistent with those of the previous financial year except as detailed in note 1 (ag).

(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. Interests in associates are equity accounted and are not part of the Group.

Subsidiaries are all those 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.

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.

Investments in subsidiaries held by Dragon Mining Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group for transactions after 1 January 2010. Previously the Group had applied the purchase method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

Non-controlling interests represent a portion of profit or loss and net assets in Dragon Mining (Sweden) AB, a subsidiary of Dragon Mining Limited, not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributable to the non-controlling interest even if that results in a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue Recognition

Revenue is recognised and measured at fair value of the consideration received or receivable 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 and Concentrate 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 bullion/gold concentrate 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).

Rental revenue

Rental revenue is recognised in the period in which it is earned.

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

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting 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 reporting 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income Taxes (continued)

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 reporting date.

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 statement of financial position.

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

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 "functional currency"). The consolidated financial statements are presented in Australian dollars which is Dragon Mining Limited's functional and presentation currency.

Transaction & Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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 for each statement of financial position presented are translated at the closing rate at the date of that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Foreign Currency Transactions and Balances (continued)

On consolidation, exchange differences arising from the translation of any monetary items that form part of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(i) Trade and Other Receivables

Trade receivables, which generally have 45 to 60 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.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the transaction. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

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

(j) Inventories

Finished goods, gold concentrate, 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 gold concentrate stockpiles, unprocessed 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

Cost and Valuation

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment other than land. The depreciation rates used for each class of depreciable assets are:

Mining plant and equipment	10-33%
Other plant and equipment	5-50%
Buildings	4-33%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, Plant and Equipment (continued)

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 statement of comprehensive income.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit). A reversal of impairment loss is recognised in the statement of comprehensive income 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 statement of comprehensive income in the year the asset is derecognised.

(l) Joint Ventures

The consolidated entity's share of the assets, liabilities and expenses of jointly controlled assets are included in the appropriate items of the consolidated statement of financial position and statement of comprehensive income.

The consolidated 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

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.

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.

All exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which economic mining of a mineral reserve has commenced, is amortised on the units of production method, with separate calculations being made for each mineral resource. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Exploration & Development Expenditure (continued)

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount, that excess is fully provided against in the financial year in which it is determined.

Deferred Waste

In mining operations, it is necessary to remove overburden and other barren waste materials to access ore from which minerals can economically be extracted. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred before production commences are included within capitalised mine development expenditure and subsequently amortised. The Group defers stripping costs incurred subsequently during the production stage of operations.

Stripping ratios are a function of the quantity of ore mined compared with the quantity of overburden, or waste required to be removed to mine the ore. Deferral of the post production costs to the statement of financial position is made, where appropriate, when actual stripping ratios vary from average life of mine ratios. Deferral of costs to the statement of financial position is not made when the waste to ore ratio is expected to be consistent throughout the life of mine.

Costs which have been deferred to the statement of financial position are recognised in the statement of comprehensive income on a unit of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

(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 normally of three months or less, and bank overdrafts.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the statement of financial position.

(o) Investments and Other Financial Assets

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

Financial assets at fair value through profit and loss

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

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 reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

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. They are subsequently measured at amortised cost, computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Investments and Other Financial Assets (continued)

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 other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of balance 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 statement of comprehensive income 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 statement of comprehensive income 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 reporting 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 statement of comprehensive income. Impairment losses recognised in profit or loss on equity instruments are not reversed through the statement of comprehensive income.

(p) Recoverable Amount of Non-Financial 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) Investment in Associate

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associate is an entity over which the Group has significant influence and that is are neither a subsidiary nor a joint venture.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Investment in Associate (continued)

Under the equity method, investments in an associate are carried in the consolidated statement of financial position at fair value plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of its associate's post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(r) Trade and Other Payables

Trade and other payables are carried at amortised cost due to their short term nature and they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

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.

(s) 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 statement of comprehensive income 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.

(t) Employee Benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave due 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. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee Benefits (continued)

Long service leave

The liability for long service leave due to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with "wages, salaries and annual leave" above. The liability for long service leave due to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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 currency that match, as closely as possible, the estimated future cash outflows.

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 statement of comprehensive income 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 reporting 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.

Superannuation

Contributions made by the Group to employee superannuation funds are charged to the statement of comprehensive income in the period employees' services are provided.

(u) Restoration and Rehabilitation Costs

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

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

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

(v) Borrowing Costs

Borrowing costs are expensed in the period in which they are incurred, except where borrowing costs incurred are directly associated with the construction, purchase or acquisition of a qualifying asset, in which case the borrowing costs are capitalised as part of the cost of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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

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

(x) Derivative Financial Instruments

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

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

(y) Convertible Notes

For convertible notes, the component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, 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 an 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 statement of comprehensive income.

(z) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which effectively transfer to the consolidated entity all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments, disclosed as leased property, plant and equipment, and amortised over the period the consolidated entity is expected to benefit from the use of the leased assets. Lease payments are allocated between interest expense and reduction in the lease liability.

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 charges 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 bases as the lease income. Operating lease payments are recognised as an expense in the statement of comprehensive income over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Earnings per Share

Basic EPS is calculated as net profit attributable to members of the parent, 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 of the parent, adjusted for:

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

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

(ab) Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Geographical location,
- National regulatory environment,
- Nature of the products and services, and
- Nature of the production processes.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(ac) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

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

(ad) Significant Accounting Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Significant Accounting Judgments (continued)

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.

(ae) Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Mine Rehabilitation provision

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

Fair valuations of derivative financial instruments

The Group 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(x). Fair values have been determined based on well established valuation models and market conditions existing at the balance date. These calculations require the use of estimates and assumptions. Changes in the assumptions concerning interest rates, gold prices and volatilities could have significant impact on the fair valuation attributed to the 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.

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 during the year, or the recognition of additional impairment losses in the future. 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 loans to controlled entities are based upon the net assets attributable to the Company's subsidiaries.

Income taxes

The consolidated entity is subject to income taxes in Australia, Sweden and Finland. The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investment, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) Significant Accounting Estimates and Assumptions (continued)

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

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 statement of comprehensive income.

Life-of-mine stripping ratio

The Group has adopted a policy of deferring production stage stripping costs and amortising them in accordance with the life-of-mine strip ratio. Significant judgment is required in determining this ratio for each mine. Factors that are considered include:

- any proposed changes in the design of the mine;
- estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Share-based payments

The Group measures the cost of cash settled transactions with employees by reference to the fair value at the grant date using the Black & Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 27(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(af) Accounting Standards and Interpretations Issued But Not Yet Effective

The following accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the period ended 31 December 2010 and the Group has not yet determined the impact on the financial statements:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9 and 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: <ul style="list-style-type: none"> ▶ two categories for financial assets being amortised cost or fair value ▶ removal of the requirement to separate embedded derivatives in financial assets ▶ strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ▶ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ▶ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ▶ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	1 January 2013
AASB 124 (revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 January 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	1 January 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest to instruments that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), in a consistent manner i.e., allocate between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Clarifies that the revised accounting for loss of significant influence or joint control (from the issue of IFRS 3 Revised) is only applicable prospectively.	1 July 2010	1 January 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(af) Accounting Standards and Interpretations Issued But Not Yet Effective (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions. Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 January 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 January 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 January 2012

The following new accounting standards have been issued or amended but are deemed not applicable to the Group and therefore have no impact:

- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
- AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement
- AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters
- AASB 1053 Application of Tiers of Australian Accounting Standards
- AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ag) New Accounting Standards and Interpretations

Changes in accounting policies and disclosures.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2010.

- | | |
|--------------------------------|--|
| • AASB 3 (Revised) | Business Combinations |
| • AASB 127 (Revised) | Consolidated and Separate Financial Statements |
| • AASB 2008-6 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project |
| • AASB 2008-8 | Amendments to Australian Accounting Standards – Eligible Hedged Items |
| • AASB 2009-4 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] |
| • AASB Int. 17 | Distributions of Non-cash Assets to Owners and consequential amendments to AASB and 2008-13 Australian Accounting Standards AASB 5 and AASB 110 |
| • AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] |
| • AASB 2009-7 | Editorial Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17] |
| • AASB 2009-8 | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] |
| • AASB Int. 16 and AASB 2009-4 | Interpretation 16 of Hedges of a Net investment in a Foreign Operation |

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 3 (Revised) Business Combinations

The revised Standard introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

In accordance with the transitional provisions of the revised Standard, the change in accounting policy was applied prospectively and did not have any impact on the financial position or performance of the Group.

AASB 127 (Revised) Consolidated and Separate Financial Statements

The revised Standard, which has been applied prospectively from 1 January 2010 in accordance with the transitional provisions of the Standard, requires total comprehensive income to be allocated to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Group previously only attributed losses to the non-controlling interests in excess of their share of the equity of the subsidiary where the non-controlling interest had a binding obligation and the ability to make an additional investment. As a result of the adoption of the revised Standard, the previous allocation of losses to the parent entity remains and is not reversed by subsequent profits. Accordingly, the Group recognised non-controlling interests in total comprehensive income for the year amounting to \$3,429,000 for Dragon Mining (Sweden) AB from 1 January 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 REVENUE AND EXPENSES

	2010 \$'000	2009 \$'000
a) Cost of sales		
Cost of production net of inventory movements	47,245	48,581
Depreciation of mine properties, plant and equipment	2,458	4,053
Amortisation of development costs	6,940	7,473
Rehabilitation costs	253	312
	56,896	60,419
b) Other revenue		
Finance revenue	720	135
Rent and service income	116	230
	836	365
<i>Breakdown of finance revenue</i>		
Bank and external interest	607	131
Associate	113	4
	720	135
c) Other income		
Gain on sale of plant and equipment	47	5
Gain on disposal of subsidiary (i)	8,900	305
Other	52	173
	8,999	483
(i) During the year Dragon Mining sold its 100% owned subsidiary Dragon Mining (Eritrea) Ltd (which held a 20% interest in the Zara Gold Project, Eritrea) to Chalice Gold Mines Ltd. Total consideration received consisted of \$8.0 million cash and 2 million shares at market value of \$0.45 per share. In addition Chalice Gold Mines Ltd has the obligation to pay a further \$4.0 million on the delineation of a total of 1 million ounces of gold Reserves at the Zara Gold Project. The carrying value of cash, assets, and liabilities of the subsidiary were nil at the date of disposal.		
d) Other expenses		
Management and administration expenses	3,356	3,236
Depreciation of non-mine site assets	90	113
Project generation expenses	172	202
Share of losses of associate (refer to note 8)	64	7
Production milestone expense	1,314	-
	4,996	3,558
e) Finance costs		
Interest	864	1,756
Non-cash interest on convertible notes	69	216
Other	101	92
	1,034	2,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 REVENUE AND EXPENSES (continued)

	2010 \$'000	2009 \$'000
f) Derivatives – gains and losses		
Gain on gold derivative transactions	45	3,245
Gain on currency derivatives	4	-
	<u>49</u>	<u>3,245</u>
g) Employee benefits		
Wages and salaries	8,928	9,902
Defined contribution superannuation expense	1,308	1,645
Other employee benefits	1,170	1,305
	<u>11,406</u>	<u>12,852</u>
h) Lease payments included in the statement of comprehensive income		
Minimum lease payments – operating leases	172	186

3 INCOME TAX

	2010 \$'000	2009 \$'000
<i>(a) Income Tax Expense</i>		
The major components of income tax expense are:		
<i>Current income tax</i>		
Current income tax charge	-	-
<i>Deferred income tax</i>		
Relating to utilisation and recognition of tax losses	2,470	712
Relating to origination and reversal of temporary differences	326	-
Income tax expense reported in the statement of comprehensive income	<u>2,796</u>	<u>712</u>
<i>(b) Amounts charged or credited directly to equity</i>		
<i>Deferred income tax related to items charged/(credited) directly to equity</i>		
Unrealised gain on available-for-sale investments	213	-
Income tax expense reported in equity	<u>213</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 INCOME TAX (continued)

(c) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate.

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:

	2010	2009
	\$'000	\$'000
Accounting profit/(loss) before income tax	27,532	(7,274)
At the Group's statutory income tax rate of 30% in Australia (31 Dec 2009: 30%)	8,260	(2,182)
Effect of different rates of tax on overseas income	(1,074)	(340)
Loss/(gain) on purchase/redemption of convertible notes	24	(435)
Gain/(loss) on disposal of subsidiary	277	(91)
Other	231	62
Previously unrecognised tax losses utilised	(7,064)	(443)
Tax losses brought to account	(670)	-
Tax losses and other temporary differences not recognised as benefit not probable	2,812	4,141
Aggregate income tax expense	<u>2,796</u>	<u>712</u>

(d) Recognised deferred tax assets and liabilities

Consolidated deferred income tax at reporting date relates to the following:

Deferred tax assets

Share issue costs	95	200
Convertible note issue costs	9	99
Convertible note interest	-	92
Leave entitlements	56	41
Rehabilitation provision	587	624
Investment in associate	21	-
Property, plant and equipment	2	11
Unrealised foreign exchange	4,052	1,544
Other	768	94
Tax losses recognised (i)	2,719	6,692
Temporary differences not recognised	(4,988)	(2,463)
Set off of deferred tax liabilities pursuant to set off provisions	(2,767)	(3,620)
Gross deferred income tax assets	<u>554</u>	<u>3,314</u>

Deferred tax liabilities

Prepayments	(15)	-
Capitalised exploration expenditure	(2,752)	(3,482)
Property, plant, and equipment	(326)	-
Available-for-sale assets	(213)	-
Convertible note borrowing costs	-	(138)
Set off of deferred tax liabilities pursuant to set off provisions	2,767	3,620
Gross deferred income tax liabilities	<u>(539)</u>	<u>-</u>

(i) This amount includes tax losses recognised against deferred tax liabilities of \$2.2m (2009: \$3.4m).

The equity balance comprises temporary differences attributable to:

Available-for-sale assets	<u>213</u>	<u>-</u>
Net temporary differences in equity	<u>213</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 INCOME TAX (continued)

(e) Tax Losses

Future benefits of tax losses total approximately \$4,133,202 (2009: \$14,897,839). Only benefits at Polar Mining Oy totalling \$554,000 have been brought to account. The consolidated entities have available capital losses at a tax rate of 30% amounting to \$2,749,297 (2009: \$3,772,105).

The benefits of the tax losses will only be obtained by the companies if:

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

(f) Unrecognised temporary differences

As at 31 December 2010, aggregate unrecognised temporary differences of \$4.1m (2009: \$1.5m) are in respect of investments in subsidiaries and associates for which no deferred tax assets have been recognised.

(g) 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 and funding 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. For the year ended 31 December 2010, there are no tax consolidation contribution adjustments (2009: nil). 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

	2010 \$'000	2009 \$'000
Cash at bank and on hand	10,276	4,355
Short-term deposits	13,202	42
	<hr/> 23,478	<hr/> 4,397

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

Short-term deposits are normally 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. One of the deposits at 31 December 2010 was entered into for a term greater than 3 months but was available to be withdrawn at call.

The fair value of cash and cash equivalents is \$23,478,231.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 CASH AND CASH EQUIVALENTS (continued)

Reconciliation of net profit/(loss) after tax to net cash flows from operations	2010 \$'000	2009 \$'000
Net profit/(loss) after tax	21,361	(7,977)
Adjustments for:		
- Depreciation and amortisation	9,488	11,639
- Exploration expenditure written off	510	74
- Non-cash gain on gold forward contracts	23	(3,245)
- Net foreign currency losses/(gains)	10,723	21,360
- Loss/(gain) on buyback and redemption of convertible notes	81	(1,450)
- Gain on disposal of interest in subsidiary	(8,900)	(305)
- Equity accounted share of loss of associate	64	7
- Net profit on disposal of property, plant and equipment	(47)	(5)
- Tax expense	2,796	712
- Non-cash interest on convertible notes	69	216
- Non-cash rehabilitation costs	253	312
- Rehabilitation provision discount adjustment	31	214
- Movement in non-controlling interest	3,375	(9)
- Payments for Rehabilitation	(370)	-
<i>Changes in operating assets and liabilities</i>		
- (Increase)/decrease in receivables	(844)	1,336
- (Increase)/decrease in other current assets	(250)	295
- (Increase)/decrease in inventories	817	(879)
- (Increase)/decrease in deferred waste	1,241	(1,161)
- Increase/(decrease) in trade creditors and accruals	164	(5,246)
- Increase/(decrease) in provisions	1,395	(178)
Net operating cash flows	41,980	15,710

5 TRADE AND OTHER RECEIVABLES

Current	2010 \$'000	2009 \$'000
Trade debtors (i)	6,075	6,233
Other debtors (ii)	1,709	2,318
Receivables from associate (iii)	1,302	944
Bullion on hand	37	19
	9,123	9,514

- (i) Trade debtors are non-interest-bearing and generally on 45-60 day terms.
(ii) Other debtors are non-interest bearing and generally on 30 day terms.
(iii) For terms and conditions relating to receivables from associate refer to note 22.

(a) Impairment

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised by the Group or the Company for trade receivables in the current year (2009: nil).

The ageing of trade debtors is as follows:

	Total	0-30 days	30-60 days
2010	6,075	3,445	2,630
2009	6,233	3,297	2,936

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 TRADE AND OTHER RECEIVABLES (continued)

(b) Fair Value and credit risk

Due to the short-term nature of these receivables, their carrying value approximates fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 28.

6 INVENTORIES

	2010 \$'000	2009 \$'000
Work in progress – at cost		
- Ore and concentrate stockpiles	3,116	4,493
- Gold in circuit	1,374	1,938
Raw materials and stores – at cost	921	604
	5,411	7,035
	5,411	7,035

7 AVAILABLE-FOR-SALE INVESTMENTS

	2010 \$'000	2009 \$'000
Non-current		
<i>Listed</i>		
At fair value		
- Shares – Chalice Gold Mines Limited, ASX listed	1,750	-
	1,750	-
	1,750	-

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

8 INVESTMENTS IN ASSOCIATE

(a) Investment details

Unlisted

	2010 \$'000	2009 \$'000
Weld Range Metals Limited - 39.95% interest	262	326
	262	326
	262	326

(b) Movements in the carrying amount of investment in associate

	2010 \$'000	2009 \$'000
Weld Range Metals Limited		
At 1 January	326	-
Cost recognised at 26 October 2009 net of impairment	-	333
Share of loss after income tax	(64)	(7)
	262	326
	262	326

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8 INVESTMENTS IN ASSOCIATE (continued)

(c) Summarised financial information

The following table illustrates summarised financial information relating to Weld Range Metals Limited:

	2010	2009
	\$'000	\$'000
Extract from Weld Range Metals Limited's statement of financial position:		
Current assets	21	49
Non-current assets	4,597	2,921
	<u>4,618</u>	<u>2,970</u>
Current liabilities	4,379	100
Non-current liabilities	-	2,359
	<u>4,379</u>	<u>2,459</u>
Net assets	<u>239</u>	<u>511</u>
Share of associate's net assets	<u>95</u>	<u>204</u>
Extract from Weld Range Metals Limited's statement of comprehensive income:		
Revenue	-	-
Expenses	(271)	(19)
	<u>(271)</u>	<u>(19)</u>

9 PROPERTY, PLANT AND EQUIPMENT

	2010	2009
	\$'000	\$'000
Land		
At cost	1,166	1,366
Buildings		
At cost	1,230	1,358
Less accumulated depreciation	(755)	(709)
	<u>475</u>	<u>649</u>
Mine properties, plant and equipment		
At cost	22,565	23,185
Less accumulated depreciation	(18,084)	(17,487)
	<u>4,481</u>	<u>5,698</u>
Total property, plant and equipment	<u>6,122</u>	<u>7,713</u>

NOTES TO THE CONSOLIDATED 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:

	2010 \$'000	2009 \$'000
Land		
Carrying amount at beginning of period	1,366	1,710
Net foreign exchange movement	(200)	(344)
Carrying amount at end of period	<u>1,166</u>	<u>1,366</u>
Buildings		
Carrying amount at beginning of period	649	989
Additions	43	113
Depreciation	(140)	(268)
Net foreign exchange movement	(77)	(185)
Carrying amount at end of period	<u>475</u>	<u>649</u>
Mine properties, plant and equipment		
Carrying amount at beginning of period	5,698	8,089
Additions	2,089	2,897
Disposals	(5)	(12)
Reclassification from /(to) exploration costs	42	(65)
Reclassification (to)/from development costs	(140)	-
Transfer to other non-current assets	(217)	-
Depreciation	(2,408)	(3,898)
Net foreign exchange movement	(578)	(1,313)
Carrying amount at end of period	<u>4,481</u>	<u>5,698</u>

Property, Plant and Equipment Pledged as Security for Liabilities

Property, plant and equipment is encumbered to the extent set out in Note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 MINERAL EXPLORATION AND DEVELOPMENT COSTS

	2010 \$'000	2009 \$'000
Exploration and evaluation		
Balance at beginning of financial period	28,465	29,269
Current period expenditure	8,367	6,246
Disposals (i)	-	(162)
Expenditure written off (ii)	(510)	(74)
Transfers to development	(1,710)	(236)
Reclassification (to)/from property, plant & equipment	(42)	-
Net foreign exchange movement	(4,858)	(6,578)
Total exploration expenditure	29,712	28,465
Development		
Balance at beginning of financial period	7,203	10,398
Current period expenditure	4,661	4,469
Transfers from exploration	1,710	236
Reclassification from property, plant & equipment	140	65
Amortisation	(6,940)	(7,473)
Movement in deferred waste	(1,241)	1,161
Additions to rehabilitation asset	2,414	390
Net foreign exchange movement	(1,154)	(2,043)
Total development expenditure	6,793	7,203
Total mineral exploration and development expenditure	36,505	35,668

(i) Relates to the sale of 60% of Weld Range Metals Limited in 2009.

(ii) Expenditure written off in accordance with Note 1(m).

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

Exploration, Evaluation and Development Pledged as Security for Liabilities

Exploration, Evaluation and Development is encumbered to the extent set out in Note 13.

11 OTHER ASSETS

	2010 \$'000	2009 \$'000
Current		
Prepayments	119	115
Non-current		
Environmental and other bonds	4,144	3,978

The environmental bonds relate to cash that has been deposited with Swedish and Finnish government authorities. The bonds are held in an interest bearing account and can only be drawn down when rehabilitation programs have been completed and authorised by the relevant government authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 TRADE AND OTHER PAYABLES

	2010 \$'000	2009 \$'000
Current		
Trade payables and accruals	6,753	6,624

Trade payables are non-interest bearing and are normally settled on 30 day terms.

(a) Fair Values

Due to the short term-nature of these payables, their carrying value approximates fair value.

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 28.

13 INTEREST-BEARING LOANS AND BORROWINGS

	<i>Maturity</i>	2010 \$'000	2009 \$'000
Current			
Bank loans (i)	2010	-	3,202
Factoring facility drawn down (ii)		1	3
		1	3,205
Non-current			
Convertible notes (iii)	2011	-	11,987
		-	11,987

(i) The bank loan was from Nordea Bank Finland Plc and was used to fund the development of the Jokisivu Gold Mine. The loan, half of which was guaranteed by the Finland State owned Finnvera Plc, was fully drawn down as at 31 December 2009, and was repaid in 2010. The interest rate on amounts drawn under the facility were charged at monthly euribor plus 3% and payable monthly in arrears. The loan was denominated in euro and secured by a first ranking fixed and floating charge over all the assets and undertakings of Polar Mining Oy including mortgages over key tenements.

(ii) In Finland, there is a minimum six week delay between shipment of gold concentrate and payment by the refiner. In order to access funds for working capital, the Company established a factoring facility where funds can be drawn down from Nordea Bank for up to a maximum of 75% of gold concentrate delivered to the refiner. Interest is payable at one week Libor plus a credit margin of 1.35% on funds drawn down. In addition the facility attracts a collateral management fee and a credit insurance fee which insures 90% of the nominal value of an assigned invoice.

(iii) 23,645,289 Dragon Mining convertible notes ("Notes") were issued in 2006 at \$1.05 per note. The Notes had a 10% coupon rate and were due to be redeemable or convertible into ordinary shares in February 2011 on the basis of 6 shares for 1 convertible note. The Notes were secured by a second ranking deed of fixed and floating security. Dragon Mining Investments Pty Ltd (a wholly owned subsidiary of Dragon Mining) purchased a further 6,277,675 Notes during the year ended 31 December 2010, 73,000 Notes were converted into shares and the remaining 5,249,479 Notes were redeemed on 30 September 2010 at face value of \$1.05 per Note in accordance with the conditions of the convertible note trust deed. Dragon Mining Investments Pty Ltd held 18,322,810 Notes at the time of redemption.

(a) Fair Values

The carrying value of bank loans and factoring facility drawn down approximate fair value. The fair value of the convertible notes in 2009 of \$11,600,000 has been determined directly by reference to published price quotations in an active market.

(b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 28.

(c) Defaults and breaches

During the current and prior years, there were no defaults or breaches of any of the loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 PROVISIONS

	2010 \$'000	2009 \$'000
Current		
Employee entitlements	1,151	1,288
Rehabilitation (ii)	602	-
Production milestone (i)	1,314	-
	<u>3,067</u>	<u>1,288</u>
Non-current		
Employee entitlements	69	50
Rehabilitation (ii)	5,986	4,976
	<u>6,055</u>	<u>5,026</u>

(i) In accordance with the share and loan sales agreement to purchase Polar Mining Oy dated 8 October 2003, 1,000,000 euro is payable (in cash or shares) to Outokumpu Oyj upon 100,000 ounces of production being reached from any one of the mines specified in the agreement. It is expected that this will occur in 2011.

(ii) Rehabilitation

	\$'000
Balance at 1 January 2010	<u>4,976</u>
Additions	2,667
Rehabilitation borrowing cost unwound	31
Utilised	(370)
Net foreign exchange movement	(716)
Balance at 31 December 2010	<u>6,588</u>

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.

Rehabilitation provisions are estimated based on survey data, external contracted rates and the timing of the current mining schedule. Provisions are discounted based on rates that reflect current market assessments and the risks specific to that liability.

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

	2010 \$'000	2009 \$'000
Non-current		
Other	8	9

16 CONTRIBUTED EQUITY

	2010 Number of Shares	2009 Number of Shares	2010 \$'000	2009 \$'000
Share Capital				
Ordinary shares, fully paid	73,778,508	737,345,151	103,565	103,488

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 CONTRIBUTED EQUITY (continued)

The Company has granted options to Directors and executives to subscribe for the Company's shares. Details of the options are provided at note 27.

(a) Ordinary share movement during the period

	\$'000	No. of shares
At 1 January 2010	103,488	737,357,151
Conversion of convertible notes (i)	77	438,000
Share consolidation (ii)	-	(664,016,643)
Balance at 31 December 2010	103,565	73,778,508

There were no movement in share capital in 2009.

- (i) During the year 73,000 convertible notes at a face value of \$1.05 were converted into 438,000 shares.
(ii) On 5 November 2010 it was approved at a General Meeting of the company to consolidate the share capital of the company on a 1 for 10 basis.

(b) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Group monitors the adequacy of capital by analysing cash flow forecasts over the term of the life of mine for each of its projects. To a lesser extent, gearing ratios are also used to monitor capital. Appropriate capital levels are maintained to ensure that all approved expenditure programs are adequately funded. This funding is derived from an appropriate combination of debt and equity.

The gearing ratio is calculated as net debt (including convertible notes) divided by total capital. Net debt is defined as interest bearing liabilities less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position (including non-controlling interest) plus net debt.

	2010	2009
Gearing ratio	nil	20%

The Group is not subject to any externally imposed capital requirements.

17 RESERVES

	2010 \$'000	2009 \$'000
Foreign currency translation reserve (i)	2,826	1,062
Option reserve (ii)	711	711
Convertible note premium reserve (iii)	2,068	2,068
Available-for-sale asset reserve (iv)	497	-
	6,102	3,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17 RESERVES (continued)

	2010 \$'000	2009 \$'000
(i) Movements in foreign currency translation reserve		
Balance at the beginning of period	1,062	(6,682)
Translation of foreign entities' statement of financial positions	1,764	7,744
Balance at the end of period	2,826	1,062
(ii) Movements in option reserve		
Balance at the beginning of period	711	711
Balance at the end of the period	711	711
(iii) Movements in convertible note premium reserve		
Balance at the beginning of period	2,068	2,068
Balance at the end of the period	2,068	2,068
(iv) Movements in available-for-sale reserve		
Balance at the beginning of period	-	-
Net gains on available-for-sale investments	710	-
Income tax on amounts taken directly to equity	(213)	-
Balance at the end of the period	497	-

Nature and Purpose of Reserves

(i) 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.

(ii) 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 27 for further details of these benefits.

(iii) Convertible Note Premium Reserve

The convertible note premium reserve is used to record the equity component of the convertible notes.

(iv) Available-for-sale reserve

This reserve is used to record the increases and decreases in the fair value of available-for-sale investments. Refer to note 7 for further details of these assets.

18 DIVIDENDS PAID OR PROVIDED FOR

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

19 KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Directors

PG Cordin	Executive Chairman
MD Naylor	Finance Director
TT Järvinen	Director (non-executive)
MJ Mäkelä	Director (non-executive)
C Russenberger	Director (non-executive) (appointed 18 November 2009)
PL Gunzburg	Director (non-executive) (appointed 8 February 2010)
AE Daley	Chairman (non-executive) (resigned 4 March 2010)
PL Munachen	Director (non-executive) (resigned 1 March 2010)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 KEY MANAGEMENT PERSONNEL (continued)

(a) Details of Key Management Personnel (continued)

Executives

NM Edwards	Chief Geologist
UO Kuronen	Manager Geology (Polar Mining Oy)
JD Stewart	Manager - Operations – Dragon Mining (Sweden) AB (appointed 20 July 2010)
HO Pöyry	Manager - Operations (Polar Mining Oy)
CE Hasson	Financial Controller and Joint Company Secretary (commenced 31 March 2010 and appointed Joint Company Secretary 25 November 2010)
PA Collinson	Joint Company Secretary
KE Marttala	Manager - Operations – Dragon Mining (Sweden) AB (passed away in July 2010)

(b) Compensation of Key Management Personnel

	2010 \$	2009 \$
<i>Key Management Personnel</i>		
Short-term	2,038,194	1,946,028
Post-employment	250,850	267,226
	2,289,044	2,213,254

(c) Option Holdings of Key Management Personnel

	Balance at beginning of period 1 January 2010	Held at date of resignation	Consolidation (1)	Balance at end of period 31 December 2010	Exercisable	Vested as at 31 December 2010 Not Exercisable
Directors						
PG Cordin	4,000,000	-	(3,600,000)	400,000	400,000	-
MD Naylor	1,000,000	-	(900,000)	100,000	100,000	-
TT Järvinen	1,000,000	-	(900,000)	100,000	-	100,000
MJ Mäkelä	-	-	-	-	-	-
C Russenberger	-	-	-	-	-	-
PL Gunzburg	-	-	-	-	-	-
AE Daley	2,000,000	2,000,000 ⁽²⁾	-	-	-	-
PL Munachen	1,000,000	1,000,000 ⁽²⁾	-	-	-	-
Executives						
NM Edwards	500,000	-	(450,000)	50,000	50,000	-
UO Kuronen	500,000	-	(450,000)	50,000	50,000	-
J Stewart	250,000	-	(225,000)	25,000	25,000	-
HO Pöyry	500,000	-	(450,000)	50,000	50,000	-
KE Marttala	500,000	500,000	-	-	-	-
TOTAL	11,250,000	(3,500,000)	(6,975,000)	775,000	675,000	100,000

(1) On 5 November 2010, a one-for-ten consolidation of Dragon Mining's issued capital was undertaken. Options were consolidated on the same ratio.

(2) These options were subsequently cancelled in conjunction with the terms of the Company's employee incentive option plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 KEY MANAGEMENT PERSONNEL (continued)

(c) Option Holdings of Key Management Personnel (continued)

	Balance at beginning of period 1 January 2009	Held at date of resignation	Consolidation	Balance at end of period 31 December 2009	Vested as at 31 December 2009	
					Exercisable	Not Exercisable
Directors						
PG Cordin	4,000,000	-	-	4,000,000	4,000,000	-
MD Naylor	1,000,000	-	-	1,000,000	1,000,000	-
TT Järvinen	1,000,000	-	-	1,000,000	-	1,000,000
MJ Mäkelä	-	-	-	-	-	-
C Russenberger	-	-	-	-	-	-
AE Daley	2,000,000	-	-	2,000,000	-	2,000,000
PL Munachen	1,000,000	-	-	1,000,000	-	1,000,000
Executives						
NM Edwards	500,000	-	-	500,000	500,000	-
UO Kuronen	500,000	-	-	500,000	500,000	-
HO Pöyry	500,000	-	-	500,000	500,000	-
KE Marttala	500,000	-	-	500,000	500,000	-
TOTAL	11,000,000	-	-	11,000,000	7,000,000	4,000,000

(d) Ordinary Shareholdings of Key Management Personnel

Shares held in Dragon Mining Limited (number)	Balance 1 January 2010	Net change other	Held at the date of resignation	Consolidation (1)	Granted as remuneration	Balance 31 December 2010
	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors						
PG Cordin	3,000,000	1,000,000 ⁽⁴⁾	-	(3,600,000)	-	400,000
MD Naylor	447,500	269,000 ⁽⁴⁾	-	(644,850)	-	71,650
PL Gunzburg ⁽²⁾	-	840,000 ⁽³⁾	-	(756,000)	-	84,000
C Russenberger	-	300,000 ⁽⁴⁾	-	(270,000)	-	30,000
AE Daley	310,000	-	(310,000)	-	-	-
Executives						
JD Stewart	-	16,000 ⁽³⁾	-	(14,400)	-	1,600
CE Hasson	-	66,666 ⁽³⁾	-	(59,999)	-	6,667
Total	3,757,500	2,491,666	(310,000)	(5,345,249)	-	593,917

(1) On 5 November 2010, a one-for-ten consolidation of Dragon Mining's issued capital was undertaken.

(2) Mr Gunzburg is Executive Chairman of Eurogold Ltd which held 13,063,887 shares in Dragon Mining as at 31 December 2010.

(3) Held at date of appointment.

(4) Purchased on market during the year. Mr Naylor also converted 11,500 Convertible Note ("Notes") into 69,000 ordinary shares.

Shares held in Dragon Mining Limited (number)	Balance 1 January 2009	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2009
	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors					
AE Daley	310,000	-	-	-	310,000
PG Cordin	3,000,000	-	-	-	3,000,000
MD Naylor	447,500	-	-	-	447,500
Total	3,757,500	-	-	-	3,757,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 KEY MANAGEMENT PERSONNEL (continued)

(e) Holdings of Convertible Notes of Key Management Personnel

Convertible Notes issued by Dragon Mining Limited held (number)	Balance 1 January 2010	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2010
Directors					
MD Naylor (1)	11,500	-	(11,500)	-	-
AE Daley	70,000	-	-	(70,000)	-
Total	81,500	-	(11,500)	(70,000)	-

(1) Mr Naylor converted his Notes into ordinary shares in October 2010.

Convertible Notes issued by Dragon Mining Limited held (number)	Balance 1 January 2009	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2009
Directors					
AE Daley	70,000	-	-	-	70,000
MD Naylor	11,500	-	-	-	11,500
Total	81,500	-	-	-	81,500

All equity transactions with key management personnel other than 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.

20 REMUNERATION OF AUDITORS

The auditor of Dragon Mining Limited is Ernst & Young.

	2010	2009
Remuneration of Ernst & Young (Australia) for:		
- auditing or reviewing accounts	84,800	85,500
- tax consulting	59,950	17,000
	<u>144,750</u>	<u>102,500</u>
Remuneration of Ernst & Young (other than Australia) for:		
auditing or reviewing accounts	62,370	46,215
- tax consulting	1,045	7,066
	<u>63,415</u>	<u>53,281</u>
Remuneration of non-Ernst & Young audit firms for:		
- compliance services	<u>8,578</u>	<u>19,245</u>

21 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit or 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 or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive options and dilutive convertible notes).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 EARNINGS PER SHARE (continued)

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

	2010	2009*
Basic earnings/(loss) per share		
Profit/(loss) used in calculation of basic earnings/(loss) per share (\$'000)	21,361	(7,977)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	73,748,962	73,734,515
Basic earnings/(loss) per share (cents)	28.96	(10.80)
Diluted earnings/(loss) per share		
Profit/(loss) used in calculation of basic earnings/(loss) per share (\$'000)	21,361	(7,977)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	73,748,962	73,734,515
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted EPS	73,748,962	73,734,515
Number of potential ordinary shares that are not dilutive and hence not included in calculation of diluted EPS	1,017,500	8,297,562
Diluted earnings/(loss) per share (cents)	28.96	(10.80)

* Adjusted to reflect a 1 for 10 share consolidation that took place on 5 November 2010.

There are no instruments (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

22 RELATED PARTY TRANSACTIONS

(a) Subsidiaries

The consolidated financial statements include the financial statements of Dragon Mining Limited and the subsidiaries listed in the following table.

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			Dec 2010 %	Dec 2009 %
Dragon Mining (Eritrea) Ltd (i)	Australia	Ord	-	100
Dragon Mining Investments Pty Ltd	Australia	Ord	100	100
Dragon Mining (Sweden) AB	Sweden	Ord	80	80
Viking Gold & Prospecting AB	Sweden	Ord	100	100
Polar Mining Oy	Finland	Ord	100	100

(i) Disposal of Controlled Entity

In June 2010, Chalice Gold Mines Limited ("Chalice") exercised its option to purchase Dragon Mining (Eritrea) Ltd (which held a 20% interest in the Zara Gold Project, Eritrea) resulting in the Company receiving \$8.0 million in cash and 2 million Chalice shares which are escrowed for 12 months. In addition, Chalice has the obligation to pay Dragon Mining a further \$4.0 million on the delineation of a total of 1 million ounces of gold Reserves at the Zara Gold Project.

Dragon Mining disposed of a 100% interest in Dragon Mining (Eritrea) Ltd on 22 June 2010. The carrying value of cash, assets, and liabilities of the subsidiary were all nil at the date of disposal.

Ultimate parent

Dragon Mining Limited is the ultimate parent entity of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

Director Related Transactions

The Directors of Dragon Mining Limited at any time during the period were:

AE Daley
PG Cordin
MD Naylor
TT Järvinen
MJ Mäkelä
PL Munachen
C Russenberger

- (i) Golden Valley Services Pty Ltd, a subsidiary company of Coal of Africa Limited of which Mr PG Cordin is a Non-Executive Director, rents office premises to the Company. The rental amounted to \$88,890 for the year ended 31 December 2010 (2009: \$95,864).
- (ii) Coal of Africa Limited, of which Mr PG Cordin is a Non-Executive Director, invoices the Company for office services. This amount was nil for the year ended 31 December 2010 (2009: \$27,955). Additionally, the Company invoices Coal of Africa Limited for office services. This amount was \$10,139 for the year ended 31 December 2010 (2009: \$29,060).
- (iii) The Company has effected Directors' and Officers' Liability Insurance.

Associate

Dragon Mining has a 39.95% interest in Weld Range Metals Limited ("Weld Range Metals"), which owns the Weld Range tenements in Western Australia. Mr PG Cordin and Mr MD Naylor are Directors of Weld Range.

On 17 December 2009, Dragon Mining provided a \$940,000 loan to Weld Range Metals to fund its pro-rata share of the acquisition on the Weld Range tenements from the previous joint venture partners. Interest on the loan to Weld Range Metals is charged at the ANZ business mortgage rate plus 1% per annum. The loan has a fixed and floating charge over all of the assets of Weld Range Metals. Interest of \$112,966 was charged for the year ended 31 December 2010 (2009: \$3,541).

Dragon has given an undertaking that the loan will not require repayment in cash unless adequate capital raisings are finalised by Weld Range Metals. Weld Range Metals is evaluating various capital raising opportunities to fund a definitive feasibility study. An outcome on the capital raising is expected in 2011.

Entity with significant influence over the Group

Eurogold Limited owns 17.71% of the ordinary shares in Dragon Mining Limited (2009: 9.03%).

Rent and on costs charged to Eurogold by the Company for the year were \$21,362 (2009: \$20,180). Costs charged by Eurogold to the Company for Company Secretarial services were \$18,859 (2009: \$13,357)

Joint venture in which the entity is a venturer

Harpsund Joint Venture

The Group has the right to earn up to an 80% interest in the Harpsund Joint Venture. Refer to note 24 for details of the Joint Venture.

Employees

Contributions to superannuation funds on behalf of employees are disclosed in note 2(g).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 SEGMENT REPORTING

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are used by the chief operating decision makers in assessing performance and determining the allocation of resources.

The Group has identified its operating segments to be Sweden and Finland, on the basis of geographical location, different national regulatory environments and different end products. Dragon Mining (Sweden) AB, the primary entity operating in Sweden, produces gold bullion from the Svartliden mine. Polar Mining OY in Finland produces gold concentrate from the Orivesi and Jokisivu mines.

Discrete financial information about each of these operating segments is reported to the Board and executive management team (the chief operating decision makers) on at least a monthly basis.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period with the exception of income tax (expense)/benefit, which has now been allocated as it relates directly to the operating segments. The allocation has been applied retrospectively from 1 January 2010.

Segment results include management fees and interest charged on intercompany loans, both of which are eliminated in the Group result. They also include foreign exchange movements on intercompany loans denominated in Australian dollars, and external finance costs that relate directly to segment operations.

The segment results include derivative gains and losses relating to forward gold sales and currency hedges entered into.

Unallocated corporate costs are non-segmental expenses such as head office expenses and finance costs that do not relate directly to segment operations.

Major customers

The Group has one major customer to which it provides gold concentrate from the Vammala Production Centre in Finland. It accounts for 39% of external revenue (2009: 42%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 SEGMENT REPORTING (continued)

	Sweden 2010 \$'000	Finland 2010 \$'000	Unallocated 2010 \$'000	Total 2010 \$'000
Segment revenue				
Gold sales to external customers	54,289	37,599	-	91,888
Interest revenue	19	2	699	720
Other revenue	-	116	-	116
Total revenue	54,308	37,717	699	92,724
Segment interest expense	941	1,472	-	2,413
Corporate interest expense				740
Elimination of inter-company interest expense charged to segments				(2,220)
Total interest expense				933
Depreciation and amortisation	4,049	5,431	8	9,488
Exploration expenditure written off	348	162	-	510
Production milestone expense	-	1,314	-	1,314
Segment profit				
Pre-tax segment profit	20,297	8,066	-	28,363
Income tax (expense) / benefit	(3,466)	670	-	(2,796)
Post tax segment profit	16,831	8,736	-	25,567
Unallocated items:				
Corporate interest revenue				699
Corporate costs				(2,391)
Finance costs				(740)
Loss on buyback of convertible notes				(81)
Gain on disposal of Dragon Mining (Eritrea) Ltd				8,900
Share of losses of associate				(64)
Unallocated treasury losses relating to intercompany loans advanced by parent				(9,661)
Elimination of inter-company interest expense and management fees in segment results				2,507
Profit after tax as per the statement of comprehensive income				24,736
Segment assets				
Segment operating assets	24,932	40,466	-	65,398
Deferred tax assets	-	554	-	554
Unallocated items:				
Investment in associate				262
Available-for-sale investments				1,750
Other corporate assets				19,508
Total assets				87,472
Segment acquisitions of non-current assets	5,103	10,037	-	15,140
Unallocated items:				
Corporate and other acquisitions				20
				15,160

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 SEGMENT REPORTING (continued)

	Sweden 2009 \$'000	Finland 2009 \$'000	Unallocated 2009 \$'000	Total 2009 \$'000
Segment revenue				
Gold sales to external customers	43,088	31,570	-	74,658
Interest revenue	31	18	86	135
Other revenue	-	230	-	230
Total revenue	43,119	31,818	86	75,023
Segment interest expense				
Segment interest expense	2,013	1,482	-	3,495
Corporate interest expense				1,713
Elimination of inter-company interest expense charged to segments				(3,236)
Total interest expense				1,972
Depreciation and amortisation				
Depreciation and amortisation	6,007	5,626	6	11,639
Exploration expenditure written off	-	74	-	74
Segment profit				
Pre-tax segment profit	7,807	1,268		9,075
Income tax expense	(712)	-	-	(712)
Post tax segment profit	7,095	1,268	-	8,363
Unallocated items:				
Corporate interest revenue				86
Corporate costs				(2,345)
Finance costs				(1,713)
Gain on buyback of convertible notes				1,450
Gain on disposal of 60% of Weld Range Metals Limited				305
Share of losses of associate				(7)
Unallocated treasury losses relating to intercompany loans advanced by parent				(17,521)
Elimination of inter-company interest expense and management fees in segment results				3,396
Loss after tax as per the statement of comprehensive income				(7,986)
Segment assets				
Segment operating assets	23,180	41,550	-	64,730
Deferred tax assets				
Deferred tax assets	3,314	-	-	3,314
Unallocated items:				
Investment in associate				326
Other corporate assets				3,690
Total assets				72,060
Segment acquisitions of non-current assets				
Segment acquisitions of non-current assets	3,733	9,831		13,564
Unallocated items:				
Corporate and other acquisitions				161
				13,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24 JOINT VENTURES

Harpsund Joint Venture (Earning a 60% Interest)

The Harpsund Joint Venture ("Joint Venture") comprises the Harpsund Exploration Permit covering a total area of 2,686.30 hectares located immediately adjacent to Dragon's Exploration Permit holding and 4 kilometres northeast of the Svartliden Gold Mine.

Under the terms of the Joint Venture, Dragon secured exclusive exploration rights on the Harpsund Permit for 12 months which commenced on 27 October 2010 ("Agreement Date"), during which Dragon will expend a minimum of 1.5 million SEK (A\$0.2 million).

Dragon can elect to expend a further 3.0 million SEK (A\$0.5 million) within 3 years of the Agreement Date to earn a 60% interest in the Harpsund Permit, and upon Dragon earning the 60% interest in the Permit, Dragon can then elect to earn an additional 20% interest by expending another 3.0 million SEK (A\$0.5 million) within 5 years of the Agreement Date.

25 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 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 to retain current tenements are detailed below.

	2010 \$'000	2009 \$'000
Within one year	1,000	560
One year or later and no later than five years	2,736	2,581
	<u>3,736</u>	<u>3,141</u>

(b) Capital Commitments

Commitments relating to the acquisition of equipment contracted for but not recognised as liabilities are as follows:

	2010 \$'000	2009 \$'000
Within one year	-	20
One year or later and no later than five years	-	-
	<u>-</u>	<u>20</u>

(c) Operating Lease Expense Commitments

Future operating lease commitments not provided for in the financial statements are as follows:

	2010 \$'000	2009 \$'000
Within one year	200	164
One year or later and no later than five years	-	12
	<u>200</u>	<u>176</u>

(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:

	2010 \$'000	2009 \$'000
Within one year	408	674
One year or later and no later than five years	-	114
	<u>408</u>	<u>788</u>

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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

26 CONTINGENT ASSETS AND LIABILITIES

Zara Gold Project

In June 2010, Chalice Gold Mines Limited ("Chalice") exercised its option to purchase Dragon Mining (Eritrea) Ltd which held the 20% interest in the Zara Gold Project, Eritrea which resulted in the Company receiving \$8.0 million in cash and 2 million Chalice shares which are escrowed for 12 months.

In addition, Chalice has the obligation to pay Dragon Mining a further \$4.0 million on the delineation of a 1 million ounce gold Reserve at the Zara Gold Project. On 4 June 2010, Chalice announced a maiden gold Reserve at the Zara Gold Project of 760,000 ounces from an Indicated gold Resource of 840,000 ounces.

27 SHARE-BASED PAYMENT PLANS

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 ASX. No options provide dividend or voting rights to holders. The following share options were on issue as at 31 December 2010:

Option series	Number ^(vi)	Grant date	Vesting date	Expiry date	Exercise price ^(vi)	Fair value at grant date ^(vi)
22 May 2006 ⁽ⁱ⁾	50,000	22 May 2006	22 May 2006	n/a	\$1.75	\$0.50
7 Dec 2006 ⁽ⁱⁱ⁾	100,000	7 Dec 2006	7 Dec 2006	n/a	\$1.40	\$0.50
7 Dec 2006 ⁽ⁱⁱⁱ⁾	100,000	7 Dec 2006	7 Dec 2006	n/a	\$1.75	\$0.40
7 Dec 2006 ⁽ⁱⁱⁱ⁾	100,000	7 Dec 2006	7 Dec 2006	n/a	\$2.10	\$0.40
7 Dec 2006 ⁽ⁱⁱ⁾	200,000	7 Dec 2006	7 Dec 2006	n/a	\$2.10	\$0.40
8 Feb 2007 ^(iv)	7,500	8 Feb 2007	8 Feb 2007	21 Dec 2011	\$2.10	\$0.50
8 June 2007 ^(v)	460,000	8 June 2007	8 June 2007	8 June 2012	\$1.75	\$0.30
Options balance at end of period	<u>1,017,500</u>					

(i) Issued to Mr MD Naylor.

(ii) Issued to PG Cordin.

(iii) These options were issued to TT Jarvinen with terms specifying that in order to exercise the options, the volume weighted share price of Dragon Mining Limited must exceed \$2.50 for 5 consecutive days. There is no service condition attached to this award.

(iv) Issued to an employee in place of partly paid shares which were cancelled in 2006.

(v) Issued to key employees in accordance with Dragon Mining Group Employee Incentive Option Plan.

(vi) Number of options, exercise price and fair value adjusted in direct proportion to the 1 for 10 share consolidation that took place on 5 November 2010.

(i) Option valuation

No share options were granted during 2010 or 2009.

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

WAEP = weighted average exercise price

	2010		2009	
	Number	WAEP	Number	WAEP
Outstanding at start of period	13,375,000	\$0.19	13,375,000	\$0.19
Granted during period	-	-	-	-
Forfeited during period	(3,200,000)	\$0.21	-	\$0.175
One-for-ten option consolidation ⁽¹⁾	<u>(9,157,500)</u>	<u>\$0.18</u>	<u>-</u>	<u>-</u>
Balance at end of period	1,017,500	\$1.82	13,375,000	\$0.19
Exercisable at the end of period	917,500	\$1.79	9,375,000	\$0.19

(1) On 5 November 2010, a one-for-ten consolidation of Dragon Mining's issued capital was undertaken. The number of options were consolidated on the same ratio and the exercise price was increased by 10 fold.

(ii) Balance at end of period

The share options on issue at the end of the period had an exercise price of between \$1.40 and \$2.10. The 467,500 options with an expiry date had a weighted average remaining life of 1.4 years. The remaining 550,000 options had no expiry date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS

(a) Financial Risk Management Policies and Objectives

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and commodity price risk), credit risk, liquidity risk, and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance without limiting the Group's potential upside.

The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign currency and gold price risk and assessments of market forecasts for foreign exchange and gold prices. Liquidity risk is measured through the development of rolling future cash flow forecasts at various gold prices and foreign exchange rates.

Risk management is carried out by executive management with guidance from the Audit and Risk Management Committee under policies approved by the Board. The Board also provides regular guidance for overall risk management, including guidance on specific areas, such as mitigating commodity price, foreign exchange, interest rate and credit risks, by using derivative financial instruments.

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 and foreign currency contracts. The Company does not enter into financial instruments, including derivative financial instruments, for trade or speculative purposes.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in economic derivatives, hedging coverage of foreign currency and gold, credit allowances, and future cash flow forecast projections.

(b) Instruments Recognised at Amounts Other Than Fair Value

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 convertible notes. The fair values of the convertible notes and bank loans are shown in the table below and represent the market values as at 31 December 2010 and 31 December 2009.

	Carrying Value \$'000	Fair Value \$'000
2010	-	-
2009		
Convertible notes	11,987	11,600

(c) Fair Values for Instruments Recognised at Fair Value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset and liability, whether directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(c) Fair Values for Instruments Recognised at Fair Value (continued)

The fair value of the financial instruments as well as methods used to estimate the fair market value are summarised in the table below.

	As at 31 December 2010				As at 31 December 2009			
	Quoted market price	Valuation technique – market observable inputs	Valuation technique – non market observable inputs	Total	Quoted market price	Valuation technique – market observable inputs	Valuation technique – non market observable inputs	Total
	(level 1) \$'000	(level 2) \$'000	(Level 3) \$'000	\$'000	(level 1) \$'000	(level 2) \$'000	(Level 3) \$'000	\$'000
Financial Assets								
Available-for-sale financial assets	1,750	-	-	1,750	-	-	-	-
Financial derivative assets	-	4	-	4	-	-	-	-
	<u>1,750</u>	<u>4</u>	<u>-</u>	<u>1,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

For financial instruments not quoted in active markets, the Group uses a valuation technique such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

The fair value of unlisted debt and equity securities, as well as other investments that do not have an active market, are based on valuation techniques using market data that is not observable. Where the impact of credit risk on the fair value of a derivative is significant, and the inputs on credit risk are not observable, the derivative would be classified as based on non observable market inputs (Level 3).

There were no transfers between Level 1 and Level 2 during the year.

(d) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Group's maximum exposures to credit risk at reporting date in relation to each class of financial asset is the carrying amount of those assets as indicated in the statement of financial position.

Credit risk is managed on a Group basis. Credit risk predominately arises from cash, cash equivalents, derivative financial instruments, deposits with banks and financial institutions and gold concentrate receivables.

While the Group has policies in place to ensure that sales of its products are made to customers with an appropriate credit history, it does have a concentration of credit risk in relation to its gold concentrate sales in Finland due to dependence for a significant volume of its sales revenues on a few principal buyers. There is generally a six week delay between shipment of gold concentrate and payment from a gold concentrate customer. The Company reduces its credit risk in relation to gold concentrate receivables in Finland by insuring 90% of the nominal value of an assigned or internal invoice with a reputable high credit quality Scandinavian financial institution.

However, as invoices are raised at the end of each month and shipments occur frequently throughout the month, there is credit exposure to the smelting company for the value of one month of shipments as insurance coverage commences when an invoice is raised.

In relation to managing other potential credit risk exposures, the Group has in place policies that aim to ensure that derivative counterparties and cash transactions are limited to high credit quality financial institutions and that the amount of credit exposure to any one financial institution is limited as far as is considered commercially appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(d) Credit Risk (continued)

The credit quality of financial assets that are neither past due or not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2010 \$'000	2009 \$'000
Cash and cash equivalents		
<i>Counterparties with external credit ratings</i>		
A+	23,478	4,397
BBB	-	-
Total cash and cash equivalents	<u>23,478</u>	<u>4,397</u>
Trade and Other Receivables		
<i>Counterparties with external credit ratings</i>		
A+	1,709	2,318
<i>Counterparties without external credit ratings</i>		
Counterparties with no defaults in the past	7,414	7,196
Total trade and other receivables	<u>9,123</u>	<u>9,514</u>
Environmental and other bonds		
<i>Counterparties with external credit ratings</i>		
A+	3,911	3,956
<i>Counterparties without external credit ratings</i>		
Counterparties with no defaults in the past	233	22
Total trade and other receivables	<u>4,144</u>	<u>3,978</u>

(e) Interest Rate Risk

At balance date, the Group had the following financial assets and liabilities exposed to variable interest rate risk that are not designated as cash flow hedges:

	2010 \$'000	2009 \$'000
Financial assets		
Cash and cash equivalents	23,478	4,397
Receivables from associate	1,302	944
Environmental bonds	4,144	3,978
	<u>28,924</u>	<u>9,319</u>
Financial liabilities		
Bank loans	-	3,202
Factoring facility drawn down	1	3
	<u>1</u>	<u>3,205</u>

The Group's policy is to manage its exposure to interest rate risk by holding cash in short term, fixed rate deposits and variable rate deposits with reputable high credit quality financial institutions.

The liability associated with the factoring and bank loans are short term and there is no intention to enter into interest rate swaps.

The Group constantly analyses its interest rate exposure. Consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(f) Foreign Exchange Risk

As the Group sells its bullion and gold concentrate in US dollars and the majority of costs are denominated in Swedish krona (SEK) and euro (EUR), an appreciating EUR and SEK, or a weakening US dollar exposes the Group to risks related to movements in the SEK/USD and EUR/USD exchange rates.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk can be measured by performing a sensitivity analysis that quantifies the impact of different assumed exchange rates on the Group's forecast cash flows.

As part of the risk management policy of the Group, financial instruments (foreign exchange forwards) are used from time to time to reduce exposure to unpredictable fluctuations in the USD/SEK and USD/EUR exchange rates. Within this context programs undertaken are structured with the objective of minimising the Groups exposure to these fluctuations.

The Group does not enter into foreign exchange forward contracts without simultaneously entering into a gold forward contact. The Group may enter into separate gold hedging and currency contracts provided that such contracts are entered into simultaneously and for the same value expressed in USD.

The value of these financial instruments at any point in time will, in times of volatile market conditions, show substantial variation over the short term. The facilities provided by the Group's various counterparties do not contain margin calls. The Group does not hedge account for these instruments as at balance date.

The Company and Group's financial performance is also affected by movements in SEK/AUD and EUR/AUD as intercompany loans are largely denominated in SEK and EUR. In accordance with the requirements of the Australian Accounting Standards, exchange gains and losses on intercompany loans that do not form part of a reporting entities net investment in foreign operations are recognised in profit or loss within the consolidated entity. The relevant intercompany balances at 31 December 2010 were 107,000,000 SEK and 28,132,000 euro.

At balance date, the Group had the following exposure to foreign currencies on financial instruments that are not designated as cash flow hedges:

(i) US dollar

	2010 \$'000	2009 \$'000
Financial assets		
Cash and cash equivalents	8	264
Trade receivables	6,112	6,252
Currency forward contracts	4	-
	6,124	6,516
Financial liabilities		
Factoring facility drawn down	1	3
	1	3
Net exposure	6,123	6,513

(ii) Euro

	2010 \$'000	2009 \$'000
Financial assets		
Cash and cash equivalents	2,628	-
Net exposure	2,628	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(f) Foreign Exchange Risk (continued)

The following tables summarise the USD:EUR currency derivatives facility held with Nordea Banking PLC ("Nordea").

	2010		2009	
	US dollars	Forward Rate EUR:USD	US dollars	Forward Rate EUR:USD
3 months or less	1,298,275	1.3321	-	-
	1,298,275	1.3321	-	-

The following table summarises the unrealised gains and losses recognised in the statement of comprehensive income on forward currency contracts entered into, showing the periods in which they were expected to be realised:

	31 December 2010	
	Gains/(Losses)	Gains/(Losses)
	EUR'000	A\$'000
3 months or less	3	4
	3	4

At 31 December 2010, the EUR:USD exchange rate was 1.3362.

(g) Commodity Price Risk

The Group is exposed to movements in the gold price. As part of the risk management policy of the Group, a variety of financial instruments (such as gold forwards and gold call options) are used from time to time to reduce exposure to unpredictable fluctuations in the project life revenue streams. Within this context the programs undertaken are structured with the objective of maximising the Groups' revenue from gold sales, but in any event, limiting derivative commitments to no more than 50% of the Groups' gold Reserves. The value of these financial instruments at any point in time will, in times of volatile market conditions, show substantial variation over the short term. The facilities provided by the Group's various counterparties do not contain margin calls. The Group does not hedge account for these instruments as at balance date.

During the year, the Group delivered 10,814 ounces of gold into forward sales contracts at an average price of US\$1,244 per ounce.

During the year, the Group sold gold call options that generated a net premium of US\$59,800.

There were no gold derivative contracts outstanding as at balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(h) Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets and liabilities to interest rate risk, foreign exchange risk and gold price risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit and equity would have been affected as shown. The analysis has been performed on the same basis for 2010 and 2009.

31 December 2010

	Note	Interest Rate Risk		Interest Rate Risk		Foreign Exchange Risk		Foreign Exchange Risk	
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	i	(235)	(235)	235	235	293	293	(240)	(240)
Trade receivables	ii	-	-	-	-	679	679	(556)	(556)
Receivables from associate	iii	(13)	(13)	13	13	-	-	-	-
Receivables/loans from controlled entities	iv	-	-	-	-	5,928	5,928	(4,850)	(4,850)
Environmental bonds	v	(41)	(41)	41	41	-	-	-	-
Financial liabilities		-	-	-	-	-	-	-	-
Total increase/(decrease)		(289)	(289)	289	289	6,900	6,900	(5,646)	(5,646)

- Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
- Trade receivables include A\$0.04m of gold bullion and A\$6.1m of gold concentrate receivables denominated in USD.
- Receivables from associate are denominated in AUD and are at floating interest rates.
- Intercompany loans are denominated in AUD, SEK and euros. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in profit or loss.
- Interest-bearing environmental cash bonds that have been deposited with Swedish and Finnish government authorities.

31 December 2009

	Note	Interest Rate Risk		Interest Rate Risk		Foreign Exchange Risk		Foreign Exchange Risk	
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	i	(44)	(44)	44	44	29	29	(24)	(24)
Trade receivables	ii	-	-	-	-	695	695	(568)	(568)
Receivables from associate	iii	(9)	(9)	9	9	-	-	-	-
Receivables/loans from controlled entities	iv	-	-	-	-	9,175	9,175	(7,507)	(7,507)
Environmental bonds	v	(40)	(40)	40	40	-	-	-	-
Financial liabilities									
Interest-bearing loans and borrowings	vi	32	32	(32)	(32)	-	-	-	-
Total increase/(decrease)		(61)	(61)	61	61	9,899	9,899	(8,099)	(8,099)

- Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
- Trade receivables include A\$0.02m of gold bullion and A\$6.2m of gold concentrate receivables denominated in USD.
- Receivables from associate are denominated in AUD and are at floating interest rates.
- Intercompany loans are denominated in AUD, SEK and euros. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in profit or loss.
- Interest-bearing environmental cash bonds that have been deposited with Swedish and Finnish government authorities.
- A\$3.2m of the Group's borrowings are at a floating rate and are denominated in USD and euros.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity Risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

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 equity raisings.

The contractual maturities of the Group's financial liabilities are as follows:

	2010	2009
	\$'000	\$'000
Within one year	6,760	11,047
Later than five years	8	9
	<u>6,768</u>	<u>11,056</u>

For derivative financial instruments the market value is presented, while for all other obligations undiscounted cash flows for the respective years are presented.

Management and the Board monitor the Group's liquidity reserve on the basis of expected cash flow. The information that is prepared by senior management and reviewed by the Board includes:

- (i) Annual cash flow budgets;
- (ii) Five year cash flow forecasts; and
- (iii) Monthly rolling cash flow forecasts.

29 SIGNIFICANT EVENTS AFTER PERIOD END

In February 2011 Dragon Mining sold under forward sale agreements 16,000 ounces of gold for delivery between February and December 2011. The flat forward rate achieved is SEK 8,700 (USD 1,353) per ounce.

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.

30 PARENT ENTITY INFORMATION

(a) Information relating to Dragon Mining Limited ('the parent entity'):

	2010	2009
	\$'000	\$'000
Current Assets	19,462	3,679
Total assets	59,241	50,839
Current Liabilities	1,821	1,218
Total Liabilities	2,103	25,636
Issued Capital	103,565	103,488
Retained Earnings	(49,703)	(81,064)
Option Reserve	711	711
Convertible Note Premium Reserve	2,068	2,068
Available-for-sale Reserve	497	-
Total shareholder's equity	<u>57,138</u>	<u>25,203</u>
Profit/(loss) after tax of the parent entity	31,361	(18,346)
Total Comprehensive income of the parent entity	30,864	(18,346)

(b) Details of any guarantees entered into the parent entity in relation to the debts of its subsidiaries

Refer to note 13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 PARENT ENTITY INFORMATION (continued)

(c) Details of any contingent liabilities of the parent entity

There are no contingent liabilities of the parent entity as at reporting date.

(d) Details of any contractual commitments by the parent entity for the acquisition of property, plant and equipment.

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at reporting date.

For personal use only

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 2010, 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



R J Curtin
Partner
Perth
24 February 2011

For personal use only

Independent auditor's report to the members of Dragon Mining Limited

Report on the Financial Report

We have audited the accompanying financial report of Dragon Mining Limited, which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(c), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

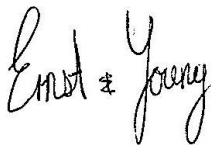
1. the financial report of Dragon Mining Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 31 December 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Dragon Mining Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



R J Curtin
Partner
Perth
24 February 2011