



DRAGON MINING LIMITED

ABN 19 009 450 051

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2017**

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
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**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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CHAIRMAN'S LETTER**

I am pleased to present to shareholders, Dragon's Annual Report for the year ended 31st December 2017.

Unfortunately, we were not able to continue our profitable results for the last three years.

However, the Company recorded a positive cash balance of \$6.609 million at year end.

The results for the year were adversely impacted by an increase in mine and near mine exploration and the costs of keeping the Svartliden plant open to ensure its availability to treat Faboliden ore when permitting is completed. The additional expenditure on near mine exploration has rewarded the Company with significantly improved resources and reserves and utilising the Svartliden plant to treat concentrate from the Company's mines in Finland has resulted in increased revenue over 3rd party refining at a commercial smelter. The Company continued to pay close attention to reducing costs and achieving operational efficiencies to minimise the losses.

The results also reflect the costs incurred in pursuing the Hong Kong listing as previously announced. The Company has not been successful in achieving permission to list in Hong Kong to date, but based on feedback from our Sponsors and legal advisors, we are now pursuing a revised listing application. The Board remains of the view that a successful Hong Kong listing will be in the interests of all shareholders and facilitate the raising of capital on favourable terms for the Faboliden development.

The Company has obtained the environmental permit for test mining at Faboliden. However, the grant of the permit was appealed to the Court by a locally based environmental group and accordingly, the issue must now be determined by the Court. We currently expect a Court decision sometime later in 2018.

We recently released our updated ore resource report and it is pleasing that recent drilling success at Orivesi and Jokisivu in Finland have resulted in the Company being able to announce its best resource outlook ever. This situation is very encouraging and augurs well for better financial results when the Company is able to put Faboliden into production.

It is also pleasing that the Company finished the year with zero LTI's. Management and staff are to be congratulated on this achievement.

I wish to express my sincere thanks to our Directors and loyal staff for their support efforts during the year. I also thank our shareholders for their support.



Arthur G. Dew
Chairman

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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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 2017 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).

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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 company secretary to a number of public listed and unlisted companies, 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 2017 was:

Director	Board Meetings		Audit & Risk Management	
	Eligible to Attend	Attend	Eligible to Attend	Attend
Mr AG Dew	6	6	3	3
Mr BR Smith	6	6	-	3 ¹
Mr CC Procter	6	6	3	3
Mr M Wong ²	6	-	3	-

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	98,571	-	-	-
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 28,000 to 30,000 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, and processing ore in Finland;
- Processing gold 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
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DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review

Consolidated Financial Review

The Consolidated Entity generated a net loss after tax for the year ended 31 December 2017 of \$0.6 million (2016: Profit \$5.3 million).

Revenue from operations amounted to \$41.3 million (2016: \$55.0 million) with the decrease in revenue attributable to reduced production from Orivesi and the cessation of processing third party concentrates at Svartliden.

Even with an increase in tonnes processed at Vammala, production costs decreased to \$35.7 million (2016: \$50.6 million) due to continued costs savings across all sites.

At 31 December 2017, the Company had net assets of \$31.4 million (2016: \$30.8 million), a working capital surplus of \$10.3 million (excluding capitalised share issue costs) (2016: surplus \$17.0 million) and a market capitalisation of \$16.9 million (2016: \$18.7 million).

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

- Total current assets decreased to \$20.0 million (2016: \$26.0 million) as a result of a decrease in cash and cash equivalents and includes capitalised share issue costs of \$1.6 million.
- Total non-current assets increased to \$30.3 million (2016: \$24.4 million), as a result of the capitalisation of costs to Property Plant and Equipment in relation to the Company's 100% owned Fäboliden and Kaapelinkulma Gold Projects;
- The Consolidated Statement of Profit or Loss includes \$2.5 million of uncapped Hong Kong Listing costs; and
- Other material movements are disclosed in the notes to the Financial Statements.

Operating Overview

The Company finished the year with a 12-month rolling lost time injury ("LTI") frequency rate, per million work hours, of zero (2016: 6.3). Impressively Orivesi has achieved over 1,100 days LTI free, Vammala and Jokisivu recorded 709 and 740 LTI free days respectively, and Svartliden recorded 639 days LTI free.

In 2017, the Company produced 28,204 ounces of gold (2016: 34,417 ounces). Gold production 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. Production from Orivesi came from Sarvisuo and Kutema stopes and ore drifts, sill pillars at Kutema, and development work carried out in the Sarvisuo area. Production from Jokisivu came from both the Kujankallio Main Zone and Arpola, with ore coming from both stope and development works.

Development work at Orivesi advanced 1,085 metres during the year. Successful drilling campaigns carried out at Orivesi during 2017 has resulted in an additional year of Ore Reserves being defined, extending production to at least the end of 2018. Deepening of the Jokisivu decline advanced 371 metres and is now at the 390 metre level. The recent update of the Ore Reserves for Jokisivu has increased the mine life for this operation to four years following the completion of an underground optimisation study.

Throughout the year, Svartliden remained in operation, processing only concentrates from Finland. The Board continues to support the operation of the Svartliden plant at below breakeven to ensure retention of staff for the start-up of ore processing from Fäboliden. Almost 100% of Jokisivu and Orivesi flotation concentrate was processed at Svartliden throughout the year, a small amount of flotation concentrate was delivered to the Boliden Harjavalta smelter in addition to a small amount of gravity gold delivered to the Argor-Heraeus refinery.

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DIRECTORS' REPORT (CONTINUED)**

6. Financial and Operating Review (continued)

Operating Overview (continued)

The table below details the production for each of the Production Centres:

Description	Svartliden, Sweden		Vammala, Finland	
	2017	2016	2017	2016
Gold production (oz)	-	3,939	28,204	30,417
Ore Tonnes milled (t)	-	-	317,792	314,175
Ore Gold grade (g/t)	-	-	3.20	3.43
Concentrate milled (t)	-	1,352	-	-
Concentrate grade (g/t)	-	99.6	-	-

Throughout the year, the Company:

- Achieved a zero 12 month rolling LTI frequency rate per million work hours;
- Transferred its interests in the Hanhimaa Gold Project in exchange for a 2% Net Smelter Royalty on future production;
- Processed a significant quantity of high grade tailings from historical Orivesi production at Vammala;
- Updated the Svartliden Rehabilitation Plan and submitted this to the Environmental Court on 7 April 2017;
- Carried out successful drilling campaigns at Orivesi during 2017 which resulted in an additional year of Ore Reserves being defined, extending production to at least the end of 2018. This represents a 54% increase in tonnes and 58% increase in ounces after depletion for mining to 30 September 2017, when compared to the Orivesi Ore Reserves as at 31 December 2016;
- Was granted the Faboliden test mining permit was granted by the County Administration Board (refer to Corporate Section page 10).

Advanced Projects and Exploration

During 2017, Dragon Mining continued to focus drilling activities on its projects in southern Finland with the objective of better defining the extent and geometry of known mineralised zones, identifying new mineralised zones and providing information to support mine planning and development. A total of 164 holes were drilled during the year from both surface and underground positions for an advance of 20,641.10 metres (2016 – 144 holes for 21,681.25 metres). A total of 18,317 samples (2016 – 18,285 samples) were submitted for analysis.

Results from analysis continued to highlight the prospective nature of the Company's projects, yielding a series of intercepts from programs that targeted the Sarvisuo and the Sarvisuo West lode system at Orivesi, the Kujankallio Main Zone and the Basin Zones at Jokisivu and the southern deposit at the Kaapelinkulma Gold Project ("Kaapelinkulma"). The majority of results from these programs have been incorporated into updates of the Company's Mineral Resources and Ore Reserves. In addition to drilling, Dragon Mining continued to advance both Kaapelinkulma and the Fäboliden Gold Project ("Fäboliden") in northern Sweden towards production.

Full details of the drilling programs have been previously released to the ASX on:

- 2 March 2017 – Drilling Returns Further Intercepts from the Orivesi Gold Mine;
- 27 March 2017 – Kaapelinkulma Drilling Confirms Historical Results;
- 31 May 2017 – Drilling at Orivesi Gold Mine Yields High Grade Intercepts;
- 19 July 2017 – Update on Activities Completed at Key Finnish Projects;
- 1 September 2017 – Further High-Grade Intercepts Returned from the Orivesi Gold Mine;
- 13 October 2017 – Jokisivu Drilling returns Further Encouraging Intercepts;
- 22 December 2017 – Encouraging Drill Results Received from Southern Finland Projects.

Updates of the Mineral Resources and Ore Reserves were released to the ASX on:

- 11 January 2018 – Mineral Resources Updated for Dragon Mining's Nordic Projects;
- 23 February 2018 – Dragon Mining Updates Ore Reserves for Nordic Projects.

These releases can be found at www.asx.com.au (Code: DRA).

6. Financial and Operating Review (continued)

Advanced Projects and Exploration (continued)



Location of Projects and Production Centres

Orivesi

Forty-nine diamond core drill holes were completed at Orivesi during 2017, in a series of campaigns from both surface and underground.

Four campaigns of drilling were completed from surface, targeting the undeveloped upper portions of the Sarvisuo and Sarvisuo West areas, between the 50m and 200m level. The campaigns returned a series of significant intercepts, including a number of high-grade results. Collectively the campaigns have identified extensions to known zones of gold mineralisation at promising grades, as well as identifying previously unknown zones of gold mineralisation in both areas. Given the tenor of the results and the lower costs of mining at these shallow depths, the Company commenced extending underground development towards these areas in preparation for mining.

Two underground drilling campaigns were also carried out from the 340m level in the Sarvisuo West area. The initial campaign, which directed drilling, sub-parallel to the vertical axis of a select number of sub-vertical mineralised pipes, yielded a series of robust intercepts. Early results from the second campaign of drilling in the Sarvisuo West area directed towards a group of mineralised pipes further to the north of the initial campaign returned some promising intercepts.

Drilling will continue at Orivesi during 2018, further targeting the Kutema, Sarvisuo and Sarvisuo West areas with the aim of further adding to the Orivesi Ore Reserves, through the identification of extensions to known zones of mineralisation or new zones of mineralisation within close proximity to existing underground development.

Jokisivu

Activities at Jokisivu advanced during 2017, with fifty-four underground diamond core holes drilled.

Three campaigns of drilling targeting the Kujankallio Main Zone between the 300m and 430m levels were carried out. These campaigns returned a series of significant intercepts in-line with expectations, with intercepts at widths and grades commensurate with current models.

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6. Financial and Operating Review (continued)

Advanced Projects and Exploration (continued)

The campaigns also identified extensions to known mineralisation, as well as generating important information to assist with mine planning.

A program of drilling was also completed from the 65m level evaluating the Basin Zones, a satellite zone of gold mineralisation approximately 100 metres northwest of the Kujankallio Main Zone. Results from this program were encouraging, returning widths and grades comparable to earlier drilling in this area. Further drilling will need to be directed toward the Basin Zones to better define the extent, geometry and tenor of the identified mineralisation, as well as testing for extensions to the identified mineralisation.

Drilling programs will continue at Jokisivu from underground positions in 2018 with the objective of further evaluating the extensions of the Kujankallio and Arvola deposits and associated satellite zones.

Kaapelinkulma

A program of Reverse Circulation drilling was completed at Kaapelinkulma early in 2017, with the drilling of the final 61 holes in an 80-hole program that commenced late in 2016. This program, which was designed to tighten drill spacing over the southernmost deposit, yielded a number of significant intercepts, confirming the results from earlier drilling and providing greater confidence in the interpretation of the extent and geometry of the deposit.

Preparation to commence mining continued with construction of the access and mine roads, establishment of an office and connection to the local power grid completed.

The Company also continued to foster a good working relationship with the local community. Representatives from the Company have given a number of presentations to various community groups and local authorities during 2017, with further community meetings scheduled for 2018.

Kaapelinkulma remains on schedule to become the Company's third gold mine in the southern Finland region. It will be an open pit mining operation, with ore to be transported to the Vammala Plant to produce a high-grade gold flotation concentrate and gravity concentrate. The flotation concentrate will be further processed at Dragon Mining's Svartliden Plant in northern Sweden to produce doré bars, whilst the gravity concentrate will be shipped to Argor-Heraeus in Switzerland for refining.

Sweden

The 1,964.98 hectare Fäboliden project comprises the Fäboliden K nr 1 Exploitation Concession that hosts the Fäboliden Gold Deposit and two contiguous Exploration Permits that encompasses approximately ten kilometres of the host geological sequence. During 2017, the Company continued to advance activities to bring the Fäboliden project into production.

The Company submitted its Environmental Permit Application for a test mining operation at Fäboliden to the County Administration Board ("CAB") on 3 June 2016. On 1 December 2017, the Company obtained the Environmental Permit to commence Test Mining at Fäboliden. Test Mining may be undertaken during a maximum of two consecutive calendar years and is valid until 30 September 2027, subject to a number of conditions. On 2 January 2018, the Company announced that an appeal was received by the CAB. As a result, the Test Mining Permit will not gain legal force until the appeal has been heard by the Swedish Land and Environmental Court ("MMD"). The Company and the CAB have lodged responses to the appeal, both responses dispute the legal and technical basis for the appeal.

The Full Mining Permit application is expected to be submitted in late Q1 of 2018. The appeal of the Test Mining Permit will not affect the processing of the Full Mining Permit application, as these are separate and independent of one another.

Dragon Mining did not undertake any exploration activities at Svartliden during 2017.

Mineral Resources and Ore Reserves

The updating of the Company's Mineral Resources recorded a 2.28% decrease in total tonnes and a 0.35% decrease in total ounces of gold as at 30 September 2017, when compared to the previously reported update of the Company's Mineral Resources as at 31 December 2016. The updating of the Ore Reserves for the Company's Nordic Projects has also been completed. The updated total Ore Reserve represents an overall increase of 29% in tonnes and 22% in ounces of gold, as at after depletion for mining to 30 September 2017, when compared to the Company's Proved and Probable Ore Reserves as at 31 December 2016.

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6. Financial and Operating Review (continued)

Advanced Projects and Exploration (continued)

The updates have increased the mine life for Jokisivu to four years, whilst successful drilling campaigns carried out at Orivesi during 2017 has resulted in an additional year of Ore Reserves being defined. Including the Ore Reserves for Fäboliden, where the Company is working towards environmental approval, the Company now has sufficient Ore Reserves for production through to at least 2024. The updates have also delivered the Company its highest total Ore Reserve tonnage since commencing activities in the Nordic region in 2000.

Corporate

Completion of sale of 100% interest in Kuusamo Gold Oy

The Company previously advised that it had 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 was A\$400,000, which is 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.

The transfer of the tenements to KGOY was appealed by the Municipality of Kuusamo on 22 November 2016. On 14 December 2017, the Company announced that the Finnish Supreme Administrative Court had rejected an appeal pertaining to blocking the transfer of these assets.

Proposed Delisting from ASX and Listing on the Stock Exchange of Hong Kong and Fäboliden Gold Project Update

At a Meeting of shareholders held on 2 May 2017, shareholder approval was given for the Company to:

- Be removed from the official list of the ASX;
- Amend its constitution to facilitate a listing of the Company on the Stock Exchange of Hong Kong ("HKEx") ("Listing"); and
- Issue up to 50,000,000 shares at an issue price of no less than \$0.35 per share, by means of a public offer ("Public Offer").

In an explanatory statement that accompanied the Notice of the Meeting, shareholders were advised on an expected timetable for the delisting and listing.

On 2 June 2017, the Company announced, after consultation with the Company's Sponsor and other professional advisers to the Listing and Public Offer, that it appears the advised timetable was unlikely to be met, and that the dates of the occurrence of the above-mentioned milestone events could be delayed by a number of months.

On 18 October 2017, the Company announced, following a closed hearing of the Listing Committee of the HKEx, that a written response had been received to the Company's application to list on the HKEx. The HKEx requested that the Company obtain the Environmental Permit for test mining operations at Fäboliden prior to Listing and that the terms of such permit allow Fäboliden to commence operations, even if it is subject to an appeal.

On 1 December 2017, the Company announced that the CAB granted an Environmental Permit for testing mining operations at Fäboliden. Test mining may be undertaken during a maximum of two consecutive calendar years. The Environmental Permit is valid until 30 September 2027 and is subject to a number of terms and conditions.

The Environmental Permit was subject to an appeals process ending 28 December 2017. The CAB informed the Company that one appeal has been received from a local nature conservation NGO in Lycksele. As a result, the Environmental Permit will not gain legal force until the appeal has been heard by the MMD and resolved in the Company's favour. The Company advised that both it and the CAB have lodged responses to the appeal with the MMD. Both responses dispute the legal and technical basis for the appeal.

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6. Financial and Operating Review (continued)

Corporate (continued)

The Company continues to assess the implications of the appeal on its planned operations at Svartliden and the timing of the proposed Listing on the HKEx. Following discussions with the Company's Sponsor and Hong Kong legal adviser, the Company is updating the prospectus in preparation for a resubmission to the HKEx. The Company will update the market when this has been completed, and as to the progress of the Listing in due course.

Unsecured Loan Facility with AP Finance

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\$36.57 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.

Should the Company need to draw down, it will use the funds to:

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

As at reporting date, the Company has made no drawdowns from this facility.

Hanhimaa Gold Project

On 30 March 2017, the Company reached an agreement with Agnico Eagle Mines Limited (NYSE/TSX: AEM) ("Agnico Eagle") to transfer 100% interest in the tenements that comprise the Hanhimaa Gold Project to Agnico Eagle in exchange for a 2% Net Smelter Return ("NSR") on future mineral production from the Hanhimaa Gold Project. Agnico Eagle will have the right to buy back one percentage point of the 2% NSR at any time for €2 million cash. This simplified the Company's future obligations while retaining an interest if the project is developed.

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

The Environmental Permit for production of 300,000tpa and processing of ore from Kaapelinkulma was returned back to the permitting authority, the Regional State Administrative Agencies - AVI Western and Inland Finland ("AVI"), by the Supreme Court. In September 2017, the Company was asked to provide an update and its preferred position for its application based on the requirements set out in Vaasa Administrative Court Decision No. 16/0096/2 May 2016.

The Company will provide the update during Q1 of 2018, with the AVI expected to issue a new permit decision during Q2 2018. Until such time, the Company can continue to operate under its existing permit conditions.

Orivesi Mine, Finland

The Company has previously announced that the 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 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.

In February 2017, a request to submit updated information with the Environmental Permit application was received from the Vaasa Administrative Court ("Court"). The information requested includes the latest water monitoring results, water management activities, and maps. The information was submitted on 8 March 2017. The Court commenced its decision process regarding the rejection of the Environmental Permit in December 2015. The Court is processing the appeals received against the Company's Environmental Permit, issued by Regional Administrative Agency of Southwestern Finland. The permit decision is expected during Q1 of 2018.

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6. Financial and Operating Review (continued)

Environmental Regulation (continued)

Jokisivu Mine, Finland

A report which monitored discharge into the surrounding watershed was completed and submitted to the relevant authorities in early March 2017.

The Company conducted environmental improvement work and was asked by the supervising authority Southwest Finland Centre for Economic Development, Transport and the Environment ("VAR ELY") to provide a statement on the environmental impacts of the planned waste rock enlargement area, which the Company provided. VAR ELY are expected to give their reply in Q1 of 2018.

Kaapelinkulma Mine, Finland

During the year, nearby residents issued two complaints against the Company's valid Environmental Permit. In response, the Company was required to submit its responses to the complaints to the AVI. The AVI rejected the resident's application to amend the Company's legally valid Environmental Permit for the Kaapelinkulma mine. In its decision, AVI stated that the grounds for granting the permit remained valid and in accordance with current Finnish law.

Svartliden Rehabilitation Plan

Work to update the Svartliden Rehabilitation Plan ("Closure Plan") was completed in April 2017. Comments from the Environmental Protection Agency ("EPA") and the CAB were received. The EPA view the proposed actions in the Closure Plan are not sufficient and have also highlighted that the proposed closure bond is not adequate. The Company is required to demonstrate that the proposed actions are enough and that the outgoing metal concentrations are low. Further water flow and metal concentration calculations in Paubäcken are still required. The EPA has requested this information is based on a low flow scenario in Paubäcken, rather than the calculated average flow. The Company has asked the Environmental Court for an extension until the end of May 2018 to answer all comments on the Closure Plan. The extension was granted by the Court.

Faboliden Environmental Permit

The Environmental Permit for test mining was granted on 1 December 2017, is valid until 30 September 2027, and is subject to a number of terms and conditions (refer to Corporate Section page 10 for further information).

7. Significant Events after Balance Date

On 23 February 2018, the Company announced that an update of the Ore Reserves for the Company's Nordic Projects has been completed. The updates have increased the mine life for Jokisivu to four years, whilst successful drilling campaigns carried out at Orivesi during 2017 has resulted in an additional year of Ore Reserves being defined.

This release can be found at www.asx.com.au (Code: DRA).

8. 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.

9. Dividends

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

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10. Business Strategies and Prospects

Fäboliden, Sweden

The Company continues to assess the implications of the appeal for its planned operations at Svartliden and the timing of the proposed listing on the Stock Exchange of Hong Kong ("HKEx"). Following discussions with the Company's sponsor and Hong Kong legal adviser for the proposed listing on HKEx, the Company is updating the prospectus in preparation for a resubmission to the HKEx. The Company will update the market when this has been completed, and as to the progress of the listing in due course.

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

The Company has previously announced that its third gold mine in southern Finland is ready to commence operations following receipt of permission to process ore from Kaapelinkulma at Vammala. The Environmental Permit to undertake mining at Kaapelinkulma was obtained previously and the Mining Concession that encompasses the known deposits, granted.

11. 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 a permitting decision during the first quarter of 2018. 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 from the deepest mine panel in Kujankallio 1250–1120 was mined out during 2017. The production schedule for 2018 will come from small rich pockets between levels 405-340 and 130-150, these can be accessed through old (Outokumpu) development workings. Mining these small rich pockets should not present the same level of rock stress as seen in the deeper parts of the mine, but mining conditions remain challenging given the weak side rock (mainly mica) could cause cave ins resulting in ore loss or high waste rock dilution.

12. 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 2017
DIRECTORS' REPORT (CONTINUED)**

13. Remuneration Report - audited

This remuneration report for the year ended 31 December 2017 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 300A 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.

13.1 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.

Performance related executive remuneration, including cash bonuses, are based on the Company's and individual performance and are determined at the Board's discretion.

13.2 Company Performance

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

	2017	2016	2015	2014	2013
Net (loss)/profit after tax	(\$0.58m)	\$5.36m	\$2.56m	\$7.76m	(\$22.17m)
Basic earnings per share (cents)	(0.66)	6.04	2.88	8.73	(24.95)
Diluted earnings per share (cents)	(0.66)	6.04	2.88	8.73	(24.95)
Market capitalisation	\$16.88m	\$18.66m	\$15.55m	\$8.09m	\$11.55m
Closing share price	\$0.19	\$0.21	\$0.18	\$0.09	\$0.13

13.3 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. No external consultants were utilised during the current year.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
DIRECTORS' REPORT (CONTINUED)**

13. Remuneration Report – audited (continued)

13.4 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.

13.5 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 31 March 2019. 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 commenced employment on 8 September 2014 and does not have an employment contract.

13.6 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 2017
DIRECTORS' REPORT (CONTINUED)**

13. Remuneration Report – audited (continued)

13.7 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, held after the year end.

The performance appraisal process outcomes and payment of awards 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 approved a KPI linked discretionary cash bonus for the Executive Director relating to 2016 performance which was paid in 2017. The bonus was equivalent to the maximum available under the terms of the Executive Director's contract. For the 2017 performance year, the assessment of a KPI linked bonus for the Executive Director is still ongoing.

13.8 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.

13.9 Equity-based Compensation (LTI)

During the current year there is no equity based compensation for any employees.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
DIRECTORS' REPORT (CONTINUED)**

13. Remuneration Report – audited (continued)

13.10 Analysis of Movements in Options and Rights

There were no options granted or shares issued during the year ended 31 December 2017 and 31 December 2016.

13.11 Shares Issued on Exercise of Remuneration Options

No Director or KMP exercised remuneration options in the year ended 31 December 2017 and 31 December 2016.

13.12 Transactions with KMP

In addition to his role as the Company's Chief Financial Officer, Mr Broughton provides Chief Financial Officer Services ("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 (2016: \$100,000) of which \$24,750 was outstanding at 31 December 2017 (2016: \$24,750).

DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
DIRECTORS' REPORT (CONTINUED)

13. Remuneration Report – audited (continued)

13.13 Directors and Executive Officers Remuneration

		Short Term		Other Long Term Benefits		Post Employment		
		Salary & Fees	Bonuses	Annual Leave	Long Service Leave	Super-annuation Benefits	Total Remuneration	Proportion of Remuneration Performance Related
<i>In dollars</i>								
Directors		\$	\$	\$	\$	\$	\$	%
Mr AG Dew	2017	90,000	-	-	-	8,550	98,550	-
(Non Executive Chairman)	2016	90,000	-	-	-	8,550	98,550	-
Mr BR Smith ¹	2017	300,000	82,393	25,045	-	36,327	443,765	19%
(Executive Director)	2016	350,000	-	21,823	-	33,250	405,073	-
Mr CC Procter	2017	30,000	-	-	-	2,850	32,850	-
(Non Executive Director)	2016	30,000	-	-	-	2,850	32,850	-
Mr Mark Wong Tai Chun ²	2017	-	-	-	-	-	-	-
(Alternate Director)	2016	-	-	-	-	-	-	-
Total all specified Directors	2017	420,000	82,393	25,045	-	47,727	575,165	-
	2016	470,000	-	21,823	-	44,650	536,473	-
Specified Executives								
Mr NM Edwards	2017	208,000	-	18,437	3,987	19,760	250,184	-
(Chief Geologist)	2016	208,000	-	8,317	3,998	19,760	240,075	-
Mr DK Broughton	2017	210,000	-	13,347	-	19,950	243,297	-
(Chief Financial Officer)	2016	210,000	25,000	15,828	-	22,325	273,153	9%
Total all named Executives	2017	418,000	-	31,784	3,987	39,710	493,481	-
	2016	418,000	25,000	24,145	3,998	42,085	513,228	-
Total all specified Directors and Executives	2017	838,000	82,393	56,829	3,987	87,437	1,068,646	-
	2016	888,000	25,000	45,968	3,998	86,735	1,049,701	-

¹ Mr Brett Smith received a cash payment of \$30,697 (2016: \$64,044) for accrued annual leave.
² Mr Mark Wong Tai Chun has not attended any Board or Audit Committee meetings during the current or prior year and has received no payment from the company.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
DIRECTORS' REPORT (CONTINUED)**

13. Remuneration Report – audited (continued)

13.14 Options of Directors and Key Management Personnel

During the year ended 31 December 2017 and 31 December 2016, there were no options over ordinary shares in the Company that were granted as compensation to Key Management Personnel.

13.15 Shareholdings of Directors and Key Management Personnel

2017	Balance at 1 January 2017	Granted as Remuneration	Net Change Other²	Balance at 31 December 2017
Directors				
Mr AG Dew ¹	21,259,855	-	-	21,259,855
Mr BR Smith	28,571	-	70,000	98,571
Mr CC Procter	102,602	-	-	102,602
Mr M Wong	-	-	-	-
Executives				
Mr NM Edwards	-	-	-	-
Mr DK Broughton	-	-	-	-
Total	21,391,028	-	70,000	21,461,028

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.

14. 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.

15. 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 2017
DIRECTORS' REPORT (CONTINUED)**

16. 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 2017	31 Dec 2016
	\$	\$
Tax and Compliance services	163,297	65,065
Other services	172,682	123,232
	<u>335,979</u>	<u>188,297</u>

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

The lead auditor's independence declaration is set out on page 21 and forms part of the Directors' Report for the year ended 31 December 2017.

Signed on behalf of the Board



Mr Brett Smith
26 February 2018

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 2017, 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 conduct in relation to the audit.

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



Ernst & Young



J K Newton
Partner
26 February 2018

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 \$'000	2016 \$'000
Revenue from sales		41,270	55,039
Cost of sales	2(a)	(35,732)	(50,572)
Gross profit		5,538	4,467
Other revenue	2(b)	174	483
Other income	2(c)	92	2,307
Exploration expenditure		(167)	(828)
Management and administration expenses		(3,348)	(3,365)
Other expenses	2(d)	(270)	3,401
Finance costs	2(e)	(14)	(19)
Foreign exchange gains		(63)	36
Hong Kong listing costs		(2,525)	(1,119)
(Loss) / profit before tax		(583)	5,363
Income tax expense	3	-	-
(Loss) / profit after income tax		(583)	5,363
Earnings per share attributable to ordinary equity holders of the parent (cents per share)			
Basic earnings per share	16	(0.66)	6.04
Diluted earnings per share	16	(0.66)	6.04

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 2017**

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 \$'000	2016 \$'000
(Loss) / profit after income tax (brought forward)		(583)	5,363
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Gain/(loss) foreign currency translation		1,127	(1,402)
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		1,127	(1,391)
Total comprehensive income for the period		544	3,972
(Loss) / profit attributable to:			
Members of Dragon Mining Limited		(583)	5,363
		(583)	5,363
Total comprehensive income attributable to:			
Members of Dragon Mining Limited		544	3,972
		544	3,972

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 2017**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	2017 \$'000	2016 \$'000
CURRENT ASSETS			
Cash and cash equivalents	4	6,609	15,407
Trade and other receivables	5	2,581	3,696
Inventories	6	9,110	6,752
Other assets	9	1,728	180
TOTAL CURRENT ASSETS		20,028	26,035
NON-CURRENT ASSETS			
Property, plant and equipment	7	19,344	16,860
Mineral exploration and evaluation costs	8	5,562	2,231
Other assets	9	5,415	5,306
TOTAL NON-CURRENT ASSETS		30,321	24,397
TOTAL ASSETS		50,349	50,432
CURRENT LIABILITIES			
Trade and other payables	10	5,840	6,806
Provisions	11	2,215	2,132
Other liabilities		101	96
TOTAL CURRENT LIABILITIES		8,156	9,034
NON-CURRENT LIABILITIES			
Provisions	11	10,834	10,583
TOTAL NON-CURRENT LIABILITIES		10,834	10,583
TOTAL LIABILITIES		18,990	19,617
NET ASSETS		31,359	30,815
EQUITY			
Contributed equity	12	119,992	119,992
Reserves	13	(1,643)	(2,770)
Accumulated losses		(86,990)	(86,407)
TOTAL EQUITY		31,359	30,815

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 2017**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	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 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:								
At 31 December 2016	119,992	(86,407)	(5,907)	-	2,068	-	1,069	30,815
At 1 January 2017	119,992	(86,407)	(5,907)	-	2,068	-	1,069	30,815
Loss for the period	-	(583)	-	-	-	-	-	(583)
Other comprehensive income	-	-	1,127	-	-	-	-	1,127
Total comprehensive income for the period	-	(583)	1,127	-	-	-	-	544
Transactions with owners in their capacity as owners:								
At 31 December 2017	119,992	(86,990)	(4,780)	-	2,068	-	1,069	31,359

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 2017**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers		42,363	59,499
Payments to suppliers and employees		(42,028)	(50,301)
Payments for mineral exploration		(278)	(1,108)
Interest received		59	106
Interest expenses		(2)	-
Net cash (used in) / from operating activities	4	114	8,196
Cash flows from investing activities			
Payments for property, plant and equipment		(3,046)	(1,482)
Proceeds from sale of property, plant and equipment		-	2,127
Payments for bond held on deposit		16	69
Payments for evaluation activities		(631)	(4,481)
Payments for development		(3,185)	(3,540)
Proceeds from sale of investments		-	681
Net cash used in investing activities		(6,846)	(6,626)
Cash flows from financing activities			
Prepaid share issue costs		(1,598)	-
Net cash used in financing activities		(1,598)	-
Net (decrease)/increase in cash and cash equivalents		(8,330)	1,570
Cash and cash equivalents at the beginning of the period		15,407	13,896
Effects of exchange rate changes on cash and cash equivalents		(468)	(59)
Cash and cash equivalents at the end of the period	4	6,609	15,407

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 2017
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 2017 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 (AAS) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRS) 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 26 February 2018.

Basis of Measurement

The Consolidated Financial Statements have been prepared on a historical cost basis.

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 2017
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. 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 benefit 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 reporting 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 associates, 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 2017
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 associates, 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 substantively 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 Australian 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 and Presentation Currency

The functional currency of each Company 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 2017
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 dates of the transactions. 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

Group Companies

The results and financial position of all the subsidiaries of the Company (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 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 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 at the reporting date.

(h) Trade and Other Receivables

Trade receivables have a 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 the 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 inventories 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 2017
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Deferred Waste

As part of the open pit mining operations, the Group 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 ("UOP") 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 inventories 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 inventories 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 inventories produced.

Amortisation is provided using a 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 Group 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 Group'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 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 2017
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 items of 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 (n) 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 carrying amount of the asset) is included in the Consolidated Statement of Profit or Loss in the year the asset is derecognised.

(l) Mineral Exploration and Evaluation 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 2017
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Mineral Exploration and Evaluation 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 Group's non-financial 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 of disposal. 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 2017
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 Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

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

(p) Provisions

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

When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the 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 from 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 with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions made by the Group to employee superannuation funds, defined contribution plans, 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 2017
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Rehabilitation Costs

The Group 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 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 Group 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 chief operating decision makers, being the executive management team.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
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 do not meet the quantitative criteria as prescribed by AASB 8 Operating Segments 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 Group measures financial instruments, such as derivatives at fair value at each reporting 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 Group.

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 Group 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:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Significant Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following Judgements, 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 ore reserves, mineral resources or mineralisation are reported in accordance with the Aus.IMM "Australian Code for reporting of Identified Mineral Resources and Ore Reserves" ("the Code").

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.

Share issue costs

Listing costs totalling \$4.1 million have been incurred during the current year, with \$1.6 million relating to the share issue being recognised as a prepayment at 31 December 2017 and the remaining \$2.5 million expensed to the profit and loss.

The incurred costs capitalised as a prepayment have been assessed by management as being directly attributable to the share issue and will be transferred to contributed equity on the date that the shares are issued. Where costs have been jointly incurred for the listing and the share issue, the costs have been allocated based on the proportion of the projected new shares issued to total shareholding. Costs that are related to the Hong Kong listing have been expensed as incurred.

Listing costs will be written off to the profit and loss if the likelihood of the share issue is no longer probable.

(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 reporting period are:

Mine rehabilitation provision

The Group assesses its mine rehabilitation provision half-yearly in accordance with the accounting policy stated in note 1(r). Significant judgement 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.

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 units is the higher of fair value less costs of disposal 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.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
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 fair value less cost of disposal approach, classified as level 3 on the fair value hierarchy. Any variation in the assumptions used to determine fair value less cost of disposal would result in a change to the assessed recoverable value. If the variation in assumption had a negative impact on recoverable value, it could indicate a requirement for impairment of non-current assets.

Income taxes

The Group is subject to income taxes in Australia, Sweden and Finland. The Group's accounting policy for taxation stated in note 1(e) requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement 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 investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless the 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. Judgements are also required about the application of income tax legislation.

These judgements 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.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 2017 are outlined below:

Reference	Description	Application to the Group	Application date of the Standard
AASB 15 <i>Revenue from contracts with customers</i> ("AASB 15")	AASB 15 introduces a new framework for accounting for revenue and will replace AASB 118 <i>Revenue</i>, AASB 111 <i>Construction Contracts</i> and Interpretation 13 <i>Customer Loyalty Programs</i>. 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 core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation In April 2016, the IASB issued amendments to AASB 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition.	The Group expects to apply the modified retrospective approach on adopting AASB 15. As a result, the Group will apply the new Standard to new and existing contracts from the date of initial application of the Standard being 1 January 2018. The Group has reviewed its sales contracts and revenue recognition policies and determined that there is no material impact on sales transactions with customers. Revenue within the scope of AASB 15 will be recognised when control passes to the customer and will be measured at the amount to which the Group expects to be entitled.	1 January 2018

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
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)

Reference	Description	Application to the Group	Application date of the Standard
AASB 16 Leases ("AASB 16")	AASB 16 supersedes:- • AASB 117 Leases; • Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i>; • Interpretation -15 <i>Operating Leases-Incentives</i>; and • Interpretation -127 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>. The key features of AASB 16 applicable to leases are as follows:- • 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. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • AASB 16 contains new disclosure requirements for lessees.	AASB 16 must be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognised at 1 January 2019 under the modified retrospective approach. AASB 16 contains a number of practical expedients, one of which permits the classification of existing contracts as leases under the current accounting standards to be carried over to AASB 16. Under the modified retrospective approach, on a lease by lease basis, the right of use asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease. The Group is currently reviewing its finance, and operating leases and service agreements to assess the impact of AASB 16 on its financial performance and financial position upon its adoption and the expected impact of adopting AASB 16 will not be material. As set out in Note 20(c) the Group had operating lease commitments at 31 December 2017 of AU\$71,000.	1 January 2019

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reference	Description	Application to the Group	Application date of the Standard
AASB 2 <i>Share-based payments</i> - Amendments	The changes are in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.	There were no share based payment arrangements in place at 31 December 2017.	1 January 2018
IFRIC Interpretation 22 <i>Foreign currency transactions and advance consideration</i> ("Interpretation 22")	The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.	Interpretation 22 is a clarification regarding the exchange rates to be utilised in recognising certain assets and liabilities. The Group has determined that there is no impact on the statement of financial position as at 31 December 2017.	1 January 2018
AASB 9 <i>Financial Instruments</i> ("AASB 9")	AASB 9 is a new standard which replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i> ("AASB 139"). The standard includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.	Based upon work performed to date, AASB 9 will impact the classification of financial assets currently classified as loans and receivables under AASB 139 however, will not have a material impact on the measurement of financial assets.	1 January 2018

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reference	Description	Application to the Group	Application date of the Standard
AASB 9 (continued)	<i>Classification and measurement</i> AASB 9 includes requirements for a simpler approach for the classification and measurement of financial assets compared to with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes in relation to financial assets are described below. - Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. - Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. - Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss using the fair value option. <i>Hedge accounting</i> AASB 9 includes new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.	The Group does not expect a significant impact on the assessment of impairment of financial assets. The Group will apply the simplified approach and record lifetime expected credit losses for trade receivables on initial recognition. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade receivables upon the adoption of AASB 9. A reasonable estimate will be available once a detailed review has been completed. The Group currently does not apply hedge accounting.	1 January 2018

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reference	Description	Application to the Group	Application date of the Standard
Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> (Interpretation 23)	The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 <i>Income Taxes</i> when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax • treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates How an entity considers changes in facts and circumstances.	Interpretation 23 is a clarification treatment of uncertain tax positions. The Group is not expecting a material impact on the adoption of the interpretation.	1 January 2019

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

The Directors have adopted 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.

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	2017 \$'000	2016 \$'000
a) Cost of sales		
Cost of production net of inventory movements	32,829	47,047
Depreciation of mine properties, plant and equipment	2,903	3,525
	<u>35,732</u>	<u>50,572</u>
<i>Cost of production net of inventory movements</i>		
Mining	21,408	26,451
Processing	10,293	17,940
Other production activities	1,128	2,656
Cost of production net of inventory movements	<u>32,829</u>	<u>47,047</u>
b) Other revenue		
Finance revenue and interest	52	114
Rent and service income	122	369
	<u>174</u>	<u>483</u>
c) Other income		
Gain on sale of plant and equipment	-	1,843
Gain on disposal of investments	-	420
Other	92	44
	<u>92</u>	<u>2,307</u>
d) Other expenses		
Depreciation of non-mine site assets	65	74
Loss on sale of Kuusamo	-	1,025
Disposal of exploration assets	205	-
Rehabilitation reversal	-	(4,500)
	<u>270</u>	<u>(3,401)</u>
<i>Reconciliation of loss on sale of Kuusamo</i>		
Proceeds from sale	-	(400)
Exploration and evaluation	-	1,133
Write off carrying value of receivables	-	292
Loss on sale	<u>-</u>	<u>1,025</u>
e) Finance costs		
Interest	1	9
Other	13	10
	<u>14</u>	<u>19</u>

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

2. REVENUE AND EXPENSES (Continued)	2017 \$'000	2016 \$'000
f) Total employee benefits		
Wages and salaries	7,721	9,090
Defined contribution superannuation expense	1,382	1,653
Other employee benefits	676	978
	<u>9,779</u>	<u>11,721</u>

3. INCOME TAX

(a) Income Tax Expense

The major components of income tax expense are:

Current income tax

Current income tax benefit	(3,291)	(451)
Adjustments in respect of current income tax of previous year	(100)	-

Deferred income tax

Income tax benefit arising from previously unrecognised tax loss	-	(1,423)
Relating to origination and reversal of temporary differences	3,391	1,874
Income tax expense reported in the statement of comprehensive income	<u>-</u>	<u>-</u>

(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	-	-
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(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:

	2017 \$'000	2016 \$'000
Accounting profit before income tax	(583)	5,363
At the Group's statutory income tax rate of 30% in Australia (2016: 30%)	(175)	1,609
Adjustments in respect of current income tax of previous year	-	-
Effect of different rates of tax on overseas income	(317)	(408)
Other	(2,593)	(1,652)
Previously unrecognised tax losses utilised/recognised	-	(1,423)
Tax losses and other temporary differences not recognised as benefit not probable	3,085	1,874
Aggregate income tax expense	<u>-</u>	<u>-</u>

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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3. INCOME TAX (continued)	2017	2016
	\$'000	\$'000

(d) Recognised deferred tax assets and liabilities

Consolidated deferred income tax at reporting date relates to the following:

Deferred tax assets

Leave entitlements	61	50
Rehabilitation provision	995	1,000
Mine Properties, Property, plant and equipment	9,816	3,160
Exploration costs	1,031	2,138
Accruals	-	22
Other	823	2,964
Temporary differences not recognised	(12,721)	(9,329)
Set off of deferred tax liabilities pursuant to set off provisions	(5)	(5)
Gross deferred income tax assets	-	-

Deferred tax liabilities

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	-	-

(e) Tax Losses

Future benefits of tax losses total approximately \$11.0 million (2016: \$8.1 million). The Consolidated Entity has available capital losses at a tax rate of 30% amounting to \$3.7 million (2016: \$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 2017, there are no tax consolidation adjustments (2016: 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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

4. CASH AND CASH EQUIVALENTS	2017 \$'000	2016 \$'000
Cash at bank and on hand	6,553	15,361
Short-term deposits	56	46
	<u>6,609</u>	<u>15,407</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	2017 \$'000	2016 \$'000
Net (loss)/profit after tax	(583)	5,363
Adjustments for:		
Depreciation and amortisation	3,173	3,599
Loss on sale of Kuusamo	-	1,025
Net foreign exchange gains	(1,314)	(501)
Gain on disposal of investment	-	(420)
Gain on disposal of property, plant and equipment	-	(1,843)
Changes in operating assets and liabilities:		
- Decrease in receivables	1,204	5,760
- (Increase)/decrease in other assets	684	(93)
- (Increase)/decrease in inventories	(2,048)	375
- (Decrease) in trade creditors and accruals	(982)	(383)
- (Decrease)/increase in provisions	(20)	(4,686)
Net operating cash flows	<u>114</u>	<u>8,196</u>

5. TRADE AND OTHER RECEIVABLES

Trade debtors	1,986	3,229
Other debtors	595	467
	<u>2,581</u>	<u>3,696</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)

Ageing Analysis

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

	2017 \$'000	2016 \$'000
Within 1 month	34	3,212
1 to 2 months	1,555	8
2 to 3 months	3	-
Over 3 months	394	9
Trade debtors	<u>1,986</u>	<u>3,229</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	34	3,212
1 to 2 months	1,555	8
2 to 3 months	3	-
Over 3 months	394	9
Trade debtors	<u>1,986</u>	<u>3,229</u>

6. INVENTORIES

Ore and concentrate stockpiles - at cost	4,337	3,236
Gold in circuit valued - at NRV	3,889	2,587
Raw materials and stores – at cost	884	929
	<u>9,110</u>	<u>6,752</u>

7. PROPERTY PLANT AND EQUIPMENT

Land

Gross carrying amount - at cost	<u>1,334</u>	<u>1,290</u>
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Buildings

Gross carrying amount - at cost	2,422	2,223
Less accumulated depreciation and impairment	(1,809)	(1,657)
Net carrying amount	<u>613</u>	<u>566</u>

Property, plant and equipment

Gross carrying amount - at cost	31,609	29,462
Less accumulated depreciation and impairment	(29,152)	(27,000)
Net carrying amount	<u>2,457</u>	<u>2,462</u>

Mine Properties

Gross carrying amount - at cost	99,978	92,467
Less accumulated amortisation and impairment	(85,038)	(79,925)
Net carrying amount	<u>14,940</u>	<u>12,542</u>

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

7. PROPERTY PLANT AND EQUIPMENT (continued)

	2017	2016
	\$'000	\$'000
Total property, plant and equipment		
Gross carrying amount - at cost	135,343	125,442
Less accumulated amortisation and impairment	(115,999)	(108,582)
Net carrying amount	<u>19,344</u>	<u>16,860</u>

Reconciliations

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

	2017	2016
	\$'000	\$'000
Land		
Carrying amount at beginning of period	1,290	1,815
Additions	18	61
Disposals	(25)	(303)
Net foreign exchange movement	51	(283)
Carrying amount at end of period	<u>1,334</u>	<u>1,290</u>
Buildings		
Carrying amount at beginning of period	566	189
Additions	106	445
Depreciation	(87)	(55)
Net foreign exchange movement	28	(13)
Carrying amount at end of period	<u>613</u>	<u>566</u>
Property, plant and equipment		
Carrying amount at beginning of period	2,462	2,357
Additions	1,010	1,314
Disposals	-	(3)
Depreciation	(1,136)	(1,139)
Net foreign exchange movement	121	(67)
Carrying amount at end of period	<u>2,457</u>	<u>2,462</u>
Mine properties		
Carrying amount at beginning of period	12,542	2,813
Additions	1,661	45
Reclassification from development costs	2,004	12,224
Depreciation	(1,745)	(2,405)
Net foreign exchange movement	478	(135)
Carrying amount at end of period	<u>14,940</u>	<u>12,542</u>

For the year ended 31 December 2017, the Group performed impairment testing utilising a life-of-mine discounted cash flow model for each cash generating unit. The key assumptions utilised in the impairment modelling included a gold price of USD1,290/ounce, a USD:SEK exchange rate of 7.8, a USD:EUR exchange rate of 0.85 and a pre-tax real discount rate range of 10% - 14%. The impairment modelling includes cash flows from the Faboliden development for which the Group is in the process of obtaining a permit for. The timing of the receipt of the permit may result in differences in the impairment result determined. Sensitivity analyses performed indicated that a decrease of the gold price to USD1,250/ounce or an increase in the pre-tax real discount rate by 500 basis points did not result in impairment.

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8. MINERAL EXPLORATION AND DEVELOPMENT COSTS

	2017 \$'000	2016 \$'000
Mineral exploration and evaluation costs		
Balance at beginning of financial period	2,231	7,685
Additions	5,293	8,453
Disposal	-	(1,138)
Exploration write off	(205)	-
Reclassification to mine properties	(2,004)	(12,224)
Net foreign exchange movement	247	(545)
Total mineral exploration and evaluation expenditure	<u>5,562</u>	<u>2,231</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

	2017 \$'000	2016 \$'000
Current		
Prepayments ¹	<u>1,728</u>	<u>180</u>
Non-current		
Environmental and other bonds ²	<u>5,415</u>	<u>5,306</u>

¹During the year ended 31 December 2017, the Company has incurred AUD1,598,047 of costs in relation to the issue of new shares as part of the Company's proposed listing on the Hong Kong Stock Exchange. The Company received shareholder approval on 2 May 2017 to issue up to 50 million shares at an issue price of no less than AUD0.35 per Share by means of a public offer.

²The 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

	2017 \$'000	2016 \$'000
Trade payables and accruals	<u>5,840</u>	<u>6,806</u>

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

Ageing Analysis

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

	2017 \$'000	2016 \$'000
Within 1 month	5,840	6,357
1 to 2 months	-	439
2 to 3 months	-	10
Over 3 months	-	-
Trade payables and accruals	<u>5,840</u>	<u>6,806</u>

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11. PROVISIONS	2017 \$'000	2016 \$'000
Current		
Employee entitlements	2,138	2,050
Rehabilitation	-	10
Other	77	72
	<u>2,215</u>	<u>2,132</u>
Non-current		
Employee entitlements	34	30
Rehabilitation	10,800	10,553
	<u>10,834</u>	<u>10,583</u>
<i>Rehabilitation movement</i>		
Balance at 1 January 2017	10,563	
Additions	(147)	
Rehabilitation borrowing cost unwound	-	
Net foreign exchange movement	384	
Balance at 31 December 2017	<u>10,800</u>	

The provisions for rehabilitation are recorded in relation to the gold mining operations for the rehabilitation of the disturbed mining area to a state acceptable to various Swedish and Finnish authorities. While rehabilitation is performed progressively where possible, final rehabilitation of the disturbed mining area is not expected until the cessation of production. Accordingly, the provisions are expected to be settled primarily at the end of the mine life, although some amounts will be settled during the course of the mine life.

Rehabilitation provisions are estimated based on survey data, external contracted rates and the timing of the current mining schedule. Provisions are discounted based on rates that reflect current market assessments of the time value of money and the risks specific to that liability. The discount rate utilised for Finland in 2017 was 0% (2016:0%) and in Sweden was 0% (2016: 0%). Additions during the relevant periods to the rehabilitation provision include obligations that do not have an associated mining asset recognised at the end of the reporting date.

12. CONTRIBUTED EQUITY

Share capital	2017 Number of Shares	2016 Number of Shares	2017 \$'000	2016 \$'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 2016			119,992	88,840,613
Balance at 31 December 2016			119,992	88,840,613
At 1 January 2017			119,992	88,840,613
Balance at 31 December 2017			<u>119,992</u>	<u>88,840,613</u>

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13. RESERVES

	2017	2016
	\$'000	\$'000
Foreign currency translation reserve	(4,780)	(5,907)
Convertible note premium reserve	2,068	2,068
Equity reserve purchase of non-controlling interest	1,069	1,069
	(1,643)	(2,770)

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

	2017	2016
	\$	\$
Short-term	920,393	913,000
Long-term	60,816	49,966
Post-employment	87,437	86,735
Total	1,068,646	1,049,701

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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 2017 and 2016 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:

	2017	2016
	\$	\$
Salaries, allowances and benefits in kind	1,010,307	940,323
Performance related bonuses	-	82,422
Pension scheme contributions	227,786	212,263
Total	1,238,093	1,235,008

15. REMUNERATION OF AUDITORS

The auditor of Dragon Mining Limited is Ernst & Young.

	2017	2016
	\$	\$
Remuneration of Ernst & Young (Australia) for:		
- auditing or reviewing accounts	521,618	150,379
- tax consulting	163,297	65,065
- other services	172,682	123,232
	857,597	338,676
Remuneration of Ernst & Young (other than Australia) for:		
- auditing or reviewing accounts	236,700	89,742
- tax consulting	-	1,887
	236,700	91,629

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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:

	2017	2016
Basic earnings per share		
(Loss)/gain used in calculation of basic earnings per share (\$'000)	(583)	5,363
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 (loss)/gain per share (cents)	(0.66)	6.04
Diluted earnings per share		
(Loss)/gain used in calculation of basic earnings per share (\$'000)	(583)	5,363
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 (loss)/gain per share (cents)	(0.66)	6.04

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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	
			2017 %	2016 %
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

(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 Services ("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 (2016: \$100,000) of which \$24,750 was outstanding at 31 December 2017 (2016: \$24,750).

Entity with significant influence over the Group

As at 31 December 2017, 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 2017 \$'000	Finland 2017 \$'000	Total 2017 \$'000
Segment revenue			
Gold sales to external customers	36,007	5,263	41,270
Inter-segment sales	-	35,524	35,524
Elimination of inter-segment revenue	-	-	(35,524)
Total revenue	36,007	40,787	41,270
Other revenue			
Interest revenue	5	7	12
Other revenue	-	122	122
Unallocated interest revenue	-	-	40
Total other revenue	5	129	174
Segment interest expense	1	-	1
Depreciation and amortisation	43	2,925	2,968
Disposal of exploration	-	205	205
	43	3,130	3,173
Segment result			
Pre-tax segment result	(6,417)	8,098	1,681
Income tax expense	-	-	-
Post tax segment result	(6,417)	8,098	1,681
Unallocated items:			
Corporate interest revenue			40
Corporate costs			(4,475)
Finance costs			(5)
Elimination of inter-company interest expense and management fees in segment results			2,176
Profit after tax as per the Consolidated Statement of Profit or Loss			(583)
Segment assets	21,924	25,568	47,492
Unallocated items:			
Other corporate assets ¹			2,857
Total assets			50,349
Segment non-current assets	15,073	15,196	30,269
Unallocated items:			
Other corporate assets ¹			52
	15,073	15,196	30,321

¹Other corporate assets predominantly relates to cash held within the Australian Parent of \$1.1 million and prepayments \$1.6 million.

	Australia 2017 \$'000	Sweden 2017 \$'000	Finland 2017 \$'000	Total 2017 \$'000
Non-current assets by geographic location	52	15,073	15,196	30,321

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

18. SEGMENT INFORMATION (continued)

	Sweden 2016 \$'000	Finland 2016 \$'000	Total 2016 \$'000
Segment revenue			
Gold sales to external customers	46,286	8,753	55,039
Inter-segment	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
	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
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			5,651
Total assets			50,432
Segment acquisitions of non-current assets	13,372	11,025	24,397
Unallocated items:			
Corporate and other acquisitions	-	-	-
	13,372	11,025	24,397

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)**

19. CONTINGENT ASSETS

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

The Group has a right to a 2% Net Smelter Return ("NSR") on future mineral production from Agnico Eagle Mines Limited ("Agnico Eagle") with respect to the Hanhimaa Gold Project in northern Finland. Agnico Eagle will have the right to buy back 1 percentage point of the 2% NSR at any time for €2.0 million cash.

The Hanhimaa Gold Project remains as an early stage exploration project as at 31 December 2017.

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.

	2017 \$'000	2016 \$'000
Within one year	43	47
One year or later and no later than five years	206	204
	<u>249</u>	<u>251</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	71	40
One year or later and no later than five years	-	125
	<u>71</u>	<u>165</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	300	353
	<u>300</u>	<u>353</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.

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

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) 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.

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21. FINANCIAL INSTRUMENTS (continued)

(c) Credit risk (continued)

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:

	2017 \$'000	2016 \$'000
Cash and cash equivalents		
<i>Counterparties with external credit ratings</i>		
AA-	6,609	15,337
A	-	70
Total cash and cash equivalents	<u>6,609</u>	<u>15,407</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>2,581</u>	<u>3,696</u>
Total trade and other receivables	<u>2,581</u>	<u>3,696</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

Counterparties with external credit ratings

AAA	5,415	5,306
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Counterparties without external credit ratings

Counterparties with no defaults in the past	<u>-</u>	<u>-</u>
Total trade and other receivables	<u>5,415</u>	<u>5,306</u>

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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:

	2017				2016			
	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	6,609	-	6,609	0.88	15,407	-	15,407	1.20
Environmental bonds	5,415	-	5,415	-	5,306	-	5,306	-
	12,024	-	12,024		20,713	-	20,713	
Financial liabilities								
	-	-	-	-	-	-	-	-

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 Group's 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 2017, the Company did not enter into or hold any foreign exchange derivatives.

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21. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Foreign exchange risk (continued)

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

	2017 \$'000	2016 \$'000
USD exposure		
<i>Entity with Euro functional currency</i>		
Cash and cash equivalents	2,511	6,524
<i>Entity with AUD functional currency</i>		
Trade receivables	9,984	5,004
<i>Entity with SEK functional currency</i>		
Trade payables	(6,835)	(471)
Net USD Exposure	5,660	11,057
Euro exposure		
<i>Entity with AUD functional currency</i>		
Intercompany loan	26,242	28,382
<i>Entity with SEK functional currency</i>		
Cash and cash equivalents	28	-
<i>Entity with SEK functional currency</i>		
Trade payables	(25)	-
Net Euro Exposure	26,245	28,382
AUD exposure		
<i>Entity with SEK functional currency</i>		
Cash and cash equivalents	909	2,214
<i>Entity with SEK functional currency</i>		
Trade receivables	360	-
Net AUD Exposure	1,269	2,214
SEK exposure		
<i>Entities with AUD functional currency</i>		
Intercompany loans	12,303	8,751
Net SEK Exposure	12,303	8,751

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 Group's revenue from gold sales, but in any event, limiting derivative commitments to no more than 50% of the Group's 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 2017, 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. 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 2016.

31 December 2017

		Interest rate risk -1 %		Interest rate risk + 1 %	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets	Note				
Cash and cash equivalents	1	(66)	(66)	66	66
Government bonds	4	(54)	(54)	54	54
Total (decrease)/increase		(120)	(120)	120	120

31 December 2016

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

21. FINANCIAL INSTRUMENTS (continued)

(h) Sensitivity Analysis (continued)

31 December 2017

		Foreign exchange -10 %		Foreign exchange +10 %	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets	Note				
Cash and cash equivalents	1	254	254	(254)	(254)
Trade and other receivables	2	998	998	(998)	(998)
Intercompany loans	3	3,854	3,854	(3,854)	(3,854)
Government bonds	4	-	-	-	-
Total increase/(decrease)		5,106	5,106	(5,106)	(5,106)

1. Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
2. Trade receivables include AUD 1.6 million of gold concentrate receivables denominated in USD.
3. 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.
4. Interest bearing environmental cash bonds that have historically been deposited with Swedish and Finnish government authorities.

31 December 2016

		Foreign exchange -10 %		Foreign exchange +10 %	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets	Note				
Cash and cash equivalents	1	679	679	(679)	(679)
Trade and other receivables	2	500	500	(500)	(500)
Intercompany loans	3	3,713	3,713	(3,713)	(3,713)
Government bonds		-	-	-	-
Total increase/(decrease)		4,892	4,892	(4,892)	(4,892)

1. Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
2. Trade receivables include AUD 2.7 million of gold concentrate receivables denominated in USD.
3. 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.
4. Interest bearing environmental cash bonds that have historically been deposited with Swedish and Finnish government authorities.

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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:

	2017 \$'000	2016 \$'000
Within one year	5,942	6,902
Due between one and five years	-	-
	5,942	6,902

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 23 February 2018, the Company announced that an update of the Ore Reserves for the Company's Nordic Projects has been completed. The updates have increased the mine life for Jokisivu to four years, whilst successful drilling campaigns carried out at Orivesi during 2017 has resulted in an additional year of Ore Reserves being defined.

This release can be found at www.asx.com.au (Code: DRA).

23. PARENT ENTITY DISCLOSURE

Financial position of the parent entity at year end	2017 \$'000	2016 \$'000
Current assets	2,804	5,599
Total assets	11,296	12,680
Current liabilities	840	1,359
Total liabilities	873	1,388
Issued capital	119,992	119,992
Retained earnings	(111,637)	(110,771)
Option reserve	-	-
Convertible note premium reserve	2,068	2,068
Total shareholder's equity	10,423	11,289
 (Loss) / profit after tax of the Parent entity	 (2,208)	 (1,475)
Total comprehensive loss of the parent entity	(867)	(2,252)

**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 13 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 2017 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 2017.

On behalf of the Board



Mr Brett Smith
Executive Director
26 February 2018

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) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the year ended on that date; and
- a) 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also 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 report. 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 \$19.3 million as at 31 December 2017.

Australian Accounting Standards require the Group to assess throughout the 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 and for this reason was considered to be a key audit matter.

Key assumptions, judgements and estimates used in the formulation of the Group's impairment assessment of non-current assets include discount rates, gold price and foreign exchange rates, as disclosed in note 7.

How our audit addressed the key audit matters

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

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

We have assessed the competence, capability and objectivity of the internal experts compiling the reserves and resources data utilised in the model. We involved our valuation specialists to evaluate the appropriateness of key assumptions including discount rate, gold price and foreign exchange assumptions.

We reviewed the Board of Director's meeting 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. Carrying value of inventories

Why significant

As disclosed in note 6, the Group held inventories as at 31 December 2017 of \$9.1 million, which related to ore and concentrate stockpiles, gold in circuit, raw materials and stores.

Inventory is a material balance which requires the Group's judgement in determining an appropriate costing basis and assessing if the carrying value is recorded at the lower of cost and net realisable value. Accordingly we considered the carrying value of inventories to be a key audit matter.

How our audit addressed the key audit matters

We obtained a detailed understanding of the Group's process to physically control inventories at the different stages of production and attended stock counts performed by the Group.

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.

3. Recognition and measurement of rehabilitation provisions

Why significant

As disclosed in note 11, the Group had a rehabilitation provision of \$10.8 million as at 31 December 2017 relating to the mine sites and processing facilities in Sweden and Finland.

As disclosed in note 1(x) the calculation of this provision required 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 semi-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 matters

We assessed the Group's calculation of the rehabilitation provision, and obtained explanations to support 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 competence, capability and objectivity of the external experts compiling the data that supported the provisions and considered the appropriateness of their work in conducting our procedures.

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

5. Share issue costs

Why significant

As disclosed in note 1(w) and note 9, the Group recorded a prepayment for share issue costs of \$1.6 million at 31 December 2017.

As this material balance required judgement by the Group to determine the extent to which costs incurred were directly attributable to the planned share issue, we considered this a key audit matter.

How our audit addressed the key audit matter

We evaluated the expenses incurred during the current period relating to the planned share issue and assessed whether the costs were correctly recorded.

We assessed the Group's cost allocation methodology and reperformed the Group's cost capitalisation calculation applying the ratio of planned shares to be issued over the total shares on issue and planned.

We confirmed that the Group continues to progress with the planned share issue.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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 on 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.

Responsibilities of the directors 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 relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to 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 the 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 the 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 Group'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 financial report represents 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 audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 13 to 18 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of Dragon Mining Limited for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

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



J K Newton
Partner
Perth
26 February 2018

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
ASX ADDITIONAL INFORMATION**

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 1 March 2018

Statement of listed shareholdings

The distribution of fully paid ordinary shares in the Company is as follows:

Spread of holdings	Number of holdings	Number of Units	Total Issued Capital %
1-1,000	181	61,704	0.07
1,001-5,000	369	1,106,040	1.24
5,001-10,000	143	1,115,471	1.26
10,001-100,000	171	5,920,721	6.66
100,001 and over	58	80,636,677	90.77
Total	922	88,840,613	100.00

The number of shareholders holding less than a marketable parcel of ordinary shares is 335 (being 2,500 as at 1 March 2018).

Statement of option holdings

There are no options on issue

Voting rights

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Options do not carry any voting rights.

Top 21 registered holders of ordinary shares

Rank	Name	Number of shares	% of shares issued
1	JP MORGAN NOMINEES AUSTRALIA LIMITED	25,562,564	28.77
2	ALLIED PROPERTIES RESOURCES LTD	21,039,855	23.68
3	SUN HUNG KAI INVESTMENT SERVICES LTD <CLIENT FUTURE RISE INV A/C>	10,733,560	12.08
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,555,786	4.00
5	MININGNUT PTY LTD	3,165,000	3.56
6	MARFORD GROUP PTY LTD	1,638,227	1.84
7	MR PETER ALFRED TERNES <CLOUD THIRTY SUPER A/C>	1,100,000	1.24
8	MS YI MIN TANG	919,098	1.03
9	MR ROBERT BYRNE + MRS MICHELLE ANN BYRNE	860,000	0.97
10	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	610,118	0.69
11	PG COLEMAN PTY LTD <P G COLEMAN SUPER FUND A/C>	555,670	0.63
12	MR IANAKI SEMERDZIEV	553,500	0.62
13	BNP PARIBAS NOMS PTY LTD <UOB KH P/L AC UOB KH DRP>	506,000	0.57
14	BNP PARIBAS NOMS PTY LTD <DRP>	462,830	0.52
15	SUN HUNG KAI INVESTMENT SERVICES LTD <CLIENTS A/C>	447,250	0.50
16	MRS BETTY CALLAGHAN	411,400	0.46
17	MRS LILIANA TEOFILOVA	395,000	0.44
18	MRS ANNA VORONTSOVA	362,030	0.41
19	CORDIN PTY LTD <THE CORDIN SUPER FUND A/C>	354,546	0.40
20	TECHNICA PTY LTD	350,000	0.39
20	MR PETER ALFRED TERNES	350,000	0.39
Total (Top 21)		73,932,434	83.22

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FOR THE YEAR ENDED 31 DECEMBER 2017
ASX ADDITIONAL INFORMATION**

Substantial shareholders

Name	Number of shares	% of Contributing Shares
Allied Properties Resources Limited	21,039,855	23.68
Nicolas Mathys	15,287,486	17.21
Sun Hung Kai Investment Services Ltd, on behalf of Future Rise Investments Limited ¹	10,733,560	12.08
COL Capital Limited and its subsidiaries (including Future Rise Investments Limited) ¹	10,733,560	12.08

¹ Sun Hung Kai Investment Services Ltd is a custodian that holds 10,733,560 Shares (FRIL Shares) on behalf of Future Rise Investments Limited (FRIL). FRIL is an indirect, wholly owned subsidiary of COL Capital Limited and consequently COL Capital Limited and its subsidiaries (including FRIL) also hold a relevant interest in the FRIL Shares, as disclosed in substantial shareholder notices previously lodged with ASX.

On-market buy back

There is no current on-market buy back.

Corporate Governance

The Company's Corporate Governance Statement is located on its website at:

www.dragonmining.com/governance

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
TENEMENT REGISTER**

Project		Tenements		Held at 31 December 2017	Area
	ID	Name	Type	%	ha
SWEDEN					
Svartliden		Svartlidengruvan K nr 1	EC	100	87.54
	2006:111	Ekorrliden nr 2	EP	100	455.39
	Total				542.93
Fäboliden		Fäboliden K nr 1	EC	100	122.00
	2016:75	Fäboliden nr 11	EP	100	836.26
	2014:2	Fäbodliden nr 82	EP	100	230.55
	2017:27	Fäboliden nr 83	EP	100	1,006.72
	Total				2,195.53
FINLAND					
Orivesi	2676	Seri	MC	100	39.82
	ML2013:0006	Sarvisuo 1-2	EL	100	41.86
	ML2015:0026	Sarvisuo 3	EL	100	56.56
	9245/1	Yläinensilmäke	Claim	100	10.26
	Total				148.50
Jokisivu	7244	Jokisivu	MC	100	48.32
	KL2015:0005	Jokisivu 2	MC	100	21.30
	ML2012:0112	Jokisivu 4-5	EL	100	85.76
	8970/1	Jokisivu 7	Claim	100	6.70
	8970/2	Jokisivu 8	Claim	100	26.40
	Total				188.48
Vammala	1895	Stormi	MC	100	157.53
	ML2014:0049	Kärmeenmaa	EL	100	78.00
	Total				235.53
Kaapelinkulma	K7094	Kaapelinkulma	MC	100	66.55
	VA2016:0026	Kaapeli	Res	100	1,589.00
	Total				1,655.55

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
RESOURCES AND RESERVES STATEMENT**

**Mineral Resources
Reported as at 30 September 2017**

	Measured			Indicated			Inferred			Total		
	Tonnes	Gold	Ounces	Tonnes	Gold	Ounces	Tonnes	Gold	Ounces	Tonnes	Gold	Ounces
	(kt)	(g/t)	(kozs)	(kt)	(g/t)	(kozs)	(kt)	(g/t)	(kozs)	(kt)	(g/t)	(kozs)
Vammala Production Centre												
Orivesi Gold Mine	90	5.4	16	120	6.8	26	50	5.8	9	260	6.1	51
Jokisivu Gold Mine	504	4.5	73	1,180	4.2	161	396	4.4	56	2,080	4.3	289
Kaapelinkulma Gold Project	76	3.8	9	59	4.2	8	34	3.0	3	168	3.8	21
Vammala Total	670	4.5	98	1,359	4.5	195	480	4.4	68	2,509	4.5	361
Svartliden Production Centre												
Faboliden Gold Project	-	-	-	4,768	2.8	436	5,864	3.1	583	10,632	3.0	1,019
Svartliden Gold Mine	119	3.4	13	311	3.8	38	60	4.0	8	489	3.7	59
Svartliden Total	119	3.4	13	5,078	2.9	473	5,924	3.1	591	11,121	3.0	1,077
Group Total	789	4.4	111	6,437	3.2	688	6,404	3.2	659	13,630	3.3	1,438

Note: Resources may not sum to equal totals due to rounding. Mineral Resources are reported on a dry in-situ basis.

Cut-off Grades: Orivesi Gold Mine – 3.0 g/t gold; Jokisivu Gold Mine – 1.9 g/t gold; Kaapelinkulma Gold Project – 1.0 g/t gold; Faboliden Gold Project – 1.25 g/t gold for material above the 350 m RL and 2.10 g/t gold for material below the 350m RL; Svartliden Gold Mine – 1.0 g/t gold for open-pit material and 1.70 g/t gold for underground material.

**Ore Reserves
Reported as at 30 September 2017**

	Proved			Probable			Total		
	Tonnes	Gold	Ounces	Tonnes	Gold	Ounces	Tonnes	Gold	Ounces
	(kt)	(g/t)	(kozs)	(kt)	(g/t)	(kozs)	(kt)	(g/t)	(kozs)
Vammala Production Centre									
Orivesi Gold Mine (Underground)	24	4.0	3.1	46	6.3	9.4	71	5.5	12.5
Jokisivu Gold Mine (Underground)	172	2.8	15.6	841	2.9	79.6	1,013	2.9	95.2
Kaapelinkulma Gold Project (Open Pit)	52	3.9	6.5	19	4.3	2.6	71	4.0	9.0
Svartliden Production Centre									
Faboliden Gold Project (Open Pit)	-	-	-	1,160	3.1	115	1,160	3.1	115
Group Total	248	3.2	25.2	2,066	3.1	206.4	2,315	3.1	232

Ore Reserve estimates have been rounded to reflect accuracy. All the estimates are on dry tonne basis.

Ore Reserve In-situ Cut-off Grades – Underground Operations				
	Project Gold (g/t)	Operating Gold (g/t)	Stoping Gold (g/t)	Development Gold (g/t)
Orivesi Gold Mine	5.4	4.4	3.7	1.0
Jokisivu Gold Mine				
Arpola – Area A	3.6	2.7	2.3	1.0
Arpola – Area B	3.7	2.7	2.4	1.0
Arpola – Area C	3.1	2.3	2.0	0.9
Arpola – Area D	3.6	2.7	2.3	1.0
Kujankallio	3.6	2.7	2.3	1.0

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
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RESOURCES AND RESERVES STATEMENT**

The Development cut-off grade assumes that all mining costs have been otherwise included and hence provides an indicator of whether development ore is economical to mill and refine. The Stopping cut-off grade includes the operating cost without ore development. That is, the average grade of a stope must be above this value for it to be economic to mine. It assumes stope access development has been completed for the level. The Operating cut-off grade includes all the operating costs inclusive of ore development and hence provides an indicator of whether an entire level is economic to be mined. The Project costs include direct underground capital and operating costs.

Ore Reserve In-situ Cut-off Grades – Open Pit Operations

	Gold (g/t)
Kaapelinkulma Gold Project	1.1
Fäboliden Gold Project	1.47

Mineral Resources and Ore Reserves Annual Statement and Review

The Company carries out an annual review of its Mineral Resources and Ore Reserves as required by the ASX Listing Rules. The estimates for the Mineral Resources and Ore Reserves as at 30 September 2017 were disclosed to the ASX in compliance with the requirements of the reporting guidelines as set-out in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code") on:

- ❖ 11 January 2018 – Mineral Resources Updated for Dragon Mining's Nordic Projects
- ❖ 23 February 2018 – Dragon Mining Updates Ore reserves for Nordic Projects

The statement of Mineral Resources for the Company totals 13,630,000 tonnes grading 3.3 g/t gold for 1,438,000 ounces as at 30 September 2017, inclusive of Ore Reserves. This represents a 2.28% decrease in tonnage and a 0.35% decrease in ounces of gold when compared to the total Mineral Resources as at 31 December 2016 of 13,948,000 tonnes grading 3.2 g/t gold for 1,443,000 ounces that were previously released to the ASX on 28 February 2017 – Mineral Resources Updated for the Nordic Production Centres.

The Company's total Proved and Probable Ore Reserves as at 30 September 2017 are 2,315kt grading 3.1 g/t gold for 232 kozs, the highest total Ore Reserve tonnage level recorded by Dragon Mining since commencing activities in the Nordic Region in 2000.

This represents an overall increase of 29% in tonnage and 22% in ounces of gold, after depletion for mining to 30 September 2017, when compared to the total Proved and Probable Ore Reserves as at 31 December 2016 of 1,790 kt grading 3.3 g/t gold for 189 kozs that were previously released to the ASX on the 21 March 2017 – Ore Reserves Updated for Dragon Mining's Nordic Projects.

The updates of the Ore Reserves have increased the mine life for the Jokisivu Gold Mine to four years, whilst successful drilling campaigns carried out at the Orivesi Gold Mine during 2017 has resulted in an additional year of Ore Reserves being defined at this operation. This has provided the Company with confidence that Ore Reserves in Finland are sustainable until mining starts at the Fäboliden Gold Project and beyond. When including the Ore Reserves for the Fäboliden Gold Project, where the Company is working towards environmental approval, the Company now has sufficient Ore Reserves for production through to at least 2024.

In addition to site specific mining, metallurgical, cost and revenue factors, the updated Ore Reserve estimates for the Orivesi Gold Mine and the Jokisivu Gold Mine used a gold price of US\$1,280 per ounce (31 December 2016: US\$1,260 per ounce). For the future mining operations, a gold price of US\$1,260 per ounce was used for the update of the Ore Reserves for the Kaapelinkulma Gold Project, whilst no change was made to the Ore Reserves for the Fäboliden Gold Project, which had been estimated at a gold price of US\$1,260 per ounce.

Estimation Governance Statement

The Company has ensured that the Mineral Resources and Ore Reserves estimated are subject to good governance arrangements and internal controls. The Mineral Resources and Ore Reserves have been completed by independent mining consultants RPM Global in Western Australia and Hong Kong, an organisation whose personnel have exposure to best practices in modelling and estimation methods. RPM Global has also undertaken reviews of the quality and suitability of the underlying information, which included a site visit of the Company's mining projects in 2015, 2016 and 2017. In addition, Dragon Mining's management regularly carries out reviews and audits of internal processes and of external contractors that are utilised by the Company.

Dragon Mining reports Mineral Resources and Ore Reserves at least annually in compliance with the requirements of the reporting guidelines as set-out in the JORC Code. If there are any material changes to its Mineral Resources or Ore Reserves during the course of the year the Company is required to, and promptly reports these changes.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
RESOURCES AND RESERVES STATEMENT**

Competent Persons Statements

The information in this report that relates to Ore Reserves for the Jokisivu Gold Mine, Orivesi Gold Mine and Kaapelinkulma Gold Project were previously released to the ASX on the 23 February 2018 – Dragon Mining Updates Ore Reserves for Nordic Projects. This release can be found at www.asx.com.au (Code:DRA). It fairly represents information and supporting documentation compiled or supervised by Mr Joe McDiarmid, who is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy and is an employee of RPM Advisory Services Pty Ltd. Mr Joe McDiarmid has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Written consent was previously provided by Mr Joe McDiarmid for the 23 February 2018 release.

The Company confirms that it is not aware of any new information or data that materially affects the Ore Reserves as reported on the 23 February 2018, and the assumptions and technical parameters underpinning the estimates in the 23 February 2018 release continue to apply and have not materially changed.

Mr. Joe McDiarmid, a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy, who is an employee of RPM Advisory Services Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves, confirms that the form and context in which the Ore Reserves are presented in this report have not been materially modified and are consistent with the 23 February 2018 release. Mr. Joe McDiarmid has provided written consent approving the statement of Ore Reserves in this report in the form and context in which it appears.

The information in this report that relates to Ore Reserves for the Fäboliden Gold Project was previously released to the ASX on the 21 March 2017 - Ore Reserves Updated for Dragon Mining's Nordic Projects, which can be found at www.asx.com.au (Code:DRA). It fairly represents information and supporting documentation that was compiled by Mr. Joe McDiarmid, who is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy and is an employee of RPM Advisory Services Pty Ltd. Mr Joe McDiarmid has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Written consent was previously provided by Mr. McDiarmid for the 21 March 2017 release.

The Company confirms that it is not aware of any new information or data that materially affects the Ore Reserves for the Fäboliden Gold Project as reported on the 21 March 2017, and the assumptions and technical parameters underpinning the estimates in the 21 March 2017 release continue to apply and have not materially changed.

Mr. Joe McDiarmid, a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy, who is an employee of RPM Advisory Services Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves, confirms that the form and context in which the Ore Reserves are presented in this report have not been materially modified and are consistent with the 21 March 2017 release. Mr. Joe McDiarmid has provided written consent approving the statement of Ore Reserves in this report in the form and context in which it appears.

The information in this report that relates to Mineral Resources dated 30 September 2017 were previously released to the ASX on the 11 January 2018 – Mineral Resources Updated for Dragon Mining's Nordic Projects. This release can be found at www.asx.com.au (Code:DRA). It fairly represents information and supporting documentation that was compiled or supervised by Mr. Jeremy Clark who is a full-time employee of RPMGlobal Asia Limited and a Registered Member of the Australasian Institute of Mining and Metallurgy. Mr. Jeremy Clark has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity that being undertaken to qualify as a Competent Person as defined in the JORC Code 2012 Edition. Written consent was previously provided by Mr. Jeremy Clark for the 11 January 2018 release.

The Company confirms that it is not aware of any new information or data that materially affects the Mineral Resources as reported on the 11 January 2018, and the assumptions and technical parameters underpinning the estimates in the 11 January 2018 release continue to apply and have not materially changed.

Mr. Neale Edwards BSc (Hons), a Fellow of the Australian Institute of Geoscientists, who is a full time employee of Dragon Mining and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves confirms that the form and context in which the Mineral Resources dated 30 September 2017 presented in this report have not been materially modified and are consistent with the 11 January 2018 release.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
RESOURCES AND RESERVES STATEMENT**

Competent Persons Statements (continued)

Mr. Neale Edwards has provided written consent approving the use of previously reported Mineral Resources in this report in the form and context in which they appear.

The information in this report that relates to Mineral Resources dated 31 December 2016 were previously released to the ASX on the 28 February 2017 – Mineral Resources Updated for the Nordic Production Centres. This release can be found at www.asx.com.au (Code:DRA). It fairly represents information and supporting documentation that was compiled or supervised by Mr. Jeremy Clark who is a full-time employee of RPMGlobal Asia Limited and a Registered Member of the Australasian Institute of Mining and Metallurgy. Mr. Jeremy Clark has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity that being undertaken to qualify as a Competent Person as defined in the JORC Code 2012 Edition. Written consent was previously provided by Mr. Jeremy Clark for the 28 February 2017 release.

The Company confirms that it is not aware of any new information or data that materially affects the Mineral Resources as reported on the 28 February 2017, and the assumptions and technical parameters underpinning the estimates in the 28 February 2017 release continue to apply and have not materially changed.

Mr. Neale Edwards BSc (Hons), a Fellow of the Australian Institute of Geoscientists, who is a full time employee of Dragon Mining and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves confirms that the form and context in which the Mineral Resources dated 31 December 2016 presented in this report have not been materially modified and are consistent with the 28 February 2017 release. Mr. Neale Edwards has provided written consent approving the use of previously reported Mineral Resources in this report in the form and context in which they appear.

The information in this report that relates to Exploration Results were previously released to the ASX on 2 March 2017 – Drilling Returns Further Intercepts from the Orivesi Gold Mine; 27 March 2017 – Kaapelinkulma Drilling Confirms Historical Results; 31 May 2017 – Drilling at Orivesi Gold Mine Yields High Grade Intercepts; 19 July 2017 – Update on Activities Completed at Key Finnish Projects; 1 September 2017 – Further high Grade Intercepts Returned from the Orivesi Gold Mine; 13 October 2017 – Jokisivu Drilling returns Further Encouraging Intercepts; and 22 December 2017 – Encouraging Drill Results Received from Southern Finland Projects, which can be found at www.asx.com.au (Code: DRA). They fairly represent information and supporting documentation that was compiled by Mr Neale Edwards BSc (Hons), a Fellow of the Australian Institute of Geoscientists, who is a full time employee of the Company and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Written consent was previously provided by Mr Neale Edwards for the releases dated the 2 March 2017, 27 March 2017, 31 May 2017, 19 July 2017, 1 September 2017, 13 October 2017 and 22 December 2017.

The Company confirms that it is not aware of any new information or data that materially affects the Exploration Results as released on the 2 March 2017, 27 March 2017, 31 May 2017, 19 July 2017, 1 September 2017, 13 October 2017 and 22 December 2017, and the assumptions and technical parameters underpinning the Exploration Results in the listed releases continue to apply and have not materially changed.

Mr Neale Edwards BSc (Hons), a Fellow of the Australian Institute of Geoscientists, who is a full time employee of Dragon Mining and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves confirms that the form and context in which the Exploration Results are presented in this report have not been materially modified from the releases dated the 2 March 2017, 27 March 2017, 31 May 2017, 19 July 2017, 1 September 2017, 13 October 2017 and 22 December 2017. Mr Neale Edwards has provided written consent approving the Exploration Results in this report in the form and context in which they appear.

**DRAGON MINING LIMITED ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
CORPORATE DIRECTORY**

Directors

Non-Executive Chairman	Mr Arthur G Dew
Executive Director	Mr Brett R Smith
Independent Non-Executive Director	Mr Carlisle C Procter

Company Secretary

Ms Shannon Coates

Registered Office

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Telephone: +61 8 6311 8000
Email: admin@dragonmining.com.au
Website: www.dragonmining.com

ABN

19 009 450 051

Share Registry

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth, Western Australia 6000

Contact Information:

Within Australia: 1300 557 010
From Overseas: +61 8 9323 2000
Facsimile: +61 8 9323 2033
Email: web.queries@computershare.com.au
Website: www.computershare.com

Stock Exchange

ASX Limited
Level 40, Central Park
152-158 St Georges Terrace
Perth, Western Australia 6000
Quoted on the official list of the Australian Securities Exchange
ASX Ordinary Share Code: DRA

Auditors

Ernst & Young
11 Mounts Bay Road
Perth, Western Australia 6000

Bankers

Nordea Bank Finland Plc
Aleksis Kiven Katu 3-5
Helsinki, Finland

National Australia Bank

West Perth Business Banking Centre
Level 1, 1238 Hay Street
Perth, Western Australia 6005