

Chairman's Address

Ladies and Gentlemen, overall it would probably be best to describe 2005/2006 as a successful but challenging year. The year began with high hopes that after the initial problems with the Svartliden Project's EPC Contractors during construction and the issues that emerged shortly after start-up, the Project would reach design production parameters within a reasonably short period. In Finland, the plan was that the Orivesi Mine and Vammala Plant would be back in production by the end of the financial year.

Very pleasingly Svartliden monthly ore production and treatment rates did improve and by financial year end the operations had produced a total 49,141 ounces of gold. Particularly given the technical and other issues that had to be faced as the Project gained momentum, this was a very creditable achievement, due in no small part to the efforts of our new Managing Director and his rejuvenated team in Sweden during the second half of the year.

However, of the almost 50,000 ozs of gold we produced last year, around 80% had to be delivered into the gold hedge book that was entered into as an integral part of the original Svartliden project finance facilities in 2003. This involved committing to deliver 150,000oz at a gold price of US\$402.25 per ounce. So we were unable to take full advantage of the increase in spot gold prices over the year. We were however able to begin to reduce the outstanding debt on the Project and indeed actually paid that off completely in September this year. Currently we have just under 100,000 ounces remaining in hedge book, which we are scheduled to deliver into over the next 3 years.

We have come a long way in the last year or so at Svartliden, but still have some way to go. In the current climate of high energy and labour costs and with higher prices for equipment and spares, operating costs at Svartliden continue to be too high. However, management is working hard on improving both operating performance and profitability and getting those costs down.

There is also a need to increase the mine's resource and reserve base. In this regard, both near pit and regional exploration drilling programs are underway and will continue during the year.

In Finland, the schedule for reopening the Orivesi Mine and the Vammala Plant had to be delayed when the problems at Svartliden resulted in funds previously allocated to that program were diverted to Sweden. However, since the beginning of this year work has progressed on accessing the orebody and on confirmatory drilling (some results of which were announced very recently). The stockpiling of development ore is expected to commence shortly and we now expect the Vammala Plant to be restarted in the northern hemisphere late spring next year.

Exploration in Finland also recommenced in early 2006 and particularly at our Hanhimaa tenement in the north of the country, the prospects look very promising.

The lack of net cash flow from Svartliden in late 2005, forced us to review the Company's finances. As a result it was decided to issue a series of 5-year Convertible Notes at the end of 2005. Through this program the Company raised \$23.8 million and these funds were and are being used primarily to fund remedial capital expenditure at Svartliden; the restarting of operations in Finland; and the ongoing exploration in both Sweden and Finland.

With the recent repayment of both the Company's corporate debt and the Svartliden Project debt the only debt the Company now has, is that associated with the Convertible Notes.

I am very aware that not all shareholders supported this Convertible Note program at the time. However, these Notes are not repayable until the end of 2010 and could well be converted into stock prior to that date, at a good premium to the prevailing share price when they were issued.

In February 2006, as part of an asset rationalisation program, the Company sold its Pampalo gold project in Finland for 6 million Euros. This project was one of a suite of Projects acquired from Outokumpu in 2003 and was not scheduled for further evaluation and development in the near term. The funds from this sale were received last month and will also be used to help fund the Orivesi Mine and Vammala Plant reopening and to accelerate exploration activities in Finland.

You will also know that there have been several changes to the Company, at the Board and senior executive level, over the last year. Since the beginning of 2006 there have also been changes in the management team at Svartliden, which is now largely Swedish and is operating very well.

The intention is to continue to build the management team both in Australia and Scandinavia over the next year, so as to be able to fully develop the potential of our assets. However, in the current resources boom environment this is easier said than done!

Looking forward, your Company's primary efforts are focussed on improving profitability at Svartliden and recommissioning the Vammala Plant in Finland with ore from the Orivesi Mine. In addition to pursuing our exploration prospects we are also looking at other opportunities that may arise, to expand the Company's activities, which are complimentary to our current assets in Europe.

We believe the Company has a good suite of core assets and the challenge for the Board and Management is to maximise their value going forward for our shareholders. I can assure you we are fully focussed on achieving that goal.

Last, but certainly not least it would be very remiss of me not to express my sincere thanks to my fellow directors and to all of the Dragon Group employees, for their support and efforts over the last year. As I said at the outset, a sometimes challenging year but one which we believe has enabled us to consolidate the Company's position in Sweden and Finland and one that now leaves us well positioned for growth going forward.

Thank You.