

DRAGON MINING NL

ABN 19 009 450 051

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

DIRECTORS' REPORT

The Directors of Dragon Mining NL present their Report on the Accounts of the Company and of the Consolidated Entity for the year ended 30 June 2006

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all directorships held in public companies over the last three years have been detailed below. Directors were in office for the entire period unless otherwise stated.

Andrew Edward Daley

(Chairman and Non Executive director)

BSc, Grad Dip (Geo Sc), C. Eng, F Aus IMM, MIOM3

Non-Executive Director

Appointed 20 March 2005

Mr Daley BSc (Hons, Mining Engineering), is a Chartered Engineer, a Member of IOM3 and a Fellow of the Australian IMM. He is a director of Investor Resources Limited, a company based in Melbourne which provides financial and corporate advisory services to the mining industry. He is also a non executive director of ASX listed Pan Australian Resources Limited, Kewter Gold Limited and a non executive director of AIM Listed Gladstone Pacific Nickel Limited.

Mr Daley commenced his career with Anglo American on the Zambian copper belt and later worked with Rio Tinto and Conoco Minerals elsewhere in Africa. He moved to Australia with Fluor Australia in 1981 and since 1983 has been focused on resource project finance with National Australia Bank, Chase Manhattan and more recently was a Director at Barclays Capital mining team in London. Appointed Chairman 20 March 2006

Campbell Theodore Ansell,

FCA MAICD

(Chairman and Non Executive director)

Resigned 20 March 2006

Mr Ansell is Chartered Accountant who is also a director of Croesus Mining NL, Universal Resources Ltd and De Grey Mining Limited and is Chairman of Nickel Australia Limited. He is also a Non-Executive Director of several other successful business operations and has had a long term involvement with the resources sector and several government and semi government boards.

Donald James Searle

B.Sc., PhD, MAusIMM

Chief Executive Officer & Executive Director

Resigned 20 March 2006

Dr Searle joined Dragon in March 1998 as Chief Executive Officer and became a Director in August 1998. He has been involved in the exploration and mining industry for over 25 years, during which time he has contributed to several major gold discoveries and has been involved in the management of exploration and mining development projects in Australia and overseas. He holds bachelor and doctoral degrees in geology and is a member of the AusIMM. He has been involved in the formation and development of public companies as an executive director and investor. Dr Searle has given the company notice of his intention to resign but will continue until a suitable replacement is found.

Peter Lawson Munachen

FCA

Non-Executive Director

Appointed 29 March 2005

Mr Munachen was originally appointed alternate Director for Mr HD Kennedy on 15 December 2003 following the resignation of Mr Kennedy, Mr Munachen was reappointed as a Non-Executive Director on the 29 March 2005. Mr Munachen is a Fellow of the Institute of Chartered Accountants in Australia. He has had considerable experience in the resource industry and is a director of Pancontinental Oil & Gas NL, Norwest Energy NL, Sub-Sahara Resources NL and Newland Resources Ltd.

DIRECTORS' REPORT

Toivo Tapani Järvinen

Lic. Tech
Non-Executive Director

Mr Järvinen was appointed a Non-Executive Director on 22 December 2003. Mr Järvinen has been employed by the Outokumpu Group since 1985. He is a member of the Outokumpu Group Executive Committee since 2000 and President of the Outokumpu Technology business area. He is also responsible for corporate energy affairs. Mr Järvinen is a Board member of the Swedish mining and metals group Boliden AB (publ), International Copper Association Ltd and Eurometaux (European Association of Metals) and Chairman of the Board of the Finnish-Latin American Trade Association.

Peter G Cordin

BE MIEAust CPEng FAusIMM (CP)

Managing Director
Appointed 20 March 2006

Mr Cordin is a civil engineer with more than 30 years experience in the evaluation and operation of resource projects within Australia and overseas.

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

Mr Cordin is a non executive director of GVM Metals Limited.

Company Secretary

Dennis Wilkins

BBus, ACIS, AICD

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

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

Interests in the Shares and Options of the Company

As at the date of this Report the interest of the Directors in the share capital of the Company were:

	Ordinary Shares		Partly Paid Shares	
	Direct	Indirect	Direct	Indirect
DJ Searle	-	1,219,845	-	2,000,000
CT Ansell	534,898	57,729	500,000	-
TT Järvinen	-	20,000,000	-	-
AE Daley	-	-	-	-
PL Munachen	-	-	-	-
PG Cordin	-	-	-	-

DIRECTORS' REPORT

Directors' Meetings

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

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

Remuneration Report

Directors' and Executives' Remuneration

Remuneration of Directors and consultants is established by the Board. Remuneration is determined as part of an annual performance review having regard to directors' fees approved by shareholders, market factors and a performance evaluation process. Where directors perform consulting services to the Company over and above their normal duties as directors, they are remunerated on the normal commercial rates as approved by the Board. The non-executive directors are responsible for evaluating the performance of the Chief Executive who in turn evaluates the performance of all other senior executives and staff.

Details of remuneration paid to Directors during the year are as follows:

	Base Salary or fees	Superannuation	Other	Shares	Total
CT Ansell	45,000	4,050	-	-	49,050
DJ Searle	195,000	17,550	13,672	-	226,222
TT Järvinen	20,500	-	-	-	20,500
AE Daley	8,226	-	-	(i)	8,226
PL Munachen	16,527	-	-	(ii)	16,527
PG Cordin					

(i) Paid to a company in which Mr Daley has a substantial interest.

(ii) Paid to a company in which Mr Munachen has a substantial interest.

Details of remuneration paid to executives during the year are as follows:

	Base Salary or Fees	Superannuation	Other	Shares	Total
I Haga	166,560	31,729	22,305	-	220,594
F Bowman	200,262	17,720	6,581	97,000	321,563
N Edwards	100,000	9,000	14,904	-	123,904
D Wilkins	11,022	-	-	(v)	11,022
S Solomons	33,613	3,025	-	-	36,638

(i) Paid to a company in which Mr Wilkins has a substantial interest.

Fair values of partly paid shares:

The fair value of each partly paid share issued is estimated on the date of grant using the Black-Scholes pricing model with the following assumptions used for grants made:

Partly paid share price (market price at date of directors' proposal)	0.40
Share price on grant date (market price at date approved by shareholders)	0.32

DIRECTORS' REPORT

Volatility	75%
Risk-free interest rate	5.25%

The expected life of the partly paid shares is based on five years from date of issue. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting fair values per partly paid share for partly paid shares vesting after 1 July 2004 are:

Number of partly paid shares	Grant date	Vesting date	Fair value per partly paid share
500,000	28 September 2004	28 September 2004	\$0.1940

Directors' and Executives' Benefits

Information on directors' and executives' benefits is set out in the following notes to the Financial Statements:

- (a) Note 5 Directors and Executives Disclosures
- (b) Note 25 Related Parties

Principal Activities

The principal activities of the consolidated entity during the year were the exploration, evaluation and development of gold projects in Sweden and Finland.

Review of Operations

The consolidated entity's activities focused on the development of the Svartliden gold project and the purchase, evaluation and advancement of the consolidated entities Finnish gold development assets. A review of the consolidated entity's operations during the year is set out in the section "Operations Report" elsewhere in the Annual Report.

Corporate Information

Dragon Mining NL is a no liability company that is incorporated and domiciled in Australia. Dragon Mining NL is the ultimate parent entity. Dragon Mining NL has prepared a consolidated financial report including the entities it controlled during the financial year being Dragon Mining Sweden AB (formerly Svartliden Guld AB), Polar Mining Oy, Viking Gold & Prospecting AB, Dragon Resources Limited, Pyrosmelt NL, Firegold NL, and Dragon Mining (Ontario) Inc.

Employees

The consolidated entity had **xx** employees as at 30 June 2006 (2005: 65 employees)

Operating Results

The net loss of the consolidated entity for the financial year was **\$x,xxx,xxx** (2005: loss \$12,908,958). Of this loss \$13,446,480 related to the write off of certain development expenses and cost overruns connected with the construction of the Svartliden gold project processing plant.

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 consolidated entity that occurred during the financial year under review not otherwise disclosed in this Report or in the consolidated Financial Statements.

Likely Developments

It is anticipated that the consolidated entity will continue its principal activities of the Svartliden Gold Project and development of its projects in Finland.

DIRECTORS' REPORT

Indemnification and Insurance of Directors and Officers

During the year, the Company entered into a deed of access, insurance and indemnity. The terms of which provide indemnity to the directors, oblige the company to take out directors and officers liability insurance and grant access to the books and records of the company.

Pursuant to the deed the company has taken out a contract insuring all the directors of Dragon Mining NL against a 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.

Share Options

Unissued Shares

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

On 8 December 2004, 2.6 million options to subscribe for ordinary shares were issued under the employee incentive scheme to employees of the subsidiary companies. 1 million of those were issued to the Managing Director of Polar Mining OY, exercisable at any time before 22 October 2009 at a price of \$0.40 per share.

The options were issued with specific performance hurdles to be achieved by June 30 2005. As at date were not met.

	2005
	Number of Options
Balance at the beginning of the year	32,361,111
Share options issued during the year	
Exercisable at \$0.40, on or before 22 October 2009	2,600,000
Total options issued to 30 June 2005	<u>2,600,000</u>
Share Options exercised during the year	-
Total number of options outstanding as at 30 June 2005	<u>34,961,111</u>

Details of movements in options outstanding are disclosed in Note 21.

Significant Events after Year End

Apart from events disclosed elsewhere in this report nothing has occurred subsequent to the end of the financial year that has had or is likely to have a material impact on the financial statements.

Environmental Regulation

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

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

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Dragon Mining NL support the principles of good corporate governance. The Company's "Corporate Governance Statement" is contained elsewhere in the Annual Report.

DIRECTORS' REPORT

Non Audit Services

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

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

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

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

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 39.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

	Consolidated 2005 \$
Assurance services	
1. Audit services	
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	43,206
Total remuneration for audit services	<u>43,206</u>

Signed in Perth this 28th day of September, 2006 in accordance with a resolution of the Directors.



CT Ansell
Director

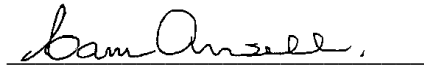
DIRECTORS' REPORT

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 8 to 38
 - a. comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2006 and performance for the year ended on that date as represented by the results of their operations and the cash flows of the Company and consolidated entity.
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.
3. In the opinion of the Directors, the financial statements and notes are in accordance with the Corporations Act 2001.
4. This declaration has been 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 period ending 30 June 2006.

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



CT Ansell
Director

Dated at Perth this 28th day of September 2006

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Revenue from ordinary activities	2	6,886,478	5,340,490	1,459,966	701,898
Raw materials and consumables used	3	(2,122,517)	(3,472,829)	-	-
Net Foreign Exchange Gain (Loss)	3	1,719,889	(423,799)	(2,039,509)	1,175,163
Accounting and secretarial		(219,068)	(167,545)	(17,351)	(84,521)
Audit Fees	6	(74,395)	(35,389)	(43,206)	(21,285)
Legal Fees		(17,242)	(140,387)	(17,242)	(56,086)
Employee salaries and benefits		(2,373,240)	(591,722)	(321,957)	(242,890)
Rent and outgoings		(335,448)	(236,011)	(47,462)	(43,573)
Share registry and other related costs		(31,819)	(76,046)	(31,819)	(76,046)
Directors' emoluments	5	(279,005)	(240,959)	(279,005)	(240,959)
Consulting fees		(557,539)	(30,238)	(9,474)	(30,238)
Promotional expense		(66,652)	(106,621)	(66,652)	(106,621)
Shareholder communication		(26,568)	(43,299)	(26,568)	(43,299)
Depreciation and amortisation expenses	3	(1,987,873)	(613,473)	(12,106)	(4,268)
Borrowing cost expenses	3	(533,116)	(917,443)	(340,315)	(901,536)
Carrying amounts of property plant & equipment sold		(383,174)	(186,734)	-	-
Write down of investment		-	-	(616,062)	(2,403,736)
Exploration expenditure written off	15	(1,121,185)	(1,131,328)	-	(361,942)
Development expenditure written off	15	(13,466,480)	-	(3,000,000)	-
Cost of tenements sold		(869,585)	-	-	-
Other expenses from ordinary activities		(904,332)	(555,647)	(420,158)	(197,632)
(Loss) from ordinary activities before income tax expenses		(16,762,871)	(3,628,980)	(5,828,920)	(2,937,571)
Income tax relating to ordinary activities	4	3,858,416	-	-	-
(Loss) from ordinary activities after income tax expenses		(12,904,455)	(3,628,980)	(5,828,920)	(2,937,571)
(Gain)/ Loss attributable to outside equity interests	23	(4,503)	(7,753)	-	-
(Loss) attributable to members of Dragon Mining NL		(12,908,958)	(3,636,733)	(5,828,920)	(2,937,571)
Total changes in equity other than those resulting from transactions with owners as owners	24	(12,908,958)	(3,636,733)	(5,828,920)	(2,937,571)
Earnings Per Share	7	(0.036)	(0.014)	(0.016)	(0.011)

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2006

	Note	Consolidated Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
CURRENT ASSETS					
Cash assets	8	2,497,324	10,518,201	1,393,890	6,398,041
Receivables	10	1,368,977	1,009,392	702	52,166
Inventories	11	1,682,693	232,222	-	-
Other current assets	16	528,169	853,033	24,420	18,837
TOTAL CURRENT ASSETS		6,077,163	12,612,848	1,419,012	6,469,044
NON-CURRENT ASSETS					
Receivables	10	-	-	43,739,176	20,543,772
Other financial assets	12	1,878,434	28,556	7,420,026	8,036,088
Property, plant and equipment	14	23,106,399	3,867,674	47,020	54,749
Mineral exploration and development costs	15	28,269,563	36,800,480	1,542,659	4,542,659
Other non current assets	16	6,146,831	2,338,492	18,076	18,076
TOTAL NON-CURRENT ASSETS		59,401,227	43,035,202	52,766,957	33,195,344
TOTAL ASSETS		65,478,390	55,648,050	54,185,969	39,664,388
CURRENT LIABILITIES					
Payables	17	4,695,469	4,191,046	120,311	251,302
Interest bearing liabilities	18	7,300,864	14,845,578	1,000,000	4,886,185
Provisions	19	572,162	442,919	31,373	19,092
Other liabilities	20	310,065	734,727	-	-
TOTAL CURRENT LIABILITIES		12,878,560	20,214,270	1,151,684	5,156,579
NON CURRENT LIABILITIES					
Payables	17	-	178,385	3,677,629	3,678,829
Interest bearing liabilities	18	11,499,730	2,041,778	3,886,185	-
Provisions	19	1,166,010	1,260,091	39,441	30,981
Other non current liabilities	20	2,295,454	1,872,387	-	-
TOTAL NON-CURRENT LIABILITIES		14,961,194	5,352,641	7,603,255	3,709,810
TOTAL LIABILITIES		27,839,754	25,566,911	8,754,939	8,866,389
NET ASSETS		37,638,636	30,081,139	45,431,030	30,797,999
EQUITY					
Contributed equity	21	65,793,365	45,331,414	65,793,365	45,331,414
Accumulated losses	22	(28,161,883)	(15,252,925)	(20,362,335)	(14,533,415)
Total parent entity interest		37,631,482	30,078,489	45,431,030	30,797,999
Outside equity interest	23	7,154	2,650	-	-
TOTAL EQUITY		37,638,636	30,081,139	45,431,030	30,797,999

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Cash flows from operating activities					
Receipts from customers		3,748,886	9,836,200	-	-
Payments to suppliers and employees		(6,091,181)	(4,815,591)	(1,397,915)	(1,107,019)
Interest received		328,336	200,410	297,461	228,929
Interest expenses		(533,116)	(355,609)	(340,315)	(346,536)
Reimbursement of costs		717,760	-	9,555	-
Net cash from (used in) operating activities	9(a)	(1,829,315)	4,865,410	(1,431,214)	(1,224,626)
Cash flows from investing activities					
Payments for property, plant and equipment		(1,774,414)	(594,454)	(4,377)	(18,288)
Proceeds from sale of property, plant and equipment		328,750	86,202	-	-
Payment for exploration, evaluation and development expenditure capitalised		(27,786,026)	(16,057,694)	-	(1,079)
Payments for controlled entities acquired		-	(10,345,235)	-	(10,349,373)
Net cash used in investing activities		(29,231,690)	(26,911,181)	(4,377)	(10,368,740)
Cash flows from financing activities					
Proceeds from loan		4,884,263	20,378,100	-	8,886,185
Proceeds from issue of shares		20,461,951	16,329,966	20,461,951	16,329,966
Advances to controlled entities		-	-	(24,030,511)	(2,703,030)
Repayment of bank loans		(2,195,308)	(5,000,000)	-	(5,000,000)
Net cash provided by financing activities		23,150,906	31,708,066	(3,568,560)	17,513,121
Net (decrease)/increase in cash		(7,910,099)	9,662,295	(5,004,151)	5,919,755
Cash at the beginning of the financial year		10,518,201	514,313	6,398,041	478,286
Effects of exchange rate changes on cash		(110,778)	341,593	-	-
Cash at the end of the financial year	8	2,497,324	10,518,201	1,393,890	6,398,041

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

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

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements form a general purpose financial report prepared in accordance with the requirements of Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. 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 ability to dominate the decision making in relation to the financial and operating policies of another entity, so that the other entity operates with Dragon Mining NL to achieve the objectives of Dragon Mining NL. A list of controlled entities is contained within Note 13 to the accounts.

All inter-company balances and transactions between entities in the consolidated entity including any unrealised profits or losses have been eliminated on consolidation.

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.

(b) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

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

(c) Taxes

Income Tax

The consolidated entity adopts the liability method of tax effect accounting, whereby the income tax expense shown in the Statement of Financial Performance is based on the operating profit before income tax adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of operating profit before income tax and taxable income are brought to account either as a provision for deferred income tax, or an asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefits. 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.

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

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 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.

(d) Foreign Currency Transactions and Balances

Transactions

Foreign currency transactions during the period are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable at balance date are converted at the rates of exchange ruling at that date. The gains or losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in operating profit before income tax as they arise.

The assets and liabilities of the foreign controlled entities which are self-sustaining are translated at year-end rates, and operating results are translated at a weighted average rate for the year. Gains and losses arising on translation are taken directly to the foreign currency reserve.

All overseas subsidiaries are currently deemed not self-sustaining and financial statements of integrated foreign operations are translated at reporting date using the temporal method and exchange differences are taken to net profit or loss for the period.

(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.

(h) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant and equipment are measured on the cost basis. 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

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

from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

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 and properties held for investment purposes are not subject to a depreciation charge.

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

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

(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 Statements of Financial Position and Performance. Details of the joint venture operations are shown in Note 27.

(j) Exploration and 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.

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) Investments

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for all listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amount.

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting.

(l) 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.

(m) 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.

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

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.

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 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

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, deposits at call and money market investments, which are readily convertible into cash.

(o) Interest – Bearing Liabilities

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

(p) Derivative Financial Instruments

Hedging Contracts

Hedging is undertaken to avoid or minimise the risk of possible adverse financial or cash flow effects of movements in commodity prices or foreign exchange rates.

In order to reduce the risk of adverse movements in gold prices on the Svartliden Project, the policy is to specifically hedge between 50% and 75% of gold reserves. Furthermore, in order to reduce the risk of a mismatch of income and expenses, the Group has hedged the operating costs into the currency in which income is hedged.

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of the transaction and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the purchase or sale. The unrealised gain or loss is determined by marking the transaction to market and recorded on the statement of financial position. Details are shown in Note 32. Gains and losses arising on the hedge transaction after that date are included in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arise on the hedge prior to its termination, continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the hedge prior to its termination are included in the statement of financial performance.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

(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.

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

(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.

2. REVENUE FROM ORDINARY ACTIVITIES

	Note	Consolidated Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Revenue from operating activities					
Gold sales		3,469,573	4,954,128	-	-
Proceeds from disposal of property, plant and equipment		328,750	86,202	-	-
Consideration from disposal of exploration assets		1,875,000	-	-	-
Interest	3(b)	328,336	200,410	1,450,411	701,898
Other		884,819	99,750	9,555	-
		<u>6,886,478</u>	<u>5,340,490</u>	<u>1,459,966</u>	<u>701,898</u>

3. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities is arrived at after:	Consolidated Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
(a) Charging as an expense				
Cost of goods sold:				
Raw materials and consumables used	(1,230,936)	(3,472,829)	-	-
Depreciation:			-	-
Buildings	-	(34,885)	-	-
Plant and equipment	-	(221,998)	-	-
Total cost of goods sold	<u>(1,230,936)</u>	<u>(3,729,712)</u>		
Interest - other persons	(533,116)	(362,443)	(340,315)	(346,536)
Shares issued for a financing facility	-	(555,000)	-	(555,000)
Total borrowing costs	<u>(533,116)</u>	<u>(917,443)</u>	<u>(340,315)</u>	<u>(901,536)</u>
Depreciation and amortisation of non-current assets				
Depreciation charged to cost of goods of goods sold	-	(256,883)	-	-
Property, plant and equipment	(1,715,281)	(356,590)	(12,106)	(4,268)
Amortisation of development costs	(272,592)	-	-	-
Total depreciation and amortisation	<u>(1,987,873)</u>	<u>(613,473)</u>	<u>(12,106)</u>	<u>(4,268)</u>
(b) Crediting as income				
Interest revenue from:				
Other related parties				
Subsidiaries	-	-	1,152,950	551,854
Other persons	328,336	200,410	297,461	150,044
Total interest	<u>328,336</u>	<u>200,410</u>	<u>1,450,411</u>	<u>701,898</u>
(Losses)/gains				
Net (loss)/gain on disposal of property, plant and equipment	(54,838)	13,676	-	-
Net gain on disposal of exploration assets	1,005,415	-	-	-
Net foreign currency gains/ (losses)	1,719,889	(423,799)	(2,039,509)	1,175,163
Total gains /(losses)	<u>2,670,466</u>	<u>(410,123)</u>	<u>(2,039,509)</u>	<u>1,175,163</u>

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

4. INCOME TAX

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Prima facie tax payable on operating loss before income tax calculated at 30% (2004: 30%)	(5,028,861)	(1,088,694)	(1,748,676)	(881,271)
Tax effect of permanent differences:				
Add:				
- provision for non-recoverability	-	-	185,419	721,121
- Effect of different rates on foreign income	89,249	37,502	-	-
- Exchange loss resulting from translating the foreign operations	(1,887,468)	474,084	-	-
- other non deductible expenses	1,369,252	18,650	904,764	17,438
	(5,457,828)	(558,458)	(658,493)	(142,712)
Less:				
Tax effect of:				
- recovery of tax losses of a controlled entity not previously brought to account	(31,252)	-	-	-
- tax benefits not brought to account	1,630,664	558,458	658,493	142,712
Income tax (benefit)/expense attributable to ordinary activities	(3,858,416)	-	-	-

Future benefits of tax losses at a tax rate of 30% total approximately \$2,857,000 (2004: \$1,877,000) (Consolidated) and \$2,011,000 (2004: \$1,668,000) (Parent). These benefits have not been brought to account. The Consolidated and Parent Entity has available capital losses at a tax rate of 30% amounting to \$2,913,400.

The benefits will only be obtained by the companies if:

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

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

Tax consolidation

Effective July 1 2003, for the purpose of income taxation, Dragon Mining NL and its 100% Australian owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. The head entity of the tax consolidation group is Dragon Mining NL.

Based on our preliminary analysis we do not expect the result of formation of the tax consolidation group to cause any material impact.

5. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified directors and Specified Executives

(i) Specified directors

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

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

(ii) Specified executives

I Hagar	President – Polar Mining Oy
DJ Wilkins	Chief Financial Officer and Company Secretary – appointed 29 April 2005
N Edwards	Chief Geologist
F Bowman	General Manager – Dragon Mining (Sweden)
S Solomons	Nordic General Manager – appointed 13 April 2005

(b) Remuneration of Specified Directors and Specified Executives.

(i) Remuneration Policy

Dragon Mining NL has a Remuneration Committee whose charter is to review and make recommendations to the Board on remuneration packages and policies applicable to senior executives and directors themselves. This role also includes responsibility for setting performance criteria, measurement of performance against this criteria, share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages.

Non-Executive Directors are remunerated having regard to the maximum aggregate amount of \$150,000 which was fixed by shareholders at the 1997 Annual General Meeting. The only member of the Board who is an executive is the Managing Director.

Remuneration of directors and executives currently consists of payment of fees, salary or consulting fees and may include an equity based component. In the case of directors, shareholder approval is required for shares to be issued under the Employee Incentive Scheme.

(ii) Remuneration of Specified Directors and Specified Executives

			Primary		Post Employment	Equity	Total
		Salary & Fees	Cash Bonus	Leave Entitlements	Superannuation	Shares/ Options	
Specified Directors							
CT Ansell	2005	45,000	-	-	4,050	-	49,050
	2004	35,833	-	-	3,225	83,875	122,933
DJ Searle	2005	195,000	-	13,672	17,550	-	226,222
	2004	161,333	20,000	18,454	46,320	336,374	582,481
HD Kennedy	2005	8,250	-	-	-	-	8,250
	2004	11,000	-	-	-	42,084	53,084
TT Järvinen	2005	20,500	-	-	-	-	20,500
	2004	12,581	-	-	-	-	12,581
AE Daley	2005	8,226	-	-	-	-	8,226
PL Munachen	2005	16,527	-	-	-	-	16,527
	2004	7,667	-	-	-	-	7,667

PG Cordin

Total Remuneration: Specified Directors

	2005	293,503	-	13,672	21,600	-	328,775
	2004	228,414	20,000	18,454	49,545	462,333	778,746

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

			Primary		Post Employment	Equity	Total
		Salary & Fees	Cash Bonus	Leave Entitlements	Superannuation	Shares/ Options	
Specified Executives							
I Haga	2005	166,560	-	22,305	31,729	-	220,594
	2004	116,381	-	1,411	-	-	117,792
F Bowman	2005	200,262	-	6,581	17,720	97,000	321,563
	2004	36,906	-	4,798	12,890	-	54,594
N Edwards	2005	100,000	-	14,904	9,000	-	123,904
	2004	91,824	25,000	25,733	10,514	-	153,071
D Wilkins	2005	11,022	-	-	-	-	11,022
S. Solomons	2005	33,613	-	-	3,025	-	36,638
Total Remuneration: Specified Executives							
	2005	847,519	-	43,790	72,012	97,000	1,060,321
	2004	457,529	25,000	37,106	27,823	-	547,458

The fair value of each partly paid share are estimated on the date of grant using the Black-Scholes pricing model with the following assumptions used for grants made:

	2005	2004
Partly paid share price or exercise price for option (market price at date of directors' proposal)	0.40	0.19
Share price on grant date	0.32	0.24
Volatility	75%	75%
Risk-free interest rate	5.25%	5.82%

The expected life of the partly paid shares and options are based on five years from date of issue. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(c) Remuneration shares/options: Granted and vested during the year

During the financial year, partly paid shares (PPS) were granted as equity compensation to certain specified directors and executives as disclosed below. The shares were issued at \$0.001. Each share or option entitles the holder to a fully paid share upon payment of the balance outstanding or exercise price which must be paid prior to expiry.

2005	Type of Equities	Vested	Grant Date	Value per share at grant date	Exercise Price	Amount Payable	Partly Paid Amount	Expiry Date
F Bowman	PPS	500,000	28/09/04	\$0.19	\$0.40	\$0.40	\$0.001	28/09/09
2004								
CT Ansell	PPS	500,000	24/11/03	\$0.17	\$0.19	\$0.19	\$0.001	02/12/08
DJ Searle	PPS	2,000,000	24/11/03	\$0.17	\$0.19	\$0.19	\$0.001	17/12/08
HD Kennedy	PPS	250,000	24/11/03	\$0.17	\$0.19	\$0.19	\$0.001	22/12/08
C Crabb	PPS	250,000	24/11/03	\$0.17	\$0.19	\$0.19	\$0.001	18/06/09
KM Phillips	PPS	500,000	24/11/03	\$0.17	\$0.19	\$0.19	\$0.001	28/01/09

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

(d) Shares issued on exercise of remuneration shares

	Shares issued Number	Paid \$ per share	Unpaid \$ per share 30 June 2005
Specified Directors			
C Crabb	165,000	\$0.08	-
C Crabb	250,000	\$0.19	-
DH Kennedy	165,000	\$0.08	-
Total	<u>580,000</u>		<u>-</u>

(e) Partly paid holdings of specified directors and executives

	Balance at beginning of period 1 July 2004	Granted as Remuneration	Partly paid shares fully paid	Held at the date of resignation/ decease	Balance at end of period 30 June 2005	Vested 30 June 2005
Specified Directors						
CT Ansell	500,000	-	-	-	500,000	500,000
DJ Searle	2,000,000	-	-	-	2,000,000	2,000,000
HD Kennedy	415,000	-	(165,000)	250,000	-	-
C Crabb	415,000	-	(415,000)	-	-	-
Specified Executive						
F Bowman	-	500,000	-	-	500,000	500,000
Total	<u>3,330,000</u>	<u>500,000</u>	<u>(580,000)</u>	<u>250,000</u>	<u>3,000,000</u>	<u>3,000,000</u>

(f) Ordinary shareholdings of specified directors and executives

Shares held in Dragon Mining NL (number)	Balance 1 July 2004 Ordinary	Granted as Remuneration Ordinary	Convert Partly paid to Ordinary	Net Change Other Ordinary	Held at the date of resignation/ decease Ordinary	Balance 30 June 2005 Ordinary
Specified Directors						
CT Ansell	569,900	-	-	22,727	-	592,627
DJ Searle	1,130,391	-	-	89,454	-	1,219,845
HD Kennedy	27,495,251	-	165,000	250,000	27,910,251	-
TT Järvinen(i)	20,000,000	-	-	-	-	20,000,000
PL Munachen	-	-	-	-	-	-
C Crabb	370,000	-	415,000	-	785,000	-
KM Phillips	7,563,260	-	-	-	7,563,260	-
AE Daley	-	-	-	-	-	-
Specified Executives						
I Haga	-	-	-	-	-	-
F Bowman	-	-	-	-	-	-
MJ Allen	-	-	-	-	-	-
B Marwood	442,007	-	-	-	442,007	-
N Edwards	-	-	-	-	-	-
D Wilkins	-	-	-	-	-	-
Total	<u>57,570,809</u>	<u>-</u>	<u>580,000</u>	<u>362,181</u>	<u>36,700,518</u>	<u>21,812,472</u>

(i) Mr Järvinen is a director of Outokumpu which holds 20,000,000 shares in Dragon Mining NL. The equity transactions with specified directors and specified executives other than those arising from remuneration shares have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

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

6. REMUNERATION OF AUDITORS

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing accounts	43,206	21,285	43,206	21,285
- other services	-	6,019	-	6,019
	<u>43,206</u>	<u>27,304</u>	<u>43,206</u>	<u>27,304</u>
Remuneration of the auditors of the overseas subsidiaries				
- auditing or reviewing accounts	31,189	14,104		
- other services	13,722	15,907		
	<u>44,911</u>	<u>30,011</u>		
Total Remuneration of Auditors	<u>88,117</u>	<u>57,315</u>	<u>43,206</u>	<u>27,304</u>

7. EARNINGS PER SHARE

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Basic Earnings per Share	(0.036)	(0.014)	(0.016)	(0.011)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	355,575,579	255,772,330	355,575,579	255,772,330

Diluted Earnings per share does not show an inferior view of the earnings performance of the company than shown by the basic earnings per share and is not disclosed for this reason.

8. CASH ASSETS

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Cash on hand	500	500	500	500
Cash deposits with banks	2,496,824	10,517,701	1,393,390	6,397,541
	<u>2,497,324</u>	<u>10,518,201</u>	<u>1,393,890</u>	<u>6,398,041</u>

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

9. RECONCILIATION OF CASH

	Consolidated Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
(a) Reconciliation of cash flows from operating loss after income tax				
Operating (Loss) after income tax	(12,908,958)	(3,636,733)	(5,828,920)	(2,937,571)
Non-cash flows in operating loss				
- Depreciation and amortisation	1,987,874	613,473	12,106	4,268
- Exploration expenditure written off	1,121,185	1,131,328	-	361,942
- Development expenditure written off	13,466,480	-	3,000,000	-
- Net foreign currency losses/(gains)	(1,719,889)	423,799	2,039,509	(1,175,163)
- Net loss/(profit) on disposal of property, plant and equipment	54,838	(13,676)	-	-
- Net (profit) on disposal of exploration assets	(1,005,415)	-	-	-
- Investment written off	25,122	3,982	616,062	2,403,736
- Borrowing costs	-	555,000	-	555,000
- Deferred net tax gain	(3,858,416)	-	-	-
- Gain recognised on hedge fees	(161,498)	-	-	-
- Movement outside equity interest	4,503	7,754	-	-
Changes in assets and liabilities net of the effects of purchase of subsidiaries				
- Decrease/(increase) in receivables	(608,502)	4,766,129	-	(51,888)
- (Increase)/decrease in interest receivable	-	-	(1,152,950)	(564,542)
- Decrease in accrued income	198,579	56,813	-	-
- Increase in unearned income	633,335	-	-	-
- Increase in other debtors	73,070	(523,044)	(51,464)	-
- Increase in prepayments	(159,260)	(24,236)	(5,584)	(3,236)
- Decrease in inventories	(1,450,471)	912,656	-	-
- Increase in provisions	86,039	136,041	20,741	4,475
- Increase in trade creditors and accruals	2,392,069	456,124	(80,714)	178,353
Cash (outflows)/ inflows from operations	(1,829,315)	4,865,410	(1,431,214)	(1,224,626)

(b) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

Total Facilities				
- Bank loans	18,800,594	22,645,213	4,886,185	4,886,185
Facilities used at reporting date				
- Bank loans	18,800,594	16,939,955	4,886,185	4,886,185
Facilities unused at reporting date				
- Bank loans	-	5,705,258	-	-

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

10. RECEIVABLES

	Consolidated Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Current				
Other debtors	1,368,977	1,009,392	702	52,166
Total current receivables	1,368,977	1,009,392	702	52,166
Non-Current				
Receivables from - controlled entities	-	-	48,851,206	25,653,802
- provision for doubtful debts	-	-	(5,112,030)	(5,110,030)
Total non-current receivables	-	-	43,739,176	20,543,772

11. INVENTORIES

	Consolidated Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Current				
Work in progress – at cost				
- Ore stockpile	695,346	-	-	-
- Gold in circuit	356,228	-	-	-
Raw materials and stores – at cost	631,119	232,222	-	-
Total inventories	1,682,693	232,222	-	-

12. OTHER FINANCIAL ASSETS

	Note	Consolidated Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Non-Current					
Shares- listed		1,878,434	-	-	-
Shares - unlisted		-	28,556	-	-
Shares in subsidiaries - unlisted	13	-	-	15,536,851	15,536,851
- provisions for writedown		-	-	(8,116,825)	(7,500,763)
		1,878,434	28,556	7,420,026	8,036,088

13. INVESTMENTS IN SUBSIDIARIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding		Cost of Parent Entity's Investment	
			2005 %	2004 %	2005 \$	2004 \$
Dragon Resources Limited	Australia	Ord	100	100	5,097,027	5,097,027
Less: Provision for diminution in value					(5,097,027)	(5,097,027)
Pyrosmelt NL	Australia	Ord	100	100	-	-
Firegold NL	Australia	Ord	100	100	301	301
Dragon Mining (Ontario) Inc	Canada	Ord	100	100	3,017,838	3,017,838
Dragon Mining (Sweden) AB (formerly Svartliden Guld AB)	Sweden	Ord	80	80	2,843,687	2,843,687
Viking Gold & Prospecting AB	Sweden	Ord	100	100	-	-
Polar Mining Oy	Finland	Ord	100	100	4,577,998	4,577,998
Less: Provision for diminution in value					(3,019,798)	(2,403,736)
					1,558,200	2,174,262
Kivijärvi	Russia	Ord	84.98	84.98	-	-
Escanor Oy	Finland	Ord	100	100	-	-
					7,420,026	8,036,088

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

14. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Land				
At cost	951,870	915,071	33,533	33,533
Total land	951,870	915,071	33,533	33,533
Buildings				
At cost	751,690	926,818	-	-
Less accumulated depreciation	(84,736)	(34,885)	-	-
Total buildings	666,954	891,933	-	-
Plant and equipment				
At cost	23,896,573	2,661,841	61,696	57,319
Less accumulated depreciation	(2,408,998)	(601,171)	(48,209)	(36,103)
Total plant and equipment	21,487,575	2,060,670	13,487	21,216
Total property, plant and equipment	23,106,399	3,867,674	47,020	54,749
Reconciliations				
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year				
<i>Land</i>				
Carrying amount at beginning	915,072	33,533	33,533	33,533
Acquisition through entity acquired	-	434,702	-	-
Additions	36,798	446,836	-	-
Carrying amount at end of year	951,870	915,071	33,533	33,533
<i>Buildings</i>				
Carrying amount at beginning	891,933	-	-	-
Acquisition through entity acquired	-	926,818	-	-
Additions	17,221	-	-	-
Reclassification from development costs	159,188	-	-	-
Disposals	(351,537)	-	-	-
Depreciation	(49,851)	(34,885)	-	-
Carrying amount at end of year	666,954	891,933	-	-
<i>Plant and equipment</i>				
Carrying amount at beginning of year	2,060,670	10,086	21,216	7,196
Acquisition through entity acquired	-	2,554,079	-	-
Additions	1,720,395	147,618	4,377	18,288
Disposals	(32,052)	(72,525)	-	-
Reclassification from development costs	19,535,954	-	-	-
Depreciation	(1,665,430)	(356,590)	(12,106)	(4,268)
Depreciation capitalised to exploration expenditure	(131,962)	-	-	-
Depreciation included within cost of goods sold	-	(221,998)	-	-
Carrying amount at end of year	21,487,575	2,060,670	13,487	21,216

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

15. MINERAL EXPLORATION AND DEVELOPMENT COSTS

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Exploration and evaluation				
Exploration expenditure – costs carried forward in respect of areas of interest				
Balance at beginning of financial year	16,237,981	8,246,780	-	6,001,394
Current year expenditure	5,927,879	4,380,174	-	1,079
Acquisition of Polar Mining Oy	-	12,262,000	-	-
Exploration expenditure transferred to subsidiary	-	-	-	(1,097,872)
Exploration expenditure transferred to development expenditure	-	(7,519,645)	-	(4,542,659)
	<u>22,165,860</u>	<u>17,369,309</u>	<u>-</u>	<u>361,942</u>
Expenditure write off	(1,121,185)	(1,131,328)	-	(361,942)
Sale Of exploration assets	(869,585)	-	-	-
Total exploration expenditure	<u>20,175,090</u>	<u>16,237,981</u>	<u>-</u>	<u>-</u>
Development				
Balance at beginning of financial period	20,562,499	-	4,542,659	-
Exploration costs transferred from exploration and evaluation	-	7,519,645	-	4,542,659
Current year expenditure	20,966,188	13,042,854	-	-
Development expenditure write off	(13,466,480)	-	(3,000,000)	-
Development expenditure amortised	(272,592)	-	-	-
Reclassification to property, plant and equipment	(19,695,142)	-	-	-
Total development expenditure	<u>8,094,473</u>	<u>20,562,499</u>	<u>1,542,659</u>	<u>4,542,659</u>
Total mineral exploration and development expenditure	<u>28,269,563</u>	<u>36,800,480</u>	<u>1,542,659</u>	<u>4,542,659</u>

Development expenditure include \$536,566 of interest charges.

16. OTHER ASSETS

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Current				
Prepayments	218,104	58,844	24,420	18,837
Government security	52,155	59,462	-	-
Deferred FX receivable – foreign currency hedges	257,910	734,727	-	-
	<u>528,169</u>	<u>853,033</u>	<u>24,420</u>	<u>18,837</u>
Non-Current				
Government security	276,844	466,105	-	-
Deferred tax benefit	3,858,416	-	-	-
Deferred FX receivable – foreign currency hedges	1,888,073	1,872,387	-	-
Other assets	123,498	-	18,076	18,076
	<u>6,146,831</u>	<u>2,338,492</u>	<u>18,076</u>	<u>18,076</u>

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

17. PAYABLES

	Consolidated Entity		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Current				
Liabilities:				
Trade creditors and accruals	4,695,469	4,191,046	120,311	251,302
Total current payables	4,695,469	4,191,046	120,311	251,302
Non-Current				
Accruals	-	178,385	-	-
Loans from subsidiaries	-	-	3,677,629	3,678,829
Total non current payables	-	178,385	3,677,629	3,678,829
Total current and non-current payables	4,695,469	4,369,431	3,797,940	3,930,131

18. INTEREST BEARING LIABILITIES

	Note	Consolidated Entity		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
Current					
Bank loan (i)	31	1,000,000	4,886,185	1,000,000	4,886,185
Bank loan (ii)	31	6,300,864	9,959,393	-	-
Total current		7,300,864	14,845,578	1,000,000	4,886,185
Non-Current					
Bank loan (i)	31	3,886,185	-	3,886,185	-
Bank loan (ii)	31	7,613,545	2,041,778	-	-
Total non current		11,499,730	2,041,778	3,886,185	-
Total current and non-current liabilities		18,800,594	16,887,356	4,886,185	4,886,185

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

This loan is due for repayment within the next 14 months.

(ii) This refers to an outstanding fully drawn loan facility for US\$10.6 million. This loan is secured by a first ranking fixed and floating charge over all the assets and undertakings each of Dragon Mining NL, Dragon Mining (Sweden) AB (formerly Svartliden Guld AB) and Svartliden Gold Project assets together with a registered first ranking mortgage over the Svartliden Gold Project Exploitation Concessions and any other material tenements. Further, there is a secured guarantee from Dragon, including a first ranking share mortgage over Dragon's shares in Dragon Mining (Sweden) AB, a fixed charge over the Proceed and the Gold Account.

This loan is due for repayment in monthly instalments and is to be repaid on full on or before 31 August 2007.

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

19. PROVISIONS

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Current				
Employee entitlements	572,162	442,919	31,373	19,092
Non-Current				
Employee entitlements	39,441	30,981	39,441	30,981
Rehabilitation	1,126,569	1,229,110	-	-
Total non-current provisions	1,166,010	1,260,091	39,441	30,981
Number of employees at balance date	65	53	4	5

20. OTHER LIABILITIES

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Current				
Unrealised FX gain – foreign currency hedges	257,910	734,727	-	-
Other	52,155	-	-	-
Total current liabilities	310,065	734,727	-	-
Non-Current				
Unrealised FX gain – foreign currency hedges	1,888,073	1,872,387	-	-
Accrued Hedge Fee Income	397,668	-	-	-
Other	9,713	-	-	-
Total non-current liability	2,295,454	1,872,387	-	-

21. CONTRIBUTED EQUITY

	Parent Entity		Parent Entity	
	2005	2004	2005	2004
Share Capital	Number of Shares		\$	\$
Ordinary shares, fully paid	397,767,293	312,460,131	65,789,886	45,328,153
Employee Incentive shares	3,325,000	3,455,000	826,256	626,256
Less: uncalled capital			(822,777)	(622,995)
			3,479	3,261
			65,793,365	45,331,414

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

21. CONTRIBUTED EQUITY (cont.)

	2005	2004
	\$	\$
(a) Ordinary Shares Movements during the year		
Balance at beginning of year	45,328,153	19,245,057
Shares issued		
- 165,000 issued at \$0.0799 transferred from partly paid shares upon conversion to fully paid shares	13,200	-
- 250,000 issued at \$0.189 transferred from partly paid shares upon conversion to fully paid shares	47,500	-
- 46,900,000 issued at \$0.28 per share (2004: Nil) for cash pursuant to a placement	13,132,000	-
- Transaction costs arising from issue for cash pursuant to placement	(1,066,167)	(705,275)
- 165,000 issued at \$0.0799 transferred from partly paid shares upon conversion to fully paid shares	13,200	-
- 31,818,182 issued at \$0.22 per share (2004: 66,777,778 at \$0.253 per share) for cash pursuant to placement	7,000,000	16,895,000
- 6,008,982 issued at \$0.22 per share (2003:nil) for cash pursuant to placement	1,322,000	-
- Nil (2004: 40,000,000 issued at \$0.23 per purchase of Polar Mining OY)	-	9,200,000
- Nil (2004: 3,000,000 issued at \$0.18 per share Facility Fees for Macquarie Bank)	-	555,000
- Nil (2004: 1,030,000 issued at \$0.133 per share transferred from partly paid shares)	-	137,400
- Transferred from partly paid shares upon expiry	-	971
	<hr/>	<hr/>
	65,789,886	45,328,153
(b) Employee Incentive Scheme Shares		
Balance at beginning of year	3,261	1,391
Partly paid employee shares 500,000		
- Ordinary shares partly paid to \$0.001 per share (uncalled capital of \$0.399 per share)	500	-
Partly paid employee shares 3,500,000		
- Ordinary shares partly paid to \$0.001 per share (uncalled capital of \$0.189 per share)	-	3,500
Partly paid employee shares 75,000		
- Ordinary shares partly paid to \$0.001 per share (uncalled capital of \$0.399 per share)	-	75
Transferred 165,000 Partly paid employee shares to ordinary share capital upon full payment	(16)	
Transferred 250,000 Partly paid employee shares ordinary share capital upon full payment	(250)	
Transferred 165,000 Partly paid employee shares ordinary share capital upon full payment	(16)	
Transferred 1,030,000 partly paid shares to ordinary share capital upon full payment 1,030,000	-	(734)
Partly paid shares expired transferred to ordinary share capital	-	(971)
	<hr/>	<hr/>
	3,479	3,261
	<hr/>	<hr/>
	65,793,365	45,331,414

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

(c) Options	2005	2004
Options to subscribe for ordinary shares at an exercise price of \$0.09 per share expiring on 20 May 2006	11,111,111	11,111,111
Options to subscribe for ordinary shares at an exercise price of \$0.40 per share expiring on 22 October 2009	2,600,000	-
Options to subscribe for ordinary shares at an exercise price of \$0.20 per share expiring on 4 November 2007	21,250,000	21,250,000
Options on issue at 30 June 2005	34,961,111	32,361,111

22. ACCUMULATED LOSSES

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Accumulated Losses				
Accumulated losses at the beginning of the financial year	(15,252,925)	(11,616,192)	(14,533,415)	(11,595,844)
Loss attributable to members	(12,908,958)	(3,636,733)	(5,828,920)	(2,937,571)
Accumulated losses at end of the financial year	(28,161,883)	(15,252,925)	(20,362,335)	(14,533,415)

23. OUTSIDE EQUITY INTEREST IN CONTROLLED ENTITIES

Outside Equity Interest comprises:	2005	2004
	\$	\$
- Share Capital	4,074	4,074
- Retained (Losses)	(1,423)	(9,177)
- Current Gain for the year	4,503	7,753
	7,154	2,650

24. EQUITY

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Total equity at the beginning of the financial year	30,081,140	7,625,154	30,797,999	7,650,604
Total changes in equity recognised in the Statement of Financial Performance	(12,908,958)	(3,636,733)	(5,828,920)	(2,937,571)
Contributions of equity	20,461,951	26,084,966	20,461,951	26,084,966
Changes in minority interests and reserves	4,503	7,753	-	-
Total equity at the end of the financial year	37,638,636	30,081,140	45,431,030	30,797,999

25. RELATED PARTY TRANSACTIONS

Director Related Transactions

The names of persons who were directors of Dragon Mining NL at any time during the financial year are:

CT Ansell
 DJ Searle
 TT Järvinen
 AE Daley
 PL Munachen
 PG Cordin

- (a) The Company has effected Directors and Officers liability Insurance.
- (b) The Company has an agreement with Sub-Sahara Resources, an associate company of Rockfield Investments Ltd, whereby Sub-Sahara Resources can potentially acquire up to 70% of Dragon's 66.66% interest in the Zara Gold Project in Eritrea.

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

(c) The Company has borrowed \$18.8 million from Macquarie Bank Limited (MBL) under normal commercial terms and conditions. MBL is a substantial shareholder of the Company.

Wholly Owned Group

Loan funds were lent by Dragon Mining NL to Dragon Resources Ltd, Firegold NL, Viking Gold & Prospecting AB, Dragon Mining (Sweden) AB (80% owned), Dragon Mining (Ontario) Inc and Polar Mining OY to fund exploration activities. Ownership interests in these controlled entities are set out in Note 13.

No interest is charged on the loans to Dragon Resources Ltd or Firegold NL and a provision for non-recoverability of these loans has been raised as it is believed these loans will not be recovered.

Interest is charged at 5.0% on the Dragon Mining (Sweden) AB loan giving rise to \$589,995 interest during 2005.

Interest is charged at 5% on the loan to Polar Mining Oy, payable on first written demand of the Lender. Interest of \$562,995 has arisen as a result of this loan. The €10 million Capital Loan to Polar Mining Oy which is repayable on 31 October 2010.

A summary of the inter-entity loan accounts between Dragon Mining NL and its controlled entities is disclosed in Note 10.

26. SEGMENT REPORTING

	Australia 2005 \$	Sweden 2005 \$	Finland 2005 \$	Eritrea 2005 \$	Total 2005 \$
Revenue					
Sales	-	3,475,136	-	-	3,475,136
Other revenue	307,016	180,664	2,923,662	-	3,411,342
Total revenue	<u>307,016</u>	<u>3,655,800</u>	<u>2,923,662</u>	<u>-</u>	<u>6,886,478</u>
Loss before income tax	(3,338,741)	(9,160,542)	(409,675)	-	(12,908,958)
Assets	1,450,577	39,413,597	24,614,215	-	65,478,389
Liabilities	5,041,544	21,060,681	1,737,529	-	27,839,754
Other					
Acquisition of non-current segment assets	4,377	22,748,364	5,915,740	-	28,668,481
Depreciation of segment assets	12,106	1,222,428	753,339	-	1,987,873
Other non-cash segment assets	-	13,466,480	1,121,183	-	14,587,663

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

26. SEGMENT REPORTING (Cont.)

	Australia 2004 \$	Sweden 2004 \$	Finland 2004 \$	Eritrea 2004 \$	Total 2004 \$
Revenue					
Sales	-	-	4,954,128	-	4,954,128
Other revenue	154,589	105,710	126,063	-	386,362
Total revenue	154,589	105,710	5,080,191	-	5,340,490
Loss before income tax	(881,160)	(661,386)	(1,871,026)	(215,408)	(3,628,980)
Assets	6,863,564	26,141,920	22,642,566	-	55,648,050
Liabilities	5,187,468	18,231,393	2,148,050	-	25,566,911
Other					
Acquisition of non-current segment assets	19,367	13,738,767	20,436,947	-	34,195,081
Depreciation of segment assets	4,268	2,774	606,431	-	613,473
Other non-cash segment assets	926,621	-	763,689	-	1,690,310

27. JOINT VENTURES

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

Weld Range/Range Well (Nickel, Platinum Group and Chrome)

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

Zara (Gold)

Dragon Mining NL has a 66.66% interest in a gold exploration project at Zara in Eritrea with Africa Wide Resources Limited holding the balance. Costs are shared in proportion to each party's interest in the project. Dragon Mining NL's carrying cost at 30 June 2005 is \$nil (2004 nil). A former director, Mr Kennedy has an interest in Africa Wide Resources Limited.

In February 2003 Dragon reached an agreement with Sub-Sahara Resources (SBS) whereby SBS can potentially acquire up to 70% of Dragon's 66.66% interest in the Zara Project.

(a) Exploration commitments

In order to maintain the exploration, prospecting and mining tenements in which the Consolidated Entity and other parties are involved, all parties are committed to meet the conditions under which permits were granted, and also meet commitments under option agreements entered into by the Consolidated Entity. If the Economic Entity continues to hold these tenements and on the current contractual basis no further joint venture arrangements are entered into, the minimum expenditure requirements are detailed below. The tenements are subject to renewal each twelve months, subject to the expenditure requirements being satisfied.

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

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
(a) Exploration commitments				
Within one year	356,330	225,032	-	-
One year or later and no later than five years	813,986	340,053	-	-
	<u>1,170,316</u>	<u>565,085</u>	-	-
(b) Development commitments				
Within one year	-	4,062,273	-	-
(c) Non-cancellable operating lease expense commitments				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	391,381	125,881	-	-
One year or later and no later than five years	505,735	197,347	-	-
	<u>897,116</u>	<u>323,228</u>	-	-

(d) Hedge commitments

Gold forwards

Under the terms of Dragon's gold forward hedge agreement, at 30 June 2006 the company is obligated to deliver 144,413 ounces of gold into hedge contracts at a price of US\$402.25 per ounce, (refer to note 32).

Foreign exchange forwards

Under the terms of Dragon's foreign exchange forward hedge agreement, at 30 June 2006 the company is obligated to deliver US\$36,000,558 to receive SEK 283,637,595 (refer to note 32).

29. CONTINGENT LIABILITIES

The Board has decided to write down the carrying cost of the Svartliden project by \$13.5 million to take account of the significant overrun relating to the work performed by MDM (Pty) Ltd ("MDM") for the Swedish subsidiary, Dragon Mining (Sweden) AB ("DMS").

In the opinion of the directors, DMS has a contingent asset in the form of a claim for damages against MDM relating to the work carried out by MDM at the Svartliden plant, including debts due to DMS and the costs of completing the construction following MDM's abandonment of the site in November 2004.

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

30. EMPLOYEE BENEFITS COMMITMENTS

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Employee Benefits				
The aggregate employee benefit liability is comprised of:				
Accrued wages, salaries and on-costs	22,863	29,360	22,863	29,360
Provisions (current)	572,162	442,919	31,373	19,092
Provisions (non-current)	39,441	30,981	39,441	30,981
	<u>634,466</u>	<u>503,260</u>	<u>93,677</u>	<u>79,433</u>

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

Employee Share Incentive Scheme

An employee share scheme has been established where Dragon Mining NL may, at the discretion of directors, grant partly paid ordinary shares of Dragon Mining NL to directors, executives, and certain members of staff of the consolidated entity. The shares, issued at least at the market rate on date of grant, require \$0.001 to be paid with the remainder to be paid within five years. The partly paid shares cannot be transferred and are not quoted on the ASX. There are currently 5 directors and 65 staff eligible for this scheme.

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

	2005		2004	
	Number of partly paid shares	Weighted Average price	Number of partly paid shares	Weighted Average price
Balance at beginning of year	3,455,000	0.19	910,000	0.08
- granted	500,000	0.40	3,500,000	0.19
- granted	-	-	75,000	0.40
- cancelled	(50,000)	0.08	-	-
- converted to fully paid shares	(580,000)	0.13	(1,030,000)	0.13
Balance at end of year	3,325,000	0.23	3,455,000	0.19

31. FINANCIAL INSTRUMENTS

a) Terms, Conditions and Accounting Policies

The Company's accounting policies, including the terms and conditions of each class of financial asset and financial liability, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instrument	Accounting Policies	Terms and Conditions
Financial Assets		
- Receivables	Receivables are carried at original amounts due, less any provision for doubtful debts and recognised when collection of the full original amounts is no longer probable.	Debtors are on 30-day terms.
- Unlisted shares	Unlisted shares are carried at the lower of cost or recoverable amount.	
Financial Liabilities		
- Accounts Payable	Liabilities are recognised for the amounts to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity.	Trade liabilities are nominally settled on 30-day terms.
- Bank Loans	Bank Loans recognise the amount repayable upon maturity.	(i) \$1,000,000 payable on 31 August 2005 \$3,886,185 payable on 31 August 2006 (ii) \$13,919,409 (US\$ 10,600,000) payable in instalments by 31 August 2007
Equity		
- Ordinary shares	Ordinary share capital is recognised at the paid up value less costs.	Refer Note 21

b) Net Fair Values

The following methods and assumptions are used to determine the net fair value of financial assets and liabilities:

Recognised Financial instruments

Cash:	The carrying amount approximates fair value because of their short term to maturity. The average interest rate during the year was 4.09%.
Bank Loans:	The average interest rate on loan note 18 (i) during the year was 7.12%. The average interest rate on loan note 18 (ii) during the year was 4.03%. The carrying amount approximates fair value because of their short term to maturity.
Trade receivables and payables	The carrying amount approximates fair value.
Unlisted shares:	A reasonable estimate of the fair value is calculated on the underlying

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

net asset base of the investment.

c) Aggregate Net Fair Value and Carrying Amounts of Financial Assets and Financial Liabilities at Balance Date:

Financial Assets	Carrying Amount 2005 \$	Net Fair Value 2005 \$	Carrying Amount 2004 \$	Net Fair Value 2004 \$
Cash	2,497,324	2,497,324	10,518,201	10,518,201
Accounts Receivable	1,368,977	1,368,977	1,009,392	1,009,392
Other assets	328,999	328,999	525,567	525,567
Investments	1,878,434	1,878,434	28,556	28,556
	6,073,734	6,073,734	12,081,716	12,081,716
Financial Liabilities				
Accounts Payable	4,695,469	4,695,469	4,369,431	4,369,431
Bank loan	18,800,594	18,800,594	16,887,356	16,887,356
	23,496,063	23,496,063	21,256,787	21,256,787
Net Financial Liabilities	(17,422,329)	(17,422,329)	(9,175,071)	(9,175,071)

Reconciliation of Net Financial (Liabilities) Assets to Net Assets

	2005 \$	2004 \$
Net Financial (Liabilities) Assets	(17,422,329)	(9,175,071)
Inventories	1,682,693	232,222
Other assets	6,346,001	2,665,958
Fixed assets	23,106,399	3,867,674
Capitalised exploration, evaluation and development expenditure	28,269,563	36,800,480
Provisions	(1,738,172)	(1,703,010)
Other liabilities	(2,605,519)	(2,607,114)
Net Assets	37,638,636	30,081,139

d) Credit risk

Credit risk represents the loss that would be recognised if counter-parties failed to perform as contracted. The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts. There is a credit risk relating to cash as a floating interest rate asset as interest varies depending on bank rates.

e) Interest rate risk

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

Cash:	All cash assets are repriced within a year and have floating interest rates. The average interest rate during the year was 4.09%.
Bank Loans:	All loans are repriced within a year and have floating interest rates. The average interest rate on loan in note 18(i) during the year was 7.12%. The average interest rate on loan in note 18(ii) during the year was 4.03%
Other financial assets and liabilities	Non-interest bearing.

f) Foreign exchange risk

The consolidated entity enters into forward foreign exchange contracts to hedge a proportion of anticipated purchases and expenses denominated in a foreign currency – Swedish Krona against its anticipated sales denominated in US dollars (refer to note 32(a)).

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

g) Commodity price risk

The consolidated entity enters into forward gold agreements to hedge a proportion of anticipated sales of gold (refer to note 32(b)).

32. 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 Guld Project through the purchase of SEK through selling USD.

This hedge has been treated as a specific hedge, in accordance with UIG 33, as the approximate value of the purchase and the entities with which the transactions will be entered is presently known. The terms of the hedge agreements are shown in the tables outlined below.

	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
	7.8787	36,001	283,639

	Forward Exchange Rate	30 June 2004 Sell US\$'000	Buy SEK'000
3 months or less	7.9002	1,700	13,430
Over 3 months to 12 months	7.9002	8,700	68,732
Over 12 months to 24 months	7.9002	9,200	72,682
Over 24 months to 36 months	7.9002	7,000	55,301
Over 36 months to 48 months	7.9002	7,400	58,461
Over 48 months to 60 months	7.9002	4,600	36,341
	7.9002	38,600	304,947

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

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

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

	30 June 2004	
	Gains/(Losses)	Gains/(Losses)
	US\$	AU\$
3 months or less	84,227	121,155
Over 3 months to 12 months	426,556	613,572
Over 12 months to 24 months	443,026	637,262
Over 24 months to 36 months	327,661	471,317
Over 36 months to 48 months	333,451	479,646
Over 48 months to 60 months	197,550	284,162
	1,812,471	2,607,114

The unrealised gains or losses on forward US dollar sales above based on a mark to market are recognised in the Statement of Financial Position in accordance with AASB 1012.

At 30 June 2006, the unrealised gain on currency sales amounted to AUD\$2.14 million. The exchange rate at that date was USD/SEK 7.8024.

(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.

This hedge has been treated as a specific hedge, in accordance with UIG 33, 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.

	30 June 2005		30 June 2004	
	Volume Ounces	Forward Price US\$	Volume Ounces	Forward Price US\$
3 months or less	12,951	402.25	6,717	400.00
Over 3 months to 12 months	28,500	402.25	33,751	400.00
Over 12 months to 24 months	30,500	402.25	35,651	400.00
Over 24 months to 36 months	35,250	402.25	26,816	400.00
Over 36 months to 48 months	37,212	402.25	29,091	400.00
Over 48 months to 60 months	-	-	17,974	400.00
	144,413	402.25	150,000	400.00

The number of ounces sold forward represents 46% of current reserves.

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

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

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

	30 June 2004	
	Gains/(Losses)	Gains/(Losses)
	US\$	AU\$
3 months or less	29,015	41,736
Over 3 months to 12 months	212,402	305,525
Over 12 months to 24 months	(333,948)	(480,362)
Over 24 months to 36 months	(712,797)	(1,025,309)
Over 36 months to 48 months	(1,150,529)	(1,654,956)
Over 48 months to 60 months	(861,994)	(1,239,919)
	<hr/>	<hr/>
	(2,817,851)	(4,053,285)

The unrealised gains or losses on forward gold sales above based on a mark to market are not recognised in the Statement of Financial Position.

At 30 June 2006, the unrealised loss on gold forward sales amounted to AUD\$11.660 million. The gold price on that date was US\$435.63/oz.

33. SIGNIFICANT EVENTS AFTER YEAR END

Subsequent to balance date the company undertook a share placement to raise funds for corporate working capital and the commencement of mining activities in Finland. 31,515,145 shares were placed at \$0.165 for a total fund raising of \$5.2 million with selected investors. Other than this there were no other significant events to report.

34. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. The consolidated entity must therefore prepare an opening statement of financial position in accordance with AIFRS as at 1 July 2004. This will form the basis of accounting for AIFRS in the future, and is required when Dragon Mining NL prepares its first fully AIFRS-compliant financial reports for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS, and the Company's best estimate of the quantitative impact on the financial statements. The figures disclosed are management's best estimates as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (i) ongoing work being undertaken to assess AIFRS standards; (ii) potential amendments to AIFRS and interpretations thereof being issued by the standard-setters; and (iii) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

Exploration and evaluation expenditure

The consolidated entity currently uses the "area of interest" principles which are used commonly in Australia and in accordance with the Australian Accounting Standards AASB 1022 "Accounting for the Extractive Industries". The AASB has recently released AASB 6 "Exploration for and Evaluation of Mineral Resources" which is not expected to cause significant changes to the company's accounting for capitalised exploration and evaluation expenditure. AASB 6 continues to allow an area of interest approach to impairment and the standard effectively permits the grandfathering of existing accounting treatments of exploration and evaluation expenditure.

Under AASB 6, if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the consolidated entity must perform impairment tests on those assets in accordance with AASB 136 "Impairment of Assets". Any impairment loss is recognised as an expense in accordance with AASB 136. No impact has been identified on the consolidated or parent entity's statement of financial position or performance as a result of additional write-downs for impairment.

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

Provision for Rehabilitation and Restoration

In accordance with Australian Standard AASB 137 Provisions, Contingent Liabilities and Contingent Assets", the Consolidated entity will be required to fully provide, based on discounted future cash flows, for rehabilitation and restoration where there is a legal or constructive obligation. A corresponding asset, net of depreciation to the date of transition will be recognised and be depreciated together with the development assets. The consolidated entity will be required to recognise the unwinding of the discount in relation to the provision applied directly as an interest expense. This is in contrast to the current AGAAP treatment which permits restoration and rehabilitation costs to be charged to production on a gradual basis over the life of the economically recoverable resources. The AIFRS project team is in the process of determining the impact that adopting the standards would have on the financial statements of the Consolidated entity in future financial years.

Taxation

In accordance with Australian Accounting Standard AASB 112 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position and performance other than the asset relating to tax losses being recognised in the statement of financial position. No impact has been identified on the consolidated or parent entity's statement of financial position or performance as a result of this change in approach.

Foreign currency

Financial statements of foreign operations

Under current Australian GAAP, the assets and liabilities of foreign controlled entities that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AIFRS each entity under the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses are translated to Australian dollars at the exchange rates approximating the exchange rates at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity. Where inter-company loans are considered to form part of the parent entity's net investment in a foreign operation, exchange differences are recognised in the statement of financial performance of the parent entity, but recognised in a separate component of equity in the consolidated entity's financial report until disposal of the net investment.

Management has decided to apply the exemption provided in AASB 1 "First-Time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 121 "Effects of Changes in Foreign Exchange Rates" for the financial year ended 30 June 2004. The standard will be applied from 1 July 2005. The AIFRS project team is in the process of determining the impact that adopting the standards would have on the financial statements of the consolidated entity in future financial years.

Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement" financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- (i) Financial asset or financial liability measured at fair value through the statement of financial performance;
- (ii) Held to maturity investments measured at amortised cost, subject to impairment;
- (iii) Loans and receivables measured at amortised cost, subject to impairment;
- (iv) Available for sale assets measured at fair value with changes in fair value measured directly in equity; and
- (v) Financial liability measured at amortised cost.

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

This will result in a change in the current accounting policy that does not classify financial instruments.

The management has decided to apply the exemption provided in AASB 1 "First-Time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 132 "Financial Instruments: Presentation and Disclosures" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The AIFRS project team is in the process of determining the impact that adopting the standards would have on the financial statements of the consolidated entity in future financial years.

Share Based Payments

Under AASB 2 Share Based Payments, Dragon Mining NL is required to recognise an expense for all equity-based remuneration, including options issued to employees under its Employee Option Schemes that had not vested by 1 January 2005.

The expense is determined by reference to the fair value of the equity instruments issued. The fair value of options granted to employees is recognised as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, the consolidated and company employee benefits expense would have been \$97,000 higher, with a corresponding increase in an equity compensation reserve.

Hedge Accounting

Under the AASB 139 Financial Instruments: Recognition and Measurement; in order to achieve a qualifying hedge, the Economic Entity is required to meet the following criteria:

- (i) Identified the type of hedge – fair value or cash flow;
- (ii) Identify the hedged item or transaction;
- (iii) Identify the nature of the risk being hedged;
- (iv) Identify the hedging instrument;
- (v) Demonstrate that the hedge has and will continue to be highly effective; and
- (vi) Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

Under the current accounting policy, unrealised gains and losses on specific hedges are deferred and recognised in the Statement of Financial Performance at the same time as the underlying physical transaction is recognised in the Statement of Financial Performance.

In order to continue this accounting policy under the AASB 139 regime, the hedging contracts will need to meet the above criteria to be classified as qualifying hedges. The assessment of whether current hedging contracts will meet these criteria to be classified as qualifying hedges is yet to be completed and accordingly the financial effect of any possible change in accounting policy is not yet capable of reliable estimation.

The management has decided to apply the exemption provided in AASB 1 "First-Time Adoption of Australian Equivalents to International Financial Reporting Standards" which permits entities not to apply the requirements of AASB 132 "Financial Instruments: Presentation and Disclosures" and AASB 139 "Financial Instruments: Recognition and Measurement" for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005.

The AIFRS project team is in the process of determining the impact that adopting the standards would have on the financial statements of the consolidated entity in future financial years.

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

Reconciliation of equity as presented under AGAAP to that under AIFRS

	Consolidated		Company	
	30 June 2005	1 July 2004	30 June 2005	1 July 2004
	\$	\$	\$	\$
Total equity under AGAAP	37,638,636	30,081,139	45,431,030	30,797,999
Adjustments to Accumulated losses				
Recognition of share-based payment expense	(97,000)	-	(97,000)	-
Adjustments to reserves				
Recognition of share-based payment expense	97,000	-	97,000	-
Total equity under AIFRS	37,638,636	30,081,139	45,431,030	30,797,999

Reconciliation of net loss as presented under AGAAP to that under AIFRS

	Consolidated 30 June 2005 \$	Company 30 June 2005 \$
Net loss for the year ended 30 June 2006 under AGAAP	(12,908,958)	(5,828,920)
Recognition of share-based payment expense	(97,000)	(97,000)
Net loss for the year ended 30 June 2006 under AIFRS	(13,005,958)	(5,925,920)

Restated AIFRS Statement of Cash Flows for the year ended 30 June 2006

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.