

20 FEBRUARY 2017

DRAGON MINING ANNOUNCES 2016 RESULTS

Dragon Mining Limited (“the Company”) (ASX:DRA) announces its audited financial results for the full year ending 31 December 2016.

The Company has reported a net profit after tax of \$5.3 million (FY15: \$2.6 million profit).

Notable features of the results for the financial year include:

- Sales revenue for the year was \$55.0 million (FY15: \$76.8 million) with the decrease attributable to reduced production from Orivesi and the cessation of processing third party concentrates at Svartliden.
- Total gold production was 34,426 ounces (FY15: 53,805 ounces) comprising 3,939 ounces from Svartliden and 30,487 ounces from Vammala.
- The Company achieved an average C1 cash cost of US\$788 per ounce (2015: US\$917 per ounce).
- Production costs decreased to \$50.6 million (2015: \$65.6 million) due to a combination of reduced operations and continued costs savings across all sites.
- Gross profit from operations was \$4.5 million (FY15: \$11.2 million).
- Cash and cash equivalents at year end is \$15.4 million (FY15: \$13.9 million) and was supported by continued positive cashflows from operating activities.
- The Company has net assets of \$30.8 million (2015: \$26.8 million), a working capital surplus of \$17.0 million (2015: surplus \$21.4 million) and a market capitalisation of \$18.7 million (2015: \$15.6 million).

With the Company’s present opportunities we look forward to the future development of the Company for the benefit of all shareholders.

Arthur Dew
Chairman

1 - The Company has adopted the C1 cash cost definitions as set out by MackenzieWood (formerly Brook Hunt).

Results for announcement to the market for the year ended 31 December 2016

Revenues from ordinary activities (2015: \$55.0 million, 2015: \$76.8 million)	
Decrease in revenue from previous corresponding period	(28.4%)
Profit from ordinary activities after tax 2016: \$5.3 million	
Profit from ordinary activities after tax 2015: \$2.6 million	
Increase in profit from previous corresponding period	103.8%
Profit from ordinary activities after tax attributable to members (2016: \$5.3 million, 2015: \$2.6 million)	
Increase in profit from previous corresponding period	103.8%

	Amount per Security	Franked Amount per Security
<i>Current Period:</i>		
Interim distribution	Nil	N/A
Final Distribution	Nil	N/A
<i>Previous Corresponding Period:</i>		
Interim distribution	Nil	N/A
Final distribution	Nil	N/A
<i>Record date for determining entitlements to the interim distribution</i>		N/A



DRAGON MINING LIMITED

ABN 19 009 450 051

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2016**

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
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**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT**

The Directors submit their report together with the consolidated financial report of the Company and its subsidiaries ("Consolidated Entity") for the year ended 31 December 2016 and the auditor's report thereon.

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Non-Executive Chairman - Mr Arthur G Dew, B.A., L.L.B. (appointed 7 February 2014)

Mr Dew is a non-practising Barrister with a broad range of corporate and business experience and has served as a Director, and in some instances Chairman of the Board of Directors, of a number of publicly listed companies in Australia, Hong Kong and elsewhere. He is Chairman and Non-Executive Director of Hong Kong listed companies Allied Group Limited, Allied Properties (H.K) Limited and APAC Resources Limited (appointed 1 March 2016) and is a Non-Executive Director of Hong Kong listed SHK Hong Kong Industries Limited. He is also Non-Executive Director of ASX listed company Tanami Gold NL and Non-Executive Chairman of ASX listed company Tian An Australia Limited (previously known as PBD Developments Limited).

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

Executive Director - Mr Brett R Smith, B.Eng., MBA and M.A (appointed 7 February 2014)

Mr Smith has participated in the development of a number of mining and mineral processing projects including coal, iron ore, base and precious metals, and has over 30 years international experience in engineering, construction and mineral processing businesses. He has also managed engineering and construction companies in Australia and internationally. Mr Smith has served on the boards of private mining and exploration companies. Mr Smith is a Non-Executive Director of ASX listed company ABM Resources NL (appointed 9 May 2016) and Executive Director and deputy Chairman of Hong Kong listed company APAC Resources Limited (appointed 18 May 2016).

Non-Executive Director - Mr Carlisle C Procter, B.Ec, M.Ec, FFin, (appointed 19 May 2015)

Mr Carlisle Procter graduated from the University of Sydney with a Bachelor's Degree and a Master's Degree in Economics. He is a fellow of the Financial Services Institute of Australasia (FFin.). Based in Australia, Mr Procter worked in the Reserve Bank of Australia for over 30 years, holding various senior management positions. Since leaving the Reserve Bank, he has worked as a consultant to the International Monetary Fund and the Asian Development Bank and has also undertaken private consulting work in South East Asia and the Pacific. Mr Procter has been a Non-Executive Director of a number of public companies. He is also a Non-Executive Director of ASX listed company Tanami Gold NL.

Mr Procter is Chairman of the Audit and Risk Management Committee.

Alternate Director to Mr Arthur G Dew - Mr Mark Wong Tai Chun (appointed 19 May 2015)

Mr Wong Tai Chun has a Master's Degree in Business Administration and is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr Wong was the Financial Controller of other listed companies in Hong Kong. He is an Executive Director of Hong Kong listed companies Allied Properties (H.K.) Limited and SHK Hong Kong Industries Limited, the Director of investment of Allied Group Limited and an alternate Director to Mr Arthur G Dew in Hong Kong listed company APAC Resources Limited and ASX listed companies, Tanami Gold NL and Tian An Australia Limited (formerly known as PBD Developments Limited).

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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DIRECTORS' REPORT (CONTINUED)**

2. Company Secretary

Shannon Coates LLB, GIA (cert), GAICD (appointed 19 December 2013)

Ms Coates has over 20 years' experience in corporate law and compliance. She is currently named company secretary to a number of public companies listed on ASX and AIM, and has provided company secretarial and corporate advisory services to Boards and various committees across a variety of industries, including financial services, resources, manufacturing and technology.

3. Directors' Meetings

The number of Directors' and Board Committee meetings held and the number of meetings attended by each of the Directors of the Company during the year ended 31 December 2016 was:

Director	Board Meetings		Audit & Risk Management	
	Eligible to Attend	Attend	Eligible to Attend	Attend
Mr AG Dew	5	5	2	2
Mr BR Smith	5	5	-	2 ¹
Mr CC Procter	5	5	2	2
Mr M Wong ²	5	-	2	-

¹Attended by invitation.

²Alternate to Mr Dew.

4. Directors Interests

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

	Ordinary Shares		Options	
	Direct	Indirect	Direct	Indirect
Mr AG Dew ¹	220,000	21,039,855	-	-
Mr BR Smith	28,571	-	-	-
Mr CC Procter	102,602	-	-	-
Mr M Wong	-	-	-	-

¹Mr Dew is a Director of Allied Properties (HK) Limited, which via its wholly owned subsidiary Allied Property Resources Limited ("APRL"), indirectly holds an interest of 23.68%. Accordingly Mr Dew is taken to have a relevant interest in the 21,039,855 shares held by APRL. Mr Dew does not personally hold any shares in Allied Properties (HK) Limited or APRL.

5. Nature of Operations and Principal Activities

The Company comprises Dragon Mining Limited, the parent entity, and its subsidiaries as set out in note 17. Of these subsidiaries, the operating entities are Dragon Mining (Sweden) AB in Sweden and Dragon Mining Oy in Finland.

The Company operates gold mines and processing facilities in Finland and Sweden. In Finland, the Vammala Production Centre ("Vammala") consists of a converted 300,000tpa nickel flotation plant, the Orivesi Gold Mine ("Orivesi") and the Jokisivu Gold Mine ("Jokisivu"). In Sweden, the processing operation is known as the Svartliden Production Centre ("Svartliden"), consisting of a 300,000tpa CIL processing plant and the Svartliden Gold Mine (mining completed 2013). As mining has finished in Sweden no ore was processed, annual production from Finland is in the range of 30,000 to 40,000 ounces of gold depending on the grade of ore and gold concentrate feed.

The principal activities of the Company during the period were:

- Gold mining, processing and refining ore in Finland;
- Processing ore concentrate in Sweden; and
- Exploration, evaluation and development of gold projects in the Nordic region.

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review

Consolidated Financial Review

The Consolidated Entity generated a net profit after tax for the year ended 31 December 2016 of \$5.3 million (2015: Profit \$2.6 million).

Revenue from operations amounted to \$55.0 million (2015: \$76.8 million) with the decrease in revenue attributable to reduced production from Orivesi and the cessation of processing third party concentrates at Svartliden.

Production costs decreased to \$50.6 million (2015: \$65.6 million) due to a combination of reduced operations and continued costs savings across all sites.

At 31 December 2016, the Company had net assets of \$30.8 million (2015: \$26.8 million), a working capital surplus of \$17.0 million (2015: surplus \$21.4 million) and a market capitalisation of \$18.7 million (2015: \$15.6 million).

Key movements on the Consolidated Statement of Financial Position include:

- Total current assets decreased to \$26.0 million (2015: \$30.4 million) as a result of a decrease in trade and other receivables.
- Total non-current assets increased to \$24.4 million (2015: \$20.9 million), as a result of the capitalisation of Evaluation costs to Property Plant and Equipment in relation to the Company's 100% owned Fäboliden and Kaapelinkulma Gold Projects; and
- Other material movements are disclosed in the notes to the Financial Statements.

Key movements on the Consolidated Statement of Profit or Loss include:

- Other income includes the gain on the sale of the Fäboliden land and timber of \$1.8 million, and the sale of 6,750,000 shares in Aurion Resources Limited for \$0.4 million;
- Other expenses includes the loss of \$1.0 million recognised against the sale of the Company's 100% ownership interest in Kuusamo Gold Oy; and
- Other material movements are disclosed in the notes to the Financial Statements.

Operating Overview

In 2016, the Company produced 34,426 ounces of gold (2015: 53,805 ounces), comprising 3,939 ounces from Svartliden and 30,487 ounces from Vammala.

Svartliden production was impacted by the cessation of processing external concentrate in Q2, 2016. The decision to stop processing external concentrates was made due to the high leachable copper content of the external concentrates so as to ensure environmental compliance. Svartliden continued to process most of the concentrate from Jokisivu, with only a small portion delivered to the Boliden Harjavalta Smelter, and an increased amount of concentrate from Orivesi.

Gold production from Vammala was reduced due to a decrease in higher grade ore tonnes from Orivesi, partially offset by an increase in lower grade ore tonnes from Jokisivu. Metallurgical test work identified a significant quantity of high grade tailings from historical Orivesi production that could be reprocessed at Vammala. The Company commenced a study to estimate the Mineral Resource and determine that the tailings would be economically viable to reprocess. Assuming a positive outcome, this material will be processed during 2017. No additional permitting is required.

The Fäboliden Test Mining permit application remains with the County Administration Board. The operations at the Kaapelinkulma Gold Mine ("Kaapelinkulma"), the Company's third gold mine in Southern Finland, are now able to commence following the receipt of permission to process ore from Kaapelinkulma at the Vammala Plant (refer to section 11 Business Strategies and Prospects).

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review (continued)

Operating Overview (continued)

The table below details the production and C1 cash costs for each of the Production Centres:

Description	Svartliden, Sweden		Vammala, Finland	
	2016	2015	2016	2015
Gold production (oz)	3,939	15,484	30,487	38,321
C1 cash cost (USD/oz)	-	1,184	788	722
Ore Tonnes milled (t)	-	76,632	314,175	282,301
Ore Gold grade (g/t)	-	2.30	3.43	4.74
Concentrate milled (t)	1,352	2,459	-	-
Concentrate grade (g/t)	99.6	100.5	-	-

The Company has adopted the C1 cash cost definitions as set out by Mackenzie Wood (formerly Brook Hunt), which are not in accordance with IFRS. Where used, the information has not been subject to audit by the Group's external auditors.

Throughout the year, the Company:

- Significantly reduced the Group's 12 month rolling lost time injury ("LTI") frequency rate per million work hours to 6.3, representing a 48% decrease compared to 2015;
- Completed the second phase of bench scale metallurgical test work for Fäboliden with material from Fäboliden returning gold recoveries of 83% whilst the gravity regrind tests resulted in a further 3% increase to recovery to 86%; and
- Made a number of safety improvements that included, an update to the Crisis Management Protocols which resulted in the formation of a Crisis Management Team, and commenced in using an underground seismic monitoring system designed to continuously record micro seismic events caused by rock stresses.

Advanced Projects and Exploration

Activities at Dragon Mining's key projects in Finland and Sweden during 2016 were directed to supporting mine planning and mine development. Metres drilled during the year from both surface and underground positions were lower than in 2015, but continued to yield a series of significant intercepts that underline the prospectivity of the Company's projects, the details of which have been released to the ASX throughout the year.

Finland

Sixty-one diamond core drill holes were completed at Orivesi during 2016. Holes were directed at both the Kutema and Sarvisuo lode systems and the areas in their near vicinity, as well as targeting rocks associated with the broader hydrothermally altered domain.

At Kutema, drilling targeted the lode system between the 1200m and 1280m levels and a number of significant intercepts were obtained. The results from the program were positive, extending known mineralisation down to at least the 1280m level. A zone of higher-grade mineralisation was defined within Pipe 5 that displays reasonable vertical continuity, whilst indications of a new, separate zone of mineralisation was identified to the immediate northeast of Pipe 5. Further drilling is required to determine if the defined extension to known mineralisation and the new zone of mineralisation would support mining.

The drilling of a diamond core program from surface commenced during the year in the Sarvisuo area targeting a panel between the 120m and 160m levels. When all results are received, the Company will evaluate the viability of developing a drift across to this area from the main decline.

Drilling will continue at Orivesi in 2017 and will target the Kutema and Sarvisuo lode systems and satellite zones to these lode systems as the Company continues to remain focused on identifying any zones of exploitable gold mineralisation within the Orivesi Mining Concession.

Drilling activities at Jokisivu advanced during 2016, with sixty-four diamond core drill holes completed for an advance of 13,607.80 metres.

6. Financial and Operating Review (continued)

Advanced Projects and Exploration (continued)

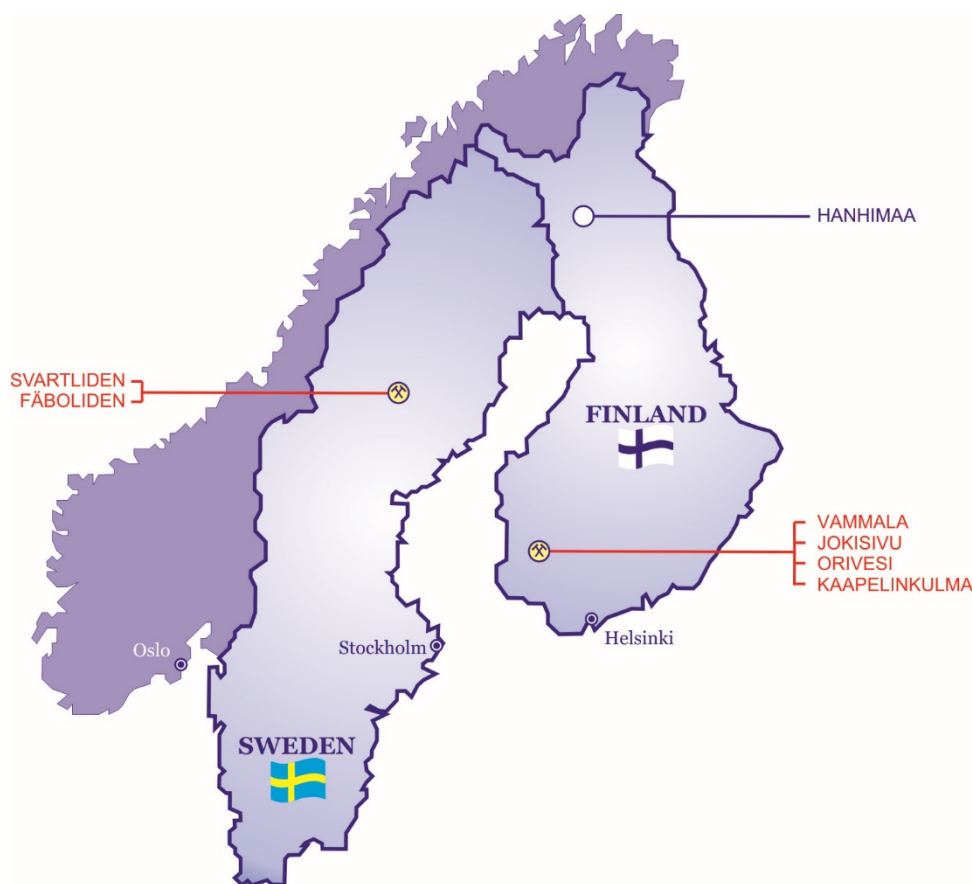
At the Kujankallio deposit, campaigns of underground diamond core drilling were completed targeting the Main and Hinge Zones. The results have provided additional information related to the geological structure improving confidence in the resource model and highlighted extensions of both the Main Zone and Hinge Zone. A program of diamond core drilling from the surface targeting the extensions of the Arpola deposit was also completed during the year, yielding a series of promising intercepts.

Drilling programs will continue at Jokisivu from both underground and surface positions in 2017 with the objective of further evaluating the extensions of Kujankallio and Arpola and satellite zones to these deposits.

The Kaapelinkulma Gold Project is expected to become the Company's third gold mine in the southern Finland region in 2017. The Kaapelinkulma Mining Concession became valid during 2016 following negotiations with affected landholders. The project had previously received all required Environmental Permits to undertake the mining of 161,000 tonnes of ore and 800,000 tonnes of waste. Permission was also received from the Centre for Economic Development, Transport and the Environment ("ELY Centre") to process ore from Kaapelinkulma at the Vammala Plant while the new Environmental Permit for the Vammala Plant is still under appeal. The Company has commenced site preparation, grade control drilling and construction of a bypass road for the local community and will phase in the operations at Kaapelinkulma with the mine plans at Orivesi and Jokisivu.

The Kaapelinkulma deposit will be an open pit mining operation, with ore to be hauled to the Vammala Plant to produce a high grade gold concentrate which will be further processed at Dragon Mining's Svartliden Plant in northern Sweden. With the Company's experience in commencing and undertaking small scale open pit mining in the Nordic Region and its existing infrastructure in southern Finland, Kaapelinkulma will incur minimal initial capital investment.

Location of Projects and Production Centres



**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review (continued)

Advanced Projects and Exploration (continued)

Sweden

The 2,195.81 hectare Fäboliden Project comprises the Fäboliden K nr 1 Exploitation Concession that hosts the Fäboliden Gold Deposit and three contiguous Exploration Permits that encompass ten kilometres of the host geological sequence. During 2016, the Company continued to advance work on the development of Fäboliden. The second phase of bench scale metallurgical test work was successfully completed. Representative material from Fäboliden returned gold recoveries of 83%, higher than that obtained in earlier test work programs. Gravity regrind tests resulted in a 3% increase in recovery to 86%.

The Company submitted its Environmental Permit Application for a test mining operation at Fäboliden to the County Administration Board ("CAB") on 3 June 2016. By the end of the year, the request for supplementary information had still not been issued. The Company still anticipates that test mining should commence in the latter part of 2017, with the CAB confirming a decision will be made by the end of February 2017.

Dragon Mining did not undertake any exploration activities at Svartliden during 2016.

Corporate

Completion of sale of 100% interest in Kuusamo Gold Oy

During the year, the Company executed a conditional Share Sale and Purchase Agreement with Nero Projects Australia Pty Ltd ("Nero") for the sale of its 100% interest in Finnish subsidiary Kuusamo Gold Oy ("KGOY").

The total consideration for the sale is A\$400,000, which will be payable to the Company in two stages, with the initial payment comprising the average value of the land owned by KGOY based on two independent valuations. The remainder of the consideration will be payable when the tenements that comprise the Kuusamo Project are transferred, within two years of Completion or such later date as maybe agreed by the parties.

On 22 November 2016, the Municipality of Kuusamo ("Municipality") formally released the Local Master Plan ("Plan"), which attempts to exclude mining in the area defined by the Municipality as the Core Area for Tourism. The Company's legal advice argues that the Municipality does not have the legal right to exclude mining, as valid Mining Concessions granted by a federal agency occur in the area. The legal advice also indicates that, in preparing the Plan, the Municipality failed to follow due process.

The Company will work closely with Nero which, following the sale, will now lead the appeal.

Sale of Aurion Resources Limited Shares

During May 2016, the Company sold all 6,750,000 Shares in Aurion Resources Limited receiving A\$644,819.

On 31 October 2016, the Company advised that Aurion had satisfied the final condition of the Definitive Purchase Agreement ("DPA") with the expenditure of €1 million indirect exploration. The Company has since arranged the transfer of its 100% legal and beneficial interest in the Kutuvuoma and Silasselkä Projects to Aurion's Finnish subsidiary in accordance with the DPA.

The Company continues to retain:

- A 3% Net Smelter Royalty as per the DPA;
- An entitlement to a bonus payment upon the defining of one million ounces of gold equivalent material categorised as Measured and Indicated; and
- An entitlement to a further bonus payment for every additional one million ounces of gold equivalent material categorised as Measured and Indicated.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review (continued)

Orivesi Permit Extension

On 8 December 2015, the Western and Inland Finland Regional State Administrative Office ("AVI") rejected the Orivesi Environmental Permit application that had been submitted in 2010. On 7 January 2016, the Company commenced proceedings through the Vaasa Administrative Court ("Court") appealing against the decision. The mine can remain in operation under the terms of the existing permit until the appeal process is completed. The Company has the right to appeal both in the lower and the upper courts. The appeal was made on the basis that the Company has made significant improvements to the mine environment at Orivesi since the original application in 2010. The Company's appeal is supported by:

- An updated waste management plan;
- A significant improvement in water quality supported by the latest fish inventory report; and
- A description of the water management improvements.

The AVI's decision to not renew the permit has also been appealed by the Centre for Economic Development, Transport and the Environment ("ELY Centre") whose appeal supports the continued operation of the mine.

During May 2016, the Court asked the Company to provide its responses to one statement and seven opinions received as a result of the appeal. The contents of the statement and opinions vary, however a slight majority consider that the permit should be granted, at least for a fixed period. The Company submitted its responses on 13 May 2016.

Since then, the Court has been considering the ruling of the Mine's Environmental Permit. The Mine is allowed to operate under the existing permit until the appeal process has been heard by the Courts.

Hong Kong listing

As has been previously announced, the Company believes there is a disconnect between a listing on the ASX and the Company's operations being all in the Nordic region. The Company considers that the Stock Exchange in Hong Kong may be a more appropriate jurisdiction and continues to actively evaluate the possibility of a Hong Kong listing. The Company has engaged Altus Capital Limited as Sponsor, and will continue to work with the Sponsor, and its other advisors, towards a potential Hong Kong listing.

Fäboliden Gold Project Update

On 3 June 2016, the Company submitted its Environmental Permit Application for a test mining operation at its Fäboliden Gold Project ("Fäboliden") to the County Administration Board ("CAB"). The CAB commenced a review of the Environmental Permit Application in mid-August with a referral time set for 30 September 2016. The CAB has now committed to a response as to the test mining permit and the need for supplementary information by the end of February 2017. The Company anticipates that test mining should commence in the latter part of 2017.

The Company is continuing to progress work on the Environmental Permit Application for the full scale mining operation at Fäboliden. The mining operation will have a significantly smaller environmental footprint than had been proposed by the previous owners which had successfully obtained an Environmental Permit.

Sale of Fäboliden Land and Timber

During the year, the Company finalised the tender process to sell what equated to 32% of the land and 41% of the timber at Fäboliden for approximately A\$1.8 million. The Company held no mining or exploration tenure over the areas subject to the sale, the areas are located well away from the Fäboliden Gold Deposit and its strike extensions.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review (continued)

Hanhimaa Earn-In Agreement

The Company and Agnico Eagle Mines Limited ("Agnico Eagle") executed the Hanhimaa Earn-In Agreement ("Agreement") in February 2013, whereby Agnico Eagle could earn up to a 70% interest in the Hanhimaa Gold Project in northern Finland, with the staged expenditure of €9 million. Amendments to the Agreement were agreed by the parties in October 2013 and January 2015.

Under the amended terms of the Agreement, Agnico Eagle can expend €5 million within 6 years of the commencement date to earn a 51% interest in the Hanhimaa Gold Project. Upon earning the 51% interest Agnico Eagle can then elect to earn an additional 19% by expending a further €4 million within 3 years of completion of the Stage 1 earn-in period. Agnico Eagle will be the manager during the earn-in and can now withdraw at any time, having achieved the minimum expenditure level of €1.5 million.

The Hanhimaa Gold Project covers a portion of the prospective Central Lapland Greenstone Belt. The contiguous tenement holding principally encompasses the north-south trending Hanhimaa Shear Zone, 10 kilometres west of Agnico Eagles' Kittila Gold Mine.

7. Environmental Regulation

The Company's operations are subject to environmental regulations under statutory legislation in relation to its exploration and mining activities. The Company believes that it has adequate systems in place for the management of the requirements under those regulations, and is not aware of any breach of such requirements as they apply to the Company, except as indicated below.

Vammala Production Centre, Finland

A new permit allowing for the processing of ore from the Kaapelinkulma Gold Project ("Kaapelinkulma") and allowing for an increase in production was issued in 2014. The new permit contained inconsistencies associated with water management and was been appealed by the Company to the Vassa Administrative Court ("Vassa Court").

The Vaasa Court's decision concerning the appeal was issued on 2 May 2016. The Vassa Court determined that the Permit decision should be returned to the Regional State Administrative Office ("AVI") for a new decision. The Vassa Court's decision was followed by an appeals process, resulting in one appeal which was submitted to the Supreme Administrative Court. The hearing process has not yet commenced.

The supervising authority, ELY Centre ("ELY"), expected the Company to complete some improvements in order to allow the Company to continue its processing of 300,000 tonnes per annum and to also process Kaapelinkulma ore. The Environmental Permit allowing these activities is still going through an appeals process. In August 2016, the Company submitted a proposal outlining selected improvement works pertaining to water management around the site and information on Kaapelinkulma ore and tailings to ELY. In September 2016, ELY determined both activities were acceptable as long as there were no increased environmental impacts.

Orivesi Mine, Finland

The Company has previously announced that the Western and Inland Finland Regional State Administrative Office ("AVI") had rejected the Company's application for an extension of the environmental permit for Orivesi ("Permit Extension"). The Company submitted the application to the AVI in 2010, with the extension related to the 2006 environmental permit. According to the AVI, the conditions for granting the Permit Extension were not met in the Company's application. The AVI cited the following reasons for its rejection decision:

- An increase in water pollution compared to 2006 when the permit was last considered;
- The weakened state of the lower watercourse which is, and has been, caused by the waste waters; and
- The mines' impact on the preservation of the lower Natura area.

The rejection by the AVI is not binding until the appeals process has been exhausted, until then Orivesi can continue to operate under its current 2006 environmental permit. On 7 January 2016, the Company submitted an appeal against the AVI Permit Extension rejection to the Vaasa Administrative Court ("Court"). If necessary the Company would submit a further appeal to the Finnish Supreme Court. As part of the hearing process the Court asked for further information which was submitted on 13 May 2016. Since then, the Court has been considering the ruling of the AVI.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

8. Significant Events after Balance Date

On 15 February 2017, the Company entered into a loan agreement with AP Finance Limited for an unsecured Loan Facility of A\$6.0 million (approximately HK\$35.67 million). The key provisions of the Loan Facility include:

- An interest rate of 4% per annum payable quarterly in arrears; and
- A loan period of 24 months with the principal repayable in Hong Kong dollars.

The Company will use the funds to:

- Assist with the development of its new Fäboliden and Kaapelinkulma Gold Mines; and
- Provide additional working capital as required.

9. Significant Changes in State of Affairs

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

10. Dividends

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

11. Business Strategies and Prospects

Fäboliden, Sweden

On 3 June 2016, the Company submitted its Test Mining Permit application with the County Administration Board ("CAB"). The notification of a minor change for the processing of ore from test mining was submitted to the CAB on 28 September 2016. The Company is awaiting a response from the CAB. The Company anticipates that test mining will commence in the latter part of 2017.

The start of the formal permitting process for a full mining operation Permit will commence in the first quarter, 2017. Fäboliden will provide a source of open pit material that can be processed at the Svartliden Plant which is expected to extend the operating life of Svartliden.

Kaapelinkulma, Finland

On 25 November 2016, the Company announced that its third gold mine in southern Finland was ready to commence operations following receipt of permission to process ore from the Kaapelinkulma Gold Mine ("Kaapelinkulma") at Vammala. The Environmental Permit to undertake mining at Kaapelinkulma was obtained previously and the Mining Concession that encompasses the known deposits, granted.

12. Risks

Orivesi Environmental Permit

The Company has commenced proceedings through the appropriate channels, to appeal the AVI's rejection of the Orivesi Permit Extension. While the timeframe for the appeals process is not known, the Company expects it may take between 1 to 2 years. In the meantime, the Company can continue to operate under its existing 2006 Environmental Permit until the final decision is received.

Production from Orivesi

Production conditions at Orivesi will continue be a challenge, with mining limited to the remaining sill pillars and the new stopes in the Kutema Deeps area. The Company is evaluating extending the Kutema decline below the 1,200m level. In response to the increased safety risk of mining at this depth, the Company has implemented a 2 stage mining process to reduce the risk of stope cave-ins. As a result ore production extraction rates are lower as backfilling the first part of the stope, with a rock and cement mix, occurs prior to mining the second part of the stope.

13. Share Options

No options were granted during the year.

At the date of this report there are no unissued ordinary shares in the Company under option.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

14. Remuneration Report - audited

This remuneration report for the year ended 31 December 2016 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2011* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, Key Management Personnel ("KMP") of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, including any Director (whether Executive or otherwise) of the Company.

14.1 Remuneration Policy

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

The Company embodies the following principles in its remuneration framework:

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

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

14.2 Company Performance

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

	2016	2015	2014	2013	2012
Net profit/(loss) after tax	\$5.36m	\$2.56m	\$7.76m	(\$22.17m)	(\$4.26m)
Basic earnings per share	\$0.06	\$0.03	\$0.09	(\$0.25)	(\$0.05)
Diluted earnings per share	\$0.06	\$0.03	\$0.09	(\$0.25)	(\$0.05)
Market capitalisation	\$18.66m	\$15.55m	\$8.09m	\$11.55m	\$56.86m
Closing share price	\$0.21	\$0.18	\$0.09	\$0.13	\$0.64

14.3 Remuneration Arrangements

The Board is responsible for determining and reviewing the compensation arrangements for the Chairman, Directors and executive team.

The Board sets remuneration policies, strategies and practices for the Board, its Committees, and the executive Director, any direct reports to the Executive Director, senior executives and other management as appropriate.

Executive remuneration is reviewed annually having regard to individual and business performance, relevant comparative information and internal and independent external advice. Performance reviews of the Senior executives were undertaken during the year.

To ensure the Board is fully informed when making remuneration decisions, it can seek external remuneration advice.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

14. Remuneration Report – audited (continued)

14.4 Remuneration of Non-Executive Directors

The Company's Constitution and ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed.

Non-Executive Directors' fees not exceeding an aggregate of \$500,000 per annum was approved by shareholders at the Annual General Meeting held in May, 2012. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually.

The Board considers the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process. Each Non-Executive Director receives a fee for being a Director of the Company. An additional fee is payable for each Board Committee on which a Director sits, due to the extra workload and responsibilities. Each Non-Executive Director may also receive an equity based component where approval has been received from shareholders in a General Meeting.

14.5 Service Contracts

Compensation and other terms of employment for Executive Directors and other KMP are formalised in contracts of employment. The major provisions of each of the agreements relating to compensation are set out below.

Mr Brett R Smith – Executive Director

Mr Smith has a contract of employment with the Company dated 31 March 2014 and is employed on a fixed term as Executive Director, ending 30 March 2018. The contract specifies the duties and obligations to be fulfilled by the Executive Director. The arrangement can be terminated by either party by providing 6 months written notice, which based on current remuneration rates would amount to a termination payment of \$150,000.

Mr Neale Edwards – Chief Geologist

Mr Edwards commenced employment on 19 August 1996 and does not have an employment contract.

Mr Daniel Broughton – Chief Financial Officer

Mr Broughton has a contract of employment with the Company dated 8 September 2014 and is employed on a 3 year term as Chief Financial Officer, ending 31 March 2017. The contract specifies the duties and obligations to be fulfilled by the Chief Financial Officer. The arrangement can be terminated by either party by providing 3 months written notice, which based on current remuneration rates would amount to a termination payment of \$52,500.

14.6 Fixed Remuneration

Objective

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

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

Structure

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

Remuneration Report – audited (continued)

14.7 Variable Remuneration – Short Term Incentive (STI)

Objective

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

Structure

Actual STI payments granted to each executive depend on their performance over the preceding year and are determined during the annual performance appraisal process.

The performance appraisal process outcomes are at the discretion of the Board and take into account the following factors:

- Financial performance of Business Unit;
- Operational performance of a Business Unit;
- Risk management;
- Health and safety; and
- Leadership/team contribution.

These factors were chosen to ensure the STI payments are only granted when value has been created for shareholders and results are consistent with the strategic plans of the Company. The executive has to demonstrate outstanding performance in order to trigger payments under the STI scheme.

On an annual basis, after consideration of performance against KPIs, the overall performance of the Company and each individual business unit is assessed by the Board. The individual performance of each executive is also assessed and these measures are taken into account when determining the amount, if any, to be paid to the executive as an STI.

The Board pre-approved a KPI linked cash bonus for the Executive Director relating to 2015 performance which was paid in 2016. The pre-approved bonus was equivalent to the maximum available under the terms of the Executive Director's contract. For the 2016 performance year, the assessment of a KPI linked bonus for the Executive Director is still ongoing. A bonus has been approved for the Chief Financial Officer and has been disclosed in the Directors and Executive Officers Remuneration table on page 16.

14.8 Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the Company's LTI plan is to reward executives and Directors in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such, LTIs are made to executives and Directors who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

Structure

Performance criteria as these employee share options are issued with an exercise price at a premium to the average of the Company's ordinary share price on the date of issue. Award is subject to a three year service condition.

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

14.9 Equity-based Compensation (LTI)

On resignation of the executive, any LTI options held that have vested will need to be exercised within 30 days of termination or they will be forfeited. Any LTI options that have not vested will be forfeited.

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

Remuneration Report – audited (continued)

14.10 Analysis of Movements in Options and Rights

All options previously granted as compensation to Directors or KMPs expired or lapsed during the year ended 31 December 2015. There were no new options granted or shares issued during the year ended 31 December 2016.

14.11 Shares Issued on Exercise of Remuneration Options

No Director or KMP exercised remuneration options in the year ended 31 December 2016.

14.12 Transactions with KMP

In addition to his role as the Company's Chief Financial Officer, Mr Broughton provides Chief Financial Officer Service's ("Services") to ASX listed gold explorer, Tanami Gold NL ("Tanami"). Tanami is a Company of which Messer's Dew and Procter, the Company's Non-Executive Chairman and Non-Executive Director are also Non-Executive Directors.

The provision of Services commenced from 8 September 2014 whereby the Company will charge Tanami for 48% of Mr D Broughton's salary cost. During the year, the Company charged Tanami \$100,000 (2015: \$100,000) of which \$24,750 was outstanding at 31 December 2016 (2015: \$24,750).

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

14. Remuneration Report – audited (continued)

14.13 Directors and Executive Officers Remuneration

		Short Term		Other Long Term Benefits		Post Employment	Share Based Payments	Total Remuneration	Proportion of Remuneration Performance Related %	Value of Options as a Proportion of Total Remuneration
		Salary & Fees	Bonuses	Annual Leave Accrued	Long Service Leave Accrued	Super-annuation Benefits	Calculated Value of Options (Non Cash)			
<i>In dollars</i>										
Directors		\$	\$	\$	\$	\$	\$	\$	%	%
Mr AG Dew	2016	90,000	-	-	-	8,550	-	98,550	-	-
(Non-Executive Chairman)	2015	77,500	-	-	-	7,363	-	84,863	-	-
Mr BR Smith ¹	2016	350,000	-	(42,221)	-	33,250	-	341,029	-	-
(Executive Director)	2015	410,000	200,000	30,148	-	57,950	-	698,098	30%	-
Mr CC Procter	2016	30,000	-	-	-	2,850	-	32,850	-	-
(Non-Executive Director)	2015	18,548	-	-	-	1,762	-	20,310	-	-
Total all specified Directors	2016	470,000	-	(42,221)	-	44,650	-	472,429	-	-
	2015	506,048	200,000	30,148	-	67,075	-	803,271	-	-
Specified Executives										
Mr NM Edwards	2016	208,000	-	8,317	3,998	19,760	-	240,075	-	-
(Chief Geologist)	2015	208,000	-	18,519	4,818	19,760	-	251,097	-	-
Mr DK Broughton	2016	210,000	25,000	15,828	-	22,325	-	273,153	9%	-
(Chief Financial Officer)	2015	205,000	-	8,179	-	19,475	-	232,654	-	-
Total all named Executives	2016	418,000	25,000	24,145	3,998	42,085	-	513,228	-	-
	2015	413,000	-	26,698	4,818	39,235	-	483,751	-	-
Total all specified Directors and Executives	2016	888,000	25,000	(18,076)	3,998	86,735	-	985,657	-	-
	2015	919,048	200,000	56,846	4,818	106,310	-	1,287,022	-	-

¹The annual leave accrued includes the impact of leave paid in cash of \$64,044.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

14. Remuneration Report – audited (continued)

14.14 Options of Directors and Key Management Personnel

During the year ended 31 December 2016, there were no options over ordinary shares in the Company that were granted as compensation to Key Management Personnel.

During the year ended 31 December 2015, all options over ordinary shares in the Company belonging to Key Management Personnel had expired or lapsed unexercised.

14.15 Shareholdings of Directors and Key Management Personnel

2016	Balance at 1 January 2016	Granted as Remuneration	Net Change Other ²	Balance at 31 December 2016
Directors				
Mr AG Dew ¹	21,039,855	-	220,000	21,259,855
Mr BR Smith	-	-	28,571	28,571
Mr CC Procter	-	-	102,602	102,602
Mr M Wong	-	-	-	-
Executives				
Mr NM Edwards	-	-	-	-
Mr DK Broughton	-	-	-	-
Total	21,039,855	-	351,173	21,391,028

¹Mr Dew is a Director of Allied Properties (HK) Limited, which via its wholly owned subsidiary Allied Property Resources Limited ("APRL"), indirectly holds an interest of 23.68%. Accordingly Mr Dew is taken to have a relevant interest in the 21,039,855 shares held by APRL. Mr Dew does not personally hold any shares in Allied Properties (HK) Limited or APRL. Mr Dew holds 220,000 shares in the Company directly.

²Net change other refers to shares purchased on market.

2015	Balance at 1 January 2015	Granted as Remuneration	Net Change Other	Balance at 31 December 2015
Directors				
Mr AG Dew ¹	21,039,855	-	-	21,039,855
Mr BR Smith	-	-	-	-
Mr CC Procter	-	-	-	-
Mr M Wong	-	-	-	-
Mr PL Gunzburg ²	100,000	-	(100,000)	-
Executives				
Mr JD Stewart ³	1,600	-	(1,600)	-
Mr NM Edwards	-	-	-	-
Mr DK Broughton	-	-	-	-
Total	21,141,455	-	(101,600)	21,039,855

¹Mr Dew is a Director of Allied Properties (HK) Limited, which via its wholly owned subsidiary Allied Property Resources Limited ("APRL"), indirectly holds an interest of 23.68%. Accordingly Mr Dew is taken to have a relevant interest in the 21,039,855 shares held by APRL. Mr Dew does not personally hold any shares in Allied Properties (HK) Limited or APRL.

²Net change due to resignation on 19 May 2015.

³Net change due to resignation on 23 February 2015.

15. Indemnification and Insurance of Directors, Officers and Auditors

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

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

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

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

16. Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company in accordance with ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (CONTINUED)**

17. Non-Audit Services

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

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

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

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

	31 Dec 2016	31 Dec 2015
	\$	\$
Tax and Compliance services	65,065	129,136
Other services	123,232	-
	188,297	129,136

18. Lead Auditor's Independence Declaration under Section 370C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 19 and forms part of the Directors' Report for the year ended 31 December 2016.

Signed on behalf of the Board



Mr Brett Smith
20 February 2017

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

As lead auditor for the audit of Dragon Mining Limited for the financial year ended 31 December 2016, I declare 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 code of professional conduct in relation to the audit.

This declaration is in respect of Dragon Mining Limited and the entities it controlled during the year.



Ernst and Young



G H Meyerowitz
Partner
20 February 2017

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 \$'000	2015 \$'000
Revenue from sales		55,039	76,836
Cost of sales	2(a)	(50,572)	(65,617)
Gross profit		4,467	11,219
Other revenue	2(b)	483	703
Other income	2(c)	2,307	424
Exploration expenditure		(828)	(3,514)
Management and administration expenses		(4,484)	(4,388)
Other expenses ¹	2(d)	3,401	(2,542)
Finance costs	2(e)	(19)	(28)
Foreign exchange gains		36	689
Profit before tax		5,363	2,563
Income tax expense	3	-	-
Profit after income tax		5,363	2,563
Earnings per share attributable to ordinary equity holders of the parent (cents per share)			
Basic earnings per share	16	6.04	2.89
Diluted earnings per share	16	6.04	2.89

¹Other expenses include a \$4.5 million positive adjustment to the Provision for Rehabilitation at Svartliden.

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 \$'000	2015 \$'000
Profit after income tax (brought forward)		5,363	2,563
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
(Loss)/gain foreign currency translation		(1,402)	1,133
Profit on financial assets classified as available for sale		-	37
OCI reclassified to the P&L in the current period		11	-
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		(1,391)	1,170
Total comprehensive income for the period		3,972	3,733
Profit attributable to:			
Members of Dragon Mining Limited		5,363	2,563
		5,363	2,563
Total comprehensive income attributable to:			
Members of Dragon Mining Limited		3,972	3,733
		3,972	3,733

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

	Note	2016 \$'000	2015 \$'000
CURRENT ASSETS			
Cash and cash equivalents	4	15,407	13,896
Trade and other receivables	5	3,696	9,312
Inventories	6	6,752	7,128
Other assets	9	180	99
TOTAL CURRENT ASSETS		26,035	30,435
NON-CURRENT ASSETS			
Property, plant and equipment	7	16,860	7,173
Mineral exploration costs	8	2,231	7,685
Available for sale investments		-	213
Other assets	9	5,306	5,786
TOTAL NON-CURRENT ASSETS		24,397	20,857
TOTAL ASSETS		50,432	51,292
CURRENT LIABILITIES			
Trade and other payables	10	6,806	6,766
Provisions	11	2,132	2,189
Other liabilities		96	73
TOTAL CURRENT LIABILITIES		9,034	9,028
NON-CURRENT LIABILITIES			
Provisions	11	10,583	15,421
TOTAL NON-CURRENT LIABILITIES		10,583	15,421
TOTAL LIABILITIES		19,617	24,449
NET ASSETS		30,815	26,843
EQUITY			
Contributed equity	12	119,992	119,992
Reserves	13	(2,770)	(1,379)
Accumulated losses		(86,407)	(91,770)
TOTAL EQUITY		30,815	26,843

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Contributed Equity	Accumulated Losses	Foreign Currency Translation	Option Reserve	Convertible Note Premium Reserve	Available for Sale Reserve	Equity Reserve Purchase of Non- controlling Interest	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2015	119,992	(96,196)	(5,638)	1,863	2,068	(48)	1,069	23,110
Profit for the period	-	2,563	-	-	-	-	-	2,563
Other comprehensive income	-	-	1,133	-	-	37	-	1,170
Total comprehensive income for the period	-	2,563	1,133	-	-	37	-	3,733
Transactions with owners in their capacity as owners: Transfer reserves to retained earnings	-	1,863	-	(1,863)	-	-	-	-
At 31 December 2015	119,992	(91,770)	(4,505)	-	2,068	(11)	1,069	26,843
At 1 January 2016	119,992	(91,770)	(4,505)	-	2,068	(11)	1,069	26,843
Profit for the period	-	5,363	-	-	-	-	-	5,363
Other comprehensive income	-	-	(1,402)	-	-	11	-	(1,391)
Total comprehensive income for the period	-	5,363	(1,402)	-	-	11	-	3,972
Transactions with owners in their capacity as owners: Transfer reserves to retained earnings	-	-	-	-	-	-	-	-
At 31 December 2016	119,992	(86,407)	(5,907)	-	2,068	-	1,069	30,815

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from customers		59,499	79,235
Payments to suppliers and employees		(50,301)	(63,989)
Payments for mineral exploration		(1,108)	(3,437)
Interest received		106	129
Interest expenses		-	(1)
Payments for rehabilitation		-	(61)
Payment of environmental bonds		-	(58)
Net cash from operating activities	4	<u>8,196</u>	<u>11,818</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(1,482)	(4,567)
Proceeds from sale of property, plant and equipment		2,127	43
Payments for bond held on deposit		69	-
Payments for exploration		(4,481)	(5,200)
Payments for development		(3,540)	(3,378)
Proceeds from sale of investments		681	-
Net cash used in investing activities		<u>(6,626)</u>	<u>(13,102)</u>
Cash flows from financing activities			
Net cash used in financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		1,570	(1,284)
Cash and cash equivalents at the beginning of the period		13,896	15,051
Effects of exchange rate changes on cash and cash equivalents		(59)	129
Cash and cash equivalents at the end of the period	4	<u><u>15,407</u></u>	<u><u>13,896</u></u>

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

Dragon Mining Limited ("the Company") is a company domiciled in Australia. The Company's address is Unit B1, 431 Roberts Road, Subiaco, Western Australia 6008. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Consolidated Entity" or "the Group"). The Consolidated Entity is a for profit entity and is primarily involved in gold mining operations and gold mineral exploration.

(b) Basis of Preparation

Statement of Compliance

The Consolidated Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB). The accounting policies adopted are consistent with those of the previous financial year except as detailed in note 1(z).

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 20 February 2017.

Basis of Measurement

The Consolidated Financial Statements have been prepared on a historical cost basis, except for available-for-sale assets which are measured at fair value.

The Consolidated Financial Statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated, under the option available to the Company in accordance with ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191.

(c) Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of the Consolidated Entity as at the end of each reporting period.

Control is achieved when the Company is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights in an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

The income, expenses, assets and liabilities of a subsidiary acquired or disposed of during the year are included in the Company's Consolidated Statement of Profit or Loss or the Consolidated Statement of Financial Position from the date the Company gains control until the date the Company ceases to have control.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of Consolidation (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Company loses control of a subsidiary, the Company:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of any investment retained;
- Recognises the fair value of the consideration received;
- Recognises any surplus or deficit in the Consolidated Statement of Profit or Loss; and
- Reclassifies the Company's share of items previously recognised in Other Comprehensive Income to the Consolidated Statement of Profit or Loss or retained earnings as appropriate.

(d) Revenue Recognition

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

Bullion and Concentrate sales

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

Interest

Revenue is recognised as the interest accrues using the effective interest rate method.

Rental revenue

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

(e) Income Taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements and for unused tax losses.

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

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

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting or taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income Taxes (continued)

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

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

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

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

Tax consolidation legislation

The Company implemented the tax consolidation legislation as of 1 July 2003. The Company has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

(f) Goods and Services Tax (GST)

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

- Where the GST incurred on a purchase of goods and services is not recoverable from the tax authority; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the tax authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

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

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

(g) Foreign Currency Transactions and Balances

Functional & Presentation Currency

The functional currency of each Company in the Group 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 Company's functional and presentation currency.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign Currency Transactions and Balances (continued)

Transaction & Balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Profit or Loss.

Group Companies

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

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

On consolidation, exchange differences arising from the translation of any monetary items that form part of the Net Investment in a foreign entity are taken to Shareholders' Equity. When a foreign operation is sold or borrowings are repaid the proportionate share of such exchange differences are recognised in the Consolidated Statement of Profit or Loss.

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

(h) Trade and Other Receivables

Trade receivables have 45 day term and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect some or all amounts due according to the original terms of the transaction. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between assets carrying value and the present value of estimated future cash flows. The amount of the provision is recognised in the Statement of Profit and Loss.

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

(i) Inventories

Finished goods, gold concentrate, gold in circuit and stockpiles of unprocessed ore have been valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure.

Costs are assigned to stockpiles and gold in circuit inventory on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the cost to sell. Consumables have been valued at cost less an appropriate provision for obsolescence. Cost is determined on a first in first out basis.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Deferred Waste

As part of open pit mining operations, the Company incurs stripping (waste removal) costs during the development and production phase of its operations.

When development stripping costs are incurred expenditure is capitalised as part of the cost of constructing the mine and subsequently amortised over its useful life using a unit of production method. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for use as intended by management.

Stripping costs incurred in the production phase create two benefits:

- The production of inventory; or
- Improved access to future ore.

Where the benefits are realised in the form of inventory produced in the period, production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and the benefit is improved access to future ore, the costs are recognised as a stripping activity asset in mine properties.

If the costs of the inventory produced and the stripping asset are not separately identifiable an allocation is undertaken based on the waste to ore stripping ratio (for the particular ore component concerned). If mining of waste in a period occurs in excess of the expected stripping ratio, the excess is recognised as part of the stripping asset. Where mining occurs at or below the expected life of component stripping ratio in a period, the entire production stripping cost is allocated to the cost of the ore inventory produced.

Amortisation is provided using a unit of production ("UOP") method over the life of the identified component of orebody. The UOP method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves) component.

(k) Property, Plant and Equipment

Mine Properties: Areas in Production

Areas in production represent the accumulation of all acquired exploration, evaluation and development expenditure incurred by or on behalf of the Company in relation to an area of interest in which mines are being prepared for production or the economic mining of a mineral reserve has commenced.

When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward to the extent that a future economic benefit is established, otherwise such expenditure is classified as part of the cost of production. Amortisation of costs is provided using a UOP method (with separate calculations being made for each mineral resource). The UOP method results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves.

The costs are carried forward to the extent that these costs are expected to be recouped through the successful exploitation of the Company's mining leases. The net carrying value of each mine property is reviewed regularly and, to the extent that its carrying value exceeds its recoverable amount, the excess is fully provided against in the financial year in which it is determined.

Plant and Equipment

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

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

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, Plant and Equipment (continued)

Depreciation

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

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

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

Impairment

The carrying values of mine properties, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable (refer to note (q) below).

Disposal

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

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carry amount of the asset) is included in the Consolidated Statement of Profit or Loss in the year the asset is derecognised.

(l) Mineral Exploration Costs

Exploration expenditure is expensed to the Consolidated Statement of Profit or Loss as and when it is incurred and included as part of cash flows from operating activities in the Consolidated Statement of Cash Flows. Exploration costs are only capitalised to the Consolidated Statement of Financial Position if they result from an acquisition.

Evaluation expenditure is capitalised to the Consolidated Statement of Financial Position. Evaluation is deemed to be activities undertaken from the beginning of the definitive feasibility study conducted to assess the technical and commercial viability of extracting a mineral resource before moving into the development phase.

The criteria for carrying forward costs are:

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

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Mineral Exploration Costs (continued)

Farm Out arrangements

In respect of Farm Outs, the Company does not record any expenditure made by the Farmee on its account. Where there is capitalised exploration expenditure it also does not recognise any gain or loss on its exploration and evaluation Farm Out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Cash received from the Farmee is treated as a reimbursement of expenditure incurred (where expenditure is capitalised) or gains on disposal if there is no capitalised expenditure.

(m) Cash & Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities normally of three months or less, and bank overdrafts excluding any restricted cash. Restricted cash is not available for use by the Company and is therefore not considered highly liquid (i.e. rehabilitation bonds).

For the purposes of the Statement of Cashflows, cash and cash equivalents consists of cash and cash equivalents as defined above net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Consolidated Statement of Financial Position.

(n) Impairment

The carrying amounts of the Consolidated Entity's assets, other than inventories and deferred tax assets 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 whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Statement of Profit or Loss. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. 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 (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

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 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 or amortisation, if no impairment loss had been recognised.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and Other Payables

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

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

(p) Provisions

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

When the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

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

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

(q) Employee Benefits

Wages, salaries and other short term benefits

The liability for wages, salaries and other short term benefits is recognised at the present value of expected future payments. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

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

Superannuation

Contributions made by the Company to employee superannuation funds are charged to the Consolidated Statement of Profit or Loss in the period employees' services are provided.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Rehabilitation Costs

The Company records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

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

The unwinding of the effect of discounting on the provision is recorded as a finance cost in the Consolidated Statement of Profit or Loss. The carrying amount capitalised is depreciated over the life of the related asset.

(s) Earnings per Share

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

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

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

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

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

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

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

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

(t) Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). Operating segments results are regularly reviewed by the Company's chief operating decision makers and are used to make decisions about the allocation of resources and to assess performance using discrete financial information. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Segment Reporting (continued)

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

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

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

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

(u) Contributed Equity

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

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

(v) Fair Value

The Company measures financial instruments, such as derivatives at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Significant Accounting Judgments

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

Determination of mineral resources and ore reserves

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

The information has been prepared by or under supervision of competent persons as identified by the Code. There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(x) Significant Accounting Estimates and Assumptions

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

Mine rehabilitation provision

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

The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required, which are expected to be incurred up to 2026 for the Swedish operations and 2031 for the Finland operations based on current mine plans.

Impairment of non-financial assets

In accordance with accounting policy note 1(n) the Consolidated Entity, in determining whether the recoverable amount of its cash-generating unit is the higher of fair value less costs to sell or value-in-use against which asset impairment is to be considered, undertakes future cash flow calculations which are based on a number of critical estimates and assumptions including, for its mine properties, forward estimates of:

- mine life, including quantities of mineral reserves and resources for which there is a high degree of confidence of economic extraction with given technology;
- production levels and demand;
- metal price;
- inflation;
- cash costs of production;
- discount rates applicable to the cash generating unit; and
- future legal changes and or environmental permits.

The key assumptions utilised in the impairment modelling performed by management for the year ended 31 December 2016 were a gold price of USD1,260/tonne and a pre-tax real discount rate of 4%. Sensitivity analyses performed indicates that a decrease in the gold price of 5% is likely to result in impairment being required and that an increase in the real discount rate to 7.5% did not result in impairment.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Significant Accounting Estimates and Assumptions (continued)

Impairment is recognised when the carrying amount of the cash-generating unit exceeds its recoverable amount. The recoverable amount for each cash-generating unit has been determined using the value-in-use model. Any variation in the assumptions used to determine value-in-use would result in a change of the assessed value-in-use. If the variation in assumption had a negative impact on value-in-use, it could indicate a requirement for impairment of non-current assets.

Income taxes

The Company is subject to income taxes in Australia, Sweden and Finland. The Company's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Consolidated Statement of Financial Position.

Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investment, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation.

These judgments and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the Consolidated Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

(y) Accounting Standards and Interpretations Issued but Not Yet Effective

The following accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the period ended 31 December 2016 are outlined below:

AASB 9 Financial Instruments (effective and applicable to the Group from 1 January 2018) - AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

AASB 15 Revenue from contracts with customers (effective and applicable to the Group from 1 January 2018) - AASB 15 introduces a new framework for accounting for revenue and will replace AASB 118 revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, therefore the notion of control replaces the existing notion of risks and rewards. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Accounting Standards and Interpretations Issued but Not Yet Effective (continued)

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or contribution of Assets between an Investor and its Associate or Joint Venture (effective and applicable to the Group from 1 January 2018) – AASB 2014-10 amends AASB 10 and AASB 128 to address an inconsistency in dealing with sale or contribution of assets between an investor and its associate or joint venture. The amendments include (a) a full gain or loss to be recognised when a transaction involves a business and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 2014-10.

AASB 16 Leases (effective and applicable to the Group from 1 January 2019) - One of the key changes to AASB 16 Leases is that lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 will result in lessees recognising most leases on the balance sheet. The Group has not yet determined the impact of this standard.

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] (effective and applicable to the Group from 1 January 2017) – This amendment clarifies the requirement on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 2016-1.

AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (effective and applicable to the Group from 1 January 2017) – This amendment requires disclosures that will enable a user to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This change is not expected to have a material impact on the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective and applicable to the Group from 1 January 2018) – addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. This change is not expected to have a material impact on the Group.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(z) New Accounting Standards and Interpretations

In the year ended 31 December 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to the Company and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Company accounting policies.

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2. REVENUE AND EXPENSES	2016 \$'000	2015 \$'000
a) Cost of sales		
Cost of production net of inventory movements ¹	47,047	60,923
Depreciation of mine properties, plant and equipment	3,525	4,664
Rehabilitation costs	-	30
	<u>50,572</u>	<u>65,617</u>
¹ Cost of production net of inventory movements		
Mining	26,451	28,125
Processing	17,940	30,464
Other production activities	2,656	2,334
Cost of production net of inventory movements	<u>47,047</u>	<u>60,923</u>
b) Other revenue		
Finance revenue and interest	114	151
Rent and service income	369	552
	<u>483</u>	<u>703</u>
c) Other income		
Gain on sale of plant and equipment ²	1,843	42
Gain on disposal of investments ³	420	-
Other	44	382
	<u>2,307</u>	<u>424</u>
² Represents the gain made on the sale of the Fäboliden land and timber.		
³ Represents the gain made on the sale of 6.75 million Aurion Resources Limited shares.		
d) Other expenses		
Depreciation of non-mine site assets	74	122
Loss on sale of Kuusamo ⁴	1,025	-
Impairment of property, plant and equipment	-	1,622
Impairment of mine properties	-	1,381
Impairment of buildings	-	549
Rehabilitation reversal ⁵	(4,500)	-
Reversal of impairment allowance for non-recovery of investment in associate	-	(1,132)
	<u>(3,401)</u>	<u>2,542</u>
⁴ Reconciliation of loss on sale of Kuusamo		
Proceeds from sale	400	-
Exploration and evaluation	(1,133)	-
Write off carrying value of receivables	(292)	-
Loss on sale	<u>(1,025)</u>	<u>-</u>
⁵ Refer to note 11 for details of rehabilitation reversal.		
e) Finance costs		
Interest	9	3
Other	10	25
	<u>19</u>	<u>28</u>

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

2. REVENUE AND EXPENSES (Continued)	2016 \$'000	2015 \$'000
f) Employee benefits incurred		
Wages and salaries	9,090	10,703
Defined contribution superannuation expense	1,653	1,785
Other employee benefits	978	1,124
	11,721	13,612
	11,721	13,612

3. INCOME TAX

(a) Income Tax Expense

The major components of income tax expense are:

Current income tax

Current income tax (benefit)/charge	(451)	2,534
Adjustments in respect of current income tax of previous year	-	-

Deferred income tax

Income tax benefit arising from previously unrecognised tax loss	(1,423)	(6,142)
Relating to origination and reversal of temporary differences	1,874	3,608
Income tax expense reported in the statement of comprehensive income	-	-
	-	-

(b) Amounts charged or credited directly to equity

Deferred income tax related to items charged/(credited) directly to equity

Unrealised (loss)/gain on available-for-sale investments	-	-
	-	-
	-	-

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

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

	2016 \$'000	2015 \$'000
Accounting profit before income tax	5,363	2,563
At the Group's statutory income tax rate of 30% in Australia (2014: 30%)	1,609	769
Adjustments in respect of current income tax of previous year	-	-
Effect of different rates of tax on overseas income	(408)	(369)
Other	(1,652)	44
Previously unrecognised tax losses utilised/recognised	(1,423)	(6,142)
Tax losses and other temporary differences not recognised as benefit not probable	1,874	5,698
Aggregate income tax expense	-	-
	-	-

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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3. INCOME TAX (continued)	2016	2015
	\$'000	\$'000
<i>(d) Recognised deferred tax assets and liabilities</i>		
Consolidated deferred income tax at reporting date relates to the following:		
<i>Deferred tax assets</i>		
Leave entitlements	50	57
Rehabilitation provision	1,000	1,070
Mine Properties, Property, plant and equipment	3,160	1,338
Exploration costs	2,138	4,232
Accruals	22	91
Other	2,964	2,369
Temporary differences not recognised	(9,329)	(9,152)
Set off of deferred tax liabilities pursuant to set off provisions	(5)	(5)
Gross deferred income tax assets	<u>-</u>	<u>-</u>
<i>Deferred tax liabilities</i>		
Accelerated deduction	-	-
Mine Properties, Property, plant and equipment	(5)	(5)
Set off of deferred tax liabilities pursuant to set off provisions	5	5
Gross deferred income tax liabilities	<u>-</u>	<u>-</u>

(e) Tax Losses

Future benefits of tax losses total approximately \$8.1 million (2015: \$7.0 million). The Consolidated Entity has available capital losses at a tax rate of 30% amounting to \$2.6 million (2015: \$2.6 million)

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

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

(f) Tax consolidation

Effective July 1 2003, for the purpose of income taxation, Dragon Mining Limited and its 100% Australian owned subsidiaries formed a Tax Consolidation Group ("Tax Group"). Members of the Tax Group have entered into a tax sharing and funding arrangement whereby each entity in the Tax Group has agreed to pay a tax equivalent amount to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the Tax Group. For the year ended 31 December 2016, there are no tax consolidation adjustments (2015: nil). The nature of the tax funding arrangement for the Tax Group is such that no tax consolidation adjustments (contributions by or distributions to equity participants) would be expected to arise. The head entity of the Tax Group is Dragon Mining Limited. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

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4. CASH AND CASH EQUIVALENTS	2016 \$'000	2015 \$'000
Cash at bank and on hand	15,361	13,869
Short-term deposits	46	27
	<u>15,407</u>	<u>13,896</u>

The Consolidated Entity's exposure to interest rate risk is disclosed in note 21.

Short-term deposits represent the bank guarantee held on deposit with National Australia Bank for the lease of the corporate premises.

Reconciliation of net profit after tax to net cash flows from operations	2016 \$'000	2015 \$'000
Net profit after tax	5,363	2,563
Adjustments for:		
Depreciation and amortisation	3,599	4,785
PP&E impairment charge	-	1,622
Mine properties impairment charge	-	1,381
Buildings impairment charge	-	549
Loss on sale of Kuusamo	1,025	-
Net foreign exchange gains	(501)	581
Provision for non-recovery of loan from associate	-	(1,132)
Gain on disposal of investment	(420)	-
Gain on disposal of property, plant and equipment	(1,843)	(42)
Non-cash rehabilitation costs	-	(30)
Changes in operating assets and liabilities		
- Decrease in receivables	5,760	3,447
- (Increase)/decrease in other assets	(93)	50
- Decrease/increase in inventories	375	(1,905)
- (Decrease) in trade creditors and accruals	(383)	(478)
- (Decrease)/increase in provisions	(4,686)	427
Net operating cash flows	<u>8,196</u>	<u>11,818</u>

5. TRADE AND OTHER RECEIVABLES

Trade debtors ¹	3,229	8,590
Other debtors	467	722
	<u>3,696</u>	<u>9,312</u>

The Consolidated Entity's exposure to credit risk is disclosed in note 21.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

5. TRADE AND OTHER RECEIVABLES (continued)

¹Ageing Analysis

An aged analysis of the trade debtors as at the end of the reporting period, based on invoice date, is as follows:

	2016	2015
	\$'000	\$'000
Within 1 month	3,212	8,586
1 to 2 months	8	-
2 to 3 months	-	-
Over 3 months	9	4
Trade debtors	<u>3,229</u>	<u>8,590</u>

An aged analysis of the trade debtors as at the end of the reporting period, based on due date, is as follows:

Within 1 month	3,212	8,586
1 to 2 months	8	-
2 to 3 months	-	-
Over 3 months	9	4
Trade debtors	<u>3,229</u>	<u>8,590</u>

6. INVENTORIES

Ore and concentrate stockpiles - at cost	3,236	3,046
Gold in circuit valued - at NRV	2,587	3,183
Raw materials and stores – at cost	929	899
	<u>6,752</u>	<u>7,128</u>

7. PROPERTY PLANT AND EQUIPMENT

Land

At cost	<u>1,290</u>	<u>1,815</u>
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Buildings

At cost	2,223	1,879
Less accumulated depreciation and impairment	(1,657)	(1,690)
	<u>566</u>	<u>189</u>

Property, plant and equipment

At cost	29,462	29,684
Less accumulated depreciation and impairment	(27,000)	(27,327)
	<u>2,462</u>	<u>2,357</u>

Mine Properties

At cost	92,467	83,953
Less accumulated amortisation and impairment	(79,925)	(81,141)
	<u>12,542</u>	<u>2,812</u>

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7. PROPERTY PLANT AND EQUIPMENT (continued)

Total property, plant and equipment	2016 \$'000	2015 \$'000
At cost	125,442	117,331
Less accumulated amortisation and impairment	(108,582)	(110,158)
	<u>16,860</u>	<u>7,173</u>

Reconciliations

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

	2016 \$'000	2015 \$'000
Land		
Carrying amount at beginning of period	1,815	1,391
Additions	61	796
Disposals	(303)	-
Impairment charge	-	(411)
Net foreign exchange movement	(283)	39
Carrying amount at end of period	<u>1,290</u>	<u>1,815</u>
Buildings		
Carrying amount at beginning of period	189	411
Additions	445	45
Disposals	-	(3)
Impairment charge	-	(138)
Depreciation	(55)	(128)
Net foreign exchange movement	(13)	2
Carrying amount at end of period	<u>566</u>	<u>189</u>
Property, plant and equipment		
Carrying amount at beginning of period	2,357	2,779
Additions	1,314	2,948
Disposals	(3)	-
Impairment charge	-	(1,622)
Reclassification from development costs	-	66
Depreciation	(1,139)	(1,841)
Net foreign exchange movement	(67)	27
Carrying amount at end of period	<u>2,462</u>	<u>2,357</u>
Mine properties		
Carrying amount at beginning of period	2,813	1,478
Additions	45	1,244
Impairment charge	-	(1,381)
Reclassification from development costs	12,224	4,236
Depreciation	(2,405)	(2,817)
Net foreign exchange movement	(135)	52
Carrying amount at end of period	<u>12,542</u>	<u>2,812</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

8. MINERAL EXPLORATION AND DEVELOPMENT COSTS

	2016 \$'000	2015 \$'000
Mineral exploration costs		
Balance at beginning of financial period	7,685	1,958
Additions	8,453	5,487
Disposal	(1,138)	-
Reclassification to mine properties	(12,224)	-
Net foreign exchange movement	(545)	240
Total mineral exploration expenditure	<u>2,231</u>	<u>7,685</u>

The recoverability of the carrying amount exploration and evaluation is dependent on the successful development and commercial exploitation, or alternatively through the sale of the respective area of interest.

9. OTHER ASSETS

	2016 \$'000	2015 \$'000
Current		
Prepayments	<u>180</u>	<u>99</u>
Non-current		
Environmental and other bonds	<u>5,306</u>	<u>5,786</u>

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

10. TRADE AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Trade payables and accruals ¹	<u>6,806</u>	<u>6,766</u>

The Consolidated Entity's exposure to credit risk is disclosed in note 21.

¹Ageing Analysis

An aged analysis of the trade and accruals as at the end of the reporting period, based on invoice date, is as follows:

	2016 \$'000	2015 \$'000
Within 1 month	6,357	6,682
1 to 2 months	439	84
2 to 3 months	10	-
Over 3 months	-	-
Trade payables and accruals	<u>6,806</u>	<u>6,766</u>

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11. PROVISIONS	2016 \$'000	2015 \$'000
Current		
Employee entitlements	2,050	2,189
Rehabilitation	10	-
Other	72	-
	<u>2,132</u>	<u>2,189</u>
Non-current		
Employee entitlements	30	26
Rehabilitation	10,553	15,395
	<u>10,583</u>	<u>15,421</u>
*Rehabilitation movement		
Balance at 1 January 2016	15,395	
Additions	219	
Rehabilitation borrowing cost unwound	9	
Reversal of rehabilitation provision ¹	(4,500)	
Net foreign exchange movement	(560)	
Balance at 31 December 2016	<u>10,563</u>	

¹The Company has identified the following events which have had a significant impact on the present obligation and the timing of the associated economic outflows:

- In March 2016, the Company released the maiden Ore Reserve estimate for Fäboliden representing an initial mining life of approximately four years. The mining operations at Fäboliden will extend the operating life of Svartliden and enable ongoing rehabilitation to coincide with operating activities; and
- In June 2016, the County Administration Board granted the Company a permit to fill the open pit with tailings up to the +415 metre level. This provides ample capacity for the development of the Fäboliden project.

Based on the probable outflow of economic resources required to settle the obligation, the Company has reversed its rehabilitation provision for Svartliden by A\$4.5 million.

12. CONTRIBUTED EQUITY

Share capital	2016 Number of Shares	2015 Number of Shares	2016 \$'000	2015 \$'000
Ordinary shares, fully paid	88,840,613	88,840,613	119,992	119,992
Movements in issued capital				
			\$'000	No. Shares
At 1 January 2015			119,992	88,840,613
Balance at 31 December 2015			119,992	88,840,613
At 1 January 2016			119,992	88,840,613
Balance at 31 December 2016			<u>119,992</u>	<u>88,840,613</u>

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13. RESERVES

	2016	2015
	\$'000	\$'000
Foreign currency translation reserve	(5,907)	(4,505)
Convertible note premium reserve	2,068	2,068
Available-for-sale asset reserve	-	(11)
Equity reserve purchase of non-controlling interest	1,069	1,069
	<u>(2,770)</u>	<u>(1,379)</u>

Foreign currency translation reserve summary

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

Convertible note premium reserve summary

This reserve is used to record the equity component of any convertible notes on issue. This is a historical reserve and no convertible notes are currently on issue.

Equity reserve – purchase of non-controlling interest

This reserve is used to record differences between the consideration paid for acquiring the remaining non-controlling interest and the carrying value of net assets attributed to the non-controlling interest. This is a historical reserve and all subsidiaries are now wholly owned.

14. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Directors

Mr AG Dew	Non-Executive Chairman (appointed 7 February 2014)
Mr BR Smith	Executive Director (appointed 7 February 2014)
Mr CC Procter	Non-Executive Director (appointed 19 May 2015)
Mr M Wong	Alternate Director to Mr AG Dew (appointed 19 May 2015)

Executives

Mr NM Edwards	Chief Geologist (appointed 19 August 1996)
Mr DK Broughton	Chief Financial Officer (appointed 8 September 2014)

(b) Compensation of Key Management Personnel

Key Management Personnel

	2016	2015
	\$	\$
Short-term	913,000	1,119,048
Long-term	(14,078)	61,664
Post-employment	86,735	106,310
Termination benefits	-	-
Share based payments	-	-
Total	<u>985,657</u>	<u>1,287,022</u>

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14. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Five Highest Paid Employees

The five highest paid employees during the year included one Director and four specified employees, for both 2016 and 2015 years.

Details of the remuneration for the year of the remaining four highest paid employees who is neither a Director nor Chief Executive of the Company are as follows:

	2016	2015
	\$	\$
Salaries, allowances and benefits in kind	940,323	935,374
Performance related bonuses	82,422	-
Pension scheme contributions	212,263	209,413
Termination benefits	-	-
Equity settled share option expense	-	-
Total	<u>1,235,008</u>	<u>1,144,787</u>

15. REMUNERATION OF AUDITORS

The auditor of Dragon Mining Limited is Ernst & Young.

	2016	2015
	\$	\$
Remuneration of Ernst & Young (Australia) for:		
- auditing or reviewing accounts	150,379	113,477
- tax consulting	65,065	74,197
- other services	123,232	-
	<u>338,676</u>	<u>187,674</u>
Remuneration of Ernst & Young (other than Australia) for:		
- auditing or reviewing accounts	89,742	85,714
- tax consulting	1,887	14,114
- other services	-	40,825
	<u>91,629</u>	<u>140,653</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

16. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive options and dilutive convertible notes). There have been no post balance sheet movements impacting the diluted earnings per share.

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

	2016	2015
Basic earnings per share		
Gain used in calculation of basic earnings per share (\$'000)	5,363	2,563
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	88,840,613	88,840,613
Basic gain per share (cents)	6.04	2.89
Diluted earnings per share		
Gain used in calculation of basic earnings per share (\$'000)	5,363	2,563
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	88,840,613	88,840,613
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted EPS	88,840,613	88,840,613
Number of potential ordinary shares that are not dilutive and hence not included in calculation of diluted EPS. These may be dilutive in future if exercised	-	-
Diluted gain per share (cents)	6.04	2.89

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

17. RELATED PARTY TRANSACTIONS

(a) Subsidiaries

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

Name of Entity	Incorporation	Class	Equity Holding	
			2016 %	2015 %
Dragon Mining Investments Pty Ltd	Australia	Ordinary	100	100
Dragon Mining (Sweden) AB	Sweden	Ordinary	100	100
Viking Gold & Prospecting AB	Sweden	Ordinary	100	100
Dragon Mining Oy	Finland	Ordinary	100	100
Kuusamo Gold Oy ¹	Finland	Ordinary	-	100

¹On 10 November 2016, the Company announced that it had executed a conditional Share Sale and Purchase Agreement ("Agreement") with Nero Projects Australia Pty Ltd for the sale of its 100% interest in Finnish subsidiary Kuusamo Gold Oy. This agreement was finalised on 6 December 2016.

(b) Transactions with related parties

- (i) The Company has effected Directors' and Officers' Liability Insurance.
- (ii) In addition to his role as the Company's Chief Financial Officer, Mr D Broughton provides Chief Financial Officer Service's ("services") to ASX listed gold explorer, Tanami Gold NL ("Tanami"). Tanami is a Company of which Messer's Dew and Procter, the Company's Non-Executive Chairman and Non-Executive Director are also Non-Executive Director's. The provision of services commenced from 8 September 2014 whereby the Company will charge Tanami for 48% of Mr D Broughton's salary cost. During the year, the Company charged Tanami \$100,000 (2015: \$100,000) of which \$24,750 was outstanding at 31 December 2016 (2015: \$24,750).

Entity with significant influence over the Group

As at 31 December 2016, Allied Property Resources Limited ("APRL"), a wholly owned subsidiary of Allied Properties (HK) Limited, owns 21,039,855 ordinary shares for an interest of 23.68%.

18. SEGMENT INFORMATION

Identification of reportable segments

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

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

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

Accounting policies and inter-segment transactions

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

Segment results include management fees and interest charged on intercompany loans, both of which are eliminated in the Group result. They also include foreign exchange movements on intercompany loans denominated in AUD, and external finance costs that relate directly to segment operations. This segment results also include intercompany sales of concentrate which occur at rates that reflect market value.

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

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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18. SEGMENT INFORMATION (continued)

Major customers

The Group has one major customer to which it provides gold concentrate from the Vammala Production Centre in Finland. In addition, the Company also sold gold on-market through third party National Australia Bank.

	Sweden 2016 \$'000	Finland 2016 \$'000	Total 2016 \$'000
Segment revenue			
Gold sales to external customers	46,286	8,753	55,039
Inter-segment sales	556	38,757	39,313
Elimination of inter-segment revenue	-	-	(39,313)
Total revenue	46,842	47,510	55,039
Other revenue			
Interest revenue	18	6	24
Other revenue	4	365	369
Unallocated interest revenue	-	-	90
Total other revenue	22	371	483
Segment interest expense	-	10	10
Depreciation and amortisation	24	3,575	3,599
Impairment of exploration	-	-	-
Impairment of property, plant and equipment	-	-	-
Impairment of mine properties	-	-	-
Impairment of buildings	-	-	-
Impairment of land	-	-	-
	24	3,575	3,599
Segment result			
Pre-tax segment result	(6,419)	8,108	1,689
Income tax expense	-	-	-
Post tax segment result	(6,419)	8,108	1,689
Unallocated items:			
Corporate interest revenue			90
Other corporate income			-
Corporate costs			(3,059)
Finance costs			(3)
Reversal of rehabilitation			4,500
Elimination of inter-company interest expense and management fees in segment results			2,146
Profit after tax as per the Consolidated Statement of Profit or Loss			5,363
Segment assets	15,541	29,240	44,781
Unallocated items:			
Other corporate assets ¹			5,651
Total assets			50,432
Segment non-current assets	13,372	11,024	24,396
Unallocated items:			
Corporate and other acquisitions	-	-	-
	13,372	11,024	24,396

¹Other corporate assets predominantly relates to cash held within the Australian Parent of \$5.5 million.

	Australia 2016 \$'000	Sweden 2016 \$'000	Finland 2016 \$'000	Total 2016 \$'000
Non-current assets by geographic location	52	13,357	10,988	24,397

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

18. SEGMENT INFORMATION (continued)

	Sweden 2015 \$'000	Finland 2015 \$'000	Total 2015 \$'000	
Segment revenue				
Gold sales to external customers	44,281	32,555	76,836	
Inter-segment	-	21,154	21,154	
Elimination of inter-segment revenue	-	-	(21,154)	
Total revenue	44,281	53,709	76,836	
Other revenue				
Interest revenue	31	-	31	
Other revenue	-	552	552	
Unallocated interest revenue	-	-	120	
Total other revenue	31	552	703	
Segment interest expense	2	-	2	
Depreciation and amortisation	509	4,265	4,774	
Impairment of property, plant and equipment	479	1,143	1,622	
Impairment of mine properties	-	1,381	1,381	
Impairment of buildings	138	-	138	
Impairment of land	411	-	411	
	1,537	6,789	8,326	
Segment result				
Pre-tax segment result	(4,642)	5,763	1,121	
Income tax expense	-	-	-	
Post tax segment result	(4,642)	5,763	1,121	
Unallocated items:				
Corporate interest revenue			120	
Elimination of inter-company debt forgiveness in segment results			-	
Other corporate income			58	
Corporate costs			(880)	
Finance costs			(6)	
Elimination of inter-company interest expense and management fees in segment results			2,150	
Profit after tax as per the Consolidated Statement of Profit or Loss			2,563	
Segment assets	20,793	24,573	45,366	
Unallocated items:				
Available-for-sale investments			-	
Other corporate assets			5,902	
Total assets			51,268	
Segment acquisitions of non-current assets	1,231	6,164	7,395	
Unallocated items:				
Corporate and other acquisitions	-	-	2	
	1,231	6,164	7,397	
	Australia 2015 \$'000	Sweden 2015 \$'000	Finland 2015 \$'000	Total 2015 \$'000
Non-current assets by geographic location	54	12,562	8,241	20,857

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

19. FARM OUT ARRANGEMENTS

Hanhimaa earn-in agreement (diluting to 30% interest)

The Hanhimaa Gold Project covers a portion of the highly prospective Central Lapland Greenstone Belt. The near contiguous tenement holding principally encompasses the 20 kilometre long north-south trending Hanhimaa Shear Zone, 10 kilometres west of the Kittila Gold Mine.

In February 2013, the Company executed the Hanhimaa Earn-In Agreement with Agnico Eagle Mines Limited ("Agnico Eagle") whereby Agnico Eagle can earn up to a 70% interest in the Hanhimaa Gold Project in Northern Finland with the staged expenditure of €9.0 million.

On 4 February 2015, the Company announced that it had reached agreement with Agnico Eagle to further amend the Hanhimaa Earn-In Agreement, whereby the Stage 1 Earn-In Period has been extended by a period of 2 years. Under the amended terms Agnico Eagle can earn up to a 70% interest in the Hanhimaa Gold Project in northern Finland with staged expenditure over 9 years. Agnico Eagle are the managers during the Earn-In and can now withdraw at any time, having achieved the minimum expenditure level of €1.5 million.

20. EXPENDITURE COMMITMENTS

(a) Exploration commitments

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

	2016	2015
	\$'000	\$'000
Within one year	47	63
One year or later and no later than five years	204	289
	<u>251</u>	<u>352</u>

(b) Capital commitments

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

Within one year	-	-
	<u>-</u>	<u>-</u>

(c) Operating lease expense commitments

Future operating lease commitments not provided for in the financial statements are as follows:

Within one year	40	38
One year or later and no later than five years	125	101
	<u>165</u>	<u>139</u>

(d) Remuneration commitments

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

Within one year	353	511
	<u>353</u>	<u>511</u>

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

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21. FINANCIAL INSTRUMENTS

(a) Financial risk management policies and objectives

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

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

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

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

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

(b) Instruments recognised at amounts other than fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements at amortised cost represents their respective net fair values.

(c) Fair values for instruments recognised at fair value

The Company uses various methods in estimating the fair value of a financial instrument. The methods comprise:

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

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21. FINANCIAL INSTRUMENTS (continued)

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

	As at December 2016				As at December 2015			
	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total	Quoted market price (Level1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Available-for sale-assets	-	-	-	-	213	-	-	213

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

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

(d) Credit risk

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

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

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

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

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to Board approval.

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

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

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21. FINANCIAL INSTRUMENTS (continued)

	2016 \$'000	2015 \$'000
Cash and cash equivalents		
<i>Counterparties with external credit ratings</i>		
AA-	15,337	13,827
A	70	69
Total cash and cash equivalents	<u>15,407</u>	<u>13,896</u>
Trade and other receivables		
<i>Counterparties with external credit ratings</i>		
AAA	-	-
AA-	-	-
A+	-	-
A-	-	-
<i>Counterparties without external credit ratings</i>		
Counterparties with no defaults in the past	<u>3,696</u>	<u>9,312</u>
Total trade and other receivables	<u>3,696</u>	<u>9,312</u>

For the purposes of determining credit exposures on receivables, receivable amounts that have been factored are evaluated against the credit rating of the factoring bank, where the factored amount is insured.

Environmental and other bonds

<i>Counterparties with external credit ratings</i>		
AAA	5,306	5,786
<i>Counterparties without external credit ratings</i>		
Counterparties with no defaults in the past	-	-
Total trade and other receivables	<u>5,306</u>	<u>5,786</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

21. FINANCIAL INSTRUMENTS (continued)

(e) Interest Rate Risk

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

	2016				2015			
	Floating interest rate	Non-interest bearing	Total	Average int. rate %	Floating interest rate	Non-interest bearing	Total	Average int. rate %
Financial assets								
Cash and cash equivalents	15,407	-	15,407	1.20	13,896	-	13,896	1.31
Asset held for sale	-	-	-	-	-	-	-	-
Environmental bonds	5,306	-	5,306	-	5,786	-	5,786	-
	20,713	-	20,713		19,682	-	19,682	
Financial liabilities								
Bank loans	-	-	-	-	-	-	-	-
Factoring facility	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

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

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

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21. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Foreign exchange risk

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

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

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

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

The Company and Group's financial performance is also affected by movements in AUD:SEK and AUD:EUR. In accordance with the requirements of the Australian Accounting Standards, exchange gains and losses on intercompany loans that do not form part of the Company's net investment in foreign operations are recognised in the Consolidated Statement of Profit or Loss.

For the year ended 31 December 2016, the Company did not enter into or hold any foreign exchange derivatives.

At balance date, the Group had the following significant exposure to foreign currencies:

	2016	2015
	\$'000	\$'000
USD exposure		
<i>Entity with Euro functional currency</i>		
Cash and cash equivalents	6,524	1,551
<i>Entity with AUD functional currency</i>		
Trade receivables	5,004	9,246
<i>Entity with SEK functional currency</i>		
Trade payables	471	24
Net USD Exposure	11,057	10,773
Euro exposure		
<i>Entity with AUD functional currency</i>		
Intercompany loan	28,382	31,235
Net Euro Exposure	11,057	10,773
AUD exposure		
<i>Entity with SEK functional currency</i>		
Cash and cash equivalents	2,214	4,611
Net AUD Exposure	39,439	42,008
SEK exposure		
<i>Entities with AUD functional currency</i>		
Intercompany loans	8,751	7,304
Net SEK Exposure	41,653	46,619

At the date of this report the Company did not hold enter into or hold any currency derivatives.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

21. FINANCIAL INSTRUMENTS (continued)

(g) Commodity price risk

The Group is exposed to movements in the gold price. As part of the risk management policy of the Group, a variety of financial instruments (such as gold forwards and gold call options) are used from time to time to reduce exposure to unpredictable fluctuations in the project life revenue streams. Within this context the programs undertaken are structured with the objective of maximising the Groups' revenue from gold sales, but in any event, limiting derivative commitments to no more than 50% of the Groups' gold Reserves. The value of these financial instruments at any point in time will, in times of volatile market conditions, show substantial variation over the short-term.

For the year ended 31 December 2016 the Company did not enter into or hold any commodity derivatives.

(h) Sensitivity analysis

The following tables summarise the sensitivity of the Group's financial assets and liabilities to interest rate risk, foreign exchange risk and gold price risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post-tax profit and equity would have been affected as shown. The analysis has been performed on the same basis for 2015.

31 December 2016

		Interest rate risk		Interest rate risk	
		-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets	Note				
Cash and cash equivalents	1	(154)	(154)	154	154
Receivables from associates	3	-	-	-	-
Government bonds	4	(53)	(53)	53	53
Financial liabilities					
Interest-bearing loans and borrowings		-	-	-	-
Total (decrease)/increase		(207)	(207)	207	207

31 December 2015

		Interest rate risk		Interest rate risk	
		-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets	Note				
Cash and cash equivalents	1	(139)	(139)	139	139
Receivables from associates	3	-	-	-	-
Government bonds	4	(58)	(58)	58	58
Financial liabilities					
Interest-bearing loans and borrowings		-	-	-	-
Total (decrease)/increase		(197)	(197)	197	197

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

21. FINANCIAL INSTRUMENTS (continued)

(h) Sensitivity Analysis (continued)

31 December 2016

		Foreign exchange		Foreign exchange	
		-10%		+10%	
		Profit	Equity	Profit	Equity
		\$'000	\$'000	\$'000	\$'000
Financial assets	Note				
Cash and cash equivalents	1	679	679	(679)	(679)
Trade and other receivables	2	500	500	(500)	(500)
Asset held for sale		-	-	-	-
Intercompany loans	3	3,713	3,713	(3,713)	(3,713)
Government bonds	4	-	-	-	-
Financial liabilities					
Gold forward contracts		-	-	-	-
Currency forward contracts		-	-	-	-
Interest-bearing loans and borrowings		-	-	-	-
Total increase/(decrease)		4,892	4,892	(4,892)	(4,892)

- Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
- Trade receivables include AUD 2.7 million of gold concentrate receivables denominated in USD.
- Intercompany loans are denominated in AUD, SEK and EUR. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in the Consolidated Profit or Loss.
- Interest bearing environmental cash bonds that have historically been deposited with Swedish and Finnish government authorities.

31 December 2015

		Foreign exchange		Foreign exchange	
		-10%		+10%	
		Profit	Equity	Profit	Equity
		\$'000	\$'000	\$'000	\$'000
Financial assets	Note				
Cash and cash equivalents	1	158	158	(158)	(158)
Trade and other receivables	2	925	925	(925)	(925)
Asset held for sale		-	-	-	-
Intercompany loans	3	3,854	3,854	(3,854)	(3,854)
Government bonds		-	-	-	-
Financial liabilities					
Gold forward contracts		-	-	-	-
Currency forward contracts		-	-	-	-
Interest-bearing loans and borrowings		-	-	-	-
Total increase/(decrease)		4,937	4,937	(4,937)	(4,937)

- Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
- Trade receivables include AUD 8.9 million of gold concentrate receivables denominated in USD.
- Intercompany loans are denominated in AUD, SEK and EUR. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in the Consolidated Profit or Loss.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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21. FINANCIAL INSTRUMENTS (continued)

(i) Liquidity risk

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

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

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

	2016 \$'000	2015 \$'000
Within one year	6,902	6,839
Due between one and five years	-	-
	<u>6,902</u>	<u>6,839</u>

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

- Annual cash flow budgets;
- Two year cash flow forecasts; and
- Monthly rolling cash flow forecasts.

22. SIGNIFICANT EVENTS AFTER PERIOD END

On 15 February 2017, the Company entered into a loan agreement with AP Finance Limited for an unsecured Loan Facility of A\$6.0 million (approximately HK\$35.67 million). The key provisions of the Loan Facility include:

- An interest rate of 4% per annum payable quarterly in arrears; and
- A loan period of 24 months with the principal repayable in Hong Kong dollars.

The Company will use the funds to:

- Assist with the development of its new Fäboliden and Kaapelinkulma Gold Mines; and
- Provide additional working capital as required.

23. PARENT ENTITY DISCLOSURE

Financial position of the parent entity at year end	2016 \$'000	2015 \$'000
Current assets	5,599	5,848
Total assets	12,680	14,336
Current liabilities	1,359	766
Total liabilities	1,388	792
Issued capital	119,992	119,992
Retained earnings	(110,771)	(108,519)
Option reserve	-	-
Convertible note premium reserve	2,068	2,068
Total shareholder's equity	<u>11,289</u>	<u>13,541</u>
(Loss)/profit after tax of the Parent entity	(1,475)	4,854
Total comprehensive loss of the parent entity	(2,252)	5,178

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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DIRECTORS DECLARATION

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

1. In the opinion of the Directors:
 - a) The Consolidated Financial Statements and notes and the Remuneration Report set out in note 14 in the Directors' Report are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - b) The Consolidated Financial Statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b);
 - c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year ended 31 December 2016.

On behalf of the Board



Mr Brett Smith
Executive Director
20 February 2017

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Dragon Mining Limited ("the Company"), including its subsidiaries ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year ended on that date
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Carrying value of non-current assets

Why significant

As disclosed in note 7, the Group had property, plant and equipment, including capitalised mine properties, of \$16.9 million as at 31 December 2016.

Under Australian Accounting Standards, an entity shall assess at each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. No impairment or impairment reversal was recognised during the year.

The impairment testing process is complex and judgmental and is based on assumptions and estimates that are affected by expected future performance and market conditions. Key assumptions, judgements and estimates used in the formulation of the Group's impairment of non-current assets include discount rates, gold price and foreign exchange rates, as disclosed in note 1(x).

How our audit addressed the key audit matter

We evaluated the Group's future cash flow forecasts included in the value in use impairment model, the process by which they were prepared, and assessed the underlying assumptions such as expected cash inflows from gold sales and cash outflows from the production process and other operating expenses.

We also assessed the key assumptions and performed sensitivity analyses to ascertain the extent changes could lead to alternative conclusions.

We have assessed the technical competency of the internal experts compiling the reserves and resources data utilised in the model.

We assessed the Board of Director's minutes and various operational reports and plans in order to understand the future plans of the Group and whether there was any potential contradictory information compared to the assumptions applied in the impairment model.

2. Recognition and measurement of rehabilitation provisions

Why significant

As disclosed in note 11, the Group had a rehabilitation provision of \$10.6 million as at 31 December 2016 relating to the mine sites and processing facilities in Sweden and Finland. As disclosed in note 1(x) the calculation of this provision requires judgment in estimating the future costs, the timing as to when the future costs will be incurred and the determination of an appropriate rate to discount the future costs to their net present value. The Group reviews rehabilitation obligations that have arisen annually, or as new information becomes available, including an assessment of the underlying assumptions used, effects of any changes in local regulations, and the expected approach to rehabilitation.

How our audit addressed the key audit matter

We assessed the Group's process for determining the rehabilitation provision, and enquired about material movements in the provision during the year.

We evaluated the legal and/or constructive obligations with respect to the rehabilitation for all mine sites and processing facilities, the intended method of rehabilitation and the associated cost estimates.

We assessed the technical competency of the external experts compiling the data that supported the provisions.

We also assessed the accuracy of the calculations used to determine the rehabilitation provision including the discount rate applied.

3. Carrying value of inventories

Why significant

As disclosed in Note 6, the Group held inventories as at 31 December 2016 of \$6.8 million, which related to ore and concentrate stockpiles, gold in circuit, raw materials and stores. It is a material balance for the Group which requires management judgement in determining an appropriate costing basis and assessing if this is at the lower of cost and net realisable value.

How our audit addressed the key audit matter

We considered the Group's accounting policies and application thereof in respect of ore and concentrate stockpiles, gold in circuit, raw materials and stores.

We obtained a detailed understanding of the system the Group uses to physically control inventories at the different stages of production. We assessed the design and operating effectiveness of key controls in respect of amounts associated with inventories and tested that inventories were recorded at the lower of cost and net realisable value. We also assessed the accuracy of the inventory calculations.

Information other than the financial statements and auditor's report

The Directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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.

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- ▶ Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 17 of the Directors' Report for the year ended 31 December 2016.

In our opinion, the Remuneration Report of Dragon Mining Limited for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.



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Responsibilities

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.

Ernst & Young

G H Meyerowitz
Partner
Perth
20 February 2017