DRAGON MOUNTAIN GOLD

ABN 82 111 005 282

ANNUAL REPORT

30 June 2014

CORPORATE DIRECTORY

Current Directors

Robert Gardner	*Executive Director*
Paul Piercy	*Non-Executive Chairman*
Duncan McBain	*Non-executive Director*

Company Secretary

Jay Stephenson

Registered Office

Street:	182 Claisebrook Road Perth WA 6000
Postal:	PO Box 52 West Perth WA 6872
Telephone:	+61 (0)8 6141 3500
Facsimile:	+61 (0)8 6141 3599
Email:	info@dragonmountain.com.au
Website:	www.dragonmountain.com.au

Share Registry

Computershare Registry Services

Street:	Level 2, 45 St Georges Terrace Perth WA 6000
Postal:	GPO Box D182 Perth WA 6840
Telephone:	1300 850 505 (investors within Australia) +61 (0)8 9323 2000

Securities Exchange

Australian Securities Exchange

Street:	Exchange Plaza 2, The Esplanade Perth WA 6000
ASX Code:	DMG

Auditor

Crowe Horwarth Perth

Street:	Level 6, 256 St Georges Terrace Perth WA 6000
Postal:	PO Box P1213 Perth WA 6844
Telephone:	+61 0(8) 9481 1448

Corporate Adviser

Wolfstar Group Pty Ltd

Street:	Level 4, 66 Kings Park Road West Perth WA 6005
Telephone:	+61 (0)8 6141 3500

Solicitors to the Company

Bennett & Co

Postal:	GPO Box 5745, St Georges Terrace Perth WA 6831
Telephone:	+61 0(8) 6316 2200

Hotchkin Hanly Lawyers

Postal:	PO Box Z5004 St Georges Terrace Perth WA 6831
Telephone:	+61 0(8) 9218 7700

Watson, Farley & Williams *in association with*
Lau, Leong & Co

Postal:	Units 1703-1707, One Pacific Place 88 Queensway, Hong Kong
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ANNUAL REPORT
30 JUNE 2014

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DRAGON MOUNTAIN GOLD

DIRECTORS' REPORT

Your Directors present their report together with the summary of the financial information of Dragon Mountain Gold Limited ("the Company") and its controlled entity ("the Consolidated Entity" or "the Group") for the financial year ended 30 June 2014 and the auditor's report thereon.

1. DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

- Mr Robert Gardner — *Executive Chairman*
- Mr Paul Piercy — *Non-executive Director*
- Mr Zhu Ben Fu — *Non-executive Director (resigned 7 August 2013)*
- Mr Duncan Robert McBain — *Non-executive Director (Appointed 7 August 2013)*

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. For additional information of Directors including details of the qualifications of Directors please refer to paragraph 9 Information on Directors of this Directors Report.

2. COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:

- Mr Jay Stephenson — Mr Stephenson has been involved in business development for over 25 years including approximately 21 years as Director, Chief Financial Officer and Company Secretary for various listed and unlisted entities in resources, manufacturing, wine, hotels and property. He has been involved in business acquisitions, mergers, initial public offerings, capital raisings, business restructuring as well managing all areas of finance for companies.

  Mr Jay Stephenson holds a Master of Business Administration, is a Fellow of the Certified Practising Accountants (Australia), a Certified Management Accountant (Canada), a Fellow of the Australian Institute of Company Secretaries and Member of the Australian Institute of Company Directors.

  Mr Jay Stephenson is currently a non-executive Chairman of Quintessential Resources Limited, and is a Director of Drake Resources Limited, Doray Minerals Limited, Nickelore Limited and Strategic Minerals Corporation NL as well as Company Secretary for a number of ASX listed companies.

3. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group prior to December 2011 were mineral exploration, evaluation and development in China. In December 2011 the Company sold its subsidiary, Long Province Resources Limited. The remaining activities in China are in the process of being wound up.

The Directors of the Company continue to examine other opportunities with a view to identifying a new project for the Group.

4. DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or recommended during the financial year ended 30 June 2014.

5. REVIEW OF OPERATIONS

During the financial year the Board continued to evaluate major projects in Australia and overseas with a view to securing a new project for the Group.

The Group had $4,552,558 in cash reserves at the end of the year. Directors are continuing to manage the Group's cash flow in this difficult capital raising environment for junior exploration companies.

The Board are in the process of reviewing its strategy in order to find the right project that will benefit the Group going forward. The assessment and due diligence of projects needs to be done with these factors taken into consideration. The Board feels that it may be possible to take advantage of the current cash position to obtain a financially economic project.

DIRECTORS' REPORT

5.1. Operating results

The consolidated loss of the Group for the year excluding minority equity interests amounted to $563,005 (2013: $337,841). The increase is wholly attributable to the reduction in interest received during the current financial year.

5.2. Financial position

The net assets of the Group have decreased by $559,634 from 30 June 2013 to $4,891,227 at 30 June 2014.

As at 30 June 2014, the Group's cash and cash equivalents decreased from 30 June 2013 by $904,582 to $4,552,558 and had working capital of $4,666,507 (2013: $5,403,032 working capital).

6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no other significant changes to the state of affairs of the Group.

7. EVENTS SUBSEQUENT TO REPORTING DATE

There are no other significant events subsequent to reporting date that are not covered within the financial statements at Note 20 Events Subsequent To Reporting Date on page 47.

8. LIKELY DEVELOPMENTS

The Group will continue to pursue its policy of identifying and assessing opportunities and mineral prospects with a view to acquiring and developing projects capable of economic mineral production.

No other likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations have not been included in this report as the Directors believe that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

9. INFORMATION ON DIRECTORS

Mr Robert Gardner	Chairman (Executive)
Experience and Qualifications	Mr Gardner is a Perth based business proprietor, with over 27 years' experience in the mining industry. Mr Gardner has developed a number of projects that are now major assets of ASX listed companies and has extensive experience in the China region. He was the original founder and funder of the Lixian Project, prior to its acquisition by the Company. Mr Gardner is also a major shareholder in the Company.
Interest in Shares and Options	54,316,817 ordinary Shares in Dragon Mountain Gold Limited.
Directorships held in other listed entities	Executive Chairman of Nickelore Limited, from October 2010 to present.

DIRECTORS' REPORT

Mr Paul Piercy	Director (Non-executive)
Experience and Qualifications	Mr Piercy is a metallurgist who has held senior management and technical positions within the Rio Tinto Limited group during the 1980s and 1990s, including General Manager of Hamersley Iron's Dampier port and rail operations, General Manager of Hamersley Iron's Paraburdoo & Channar operations and Managing Director of Novacoal and Kembla Coal & Coke. More recently Mr Piercy was Managing Director of WesTrac Equipment from 1997 to 2000 before playing an integral role in the successful establishment of WesTrac China, as its Chairman/CEO based in China.
Interest in Shares and Options	1,760,000 ordinary Shares in Dragon Mountain Gold Limited.
Directorships held in other listed entities	Non-Executive Chairman of APAC Coal Limited, from September 2007 to October 2010. Non-Executive Director of Australasian Resources Limited, February 2006 to present; Nickelore Limited, November 2010 to present; and Quest Minerals Limited, 22 April 2013 to present.
Mr Duncan M^{c}Bain	Director (Non-Executive) – appointed 7 August 2013
Experience and Qualifications	Mr M^{c}Bain has over 36 years' experience in the resources industry, and is currently the principal of Operandi Consulting which evaluates resource opportunities and sources potential projects for a range of industry clients. From January to May 2013 Mr M^{c}Bain was a non-executive director of Equator Resources Limited. Prior to this Mr M^{c}Bain was the Managing Director of ASX listed IMX Resources which he took from explorer through to production at its Cairn Hill magnetite-copper project in South Australia. By spinning out the Nachingwea nickel project in Tanzania into a TSX-V listed vehicle, IMX was able to retain a 53% interest in the project and advance the project from discovery through to pre-feasibility at minimal cost to IMX shareholders.
Interest in Shares and Options	Nil
Directorships held in other listed entities	Non-Executive Director of Equator Resources Limited, January 2013 to May 2013. Managing Director of IMX Resources Limited from March 2006 to August 2011.
Mr Ben Fu Zhu	Director (Non-Executive) – Resigned 7 August 2013
Experience and Qualifications	Mr Zhu is an international lawyer specializing in the law and practice of international trade and economic cooperation within China. Mr Zhu brings to the board 20 years of legal and commercial experience as a lawyer and corporate executive. Mr Zhu is now one of the partners and managing director of B&J Partners Law Firm in Beijing, China. His legal practice, and commercial experience, encompass areas of international trade, international financial leasing, trust and investments, international investment projects, commerce mining and other cooperative projects between Chinese and foreign investors, including corporate reorganisation.
Interest in Shares and Options	Nil
Special Responsibilities	None
Directorships held in other listed entities	No directorships in any other listed entities as at the reporting date or in the past three years.

DIRECTORS' REPORT

10. MEETINGS OF DIRECTORS

During the financial year two meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year are stated in the following table.

			COMMITTEE MEETINGS					
	DIRECTORS' MEETINGS		DUE DILIGENCE COMMITTEE		REMUNERATION COMMITTEE		AUDIT COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Robert Gardner	2	2	*At the date of this report, the Remuneration Committee, Audit Committee and Nomination Committee comprise the full Board of Directors. The Directors believe the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of these separate committees. Accordingly, all matters capable of delegation to such committees are considered by the full Board of Directors.*					
Paul Piercy	2	2						
Duncan McBain	1	2(1)						
Ben Fu Zhu	1	-						

(1) One meeting attended by invitation.

11. INDEMNIFYING OFFICERS OR AUDITOR

11.1. Indemnification

The Company entered into an Agreement with each Director of the Company indemnifying them against liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, with the exception of conduct involving a wilful breach of duty or improper use of information to gain a personal advantage. This agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not entered into any agreement with its current auditors indemnifying them against any claims by third parties arising from their report on the financial report.

11.2. Insurance premiums

Since the end of the previous financial year the Group paid insurance premiums of $15,407 in respect of Directors and Officers liability insurance contracts for current and former Directors and Officers of the Company.

12. OPTIONS

12.1. Unissued shares under option

At the date of this report, there were no un-issued ordinary shares of Dragon Mountain Gold Limited under option (listed or unlisted) (2013: nil).

No person entitled to exercise the option has or has any right by virtue of the option to participate in any share issue of any other body corporate.

DIRECTORS' REPORT

12.2. Shares issued on exercise of options

No ordinary shares were issued by the Company as a result of the exercise of options during or since the end of the financial year.

13. ENVIRONMENTAL REGULATIONS

The Group's operations are subject to environmental regulations in relation to its exploration activities. The Directors are not aware of any outstanding breaches.

The Directors have considered the enacted *National Greenhouse and Energy Reporting Act 2007* (the NGER Act) which introduced a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act has no effect on the Company for the current, nor subsequent, financial year. The Directors will reassess this position as and when the need arises.

14. NON-AUDIT SERVICES

During the year, Crowe Horwarth Perth, the Company's auditor, did not perform any services other than their statutory audits.

Details of remuneration paid to the auditor can be found within the financial statements at Note 4 Auditor's Remuneration on page 36.

In the event that non-audit services are provided by Crowe Horwarth Perth, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the Corporations Act 2001. These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The Directors are satisfied that the provision of non-audit services Crowe Horwarth Perth (or by another person or firm on Crowe Horwarth Perth's behalf is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth).

15. PROCEEDINGS ON BEHALF OF COMPANY

Other than the matters described in note 26 Contingent Liabilities on page 54 of the financial statements, no person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

16. AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 30 June 2014 has been received and can be found on page 13 of the annual report.

DIRECTORS' REPORT

17. REMUNERATION REPORT (AUDITED)

17.1. Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key Management Personnel ("KMP") have authority and responsibility for planning, directing and controlling the activities of the Group. KMP comprise the directors of the Company.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The remuneration policy of Dragon Mountain Gold Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Dragon Mountain Gold Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

Shares and options may only be issued to directors subject to approval by shareholders in a general meeting.

The Board has no established retirement or redundancy schemes.

The remuneration structure for KMP is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group. The contracts for service between the Company and KMP are on a continuing basis, the terms of which are not expected to change in the immediate future.

The Board determines the proportion of fixed and variable compensation for each KMP.

a. Fixed Remuneration

All executives receive a base salary (which is based on factors such as qualifications and experience), superannuation, fringe benefits, and options and have the ability to receive performance incentives.

The Australian domiciled executive directors and executives receive a superannuation guarantee contribution as required by the government, which is currently 9.25%, and do not receive any other retirement benefits.

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Shares provided to Directors and executives are valued as the difference between the market price of those shares and the amount paid by the Director or executive. Options are valued using the Black-Scholes methodology in accordance with accounting standards.

b. Performance Based Remuneration – Short-term and long-term incentive structure

The Board will review executive packages annually by reference to the Group's performance and executive performance and comparable information from industry sectors using independent external advice where appropriate.

- Short-term incentives

  No short-term incentives in the form of cash bonuses were granted during the year.

- Long-term incentives

  The Board has a adopted an Incentive Option Plan and a Performance Rights Plan of granting incentive equity to directors, executives, and employees. Incentive equity granted generally only is of benefit if the recipients perform to the level whereby the value of the Group increases sufficiently to warrant exercising the incentive options granted.

c. Service Contracts

The employment conditions of the executive director, Mr Robert Gardner and other KMP are formalised in contracts of employment. Terms of employment contracts are structured to industry standards including normal provisions for termination and notice periods.

DIRECTORS' REPORT

17. REMUNERATION REPORT (AUDITED)

d. Non-executive Directors

Total compensation for all non-executive directors are set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Non-executive directors' fees are presently limited to an aggregate of $400,000 per annum, in accordance with a resolution at the 2008 annual general meeting.

Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, Directors are encouraged to hold shares in DMG and are able to participate in the employee option plan.

Fees for the Non-Executive Directors for the financial year were $104,759 (2013: $104,500) and cover main Board activities only. Non-Executive Directors may receive additional remuneration for other services provided to the Group.

e. Engagement of Remuneration Consultants

During the financial year, the Company did not engage any remuneration consultants.

f. Relationship between Remuneration of Key Management Personnel and Shareholder Wealth

During the Group's exploration and development phases of its business, the Board anticipates that the Company will retain earnings (if any) and other cash resources for the exploration and development of its resource projects. Accordingly, the Company does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore, there was no relationship between the Board's policy for determining, or in relation to, the nature during the current and previous financial years.

The Board did not determine the nature and amount of remuneration of the KMP by reference to changes in the price at which shares in the Company traded between the beginning and end of the current and previous financial years. However, as noted above, the Directors of the Company received incentive options in which generally would only be of value if the Company's share price increased sufficiently to warrant exercising the incentive options.

g. Relationship between Remuneration of Key Management Personnel and Earnings

As discussed above, the Group is currently undertaking exploration activities and does not expect to be undertaking profitable operations (other than by way of material asset sales, none of which is currently planned) until sometime after the successful commercialisation, production and sales of commodities from its projects. Accordingly, the Board does not consider earnings during the current and previous financial years when determining the nature and amount of remuneration of KMP.

17.2. Remuneration Details for the Year Ended 30 June 2014

There were no cash bonuses paid during the year and there are no set performance criteria for achieving cash bonuses.

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the KMP of the Group**:**

DIRECTORS' REPORT

17. REMUNERATION REPORT (AUDITED)

2014 *Key Management Person*	Short-term benefits				Post-employment benefits	Long-term benefits	Equity-settled share-based payments		Total	Compen-sation consisting of options
	Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Super-annuation	Other	Equity	Options		
	$	$	$	$	$	$	$	$	$	%
Robert Gardner[(1)]	354,250	-	-	-	-	-	-	-	354,250	-
Paul Piercy	50,000	-	-	-	4,625	-	-	-	54,625	-
Duncan M^cBain[(2)]	45,027	-	-	-	-	-	-	-	45,027	-
Ben Fu Zhu[(3)]	5,107	-	-	-	-	-	-	-	5,107	-
Jay Stephenson[(4)]	-	-	-	-	-	-	-	-	-	
	454,384	-	-	-	4,625	-	-	-	459,009	-

2013 *Key Management Person*	Short-term benefits				Post-employment benefits	Long-term benefits	Equity-settled share-based payments		Total	Compen-sation consisting of options
	Salary, fees and leave	Profit share and bonuses	Non-monetary	Other	Super-annuation	Other	Equity	Options		
	$	$	$	$	$	$	$	$	$	%
Robert Gardner[(1)]	354,250	-	-	-	-	-	-	-	354,250	-
Paul Piercy	50,000	-	-	-	4,500	-	-	-	54,500	-
Ben Fu Zhu[(3)]	50,000	-	-	-	-	-	-	-	50,000	-
Jay Stephenson[(4)]	-	-	-	-	-	-	-	-	-	
Keith Platel[(5)]	38,038	-	-	-	-	-	-	-	38,038	-
	492,288	-	-	-	4,500	-	-	-	496,788	-

(1) Fastwitch Enterprises Pty Ltd, a company controlled by Mr Gardner, receives director's fees and consulting services provided by Mr Gardner in respect of the Company's operations.

(2) Operandi Consulting Pty Ltd, a company controlled by Duncan McBain, receives director's fees in respect to Mr McBain.

(3) Mr Zhu resigned as a director 7 August 2013.

(4) Wolfstar Group Pty Ltd, a company jointly controlled by Mr Stephenson, provides financial services and Company Secretarial services to Dragon Mountain Gold Limited. These services are provided indirectly by Mr Stephenson and have therefore not been included in remuneration. Please refer to Note 22 Related Party Transactions on page 48 for further details.

(5) Mr Platel's services were provided through his company Darya Pty Ltd. Mr Platel previously acted in the capacity of chief financial officer to the Group, During the 2014 financial year Mr Platel acted only as a consultant to the Chairman, and no longer considered KMP.

17.3. Service Agreements

Dragon Mountain Gold Limited has a contract with Fastwitch Enterprises Pty Ltd (previously Thegold Corporation Pty Ltd) for the services of Robert Gardner as Executive Chairman at a rate of $354,250 per annum paid monthly with no fixed duration. The contract can be terminated with three months' notice or payment in lieu.

Non-Executive Directors have service contracts with Dragon Mountain Gold Limited providing a salary of $50,000 per annum paid monthly unless they contract their services through a private company in which case no Superannuation Guarantee is payable. Directors based in Australia are paid Superannuation Guarantee at a rate of 9.25%. Directors who contract their services through a private company do not receive Superannuation Guarantee payments. There are no notice periods or termination payments provided under the contracts.

DIRECTORS' REPORT

17. REMUNERATION REPORT (AUDITED)

Dragon Mountain Gold Limited has a contract with Operandi Consulting Pty Ltd for the services of Duncan McBain as Non-Executive Director providing a salary of $50,000 per annum paid monthly. The contract can be terminated by either party without notice. No termination payment is provided under the contract.

Dragon Mountain Gold Limited has a contract with Wolfstar Corporate Management Pty Ltd for the services of Mr Stephenson as Company Secretary at a rate of $4,000 per month paid monthly. The contract can be terminated by either party without notice. No termination payment is provided under the contract.

17.4. Share-based compensation

a. **Director and Key Management Personnel Options**

No options were on issue as at 30 June 2014 to Directors or KMP (2013: nil).

b. **Share-based Payments**

No options were granted as remuneration during the year to Directors or KMP.

17.5. Key management personnel equity holdings

a. **Fully paid ordinary shares of Dragon Mountain Gold Limited held by each KMP**

30 June 2014	Balance at start of year No.	Received during the year as compensation No.	Received during the year on the exercise of options No.	Other changes during the year[(1)] No.	Balance at end of year No.
Robert Gardner	54,316,817	-	-	-	54,316,817
Paul Piercy	1,760,000	-	-	-	1,760,000
Duncan McBain	-	-	-	-	-
Ben Fu Zhu[(2)]	-	-	-	-	-
Jay Stephenson	-	-	-	-	-
	56,076,817	-	-	-	56,076,817

30 June 2013	Balance at start of year No.	Received during the year as compensation No.	Received during the year on the exercise of options No.	Other changes during the year[(1)] No.	Balance at end of year No.
Robert Gardner	51,316,817	-	3,000,000	-	54,316,817
Paul Piercy	760,000	-	-	1,000,000	1,760,000
Duncan McBain	-	-	-	-	-
Ben Fu Zhu[(2)]	-	-	-	-	-
Jay Stephenson	-	-	-	-	-
	52,076,817	-	3,000,000	1,000,000	56,076,817

(1) Other changes during the year relate to shares purchased or sold on market.

(2) Mr Zhu resigned as a director 7 August 2013

DIRECTORS' REPORT

17. REMUNERATION REPORT (AUDITED)

b. Options in Dragon Mountain Gold Limited held by each KMP

30 June 2014	Balance at start of year No.	Granted as Remuneration during the year No.	Exercised during the year No.	Other changes during the year No.	Balance at end of year No.	Vested and Exercisable No.	Not Vested No.
Robert Gardner	-	-	-	-	-	-	-
Paul Piercy	-	-	-	-	-	-	-
Duncan McBain	-	-	-	-	-	-	-
Ben Fu Zhu[(1)]	-	-	-	-	-	-	-
Jay Stephenson	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

30 June 2013	Balance at start of year No.	Granted as Remuneration during the year No.	Exercised during the year No.	Other changes during the year No.	Balance at end of year No.	Vested and Exercisable No.	Not Vested No.
Robert Gardner	3,000,000	-	(3,000,000)	-	-	-	-
Paul Piercy	-	-	-	-	-	-	-
Duncan McBain	-	-	-	-	-	-	-
Ben Fu Zhu[(1)]	-	-	-	-	-	-	-
Jay Stephenson	-	-	-	-	-	-	-
	3,000,000	-	(3,000,000)	-	-	-	-

[(1)] Mr Zhu resigned as a director 7 August 2013

17.6. Loans to key management personnel

There are no loans made to directors of the Group as at 30 June 2014 (2013: nil).

17.7. Other transactions with key management personnel

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer Note 22 Related party transactions on page 48.

END OF REMUNERATION REPORT

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001* (Cth).

R. Gardner.

ROBERT GARDNER
Chairman
Dated this Tuesday, 30 September 2014

Crowe Horwath™

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Dragon Mountain Gold Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 30 September 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 $	2013 $
Continuing operations			
Revenue	2	200,498	667,201
Other income	2	69,463	(32,029)
		269,961	635,172
Accounting and audit fees		(109,714)	(125,847)
Computers and communications		(31,703)	(7,499)
Depreciation	11	(28,266)	(6,240)
Employee benefits expenses	3	(521,250)	(623,266)
Exploration expenditure written-off	12	(28,465)	(30,003)
Insurance		(19,187)	(19,654)
Occupancy Expenses		(18,720)	(48,459)
Professional fees		(37,364)	(32,938)
Regulatory expenses		(24,869)	(57,416)
Travel and accommodation		(8,656)	(21,691)
Other expenses		(4,772)	-
Loss before tax	3	(563,005)	(337,841)
Income tax benefit / (expense)	5	-	-
Loss from continuing operations		(563,005)	(337,841)
Discontinued Operations			
Loss from discontinued operations	7	-	(150,286)
Loss after income tax expense from discontinued operations		-	(150,286)
Net loss for the year		(563,005)	(488,127)
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss:			
Foreign currency movement		3,371	(713)
Other comprehensive income for the year, net of tax		3,371	(713)
Total comprehensive income attributable to members of the parent entity		(559,634)	(488,840)
Profit/(loss) for the period attributable to:			
Non-controlling interest		-	-
Owners of the parent		(563,005)	(488,127)
Total comprehensive income/(loss) attributable to:			
Non-controlling interest		-	-
Owners of the parent		(559,634)	(488,840)
Earnings per share:		¢	¢
Basic loss per share (cents per share)	6	(0.21)	(0.19)
Continuing operations			
Basic loss per share (cents per share)	6	(0.21)	(0.13)
Discontinued Operations			
Basic loss per share (cents per share)	6	nil	(0.06)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note	2014 $	2013 $
Current assets			
Cash and cash equivalents	8	4,552,558	5,457,140
Trade and other receivables	9	144,285	62,401
Other current assets	10	18,592	17,877
Total current assets		4,715,435	5,537,418
Non-current assets			
Plant and equipment	11	206,128	29,952
Exploration and evaluation assets	12	-	-
Total non-current assets		206,128	29,952
Total assets		4,921,563	5,567,370
Current liabilities			
Trade and other payables	13	30,336	99,469
Short-term provisions	14	-	17,040
Total current liabilities		30,336	116,509
Total liabilities		30,336	116,509
Net assets		4,891,227	5,450,861
Equity			
Issued capital	15	33,081,803	33,081,803
Reserves	16	-	320,164
Accumulated losses		(28,190,576)	(27,951,106)
Total equity		4,891,227	5,450,861

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

	Note	Issued Capital $	Accumulated Losses $	Foreign Exchange Translation Reserve $	Options Reserve $	Non-controlling Interest $	Total $
Balance at 1 July 2012		63,722,300	93,461,199	305,333	176,400	21,781,708	179,446,940
Loss for the year attributable owners of the parent		-	(488,127)	-	-	-	(488,127)
Other comprehensive income for the year attributable owners of the parent		-	(713)	-	-	-	(713)
Total comprehensive income for the year attributable owners of the parent		-	(488,840)	-	-	-	(488,840)
Transaction with owners, directly in equity							
Shares issued during the year:							
Exercise of options		675,000	-	-	-	-	675,000
Return of capital		(31,491,897)	-	-	-	(899,472)	(32,391,369)
Dividend paid		-	(118,509,672)	-	-	(23,296,029)	(141,805,701)
Effect of exchange rate changes on capital		-	-	14,831	-	-	14,831
Non-controlling interests relating to disposed subsidiary		-	(2,413,793)	-	-	2,413,793	-
Cancellation of options		176,400	-	-	(176,400)	-	-
Balance at 30 June 2013		33,081,803	(27,951,106)	320,164	-	-	5,450,861
Balance at 1 July 2013		33,081,803	(27,951,106)	320,164	-	-	5,450,861
Loss for the year attributable owners of the parent		-	(563,005)	-	-	-	(563,005)
Other comprehensive income for the year attributable owners of the parent		-		3,371	-	-	3,371
Total comprehensive income for the year attributable owners of the parent		-	(563,005)	3,371	-	-	(559,634)
Transaction with owners, directly in equity							
Reclassification on disposal		-	323,535	(323,535)	-	-	-
Shares issued during the year		-	-	-	-	-	-
Transaction costs		-	-	-	-	-	-
Options issued during the year		-	-	-	-	-	-
Balance at 30 June 2014		33,081,803	(28,190,576)	-	-	-	4,891,227

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Payments to suppliers and employees		(820,757)	(984,748)
Interest received		147,448	4,966,076
Net cash used in operating activities	18a	(673,309)	3,981,328
Cash flows from investing activities			
Purchase of property, plant and equipment		(206,179)	(11,608)
Payments for exploration expenditure		(28,465)	(37,784)
Net cash used in investing activities		(234,644)	(49,392)
Cash flows from financing activities			
Capital returned to shareholders		-	(31,491,897)
Dividend paid		-	(118,509,671)
Net cash provided by financing activities		-	(150,001,568)
Net increase/(decrease) in cash held		(907,953)	(146,069,632)
Cash and cash equivalents at the beginning of the year		5,457,140	**Error! Reference source not found.**
Effects of exchange rate changes on the balance of cash held in foreign currencies		3,371	-
Cash and cash equivalents at the end of the year	8	4,552,558	5,457,140

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These are the consolidated financial statements and notes of Dragon Mountain Gold Limited ("Company") and controlled entities ("Consolidated Group" or "Group"). Dragon Mountain Gold Limited is a company limited by shares, domiciled and incorporated in Australia.

The separate financial statements of the parent entity, Dragon Mountain Gold Limited, have not been presented with this financial report as permitted by the *Corporations Act 2001* (Cth).

a. Basis of preparation

i. Statement of compliance

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth).

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements were authorised for issue on 30 September 2014 by the directors of the Company.

ii. Financial position

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

iii. Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1s on page 27.

iv. Comparative figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

b. Principles of consolidation

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the Consolidated Group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

i. Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree;

less

- the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

A list of controlled entities is contained in note 17 Controlled Entities on page 46 of the financial statements.

iii. Non-controlling interests

The consolidated entity applies a policy of treating transactions with non-controlling interests as transactions with parties external to the consolidated entity. Gains and losses that arise as a change in ownership interest through dilution are recognised in the Statement of Comprehensive Income.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance

iv. Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, than such interest is measured at fair value at the date control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained

v. Transactions eliminated on consolidation

All intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

c. Foreign currency transactions and balances

i. Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

ii. Transaction and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are retranslated to the functional currency at the foreign exchange rate at year-end.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

iii. Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at year-end. The income and expenses of foreign operations are translated to Australian dollars at the average exchange rates for the period.

Foreign currency differences are recognised directly in equity. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve in the statement of financial position. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

d. Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

Warrior Advance Pty Ltd was deregistered during the 2013 financial year and was been treated as a discontinued operation in the 30 June 2013 financial report.

The results of discontinued operations are presented separately in note 7 Discontinued Operations on page 40.

e. Exploration and development expenditure

i. Recognition and measurement

Exploration and evaluation costs, including the costs of acquiring licenses, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation costs are recognised as an asset if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage 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 of interest are continuing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

ii. Subsequent measurement

Exploration and evaluation assets are assessed for impairment if:

(1) sufficient data exists to determine technical feasibility and commercial viability,

(2) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (accounting policy 1o: Impairment of non-financial assets on page 26).

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash-generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation assets to mine properties within property, plant and equipment.

The value of the Group's interest in exploration expenditure is dependent upon:

(1) the continuance of the Group's rights to tenure of the areas of interest;

(2) the results of future exploration; and

(3) the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Group's exploration properties may be subjected to claim(s) under Native Title (or jurisdictional equivalent), or contain sacred sites, or sites of significance to the indigenous people of China.

As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

f. Income Tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items recognised outside profit or loss.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

g. Plant and Equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 1o Impairment of non-financial assets and note 1e Exploration and development expenditure).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in profit or loss

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

ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as an expense as incurred.

iii. Depreciation

With the exception of exploration and evaluation assets, depreciation is charged to the income statement on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

Depreciation rates and methods are reviewed annually for appropriateness. The depreciation rates used for the current and comparative period are:

	2014 %	2013 %
Motor vehicles	N/A	14% – 20%
Plant and equipment	5% – 10%	5% – 10%
Office equipment	5% – 40%	5% – 40%
Software	40%	40%
Leasehold improvements	7%	7%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

h. Employee Benefits

i. Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions onto a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

ii. Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

Refer to note 14 Provisions on page 43.

iii. Other long-term benefits

For the period ending 30 June 2014, no amount for long term benefits has been recognised in the financial statements as the Group has no employees.

i. Equity-settled compensation

The Group operates an employee share option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve.

The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

No options in respect to the plan were issued or on issue for the financial year ended 30 June 2014.

j. Revenue and other income

Interest revenue is recognised in accordance with note 1m.viii Financial income and expenses.

All revenue is stated net of any value added taxes (note 1k Value-added taxes).

k. Value-added taxes

Value-added tax (VAT) is the generic term for the broad-based consumption taxes that the Group is exposed to such as: Australia (GST); China (VAT)

Revenues, expenses, and assets are recognised net of the amount of VAT, except where the amount of VAT incurred is not recoverable from the relevant country's taxation authority. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (or jurisdictional equivalent) is included as a current asset or liability in the balance sheet.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT component of investing and financing activities, which are disclosed as operating cash flows.

l. Leases

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

Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised in the income statement on a straight-line basis over the term of the lease.

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

m. Financial instruments

i. Initial recognition and measurement

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified on the contract expire or are discharged or cancelled.

ii. Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

iii. Classification and subsequent measurement

(1) *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments, such as term deposits with original maturities of nine (9) months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the statement of financial position. Refer also Note 1x Change in Accounting Policies.

(2) *Loans*

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Loans are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period.

(3) *Trade and other receivables*

Trade and other receivables are stated at amortised cost. Receivables are usually settled within 60 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Collectability of trade and other debtors is reviewed on an ongoing basis. An impairment loss is recognised for debts which are known to be uncollectible. An impairment provision is raised for any doubtful amounts.

(4) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised. Refer also Note 1x Change in Accounting Policies.

(5) *Trade and other payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and stated at their amortised cost. The amounts are unsecured and are generally settled on 30 day terms.

(6) *Share capital*

Ordinary issued capital is recorded at the consideration received. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Ordinary issued capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

iv. Amortised cost

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

v. Effective interest method

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

vi. Impairment

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

vii. Derecognition

Financial assets are derecognised where the contractual rights to cash flow expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

viii. Financial income and expenses

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

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

Foreign currency gains and losses are reported on a net basis.

n. Earnings per share

i. Basic earnings per share

Basic earnings (or loss) per share is determined by dividing the profit or loss attributable to equity holders of the parent company, excluding any costs of service equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

ii. Diluted earnings per share

Diluted earnings (or loss) per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares which comprise share options granted as Share-based payments.

The Group does not report diluted earnings per share, as dilution is not applied to annual losses generated by the Group, and the company has no dilutionary equity instruments on issue as at 30 June 2014 (2013: nil).

o. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets (1f Income Tax) and exploration and evaluation assets (1e Exploration and development expenditure) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. 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 the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

p. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

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, when appropriate, the risks specific to the liability.

q. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

r. Fair value estimation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Information about the assumptions made in determining fair values of assets and liabilities is disclosed in the notes specific to that asset or liability.

s. Critical Accounting Estimates and Judgments

Management discusses with the Board the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Key Judgments – Exploration and evaluation expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at reporting date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note (1e Exploration and development expenditure). The carrying value of capitalised expenditure at reporting date is $nil.

The ultimate recoupment of the value of the exploration and evaluation assets and mine properties is dependent on successful development and commercial exploitation or alternatively, sale, of the underlying mineral exploration properties. The Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

The key areas of estimation and judgment that are considered in this review include:

- recent drilling results and reserves and resource estimates;
- environmental issues that may impact the underlying tenements;
- the estimated market value of assets at the review date;
- independent valuations of underlying assets that may be available;
- fundamental economic factors such as diamond prices, exchange rates and current and anticipated operating costs in the industry; and
- the Group's market capitalisation compared to its net assets.

Information used in the review process is rigorously tested to externally available information as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

During the financial year, the Group undertook assessment of its tenement assets, As a result of this assessment, and limited activity undertaken, the Group decided to not capitalise it exploration expenditure for the year ended 30 June 2014. Refer note 12 Exploration and evaluation assets on page 43.

ii. Key Judgments – Environmental **Issues**

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the company's development and its current environmental impact, the directors believe such treatment is reasonable and appropriate.

iii. Key Estimate – Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by tax authorities in relevant jurisdictions. Refer Note 5 Income tax on page 37.

t. Application of new and revised Australian Accounting Standards ("AASBs")

In the current year, the Group has applied a number of new and revised AASs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

i. AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*

Applicable for annual reporting periods commencing on or after 1 July 2013.

The Standard amends AASB 124 *Related Party Disclosures* to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the AASBs.

As a result the Group only discloses the KMP compensation in total and for each of the categories required in AASB 124.

In the current year the individual KMP disclosure previously required by AASB 124 (note 24 in the 30 June 2013 financial statements) is now disclosed in the remuneration report commencing on page 17, due to an amendment to Corporations Regulations 2001 issued in June 2013.

ii. AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

Applicable for annual reporting periods commencing on or after 1 January 2013.

This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments does not have any material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

iii. AASB 2012-5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*
Applicable for annual reporting periods commencing on or after 1 January 2013.

These amendments are a consequence of the annual improvements process, which provides a vehicle for making non-urgent but necessary amendments to Standards.

The amendments made are largely of the nature of clarifications or removals of unintended inconsistencies between Australian Accounting Standards (for example, AASB 101 is amended to clarify that related notes to an additional statement of financial position are not required in the event of a change in accounting policy, reclassification or restatement).

These amendments have had no significant impact on the entity for the 2014 financial year, given that they are largely of the nature of clarifications or removals of unintended inconsistencies between Australian Accounting Standards.

iv. AASB 2012-9 *Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation* 1039
This standard makes amendment to AASB 1048 *Interpretation of Standards* following the withdrawal of Australian Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*.

The adoption of this amending standard does not have any material impact on the consolidated financial statements.

v. AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* and AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (Part A Conceptual Framework)
This amendment has incorporated IASB's Chapters 1 and 3 Conceptual Framework for Financial Reporting as an Appendix to the Australian Framework for the Preparation and Presentation of Financial Statements. The amendment also included not-for-profit specific paragraphs to help clarify the concepts from the perspective of not-for-profit entities in the private and public sectors.

As a result the Australian Conceptual Framework now supersedes the objective and the qualitative characteristics of financial statements, as well as the guidance previously available in Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting*. The adoption of this amending standard does not have any material impact on the consolidated financial statements.

u. New and revised Standards on consolidation, joint arrangements, associates and disclosures

In August 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 (as revised in 2011) *Separate Financial Statements* and AASB 128 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to AASB 10, AASB 11 and AASB 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time AASB 10, AASB 11, AASB 12 and AASB 128 (as revised in 2011) together with the amendments to AASB 10, AASB 11 and AASB 12 reGardng the transitional guidance. AASB 127 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

i. AASB 10 *Consolidated Financial Statements* (issued August 2011)
Applicable for annual reporting periods commencing on or after 1 January 2013.

AASB 10 establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 *Consolidated and Separate Financial Statements* and AASB Interpretation 112 *Consolidation – Special Purpose Entities*.

The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional guidance for applying the model to specific situations, including when acting as an agent may give control, the impact of potential voting rights and when holding less than a majority voting rights may give 'de facto' control. This is likely to lead to more entities being consolidated into the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This Standard was first adopted for the year ended 30 June 2014. There was no impact on the transactions and balances recognised in the financial statements. The Group does not utilise any special purpose entities.

ii. AASB 11: *Joint Arrangements* (issued August 2011)
Applicable for annual reporting periods commencing on or after 1 January 2013.

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and AASB Interpretation 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, AASB 11 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 for liabilities are accounted for by recognising the share of those assets and liabilities. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

This Standard was first adopted for the year ended 30 June 2014. There was no impact on transactions and balances recognised in the financial statements because the Group has no arrangements crystallised into joint arrangements and require reporting as such.

iii. AASB 12 *Disclosure of Interests in Other Entities* (issued August 2011)
Applicable for annual reporting periods commencing on or after 1 January 2013.

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures introduced by AASB 12 include disclosures 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.

As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. Additional disclosure will be required for interests in associates, joint arrangements, and unconsolidated structured entities, should the Group acquire interests in such entities in the future.

iv. *AASB 13: Fair Value Measurement* (issued September 2011)
Applicable for annual reporting periods commencing on or after 1 January 2013.

AASB 13 establishes a single source of guidance 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 by other Standards.

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.

This Standard was first adopted for the year ended 30 June 2014.The Group does not have any material assets or liabilities significantly impacted by this Standard. Consequently, additional disclosures under this Standard, required about fair values, have had minimal impact to the financial statements.

v. AASB 2012-10 *Amendments to Australian Accounting* Standards *– Transition Guidance and Other Amendments*
Applicable for annual reporting periods commencing on or after 1 January 2013.

AASB 2012-10 clarifies the transition guidance in AASB 10 *Consolidated Financial Statements*.

It also provides additional transition relief in AASB 10, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities* by limiting the requirement to provide adjusted comparative information only to the immediately preceding comparative period. In addition, for disclosures related to unconsolidated structured entities, AASB 2012-10 removes the requirement to present comparative information for any periods beginning before the first annual reporting period for which AASB 12 is applied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Furthermore, AASB 2012-10 defers the mandatory effective date of AASB 10, AASB 11, AASB 12, AASB 127 Separate Financial Statements (August 2011) and AASB 128 Investments in Associates and Joint Arrangements (August 2011) for not-for-profit entities from 1 January 2013 to 1 January 2014.

This Standard was first adopted for the year ended 30 June 2014. There was no impact on transactions and balances recognised in the financial statements because the Group has no arrangements.

v. Other new and revised Standards

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

i. AASB 119 *Employee Benefits* (September 2011)

Applicable for annual reporting periods commencing on or after 1 January 2013.

Consequential amendments were also made to other standards via AASB 2011-10.

Main changes include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods
- Subtle amendments to timing for recognition of liabilities for termination benefits
- Employee benefits 'expected to be settled' (as opposed to 'due to be settled' under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.

The Group does not have any defined benefit plans. Therefore, these amendments will have no significant impact on the Group.

w. New Accounting Standards for Application in Future Periods

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

i. AASB 9 *Financial Instruments* (issued December 2009 and amended December 2010)

Applicable for annual reporting periods commencing on or after 1 January 2015.

AASB 9 introduces new requirements for the classification and measurement of financial assets and 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:

- 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; and (2) the characteristics of the contractual cash flows.
- 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 (instead of in profit or loss). 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.
- 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.
- 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); and
  - The remaining change is presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

Consequential amendments arising from AASB 9 are contained in AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010), AASB 2010-10 *Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters* and AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*.

The entity has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018 and the IASB is yet to finalise the remaining phases of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 in Australia).

ii. AASB 2012-3 *Amendments to Australian* Accounting *Standards – Offsetting Financial Assets and Financial Liabilities*
Applicable for annual reporting periods commencing on or after 1 January 2014.

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

When AASB 2012-3 is first adopted for the year ended 30 June 2015, there will be no impact on the Group as this standard merely clarifies existing requirements in AASB 132.

iii. AASB 2013-3 *Recoverable Amount Disclosures for Non-Financial Assets*
Applicable for annual reporting periods commencing on or after 1 January 2014.

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 *Fair Value Measurement*, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 *Impairment of Assets*.

When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the entity given that they are largely of the nature of clarification of existing requirements

iv. AASB 1031 *Materiality* (December 2013)
Applicable for annual reporting periods commencing on or after 1 January 2014.

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (issued December 2013) that contain guidance on materiality. The AASB is progressively removing references to AASB 1031 in all Standards and Interpretations, and once all these references have been removed, AASB 1031 will be withdrawn.

When the revised AASB 1031 is first adopted for the year ending 30 June 2015, it is unlikely to have any significant impact on the entity.

v. AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (Part B: Materiality)
Applicable for annual reporting periods commencing on or after 1 January 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Part B of AASB 2013-9 deletes references to AASB 1031 in various Australian Accounting Standards (including Interpretations).

When these amendments are first adopted for the year ending 30 June 2015, they are unlikely to have any significant impact on the entity.

vi. AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* (Part C: Financial Instruments)

Applicable for annual reporting periods commencing on or after 1 January 2015.

These amendments:

- add a new chapter on hedge accounting to AASB 9 *Financial Instruments*, substantially overhauling previous accounting requirements in this area;
- allow the changes to address the so-called 'own credit' issue that were already included in AASB 9 to be applied in isolation without the need to change any other accounting for financial instruments; and
- defer the mandatory effective date of AASB 9 from '1 January 2015' to '1 January 2017'.

Note that, subsequent to issuing these amendments, the AASB has issued AASB 2014-1 which defers the effective date of AASB 9 to '1 January 2018'.

The entity has not yet assessed the full impact of these amendments.

vii. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)

Applicable for annual reporting periods commencing on or after 1 July 2014

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

(1) clarify that the definition of a 'related party' includes a management entity that provides KMP services to the reporting entity (either directly or through a group entity); and

(2) (b) amend AASB 8 *Operating Segments* to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

viii. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part B: Defined Benefit Plans: Employee Contributions (Amendments to AASB 119))

Applicable for annual reporting periods commencing on or after 1 July 2014

Part B of AASB 2014-1 makes amendments to AASB 119 *Employee Benefits* to incorporate the IASB's practical expedient amendments finalised in International Financial Reporting Standard Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) in relation to the requirements for contributions from employees or third parties that are linked to service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. In contrast, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by paragraph 70 of AASB 119 for the gross benefit.

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

ix. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part C: Materiality)
Applicable for annual reporting periods commencing on or after 1 July 2014

Part C of AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 *Materiality*, which historically has been referenced in each Australian Accounting Standard.

When these amendments are first adopted for the year ending 30 June 2015, there will be no material impact on the entity.

x. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part D: Consequential Amendments arising from AASB 14)
Applicable for annual reporting periods commencing on or after 1 January 2016

Part D of AASB 2014-1 makes consequential amendments arising from the issuance of AASB 14.

When these amendments become effective for the first time for the year ending 30 June 2017, they will not have any impact on the entity.

xi. AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E: Financial Instruments)
Applicable for annual reporting periods commencing on or after 1 January 2015

Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 *Financial Instruments* to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 Hedge Accounting into AASB 9 and to amend reduced disclosure requirements for AASB 7 *Financial Instruments: Disclosures* and AASB 101 *Presentation of Financial Statements.*

The entity has not yet assessed the full impact of these amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

x. Change in Accounting Policies

The Group voluntarily changed its accounting policy relating to the classification of the term deposits for the financial year ending 30 June 2014. Term deposits were previously recognised by the Group as Held to Maturity Investments. The Group has now determined that the nature of these accounts more accurately meet the definition of cash and cash equivalents under AASB 107 *Statement of Cash Flows*.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. In the case of the Group, the use of a term deposit was deemed by the Board as the most appropriate bank account facility that provided ready access to funds, however provided a higher interest rate on funds deposited than a standard bank account. Funds are transferred from the term deposit to the Company's standard bank accounts to indirectly fund payments to third-parties.

A cash equivalent must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. As such, the Company regularly transfer funds from term deposits. The values are defined amounts of cash, with no change in value due the transfer (other than standard bank fees, if any). The value of the term deposit is at the equivalent level of risk as that of standard bank accounts held by the Company. The value of the term deposit at the end of its term can be no less than that amount which is deposited as the principal.

Whilst the Company's terms deposit exceed the suggested three months or less of AASB 107, the Group's term deposits have a maturity of less than a year, as despite being rolled over, they are treated no differently than a standard bank account. Funds may be accessed and transferred from the term deposit to the standard bank accounts funding the transactional account for third-party transaction

This change has been implemented as management is of the opinion that the change in classification will provide more relevant information and will result in financial statements providing reliable and more relevant information about the conditions of the entity's financial position and cash flows

i. Adjustments made to statement of financial position

		As at 30 June 2013		
		Under Previous Accounting Policy	Voluntarily changed in accounting policy	30 June 2013 $ (restated)
Assets				
Cash at bank	8	112,005	5,345,135	5,457,140
Held to maturity investments		5,345,135	(5,345,135)	-
Other		80,278	-	80,278
Total current assets		5,537,418	-	5,537,418
Total non-current assets		29,952	-	29,952
Total assets		5,567,370	-	5,567,370
Liabilities				
Total current liabilities		116,509	-	116,509
Total non-current liabilities		-	-	-
Total liabilities		116,509	-	116,509
Net assets		5,450,861	-	5,450,861
Equity				
Total equity		5,450,861	-	5,450,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 2 REVENUE AND OTHER INCOME

	2014 $	2013 $
a. **Revenue**		
Interest revenue	200,498	667,201
Total revenue	200,498	667,201
b. **Other income**		
Loss on disposal of assets	-	(32,029)
Net gain on settlement of liabilities of through exchange of assets	69,463	-
Total other income	69,463	(32,029)

NOTE 3 LOSS BEFORE INCOME TAX

	2014 $	2013 $
The following significant revenue and (expense) items are relevant in explaining the financial performance:		
a. **Employee benefits:**		
Wages and salaries	507,319	600,324
Increase / (decrease) in provision for annual leave	4,078	7,758
Superannuation expenses	9,853	15,184
Total personnel expenses	521,250	623,266

NOTE 4 AUDITOR'S REMUNERATION

	2014 $	2013 $
Remuneration of the auditor of the Group for:		
Auditing or reviewing the financial reports	28,900	31,000
	28,900	31,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 5 INCOME TAX

		2014 $	2013 $
a. Income tax expense / (benefit)			
Current tax		-	-
Deferred tax		-	-
Tax rebate for Research and Development		-	-
		-	-
Deferred income tax expense included in income tax expense comprises:			
Increase / (decrease) in deferred tax assets	5c	-	-
(Increase) / decrease in deferred tax liabilities	5d	-	-
		-	-
b. Reconciliation of income tax expense to prima facie tax payable			
The prima facie tax payable / (benefit) on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:			
Prima facie tax on operating loss at 30% (2013: 30%)		(168,902)	(146,438)
Add / (Less)			
Tax effect of:			
Permanent taxation differences		(11,660)	-
Non-deductible expenses		-	(32,475,855)
Effect of unrecognised temporary difference		(15,089)	1,270,132
Deferred tax asset not brought to account		195,651	31,352,161
Income tax expense / (benefit) attributable to operating loss		-	-
Less rebates:			
Tax rebate for Research and Development		-	-
Income tax expense / (benefit)		-	-
		%	%
The applicable weighted average effective tax rates attributable to operating profit are as follows		nil	nil
		$	$
Balance of franking account at year end		nil	nil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 5 INCOME TAX (cont.)

	Note	2014 $	2013 $
c. Deferred tax assets			
Tax losses		1,670,969	1,515,665
Provisions and accruals		-	4,496
		1,670,969	1,520,161
Set-off deferred tax liabilities	5d	(10,592)	-
Net deferred tax assets		1,660,377	1,520,161
Less deferred tax assets not recognised		(1,660,377)	(1,520,161)
Net tax assets		-	-
d. Deferred tax liabilities			
Property, plant, and equipment		10,592	-
		10,592	-
Set-off deferred tax liabilities	5c	(10,592)	-
Net deferred tax liabilities		-	-
e. Tax losses			
Unused tax losses for which no deferred tax asset has been recognised, that may be utilised to offset tax liabilities:			
Deductible temporary differences		-	4,496
Revenue losses		1,660,377	1,515,665
Capital losses		-	-
		1,660,377	1,520,161

Potential deferred tax assets attributable to tax losses and exploration expenditure carried forward have not been brought to account at 30 June 2014 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

i. the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;

ii. the company continues to comply with conditions for deductibility imposed by law; and

iii. no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the loss and exploration expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 6 EARNINGS PER SHARE ("EPS")

	2014 $	2013 $
a. Reconciliation of earnings to profit or loss		
Loss for the year attributable to owners of the Company	(559,634)	(488,840)
Loss attributable to non-controlling equity interest ("NCI")	-	-
Loss used in the calculation of basic EPS	(559,634)	(488,840)
b. Reconciliation of earnings to profit or loss from continuing operations		
Loss from continuing operations attributable to owners of the Company	(563,005)	(337,841)
Loss from continuing operations attributable to NCI	-	-
Loss used in the calculation of basic EPS from continuing operations	(563,005)	(337,841)
c. Reconciliation of earnings to profit or loss from discontinued operations		
Loss from discontinued operations attributable to owners of the Company	-	(150,286)
Loss from discontinued operations attributable to NCI	-	-
Loss used in the calculation of basic EPS from discontinued operations	-	(150,286)

	2014 No.	2013 No.
d. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	263,530,515	263,505,857

		2014 ¢	2013 ¢
e. Earnings per share			
Basic EPS (cents per share)	6e.i, ii	(0.21)	(0.19)
Basic EPS from continuing operations (cents per share)	6e.i, ii	(0.21)	(0.13)
Basic EPS from discontinued operations (cents per share)	6e.i, ii	nil	(0.06)

i. The Group does not report diluted earnings per share, as dilution is not applied to annual losses generated by the Group, and the company has no dilutionary equity instruments on issue as at 30 June 2014 (2013: nil).

ii. The Group is in a loss making position and it is unlikely that the conversion to, calling of, or subscription for, ordinary share capital in respect of potential ordinary shares would lead to diluted earnings per share that shows an inferior view of the earnings per share. Therefore in the event the Group has dilutionary equity instruments on issue, the diluted loss per share for the year ended 30 June 2014 is the same as basic loss per share, whilst the Group remains loss making.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 7 DISCONTINUED OPERATIONS

Dragon Mountain Gold Ltd owned 83.6% of the issued shares of Warrior Advance Pty Ltd. On 4 November 2011, Warrior Advance Pty Ltd ("Warrior") entered into an agreement to sell 100% of its interest in its wholly owned subsidiary, Long Province Resources Limited and its subsidiary companies, Gansu Long Ao Mining Co. Ltd and Gansu Long Jin Mining Resources Co. Ltd ("LPR Group"). The sale was approved by shareholders on 15 December 2011 and receipt of funds and transfer of shares occurred on 30 December 2011.

On 4 March 2013 Warrior Advance Pty Ltd was deregistered after liquidating its remaining assets and paying out its liabilities. Financial information relating to Warrior to the date of deregistration is set out below.

The financial performance of Warrior to the date of deregistration which is included in profit/ (loss) from discontinued operations per the Statement of Comprehensive Income is as follows:

	2014 $	2013 $
Administration expenses	-	(71,432)
Impairment expense	-	(79,161)
Profit/(loss) from operating activities	-	(150,593)
Finance income	-	307
Net finance income	-	307
Profit/(loss) before income tax expense	-	307
Income tax expense	-	-
Profit/(loss) for the period	-	(150,286)
Profit/(loss) for period including profit on sale of subsidiary	-	(150,286)
Profit/(loss) from operations for discontinued subsidiary	-	(150,286)

The net cash flows of the discontinued subsidiary which have been incorporated into the statement of cash flows are as follows:

	2014 $	2013 $
Net cash used in operating activities	-	10,833
Net cash from financing activities	-	(234,824)
Net increase (decrease) in cash from discontinued operations	-	(223,991)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 8 CASH AND CASH EQUIVALENTS

		2014 $	2013 $ (restated)
Cash at bank		130,490	112,005
Short-term term deposits	8a,1x	4,422,068	5,345,135
		4,552,558	5,457,140

a. The effective interest rate on short-term term deposits and maturity date was as follows:

	Principal %	Terms (Days)	Interest rate %	Maturity Date
Dragon Mountain Gold Limited term deposit	422,068	30	3.05	21 July 2014
Dragon Mountain Gold Limited term deposit	4,000,000	181	3.73	21 August 2014
	4,422,068			

b. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24 Financial Risk Management on page 49.

NOTE 9 TRADE AND OTHER RECEIVABLES

		2014 $	2013 $
Current			
Value-added tax receivable	9a	69,125	16,981
Other receivables		75,160	45,420
		144,285	62,401

a. Value-added tax (VAT) is a generic term for the broad-based consumption taxes that the Group is exposed to such as: Australia (GST) and in China (VAT).

b. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24 Financial Risk Management on page 49.

NOTE 10 OTHER ASSETS

	2014 $	2013 $
Current		
Prepayments	17,729	16,458
Deposits	863	1,419
	18,592	17,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 11 PLANT AND EQUIPMENT	2014 $	2013 $
Non-current		
Furniture and fittings	16,740	16,740
Accumulated depreciation	(8,949)	(6,285)
	7,791	10,455
Office equipment	54,213	55,408
Accumulated depreciation	(46,565)	(44,055)
	7,648	11,353
Leasehold improvements	205,138	5,058
Accumulated amortisation	(14,449)	(22)
	190,689	5,036
Software	4,940	23,174
Accumulated depreciation	(4,940)	(20,066)
	-	3,108
Motor vehicles	-	64,542
Accumulated depreciation	-	(64,542)
	-	-
Total plant and equipment	206,128	29,952

a. **Movements in Carrying Amounts**

	Furniture and Fittings $	Office equipment $	Leasehold Improvements $	Software $	Motor vehicles $	Total $
Carrying amount at the beginning of year	10,455	11,353	5,036	3,108	-	29,952
Additions	-	4,362	200,080	-	-	204,442
Depreciation expense	(2,664)	(8,067)	(14,427)	(3,108)	-	(28,266)
Carrying amount at the end of year	7,791	7,648	190,689	-	-	206,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 12 EXPLORATION AND EVALUATION ASSETS

		2014 $	2013 $
Non-current			
Exploration expenditure capitalised:			
Exploration and evaluation phase at cost		-	-
Net carrying value	12a	-	-

a. **Movements in Carrying Amounts**

	2014 $	2013 $
Balance at the beginning of year	-	-
Expenditure during the period	28,465	30,003
Exploration impairment	(28,465)	(30,003)
Carrying amount at the end of year	-	-

NOTE 13 TRADE AND OTHER PAYABLES

	2014 $	2013 $
Current		
Unsecured		
Trade payables	30,169	58,189
Other creditors and accruals	167	41,280
	30,336	99,469

a. Trade payables are non-interest bearing and usually settled within the lower of terms of trade or 30 days.

b. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24 Financial Risk Management on page 49.

NOTE 14 PROVISIONS

	2014 $	2013 $
Current		
Provision for employee benefits		
Balance at the beginning of year	17,040	13,658
Movement	(17,040)	3,382
Carrying amount at the end of year	-	17,040

a. **Annual Leave**

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

The Company currently has no employees accrued leave entitlements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 15 ISSUED CAPITAL

	Note	2014 $	2013 $
The Company has issued share capital amounting to 263,530,515 (2013: 263,530,515) fully paid ordinary shares at no par value.	15a	33,081,803	33,081,803

a. Ordinary shares

	2014 $	2013 $
At the beginning of the reporting period	33,081,803	63,722,300
Shares issued during the year:		
‣ 3,000,000 Shares issued at $0.225 on exercise of options on 9 Oct 2012	-	675,000
Cancellation of options	-	176,400
Return of capital	-	(31,491,897)
At reporting date	33,081,803	33,081,803

	2014 No.	2013 No.
At the beginning of the reporting period	263,530,515	260,530,515
Shares issued during the year:		
‣ 3,000,000 Shares issued at $0.225 on exercise of options on 9 Oct 2012	-	3,000,000
Cancellation of options	-	-
Return of capital	-	-
At reporting date	263,530,515	263,530,515

The Company does not have authorised capital in respect to its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

During the 2013 year, the Company declared and paid an amount of $150,001,569 as dividends and return of capital. The Company has no franking credits available.

b. Options

For information relating to the Dragon Mountain Gold Limited scheme, including details of options issued, issued and lapsed during the financial year, and the options outstanding at balance date, refer to note 19 Share-based payments on page 47.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 15 ISSUED CAPITAL (cont.)

c. **Capital Management**

i. Capital management policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As the Group incurs net cash outflows from operations and has large accumulated losses, the primary method used to adjust its capital structure is the issue of new shares. The Group has determined that where possible it will issue ordinary shares to avoid any restrictions on its use of capital or commit to interest payments. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

There are no externally imposed capital requirements.

ii. Current ratio

The current ratio the Group at 30 June 2014 and 30 June 2013 were as follows:

	2014	2013
Current ratio	155.44	47.53

iii. Working capital position

The working capital position of the Group at 30 June 2014 and 30 June 2013 were as follows:

	2014 $	2013 $
Cash and cash equivalents	4,552,558	5,457,140
Trade and other receivables	144,285	62,401
Trade and other payables	(30,336)	(99,469)
Short-term provisions	-	(17,040)
Working capital position	4,666,507	5,403,032

NOTE 16 RESERVES

	Note	2014 $	2013 $
Foreign exchange reserve	16a	-	320,164
		-	320,164

a. **Foreign Exchange Translation Reserve**

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign controlled subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 17 CONTROLLED ENTITIES

Controlled Entities	Country of Incorporation	Class of Shares	Percentage Owned	
			2014 %	2013 %
Xinjiang Pan Pacific Mining Co Ltd	China	Ordinary	75.0	75.0

a. Investments in subsidiaries are accounted for at cost.

b. Dragon Mountain Gold Limited is the ultimate parent of the Group.

NOTE 18 CASH FLOW INFORMATION

	Note	2014 $	2013 $
a. Reconciliation of cash flow from operations to loss after income tax			
Loss after income tax		(563,005)	(488,840)
Cash flows excluded from profit attributable to operating activities			
Non-cash settlement of payables		(68,049)	-
Non-cash flows in profit from ordinary activities:			
Exploration impairment		28,465	37,782
Depreciation		28,266	6,240
Effects of foreign exchange on translation		-	713
Loss on disposal of asset		-	32,029
Other		-	18,960
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries			
(Increase)/decrease in trade and other receivables		(81,884)	4,309,054
(Increase)/decrease in prepayments		(1,232)	-
Increase/(decrease) in trade and other payables		1,170	61,736
Increase/(decrease) in provisions		(17,040)	3,654
Cash flow from operations		(673,309)	3,981,328

b. **Credit Standby Facilities**

The Group has no credit standby facilities.

c. **Non-Cash Investing and Financing Activities**

The Group has no non-cash investing and financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 19 SHARE-BASED PAYMENTS

	Note	2014 $	2013 $
Share-based payment expense		-	-

a. **Share-based payment arrangements existed during the period**

30 June 2014: Nil (2013: nil)

b. **Options granted to Key Management Personnel are as follow**

30 June 2014: Nil (2013: nil)

c. **Movement in share-based payment arrangements during the period**

A summary of the movements of all company options issued as share-based payments is as follows:

	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	-	-	4,170,000	$0.330
Granted	-	-	(3,000,000)	$0.225
Exercised	-	-	(1,170,000)	$0.600
Expired	-	-	-	-
Outstanding at year-end	-	-	-	-
Exercisable at year-end				

i. No options were exercised during the year.

d. **Fair value of options grants during the period**

30 June 2014: Nil (2013: nil)

NOTE 20 EVENTS SUBSEQUENT TO REPORTING DATE

There have been no material events subsequent to reporting date

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 21 KEY MANAGEMENT PERSONNEL COMPENSATION

a. Key management personnel ("KMP")

The names are positions of KMP are as follows:

- Mr Robert Gardner — *Executive Chairman*
- Mr Paul Piercy — *Non-executive Director*
- Mr Zhu Ben Fu — *Non-executive Director (resigned 7 August 2013)*
- Mr Duncan Robert McBain — *Non-executive Director (Appointed 7 August 2013)*
- Jay Stephenson — *Company Secretary*

b. KMP compensation

The totals of remuneration paid to KMP during the year are as follows:

	2014 $	2013 $
Short-term employee benefits	454,384	492,288
Other short-term benefits	-	-
Post-employment benefits	4,625	4,500
Share-based payments	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Total	459,009	496,788

Refer to the Remuneration Report contained in the Director's Report on page 8 for details of the remuneration paid to each member of the Group's KMP for the year ended 30 June 2014.

NOTE 22 RELATED PARTY TRANSACTIONS

	2014 $	2013 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with Key Management Personnel:		
Fastwitch Enterprises Pty Ltd Fastwitch Enterprises Pty Ltd, a company controlled by Mr Gardner, receives payments for director's fees and consulting services provided by Mr Gardner in respect of the Company's operations. These services are provided directly and indirectly by Mr Gardner and are therefore reported in the Remuneration Report contained in the Directors' Report on page 8. Balances reported in this note 22 represent reimbursements of Company costs paid directly by Mr Gardner.	63,729	35,453
Wolfstar Group Corporate Management Wolfstar Group Corporate Management, a company jointly controlled by Mr Stephenson, provides financial services and company secretarial services to the Company. These services are provided directly and indirectly by Mr Stephenson and have therefore not been included in the Remuneration Report contained in the Directors' Report on page 8.	55,999	48,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 23 OPERATING SEGMENTS

a. Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are provided to the Board of Directors on a regular basis and in determining the allocation of resources. Management continually assesses the Group's segments and has identified the operating segments based on the one (1) principal location based on geographical areas and therefore different regulatory environments – Australia (2013: China). The Group operates predominantly in the minerals exploration and evaluation industry.

Due to its reduced activity, the Group currently operates materially in one business segment being and one geographical segment as described above. Accordingly, the financial information presented in the statement of comprehensive income and statement of financial position is the same as that presented to the chief operating decision maker.

NOTE 24 FINANCIAL RISK MANAGEMENT

a. Financial Risk Management Policies

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk, and the management of capital.

The Group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts payable and receivable.

The Group does not speculate in the trading of derivative instruments.

A summary of the Group's Financial Assets and Liabilities is shown below:

	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	2014 Total $	Floating Interest Rate $	Fixed Interest Rate $	Non-interest Bearing $	2013 Total $
Financial Assets								
Cash and cash equivalents	4,552,558	-	-	4,552,558	5,457,140	-	-	5,457,140
Trade and other receivables	-	-	144,285	144,285	-	-	62,401	62,401
Total Financial Assets	4,552,558	-	144,285	4,696,843	5,457,140	-	62,401	5,519,541
Financial Liabilities								
Financial liabilities at amortised cost								
Trade and other payables	-	-	30,336	30,336	-	-	99,469	99,469
Total Financial Liabilities	-	-	30,336	30,336	-	-	99,469	99,469
Net Financial Assets	4,552,558	-	113,949	4,666,507	5,457,140	-	(37,068)	5,420,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 24 FINANCIAL RISK MANAGEMENT (cont.)

b. Specific Financial Risk Exposures and Management

The main risk the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate, foreign currency risk and equity price risk.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Group's risk profile. This includes assessing, monitoring and managing risks for the Group and setting appropriate risk limits and controls. The Group is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for risk management and associated controls. Instead, the Board approves all expenditure, is intimately acquainted with all operations and discuss all relevant issues at the Board meetings. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively.

i. Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

- *Credit risk exposures*

The maximum exposure to credit risk is that to its alliance partners and that is limited to the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Credit risk related to balances with banks and other financial institutions is managed by the Group in accordance with approved Board policy. Such policy requires that surplus funds are only invested with financial institutions residing in Australia, where ever possible.

- *Impairment losses*

None of the Group's financial assets are past due (2013: $nil).

There has been no allowance for impairment in respect of the financial assets of the Group during this year.

ii. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. Any surplus funds are invested with major financial institutions.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within 30 days of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 24 FINANCIAL RISK MANAGEMENT (cont.)

iii. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Board meets on a regular basis and considers the Group's exposure currency and interest rate risk.

(1) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is not material to the Group as no debt arrangements have been entered into, and movement in interest rates on the Group's financial assets is not material.

(2) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in foreign currencies may impact on the Group's financial results. The Group's exposure to foreign exchange risk is minimal; however the Board continues to review this exposure regularly.

(3) Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group is exposed to securities price risk on investments held for trading or for medium to longer terms.

The investment in listed equities has been valued at the market price prevailing at balance date. Management of this investment's price risk is by ongoing monitoring of the value with respect to any impairment.

iv. Sensitivity Analyses

(1) Interest rates

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance sheet date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

A change of 100 basis points in the interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis for 2013.

	Profit $	Equity $
Year ended 30 June 2014		
±100 basis points change in interest rates	± 45,526	± 45,526
Year ended 30 June 2013		
±100 basis points change in interest rates	± 54,571	± 54,571

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 24 FINANCIAL RISK MANAGEMENT (cont.)

(2) Foreign exchange

The Group did not carry significant assets or liabilities in foreign currencies in the 2014 financial year (2013: nil), and therefore was not subject to material foreign exchange risk, and according not subject to material sensitivities.

v. Net Fair Values

(1) **Fair value estimation**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term investments in nature whose carrying value is equivalent to fair value.

The methods and assumptions used in determining the fair values of financial instruments are disclosed in the accounting policy notes specific to the asset or liability.

vi. Financial Liability and Asset Maturity Analysis

	Within 1 Year		Total	
	2014	2013	2014	2013
	$	$	$	$
Financial liabilities due for payment				
Trade and other payables	30,336	99,469	30,336	99,469
Total contractual outflows	30,336	99,469	30,336	99,469
Financial assets				
Cash and cash equivalents	4,552,558	5,457,140	4,552,558	5,457,140
Trade and other receivables	144,285	62,401	144,285	62,401
Total anticipated inflows	4,696,843	5,519,541	4,696,843	5,519,541
Net (outflow)/inflow on financial instruments	4,666,507	5,420,072	4,666,507	5,420,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 25 PARENT ENTITY DISCLOSURES

	Note	2014 $	2013 $
a. Financial Position of Dragon Mountain Gold Limited			
Current assets			
Cash and cash equivalents		4,552,558	5,448,403
Trade and other receivables		144,285	62,401
Other current assets		18,592	17,344
Total current assets		4,715,435	5,528,148
Non-current assets			
Plant and equipment		206,128	29,952
Total non-current assets		206,128	29,952
Total assets		4,921,563	5,558,100
Current liabilities			
Trade and other payables		30,336	20,219
Short-term provisions		-	17,040
Total current liabilities		30,336	37,259
Total liabilities		30,336	37,259
Net assets		4,891,227	5,520,841
Equity			
Issued capital	15	33,081,803	33,081,803
Accumulated losses		(28,190,576)	(27,560,962)
Total equity		4,891,227	5,520,841
b. Financial assets of Dragon Mountain Gold Limited			
Loans to subsidiaries		-	-
Shares in controlled entities at cost		-	-
Net carrying value		-	-
c. Financial performance of Dragon Mountain Gold Limited			
Loss for the year		(630,208)	(488,127)
Other comprehensive income		594	(713)
Total comprehensive income		(629,614)	(488,840)

d. **Guarantees entered into by Dragon Mountain Gold Limited for the debts of its subsidiaries**

There are no guarantees entered into by Dragon Mountain Gold Limited for the debts of its subsidiaries as at 30 June 2014 (2013: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

NOTE 25 PARENT ENTITY DISCLOSURES (cont.)

e. **Contingent liabilities of Dragon Mountain Gold Limited**

There are no contingent liabilities as at 30 June 2014, other than as detailed in note 26 Contingent Liabilities on page 54 (2013: none).

NOTE 26 CONTINGENT LIABILITIES

An employee, who had their employment terminated subsequent to the end of the half-year, lodged an unfair dismissal claim against the Company. Due to the preliminary nature of the claim, the amount of this claim has not yet been quantified.

NOTE 27 COMMITMENTS

There are no commitments as at 30 June 2014 (2013: nil),

NOTE 28 COMPANY DETAILS

The registered office of the Company is:

Address:

Street:	182 Claisebrook Road Perth WA 6000
Postal:	PO Box 52 West Perth WA 6872
Website:	www.dragonmountain.com.au
E-mail:	info@dragonmountain.com.au

The principal place of business is:

Finance and Administration Office:

Street:	Level 4, 66 Kings Park Road West Perth WA 6005
Postal:	PO Box 52 West Perth WA 6872
Telephone:	+61 (0)8 6141 3500
Facsimile:	+61 (0)8 6141 3599

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 14 to 54, are in accordance with the *Corporations Act 2001* (Cth) and:

   (a) comply with Accounting Standards;

   (b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1 to the financial statements; and

   (c) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Consolidated Group.

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

   (a) the financial records of the Consolidated Group for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001* (Cth);

   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

R. Gardner.

ROBERT GARDNER
Chairman

Dated this Tuesday, 30 September 2014

DRAGON
MOUNTAIN
GOLD

INDEPENDENT AUDIT REPORT TO MEMBERS OF DRAGON MOUNTAIN GOLD LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Dragon Mountain Gold Limited and its controlled entities, which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements also comply with International Financial Reporting Standards (IFRS).

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 the auditor's 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, the auditor considers internal control 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 control. 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 complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of Dragon Mountain Gold Limited is in accordance with the Corporations Act 2001 including:
   - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 8 to 12 of the Directors' Report for the year ended 30 June 2014. 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 for Dragon Mountain Gold Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

Crowe Horwath Perth

CROWE HORWATH PERTH

CYRUS PATELL

Partner

Signed at Perth, 30 September 2014

CORPORATE GOVERNANCE STATEMENT

Dragon Mountain Gold Limited ("the Company") has adopted systems of control and accountability as the basis for the administration of corporate governance. These policies and procedures can be found on the Company's website at www.dragonmountain.com.au/Corporate/corporate-governance.html.

The Board and management are committed to corporate governance and, to the extent they are applicable to the Company, have adopted the Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations 2nd Edition, as published by ASX Corporate Governance Council.

The ASX Principles are a voluntary code and compliance is not mandatory. The Company strives to meet the ASX Principles in a manner consistent with the resources, size and operational scope of the Company. To the extent that the Company is non-compliant with particular elements of the voluntary framework, the Company has adopted the "If not, why not?" principle, and provides explanatory materials relating to its compliance.

Whilst the Company strives to meet the ASX Principles, it does so in a manner consistent with the resources available to it, and within the context of its operating environment. During 2014 financial year, the Company was non-compliant with some of the ASX Principles. The following sections contain commentary on the areas of both compliance and non-compliance, and provide relevant commentary in accordance with the "If not, why not?" framework.

PRINCIPLES AND RECOMMENDATIONS		DID DRAGON MOUNTAIN GOLD LIMITED COMPLY?
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.*	*Complied with – refer www.dragonmountain.com.au/Corporate/corporate-governance.html*
1.2	*Companies should disclose the process for evaluating the performance of senior executives*	*Complied with – refer www.dragonmountain.com.au/Corporate/corporate-governance.html*
1.3	*Companies should provide the information indicated in the Guide to reporting on Principle 1*	*Explanation of departures from Recommendations 1.1 and 1.2 (if any) are set out above. The Company will also explain any departures from Recommendations 1.1 and 1.2 (if any) in its future annual reports*
2	**Structure the board to add value**	
2.1	*A majority of the board should be independent directors.*	*Currently, one (1) of the three (3) Directors is independent.* *The Board currently considers that, given the Company's size, it is not feasible to have a board of a majority of independent directors as it would be cost prohibitive and counterproductive.*
2.2	*The chair should be an independent director.*	*As at 30 June 2014, the Chairman is executive as Mr Gardner holds the position of executive chairman, and is not independent.* *The Board currently considers that, given the Company's size, it is not feasible apply this recommendation as it would be cost prohibitive.*
2.3	*The roles of chair and chief executive officer should not be exercised by the same individual.*	*Refer to 2.2 above.*
2.4	*The board should establish a nomination committee.*	*A separate Nomination Committee has not been formed* *The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors. Where appropriate, independent consultants will be engaged to identify possible new candidates for the Board.*
2.5	*Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.*	*Refer to 2.4 above.*
2.6	*Companies should provide the information indicated in the Guide to reporting on Principle 2*	*The Company has provided details of each Director, such as their skills, experience and expertise relevant to their position in the Information on Directors section on page 9 in the Directors Report and will also provide these details on its website and in future annual reports.* *Explanation of departures from Recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 (if any) are set out above. The Company will also explain any departures from Recommendations 2.1, 2.2, 2.3, 2.4 and 2.5 (if any) in its future annual reports.* *The Corporate Governance Plan is posted on the Company's website.*

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		DID DRAGON MOUNTAIN GOLD LIMITED COMPLY?
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.*	*The Company's Corporate Governance Plan includes a 'Corporate Code of Conduct', which provides a framework for decisions and actions in relation to ethical conduct in employment.*
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 measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.*	*Complied with – refer* *www.dragonmountain.com.au/Corporate/corporate-governance.html*
3.3	*Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them.*	*The Board has established and disclosed its policy concerning diversity. However, the Board considers due to the size of the Company that setting measurable diversity objectives is not appropriate. The Company currently has no employees and utilises external consultants and contractors as and when required.* *The Board will review this position on an annual basis and will implement measurable objectives as and when they deem the Company to require them.*
3.4	*Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.*	*Refer 3.3 above.*
3.5	*Companies should provide the information indicated in the Guide to reporting on Principle 3.*	*Explanation of departures from Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) are set out above. The Company will also explain any departures from Recommendations 3.1, 3.2, 3.3, and 3.4 (if any) in its future annual reports.* *The Corporate Governance Plan is posted on the Company's website.*
4	**Safeguard integrity in financial reporting**	
4.1	*The board should establish an audit committee.*	*Complied with – refer* *www.dragonmountain.com.au/Corporate/corporate-governance.html*
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; and* • *has at least three (3) members.*	*Complied with – refer* *www.dragonmountain.com.au/Corporate/corporate-governance.html*
4.3	*The audit committee should have a formal charter.*	*Complied with – refer* *www.dragonmountain.com.au/Corporate/corporate-governance.html*
4.4	*Companies should provide the information indicated in the Guide to reporting on Principle 4.*	*Explanation of departures from Recommendations 4.1, 4.2, and 4.3 (if any) are set out above. The Company will also explain any departures from Recommendations 4.1, 4.2, and 4.3 (if any) in its future annual reports.*
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.*	*Complied with – refer* *www.dragonmountain.com.au/Corporate/corporate-governance.html*
5.2	*Companies should provide the information indicated in Guide to Reporting on Principle 5.*	*The Company has not currently departed from Recommendation 5.1. The Company will provide an explanation of any departures from Recommendation 5.1 (if any) in its future annual reports.*

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES AND RECOMMENDATIONS		DID DRAGON MOUNTAIN GOLD LIMITED COMPLY?
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.*	*Complied with – refer www.dragonmountain.com.au/Corporate/corporate-governance.html*
6.2	*Companies should provide the information indicated in the Guide to reporting on Principle 6.*	*The Company has not currently departed from Recommendation 6.1. The Company will provide an explanation of any departures from Recommendation 6.1 (if any) in its future annual reports.*
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.*	*Complied with – refer www.dragonmountain.com.au/Corporate/corporate-governance.html*
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.*	*The Board has delegated to the Audit and Risk Committee responsibility for implementing the risk management system.*
7.3	*The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act 2001 (Cth) 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.*	*The executives acting in the capacities of Chief Executive and Chief Financial Officers state in writing to the Board that:* ▸ *The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board.* ▸ *The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*
7.4	*Companies should provide the information indicated in Guide to Reporting on Principle 7.*	*The Company has not currently departed from Recommendations 7.1, 7.2, and 7.3. The Company will provide an explanation of any departures from Recommendations 7.1, 7.2, and 7.3 (if any) in its future annual reports*
8	**Remunerate fairly and responsibly**	
8.1	*The board should establish a remuneration committee*	*Complied with – refer www.dragonmountain.com.au/Corporate/corporate-governance.html*
8.2	The remuneration committee should be structured so that it: - consists of a majority of independent directors - is chaired by an independent director - has at least three members	*The Board currently considers that, given the Company's size, it is not feasible apply this recommendation as it would be cost prohibitive.*
8.3	*Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*	*Complied with – refer www.dragonmountain.com.au/Corporate/corporate-governance.html*
8.4	*Companies should provide the information indicated in the Guide to reporting on Principle 8.*	*Explanation of departures from Recommendations 8.1, 8.2, and 8.3 (if any) are set out above. The Company will also provide an explanation of any departures from Recommendations 8.1, 8.2, and 8.3 (if any) in its future annual reports.*

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Securities Exchange in respect of listed public companies.

1 SHAREHOLDING AS AT 10 SEPTEMBER 2014

a. Distribution of Shareholders

Category (size of holding)	Total Holders	Number Ordinary	% Held of Issued Ordinary Capital
1 – 1,000	19	2,593	0.00
1,001 – 5,000	6	16,989	0.01
5,001 – 10,000	8	64,727	0.02
10,001 – 100,000	108	5,883,284	2.23
100,001 – and over	118	257,562,922	97.74
	259	263,530,515	100.00

b. Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $0.0160 per unit	31,250	62	640,926

c. Voting Rights

The voting rights attached to each class of equity security are as follows:

- **Ordinary shares**: Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

d. 20 Largest Shareholders — Ordinary Shares as at 10 September 2013.

Rank	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Fastwitch Enterprises Pty Ltd <NC A/C>	54,316,817	20.61
2.	HSBC Custody Nominees (Australia) Limited	14,469,956	5.49
3.	RJ & JG Holdings Pty Ltd <Swan Fab Exec Staff S/F A/C>	14,403,717	5.47
4.	Dromana Holdings Pty Ltd	13,982,301	5.31
5.	J P Morgan Nominees Australia Limited	13,879,205	5.27
6.	Coolcat Enterprises Pty Ltd	13,175,000	5.00
7.	Delta Hotel Pty Ltd	13,175,000	5.00
8.	Swiftylink Pty Ltd	13,175,000	5.00
9.	RJ & JG Holdings Pty Ltd <Swan Exec Super Fund A/C>	9,581,069	3.64
10.	UOB Kay Hian (Hong Kong) Limited <Clients A/C>	6,890,114	2.61
11.	Bellray Holdings Pty Ltd	6,876,740	2.61
12.	Mr Phillip Richard Perry	5,500,000	2.09
13.	Bellray Holdings Pty Ltd	5,186,929	1.97
14.	Klip Pty Ltd <Beirne Super Fund A/C>	4,615,000	1.75
15.	Dirdot Pty Limited <Griffith Super Fund A/C>	3,733,920	1.42
16.	Mr Thomas Edward Arthur + Ms Mary Jane Arthur <TE & MJ Arthur S/F A/C>	3,690,029	1.40
17.	Bellray Holdings Pty Ltd	3,481,852	1.32
18.	Mr Graeme John Clatworthy <G Clatworthy Family A/C>	3,000,000	1.14
19.	Sell Power Pty Ltd <Sellpower Super Fund A/C>	3,000,000	1.14
20.	Mr Ryan Mark Low + Mrs Sascha Bea Low <The Low Family Super A/C>	2,573,793	0.98
	TOTAL	208,706,442	79.22

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

2 The name of the Company Secretary is Jay Richard Stephenson.

3 PRINCIPAL REGISTERED OFFICE

As disclosed in Note 28 Company Details on page 54 of this Annual Report.

4 REGISTERS OF SECURITIES

As disclosed in the Corporate Directory on page i of this Annual Report.

5 STOCK EXCHANGE LISTING

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited, As disclosed in the Corporate Directory on page i of this Annual Report.

6 UNQUOTED SECURITIES

a. Options over Unissued Shares

The Company has nil options on issue.

7 USE OF FUNDS

The Company has used its funds in accordance with its initial business objectives.

TENEMENT REPORT

AS AT 30 JUNE 2014

Project/Tenements	Location	Held at end of quarter	Acquired during the year	Disposed during the year
XPPM License	China	100%	0%	0%

DRAGON MOUNTAIN GOLD