FULL YEAR RESULTS AND FINANCIAL STATEMENTS

For the year ended 31 December 2011

OVERVIEW

2011 was a transitional year for Dragon Mining Limited ("Dragon Mining") as it embarked on an extensive exploration, development and capital expenditure program investing in the future of the Company.

Exploration was directed at enlarging the reserves and resources at existing mines, as well as expanding the resources at the exciting Kuusamo Gold Project in northern Finland to enable the project to advance to a feasibility study.

Development included a significant cut back and driving a decline at Svartliden in Sweden, establishing an underground mine at Jokisivu and extending the Kutema decline at Orivesi in southern Finland.

Capital expenditure included construction of a water treatment plant at Svartliden and purchasing new mining equipment for Orivesi including a development drilling jumbo, a loader and a shotcrete unit.

All 2011 exploration costs were expensed as a result of a change in accounting policy, the extensive waste cutbacks at Svartliden open pit were expensed and large tonnages from low grade stockpiles were treated to maintain throughput at Svartliden. In addition, in Finland ore for the Vammala production plant was sourced from Kutema remnant pillars at Orivesi whilst the Kutema decline was extended and development ore from Jokisivu which resulted from the extensive development at that mine. Hence the 2011 results should be viewed keeping in mind Dragon Mining's longer term objectives.

STATEMENT OF COMPREHENSIVE INCOME

- Revenue from gold sales decreased by 18% to $75.1m (2010: $91.9m).
- Gross profit from operations decreased by 56% to $16.3m (2010: $37.1m).
- Loss after tax was $6.9m (2010: Profit of $21.2m). The result includes $9.4m (2010: $8.4m) of exploration costs charged directly to the consolidated statement of comprehensive income as a result of a change in the accounting policy for exploration expenditure, $5.6m of losses associated with the mark to market on the gold hedging program and $2.9m (2010: $10.7m) of foreign currency losses on intercompany loans.

CASH AND TRADE RECEIVABLES

- Group cash of $16.0m (2010: $23.5m).
- Trade receivables from gold concentrate delivered and bullion on hand of $4.0m (2010: $6.1m).
- Cash flow from operations decreased by 60% to $13.3m (2010: $33.6m) which includes $9.4m (2010: $8.4m) of exploration expenditure.
- Development expenditure of $16.5m (2010: $4.7m), $4.0 in Sweden and $12.5m in Finland.
- Purchases of property, plant and equipment of $9.0m (2010: $2.1m).

OPERATIONS

- Gold production for the year of 54,791[(1)] ounces at an average cash cost per ounce of US$1,014/ounce (2010: 71,598 ounces at an average cash cost of US$678/ounce).
- Svartliden produced 31,748 ounces at an average cash cost of US$993/ounce (2010: 40,135 ounces at an average cash cost of US$624/ounce). Cash costs were higher in 2011 than the previous year due to the costs associated with the waste stripping campaigns being expensed (US$246/oz) and processing ore from low grade stockpiles.
- Production from the Vammala Production Centre of 23,043 ounces at an average cash cost of US$1,042/ounce, including refining costs of US$237/ounce. (2010: 31,463 ounces at an average cash cost of US$747/ounce, including refining costs of US$159/ounce). Ore was sourced from the Jokisivu and Orivesi Gold Mines.

DEVELOPMENT

Svartliden Gold Mine, Sweden

- During the year the Company committed to an underground mining operation which will include 3,500 metres of decline and lateral development. The first blast for the decline located at the bottom of and in the north western end of the open pit (80m below surface) occurred in mid August and the decline advanced 462m. The decline is on schedule and within budget with the first development ore processed in January 2012.

Orivesi Gold Mine, Finland

- The Kutema decline was commenced in January 2011 and advanced 686m reaching the 820m level by the end of December. Lateral development also advanced 790m for the year from the 740m, 760m, 780m, 800m and 820m levels.

Jokisivu Gold Mine, Finland

- The underground development at the Kujankallio deposit continued and since commencing in September 2010, the decline had advanced 1,136m or 162m in vertical depth. The portal is located in the base of the Kujankallio open pit, 35m below surface with an additional 3,000m of development drives.

EXPLORATION

- Exploration programs in 2011 focussed on the Company's tenements in Sweden and Finland, concentrating on increasing the resources at or near existing operating facilities.

- In addition, Dragon Mining continued its aggressive exploration campaign at the Kuusamo Gold Project in north-eastern Finland which returned some spectacular drilling results including;
  - *31.90m @ 45.67 g/t gold*
  - *34.90m @ 9.30 g/t gold*
  - *25.60m @ 9.66 g/t gold*
  - *17.75m @ 16.59 g/t gold*
  - *14.55m @ 4.81 g/t gold*
  - *11.85m @ 5.30 g/t gold*
  - *9.00m @ 30.17 g/t gold*

- In 2012, the Company intends on increasing the exploration focus at Kuusamo and commence metallurgical test work in order to rapidly progress the feasibility study and subsequent development of the project.

CORPORATE

- Dragon Mining acquired the remaining 20% interest in the Svartliden Gold Mine from Pioneer Intertrade for the total consideration of US$1 million and 500,000 ordinary, fully paid Dragon Mining shares.
- The Company's 100% owned Finnish subsidiary, Dragon Mining Oy secured and drew down a €3.8m (A$5.2m) debt facility ("Facility") with Nordea Bank, one of the Nordic regions leading financial institutions. The variable interest rate is currently 4.2%, calculated quarterly in arrears and the Facility is to be repaid in equal quarterly instalments until December 2012. During the year €0.6m (A$0.8m) was repaid.

PG Cordin

Executive Chairman

29 February 2012

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

Note (1): Cash cost per ounce of gold produced is calculated as costs of production relating to gold sales excluding gold in circuit inventory movements divided by gold ounces produced.

APPENDIX 4E

For the 12 months ended 31 December 2011

REPORTING PERIOD

The reporting period is the year ended 31 December 2011 with the corresponding reporting period being for the year ended 31 December 2010.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Results				A$'000
Revenue from ordinary activities	down	18%	to	75,080
Loss from ordinary activities after income tax attributable to members (Profit in the prior year)	down	na	to	(6,198)
Net Loss attributable to members (Profit in the prior year)	down	na	to	(6,198)

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

	31 December 2011	31 December 2010*
Net Tangible Asset Per Security	$0.54	$0.62

*31 December 2010 NTA backing per share has been restated for change in accounting policy.

The above results should be read in conjunction with Dragon Mining Limited's 2011 Financial Report. An explanation of the results is included in the covering pages to this ASX release.

DRAGON MINING LIMITED

ABN 19 009 450 051

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011

DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity (referred to hereafter as "Dragon Mining" or the "Group") consisting of Dragon Mining Limited and the entities it controlled at the end of or during the year ended 31 December 2011.

Directors

The names and details of the Company's Directors in office during the period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Peter George Cordin
BE, MIEAust, CPEng, FAusIMM (CP)
Executive Chairman

Mr Cordin was appointed Managing Director on 20 March 2006 and subsequently Executive Chairman on 4 March 2010. He is a civil engineer with 40 years experience in the evaluation and operation of resource projects within Australia and overseas. He has direct experience in the construction and management of diamond and gold operations in Australia and Indonesia as well as the development of resource projects in Kazakhstan and New Caledonia.

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

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

Michael Dylan Naylor
BComm, CA, ICSA
Finance Director

Mr Naylor was appointed Finance Director on 1 July 2008. He has been the Chief Financial Officer of the Company since May 2006 and was joint Company Secretary between 4 July 2007 and 1 July 2008. Mr Naylor is a Chartered Accountant and Chartered Secretary with 16 years of resources related financial experience in Australia, Canada, Europe and Africa. Prior to his involvement with Dragon Mining, Mr Naylor was the Financial Controller of an ASX-listed company with extensive gold operations in Australia and Africa, and held senior management positions in both Perth and Toronto with a major international accounting firm.

Peter Lynton Gunzburg
BComm
Non-Executive Director

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

Mr Gunzburg has been Executive Chairman of Eurogold Limited since September 2001. He is Non-Executive Director of ASX listed entities Fleetwood Corporation Limited and Non-Executive Chairman of PieNetworks Limited. He was also Executive Chairman of Brinkley Mining Plc which was delisted in December 2010 and is a wholly owned subsidiary of Eurogold Limited.

He was formerly a Non-Executive Director of AIM listed Matra Petroleum PLC (appointed July 2006 and resigned September 2009).

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

DIRECTORS' REPORT (continued)

Toivo Tapani Järvinen
Lic. Tech
Non-Executive Director

Mr Järvinen was appointed a Non-Executive Director on 22 December 2003. Mr Järvinen was employed by the Outokumpu Group from 1985 until October 2006 and was a member of the Outokumpu Group Executive Committee (2000-2005) and President of Outokumpu Technology Oy (2003-2006). Until his retirement on 31 December 2009, he was President and CEO of Outotec Oyj (appointed October 2006), a publicly listed company on the OMX Nordic Exchange Helsinki. Mr Järvinen is also a senior advisor to VTT, the Technical Research Centre of Finland.

Mr Järvinen is a Board member of Normet Oy (appointed March 2007), Okmetic Oyj, a publicly listed company on the OMX Nordic Exchange Helsinki (appointed March 2008), Konecranes Plc, a publicly listed company on the NASDAQ OMX Helsinki (appointed March 2009*)*, Outotec Oyj, a publicly listed company on the OMX Nordic Exchange Helsinki (appointed March 2010), Talvivaara Mining Company Plc, a publicly listed company on the OMX Nordic Exchange Helsinki and London Stock Exchange (appointed April 2010), Mustavaaran Kaivos Oy (appointed September 2011), Chairman of the Board of the Finnish-Latin American Trade Association (appointed November 2003), Chairman of the Cleantech Finland Business Forum (appointed September 2009) and Chairman of the Industry Council of Technology Academy of Finland (appointed October 2009).

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

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

Dr Markku Juhani Mäkelä
Prof PhD
Non-Executive Director

Professor Mäkelä was appointed a Non-Executive Director on 13 November 2008. He majored in geology and mineralogy at the University of Helsinki and has over 40 years experience from a variety of scientific, operational and administrative activities in the economic geological and mining sector in Finland and globally, latest as a Director of the Geological Survey of Finland (GTK) until his retirement in October 2008. Prior to joining GTK in 1994, Dr. Mäkelä spent six years as a Technical Manager and Alternate Director of the UN Revolving Fund for Natural Resources Exploration and he remains a member of the UN Committee on Energy and Natural Resources for Development.

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

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

Christian Russenberger
BBA
Non-Executive Director

Mr Russenberger was appointed a Non-Executive Director on 18 November 2009. Mr. Russenberger is Principal and Director of 2004 founded CR Innovations AG, Baar, Switzerland, which is specialised in strategic and financial consulting to private and public micro-cap companies. Prior to his current position he worked with Finter Bank in Zurich, Switzerland (1993-2004) as a relationship manager and analyst. Before joining Finter Bank, he worked in Zurich as an analyst with Anlage-und Kreditbank AKB (1991-1993) and Bank Leu AG (1990-1991). He also served as a member of the board of directors of Swiss company Mobility Cooperative (1999-2011). Mr Russenberger holds a Bachelor of Science Administration, SIB Juventus Zürich, Zürich.

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

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

Company Secretary

Craig Eon Hasson
BComm, CA

Mr Hasson was appointed Joint Company Secretary on 25 November 2010 and is also the Group Financial Controller. He is a Chartered Accountant with 10 years of mining and resource related financial experience in Australia, Europe and Africa. He has previously held positions with listed resource companies in Australia and the United Kingdom, and a major international accounting firm.

Pauline Anne Collinson

Mrs Collinson resigned as Company Secretary on 17 February 2012.

Interests in the Shares and Options of the Company and Related Bodies Corporate

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

	Ordinary Shares		Options	
	Direct	Indirect	Direct	Indirect
PG Cordin	400,000	-	400,000	-
MD Naylor	71,650	-	100,000	-
TT Järvinen	-	-	100,000	-
MJ Mäkelä	-	-	-	-
C Russenberger	-	30,000	-	-
PL Gunzburg*	84,000	14,942,606	-	-

*Mr Gunzburg is a Director of ASX listed Eurogold Limited which owns 14,942,606 ordinary shares.

Nature of Operations and Principal Activities

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

- Gold mining in Sweden and Finland; and
- Exploration, evaluation and development of gold projects in Europe.

There have been no significant changes in the nature of those activities during the period.

Dividends

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

Likely Developments and Expected Results

The likely developments in the operations of the consolidated entity and the expected results of those operations in the coming year are as follows:

- Continued production of gold from the open cut and the commencement of underground production at the Svartliden Gold Mine;
- Continued production of gold concentrate at the Vammala Production Centre from ore mined at the Orivesi and Jokisivu Gold Mines; and
- Continued gold exploration, in particular an aggressive exploration program at the Kuusamo Gold Project.

Results

The net loss after tax and non-controlling interests of the consolidated entity for the year ended 31 December 2011 was $6,198,000 (2010: profit of $17,994,000). The result includes $9,427,000 (2010: $8,367,000) of exploration costs charged directly to the consolidated statement of comprehensive income as a result of changes in the accounting policy for exploration expenditure.

DIRECTORS' REPORT (continued)

In 2011, Dragon Mining embarked on an extensive exploration, development and capital expenditure program, investing in the future of the Company.

Exploration was directed at enlarging the reserves and resources at the existing mines, as well as expanding the resources at the Kuusamo Gold Project in northern Finland to enable the project to advance to feasibility.

Development included a significant cutback and driving a decline at the Svartliden Gold Mine, establishing an underground mine at Jokisivu and Kutema decline at the Kutema lodes at Orivesi in Finland.

Given the large commitment to development which also resulted in lower production and higher costs, the gross profit from operations decreased from the previous year.

The loss for the 2011 financial year included:

- gross profit from operations of $16,266,000;
- exploration expenditure of $9,427,000
- unrealised loss on gold and foreign exchange hedging of $5,631,000
- unrealised foreign currency losses on intercompany loans, not considered to be part of the net investment in the foreign operations, which have arisen from large variations in the Australian dollar against the euro and Swedish krona of $2,881,000;
- finance costs of $357,000;
- tax expense of $1,209,000;
- other net expenses of $3,636,000; and
- losses attributable to non-controlling interest of $677,000.

Financial Position

As at 31 December 2011 the Company had net assets of $40,285,000 and an excess of current assets over current liabilities of $7,479,000.

Review of Operations

<u>Production</u>

The Group's gold production for the year was 54,791 ounces at an average cash cost[1] of US$1,014 per ounce compared to gold production of 71,598 ounces at an average cash cost[1] of US$678 per ounce in 2010.

Svartliden Gold Mine, Sweden
The Svartliden Gold Mine produced 31,748 ounces of gold for the year at a cash cost[1] of US$993 per ounce compared to gold production of 40,135 ounces at a cash cost[1] of US$624 per ounce in 2010.

Production was lower than the previous year due to a large waste stripping campaign (which restricted access for the mining of ore) and the subsequent processing of lower grade stockpiles (1.8 g/t) to maintain full production of the plant. Due to the successful 2010 exploration program that resulted in open cut resources being extended, three extensive stripping campaigns continued in the eastern end of the open pit at a waste to ore ratio of 18.4:1.

Cash costs[1] were higher than the previous year due to the costs associated with the waste stripping campaigns being expensed (US$246/oz).

During the year the Company committed to an underground mining operation which will include 3,500 metres of decline and lateral development. The first blast for the decline occurred in mid August and the decline advanced 462m from 80m below surface in the north western end of the open pit. The decline is on schedule and within budget and the first development ore was processed in January 2012.

Vammala Production Centre, Finland
The Vammala Production Centre in Finland produced 23,043 ounces of gold for the year at a cash cost[1] of US$1,042 per ounce (including refining costs of US$237 per ounce) compared to gold production of 31,463 ounces of gold at a cash cost[1] of US$747 per ounce (including refining costs of US$159 per ounce) in 2010. Ore was sourced from the Orivesi and Jokisivu Gold Mines.

[1] - Cash cost per ounce of gold produced is calculated as costs of production relating to gold sales excluding gold in circuit inventory movements divided by gold ounces produced. This measure is included to assist investors to better understand the performance of the business. Cash cost per ounce of gold produced is a non-International Financial Reporting Standards financial information and where included in this report has not been subject to review by the Group's external auditors.

DIRECTORS' REPORT (continued)

Production was lower than the previous year due to the lower head grade from the Sarvisuo ore lodes at the Orivesi Gold Mine, a 20 day mill stop to replace worn rod mill liners at Vammala and a delay in production ore from the Jokisivu Gold Mine.

Cash costs[1] were higher than the previous year due to low ore grades, low plant recoveries and the penalties associated with delivering low grade concentrate to the refiner.

Orivesi Gold Mine, Finland
Ore mined from the Orivesi Gold Mine was 162,942 tonnes at a head grade of 3.7 g/t gold.

Mining from the Sarvisuo lodes continued between the 320 and 620m levels. The decline continued to the 620m where it was stopped due to the breakup of the ore lodes.

The Kutema Deeps decline was commenced in January 2011 and it advanced 686m reaching the 820m level by the end of December. Lateral development also advanced 790m for the year from the 740m, 760m, 780m, 800m and 820m levels.

Jokisivu Gold Mine, Finland
Ore mined from the Jokisivu Gold Mine was 104,445 tonnes at a head grade of 3.1 g/t gold.

The underground development of the Kujankallio deposit continued and since its commencement in September 2010, the decline had advanced 1,136m or 162m in vertical depth. The portal is located in the Kujankallio open pit, 35m below surface.

A small open pit was mined from the Arpola deposit resulting in 43,973 tonnes of ore at a grade of 3.6 g/t gold.

<u>Exploration</u>

Exploration programs in 2011 focussed on advancing the Company's tenements in Sweden and Finland, particularly concentrating on increasing the resources near existing operating facilities.

In addition, Dragon Mining continued its aggressive exploration campaign at the Kuusamo Gold Project in north-eastern Finland which returned some spectacular drilling results including;

- *31.90m @ 45.67 g/t gold*
- *34.90m @ 9.30 g/t gold*
- *25.60m @ 9.66 g/t gold*
- *17.75m @ 16.59 g/t gold*
- *14.55m @ 4.81 g/t gold*
- *11.85m @ 5.30 g/t gold*
- *9.00m @ 30.17 g/t gold*

In 2012, the Company intends on increasing the exploration focus and commencing metallurgical test work in order to rapidly progress the feasibility and development of the project.

<u>Corporate</u>

Secured 100% Interest in the Svartliden Gold Mine
In May 2011, Dragon Mining acquired the remaining 20% interest in the Svartliden Gold Mine from Pioneer Intertrade for the total consideration of US$1 million and 500,000 ordinary, fully paid Dragon Mining shares.

Dragon Mining acquired an initial interest in August 1997, earned an 80% interest following completion of a feasibility study in 2002, and subsequently has been responsible for all exploration, development and financing costs.

Debt Facility
In May 2011, the Company's 100% owned Finnish subsidiary, Dragon Mining Oy secured and drew down a €3.8m (A$5.2m) debt facility ("Facility") with Nordea Bank, one of the Nordic regions leading financial institutions. Finnvera Plc, a specialised financing company owned by the State of Finland that provides financing and guarantees to Finnish enterprises in a start-up or growth phase guaranteed half of the Facility.

The variable interest rate is currently 4.2%, calculated quarterly in arrears and the Facility is to be repaid in equal quarterly instalments until December 2012. During the year €0.6m (A$0.8m) was repaid.

DIRECTORS' REPORT (continued)

The Facility was subject to the completion of a minimum euro denominated gold hedging programme of 30,000 ounces (10,000 ounces in 2011 and 20,000 ounces in 2012). The hedging program was executed in May 2011 and the average forward price achieved by €1,055/oz.

Shares Issued to Outokumpu Mining Oy
The Share and Loan Sales Agreement ("Agreement") between Dragon Mining and Outokumpu Mining Oy ("Outokumpu") for the acquisition of Outokumpu's precious metals assets in Finland signed in October 2003, included an obligation of the payment of €1 million in cash or shares when 100,000 ounces of gold was produced from any of the gold projects acquired.

The Orivesi Gold Mine achieved the production of 100,000 ounces of gold in March 2011, and in accordance with the Agreement the payment was satisfied by issuing 892,105 ordinary fully paid shares in Dragon Mining at a price of $1.52 a share on 27 May 2011. The issue price was based on a predetermined formula outlined in the Agreement and at the exchange rate on the date the payment became due.

On-Market Share Buyback
No shares were purchased during the year as part of the on-market share buyback. On 6 October 2011, the Company announced the buyback had ceased.

<u>Investments</u>

Chalice Gold Mines Limited
Dragon Mining holds 2 million shares in Chalice with a market value of approximately $0.7m. During the year 333,334 shares were sold at an average price of $0.31 per share realising $0.1m.

In addition, Chalice has the obligation to pay Dragon Mining a further $4.0 million on the delineation of 1 million ounces of gold Reserves at the Zara Gold Project.

Weld Range Metals Limited (39.95% interest)
Weld Range Metals Limited ("WRM") has progressed evaluation of the iron, chromium, nickel and PGM resources and undertaken initial planning for possible/potential limited scale mining operations.

On 21 September 2011, the National Native Title Tribunal ("NNTT") determined that four Mining License Applications (MLAs) made by WRM not be granted by the State Government.

The four MLAs were applied for in 1995 over an area held under mining tenements by WRM since 1986. The MLA's are surrounded by eight Mining Leases already granted to WRM, which are not subject to the NNTT's recent determination. These mining licenses adjoin the Sinosteel Midwest Iron Ore Project and WRM expects that any project it develops will be a user of the Oakajee Port and Rail Infrastructure.

The State Government of Western Australia and WRM have lodged appeals with the Federal Court in respect of the NNTT determination. This is a necessary step for WRM given the serious adverse impact the determination has on WRM's interests.

In parallel with the appeal process, WRM will continue to work constructively with the Wajarri Yamatji people and State Government to develop valuable iron, nickel, chrome and PGM resources.

Significant Changes in the State of Affairs

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

Significant Events after the Balance Date

On 6 February 2012, Dragon Mining announced an underwritten renounceable pro rata rights issue to shareholders whose registered addresses are in Australia or New Zealand and who are registered as at 4.00 pm (AWST) on 15 February 2012 to raise approximately $15 million (before costs).

The primary use of the funds raised will be to advance exploration and metallurgical test work at the Kuusamo Gold Project towards feasibility and development at a more rapid rate and to undertake exploration on Kuusamo regional prospects.

Pursuant to the rights issue, the Company may issue a maximum of approximately 13,670,000 fully paid ordinary shares in the capital of the Company at an issue price of $1.10 each. The new shares will be offered on the basis of 1 New Share for every 5.5 fully paid ordinary shares held in the capital of the Company. The right to subscribe for new shares under the offer will be renounceable and the funds are expected to be available on 14 March 2012.

DIRECTORS' REPORT (continued)

The rights issue is being fully sub-underwritten by the Company's two largest shareholders, Eurogold Limited and Nicolas Mathys.

There have been no other significant events that have occurred from 31 December 2011 to the date of this report.

Environmental Regulation

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

Svartliden Gold Mine
An environmental breach reported in 2008 concerning levels of arsenic and other metals contained in surface runoff and ground water which is pumped from the waste rock dump and mining area to a water storage facility, termed the Clear Water Dam (CWD), continues to be addressed. Additional corrective measures and improvements were implemented during 2011 to reduce the levels of metals contained in the water pumped to the CWD. Despite improvements to the water treatment processes, metal levels and amounts exceeded guidelines, necessitating further corrective measures and improvements to the water treatment processes. All levels and corrective measures are reported to the inspecting authority.

During 2009, the company which operates the Svartliden Gold Mine was reported by the inspecting authority for a breach of discharging water to a nearby stream which is prohibited under the operating license. The allegation is based on the Company's report of elevated levels of dissolved metals in the water collected and tested from the nearby stream. An internal review has confirmed that no discharge occurred. A police investigation commenced during 2011 and the Company is awaiting the findings.

In addition, the company which operates the Svartliden Gold Mine submitted to the authorities a new operating license application that includes underground operations and aims to establish the environmental requirements for the entire operation, which can be realistically and practically achieved. A second round of supplements was submitted to the Land and Environment Court in February 2012.

Orivesi Gold Mine
The Company breached certain conditions of its environmental permit terms at times during 2011. Discharging water has contained zinc, aluminium and cadmium above allowed limits despite controlling pH levels underground and settling mine water in several settling ponds. High metal concentrations are derived from complex chemical reactions in mine water that is currently under further study. The Company is designing and working with the authorities to implement a more efficient water treatment system.

Vammala Production Centre, Finland
Finnish environmental authorities have requested that the Company investigate nickel releases from the tailings dam area. Seepage water is surveyed and sampled for nickel. In the event that nickel releases are evident from the tailings dam area, the Company will prepare a preventative action plan. The Company would be responsible to carry out the plan after an approval by the authorities. The Share and Loan Sales Agreement between the Company (formerly Dragon Mining NL), Outokumpu Nickel B.V, Outokumpu Mining Oy and Outokumpu Oyj executed in 2003 provides that releases from the historical mining operations are the seller's (Outokumpu's) responsibility.

Share Options

<u>Unissued Shares</u>
As at the date of this report there are 2,694,000 unissued ordinary shares in respect of which options are outstanding. These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

	Number of Options
Balance at the beginning of the period	1,017,500
Share options issued from 1 Jan 2011 to the date of this report	1,734,000
Share options cancelled/lapsed from 1 Jan 2011 to the date of this report	(57,500)
Total number of options outstanding as at the date of this report	**2,694,000**

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

No options were exercised during the year.

DIRECTORS' REPORT (continued)

Indemnification and Insurance of Directors and Officers

The Company provides Directors' and Officers' liability insurance covering all the Directors of Dragon Mining against liability in their role as Directors of the Company, except where:

- the liability arises out of conduct involving a wilful breach of duty; or
- there has been a contravention of Sections 232(5) or (6) of the Corporations Act 2001.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of this insurance, as such disclosure is prohibited under the terms of the contract.

Directors' Meetings

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

	Board		Audit and Risk Management		Remuneration and Nomination	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
PG Cordin	7	7	-	-	1	1
MD Naylor	7	7	-	-	-	-
PL Gunzburg	7	7	2	2	1	1
TT Järvinen	7	7	-	-	1	1
MJ Mäkelä	7	7	2	2	-	-
C Russenberger	7	7	2	2	-	-

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

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)

This remuneration report for the year ended 31 December 2011 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2011* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, key management personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, including any director (whether executive or otherwise) of the parent company.

Details of Key Management Personnel

(i) Directors

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

(ii) Executives

NM Edwards	Chief Geologist
KE Larsson	Chief Operations Officer (appointed 3 October 2011)
JD Stewart	Manager - Operations – Dragon Mining (Sweden) AB (appointed 20 July 2010)
HO Pöyry	Manager - Operations - Dragon Mining Oy
CE Hasson	Financial Controller and Joint Company Secretary (commenced 31 March 2010 and appointed Company Secretary on 25 November 2010)
PA Collinson	Joint Company Secretary (resigned 17 February 2012)
KE Marttala	Manager - Operations – Dragon Mining (Sweden) AB (passed away in July 2010)
UO Kuronen	Manager - Geology - Dragon Mining Oy (resigned 30 September 2011)

There were no changes to Directors or key management personnel after reporting date and prior to the date when the financial report was authorised for issue except for the resignation of Mrs Collinson on 17 February 2012.

Dragon Mining Remuneration Policy

The board recognises that the Company's performance depends upon the quality of its directors and executives. To achieve its financial and operating activities, the Company must attract, motivate and retain highly skilled directors and executives.

The Company embodies the following principles in its remuneration framework:

- provides competitive rewards to attract high calibre executives;
- structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive within Australia, Sweden and Finland;
- benchmarks remuneration against appropriate industry groups; and
- aligns executive incentive rewards with the creation of value for shareholders.

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

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)(continued)

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

	2011	2010	2009*	2008*	2007*
Net (loss)/profit after tax ($'000s)	(6,198)	17,994	(7,977)	7,539	2,080
Basic earnings per share (cents)	(8.30)	24.40	(10.80)	10.20	3.80
Diluted earnings per share (cents)	(8.30)	24.40	(10.80)	10.20	3.80
Market Capitalisation ($'000s)	91,708	121,365	73,734	29,494	95,855
Closing Share Price ($)	1.22	1.645	1.00	0.40	1.30

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

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

Executive remuneration is reviewed annually having regard to individual and business performance, relevant comparative information and internal and independent external advice. Performance evaluations for all senior executives did not take place during the year.

Remuneration Consultants

To ensure the Remuneration and Nomination Committee is fully informed when making remuneration decisions, it seeks external remuneration advice.

New legislation was introduced in 2011 that impacts how companies can seek advice which includes a remuneration recommendation in relation to executive remuneration. Therefore in 2011, the Chairman of the Remuneration and Nomination Committee appointed McDonald and Company (Australasia) Pty Ltd to provide benchmark remuneration information on executive positions (including non-executive directors) in the gold and general mining industry.

In order to ensure the Remuneration and Nomination Committee is provided free from undue influence by executives, the information in sent directly to the Chairman of the Remuneration and Nomination Committee.

During 2011, McDonald and Company (Australasia) Pty Ltd provided the Company with the Australasian Gold & General Mining Industry Remuneration Report. The report presents data for staff & traditional wages positions employed in the industry.

Remuneration Structure
In accordance with best practice governance, the structure of non-executive director and senior executive remuneration is separate and distinct. The remuneration structure for the executive directors is the same as that of the executive team.

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

Structure
The Company's constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. Non-executive directors' fees not exceeding an aggregate of $300,000 per annum have been approved by shareholders at the Annual General Meeting in November 2006.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Remuneration and Nomination Committee considers advice from external consultants as well as fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director receives a fee for being a director of the Company. An additional fee is payable for each board committee on which a Director sits due to the extra workload and responsibilities.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)(continued)

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

Executive Directors and Senior Executive Remuneration
Objective
The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company, to ensure total remuneration is competitive by market standards.

Structure
In determining the level and make-up of executive remuneration, the Remuneration and Nomination Committee benchmarked each executive position to determine market levels of remuneration for comparable executive roles in the mining industry.

It is the Remuneration and Nomination Committee's policy that employment contracts are in place for executive directors. Details of these contracts are outlined later in this report.

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration
    - Short term incentives (STI); and
    - Long term incentives (LTI).

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the Remuneration and Nomination Committee.

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

Fixed Remuneration
Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee. The process consists of a review of the business and individual performance and relevant comparable remuneration in the mining industry.

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

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

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)(continued)

Structure
Actual STI payments granted to each executive depend on their performance over the preceding year and are determined during the annual performance appraisal process. The performance appraisal process outcomes are at the discretion of the Remuneration and Nomination Committee and take into account the following factors:

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

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

The executive has to demonstrate outstanding performance in order to trigger payments under the short-term incentive scheme.

On an annual basis, after consideration of performance against KPIs, the overall performance of the Company and each individual business unit is assessed by the Remuneration and Nomination Committee. The individual performance of each executive is also assessed and all these measures are taken into account when determining the amount, if any, to be paid to the executive as a short-term incentive.

It is solely at the Remuneration and Nomination Committee's discretion if STI payments are granted to executives even if an executive demonstrates outstanding performance during the preceding year. In addition, the aggregate of annual STI payments available for executives across the Company is subject to the approval of the Remuneration and Nomination Committee. Payments are delivered as a cash bonus.

There were no cash bonuses recommended or paid in 2011.

<u>Variable Remuneration – Long Term Incentive (LTI)</u>
Objective
The objective of the LTI plan is to reward executives and directors in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTIs are made to executives and directors who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

Structure
LTI grants to executives and directors are delivered in the form of employee share options. These options are generally issued with an exercise price at a premium to the average of Dragon Mining's ordinary share price at the date issued.

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

<u>LTI Options</u>
All executives' and directors' LTI options operate under the following conditions:

- On resignation by the executive, any LTI options held that have vested will need to be exercised within 30 days of termination or they will be forfeited. Any LTI options that have not vested will be forfeited.
- On termination on notice by the Company, any LTI options that have vested, or will vest during the notice period will need to be exercised within 30 days of termination or they will be forfeited. LTI options that have not vested will be forfeited.

<u>Shares Issued on Exercise of Remuneration Options</u>
No Director or key management personnel exercised remuneration options in the year ended 31 December 2011 or 31 December 2010.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)(continued)

Compensation of Key Management Personnel (Consolidated)

		Short Term Benefits			Post Employment Benefits	Share Based Payments		
		Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Options	Options	Total
		$	$	$[(1)]	$	$	%	$
Directors								
PG Cordin	Dec 2011	394,495	-	7,541	35,505	-	-	437,541
	Dec 2010	394,495	74,591[(2)]	5,421	40,913	-	-	515,420
MD Naylor	Dec 2011	275,229	-	7,541	24,771	-	-	307,541
	Dec 2010	263,716	29,790[(3)]	6,477	23,945	-	-	323,928
TT Järvinen	Dec 2011	52,500	-	-	-	-	-	52,500
	Dec 2010	43,745	-	-	-	-	-	43,745
MJ Mäkelä	Dec 2011	52,500	-	-	-	-	-	52,500
	Dec 2010	45,000	-	-	-	-	-	45,000
C Russenberger	Dec 2011	52,500	-	-	-	-	-	52,500
	Dec 2010	48,572	-	-	-	-	-	48,572
PL Gunzburg	Dec 2011	52,752	-	-	4,748	-	-	57,500
	Dec 2010	39,814	-	-	3,583	-	-	43,397
AE Daley	Dec 2011	-	-	-	-	-	-	-
	Dec 2010	15,173	-	-	-	-	-	15,173
PL Munachen	Dec 2011	-	-	-	-	-	-	-
	Dec 2010	8,333	-	-	-	-	-	8,333
Executives								
NM Edwards	Dec 2011	180,000	-	-	16,200	26,756	12	222,956
	Dec 2010	160,000	-	-	14,400	-	-	174,400
KE Larsson[(4)]	Dec 2011	95,542	-	34,983	20,684	36,514	19	187,723
J Stewart[(5)]	Dec 2011	199,003	-	50,790	19,211	40,134	13	309,138
	Dec 2010	247,492	-	8,161	27,764	-	-	283,417
HO Pöyry	Dec 2011	248,879	-	324	40,645	40,134	12	329,982
	Dec 2010	175,492	-	346	29,483	-	-	205,321
CE Hasson[(6)]	Dec 2011	132,569	-	7,541	11,931	26,756	15	178,797
	Dec 2010	88,525	-	-	7,967	-	-	96,492
PA Collinson[(7)]	Dec 2011	-	-	-	-	-	-	-
	Dec 2010	18,859	-	-	-	-	-	18,859
UO Kuronen[(8)]	Dec 2011	135,290	-	243	22,066	-	-	157,599
	Dec 2010	177,116	-	346	29,755	-	-	207,217
KE Marttala	Dec 2011	-	-	-	-	-	-	-
	Dec 2010	186,730	-	-	73,040	-	-	259,770
Total	Dec 2011	1,871,259	-	108,963	195,761	170,294	-	2,346,277
Total	Dec 2010	1,913,062	104,381	20,751	250,850	-	-	2,289,044

(1) Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits, the fringe benefits tax on those benefits and all other benefits received by the executive.
(2) The cash bonus paid to Mr Cordin in 2010 was based on performance and represented 14% of his total remuneration. His annual performance appraisal was conducted by the Remuneration and Nomination Committee's non-executive directors. Mr Cordin was assessed based on his contribution to operational performance, share price performance, health and safety and company leadership. The grant date was 24 September 2010.
(3) The cash bonus paid to Mr Naylor in 2010 was based on performance and represented 9% of his total remuneration. His annual performance appraisal was conducted by the Executive Chairman. Mr Naylor was assessed based on his contribution to operational performance, risk management and company leadership. The grant date was 24 September 2010.
(4) Mr Larsson commenced 3 October 2011.
(5) Mr Stewart became Manager Operations – Dragon Mining (Sweden) AB on 20 July 2010. Mr Stewart's entire 2010 remuneration is disclosed. His remuneration was unchanged for the entire year.
(6) Mr Hasson commenced 31 March 2010 as Group Financial Controller and was appointed Joint Company Secretary 25 November 2010. Mr Hasson's entire 2010 remuneration is disclosed.
(7) Ms Collinson is an employee of Eurogold Limited. Eurogold Limited has charged Dragon Mining for Company Secretarial services. Ms Collinson resigned on 17 February 2012.
(8) Mr Kuronen resigned on 30 September 2011.

DIRECTORS' REPORT (continued)

Remuneration Report (Audited) (continued)

Details of option holdings of key management personnel are as follows:

2011	Balance at the start of the year	Granted during the year as compensation (i)	Grant date	Fair value of options at grant date	Total fair value of options at grant date	First exercise date of options granted during the year	Expiry and last exercise date of options granted during the year	Exercise price of options granted during the year	Exercised during the year	Cancelled during the year	Balance at the end of the year	Vested during the year	Vested and exercisable at the end of the year		Value of options exercised during the year
				$	$			$				No.	No.	%	$
Directors															
PG Cordin	400,000	-	-	-	-	-	-	-	-	-	400,000	-	400,000	100	-
MD Naylor	100,000	-	-	-	-	-	-	-	-	-	100,000	-	100,000	100	-
TT Järvinen	100,000	-	-	-	-	-	-	-	-	-	100,000	-	-	-	-
MJ Mäkelä	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C Russenberger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PL Gunzburg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Executives															
NM Edwards	50,000	80,000	22/9/2011	0.69	55,200	22/9/2011	22/9/2014	1.45	-	-	130,000	32,000	82,000	63	-
KE Larsson	-	150,000	19/10/2011	0.60	90,000	19/10/2011	19/10/2014	1.45	-	-	150,000	50,000	50,000	33	-
JD Stewart	25,000	120,000	22/9/2011	0.69	82,800	22/9/2011	22/9/2014	1.45	-	-	145,000	48,000	73,000	50	-
HO Pöyry	50,000	120,000	22/9/2011	0.69	82,800	22/9/2011	22/9/2014	1.45	-	-	170,000	48,000	98,000	58	-
CE Hasson	-	80,000	22/9/2011	0.69	55,200	22/9/2011	22/9/2014	1.45	-	-	80,000	32,000	32,000	40	-
UO Kuronen	50,000	-	-	-	-	-	-	-	-	(50,000)	-	-	-	-	-
TOTAL	**775,000**	**550,000**			**366,000**					**(50,000)**	**1,275,000**	**210,000**	**835,000**		

(i) For details on the valuation of the options, including models and assumptions used, refer to Note 27. The percentage of options granted during the financial year that also vested during the financial year is 38.2% (2010: nil).

DIRECTORS' REPORT (continued)

Remuneration Report (Audited)(continued)

Employment Contracts
The Managing Director, Mr PG Cordin, is employed under contract. His employment contract, which expired in March 2011, is being rolled by mutual agreement every three months. Under the terms of the contract:

- Mr Cordin may resign from his position and thus terminate this contract by giving three months written notice.
- The Company may terminate this employment contract by providing three months' written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Cordin's remuneration).
- Mr Cordin receives fixed remuneration of $430,000 per annum.
- The Company will pay Mr Cordin a completion bonus of $200,000 based on certain criteria being met by the end of his contract.
- Upon completion of Mr Cordin's contract, the Board may also determine to pay Mr Cordin an additional bonus of up to $200,000 if, in the view of the Board, the Company has entered into a corporate or project acquisition that is in accordance with Dragon Mining's corporate objectives.

Mr MD Naylor, the Finance Director, is employed under contract. There is no termination date in his current employment contract. Under the terms of the contract:

- Mr Naylor may resign from his respective position and thus terminate his contract by giving three months written notice.
- The Company may terminate this employment contract by providing 12 months written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Naylor's remuneration).
- Mr Naylor receives fixed remuneration of $300,000 per annum.

Mr KE Larsson, the Chief Operations Officer, is employed under contract. There is no termination date in his current employment contract. Under the terms of the contract:

- Mr Larsson may resign from his respective position and thus terminate his contract by giving three months written notice.
- The Company may terminate this employment contract by providing 6 months written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Larsson's remuneration).
- Mr Larsson is entitled to a company car with a purchase value of no more than $74,670 (500,000 SEK).
- Mr Larsson receives fixed remuneration of $606,000 (4,061,720 SEK) per annum which includes Swedish social costs.

End of Remuneration Report.

Rounding

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

Non-Audit Services

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

DIRECTORS' REPORT (continued)

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

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

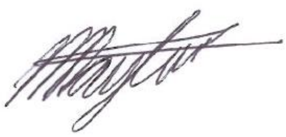
During the period the following fees were paid or payable for non-audit services provided by Ernst & Young.

	31 Dec 2011 $
Tax compliance services	97,376
	97,376

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 31 December 2011. This written Auditor's Independence Declaration is attached to the Auditor's Independent Audit Report to the members and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.



MD Naylor
Finance Director
28 February 2012

DIRECTORS' REPORT (continued)

Directors' Declaration

In accordance with a resolution of the Directors of Dragon Mining Limited, I state that:

1. In the opinion of the Directors:

(a) The financial statements and notes of Dragon Mining Limited for the financial year ended 31 December 2011 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of its financial position as at 31 December 2011 and performance

  (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(c)

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2011.

On behalf of the board

MD Naylor
Finance Director
28 February 2012

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Dragon Mining Limited is responsible for establishing the corporate governance framework of the consolidated entity having regard to the ASX Corporate Governance Council ("CGC") published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The table below summarises the Company's compliance with the CGC's recommendations.

Recommendation		Comply Yes / No	Reference / explanation	ASX Listing Rule / CGC recommendations
Principle 1 — Lay solid foundations for management and oversight				
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	Page 20	*ASX CGC 1.1*
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 20	*ASX CGC 1.2*
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	Pages 20-21 Refer to Remuneration Report	*ASX CGC 1.3*
Principle 2 — Structure the board to add value				
2.1	A majority of the board should be independent directors.	No	Page 21	ASX CGC 2.1
2.1	The chair should be an independent director.	No	Page 21	ASX CGC 2.2
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	No	Page 21	ASX CGC 2.3
2.4	The board should establish a nomination committee.	Yes	Page 22	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 21-22	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	Pages 21-22	ASX CGC 2.6
Principle 3 — Promote ethical and responsible decision-making				
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ➢ The practices necessary to maintain confidence in the company's integrity ➢ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ➢ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices	Yes	Page 22 Website	ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Yes	Page 23	ASX CGC 3.2
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	No	Page 23	ASX CGC 3.3
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive's positions and women on the board.	Yes	Page 23	ASX CGC 3.4
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	Pages 23	ASX CGC 3.5
Principle 4 — Safeguard integrity in financial reporting				
4.1	The board should establish an audit committee.	Yes	Page 24	ASX CGC 4.1

CORPORATE GOVERNANCE STATEMENT (continued)

Recommendation		Comply Yes / No	Reference / explanation	ASX Listing Rule / CGC recommendations
4.2	The audit committee should be structured so that it: ➢ Consists only of non-executive directors ➢ Consists of a majority of independent directors ➢ Is chaired by an independent chair, who is not chair of the board ➢ Has at least three members	No	Pages 24	ASX CGC 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes	Page 24	ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	Pages 24	ASX CGC 4.4
Principle 5 — Make timely and balanced disclosure				
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Page 25 Website	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	Page 25	ASX CGC 5.2
Principle 6 — Respect the rights of shareholders				
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 25	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	Page 25	ASX CGC 6.2
Principle 7 — Recognise and manage risk				
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 24	ASX CGC 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Page 24	ASX CGC 7.2
7.3	The board should disclose whether it has received assurance from the CEO (or equivalent) and the Chief Financial Officer (CFO) (or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 24	ASX CGC 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	Page 24	ASX CGC 7.4
Principle 8 — Remunerate fairly and responsibly				
8.1	The board should establish a remuneration committee.	Yes	Page 22	ASX CGC 8.1
8.2	The remuneration committee should be structured so that it: ➢ Consists of a majority of independent directors ➢ Is chaired by an independent chair ➢ Has at least three members	No	Page 22	ASX CGC 8.2
8.3	Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.	Yes	Refer to Remuneration Report	ASX CGC 8.3
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	Page 22	ASX CGC 8.4

CORPORATE GOVERNANCE STATEMENT (continued)

Unless otherwise stated, Dragon Mining Limited's corporate governance practices were in place throughout the year ended 31 December 2011.

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

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

The Board of Directors

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

The key responsibilities of the Board include:

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

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

The table below sets out the detail of the tenure of each Director at the date of this report.

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

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

Structure of the Board

Independence
As outlined in ASX Principle 2, Directors are expected to contribute independent views to the Board.

The Board has adopted specific principles in relation to the Directors' independence. These state that to be deemed independent, a Director must be a Non-Executive and:

- Not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional advisor or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- Not a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Must have no material contractual relationship with the Company or another Group member other than as a Director of the Company;
- Not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Materiality for these purposes is based on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual Director’s net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed to be material if knowledge of it impacts the shareholders' understanding of the Director's performance.

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

Chairman and Managing Director
The roles of the Chairman and the MD are not to be exercised by the same individual.

The Chairman is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings. The Board has delegated responsibility for the day-to-day activities to the MD and senior executives.

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

Structure of the Board (continued)

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

No performance evaluation of the board, committees or directors took place during the year.

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

Remuneration and Nomination Committee

The "Remuneration and Nomination Committee Charter and Policy" (Refer website) governs the operations of the Remuneration and Nomination Committee. The Committee reviews and reassesses the policy at least annually and obtains the approval of the Board.

The Remuneration and Nomination Committee consists of two Non-Executive Directors, Mr PL Gunzburg (Chairman) and Mr TT Järvinen and one executive Director, Mr PG Cordin.

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the MD and senior executives. The MD is excluded from determining his own salary. In addition, the Committee is responsible for reviewing the appropriateness of the size of the Board relative to its various responsibilities. Recommendations are made to the Board on these matters.

The details of the Directors' and executives' remuneration policies are provided in the Directors' Report under the heading "Remuneration Report".

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

The Company now has a policy where options are not issued to Non-executive Directors.

Notification of Departure
ASX Principle 8 recommends that the Remuneration Committee should be structured so that it is chaired by an independent director and consists of a majority of independent directors. Mr PL Gunzburg is the Chairman of the Remuneration Committee but he is not an independent director. The Board believes that Mr PL Gunzburg is the most appropriate person for the position as Chair because of his public company and industry experience.

There also is not a majority of independent directors as PG Cordin is also on the Remuneration and Nomination Committee. However, the Board believes he is the most appropriate person to be on the Remuneration and Nomination Committee because of his seniority and industry experience.

Code of Conduct

The Board acknowledges the need for the highest standards of corporate governance and ethical conduct by all Directors and employees of the consolidated entity. As such, the Company has developed a Code of Conduct which has been fully endorsed by the Board and applies to all Directors and employees. This Code of Conduct is regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

A fundamental theme is that all business affairs are conducted legally, ethically and with strict observance of the highest standards of integrity and propriety. The Directors and senior executives have the responsibility to carry out their functions with a view to maximising financial performance of the consolidated entity. This concerns the propriety of decision making in conflict of interest situations and quality decision making for the benefit of shareholders.

Refer to the Company website for specific Code of Conduct.

CORPORATE GOVERNANCE STATEMENT (continued)

Diversity Policy

The Board is committed to workplace diversity and recognises the benefits arising from employee and board diversity, including a broader pool of quality employees, improving employee retention, accessing different perspectives, and benefiting from all talent available. Diversity includes, but is not limited to, gender, age, ethnicity and background.

The Board approved a "Diversity Policy" (refer website) in 2010, which has particular focus on improving gender balance in the workplace and increasing the representation of women in management roles. The Diversity Policy provides a framework for Dragon Mining to achieve:

- a diverse and skilled workforce, leading to continuous improvement in company performance and achievement of corporate goals;
- a workforce that best represents the talent available in the communities in which our assets are located and our employees reside;
- a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workforce diversity and successful management of diversity;
- a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff;
- an environment that encourages the development of necessary skills and experience for leadership roles;
- improved employment and career development opportunities for women;
- awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity; and
- workplaces that are free from all forms of discrimination and harassment.

The proportion of women within the Group is as follows:

	Women	Proportion
Employees	37	21%
Senior executive positions	0	0%
Board of Directors	0	0%

Notification of departure
ASX Principle 3 recommends that companies should disclose in each annual report measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them. Due to the current nature and scale of Dragon Mining's activities, the Board is yet to establish measurable objectives for achieving gender diversity to report against in this Annual Report for the current financial year.

Securities Trading

The Board has adopted the "Security Dealings Policy" (refer website) (which is driven by the Corporations Act 2001 requirements) that applies to all Directors, officers and employees of the Company. Under this policy and the Corporations Act 2001, it is illegal for Directors, officers or employees who have price sensitive information relating to the Group which has not been published or which is not otherwise 'generally available' to:

- Buy, sell or otherwise deal in Company shares, convertible notes or options ("Company securities");
- Advise, procure or encourage another person (for example, a family member, a friend, a family company or trust) to buy or sell Company securities; or
- Pass on information to any other person, if one knows or ought reasonably know that the person may use the information to buy or sell (or procure another person to buy or sell) Company securities.

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

CORPORATE GOVERNANCE STATEMENT (continued)

Corporate Reporting

In accordance with ASX Principle 7, the MD and Finance Director have made the following certifications to the Board:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group; and
- That the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal control is operating efficiently in all material respects.

Audit and Risk Management Committee

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

The Committee operates under a charter approved by the Board which is posted to the corporate governance section of the website. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records and identifying and controlling risks to ensure that they do not have a negative impact on the Company. The Committee also provides the Board with additional assurance regarding the reliability of the financial information for inclusion in the financial reports.

The Audit and Risk Management Committee is also responsible for:

- Ensuring compliance with statutory responsibilities relating to accounting policy and disclosure;
- Liaising with, discussing and resolving relevant issues with the auditors;
- Assessing the adequacy of accounting, financial and operating controls;
- Reviewing half-year and annual financial statements before submission to the Board; and
- Overseeing risk management strategies in relation to gold hedging, currency hedging, debt management, capital management, cash management and insurance.

Annually the Board reviews the risks facing the Company, assesses these risks and ensures there are controls for these risks which are designed to reduce identified risk to an acceptable level. In accordance with the ASX Principle 7, the Board has established a Risk Management policy, available on the Company website, which is designed to safeguard the assets and interests of the Company and to ensure the integrity of reporting.

The MD and Finance Director have informed the Board in writing that:

- The financial statements are founded on a sound system of risk management and internal control compliance which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control systems is operating effectively and efficiently in all material respects.

Notification of departure
ASX Principle 4 recommends that the audit committee should be structured so that it is chaired by an independent director, who is not chair of the board. Mr PL Gunzburg is the Chairman of the Audit and Risk Management Committee but he is not an independent director. The Board believes that Mr PL Gunzburg is the most appropriate person for the position as Chair because of his financial background and industry experience.

External Auditors

The Company's current external auditors are Ernst & Young. As noted in the Audit and Risk Management Committee charter, the performance and independence of the auditors is reviewed by the Audit and Risk Management Committee.

Ernst & Young’s existing policy requires that its audit team provide a statement as to their independence. This statement was received by the Audit and Risk Management Committee for the period ended 31 December 2011.

CORPORATE GOVERNANCE STATEMENT (continued)

Continuous Disclosure

In accordance with ASX Principle 5, the Board has an established disclosure policy which is available on the Company website.

The Company is committed to:

- Ensuring that stakeholders have the opportunity to access externally available information issued by the Company;
- Providing full and timely information to the market about the Company's activities; and
- Complying with the obligations contained in ASX Listing Rules and the Corporations Act 2001 relating to continuous disclosure.

The MD, Finance Director and the Company Secretary have been nominated as the people responsible for communication with the ASX. This involves complying with the continuous disclosure requirements outlined in ASX Listing Rules, ensuring that disclosure with the ASX is co-ordinated and being responsible for administering and implementing the policy.

Shareholder Communication

In accordance with ASX Principle 6, the Board has established a communications strategy which is available on the Company website.

The Board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary and kept informed of all major developments affecting the Company in a timely and effective manner. Information is communicated to the market and shareholders through:

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

Further, it is a CLERP 9 requirement that the auditor of the Company attends the annual general meeting. This provides shareholders the opportunity to question the auditor concerning the conduct of the audit and the preparation and content of the Auditor's Report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 $'000	Restated 2010 $'000
Revenue from gold sales		75,080	91,888
Cost of sales	2(a)	(58,814)	(54,836)
Gross profit		16,266	37,052
Other revenue	2(b)	813	836
Other income	2(c)	155	8,999
Exploration expenditure		(9,427)	(8,367)
Other expenses	2(d)	(4,423)	(4,932)
Finance costs	2(e)	(357)	(1,034)
Foreign exchange losses		(2,881)	(10,723)
Derivatives (losses)/gains	2(f)	(5,631)	49
Capitalised exploration expenditure written off		(181)	(11)
(Loss) on buyback and redemption of convertible notes		-	(81)
(Loss) / profit before tax		(5,666)	21,788
Income tax expense	3	(1,209)	(569)
(Loss) / profit after income tax		(6,875)	21,219
Other comprehensive income			
Foreign currency translation		1,040	6,000
(Loss)/Gain on financial assets classified as available-for-sale		(888)	710
Income tax on items of other comprehensive income		213	(213)
Total comprehensive (loss) / profit for the period		(6,510)	27,716
(Loss) / Profit attributable to:			
Members of Dragon Mining Limited		(6,198)	17,994
Non-controlling interest		(677)	3,225
		(6,875)	21,219
Total comprehensive (loss) / profit attributable to:			
Members of Dragon Mining Limited		(5,832)	24,334
Non-controlling interest		(678)	3,382
		(6,510)	27,716
(Loss) / earnings per share attributable to ordinary equity holders of the parent (cents per share)			
Basic (loss)/ earnings per share	21	(8.30)	24.40
Diluted (loss)/ earnings per share	21	(8.30)	24.40

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	31 December 2011 $'000	Restated 31 December 2010 $'000	Restated[1] 1 January 2010 $'000
CURRENT ASSETS				
Cash and cash equivalents	4	15,955	23,478	4,397
Trade and other receivables	5	7,801	9,123	9,514
Inventories	6	5,213	5,411	7,035
Derivative financial instruments	28	-	4	-
Other assets	11	708	119	115
TOTAL CURRENT ASSETS		29,677	38,135	21,061
NON-CURRENT ASSETS				
Property, plant and equipment	9	12,674	6,122	7,713
Mineral exploration costs	10	3,160	3,784	4,496
Development costs	10	17,441	6,413	6,555
Investments in associate	8	-	-	-
Available-for-sale investments	7	530	1,750	-
Deferred tax assets	3	1,277	1,558	2,350
Other receivables	5	1,998	-	-
Other assets	11	4,339	4,144	3,978
TOTAL NON-CURRENT ASSETS		41,419	23,771	25,092
TOTAL ASSETS		71,096	61,906	46,153
CURRENT LIABILITIES				
Trade and other payables	12	9,066	6,755	6,624
Interest bearing loans and borrowings	13	5,900	1	3,205
Provisions	14	1,360	3,067	1,288
Derivative financial instruments	28	5,052	-	-
Income tax payable		820	-	-
TOTAL CURRENT LIABILITIES		22,198	9,823	11,117
NON-CURRENT LIABILITIES				
Interest bearing loans and borrowings		-	-	11,987
Provisions	14	8,294	6,055	5,026
Deferred tax liabilities	3	-	213	-
Other liabilities	15	-	8	9
Derivative financial instruments	28	203	-	-
Income tax payable		116	-	-
TOTAL NON-CURRENT LIABILITIES		8,613	6,276	17,022
TOTAL LIABILITIES		30,811	16,099	28,139
NET ASSETS		40,285	45,807	18,014
EQUITY				
Contributed equity	16	105,621	103,565	103,488
Reserves	17	12,183	10,181	3,841
Accumulated losses		(77,519)	(71,321)	(89,315)
Total parent entity interest		40,285	42,425	18,014
Non-controlling interest		-	3,382	-
TOTAL EQUITY		40,285	45,807	18,014

With effect 1 January 2011, the policy for accounting for exploration has changed from the policy applied in the previous reporting periods (refer Note 1 (ag)). As such in accordance with AASB 101.39, a third consolidated statement of financial position and notes to the restated amounts have been presented.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to Equity Holders of the Parent									
	Contributed Equity	*Accumulated Losses*	*Foreign Currency Translation*	*Option Reserve*	*Convertible Note Premium Reserve*	*Available-for-sale Reserve*	*Equity Reserve Purchase of Non-controlling interest*	*Total*	*Non-controlling interest*	*Total Equity*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2010 as originally stated	103,488	(63,408)	1,062	711	2,068	-	-	43,921	-	43,921
Change in accounting policy opening balance adjustment (Note 1(ag))	-	(25,907)	-	-	-	-	-	(25,907)	-	(25,907)
At 1 January 2010 restated	103,488	(89,315)	1,062	711	2,068	-	-	18,014	-	18,014
Profit for the period	-	17,994	-	-	-	-	-	17,994	3,225	21,219
Other comprehensive income	-	-	5,843	-	-	497	-	6,340	157	6,497
Total comprehensive income for the period	-	17,994	5,843	-	-	497	-	24,334	3,382	27,716
Transactions with owners in their capacity as owners:										
Issue of shares	77	-	-	-	-	-	-	77	-	77
At 31 December 2010 restated	103,565	(71,321)	6,905	711	2,068	497	-	42,425	3,382	45,807
At 31 December 2010 as originally stated	103,565	(42,047)	2,826	711	2,068	497	-	67,620	3,429	71,049
Change in accounting policy opening balance adjustment (Note 1(ag))	-	(29,274)	4,079	-	-	-	-	(25,195)	(47)	(25,242)
At 31 December 2010 restated	103,565	(71,321)	6,905	711	2,068	497	-	42,425	3,382	45,807
Loss for the period	-	(6,198)	-	-	-	-	-	(6,198)	(677)	(6,875)
Other comprehensive income	-	-	1,041	-	-	(675)	-	366	(1)	365
Total comprehensive income for the period	-	(6,198)	1,041	-	-	(675)	-	(5,832)	(678)	(6,510)
Transactions with owners in their capacity as owners:										
Purchase of non-controlling interest	700	-	-	-	-	-	1,069	1,769	(2,704)	(935)
Issue of share options	-	-	-	567	-	-	-	567		567
Issue of shares	1,356	-	-	-	-	-	-	1,356	-	1,356
At 31 December 2011	105,621	(77,519)	7,946	1,278	2,068	(178)	1,069	40,285	-	40,285

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 $'000	Restated 2010 $'000
Cash flows from operating activities			
Receipts from customers		77,193	92,027
Payments to suppliers and employees		(54,272)	(48,969)
Payments for mineral exploration		(9,427)	(8,367)
Interest received		608	585
Interest expenses		(214)	(1,141)
Payments for rehabilitation		(278)	(370)
(Payments to)/proceeds from derivative transactions		(30)	72
Payment of environmental bonds		(278)	(224)
Net Operating Cash Flows	4	13,302	33,613
Cash flows from investing activities			
Payments for property, plant and equipment		(8,953)	(2,132)
Proceeds from sale of property, plant and equipment		27	52
Payments for development		(16,463)	(4,661)
Purchase of investments		-	(140)
Proceeds on disposal of subsidiary	2(c)	-	8,000
Advances to associate		(527)	(245)
Net Investing Cash Flows		(25,916)	874
Cash flows from financing activities			
Buyback of convertible notes		-	(6,548)
Redemption of convertible notes		-	(5,512)
Buyout of non-controlling interest		(935)	-
Drawdown / (repayment) of short-term factoring facility		1,870	(1)
Proceeds / (Repayment of) from bank loans		4,299	(2,874)
Net Financing Cash Flows		5,234	(14,935)
Net (decrease) / increase in cash and cash equivalents		(7,380)	19,552
Cash and cash equivalents at the beginning of the period		23,478	4,397
Effects of exchange rate changes on cash and cash equivalents		(143)	(471)
Cash and cash equivalents at the end of the period	4	15,955	23,478

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate Information

The financial report of Dragon Mining Limited ("consolidated entity" or the "Group") for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 28 February 2012.

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

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

(b) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

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

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

(c) Compliance Statement

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

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

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Dragon Mining Limited and its subsidiaries (the "consolidated entity" or "Group") as at the end of each reporting period. Interests in associates are equity accounted and are not part of the Group.

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date which control is transferred out of the consolidated entity.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of Consolidation (continued)
A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

(e) Revenue Recognition
Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Bullion and Concentrate sales
Revenue is recognised when the risk has passed from the Group to an external party and the selling price can be determined with reasonable accuracy. Sales revenue represents gross proceeds receivable from the customer. Certain sales are initially recognised at estimated sales value when the bullion/gold concentrate is dispatched. Adjustments are made for variations in commodity price, assay and weight between the time of dispatch and time of final settlement.

Revenue from the sale of by-products such as silver is included in sales revenue.

Interest
Revenue is recognised as the interest accrues using the effective interest rate method (which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

(f) Income Taxes
The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and for unused tax losses.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

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

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(g) Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST except:

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

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

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

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

(h) Foreign Currency Transactions and Balances
Functional & Presentation Currency
The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates (the “functional currency”). The consolidated financial statements are presented in Australian dollars which is Dragon Mining Limited’s functional and presentation currency.

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

Group Companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(i) Trade and Other Receivables
Trade receivables, which generally have 45 to 60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

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

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

(j) Inventories
Finished goods, gold concentrate, gold in circuit and stockpiles of unprocessed ore have been valued at the lower of cost and estimated net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to gold concentrate stockpiles, unprocessed ore stockpiles and gold in circuit items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Consumables have been valued at cost less an appropriate provision for obsolescence. Cost is determined on a first-in-first-out basis.

(k) Property, Plant and Equipment
Cost and Valuation
Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, Plant and Equipment (continued)

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount through the statement of comprehensive income.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit). A reversal of impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase.

Disposal

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

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

(l) Joint Ventures

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

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

(m) Mineral Exploration Costs

Exploration expenditure is expensed to the consolidated statement of comprehensive income as and when it is incurred and included as part of cash flows from operating activities. Exploration costs are only capitalised to the consolidated statement of financial position if they result from an acquisition.

Evaluation expenditure is capitalised to the consolidated statement of financial position. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study conducted to assess the technical and commercial viability of extracting a mineral resource before moving into the Development phase (see note 1(n) Development Costs).

The criteria for carrying forward costs are:

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area of interest have not yet reached a state which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

Costs carried forward is respect of an area of interest which is abandoned are written off in the year in which the abandonment decision is made.

(n) Exploration & Development Expenditure

Areas in Development

Areas in development represent the costs incurred in preparing mines for production. The costs are carried forward to the extent that these costs are expected to be recouped through the successful exploitation of the Company's mining leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Exploration & Development Expenditure (continued)

Areas in Production
Areas in production represent the accumulation of all acquired exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which economic mining of a mineral reserve has commenced. Amortisation of costs is provided on the unit-of-production method, with separate calculations being made for each mineral resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves

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

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

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

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

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

(o) Cash & Cash Equivalents
Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities normally of three months or less, and bank overdrafts.

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

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

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Investments and Other Financial Assets (continued)

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost, computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of balance date.
Purchases and sales of investments are recognised on trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the statement of comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in profit or loss on equity instruments are not reversed through the statement of comprehensive income.

(q) Recoverable Amount of Non-Financial Assets
At each reporting date, the Group assesses whether there is any indication that an asset may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which it belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Investment in Associate (continued)

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

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

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

(s) Trade and Other Payables

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

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accruals basis.

(t) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(u) Employee Benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave due to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Employee Benefits (continued)

Long service leave
The liability for long service leave due to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with “wages, salaries and annual leave” above. The liability for long service leave due to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

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

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

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

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

(v) Restoration and Rehabilitation Costs

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

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

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

(w) Borrowing Costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Interest-Bearing Loans and Borrowings
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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

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

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

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

(z) Convertible Notes
For convertible notes, the component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long term liability on an amortised cost basis until extinguished on conversion. The increase in the liability due to the passage of time is recognised as a finance cost.

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

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

(aa) Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charges directly against income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiation of an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the statement of comprehensive income over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Earnings per Share

Basic earnings per share ("EPS") is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

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

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

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

(ac) Segment Reporting

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

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

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

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

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

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

(ad) Contributed Equity

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

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

(ae) Significant Accounting Judgments

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

Determination of mineral resources and ore reserves

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) Significant Accounting Judgments (continued)

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

(af) Significant Accounting Estimates and Assumptions

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

Mine Rehabilitation provision

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

Fair valuations of derivative financial instruments

The Group assesses the fair value of its forward gold sale agreements and foreign exchange contracts in accordance with the accounting policy note stated in note 1(y). Fair values have been determined based on well established valuation models and market conditions existing at the balance date. These calculations require the use of estimates and assumptions. Changes in the assumptions concerning interest rates, gold prices, foreign exchange rates and volatilities could have significant impact on the fair valuation attributed to the Group's forward gold sale agreements and foreign exchange contracts. When these assumptions change or become known in the future, such differences will impact asset/liability carrying values and profit and loss in the period in which they change or become known.

Impairment of assets

The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value in use and fair value less costs to sell.

Given the nature of the consolidated entity's mining activities, future changes in long term assumptions upon which these estimates are based, may give rise to material adjustments to the carrying value of the CGU. This could lead to a reversal of part, or all, of impairment losses recognised in prior periods, or the recognition of additional impairment losses in the future. The inter-relationships of the significant assumptions upon which estimated future cash flows are based, however, are such that it is impractical to disclose the extent of the possible effects of a change in a key assumption in isolation. Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of each CGU, relatively modest changes in one or more assumptions could require a material adjustment to the carrying value of the related non-current assets within the next reporting period.

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

Income taxes

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(af) Significant Accounting Estimates and Assumptions (continued)

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

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

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

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

Significant estimate in determining the beginning of production
Considerations are made in the determination of the point at which development ceases and production commences for a mine development project. The point determines the cut-off between pre-production and production accounting.

The Group ceases capitalising pre-production costs and begins depreciation and amortization of mine assets at the point commercial production commences. This is based on the specific circumstances of the project, and considers when the mine is operating as intended by management. Determining when the production state date is achieved is an assessment made by management and includes the following factors:

- the level of redevelopment expenditure compared to project cost estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- mineral recoveries, availability and throughput levels at or near expected budget/expected levels;
- the ability to produce gold into a saleable form (where more than an insignificant amount is produced); and
- the achievement of continuous production.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ag) Change in Accounting Policy

The policy for accounting for exploration expenditure has changed from the policy applied in previous reporting periods.

In previous reporting periods, the costs incurred in connection with exploration of areas with current rights of tenure were capitalized to the Statement of Financial Position. The criteria for carrying forward the costs were:

- Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area of interest have not yet reached a state which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

Costs carried forward in respect of an area of interest that was abandoned were written off in the year in which the decision to abandon was made.

The policy has changed, and the new policy has been applied retrospectively (with comparative information restated accordingly). Under the new policy, except as noted below, exploration expenditure is expensed to the statement of comprehensive income as and when it is incurred. Exploration costs are only capitalized to the Statement of Financial Position if they result from an acquisition. Evaluation costs (costs incurred once the project moves to the "Evaluation" phase, and onward from there into "Development") continues to be accounted for under the same policy which has been applied in previous reporting periods. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study conducted to assess the technical commercial viability of extracting a mineral resource, before moving into the Development phase, see note 1(n) Exploration and Development Expenditure.

The Directors are of the opinion that the change in accounting policy provides users with more relevant and no less reliable information as the policy is more transparent and less subjective. The policy is common for larger mining companies as exploration expenditure does not represent the main activities and is viewed as an expense of discovery.

The impact of this change in accounting policy is reflected below:

For comparative purposes the accounts within the Statement of Financial Position have changed by:

	31 December 2010 $'000	**1 January 2010 $'000**
Decrease in mineral exploration costs	(25,928)	(23,969)
Decrease in development costs	(380)	(648)
Decrease in investment in associate	(262)	(326)
Increase/(decrease) in deferred tax assets	1,328	(964)
Net decrease in equity	25,242	25,907

For comparative purposes the profit after tax has changed by:

	31 December 2010 $'000
Recognised Exploration expenditure	(8,367)
Amortization of development costs decreased	2,060
Exploration expenditure written off decreased	499
Income tax expense decreased	2,227
Other expenses decreased	64
Minority interest decreased	150
Decrease in Profit	**(3,367)**

Basic and diluted earnings per share have also been restated. The amount of the impact on basic and diluted earnings per share for the new result for the period ended 31 December 2010 of the change in accounting policy is a decrease in earnings per share of 4.56 cents.

The impact of the change in accounting policy has not been quantified for the current year as these accounting records have not been maintained.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The following accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the period ended 31 December 2011 and the Group has not yet determined the impact on the financial statements:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans- Tasman Convergence project of the AASB and FRSB. This standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	1 January 2012
AASB 2010-6	Amendments to Australian Accounting Standards – *Disclosures on Transfers of Financial Assets* [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 January 2012
AASB 2011-9	Amendments to Australian Accounting Standards – *Presentation of Other Comprehensive Income* [AASB 101]	This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).	1 July 2012	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This standard makes amendments to remove individual key management personnel disclosure requirements from AASB 124.	1 July 2013	1 January 2014
AASB 9	Financial instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reference	Title	Summary	Application date of standard	Application date for Group
		(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: -The change attributable to changes in credit risk are presented in other comprehensive income (OCI) -The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11		
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.	1 January 2013	1 January 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly- controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB128.	1 January 2013	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 January 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	1 January 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 119	Employee Benefits	The definition of short-term benefits has been revised, meaning some annual leave entitlements may become long-term in nature with a revised measurement. Similarly the timing for recognising a provision for termination benefits has been revised, such that provisions can only be recognised when the offer cannot be withdrawn. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	1 January 2013
Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine	This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset". The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.	1 January 2013	1 January 2013

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

- AASB 1053 Application of tiers of Australian Accounting Standards
- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets
- AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]
- AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131]

(ai) New Accounting Standards and Interpretations

The Group has adopted all new and amended Australian Accounting Standards and AASB Interpretations effective 1 January 2011, including:

- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
- AASB 124 (Revised)Revised AASB 124 Related Party Disclosures (December 2009)
- AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]
- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement
- AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]
- AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

New and amended Standards and Interpretations did not result in any significant changes to accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 REVENUE AND EXPENSES

	2011 $'000	Restated 2010 $'000
a) Cost of sales		
Cost of production net of inventory movements	51,499	47,245
Depreciation of mine properties, plant and equipment	1,656	2,458
Amortisation of development costs	4,475	4,880
Rehabilitation costs	1,184	253
	58,814	54,836
b) Other revenue		
Finance revenue	778	720
Rent and service income	35	116
	813	836
Breakdown of finance revenue		
Bank and external interest	609	607
Associate	169	113
	778	720
c) Other income		
Gain on sale of plant and equipment	16	47
Gain on disposal of subsidiary (i)	-	8,900
Loss on disposal of investments	(38)	-
Other	177	52
	155	8,999

(i) In 2010, Dragon Mining sold its 100% owned subsidiary Dragon Mining (Eritrea) Ltd (which held a 20% interest in the Zara Gold Project, Eritrea) to Chalice Gold Mines Ltd. Total consideration received consisted of $8.0 million cash and 2 million shares at market value of $0.45 per share. In addition Chalice Gold Mines Ltd has the obligation to pay a further $4.0 million on the delineation of a total of 1 million ounces of gold Reserves at the Zara Gold Project. The carrying value of cash, assets, and liabilities of the subsidiary were nil at the date of disposal.

	2011 $'000	Restated 2010 $'000
d) Other expenses		
Management and administration expenses	3,957	3,356
Impairment of available for sale investment	192	-
Depreciation of non-mine site assets	88	90
Development assets written off	32	-
Property, plant and equipment written off	88	-
Project generation expenses	66	172
Production milestone expense	-	1,314
	4,423	4,932
e) Finance costs		
Interest	235	864
Non-cash interest on convertible notes	-	69
Other	122	101
	357	1,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 REVENUE AND EXPENSES (continued)

	2011 $'000	Restated 2010 $'000
f) Derivatives – gains and losses		
(Loss)/gain on Gold derivatives	(2,369)	45
(Loss)/gain on Currency forward contracts	(3,262)	4
	(5,631)	49
g) Employee benefits		
Wages and salaries	10,253	8,928
Defined contribution superannuation expense	1,501	1,308
Share based payments	567	-
Other employee benefits	1,483	1,170
	13,804	11,406
h) Lease payments included in the statement of comprehensive income		
Minimum lease payments – operating leases	190	172

3 INCOME TAX

	2011 $'000	Restated 2010 $'000
(a) Income Tax Expense		
The major components of income tax expense are:		
Current income tax		
Current income tax charge	471	-
Adjustments in respect of current income tax of previous year	478	-
Deferred income tax		
Relating to utilisation and recognition of tax losses	1,115	(466)
Relating to origination and reversal of temporary differences	(855)	1,035
Income tax expense reported in the statement of comprehensive income	1,209	569
(b) Amounts charged or credited directly to equity		
Deferred income tax related to items charged/(credited) directly to equity		
Unrealised (loss)/gain on available-for-sale investments	(213)	213
Income tax expense reported in equity	(213)	213

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 INCOME TAX (continued)

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

A reconciliation between tax expense and the product of accounting (loss)/profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	2011 $'000	**Restated 2010 $'000**
Accounting (loss)/profit before income tax	(5,666)	21,798
At the Group's statutory income tax rate of 30% in Australia (31 Dec 2010: 30%)	(1,700)	6,539
Adjustments in respect of current income tax of previous year	478	-
Effect of different rates of tax on overseas income	265	(927)
Gain on purchase/redemption of convertible notes	-	24
(Loss)/Gain on disposal of subsidiary	(7)	277
Other	302	231
Previously unrecognised tax losses utilised	(179)	(7,344)
Tax losses brought to account	(770)	(791)
Tax losses and other temporary differences not recognised as benefit not probable	2,820	2,560
Aggregate income tax expense	1,209	569

(d) Recognised deferred tax assets and liabilities

	2011 $'000	**Restated 2010 $'000**	**Restated At 1 January 2010 $'000**
Consolidated deferred income tax at reporting date relates to the following:			
Deferred tax assets			
Share issue costs	-	95	200
Convertible note issue costs	-	9	99
Convertible note interest	-	-	92
Leave entitlements	69	56	41
Rehabilitation provision	815	587	624
Investment in associate	877	100	98
Property, plant and equipment	1	2	11
Exploration costs	863	415	-
Available-for-sale assets	111	-	-
Unrealised foreign exchange	4,225	4,052	1,544
Derivative instruments	1,511	-	-
Other	372	768	94
Tax losses recognised (i)	770	1,320	2,482
Temporary differences not recognised	(8,316)	(5,505)	(2,561)
Set off of deferred tax liabilities pursuant to set off provisions	(21)	(341)	(374)
Gross deferred income tax assets	1,277	1,558	2,350
Deferred tax liabilities			
Prepayments	(21)	(15)	-
Exploration costs	-	-	(236)
Property, plant, and equipment	-	(326)	-
Available-for-sale assets	-	(213)	-
Convertible note borrowing costs	-	-	(138)
Set off of deferred tax liabilities pursuant to set off provisions	21	341	374
Gross deferred income tax liabilities	-	(213)	-
The equity balance comprises temporary differences attributable to:			
Available-for-sale assets	-	213	-
Net temporary differences in equity	-	213	-

(i) This amount includes tax losses recognised against deferred tax liabilities of nil (31 December 2010 nil, 1 January 2010: $0.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 INCOME TAX (continued)

(e) Tax Losses
Future benefits of tax losses total approximately $9,450,031 (31 December 2010: $9,047,884, 1 January 2010 $26,193,840). Only benefits at Viking Gold & Prospecting AB totalling $770,000 have been brought to account. The consolidated entities have available capital losses at a tax rate of 30% amounting to nil (31 December 2010 2,749,297, 1 January 2010: $3,772,105).

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

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

(f) Unrecognised temporary differences
As at 31 December 2011, aggregate unrecognised temporary differences of $3.0m (31 December 2010 $4.1m, 1 January 2010: $1.5m) are in respect of investments in subsidiaries and associates for which no deferred tax assets have been recognised.

(g) Tax consolidation
Effective July 1 2003, for the purpose of income taxation, Dragon Mining Limited and its 100% Australian owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing and funding arrangement whereby each entity in the tax consolidated group has agreed to pay a tax equivalent amount to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. For the year ended 31 December 2011, there are no tax consolidation adjustments (2010: nil). The nature of the tax funding arrangement for the Dragon Mining Limited tax consolidated group is such that no tax consolidation adjustments (contributions by or distributions to equity participants) would be expected to arise. The head entity of the tax consolidation group is Dragon Mining Limited. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

4 CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Cash at bank and on hand	13,363	10,276
Short-term deposits	2,592	13,202
	15,955	23,478

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

Short-term deposits are normally made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

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

The fair value of cash and cash equivalents is equal to their book value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 CASH AND CASH EQUIVALENTS (continued)

Reconciliation of net (loss) / profit after tax to net cash flows from operations	2011 $'000	2010 $'000
Net (loss)/profit after tax	(6,198)	17,994
Adjustments for:		
- Depreciation and amortisation	6,219	7,428
- Capitalised exploration expenditure written off	181	11
- Available-for-sale asset impairment	192	-
- Property, plant and equipment written off	88	-
- Development expenditure written off	32	-
- Non-cash loss on gold forward contracts	5,601	23
- Net foreign currency losses	2,881	10,723
- Loss on buyback and redemption of convertible notes	-	81
- Gain on disposal of interest in subsidiary	-	(8,900)
- Loss on disposal of investment	38	-
- Net profit on disposal of property, plant and equipment	(16)	(47)
- Employee option expense	567	-
- Tax expense	1,209	569
- Non-cash interest on convertible notes	-	69
- Non-cash rehabilitation costs	1,184	253
- Rehabilitation provision discount adjustment	78	31
- Movement in non-controlling interest	(677)	3,225
- Payments for Rehabilitation	(278)	(370)
Changes in operating assets and liabilities		
- (Increase)/decrease in receivables	(253)	(844)
- (Increase)/decrease in other current assets	(867)	(250)
- (Increase)/decrease in inventories	1,472	817
- (Increase)/decrease in deferred waste	-	1,241
- Increase/(decrease) in trade creditors and accruals	2,900	164
- Increase/(decrease) in provisions	(1,051)	1,395
Net operating cash flows	13,302	33,613

5 TRADE AND OTHER RECEIVABLES

Current	2011 $'000	2010 $'000
Trade debtors (i)	3,817	6,075
Other debtors (ii)	3,801	1,709
Receivables from associate (iii)	-	1,302
Bullion on hand	183	37
	7,801	9,123
Non-Current		
Receivables from associate (iii)	1,998	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 TRADE AND OTHER RECEIVABLES (continued)

(a) Impairment
An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised by the Group or the Company for trade receivables in the current year (2010: nil).

The ageing of trade debtors is as follows:

	Total	0-30 days	30-60 days
2011	3,817	2,884	933
2010	6,075	3,445	2,630

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

(b) Fair Value and credit risk
Due to the short-term nature of these receivables, their carrying value approximates fair value.

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

(c) Foreign exchange and interest rate risk
Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 28.

6 INVENTORIES

	2011 $'000	2010 $'000
Work in progress – at cost		
- Ore and concentrate stockpiles	3,639	3,116
- Gold in circuit	669	1,374
Raw materials and stores – at cost	905	921
	5,213	5,411

7 AVAILABLE-FOR-SALE INVESTMENTS

	2011 $'000	2010 $'000
Non-current		
Listed		
At fair value		
- Shares – Chalice Gold Mines Limited, ASX listed	530	1,750
	530	1,750

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

8 INVESTMENTS IN ASSOCIATE

(a) Investment details	2011 $'000	Restated 2010 $'000	Restated 1 January 2010 $'000
Unlisted			
Weld Range Metals Limited - 39.95% interest	-	-	-
	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8 INVESTMENTS IN ASSOCIATE (continued)

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

Weld Range Metals Limited	2011 $'000	Restated 2010 $'000	Restated 1 January 2010 $'000
At 1 January	-	-	-
Share of loss after income tax	-	-	-
	-	-	-

The share of losses not recognised during the period was $743,000 and cumulatively $2,529,000.

(c) Summarised financial information

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

Extract from Weld Range Metals Limited's statement of financial position:	2011 $'000	Restated 2010 $'000	Restated 1 January 2010 $'000
Current assets	219	21	49
Non-current assets	-	-	-
	219	21	49
Current liabilities	5,790	4,379	100
Non-current liabilities	-	-	2,359
	5,790	4,379	2,459
Net deficit	5,571	4,358	2,410
Extract from Weld Range Metals Limited's statement of comprehensive income:			
Revenue	-	-	-
Expenses	(1,861)	(2,007)	(2,462)
Loss for the year	(1,861)	(2,007)	(2,462)

On 21 September 2011, the National Native Title Tribunal ("NNTT") determined that four Mining License Applications ("MLA"s) made by Weld Range Metals Limited ("WRM") not be granted by the State Government. The four MLAs were applied for in 1995 over an area held under license tenements by WRM since 1986. The MLAs are surrounded by eight granted Mining Licenses, which are not subject to the NNTT's recent determination. All the Mining Licenses adjoin the Sinosteel Midwest Iron Ore Project. The State Government and WRM have lodged appeals with the Federal Court in respect of the NNTT determination. This is a necessary step for WRM given the adverse impact the determination has on WRM's interests. If the appeal is unsuccessful, there will be doubt over the recoverability of the loan paid by Dragon Mining to WRM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9 PROPERTY, PLANT AND EQUIPMENT

	2011 $'000	2010 $'000
Land		
At cost	1,135	1,166
Buildings		
At cost	1,375	1,230
Less accumulated depreciation	(847)	(755)
	528	475
Mine properties, plant and equipment		
At cost	30,300	22,565
Less accumulated depreciation	(19,289)	(18,084)
	11,011	4,481
Total property, plant and equipment	12,674	6,122

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

	2011 $'000	2010 $'000
Land		
Carrying amount at beginning of period	1,166	1,366
Net foreign exchange movement	(31)	(200)
Carrying amount at end of period	1,135	1,166
Buildings		
Carrying amount at beginning of period	475	649
Additions	185	43
Depreciation	(116)	(140)
Net foreign exchange movement	(16)	(77)
Carrying amount at end of period	528	475
Mine properties, plant and equipment		
Carrying amount at beginning of period	4,481	5,698
Additions	8,768	2,089
Disposals	(11)	(5)
Expenditure written off	(88)	-
Reclassification to development costs	(33)	(140)
Transfer to other non-current assets	-	(217)
Depreciation	(1,628)	(2,408)
Net foreign exchange movement	(478)	(536)
Carrying amount at end of period	11,011	4,481

Property, Plant and Equipment Pledged as Security for Liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 MINERAL EXPLORATION AND DEVELOPMENT COSTS

	2011 $'000	Restated 2010 $'000
Exploration and evaluation		
Balance at beginning of financial period	3,784	4,496
Expenditure written off	(181)	(11)
Transfers to development	(400)	-
Net foreign exchange movement	(43)	(701)
Total exploration expenditure	3,160	3,784
Development		
Balance at beginning of financial period	6,413	6,555
Current period expenditure	16,463	4,661
Transfers from exploration	400	-
Reclassification from property, plant & equipment	33	140
Amortisation	(4,475)	(4,880)
Movement in deferred waste	-	(1,241)
Expenditure written off	(32)	-
Transfers to stockpiles	(1,412)	-
Increase in rehabilitation obligation	841	2,414
Net foreign exchange movement	(790)	(1,236)
Total development expenditure	17,441	6,413
Total mineral exploration and development expenditure	20,601	10,197

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

Exploration, Evaluation and Development Pledged as Security for Liabilities

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

11 OTHER ASSETS

	2011 $'000	2010 $'000
Current		
Prepayments	708	119
Non-current		
Environmental and other bonds	4,339	4,144

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 TRADE AND OTHER PAYABLES

	2011 $'000	2010 $'000
Current		
Trade payables and accruals	9,066	6,755

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

(a) Fair Values
Due to the short term-nature of these payables, their carrying value approximates fair value.

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

13 INTEREST-BEARING LOANS AND BORROWINGS

	Maturity	2011 $'000	2010 $'000
Current			
Bank loans (i)	*2012*	4,029	-
Factoring facility drawn down (ii)	*2012*	1,871	1
		5,900	1

(i) In May 2011, the Company's 100% owned subsidiary, Dragon Mining Oy, secured a debt facility of €3.8m with Nordea Bank Finland Plc. The funds were used for the Kutema Deeps and Jokisivu underground developments. The main terms of the loan are:

a. It is denominated in euro and secured by a first ranking fixed and floating charge over all the assets and undertakings of Dragon Mining Oy including mortgages over key tenements.
b. Repayable in equal quarterly installments until December 2012.
c. Dragon Mining Limited has irrevocably and unconditionally guaranteed the debt in favour of Nordea Bank.
d. Interest is charged at three month euribor plus 1.85%.
e. Half of the loan is guaranteed by the Finland State owned Finnvera Plc. Finnvera Plc charges interest of euribor plus 1.85% on the amount of the loan they guarantee (50%).
f. Certain real estate mortgages were taken as collateral by Finnvera.
g. The following debt ratios are required to be maintained by Dragon Mining Oy:
    i. Equity ratio must be greater than 35% annually;
    ii. Ratio of interest bearing liabilities to earnings before interest costs, taxes, depreciation and amortization must be less than 3.5; and
    iii. The Companies minimum cash requirement is €2.0 million.

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

(a) Fair Values
The carrying value of bank loans and factoring facility drawn down approximate fair value.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 PROVISIONS

	2011 $'000	2010 $'000
Current		
Employee entitlements	1,360	1,151
Rehabilitation (ii)	-	602
Production milestone (i)	-	1,314
	1,360	3,067
Non-current		
Employee entitlements	90	69
Rehabilitation (ii)	8,204	5,986
	8,294	6,055

(i) The Share and Loan Sales Agreement ("Agreement") between Dragon Mining and Outokumpu Mining Oy ("Outokumpu") for the acquisition of Outokumpu's precious metals assets in Finland signed in October 2003, included an obligation of the payment of €1 million in cash or shares when 100,000 ounces of gold was produced from any of the gold projects acquired. The Orivesi Gold Mine achieved the production of 100,000 ounces of gold in March 2011, and in accordance with the Agreement the payment was satisfied by issuing 892,105 ordinary fully paid shares in Dragon Mining at a price of $1.52 a share on 27 May 2011. The issue price was based on a predetermined formula outlined in the Agreement and at the exchange rate on the date the payment became due.

(ii) Rehabilitation

	$'000
Balance at 1 January 2011	6,588
Additions	2,025
Rehabilitation borrowing cost unwound	78
Utilised	(278)
Net foreign exchange movement	(209)
Balance at 31 December 2011	8,204

A provision for rehabilitation is recorded in relation to the gold mining operations for the rehabilitation of the disturbed mining area to a state acceptable to various Swedish and Finnish authorities. While rehabilitation is ongoing, final rehabilitation of the disturbed mining area is not expected until the cessation of mining.

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

Rehabilitation provisions are subject to an inherent amount of uncertainty in both timing and amount and as a result are continuously monitored and revised.

15 OTHER LIABILITIES

	2011 $'000	2010 $'000
Non-current		
Other	-	8

16 CONTRIBUTED EQUITY

	2011	2010	2011	2010
Share Capital	**Number of Shares**		**$'000**	**$'000**
Ordinary shares, fully paid	75,170,613	73,778,508	105,621	103,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 CONTRIBUTED EQUITY (continued)

Ordinary shares have the right to receive dividends as declared and entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

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

(a) Ordinary share movement during the period

	$'000	No. of shares
At 1 January 2010	103,488	737,357,151
Conversion of convertible notes (i)	77	438,000
Share consolidation (ii)	-	(664,016,643)
Balance at 31 December 2010	103,565	73,778,508
Shares issued to Outokumpu Mining Oy (iii)	1,356	892,105
Shares issued to Pioneer Intertrade (iv)	700	500,000
Balance at 31 December 2011	105,621	75,170,613

(i) 73,000 convertible notes at a face value of $1.05 were converted into 438,000 shares.

(ii) On 5 November 2010 it was approved at a General Meeting of the company to consolidate the share capital of the company on a 1 for 10 basis.

(iii) The Share and Loan Sales Agreement ("Agreement") between Dragon Mining and Outokumpu Mining Oy ("Outokumpu") for the acquisition of Outokumpu's precious metals assets in Finland signed in October 2003, included an obligation of the payment of €1 million in cash or shares when 100,000 ounces of gold was produced from any of the gold projects acquired. The Orivesi Gold Mine achieved the production of 100,000 ounces of gold in March 2011, and in accordance with the Agreement the payment was satisfied by issuing 892,105 ordinary fully paid shares in Dragon Mining at a price of $1.52 a share on 27 May 2011. The issue price was based on a predetermined formula outlined in the Agreement and at the exchange rate on the date the payment became due.

(iv) In May 2011, Dragon Mining acquired the remaining 20% interest in the Svartliden Gold Mine from Pioneer Intertrade for the total consideration of US$1 million and 500,000 ordinary, fully paid Dragon Mining shares.

(b) Capital Management

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

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

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

	2011	**2010**
Gearing ratio	nil	nil

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17 RESERVES

	2011 $'000	2010 $'000
Foreign currency translation reserve (i)	7,946	6,905
Option reserve (ii)	1,278	711
Convertible note premium reserve (iii)	2,068	2,068
Available-for-sale asset reserve (iv)	(178)	497
Equity Reserve – Purchase of non-controlling interest (v)	1,069	-
	12,183	10,181

	2011 $'000	2010 $'000
(i) Movements in foreign currency translation reserve		
Balance at the beginning of period	6,905	1,062
Translation of foreign entities' statement of financial positions	1,041	5,843
Balance at the end of period	7,946	6,905
(ii) Movements in option reserve		
Balance at the beginning of period	711	711
Issue of employee share options	567	-
Balance at the end of the period	1,278	711
(iii) Movements in convertible note premium reserve		
Balance at the beginning of period	2,068	2,068
Balance at the end of the period	2,068	2,068
(iv) Movements in available-for-sale reserve		
Balance at the beginning of period	497	-
Net (losses) gains on available-for-sale investments	(1,080)	710
Impairment of available-for-sale investments	192	-
Income tax on amounts taken directly to equity	213	(213)
Balance at the end of the period	(178)	497
(v) Movements in equity reserve		
Balance at the beginning of period	-	-
Purchase of non-controlling interest	1,069	-
	1,069	-

Nature and Purpose of Reserves

(i) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(ii) Option Reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to note 27 for further details of these benefits.

(iii) Convertible Note Premium Reserve

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

(iv) Available–for-sale Reserve

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

(v) Equity Reserve – Purchase of non-controlling interest

This reserve is used to record differences between the consideration paid for acquiring the remaining non-controlling interest and the carrying value of net assets attributed to the non-controlling interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 DIVIDENDS PAID OR PROVIDED FOR

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

19 KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Directors

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

Executives

NM Edwards	Chief Geologist
KE Larsson	Chief Operations Officer (appointed 3 October 2011)
JD Stewart	Manager - Operations – Dragon Mining (Sweden) AB (appointed 20 July 2010)
HO Pöyry	Manager - Operations (Dragon Mining Oy)
CE Hasson	Financial Controller and Joint Company Secretary (commenced 31 March 2010 and appointed Joint Company Secretary 25 November 2010)
PA Collinson	Joint Company Secretary (resigned 17 February 2012)
KE Marttala	Manager - Operations – Dragon Mining (Sweden) AB (passed away in July 2010)
UO Kuronen	Manager Geology (Dragon Mining Oy)(resigned 30 September 2011)

(b) Compensation of Key Management Personnel

	2011 $	2010 $
Key Management Personnel		
Short-term	1,980,222	2,038,194
Post-employment	195,761	250,850
Share-based payments	170,294	-
	2,346,277	2,289,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 KEY MANAGEMENT PERSONNEL (continued)

(c) Option Holdings of Key Management Personnel

2011	Balance at the start of the year	Granted during the year as compensation (i)	Grant date	Fair value of options at grant date	Total fair value of options at grant date	First exercise date of options granted during the year	Expiry and last exercise date of options granted during the year	Exercise price of options granted during the year	Exercised during the year	Cancelled during the year	Balance at the end of the year	Vested during the year	Vested and exercisable at the end of the year		Value of options exercised during the year
				$	$			$				No.	No.	%	$
Directors															
PG Cordin	400,000	-	-	-	-	-	-	-	-	-	400,000	-	400,000	100	-
MD Naylor	100,000	-	-	-	-	-	-	-	-	-	100,000	-	100,000	100	-
TT Järvinen	100,000	-	-	-	-	-	-	-	-	-	100,000	-	-	-	-
MJ Mäkelä	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C Russenberger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PL Gunzburg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Executives															
NM Edwards	50,000	80,000	22/9/2011	0.69	55,200	22/9/2011	22/9/2014	1.45	-	-	130,000	32,000	82,000	63	-
KE Larsson	-	150,000	19/10/2011	0.60	90,000	19/10/2011	19/10/2014	1.45	-	-	150,000	50,000	50,000	33	-
JD Stewart	25,000	120,000	22/9/2011	0.69	82,800	22/9/2011	22/9/2014	1.45	-	-	145,000	48,000	73,000	50	-
HO Pöyry	50,000	120,000	22/9/2011	0.69	82,800	22/9/2011	22/9/2014	1.45	-	-	170,000	48,000	98,000	58	-
CE Hasson	-	80,000	22/9/2011	0.69	55,200	22/9/2011	22/9/2014	1.45	-	-	80,000	32,000	32,000	40	-
UO Kuronen	50,000	-	-	-	-	-	-	-	-	(50,000)	-	-	-	-	-
TOTAL	**775,000**	**550,000**			**366,000**					**(50,000)**	**1,275,000**	**210,000**	**835,000**		

(i) For details on the valuation of the options, including models and assumptions used, refer to Note 27. The percentage of options granted during the financial year that also vested during the financial year is 38.2% (2010: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 KEY MANAGEMENT PERSONNEL (continued)

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

2010	Balance at the start of year	Held at date of resignation	Consolidation (1)	Balance at the end of the year	Vested and exercisable at the end of the year		Value of exercised options during the year
					No.	%	
Directors							
PG Cordin	4,000,000	-	(3,600,000)	400,000	400,000	100	-
MD Naylor	1,000,000	-	(900,000)	100,000	100,000	100	-
TT Järvinen	1,000,000	-	(900,000)	100,000	-	-	-
MJ Mäkelä	-	-	-	-	-	-	-
C Russenberger	-	-	-	-	-	-	-
PL Gunzburg	-	-	-	-	-	-	-
AE Daley	2,000,000	(2,000,000)(2)	-	-	-	-	-
PL Munachen	1,000,000	(1,000,000)(2)	-	-	-	-	-
Executives							
NM Edwards	500,000	-	(450,000)	50,000	50,000	100	-
UO Kuronen	500,000	-	(450,000)	50,000	50,000	100	-
JD Stewart	250,000	-	(225,000)	25,000	25,000	100	-
HO Pöyry	500,000	-	(450,000)	50,000	50,000	100	-
KE Marttala	500,000	(500,000)	-	-	-	-	-
TOTAL	**11,250,000**	**(3,500,000)**	**(6,975,000)**	**775,000**	**675,000**		**-**

(1) On 5 November 2010, a one-for-ten consolidation of Dragon Mining's issued capital was undertaken. Options were consolidated on the same ratio.
(2) These options were subsequently cancelled in conjunction with the terms of the Company's employee incentive option plan.

(d) Ordinary Shareholdings of Key Management Personnel

Shares held in Dragon Mining Limited (number)	Balance 1 January 2011 Ordinary	Granted as remuneration Ordinary	Net change other Ordinary	Held at the date of resignation Ordinary	Balance 31 December 2011 Ordinary
Directors					
PG Cordin	400,000	-	-	-	400,000
MD Naylor	71,650	-	-	-	71,650
PL Gunzburg(1)	84,000	-	-	-	84,000
C Russenberger	30,000	-	-	-	30,000
Executives					
JD Stewart	1,600	-	-	-	1,600
CE Hasson	6,667	-	-	-	6,667
Total	593,917	-	-	-	593,917

(1) Mr Gunzburg is Executive Chairman of Eurogold Ltd which held 14,942,606 shares in Dragon Mining as at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 KEY MANAGEMENT PERSONNEL (continued)

(d) Ordinary Shareholdings of Key Management Personnel (continued)

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

(1) On 5 November 2010, a one-for-ten consolidation of Dragon Mining's issued capital was undertaken.
(2) Mr Gunzburg is Executive Chairman of Eurogold Ltd which held 13,063,887 shares in Dragon Mining as at 31 December 2010.
(3) Held at date of appointment.
(4) Purchased on market during the year. Mr Naylor also converted 11,500 Convertible Note ("Notes") into 69,000 ordinary shares.

(e) Holdings of Convertible Notes of Key Management Personnel

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

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

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

20 REMUNERATION OF AUDITORS

The auditor of Dragon Mining Limited is Ernst & Young.

	2011	2010
Remuneration of Ernst & Young (Australia) for:		
- auditing or reviewing accounts	92,000	84,800
- tax consulting	47,100	59,950
	139,100	144,750
Remuneration of Ernst & Young (other than Australia) for:		
auditing or reviewing accounts	44,241	62,370
- tax consulting	50,276	1,045
	94,517	63,415
Remuneration of non-Ernst & Young audit firms for:		
- tax consulting	42,943	-
- compliance services	15,677	8,578
	58,620	8,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 EARNINGS PER SHARE

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

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

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

	2011	Restated 2010*
Basic (loss) / earnings per share		
(Loss)/profit used in calculation of basic (loss)/earnings per share ($'000)	(6,198)	17,994
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	74,644,175	73,748,962
Basic (loss)/earnings per share (cents)	(8.30)	24.40
Diluted (loss) / earnings per share		
(Loss)/profit used in calculation of basic (loss)/earnings per share ($'000)	(6,198)	17,994
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	74,644,175	73,748,962
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted EPS	74,644,175	73,748,962
Number of potential ordinary shares that are not dilutive and hence not included in calculation of diluted EPS	2,694,000	1,017,500
Diluted (loss)/earnings per share (cents)	(8.30)	24.40

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

Dragon Mining is in the process of undertaking a rights issue to current shareholders which is expected to be completed in March 2012. Apart from that, there have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

22 RELATED PARTY TRANSACTIONS

(a) Subsidiaries

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

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			Dec 2011 %	Dec 2010 %
Dragon Mining Investments Pty Ltd	Australia	Ord	100	100
Dragon Mining (Sweden) AB	Sweden	Ord	100	80
Viking Gold & Prospecting AB	Sweden	Ord	100	100
Dragon Mining Oy (Previously Polar Mining Oy)	Finland	Ord	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties

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

The Directors of Dragon Mining Limited at any time during the period were:
PG Cordin
MD Naylor
TT Järvinen
MJ Mäkelä
C Russenberger
PL Gunzburg

(i) Golden Valley Services Pty Ltd, a subsidiary company of Coal of Africa Limited of which Mr PG Cordin is a Non-Executive Director, rents office premises to the Company on a back to back arrangement under the terms of the main lease. The rental amounted to $104,890 for the year ended 31 December 2011 (2010: $88,890).

(ii) Eurogold Limited, of which Mr PL Gunzburg is the Executive Chairman, rents office premises from the Company. The rental amounted to $22,646 for the year ended 31 December 2011 (2010: $21,362)

(iii) Costs charged by Eurogold to the Company for Company Secretarial services were nil for the year ended 31 December 2011 (2010: $18,859)

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

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

Dragon Mining continued to provide loans to Weld Range Metals to fund its share of project costs. Interest on the loan to Weld Range Metals is charged at the ANZ business mortgage rate plus 1% per annum. The loan has a fixed and floating charge over all of the assets of Weld Range Metals. Interest of $169,244 was charged for the year ended 31 December 2011 (2010: $112,966).

Dragon has given an undertaking that the loan will not require repayment in cash unless adequate capital raisings are finalised by Weld Range Metals. Weld Range Metals is evaluating various capital raising opportunities to fund the development of the iron, nickel, chrome and PGM resources. An outcome on the capital raising is expected in 2012.

Entity with significant influence over the Group
Eurogold Limited has a 19.99% voting power over the ordinary shares in Dragon Mining Limited (2010: 17.71%).

Rent received and costs charged by Eurogold Limited are outlined above.

Joint venture in which the entity is a venturer
Harpsund Joint Venture
The Group has the right to earn up to an 80% interest in the Harpsund Joint Venture. Refer to note 24 for details of the Joint Venture.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 SEGMENT REPORTING

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

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

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

Accounting policies and inter-segment transactions
The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

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

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

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

Major customers
The Group has one major customer to which it provides gold concentrate from the Vammala Production Centre in Finland. It accounts for 42% of external revenue (2010: 39%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 SEGMENT REPORTING (continued)

	Sweden 2011 $'000	Finland 2011 $'000	Unallocated 2011 $'000	Total 2011 $'000
Segment revenue				
Gold sales to external customers	47,802	27,278	-	75,080
Interest revenue	106	28	644	778
Other revenue	-	35	-	35
Total revenue	**47,908**	**27,341**	**644**	**75,893**
Segment interest expense	1,037	1,632	-	2,669
Corporate interest expense				-
Elimination of inter-company interest expense charged to segments				(2,434)
Total interest expense				235
Depreciation and amortisation	1,903	4,305	11	6,219
Exploration expenditure written off	-	181	-	181
Development expenditure written off	8	24	-	32
Property, Plant and Equipment written off	88	-	-	88
Impairment of Available-for-sale investments	-	-	192	192
Segment profit				
Pre-tax segment profit	**7,919**	**(13,939)**	**-**	**(6,020)**
Income tax (expense) / benefit	(1,210)	1	-	(1,209)
Post tax segment profit	6,709	(13,938)	-	(7,229)
Unallocated items:				
Corporate interest revenue				645
Corporate costs				(2,814)
Unallocated treasury losses				(219)
Elimination of inter-company interest expense and management fees in segment results				2,742
Profit after tax as per the statement of comprehensive income				**(6,875)**
Segment assets	**29,934**	**33,578**		**63,512**
Unallocated items:				
Available-for-sale investments				530
Other corporate assets				7,054
Total assets				**71,096**
Segment acquisitions of non-current assets	8,260	17,150		25,410
Unallocated items:				
Corporate and other acquisitions				6
				25,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 SEGMENT REPORTING (continued)

	Restated Sweden 2010 $'000	Restated Finland 2010 $'000	Restated Unallocated 2010 $'000	Restated Total 2010 $'000
Segment revenue				
Gold sales to external customers	54,289	37,599	-	91,888
Interest revenue	19	2	699	720
Other revenue	-	116	-	116
Total revenue	**54,308**	**37,717**	**699**	**92,724**
Segment interest expense	941	1,472	-	2,413
Corporate interest expense				740
Elimination of inter-company interest expense charged to segments				(2,220)
Total interest expense				933
Depreciation and amortisation	2,470	4,950	8	7,428
Exploration expense	3,630	4,736	-	8,366
Exploration expenditure written off	-	11	-	11
Production milestone expense	-	1,314	-	1,314
Segment profit				
Pre-tax segment profit	**18,602**	**3,953**	**-**	**22,555**
Income tax (expense) / benefit	(569)	-	-	(569)
Post tax segment profit	18,033	3,953	-	21,986
Unallocated items:				
Corporate interest revenue				699
Corporate costs				(2,391)
Finance costs				(740)
Loss on buyback of convertible notes				(81)
Gain on disposal of Dragon Mining (Eritrea) Ltd				8,900
Unallocated treasury losses				(9,661)
Elimination of inter-company interest expense and management fees in segment results				2,507
Profit after tax as per the statement of comprehensive income				**21,219**
Segment assets	**18,758**	**21,890**	**-**	**40,648**
Unallocated items:				
Available-for-sale investments				1,750
Other corporate assets				19,508
Total assets				**61,906**
Segment acquisitions of non-current assets	1,472	5,301	-	6,773
Unallocated items:				
Corporate and other acquisitions				20
				6,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24 JOINT VENTURES

Harpsund Joint Venture (Earning up to 80% Interest)
The Harpsund Joint Venture ("Joint Venture") comprises the Harpsund nr1 and Bjokojan nr2 Exploration Permits covering a total area of 4,423 hectares located immediately adjacent to Dragon Mining's Exploration Permit holding and 4 kilometres northeast of the Svartliden Gold Mine.

Under the terms of the Joint Venture, Dragon Mining secured exclusive exploration rights on the Exploration Permits for 12 months, which commenced on 27 October 2010 ("Agreement Date"), during which Dragon Mining was required to expend a minimum of 1.5 million SEK (A$0.2 million).

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

In November 2011, Dragon Mining advised the Joint Venture partner, Botnia Exploration AB that it had expended the 1.5 million SEK during the exclusivity period and would be advancing to the first earn-in phase.

25 EXPENDITURE COMMITMENTS

(a) Exploration Commitments
Due to the nature of the consolidated entity's operations in exploring and evaluating areas of interest, it is very difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain present interests in mineral tenements. Expenditure commitments on mineral tenure for the consolidated entity can be reduced by selective relinquishment of exploration tenure or by the renegotiation of expenditure commitments. The approximate minimum level of exploration requirements to retain current tenements are detailed below.

	2011 $'000	2010 $'000
Within one year	848	1,000
One year or later and no later than five years	3,001	2,736
More than five years	1,155	-
	5,004	3,736

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

	2011 $'000	2010 $'000
Within one year	2,353	-
One year or later and no later than five years	165	-
	2,518	-

(c) Operating Lease Expense Commitments
Future operating lease commitments not provided for in the financial statements are as follows:

	2011 $'000	2010 $'000
Within one year	112	200
One year or later and no later than five years	39	-
	151	200

(d) Remuneration Commitments
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities are as follows:

	2011 $'000	2010 $'000
Within one year	711	408
One year or later and no later than five years	-	-
	711	408

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26 CONTINGENT ASSETS AND LIABILITIES

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

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

Svartliden Gold Mine, Sweden
An environmental breach reported in 2008 concerning levels of arsenic and other metals contained in surface runoff and ground water which is pumped from the waste rock dump and mining area to a water storage facility, termed the Clear Water Dam (CWD), continues to be addressed. Additional corrective measures and improvements were implemented during 2011 to reduce the levels of metals contained in the water pumped to the CWD. Despite improvements to the water treatment processes, metal levels and amounts exceeded guidelines, necessitating further corrective measures and improvements to the water treatment processes. All levels and corrective measures are reported to the inspecting authority.

During 2009, the company which operates the Svartliden Gold Mine was reported by the inspecting authority for a breach of discharging water to a nearby stream which is prohibited under the operating license. The allegation is based on the Company's report of elevated levels of dissolved metals in the water collected and tested from the nearby stream. An internal review has confirmed that no discharge occurred. A police investigation commenced during 2011 and the Company is awaiting the findings.

Though the Directors are unable to predict the likely outcome of these breaches, the Company could be subject to a liability or increase in the costs of doing business or conducting its operations.

Vammala Production Centre, Finland
Finnish environmental authorities have requested that the Company investigate nickel releases from the tailings dam area. Seepage water is surveyed and sampled for nickel. In the event that nickel releases are evident from the tailings dam area, the Company will prepare a preventative action plan. The Company would be responsible to carry out the plan after an approval by the authorities. The Share and Loan Sales Agreement between the Company (formerly Dragon Mining NL), Outokumpu Nickel B.V, Outokumpu Mining Oy and Outokumpu Oyj executed in 2003 provides that releases from the historical mining operations are the seller's (Outokumpu's) responsibility.

27 SHARE-BASED PAYMENT PLANS

Director and Executive Share Options

An employee option plan has been established where executives and members of staff of the consolidated entity are issued with options over the ordinary shares of Dragon Mining. The options, issued for nil consideration, are issued in accordance with the terms and conditions of the shareholder approved Dragon Mining Group Incentive Option Plan. The options do not provide any dividend or voting rights. The options are not quoted on ASX.

The following share options were on issue as at 31 December 2011:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
22 May 2006 (i)	50,000	22 May 2006	22 May 2006	n/a	$1.75	$0.50
7 Dec 2006 (ii)	100,000	7 Dec 2006	7 Dec 2006	n/a	$1.40	$0.50
7 Dec 2006 (ii)	100,000	7 Dec 2006	7 Dec 2006	n/a	$1.75	$0.40
7 Dec 2006 (iii)	100,000	7 Dec 2006	7 Dec 2006	n/a	$2.10	$0.40
7 Dec 2006 (ii)	200,000	7 Dec 2006	7 Dec 2006	n/a	$2.10	$0.40
8 June 2007 (iv)	410,000	8 June 2007	8 June 2007	8 June 2012	$1.75	$0.30
22 Sep 2011 (v)	1,584,000	22 Sep 2011	(v)	22 Sep 2014	$1.45	$0.69
19 Oct 2011 (vi)	150,000	19 Oct 2011	(vi)	19 Oct 2014	$1.45	$0.60
Options balance at end of year	2,694,000					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27 SHARE-BASED PAYMENT PLANS (continued)

(i) Issued to Mr MD Naylor.
(ii) Issued to PG Cordin.
(iii) These options were issued to TT Jarvinen with terms specifying that in order to exercise the options, the volume weighted share price of Dragon Mining Limited must exceed $2.50 for 5 consecutive days. There is no service condition attached to this award.
(iv) Issued to key employees in accordance with the Dragon Mining Group Employee Incentive Option Plan. 50,000 options were cancelled during the year due to an employee resigning from the Company.
(v) Issued to key employees in accordance with the Dragon Mining Group Employee Incentive Option Plan. 633,600 options vested on 22 September 2011, 475,200 options vest on 22 September 2012 and 475,200 options vest on 22 September 2013.
(vi) Issued to KE Larsson in accordance with the Dragon Mining Group Employee Incentive Option Plan. 50,000 options vested on 19 October 2011, 50,000 options vest on 19 October 2012 and 50,000 options vest on 19 October 2013.

7,500 options lapsed during the year that were issued to an employee on 8 February 2007 in place of partly paid shares which were cancelled in 2006.

(i) Balance at end of period

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

WAEP = weighted average exercise price

	2011		2010	
	Number	**WAEP**	**Number**	**WAEP**
Balance at beginning of year	1,017,500	$1.82	13,375,000	$0.19
Granted	1,734,000	$1.45	-	-
Forfeited	(50,000)	$1.75	(3,200,000)	$0.21
Lapsed	(7,500)	$2.10	-	-
One-for-ten option consolidation (1)	-	-	(9,157,500)	$0.18
Balance at end of year(2)	2,694,000	$1.58	1,017,500	$1.82
Exercisable at the end of year	1,543,600	$1.64	917,500	$1.79

(1) On 5 November 2010, a one-for-ten consolidation of Dragon Mining's issued capital was undertaken. The number of options was consolidated on the same ratio and the exercise price was increased by 10 fold.
(2) The share options on issue at the end of the period had an exercise price of between $1.40 and $2.10. The 2,144,000 options with an expiry date had a weighted average remaining contractual life of 2.1 years (2010: 1.4 years). The remaining 550,000 options had no expiry date

(ii) Option valuation

The weighted average fair value of the share options granted during the period is $0.68 (2010: No options were granted). The fair value of the options were valued using the Black & Scholes option pricing model which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the Dragon Mining Limited share price at the date of issue, the expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The services received and liabilities to pay for those services are recognised over the expected vesting period.

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

Grant date	22/9/2011	19/10/2011
Number of options	1,584,000	150,000
Dividend yield	0%	0%
Expected volatility	71%	70%
Risk free interest rate	4.75%	4.75%
Expected life of option	3 years	3 years
Option exercise price	$1.45	$1.45
Share price at grant date	$1.40	$1.30
Value per option at grant	$0.69	$0.60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS

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

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

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

The consolidated entity also has a risk management programme to manage its financial exposures that includes, but is not limited to, the use of derivative products, principally forward gold sales and foreign currency contracts. The Company does not enter into financial instruments, including derivative financial instruments, for trade or speculative purposes.

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

(b) Instruments Recognised at Amounts Other Than Fair Value
The carrying amount of financial assets and financial liabilities recorded in the financial statements at amortised cost represents their respective net fair values.

(c) Fair Values for Instruments Recognised at Fair Value
The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

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

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

	As at 31 December 2011				As at 31 December 2010			
	Quoted market price (level 1) $'000	Valuation technique – market observable inputs (level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000	Quoted market price (level 1) $'000	Valuation technique – market observable inputs (level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial Assets								
Available-for-sale financial assets	530	-	-	530	1,750	-	-	1,750
Financial derivative assets	-	-	-	-	-	4	-	4
	530	-	-	530	1,750	4	-	1,754
Financial Liabilities								
Financial derivative liabilities	-	5,255	-	5,255	-	-	-	-
	-	5,255	-	5,255	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

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

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices (level 1).

For financial instruments not quoted in active markets, the Group uses a valuation technique such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs (level 2).

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

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

(d) Credit Risk

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

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

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

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

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to Board approval. Refer to Note 13 for information on guarantees provided.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(d) Credit Risk (continued)

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

	2011 $'000	2010 $'000
Cash and cash equivalents		
Counterparties with external credit ratings		
A+	514	23,478
A-	15,441	-
Total cash and cash equivalents	15,955	23,478
Trade and Other Receivables		
Counterparties with external credit ratings		
A+	3,098	1,709
A-	183	-
Counterparties without external credit ratings		
Counterparties with no defaults in the past	6,518	7,414
Total trade and other receivables	9,799	9,123
Environmental and other bonds		
Counterparties with external credit ratings		
A+	-	3,911
A-	4,046	-
Counterparties without external credit ratings		
Counterparties with no defaults in the past	293	233
Total trade and other receivables	4,339	4,144

(e) Interest Rate Risk

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. For the year ended 31 December 2011, the majority of the Group's borrowings have been denominated in both euro (EUR) and USD.

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

	2011				2010			
	Floating Interest Rate $'000	Non Interest Bearing $'000	Total $'000	Average Interest Rate %	Floating Interest Rate $'000	Non Interest Bearing $'000	Total $'000	Average Interest Rate %
Financial assets								
Cash and cash equivalents	15,955	-	15,955	0.8	23,478	-	23,478	3.8
Receivables from associate	1,998	-	1,998	11.0	1,302	-	1,302	10.5
Environmental bonds	4,046	293	4,339	1.9	4,144	-	4,144	1.9
	21,999	293	22,292		28,924	-	28,924	
Financial liabilities								
Bank loans (i)	4,029		4,029	4.2	-	-	-	-
Factoring facility drawn down (ii)	1,871		1,871	2.3	1	-	1	2.3
	5,900		5,900		1	-	1	

(i) Loan is denominated in EUR, the benchmark interest rate is three month euribor plus 1.85%.
(ii) Facility denominated in USD, the benchmark interest rate is on week libor plus 1.35%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(e) Interest Rate Risk (continued)

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

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

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

(f) Foreign Exchange Risk

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

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

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

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

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

The Company and Group's financial performance is also affected by movements in SEK:AUD and EUR:AUD. In accordance with the requirements of the Australian Accounting Standards, exchange gains and losses on intercompany loans that do not form part of a reporting entities net investment in foreign operations are recognised in profit or loss within the consolidated entity.

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

(i) US dollar

	2011 $'000	2010 $'000
Financial assets		
Cash and cash equivalents	2,895	8
Trade receivables	3,460	6,112
Currency forward contracts	-	4
	6,355	6,124
Financial liabilities		
Factoring facility drawn down	1,871	1
Gold forward contracts – current	2,130	-
Currency forward contracts - current	2,922	-
Currency forward contracts – non-current	203	-
	7,126	1
Net exposure	(771)	6,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(f) Foreign Exchange Risk (continued)

(ii) Euro

	2011 $'000	2010 $'000
Financial assets		
Cash and cash equivalents	4,513	2,628
Net exposure	4,513	2,628

In 2011, the Company embarked on an extensive development and exploration program at the Svartliden Gold Mine. In order to mitigate some of the risk associated with the movements in gold price and the USD:SEK exchange rate during that time, the Company implemented a gold forward sales contract program in February 2011 of 16,000 ounces of gold denominated in SEK.

In order to implement the program, the Group entered into separate currency and gold forward contracts simultaneously for the same value.

The following table summarises the USD:SEK currency derivatives facility held at year end.

	2011		2010	
	US dollars $'000	Forward Rate USD:SEK	US dollars $'000	Forward Rate USD:SEK
3 months or less	5,607	6.408	-	-
	5,607	6.408	-	-

In May 2011, the Company's 100% owned Finnish subsidiary, Dragon Mining Oy secured a €3.8 million debt facility with Nordea Bank. The drawdown of the facility was subject to a minimum EUR denominated gold forward sales contract program of 30,000 ounces (10,000 ounces in 2011 and 20,000 ounces in 2012).

In order to implement the program, the Group entered into separate currency and gold forward contracts simultaneously for the same value.

The following table summarises the USD:EUR currency derivatives facility held at year end.

	2011		2010	
	US dollars $'000	Forward Rate EUR:USD	US dollars $'000	Forward Rate EUR:USD
3 months or less	7,670	1.4285	1,298	1.3321
Over 3 months to 12 months	21,959	1.4217	-	-
Over 12 months to 24 months	2,707	1.4113	-	-
	32,336	1.4220	1,298	1.3321

(g) Commodity Price Risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(g) Commodity Price Risk (continued)

In relation to the SEK gold derivative program outlined in Note 28(f), the following table summarises the USD gold forward sales contract derivative facility held at year end.

	2011		2010	
	Volume ounces	**Forward Price USD**	**Volume ounces**	**Forward Price USD**
3 months or less	3,950	1,419	-	-
	3,950	1,419	-	-

Of this gold forward sales contract program, 15,724 ounces of gold was delivered into forward sales contracts at an average price of US$1,354 per ounce during the financial year.

In relation the EUR gold forward sales contract program outlined in Note 28(f), the following table summarises the USD gold derivative facility held at year end.

	2011		2010	
	Volume ounces	**Forward Price USD**	**Volume ounces**	**Forward Price USD**
3 months or less	5,100	1,504	-	-
Over 3 months to 12 months	16,400	1,504		
	21,500	1,504	-	-

Of this gold forward sales contract program, 8,500 ounces of gold was delivered into forward sales contracts at an average price of US$1,504 per ounce during the financial year. 1,500 ounces of gold was settled on 3 January 2012.

(h) Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets and liabilities to interest rate risk, foreign exchange risk and gold price risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit and equity would have been affected as shown. The analysis has been performed on the same basis for 2011 and 2010.

31 December 2011		**Interest Rate Risk**		**Interest Rate Risk**	
		-1%		**+1%**	
		Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets	**Note**				
Cash and cash equivalents	i	(160)	(160)	160	160
Receivables from associates	iii	(20)	(20)	20	20
Government bonds	v	(43)	(43)	43	43
Financial liabilities					
Interest-bearing loans and borrowings	viii	59	59	(59)	(59)
Total (decrease)/increase		(164)	(164)	164	164

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(h) Sensitivity Analysis (continued)

31 December 2011	Note	Foreign Exchange -10% Profit $'000	Foreign Exchange -10% Equity $'000	Foreign Exchange +10% Profit $'000	Foreign Exchange +10% Equity $'000	Gold Price -10% Profit $'000	Gold Price -10% Equity $'000	Gold Price +10% Profit $'000	Gold Price +10% Equity $'000
Financial assets	**Note**								
Cash and cash equivalents	i	741	741	(741)	(741)	-	-	-	-
Trade and other receivables	ii	400	400	(400)	(400)	-	-	-	-
Receivables from associates	iii	-	-	-	-	-	-	-	-
Intercompany loans	iv	5,487	5,487	(5,487)	(5,487)	-	-	-	-
Government bonds	v	-	-	-	-	-	-	-	-
Financial liabilities									
Gold forward contracts	vi	-	-	-	-	3,927	3,927	(3,927)	(3,927)
Currency forward contracts	vii	(3,731)	(3,731)	3,731	3,731	-	-	-	-
Interest-bearing loans and borrowings	viii	(187)	(187)	187	187	-	-	-	-
Total increase / (decrease)		2,710	2,710	(2,710)	(2,710)	3,927	3,927	(3,927)	(3,927)

i. Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
ii. Trade receivables include A$0.2m of gold bullion and A$3.3m of gold concentrate receivables denominated in USD.
iii. Receivables from associate are denominated in AUD and are at floating interest rates.
iv. Intercompany loans are denominated in AUD, SEK and EUR. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in profit or loss.
v. Interest-bearing environmental cash bonds that have been deposited with Swedish and Finnish government authorities.
vi. Gold forward contracts are denominated in USD.
vii. Currency forward contracts are denominated in USD:SEK and USD:EUR.
viii. Interest bearing loans and borrowings are denominated in EUR and USD

31 December 2010	Note	Interest Rate Risk -1% Profit $'000	Interest Rate Risk -1% Equity $'000	Interest Rate Risk +1% Profit $'000	Interest Rate Risk +1% Equity $'000	Foreign Exchange Risk -10% Profit $'000	Foreign Exchange Risk -10% Equity $'000	Foreign Exchange Risk +10% Profit $'000	Foreign Exchange Risk +10% Equity $'000
Financial assets	**Note**								
Cash and cash equivalents	i	(235)	(235)	235	235	293	293	(240)	(240)
Trade receivables	ii	-	-	-	-	679	679	(556)	(556)
Receivables from associate	iii	(13)	(13)	13	13	-	-	-	-
Receivables/loans from controlled entities	iv	-	-	-	-	5,928	5,928	(4,850)	(4,850)
Environmental bonds	v	(41)	(41)	41	41	-	-	-	-
Financial liabilities		-	-	-	-	-	-	-	-
Total increase / (decrease)		(289)	(289)	289	289	6,900	6,900	(5,646)	(5,646)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(i) Liquidity Risk

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

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and equity raisings.

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

	2011 $'000	2010 $'000
Within one year	20,018	6,760
Due between one and five years	203	8
	20,221	6,768

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

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

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

29 SIGNIFICANT EVENTS AFTER PERIOD END

On 6 February 2012, Dragon Mining Limited announced an underwritten renounceable pro rata rights issue to shareholders whose registered addresses are in Australia or New Zealand and who are registered as at 4.00 pm (AWST) on 15 February 2012 to raise approximately $15 million (before costs).

The primary use of the funds raised will be to advance exploration and metallurgical test work at the Kuusamo Gold Project towards feasibility and development at a more rapid rate and to undertake exploration on Kuusamo regional prospects.

Pursuant to the rights issue, the Company may issue a maximum of approximately 13,670,000 fully paid ordinary shares in the capital of the Company at an issue price of $1.10 each. The new shares will be offered on the basis of 1 New Share for every 5.5 fully paid ordinary shares held in the capital of the Company. The right to subscribe for new shares under the offer will be renounceable and the funds are expected to be available on 14 March 2012.

The rights issue is being fully sub-underwritten by the Company's two largest shareholders, Eurogold Limited and Nicolas Mathys.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 PARENT ENTITY INFORMATION

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

	2011 $'000	2010 $'000
Current Assets	5,036	19,462
Total assets	60,096	59,241
Current Liabilities	555	1,821
Total Liabilities	644	2,103
Issued Capital	105,621	103,565
Retained Earnings	(49,337)	(49,703)
Option Reserve	1,278	711
Convertible Note Premium Reserve	2,068	2,068
Available-for-sale Reserve	(178)	497
Total shareholder's equity	59,452	57,138
Profit/(loss) after tax of the parent entity	367	31,361
Total Comprehensive income of the parent entity	(308)	30,864

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

Refer to note 13.

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

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

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

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

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

Report on the Financial Report

We have audited the accompanying financial report of Dragon Mining Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(c), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the financial report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

1. the financial report of Dragon Mining Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 31 December 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 16 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Dragon Mining Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
28 February 2012

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

In relation to our review of the financial report of Dragon Mining Limited for the year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
28 February 2012