

DRAGON MINING NL

ABN 19 009 450 051

AND CONTROLLED ENTITIES

**HALF YEAR FINANCIAL REPORT
31 DECEMBER 2005**

SUMMARY OF CONTENTS

Company Directory	1
Directors' Report	2
Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Financial Statements	9
Directors' Declaration	27
Auditor's Independence Declaration	28
Independent Review Report	29

CORPORATE DIRECTORY

Directors:

Campbell Theodore Ansell
(Chairman & Non-Executive Director)

Donald James Searle
(Non-Executive Director)

Toivo Tapani Järvinen
(Non-Executive Director)

Peter Lawson Munachen
(Non-Executive Director)

Andrew Edward Daley
(Non-Executive Director)

Chief Executive Officer

Peter George Cordin

Company Secretary:

Dennis W Wilkins

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Email: admin@dragon-mining.com.au
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Auditors:

Stanton Partners
1st Floor, 1 Havelock Street, West Perth WA 6005
(PO Box 1908, West Perth WA 6872)
Tel: (61 8) 9481 3188
Fax: (61 8) 9321 1204

Home Stock Exchange:

Australian Stock Exchange Limited
Company Code: DRA

ABN 19 009 450 051

DIRECTORS' REPORT

The Directors of Dragon Mining NL present the financial report of the economic entity for the half-year ended 31 December 2005.

DIRECTORS

The names of the directors of the Company who held office during the half year and until the date of this report were:

- Campbell Theodore Ansell
- Donald James Searle
- Toivo Tapani Järvinen
- Peter Lawson Munachen
- Andrew Edward Daley

REVIEW OF OPERATIONS

Dragon Mining NL operates in the Nordic Region of northern Europe. The company has developed and operates the Svartliden Gold Mine in Sweden and intends to commence gold production from the Vammala Production facility in Finland with ore being sourced from the Orivesi Mine and Jokisivu Project.

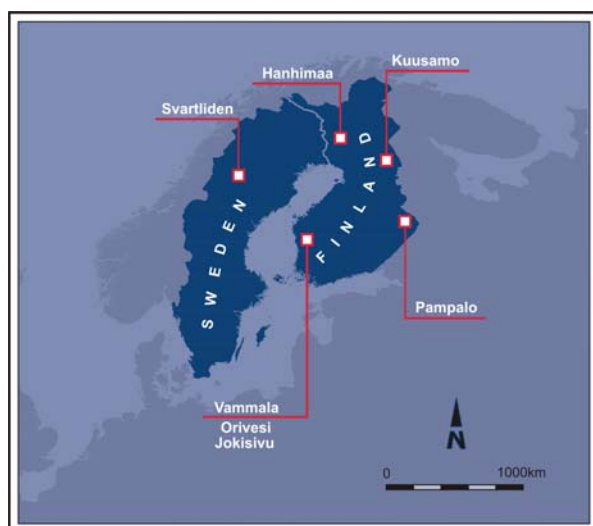


Figure 1: Project Locations

SWEDEN

Svartliden Gold Operation - (Dragon 80%)

A full six months of production was achieved yielding 22,613 ounces of gold from 151,361 tonnes of ore processed with an average grade of 5.04 g/t gold and average recovery of 92.3%.

The initial starter pits have been completed and increased stripping of waste rock commenced to enable the development of the ultimate pit.

Mill production improved with higher throughput rates and increased utilisation. Further capital expenditure will be undertaken to achieve better availability, utilisation and recovery.

Exploration - (Dragon 80% and 100%)

No exploration was undertaken on the 224 square kilometre tenement holding during the six months.

FINLAND - (Dragon 100%)

Vammala Gold Operation

The Orivesi Mine was operated by Outokumpu Mining Oy from 1994 until Dragon acquired the project in late 2003. The mine produced 380,000 ounces at a head grade averaging about 9g/t gold. The ore was processed through the Vammala Plant at a rate of 200,000 tonnes per annum. The Vammala Plant was retained on care and maintenance during the six month period.

Orivesi

A small workforce of miners were engaged in reinforcement work and servicing equipment in preparation of recommencement of mining. Rehabilitation work on the decline including shot creting and cable bolting was undertaken in the December Quarter.

Jokisivu

A new environmental permit was lodged and the development of two small open pits awaits formal approval.

DIRECTORS' REPORT

Exploration

Limited exploration was undertaken in the six months period. At Jokisivu some trenching with detailed mapping and channel sampling was undertaken at Arpola. Assay results were reported

Pampalo Gold Project

The sale of the Pampalo Gold Project comprising exploration data, mineral rights and tenure to Kalvinit Oy for 6 million euros and a limited royalty was announced on 14 February 2006. The sale is subject to the listing of Kalvinit or its affiliate, Endomines AB, on the Swedish Stock Exchange (NGM) or Kalvinit arranging alternate financing by 31 May 2006.

A non-refundable deposit of 600,000 euros was received on 21 February 2006.

Inco Alliance

Project generation work for the Inco Alliance continued. Two areas of note in northern and eastern Finland were identified and subjected to field checks.

ERITREA - (Dragon diluting to 20%)

During the December Quarter diamond core drilling continued at the Zara Project in Eritrea. Three holes were completed for a total advance of 520.9 metres at the Koka prospect and a further 376.2 metres in three holes at the Konate prospect. Dragon have been advised by their Joint Venture partner Sub Sahara Resources NL that encouraging gold intercepts were obtained.

Sub Sahara has advised Dragon that in accordance with the Zara Agreement that they have completed Stage 2 of the earn-in and now hold 51% of Dragon's 66.6% interest in the Zara Project. Sub Sahara has the right to earn a further 19% of Dragon's interest in the project by producing a Bankable Feasibility Study (BFS) or by having spent US\$3.3 million on exploration. If Sub Sahara has not completed a BFS after spending US\$3.3 million, Dragon will be entitled to an excess out of future cash flows.

Convertible Note

The company issued a prospectus on 19 December 2005 for the issue of 33,500,000 convertible notes at an issue price of A\$1.05 each to raise A\$35 million.

On 4 January 2006 the company announced achieving the minimum subscription for the convertible note issue, the first tranche of 10,640,012 convertible notes for A\$11.2 million.

The issue closed on 13 February 2006 and an ASIC approved trustee was appointed on 2 March 2006.

A total of 23,645,289 convertible notes were issued (inclusive of Tranche 1) raising a total of A\$24,827,553.45 before raising costs and brokerage fees.

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Economic Entity during the half-year was the exploration, evaluation and development of gold projects in Sweden and Finland. The focus is now on becoming a significant European gold producer.

ECONOMIC ENTITY'S FINANCIAL RESULTS

The net loss attributable to members of the Economic Entity for the financial half-year was (\$13,521,540) (2004: loss: (\$4,853,915)).

DIVIDENDS

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

STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the Economic Entity that occurred during the financial half-year under review not otherwise disclosed in this Report, or in the Consolidated Financial Statements.

LIKELY DEVELOPMENTS

It is anticipated that the Economic Entity will continue its principal activities at the Svartliden Gold Project and the development of gold production at Vammala in Finland from the Orivesi and Jokisivu mines.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 27.

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

Signed in Perth this 16th day of March 2006 in accordance with a resolution of the Directors.



C. T. Ansell
Chairman

CONSOLIDATED INCOME STATEMENT

For the Half Year Ended 31 December 2005

	Half-year	
	2005 \$	2004 \$
Revenue from continuing operations	12,257,622	103,215
Proceeds from sale of assets	-	2,201,391
Financial assets at fair value	330,510	1,678,133
Other income	652,401	201,073
Derivative financial instruments at fair value	(14,155,117)	(1,828,621)
Raw materials and consumables used	(5,970,318)	-
Employee benefits expenses	(2,682,376)	(707,317)
Rent and outgoings	(241,305)	(72,288)
Depreciation and amortisation expenses	(3,127,288)	(398,906)
Finance costs	(576,063)	(287,979)
Development expenditure written off		(3,000,000)
Exploration expenditure written off	(2,563)	(448,775)
Other expenses from ordinary activities	(4,070,446)	(2,293,413)
(Loss) before income tax	(17,584,943)	(4,853,487)
Income tax relating to ordinary activities	4,064,891	-
(Loss) after income tax	(13,520,052)	(4,853,487)
(Loss) attributable to outside equity interests	(1,488)	(429)
(Loss) attributable to members of Dragon Mining NL	(13,521,540)	(4,853,916)
Earnings Per Share	(0.03)	(0.01)

CONSOLIDATED BALANCE SHEET

For the Half Year Ended 31 December 2005

	Consolidated Entity	
	31 December 2005 \$	30 June 2005 \$
CURRENT ASSETS		
Cash and cash equivalents	11,697,550	2,497,324
Receivables	2,758,583	1,368,275
Inventories	1,225,895	1,648,857
Deferred tax assets	1,764,153	-
Derivative financial instruments	62,245	257,910
Other current assets	803,762	270,961
TOTAL CURRENT ASSETS	18,312,188	6,043,327
NON-CURRENT ASSETS		
Other financial assets at fair value	3,122,982	2,763,700
Property, plant & equipment	20,648,761	20,882,708
Mineral exploration and development	31,136,471	30,413,845
Deferred tax assets	10,350,897	8,244,186
Derivative financial instruments	940,050	1,888,073
Other non current assets	262,046	400,123
TOTAL NON-CURRENT ASSETS	66,461,207	64,592,635
TOTAL ASSETS	84,773,395	70,635,962
CURRENT LIABILITIES		
Trade and other payables	5,833,439	4,695,470
Interest bearing liabilities	6,537,746	7,300,864
Employee provisions	469,090	572,162
Deferred tax liability	17,429	-
Derivative financial instruments	6,300,548	2,254,740
Other liabilities	106,394	52,154
TOTAL CURRENT LIABILITIES	19,264,646	14,875,390
NON-CURRENT LIABILITIES		
Interest bearing liabilities	21,386,536	11,499,730
Provisions	5,492,027	4,890,289
Deferred tax liability	1,274,276	9,405,510
Derivative financial instruments	18,371,131	1,611,937
Other non current liabilities	324,557	407,382
TOTAL NON-CURRENT LIABILITIES	46,848,527	27,814,848
TOTAL LIABILITIES	66,113,173	42,690,238
NET ASSETS	18,660,222	27,945,725
EQUITY		
Issued Capital	70,836,220	65,949,16970
Reserves	(178,491)	472,524
Accumulated losses	(52,000,384)	(38,477,279)
Total parent equity interest	18,657,351	27,944,415
Outside equity interest	2,877	1,310
TOTAL EQUITY	18,660,222	27,945,725

The accompanying notes form part of this financial report

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Half Year Ended 31 December 2005

	Half-year	
	2005	2004
	\$	\$
Total equity at the beginning of the period	27,945,726	30,443,126
Exchange difference on translation of foreign operations	(651,012)	(47,737)
Employee partly paid shares	-	97,380
Net income recognised directly in equity	(651,012)	49,643
Loss for the half-year prior to outside equity interest	(13,520,051)	(4,853,486)
Total income and expense recognised for the year	(14,171,063)	(4,803,843)
Transactions with equity holders in their capacity as equity holders		
Issued capital	4,887,049	12,519,464
Movement in minority interest	(1,488)	(429)
	4,885,561	12,519,035
Total equity at the end of the period	18,660,224	38,158,318

The accompanying notes form part of this financial report

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Half Year Ended 31 December 2005

	Economic Entity	
	2005 \$	2004 \$
Cash flows from operating activities		
Receipts from customers	10,994,928	223,444
Payments to suppliers and employees	(10,659,363)	(3,045,618)
Interest received	40,112	146,286
Interest expenses	(576,063)	(43,779)
Other	(1,488)	735,575
Net cash inflow (outflow) from operating expenses	(201,874)	(1,984,092)
Cash Flows from Investing Activities		
Payment of exploration, evaluation and development expenditure capitalised	(2,098,948)	(16,168,045)
Payments for property, plant and equipment	(2,184,439)	(277,157)
Proceeds from sale of property, plant and equipment	-	328,750
Net cash inflow (outflow) from operating expenses	(4,283,387)	(16,116,452)
Cash flows from financing activities		
Proceeds from borrowings	10,900,006	5,035,454
Proceeds from issue of shares	4,887,049	12,518,688
Repayment of bank loans	(2,111,324)	(633,335)
Net cash provided by financing activities	13,675,731	16,920,807
Net (decrease)/increase in cash	9,190,469	(1,179,737)
Cash and cash equivalents at the beginning of the half-year	2,497,324	10,518,201
Effects of exchange rate changes on cash and cash equivalents	9,758	52,568
Cash and cash equivalents at the end of the half-year	11,697,550	9,391,032

The accompanying notes form part of this financial report

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

1. STATEMENT OF ACCOUNTING POLICIES

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards, Urgent Issues Group Consensus Views, Accounting Standard AASB 134 Interim Financial Reporting and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Dragon Mining NL and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

As this is the first interim financial report prepared under the Australian equivalents to IFRS, the accounting policies are inconsistent with those applied in the 30 June 2005 annual report as this was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 2. The half-year report does not include full disclosures of the type normally included in an annual financial report.

The financial statements have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The concept of accrual accounting has been adopted in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

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

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

(a) Principles of Consolidation

The consolidated accounts comprise the accounts of Dragon Mining NL and all its controlled entities. A controlled entity is any entity controlled by Dragon Mining NL. Control exists where Dragon Mining NL has the power to control the financial and operating policies in relation to another entity, so that the other entity operates with Dragon Mining NL to achieve the objectives of Dragon Mining NL.

All inter-company balances and transactions between entities in the consolidated entity including any unrealised profits or losses have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date of control ceased. Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated report.

(b) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are recognised net of returns and to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue from the sale of gold is recognised upon the delivery of goods to the refiners agent, all finished gold production is recognised as revenue in the period in which the production occurred as the timing between gold being poured and a gold shipment is negligible.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

(c) Income Taxes

The charge for current income tax expense is based on the profit for the year adjusted for any non assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset or liability is realised or settled. Deferred tax is credited in the income statement except where it relates to items that may be directly credited to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are brought to account to the extent that it is probable that future tax profits be available against which temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

No provision is made for additional taxes which could become payable if certain reserves of foreign controlled entities were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

Goods and Services Tax (GST)

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

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

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

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

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

(d) 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 consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction & Balances

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

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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

Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

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

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

(e) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken as at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the date of acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

(f) Receivables

Receivables from related parties are recognised and carried forward at the nominal amount due. Where interest is charged, it is taken up as income on an accruals basis.

(g) Inventories

Raw materials and stores, work in progress and metal are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs.

Gold in circuit represents the stage when ore has been fed into the processing plant, however, has not reached a stage where it is a completed product. Gold in circuit includes the cost of ore from mining stockpiles, costs of conversion and processing specifically attributable to units of production, a proportion of production overheads and other costs in bringing the product to its present location and condition. Bullion transport and security costs or refinery costs would not be applied to gold in circuit inventory as those costs relate to processes which occur after GIC becomes bullion

(h) Property, Plant and Equipment

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

Property

Freehold land and buildings are shown at cost, less subsequent depreciation for buildings.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of plant and equipment is depreciated on a straight-line basis over their estimated useful lives to the consolidated entity commencing from the time the asset is held ready for use. Buildings are depreciated on a reducing balance basis according to their estimated useful lives to the consolidated entity commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Percentage
Plant and Equipment	5-33%
Buildings	4-20%

The assets residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(i) Joint Venture Operations

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

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

(j) Exploration & Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest and if necessary an appropriate provision is raised against the carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

Costs of site restoration expected to be incurred, are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs (at discounted amounts) are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure, plant removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

Deferred Mining Costs

Costs relating to removal of waste from mines are carried forward to be charged against future production based on the waste to ore ratio over the remaining life of the mine. Where the total tonnes of waste mined during the year exceeds the life of mine waste to ore ratio, the excess waste removal cost is carried forward. Costs carried forward will be expensed when the actual tonnes of waste mined is less than the life of mine waste to ore ratio. The calculated waste to ore ratio and the remaining life of the mine are reassessed annually.

(k) Payables

These amounts represent unpaid liabilities for goods received by and services provided to the consolidated entity prior to the end of the financial year. The amounts are unsecured and are normally settled within 30 days.

(l) Provisions

A provision is recognized when a legal or constructive obligation exists as a result of a past event can be reliably measured and it is probable that an outflow of economic benefits will be required.

Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. These benefits include wages and salaries, annual leave and long service leave. Sick leave is non-vesting and has not been provided for. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which would be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on costs.

The contributions made to superannuation funds by entities within the consolidated entity are charged against profits when due. Contributions are made by the entity to an employee superannuation fund and are charged as expenses when incurred.

Share based compensation benefits are provided to employees via the employee incentive scheme. Shares, options or partly paid shares granted before 7 November 2002 and vested before 1 January 2005 are not recognised as an expense. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares, options or partly paid shares granted after 7 November 2002 and vested after 1 January 2005 are recognised at the fair value of the options and partly paid shares granted as an employee benefits expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period, when the employee becomes unconditionally entitled to the options.

The fair value at grant date is determined using the Black –Scholes option pricing model that takes into account among other variables the exercise price, term of the option, the vesting and performance criteria.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

Restoration and Rehabilitation Costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs (at discounted amounts) are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure, plant removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs.

(n) Cash & Cash Equivalents

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

(o) Interest – Bearing Liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

(p) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial Assets at Fair Value through Profit & Loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated as amortised cost using the effective interest rate method.

Held-to-Maturity Investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-Sale Financial Assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative Instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(q) Earnings per Share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity, divided by the weighted average number of ordinary shares.

(r) Contributed Equity

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

(s) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance lease are capitalized by recording an asset and liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortised on a straight-line basis over the life of the lease term.

(t) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in income in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

2. SEGMENT REPORTING

Primary reporting format -
 geographic segments

Half-year 2005	Australia \$	Sweden \$	Finland \$	Eritrea \$	Total \$
Revenue					
Sales	-	11,497,789	759,833	-	12,257,622
Other revenue	403,892	219,543	359,459	-	982,894
Total segment revenue	403,892	11,717,332	1,119,292	-	13,420,516
Total segment result	(998,506)	(11,843,643)	(679,391)	-	(13,521,540)

Primary reporting format -
 geographic segments

Half-year 2004	Australia \$	Sweden \$	Finland \$	Eritrea \$	Total \$
Revenue					
Sales	-	726	102,489	-	103,215
Other revenue	185,767	95,595	3,799,236	-	4,080,598
Total segment revenue	185,767	96,321	3,901,725	-	4,183,813
Total segment result	(3,697,072)	(1,967,651)	810,808	-	(4,853,915)

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

3. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
ASSETS				
Current assets				
Cash and equivalents		10,460,104	-	10,460,104
Receivable		994,164	-	994,164
Inventories		242,149	-	242,149
Derivative financial instruments	(a)	725,955	343,116	1,069,072
Other current assets		116,835	-	116,835
Total current assets		12,539,207	343,116	12,882,323
Non-current assets				
Other financial assets		30,080	-	30,080
Property, plant & equipment		4,060,133	-	4,060,133
Mineral exploration & development	(b)	38,887,956	3,610,937	42,498,893
Deferred tax assets		-	-	-
Derivative financial instruments		1,850,037	-	1,850,037
Other non current assets		457,681	-	457,682
Total non-current assets		45,285,887	3,610,937	48,896,825
Total assets		57,825,094	3,954,053	61,779,148
LIABILITIES				
Current liabilities				
Trade and other payables		4,482,212	-	4,482,212
Interest bearing liabilities		11,784,288	-	11,784,288
Employee provisions		437,403	-	437,403
Derivative financial instruments	(c)	725,955	(725,955)	-
Other liabilities		466,585	-	466,585
Total current liabilities		17,896,443	(725,955)	17,170,488
Non-current liabilities				
Interest bearing liabilities		4,886,185	-	4,886,185
Deferred tax liabilities		-	-	-
Provisions	(d)	1,246,890	3,501,875	4,748,765
Derivative financial instruments	(l)	1,850,037	2,497,978	4,348,015
Deferred tax liability		-	-	-
Other non current liabilities		182,569	-	182,569
Total non-current liabilities		8,165,681	5,999,853	14,165,534
Total liabilities		26,062,124	5,273,898	31,336,022
Net assets		31,762,970	(1,319,844)	30,443,126
EQUITY				
Issued capital		45,389,492	-	45,389,492
Accumulated losses		(13,629,286)	(1,319,844)	(14,949,130)
Parent entity interest		31,760,206	(1,319,844)	30,440,362
Minority interest		2,764	-	2,764
Total equity		31,762,970	(1,319,844)	30,443,126

Note: The previous AGAAP comparative numbers have been translated at exchange rates applicable at 1 July 2005 the deemed transition date.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

3. (1.) (b) At the end of the last reporting period under previous AGAAP: 31 December 2004

	Notes	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
ASSETS				
Current assets				
Cash and equivalents		9,391,032	-	9,391,032
Receivables		2,204,950	-	2,204,950
Inventories	(f)	248,211	9,526	257,737
Derivative financial instruments		2,516,748	-	2,516,748
Other current assets		189,841	-	189,841
Total current assets		14,550,782	9,526	14,560,308
Non-current assets				
Receivables	(g)	18,077	(18,077)	-
Other financial assets	(h)	1,903,556	1,699,201	3,602,757
Property, plant & equipment	(i)	3,346,817	166,380	3,513,197
Mineral exploration & development	(b)	48,121,976	4,729,429	52,851,405
Derivative financial instruments		6,785,078	-	6,785,078
Other non current assets	(g)	466,866	18,077	484,943
Total non-current assets		60,642,370	6,595,010	67,237,380
Total assets		75,193,152	6,604,536	81,797,688
LIABILITIES				
Current liabilities				
Trade and other payables		4,995,459	-	4,995,459
Interest bearing liabilities	(j)	19,812,515	(9,801,410)	10,011,105
Employee provisions		470,790	-	470,790
Derivative financial instruments		2,516,748	(223,050)	2,293,698
Other liabilities	(f)	619,575	2,182	621,757
Total current liabilities		28,415,087	(10,022,278)	18,392,808
Non-current liabilities				
Payables	(k)	119,118	(119,118)	-
Interest bearing liabilities	(j)	192,185	9,801,410	9,993,595
Provisions	(d)	1,255,927	3,601,175	4,857,102
Derivative financial instruments	(l)	6,785,078	3,480,577	10,265,655
Other non current liabilities	(k)	11,090	119,118	130,208
Total non-current liabilities		8,363,398	16,883,162	25,246,560
Total liabilities		36,778,485	6,860,884	43,639,369
Net assets		38,414,667	(256,348)	38,158,319
EQUITY				
Issued Capital		57,850,101	155,8056	58,005,907
Reserves		-	(47,736)	(47,736)
Accumulated losses		(19,442,587)	(360,458)	(19,803,045)
Parent entity interest		38,407,514	(252,389)	38,155,125
Minority interest		7,153	(3,960)	3,193
Total equity		38,414,667	(256,348)	38,158,319

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

3. (1.) (c) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
ASSETS				
Current assets				
Cash and equivalents		2,497,324	-	2,497,324
Receivables	(k)	1,368,977	(702)	1,368,275
Inventories	(f)	1,682,693	(33,836)	1,648,857
Derivative financial instruments		257,910	-	257,910
Other current assets	(k)	270,259	702	270,961
Total current assets		6,077,163	(33,836)	6,043,327
Non-current assets				
Other financial assets	(h)	1,878,434	885,266	2,763,700
Property, plant & equipment	(f)	23,106,399	(2,223,691)	20,882,708
Mineral exploration & development	(b)	28,269,563	2,144,282	30,413,845
Deferred tax assets	(m)	3,858,416	4,385,770	8,244,186
Derivative financial instruments		1,888,073	-	1,888,073
Other non current assets	(f)	400,342	(219)	400,123
Total non-current assets		59,401,227	5,191,408	64,592,635
Total assets		65,478,390	5,157,572	70,635,962
LIABILITIES				
Current liabilities				
Trade and other payables		4,695,470	-	4,695,470
Interest bearing liabilities		7,300,864	-	7,300,864
Employee provisions		572,162	-	572,162
Derivative financial instruments	(e)	257,910	1,996,830	2,254,740
Other liabilities		52,154	-	52,154
Total current liabilities		12,878,560	1,996,830	14,875,390
Non-current liabilities				
Payables		-	-	-
Interest bearing liabilities		11,499,730	-	11,499,730
Provisions	(d)	1,166,010	3,724,279	4,890,289
Derivative financial instruments	(l)	1,888,073	7,517,437	9,405,510
Deferred tax liability	(m)	-	1,611,937	1,611,937
Other non current liabilities		407,381	-	407,380
Total non-current liabilities		14,961,194	12,853,653	27,814,847
Total liabilities		27,839,754	14,850,483	42,690,237
Net assets		37,638,636	(9,692,910)	27,945,725
EQUITY				
Issued capital		65,793,365	155,805	65,949,170
Reserves		-	472,524	472,524
Accumulated losses		(28,161,883)	(10,315,396)	(38,477,279)
Parent entity interest		37,631,482	(9,687,067)	27,944,415
Minority interest		7,154	(5,844)	1,310
Total equity		37,638,636	(9,692,910)	27,945,725

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

3. (2) Reconciliation of loss reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) Reconciliation of loss for the half-year ended 31 December 2004

	Notes	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
Revenue				
Revenue from continuing operations	(p)	376,881	(72,593)	304,288
Proceeds from sale of assets	(p)	2,203,750	(2,359)	2,201,391
Financial assets at fair value	(h)	-	1,678,133	1,678,133
Derivative financial instruments at fair value	(n)	-	(1,828,621)	(1,828,621)
Raw materials and consumables used		-	-	-
Employee benefits expenses	(o)	(609,937)	(97,380)	(707,317)
Rent and outgoings		(72,288)	-	(72,288)
Depreciation expenses	(p)	(381,546)	(17,360)	(398,906)
Finance costs	(d)	(188,678)	(99,301)	(287,979)
Development expenditure written off		(3,000,000)	-	(3,000,000)
Exploration expenditure written off	(p)	(440,201)	(8,574)	(448,775)
Other expenses from ordinary activities	(p)	(2,073,140)	(220,273)	(2,293,413)
(Loss) from ordinary activities before income tax expenses		(4,185,159)	(668,327)	(4,853,486)
Income tax relating to ordinary activities		-	-	-
(Loss) from ordinary activities before after income tax expenses		(4,185,159)	(668,327)	(4,853,487)
(Gain) Loss attributable to outside equity interests	(p)	(4,503)	4,074	(429)
(Loss) attributable to members of Dragon Mining NL		(4,189,662)	(664,253)	(4,853,916)

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

3. (2.) (b) Reconciliation of loss for the half-year ended 30 June 2005

	Notes	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
Revenue				
Revenue from continuing operations	(c)	4,682,729	-	4,682,729
Proceeds from sale of assets		1,875,000	-	1,875,000
Financial assets at fair value	(h)	-	(650,495)	(650,495)
Derivative financial instruments at fair value	(n)	-	(6,256,740)	(6,256,740)
Raw materials and consumables used		(2,122,517)	-	(2,122,517)
Employee benefits expenses	(d)	(2,373,240)	(19,252)	(2,392,492)
Net foreign exchange gain (loss)	(q)	1,719,889	(6,893,090)	(5,173,201)
Rent and outgoings		(335,448)	-	(335,448)
Depreciation expenses	(p)	(1,987,874)	(86,472)	(2,074,346)
Finance costs	(d)	(533,116)	(103,852)	(636,968)
Development expenditure written off	(p)	(13,466,480)	934,729	(12,531,752)
Exploration expenditure written off	(p)	(1,121,183)	29,316	(1,091,867)
Other expenses from ordinary activities	(p)	(3,103,099)	(1,606)	(3,104,705)
(Loss) from ordinary activities before income tax expenses		(16,765,339)	(13,047,461)	(29,812,800)
Income tax relating to ordinary activities	(m)	3,858,416	2,773,833	6,632,249
(Loss) from ordinary activities before after income tax expenses		(12,906,923)	(10,273,628)	(23,180,551)
(Gain) Loss attributable to outside equity interests	(p)	(2,035)	1,606	(429)
(Loss) attributable to members of Dragon Mining NL		(12,908,958)	(10,272,022)	(23,180,981)

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

Notes to the reconciliations of equity and profit and loss at 1 July, 2004, 31 December 2004 and 30 June 2005

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

	Notes	1 July 2004 \$	31 December 2004 \$	30 June 2005 \$
Total equity under AGAAP		31,762,970	38,414,667	37,638,636
Recognition of fair value of gold hedging derivatives - current	(a)	343,116	-	-
Recognition of restoration assets		3,610,937	3,610,937	3,610,937
Represents foreign exchange difference, due to different depreciation rates used under previous AGAAP and AIFRS		-	1,118,492	(1,379,530)
Additional depreciation relating to the rehabilitation asset		-	-	(87,125)
	(b)	3,610,937	4,729,429	2,144,282
Recognition of fair value of foreign currency hedging derivatives	(c)	725,955	-	-
Recognition of provision for rehabilitation costs		(3,501,875)	(3,501,876)	(3,501,875)
Unwinding of the discount on recognition of provision for rehabilitation costs		-	(99,301)	(203,153)
Recognition of severance provision over life of mine		-	-	(19,252)
	(d)	(3,501,875)	(3,601,176)	(3,724,280)
Recognition of fair value of foreign currency hedging derivatives - current		-	2,516,748	257,910
Recognition of fair value of gold hedging derivatives - current		-	(2,293,698)	(2,254,740)
	(e)	-	223,050	(1,996,830)
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(f)	-	9,526	(33,836)
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(f)	-	(2,182)	(2,223,691)
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(f)	-	-	(219)
Under AIFRS the bonds have been reclassified from receivable to other current assets	(g)	-	(18,077)	-
Under AIFRS the bonds have been reclassified from receivable to other current assets	(g)	-	18,077	-
Changes in valuation of financial assets		-	1,678,133	650,495
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS		-	21,068	234,771
	(h)	-	1,699,201	885,266
Represents foreign exchange difference, due to different depreciation rates used under previous AGAAP and AIFRS	(i)	-	166,379	-
Reclassify interest bearing loan into current and non current	(j)	-	(9,801,410)	-
Reclassify interest bearing loan into current and non current	(j)	-	9,801,410	-
Reclassify from payables/receivables to correct classification as other non current liability/asset	(k)	-	(119,118)	(702)
Reclassify from payables/receivables to correct classification as other non current liability/asset	(k)	-	119,118	702

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

	Notes	1 July 2004 \$	31 December 2004 \$	30 June 2005 \$
Recognition of fair value of foreign currency hedging derivatives - non current		1,850,037	6,785,078	1,888,073
Recognition of fair value of gold hedging derivatives - non current		(4,348,015)	(10,265,655)	(9,405,510)
	(l)	(2,497,978)	(3,480,578)	(7,517,437)
Tax effect of rehabilitation asset		-	-	1,115,510
Tax effect of severance provision raised		-	-	5,390
Tax effect of currency hedging derivatives		-	-	3,264,870
	(m)	-	-	4,385,770
Tax effect of rehabilitation asset		-	-	(1,011,063)
Tax effect of gold hedging derivatives		-	-	(600,875)
	(m)	-	-	(1,611,938)
Total equity under AIFRS		30,443,126	38,158,313	27,945,725

Reconciliation of loss for the half-year ended 31 December 2001 and 30 June 2005

		31 December 2004 \$	30 June 2005 \$
Total profit under AGAAP		(4,189,662)	(12,908,958)
Changes in valuation of financial assets	(h)	1,678,133	(650,495)
Relates to the recognition of fair value of gold and currency hedging derivatives	(n)	(1,828,621)	(6,256,740)
Net Tax effect	(m)	-	2,773,833
Represents employee benefits expense relating to partly paid shares issue in accordance with AASB 2	(o)	(97,380)	-
Recognition of severance provision over life of mine	(d)	-	(19,252)
Unwinding of the discount on recognition of provision for rehabilitation costs	(d)	(99,301)	(103,852)
Represents foreign exchange difference, due to different depreciation rates used under previous AGAAP and AIFRS	(p)	(17,360)	(86,472)
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(p)	(8,574)	934,729
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(p)	(220,273)	29,316
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(p)	(72,593)	(1,606)
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(p)	(2,359)	-
Represents foreign exchange difference, due to different rates used under previous AGAAP and AIFRS	(p)	4,074	1,606
Relates to foreign exchange differences booked in the income statement under AGAAP and in equity under AIFRS	(q)	-	(6,893,090)
Total profit under AIFRS		(4,853,915)	(23,180,551)

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

5. SIGNIFICANT EVENTS AFTER YEAR END

MDM Litigation

The Company previously reported in the 2005 annual financial report that litigation in relation to the contractor responsible for construction of the gold processing plant in Sweden (MDM Pty Ltd) was pending. The Company has learnt that the contractor has been placed into provisional liquidation on 1 February 2006. The Company has not had any formal notification of MDM's financial affairs, but is aware they will vigorously oppose the application and they have lodged detailed material in the court in South Africa in support of their position. The Company is preparing a claim to lodge with the provisional liquidator.

Completion of Convertible Note Issue

Subsequent to the 31 December 2005, the Company formally completed the proposed convertible note issue and allotted 12,814,801 convertible notes, raising \$13,455,541.05 (before costs of the issue). Refer to the company's prospectus dated 19 December 2005 for full details of the terms and conditions of the convertible notes.

Sale of Pampalo Gold Project

On the 14 February 2006 the company announced the conditional sale of the Pampalo gold project to Kalvinit Oy for 6 million euros and a limited royalty. The sale is subject to the listing of Kalvinit Oy or its affiliate, Endomines AB, on the Swedish stock exchange (NGM) or Kalvinit Oy arranging alternate financing by 31 May 2006.

Exercise of options by Macquarie Bank

On the 2 March 2006 Macquarie Bank, a substantial shareholder exercised 11,111,111 unlisted 9 cent options. The funds raised were used to reduce the outstanding loan to Macquarie Bank.

6. HEDGING INSTRUMENTS

The following tables summarise the US dollar value of forward foreign exchange and gold agreements. Foreign currency and gold amounts are translated at rates current at the reporting date. In relation to forward foreign exchange agreements the "sell" amount represents the Swedish Krona equivalent of commitments to sell US dollars.

(a) Foreign exchange

Dragon entered into a forward foreign exchange contract designed as a hedge of the operating costs of the Svartliden Gold Project through the purchase of SEK through selling USD.

These contracts are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Any changes in fair value are taken to the income statement immediately.

	Forward Exchange Rate	31 December 2005 Sell US\$'000	Buy SEK'000
3 months or less	7.8787	1,023	17,086
Over 3 months to 12 months	7.8787	6,350	48,060
Over 12 months to 24 months	7.8787	7,650	61,454
Over 24 months to 36 months	7.8787	10,030	80,599
Over 36 months to 48 months	7.8787	4,700	35,376
	<u>7.8787</u>	<u>29,753</u>	<u>242,575</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

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

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

	31 December 2005	
	Gains/(Losses) US\$	Gains/(Losses) AU\$
3 months or less	(6,639)	(9,043)
Over 3 months to 12 months	52,340	71,288
Over 12 months to 24 months	174,869	238,178
Over 24 months to 36 months	338,517	461,071
Over 36 months to 48 months	176,796	240,801
	<u>735,883</u>	<u>1,002,295</u>

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

The unrealised gains or losses on forward US dollar sales above based on a mark to market are recognised in the Income Statement in accordance with AASB 139 Financial Instruments: "Recognition and Measurement". At 31 December 2005, the unrealised gain on currency sales amounted to AUD\$1.002 million. The exchange rate used as the basis for the mark to marker at that date was USD/SEK 7.9522.

(b) Gold Forwards

Dragon entered into a forward exchange contract designed as a hedge of anticipated future receipts from sales of 150,000 ounces of gold on a flat forward structure with deliveries commencing one quarter after first gold pour from the Svartliden Guld Project until 26 June 2009.

The hedging program has not met the specific hedge requirements of AASB 139, therefore in accordance with the standard the gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. as the approximate value of the purchase and the entities with which the transactions will be entered is presently known. The bank providing the hedge has no right to terminate the hedging agreement and close the hedge book as a result of accumulated unrealised losses on that hedge book. The details of the hedge agreements are shown in the tables outlined above.

NOTES TO THE FINANCIAL STATEMENTS

For the Half Year Ended 31 December 2005

	31 December 2005		30 June 2005	
	Volume Ounces	Forward Price US\$	Volume Ounces	Forward Price US\$
3 months or less	13,118	402.25	12,951	402.25
Over 3 months to 12 months	23,900	402.25	28,500	402.25
Over 12 months to 24 months	29,950	402.25	30,500	402.25
Over 24 months to 36 months	39,650	402.25	35,250	402.25
Over 36 months to 48 months	17,462	402.25	37,212	402.25
	124,080	402.25	144,413	402.25

The number of ounces sold forward represents 40% of current reserves.

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

	31 December 2005	
	Gains/(Losses) US\$	Gains/(Losses) AU\$
3 months or less	(1,550,994)	(2,112,501)
Over 3 months to 12 months	(3,074,856)	(4,188,047)
Over 12 months to 24 months	(4,299,373)	(5,855,877)
Over 24 months to 36 months	(6,266,210)	(8,534,769)
Over 36 months to 48 months	(2,922,465)	(3,980,485)
	(18,113,897)	(24,671,679)

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

The unrealised gains or losses on forward gold sales above are based on a mark to market position and are recognised in the balance sheet, with the gain or loss recognised at fair value in the Income Statement.

At 31 December 2005, the unrealised loss on gold forward sales amounted to AUD\$24.672 million. The gold price on that date was US\$517.60/ounce.

DIRECTORS' DECLARATION
For the Half Year Ended 31 December 2005

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 26
 - a) comply with Accounting Standard AASB 134, Interim Financial Reporting and the Corporations Regulations; and
 - b) give a true and fair view of the consolidated entity's financial position as at 31 December, 2005 and its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



C. T. Ansell
Director

PERTH
Dated this 16th day of March 2006



STANTON PARTNERS

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16 March 2006

Board of Directors
Dragon Mining NL
133-135 Edward Street
PERTH WA 6000

Dear Directors

RE: DRAGON MINING NL

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

As Audit Partner for the review of the financial statements of Dragon Mining NL for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

STANTON PARTNERS

John Van Dieren
Partner



STANTON PARTNERS

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF DRAGON MINING NL

Scope

We have reviewed the financial report comprising the income statement, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements and the directors' declaration of Dragon Mining NL (the Company) for the half-year ended 31 December 2005 as set out on pages 5 to 27. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half year or from time to time during the half year. The disclosing entity's directors are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission and Australian Stock Exchange.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

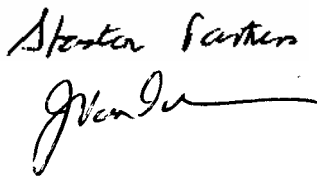
We are independent of the Company, and have met the independence requirements of Australian ethical pronouncements and the Corporations Act 2001. We have given the directors of the Company a written Auditor's Independence Declaration.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Dragon Mining NL is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

STANTON PARTNERS



J P Van Dieren
Partner

West Perth, Western Australia
16 March 2006