



Dragon
Mining

Annual Report
2009



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Chairman's Report to Shareholders

The dedicated work undertaken in previous years is now being reflected in Company's results with gross profit increasing 36% to A\$14.2 million from the mining and processing operations in Sweden and Finland.

During the later part of 2009 the Company delivered the last ounces into the hedge obligation which was outstanding from the development of the Svartliden project in Sweden (delivered 4,750 ounces at US\$400 per ounce in 2009). All of the Company's production is now sold into the spot market.

In Sweden, the Svartliden open pit mine and process plant produced in line with expectations. Svartliden will transition underground in 2010 with the decline development planned to commence later in the year.

Mining continued at Orivesi in Finland with ore trucked to the Vammala Production Centre for processing and then to the smelter at Harjavalta for refining. The Company continues to gain confidence in the extent and viability of both the Kutema and Sarvisuo lodes at Orivesi. The successful commencement of mining at Jokisivu in southern Finland was achieved with ore mined, transported and processed at the Vammala Production Centre. The Jokisivu open pit will be mined over 2 years and the mine will transition to an underground operation in 2011.

A strong focus on exploration will be made in 2010 with an extensive drilling program planned at Svartliden with the objective of significantly increasing the resources and reserves of the project.

Extensive drilling campaigns in 2009 at both Kujankallio and Arpola has resulted in upgraded and improved resources along with encouragement from intersections achieved in sterilisation drilling between these two deposits at Jokisivu and encouragement to drill further with the objective of joining the deposits.

The opportunity for the Company to purchase additional Convertible Notes on market has resulted in Dragon Mining now holding 53% of the total number of Notes on issue. This represents a considerable saving to the Company of both capital and interest.

Subsequent to year end the Chairman Andrew Daley and non executive director Peter Munachen resigned from the Board. Both Andrew and Peter helped guide DRA through a difficult 5 year period when the future of the Company was uncertain following the early difficulties with the process plant and mine at Svartliden and their efforts are acknowledged.

The Company welcomes non executive directors Christian Russenberger and Peter Gunzburg to the Board. Christian brings extensive commercial experience and Peter extensive corporate skills to the board and as representatives of our two major shareholders are keen to participate in the future growth of the Company.

Thanks to my fellow directors Tapani Jarvinen, Markku Makela and Michael Naylor for their contribution to the success the Company is now experiencing.

The contribution of management to the success of the Company has been, and continues to be, very important and the key to the ongoing success of Dragon Mining and I thank them for their efforts.

Dragon Mining looks forward to a strong 2010 with a strengthened balance sheet and in forecasting good cash flows from the operations will be seeking to grow the Company's assets as well as pursue growth opportunities.



Peter George Cordin
Executive Chairman

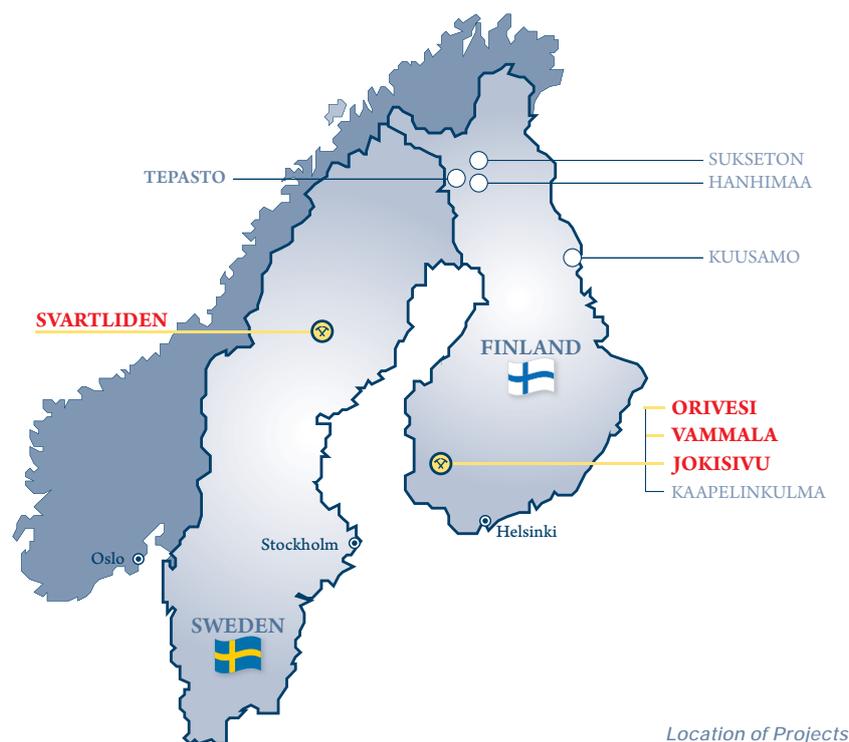


Operations Overview

In 2009 Dragon Mining produced 66,149 ounces of gold at an average cash cost of US\$630 per ounce from its two production centres in Scandinavia. The Company also brought into production its third operating mine at Jokisivu in southern Finland.

In the coming year, Dragon Mining is expected to produce 75,000 ounces of gold from its mines in Sweden and Finland.

Operations Review



Svartliden Gold Mine

The Svartliden Gold Mine is located 700 kilometres north of Stockholm and west of the world class Skellefteå Mining District, in an area that is developing into a gold-rich province referred to as the "Gold Line".

Svartliden was brought into production in March 2005 and has produced 210,902 ounces of gold in total as at 31 December 2009. Ore is processed through a carbon in leach (CIL) plant, which operates continuously and has a design capacity of 300,000 tonnes per annum.

Svartliden – Summary		
	2009	2008
Ore Mined (tonnes)	347,031	333,555
Ore Milled (tonnes)	337,945	280,062
Head Grade Milled (g/t)	3.90	5.36
Gold Recovery %	88.00	92.20
Gold Produced (ounce)	37,400	44,495
Cash Cost (US\$/ounce)	584	530

Mining

Open cut mining activities occurred mostly in the eastern domain with the open pit being mined to final pit depth in the western domain. A total of 2,574,970 tonnes of material was moved from the open pit during 2009 at a waste to ore strip ratio of 6.4 to 1. This resulted in the mining of 347,031 tonnes of ore at an average grade of 3.90 g/t.

Rehabilitation works were commenced with slope battering and topsoil capping of parts of the waste rock dump that have reached final design parameters.

Processing

Having entered the fourth production year the operating permit now allows for a production rate of 500,000 tonnes per annum, and as a result the plant was not restricted by regulatory limits.

In early 2009 production was hindered when an attempt to convert the mill to a grate discharge system was unsuccessful. The resulting downtime was the main reason for the low annual utilisation of 91.4% and ultimately less tonnes milled than forecasted.

Recovery was adversely impacted due to ore that had oxidised in a static part of the crushed ore stockpile. This was rectified with a new ore handling practice that ensures no crushed ore is stockpiled for more than one month and recoveries have returned to acceptable levels.

Outlook

Production in 2010 is expected to be 39,000 ounces of gold from 353,000 tonnes of ore at a head grade of 3.8 g/t and recovery of 91%. All ore will be sourced from the open pit.

Svartliden Gold Mine (continued)

There are a number of planned improvements for the plant including the introduction of an extra CIL tank which will increase residence time and improve recoveries. Other improvements include optimisation studies of leaching characteristics of ore from the eastern domain and a new high voltage substation to improve reliability and provide power distribution to the underground mine.

An internal study has confirmed the viability of an underground mine operation, the objective to commence the portal and decline in mid-2010 and allow for a seamless transition from open pit mining to underground mining during early 2011.

An application for a new operating licence including the future underground mining operation and more rational environmental limits is being finalised and it will be formally lodged in 2010.

Vammala Production Centre

The Vammala Production Centre is located in the Sastamala region, an area well endowed with gold and nickel mineralisation in southern Finland and within close proximity of the operating Orivesi and Jokisivu Gold Mines.

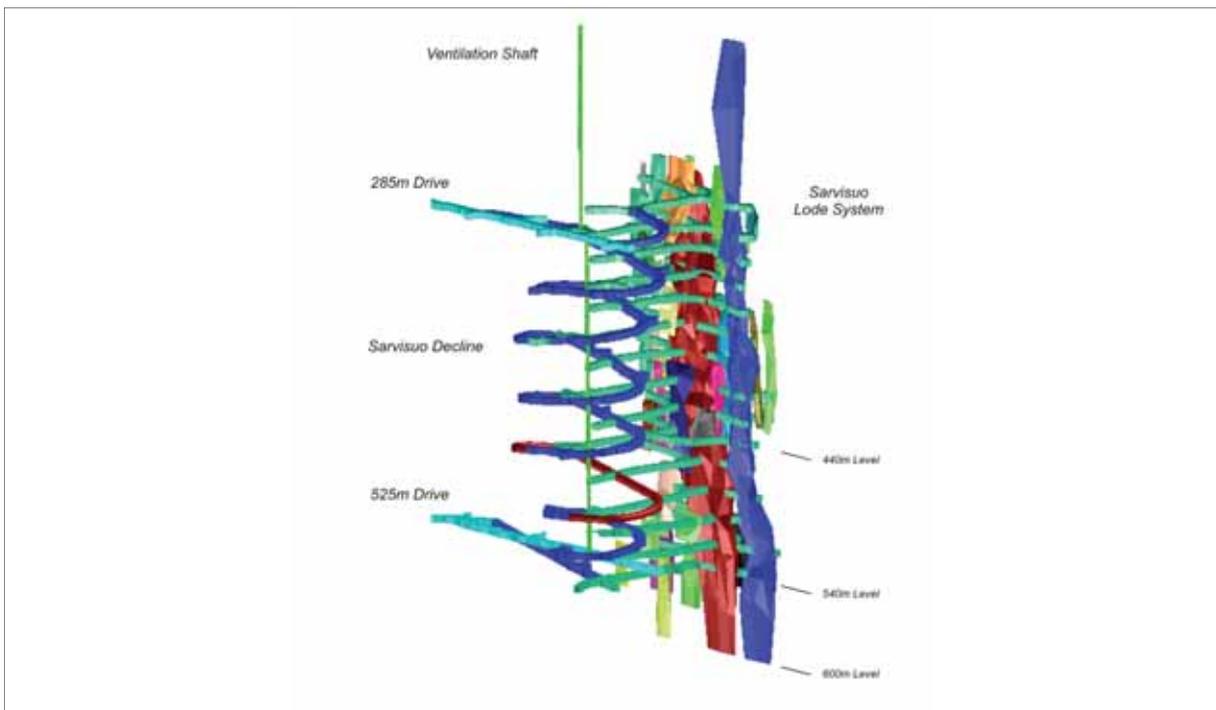
The Vammala Plant is a 600,000 tonne per annum crushing, milling and flotation facility which was successfully recommissioned in June 2007. A gravity circuit was commissioned to treat ore from the Jokisivu Gold Mine in September 2009. Since recommissioning it has produced 70,859 ounces operating on a 24 hour basis on a 6 days on, 4 days off roster.

Vammala Production Centre Summary		
	2009	2008
Ore Mined (tonnes)	222,018	181,016
Ore Milled (tonnes)	196,678	171,387
Head Grade Milled (g/t)	5.51	6.30
Gold Recovery %	82.80	85.61
Gold Produced (ounces)	28,749	29,711
Cash Cost (US\$/ounce)	690	696

Orivesi Gold Mine

Dragon Mining recommenced mining from the Orivesi Gold Mine in late June 2007, with ore sourced from the remnant Kutema stopes and pillars and the Sarvisuo ore lodes in April 2008. The ore is processed through the Vammala Plant, located 80 kilometres to the southwest.

In 2009, mining continued at Sarvisuo between the 260m and 440m levels, from eleven separate ore lodes. 171,193 tonnes was mined from Sarvisuo and 14,105 tonnes from the Kutema pillars. In all 24 stope units were mined and backfilled during the year and mine development was extended 1,653 metres.



Sarvisuo Ore Lodes

Operations Review

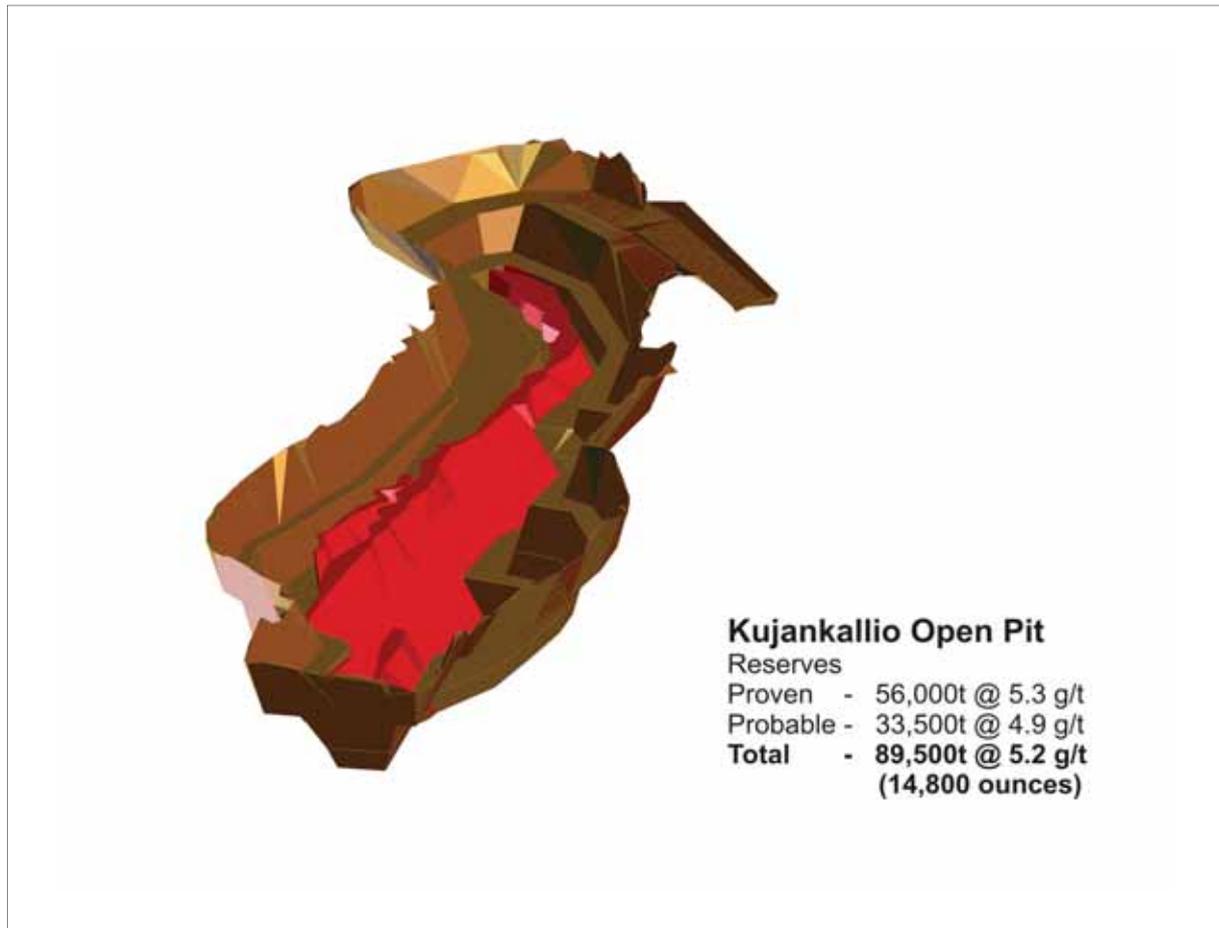
Vammala Production Centre (continued)

Jokisivu Gold Mine

The Jokisivu Gold Mine is located 40 kilometres southwest of the Vammala Production Centre, near the town of Huittinen. It became Dragon Mining's third operating mine in 2009, with the commencement of mining from the Kujankallio open pit in September.

Development commenced in April 2009 with logging works and earth clearing. A mining contractor was selected in May and a new access road was built and overburden removal commenced at Kujankallio during the second quarter of the year.

Ore mined was 36,720 tonnes including two production levels of the open pit from a total of 418,993 tonnes of material mined.



Jokisivu Open Pit and Mineralised Shell

Outlook

Production in 2010 is expected to increase to 36,000 ounces of gold. 27,000 ounces of gold will be produced from the Orivesi Gold Mine and 9,000 ounces of gold will be produced from the Jokisivu Gold Mine.

The increase in production is achieved from a full year of mining from the Jokisivu Gold Mine and additional throughput at the Vammala Production Centre, the result of an increase in manpower to allow the process plant to operate on a 24 hour, 7 day week, 24 day month basis.



Development Review

Dragon Mining continued to advance a number of development projects in Sweden and Finland during 2009. The work completed has established a sound platform from which the Company can grow, with the plan to implement a series of accelerated drilling campaigns in 2010, which could result in the life at both the Svartliden and Vammala Production Centres extending out to and beyond 2014.

Development Review

Svartliden Gold Mine

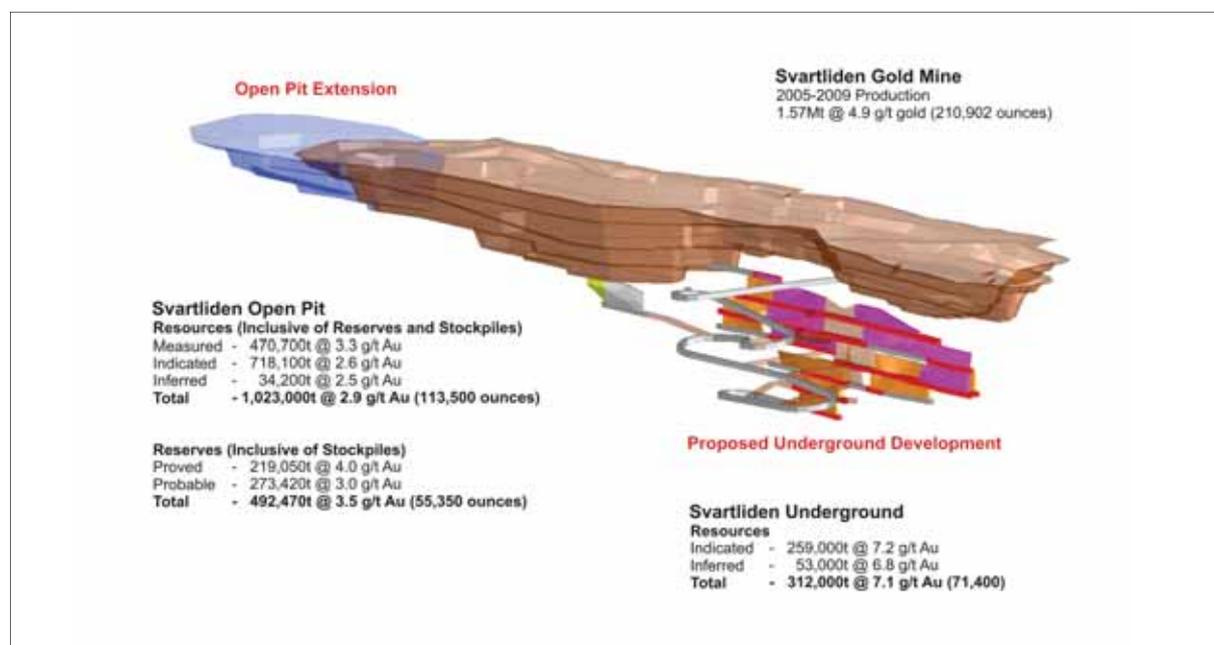
Efforts continue to be directed towards defining the depth extensions of the Svartliden deposit, with view to proceeding to underground mining in 2010.

A further 35 diamond core drill holes and one re-entry diamond core hole were completed during 2009 for an advance of 7,840 metres. Numerous high grade intercepts including **5.00m @ 22.25 g/t gold, 6.00m @ 8.81 g/t gold, 11.00m @ 9.83 g/t gold, 5.00m @ 11.24 g/t gold, 8.00m @ 15.59 g/t gold, 5.00m @ 8.67 g/t gold and 5.00m @ 12.85 g/t gold** were received, predominantly from the North Lode at the western end of the deposit.

In addition, drilling activities along the eastern strike extensions yielded very promising results, including an intercept of **5 metres @ 17.81 g/t gold**. This intercept is located 65 metres below the planned limit of the current final open pit design in an area previously not drill tested, continuing to highlight the potential for higher grade mineralisation below the open pit.

An Indicated and Inferred Mineral Resource, reported above a 3 g/t gold cut-off grade, of **312,000 tonnes grading 7.1 g/t gold (71,400 ounces)** for the western depth extensions was estimated by independent consultants Runge Limited, the result of a series of successful drilling campaigns undertaken since 2006. The underground resource is restricted by the limits of drilling, the model extending over 500 metres between local grid profiles 1375 and 1850 and includes a 150 metre vertical interval from the 410mRL to 260mRL, approximately 195 metres below surface.

The deposit remains open to the east and down dip and further drilling is planned to test for extensions.



Svartliden Gold Mine - Planned and Proposed Developments

A preliminary underground mine design and internal study has been completed. The study confirms the potential to mine and process 320,000 tonnes at a head grade of 4.3 g/t resulting in 41,000 ounces of recovered gold.

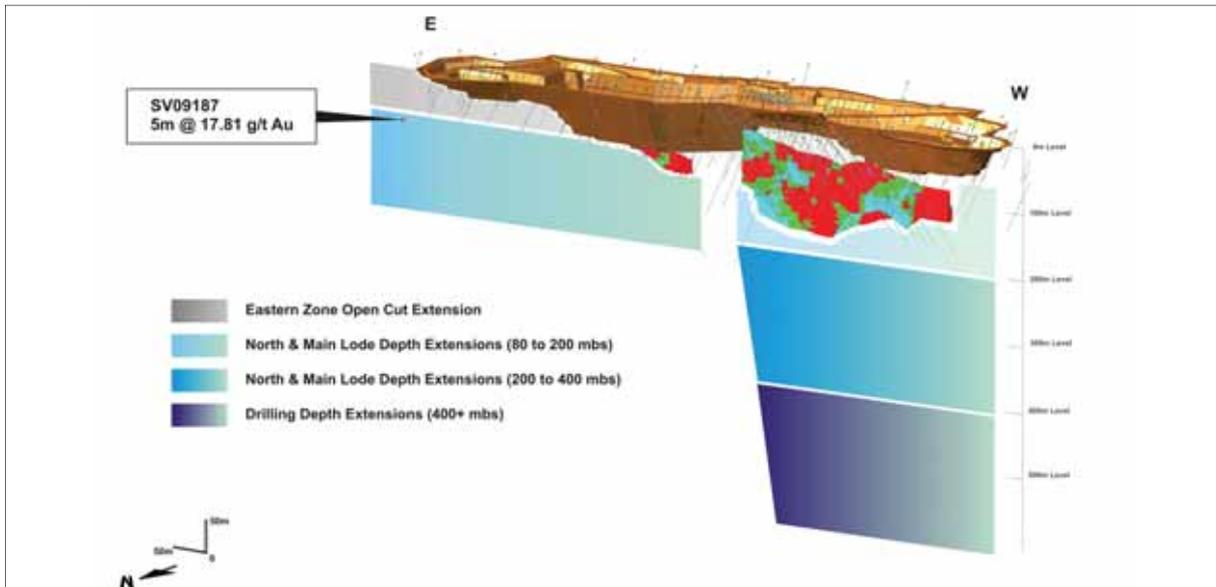
Further detailed work is now being performed with the objective to commence the portal and ramp decline in mid-2010. This would allow for a seamless transition from open pit mining to underground mining during early 2011. A permit for 1,000 metres of decline and 100,000 tonnes of test mining has already been obtained, and the application for a new operating licence that includes underground operations and revised environmental limits will be submitted during the second quarter of 2010. Negotiations are being conducted with mining contractors.

A resource update for the open-pit portion of the Svartliden deposit was also completed by independent consultants Coffey Mining Limited. This update returned an increase of approximately 35% in tonnes and ounces for the material above the defined sub-horizontal surface that divides open-pittable and underground material. This increase was largely derived from a minor increase in tonnes in the northwestern domain and an increase in tonnes in the eastern domain. As at 31 December, the open pit Mineral Resource for Svartliden, reported at a 1.3 g/t gold cut-off grade totalled **0.89Mt @ 3.20 g/t gold (92,000 ounces)**, inclusive of Reserves.

Sustained higher gold prices and better than expected grades in the eastern portion of the deposit has resulted in pre-stripping commencing for an extension of the open pit. This extension adds 145,000 tonnes of ore 2.5 g/t to the Reserve inventory.

Dragon Mining will now embark on an aggressive drilling campaign with the aim to significantly increase the Svartliden Resource and Reserve inventory and extend the mine life. It is planned for 22,000 metres of drilling to be completed over 12 months, targeting areas east and down dip of the existing underground resource. Drilling has commenced on the East Zone Open Cut Extension area, with a 4,600 metre drilling campaign. Programs further targeting the depth extensions of both the Main and Northern Lodes between 80 and 200 metres below surface will immediately follow.

Svartliden Gold Mine (continued)



Svartliden Resource Target Panels

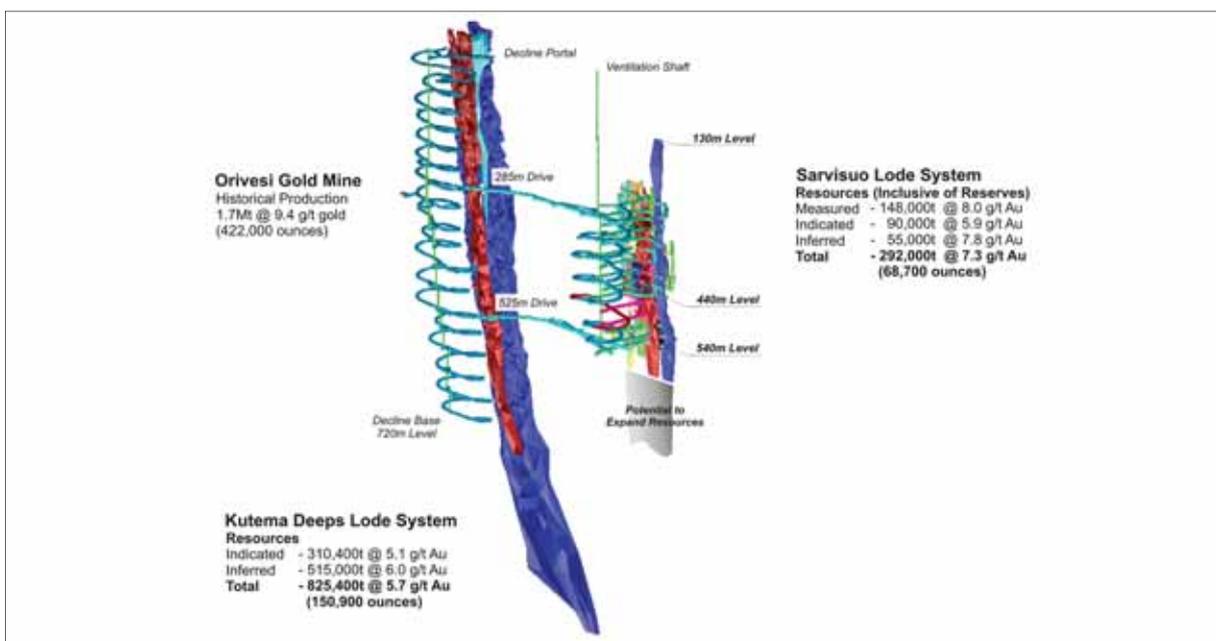
Orivesi Gold Mine

Sarvisuo

Dragon Mining completed a total of 69 drill holes for an advance of 9,777 metres at Sarvisuo targeting extensions of this lode system between the 440m and 540m levels, the deeper depth extensions below the 540m level and new mineralisation to the north.

An update of the Sarvisuo Resource was completed by independent consultants Runge Limited incorporating all recent drilling, returning a total Mineral Resource of **292,000t @ 7.3 g/t gold (68,700 ounces)** between the 130m and 600m levels at 3 g/t gold cut-off and inclusive of Reserves.

Drilling between the 440m and 540m levels returned a number of strong intercepts including **4.95m @ 17.95 g/t gold** and **5.40m @ 5.70 g/t gold**. As a result of the work completed during the year, a decision to proceed with the development of the Sarvisuo decline, up from the 525m level to the 440m level and development of the decline between the 525m and 540m levels to access new Reserves was made. By the end of the year a total of 623 metres of development had been undertaken, the development work scheduled to be completed in April 2010.



Orivesi Gold Mine - Sarvisuo and Kutema Deeps Lode Systems

Development Review

Orivesi Gold Mine (continued)

The evaluation of the extensions of the lode system below the 540m level commenced, with results from the 540m to 580m levels returning a number of encouraging intercepts including **7.30m @ 15.12 g/t gold**, **3.05m @ 5.58 g/t gold** and **4.60m @ 5.57 g/t gold**. Sub-parallel drilling targeting deeper structures down to the 700m level was also completed, returning intercepts such as **28.5 metres @ 6.03 g/t gold**, **28.15 metres @ 6.81 g/t gold** and **23.00 metres @ 12.32g/t gold** from the existing Sarvisuo pipe cluster, whilst intercepts of **3.95 metres @ 4.61 g/t gold** highlighted new deeper mineralisation positions west of the existing pipe cluster. It is proposed that 8,000 metres of drilling, designed to further test the Sarvisuo depth extensions will be completed during 2010, the aim to define sufficient Resources and Reserves to justify the decline being extended below the 540m level.

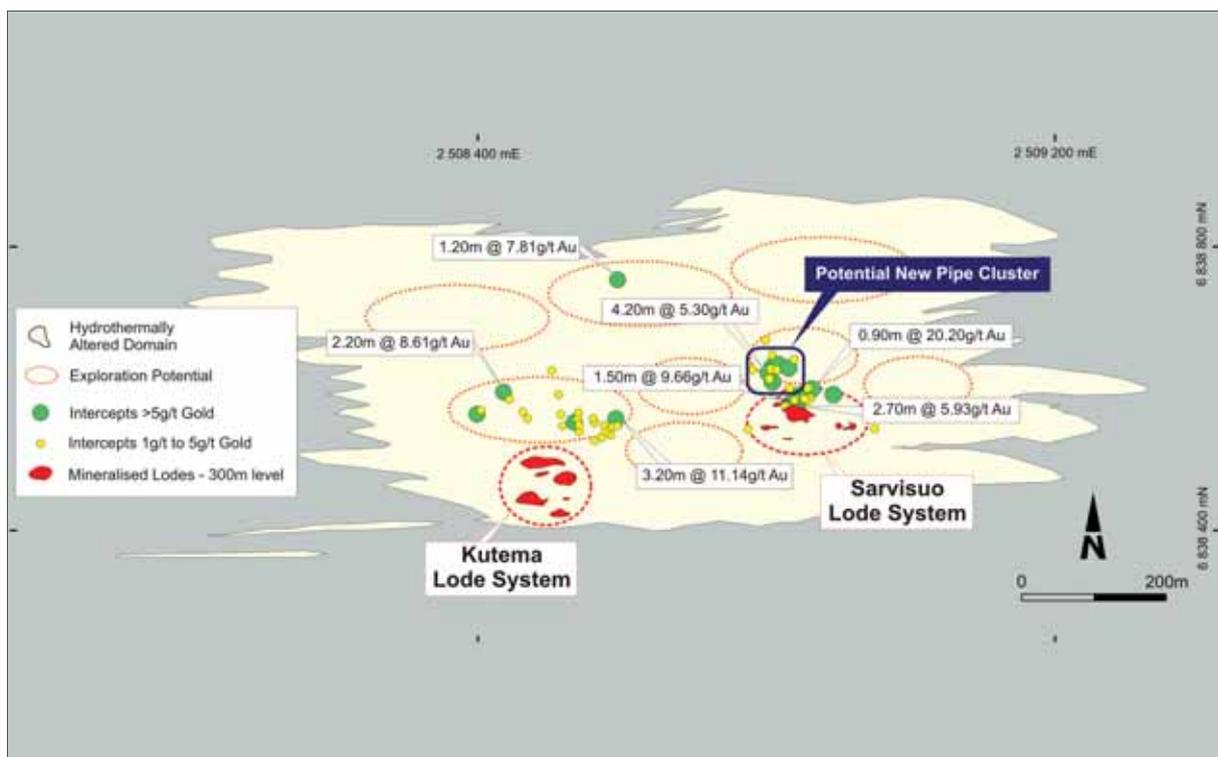
Holes designed to examine the potential for mineralisation to the north of the Sarvisuo lode system were completed from the 360m, 440m and 540m levels, returning a number of promising results including **4.20m @ 5.30 g/t gold**. The results obtained indicate the possible existence of a new mineralised pipe or pipe cluster only 40 metres away from the existing mine development.

It is planned to establish an exploration drift into this area from the 420m level, to serve as a station from which a fan drilling campaign will be completed in early 2010.

Kutema Deeps

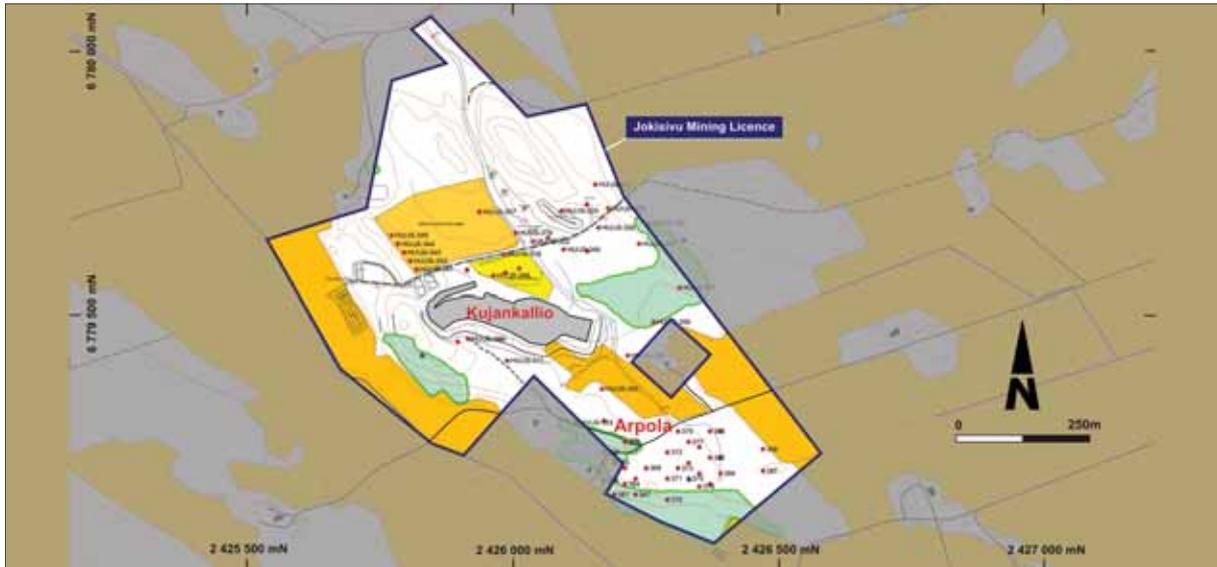
The 150,000 ounce resource for Kutema Deeps represents a substantial, medium to high grade depth extension below the existing underground mine that was developed down to the 720m level. Planning to deepen the mine to the 820m level continues to be considered. Beyond this, a significant amount of drilling is still required to accurately define the deeper portions of the Kutema Deeps resource, as well as assist with the overall interpretation of the lode structure.

Results from limited infill holes completed in 2009 continued to return promising results including intercepts such as **18.30m @ 6.10 g/t gold**.



Potential of the Orivesi Gold Mine Area

Jokisivu Gold Mine



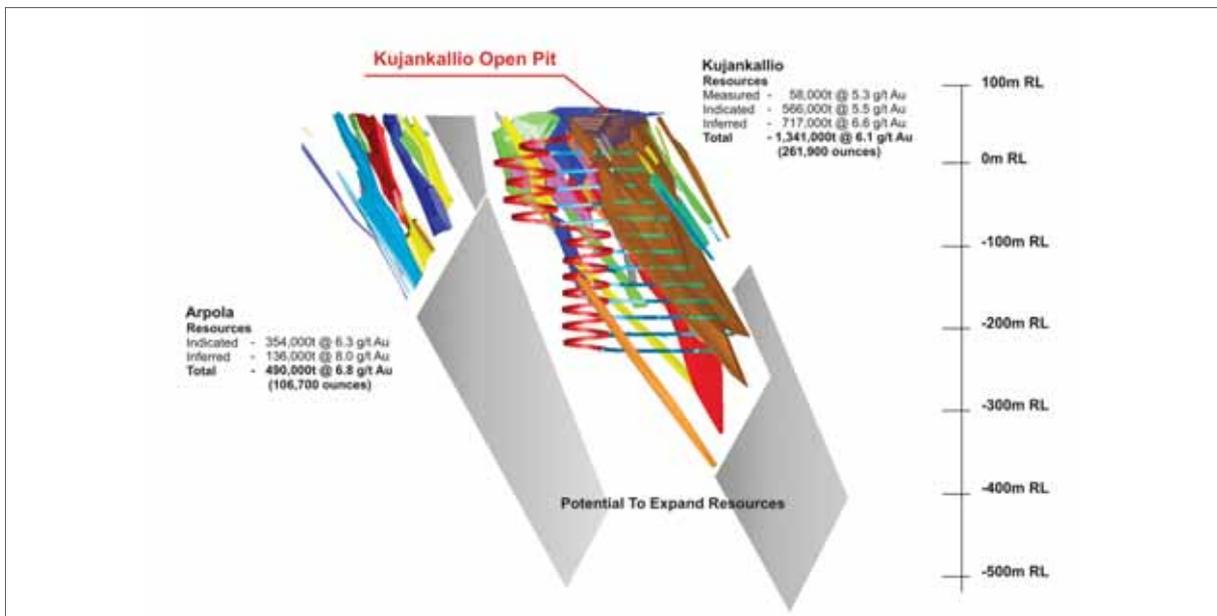
Jokisivu Gold Mine Layout

Drilling at Jokisivu continued in earnest during the year, with 76 diamond core holes completed (11,504.9 metres) targeting areas along the eastern portion and below the Kujankallio open pit, the area between Kujankallio and Arpola and Arpola itself. This activity has resulted in the total Mineral Resource inventory at Jokisivu increasing 12% to 368,000 ounces.

The Kujankallio resource update was prepared by independent consultants Runge Limited, increasing the Mineral Resource reported at a 2 g/t gold cut-off to **1.34Mt @ 6.1 g/t gold (261,900 ounces)** to a vertical depth of 440 metres, an increase of 43,600 ounces from the previous estimate. The Arpola resource is unchanged at **0.49Mt @ 6.8 g/t gold (106,700 ounces)** to a vertical depth of 200 metres. Drill core logging and assaying are currently in progress and a resource update for Arpola is scheduled for mid-2010.

To a depth of approximately 200 metres below surface the Jokisivu deposits display a combined inventory of 1,100 ounces per vertical metre (OVM). The continuity of the mineralising systems below this depth appears excellent and is currently only constrained by drilling density. Recent drilling has also indicated that the two deposits Arpola and Kujankallio may possibly converge.

A preliminary underground mine design has been completed for the Kujankallio deposit, which will form the basis for ongoing internal studies that will determine the viability of commencing an underground operation at Jokisivu. As open pit ore from Kujankallio is scheduled to be exhausted by the end of 2010, a transition from the Kujankallio open pit to an underground operation encompassing both the Kujankallio and Arpola deposits will require development to commence in the second half of 2010.



Jokisivu Gold Mine – Resource Potential of the Kujankallio and Arpola Deposits

Development Review

Vammala Nickel-Copper Project

The evaluation of the nickel-copper potential of the Vammala area commenced in 2007, primarily focussing on the historic Stormi and Ekojoki nickel-copper occurrences, which are located in the immediate vicinity of the Vammala Production Centre.

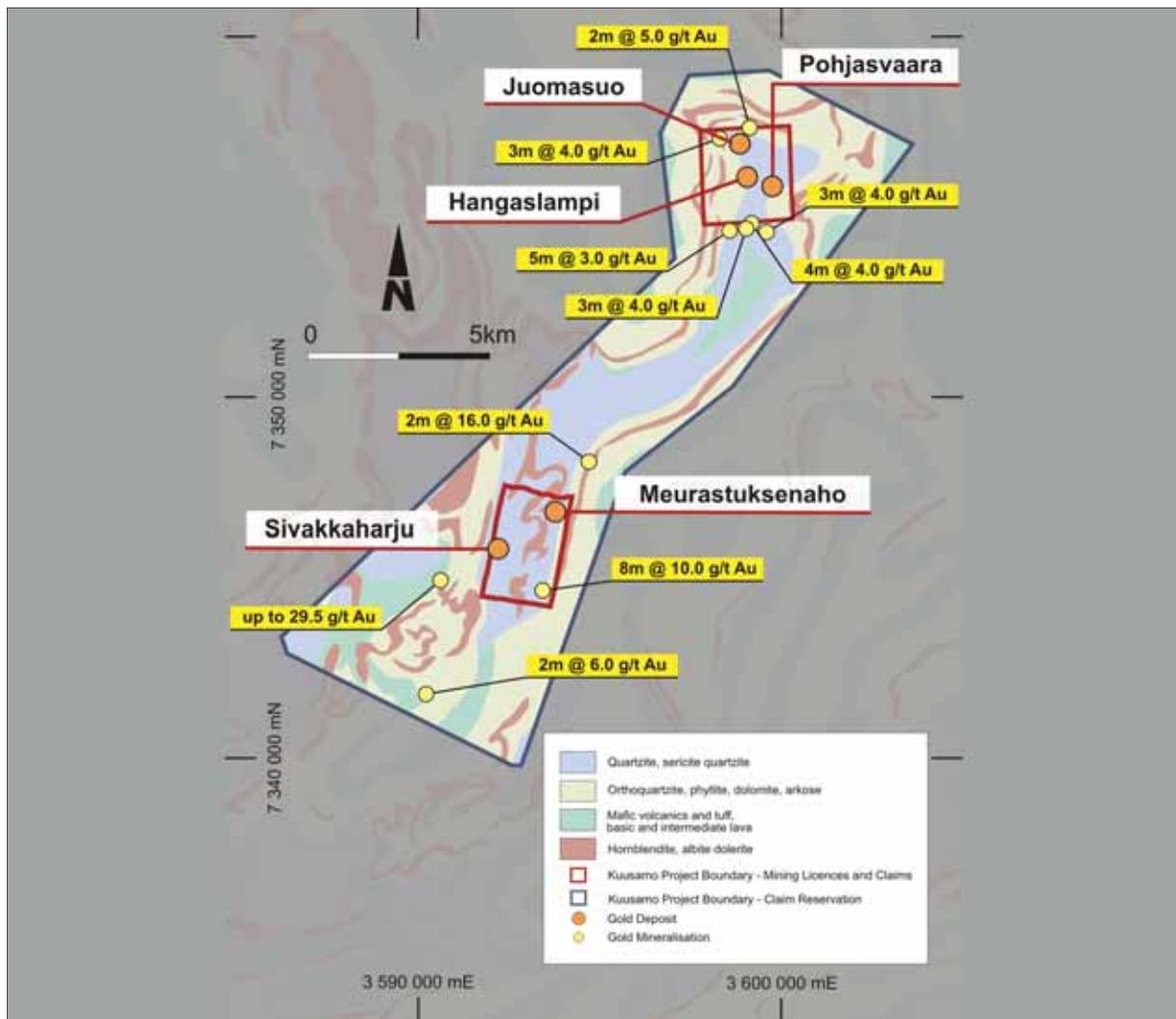
The Stormi Nickel-Copper Mine was operated by Outokumpu Oy between 1975 and 1995, producing a total of 7.5 million tonnes of ore grading 0.68% nickel and 0.43% copper. Ore was treated at the Vammala Production Centre yielding a total of 455,000 tonnes of nickel-copper concentrate.

The mineral resource estimate for the Stormi and Ekojoki nickel-copper deposits totals 2.7 million tonnes at 0.47% nickel and 0.35% copper. The resource is based on historical drilling data compiled by Dragon Mining from areas not previously mined at the Stormi nickel-copper deposit and the unmined Ekojoki nickel-copper occurrence.

Kuusamo Gold-Cobalt Project

The Kuusamo project is located in north-eastern Finland and is sited in the Proterozoic Kuusamo Schist Belt. The area hosts numerous small deposits and mineral occurrences, which are enriched in gold, cobalt, copper, uranium, rare earth elements (REE) and sulphides. Most of the discovered deposits and mineral occurrences are situated in the NE-trending Käylä-Konttiahö anticline. This highly prospective structure is about 35 kilometres long and 5 kilometres wide and cut by several fracture zones. The known lode systems appear to be near vertical and may have significant depth extensions, which to date have not been fully evaluated.

Work has continued on the re-evaluation of the known resources, whilst the merits of the surrounding area have resulted in Dragon Mining increasing its ground holding at Kuusamo.



Potential of the Kuusamo Gold-Cobalt Project



Exploration Review

Further advancement of exploration in areas proximal to Dragon Mining's two Production Centres and on its regional holdings returned a number of very promising results in 2009, highlighting the longer term growth potential of the project pipeline in both Sweden and Finland.

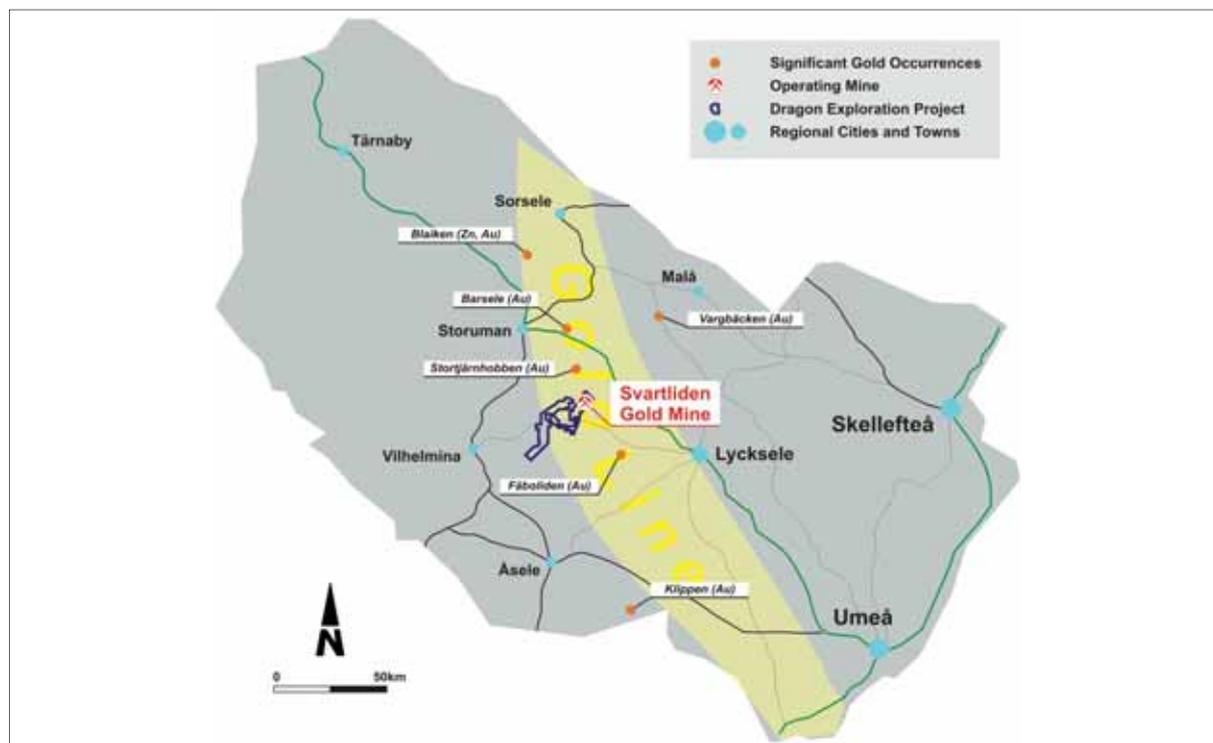


Exploration Review

Sweden

Svartliden Gold Mine - Regional

Dragon Mining holds Exploration Permits covering 181.8km² within 35 kilometres of the Svartliden Gold Mine, encompassing 50 kilometres strike of prospective Palaeoproterozoic meta-sediment-volcanic rock units. The area remains under-explored, the discoveries made to date representing a style of mineralisation previously not found in the broader region.



Location of the Svartliden Gold Mine and regional holding in the Västerbotten Region

Drilling of the far eastern strike extensions of the Svartliden host sequence continued into 2009, with the completion of a series of holes 300 metres east of the previous limit of drilling. Designed to examine a geochemical anomaly generated during 2008, the results of analysis for gold were disappointing, though low grade intercepts of zinc and silver of 5.00m @ 0.4% zinc and 9.00m @ 1.23 g/t silver from 61 metres in drill hole SV09181 warrant further review.

A small trenching program undertaken in the area of the peak MMI gold response ratio in the southeastern portion of the Svartliden West area returned an intercept of 5m @ 1.38 g/t gold from shallow percussion drilling. Follow-up diamond core drilling in early 2009 failed to return any gold results of significance greater than 1 g/t gold. This target is just one of many in the near mine area, with detailed geochemical surveys indicating that there are a number of zones of elevated gold identified from both MMI and bedrock chip surveys in the Svartliden West area and MMI surveys in the Tallberget area that warrant follow-up activities.

A single profile of shallow reconnaissance drill holes was completed across a strong bedrock chip gold anomaly west of the Svartliden open pit, whilst further bedrock chip geochemical drilling was undertaken in the Svartliden West and Tallberget areas late in 2009.

In conjunction with the exploration activities in the near mine areas, regional exploration activities commenced in 2008 with the completion of a 10,282 line kilometre detailed airborne geophysical survey over the entire exploration permit holding. Data from the survey was processed in late 2008 and interpretation completed in 2009. This work identified a number of areas with either magnetic or EM signatures or a combination of both that are analogous with the Svartliden geophysical signature.

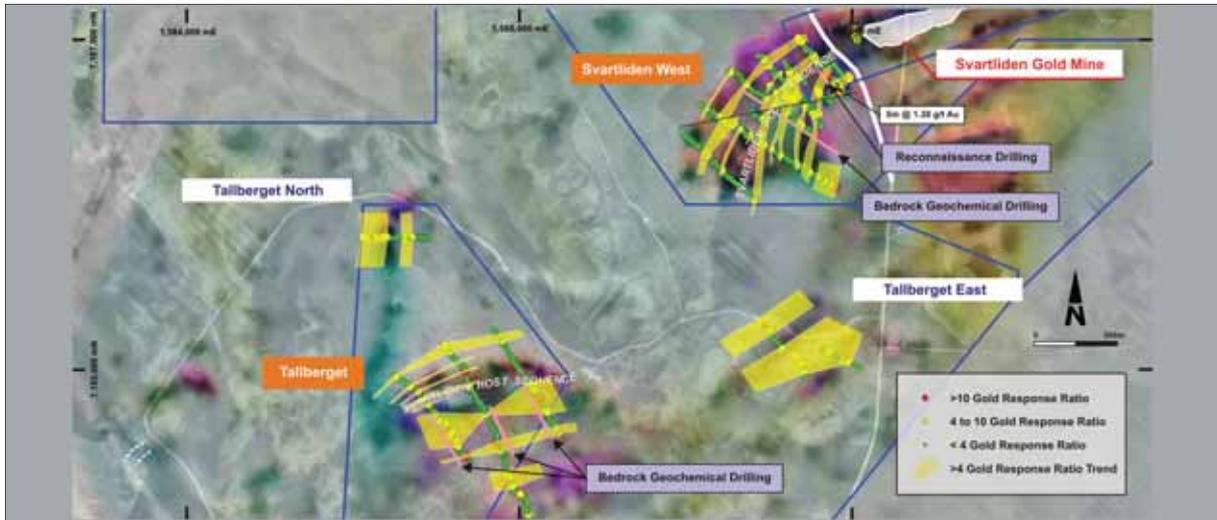
In conjunction with data from the previously broad spaced regional geochemical surveys, this new geophysical information has provided a platform from which regional exploration activities were accelerated, resulting in detailed MMI geochemical activities being completed across priority regional areas of interest, Alsträsket, Finnäs East, Finnäs, Risleden and Risleden West during the year. Final results have been received for these geochemical surveys, which are now subject to detailed interpretation.

The preliminary review of the new geochemical data indicates that the gold results from the Finnäs East prospect appear most encouraging. Though at levels lower than at other prospects, the consistency of the results across all profiles highlights the potential of this area. The results from Norrbäck SW were disappointing as anticipated due to the boggy nature of the terrain, the evaluation of the area requires the implementation of a bedrock geochemical drilling program to properly determine the merits of this target.

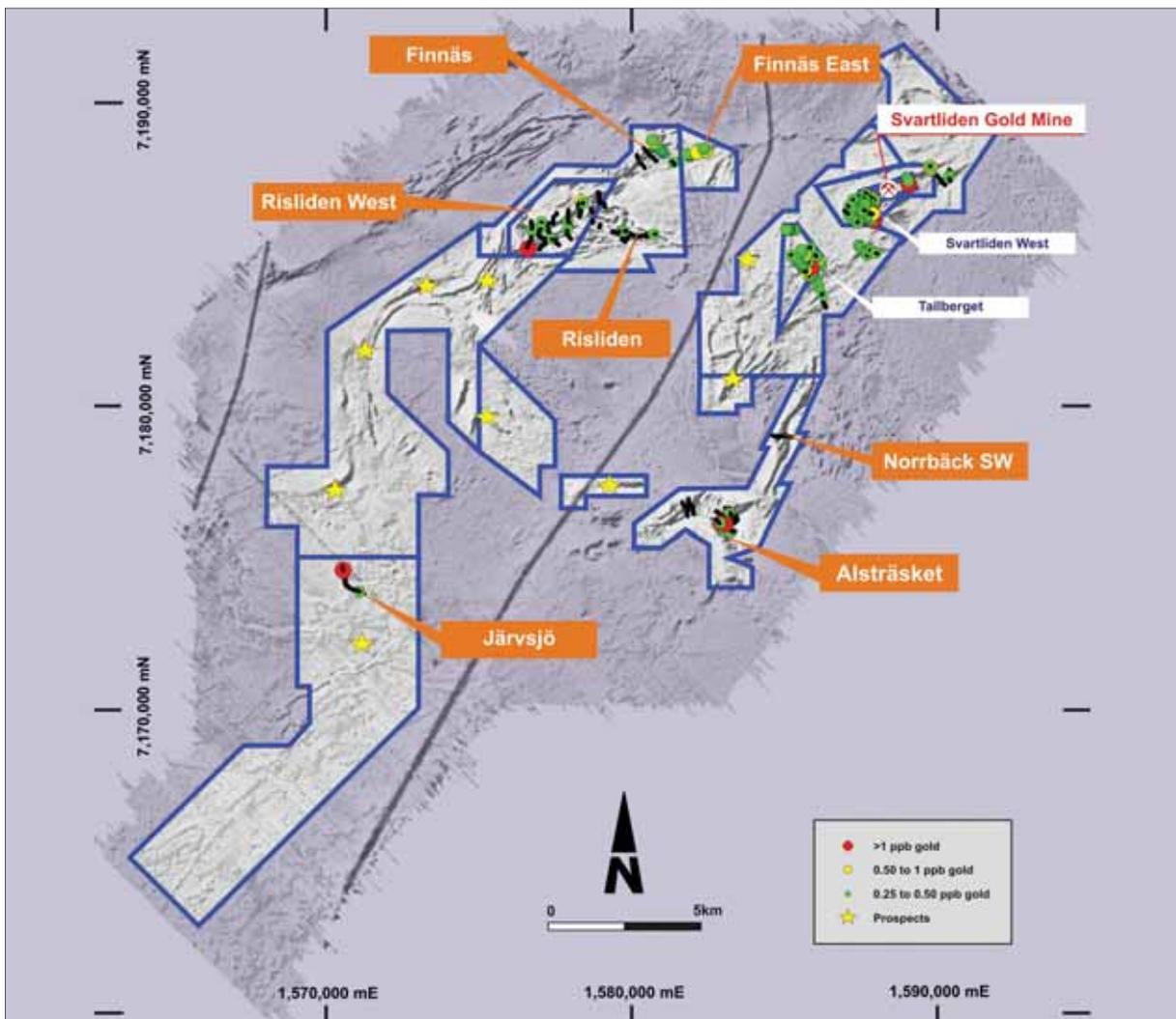
Gold results from the Alsträsket area were positive, returning the highest gold value obtained to date from MMI geochemical surveys. Results from the Risleden West area are spotty but encouraging, in particular towards the southern end, whilst the Risleden and Finnäs areas returned lower order results.

Sweden (continued)

Upon completion of the interpretation study, follow-up activities will be planned for the regional project, the results from Svartliden West, Tallberget, Alsträsket, Finnäs East and Risliden West warranting advancement of these areas through to drill status during 2010. Within the project area numerous other areas of interest remain untested, providing a strong pipeline of projects.



Near Mine Geochemistry Results



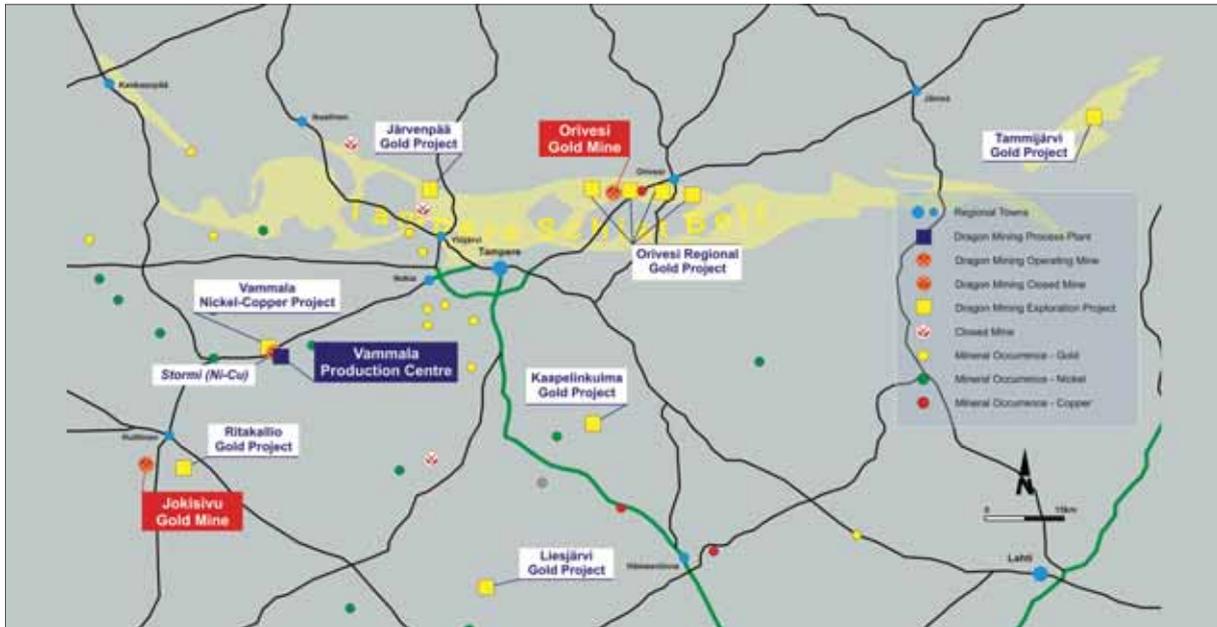
Active exploration areas in 2009, highlighting geochemical results.

Exploration Review

Finland

Southern Finland

Dragon Mining holds a portfolio of exploration tenements within 100 kilometres of the Vammala Production Centre, encompassing a portion of the prospective Tampere Schist and Vammala Migmatite Belts. These projects range from the advanced Kaapelinkulma Gold Project that possesses the potential to become Dragon Mining's third operating mine in Southern Finland, through to the early stage projects Orivesi Regional, Tammijärvi, Ritakallio, Järvenpää, and Liesjärvi.



Location of Projects in southern Finland

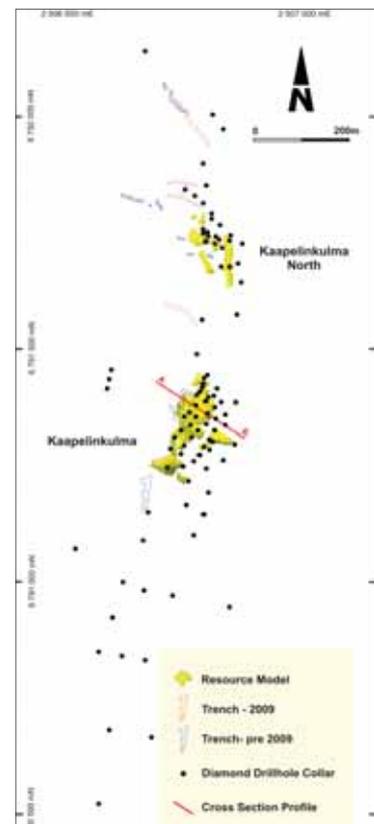
Kaapelinkulma Gold Project

Mineralisation at Kaapelinkulma is associated with a north-northwest trending shear zone, which has returned a number of encouraging intercepts including 4.55m @ 13.80 g/t gold, 4.00m @ 5.19 g/t gold and 9.95m @ 46.28 g/t gold. With the potential to become Dragon Mining's third operating gold mine in southern Finland, Kaapelinkulma currently hosts an Indicated and Inferred Resource of 161,000t @ 6.2 g/t gold (31,900 ounces). An application for a Mining Licence encompassing the known resources continued through the regulatory process, with the granting of the Licence anticipated in 2010.

Five new trenches were excavated during the year, designed to cover the strike extensions of the Kaapelinkulma and Kaapelinkulma North deposits. Shallow percussion drilling of these trenches returned a number of encouraging intercepts including 2.0m @ 1.89 g/t gold and 4.0m @ 1.63 g/t gold, both results from the trench to the immediate north of the Kaapelinkulma North deposit.

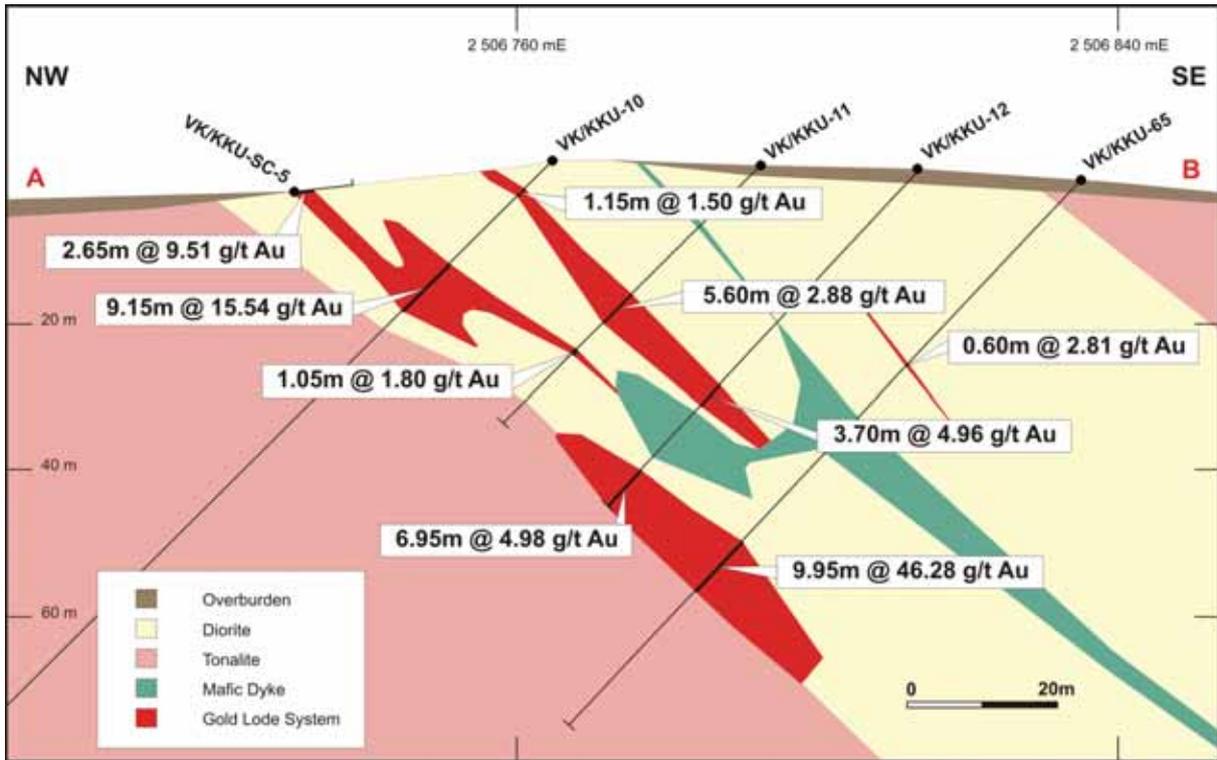
An aggressive diamond core drilling program has been designed to lift the confidence in the resource estimate in preparation for open pit mining of the Kaapelinkulma deposit. A total of 4,230 metres will be completed during this campaign, which commenced in January 2010. Holes have been designed to target open-pittable mineralisation down to a depth of 70 metres below surface, the potential below the open-pit area for depth extensions of known mineralisation and in-fill testing of strike extensions to the north and south.

Results from this program are expected by mid-2010 and a resource update in the second half of 2010.



Kaapelinkulma Project Plan

Finland (continued)



Kaapelinkulma Drill Hole Cross Section (A-B)

Orivesi Regional Gold Project

Though proximal to the Orivesi Gold Mine, exploration on the Orivesi Regional Claim holding remains at an early stage of systematic evaluation. A regional exploration program consisting of bedrock chip and basal till sampling was completed in 2008 across several prospects in this region, returning a highest gold content of 24.2ppb in bedrock chip samples and 9.55ppb in till samples. A detailed review of the geochemical results in early 2009 identified the best potential to host gold mineralisation is located east and southeast of Lake Iso-Teerijärvi.

Tammijärvi Gold Project

Since the 1940s exploration has been conducted in the Tammijärvi area, on the eastern side of the Päijänne Lake, following the discovery of boulders rich in arsenopyrite and chalcopyrite and significant amounts of tin and tungsten.

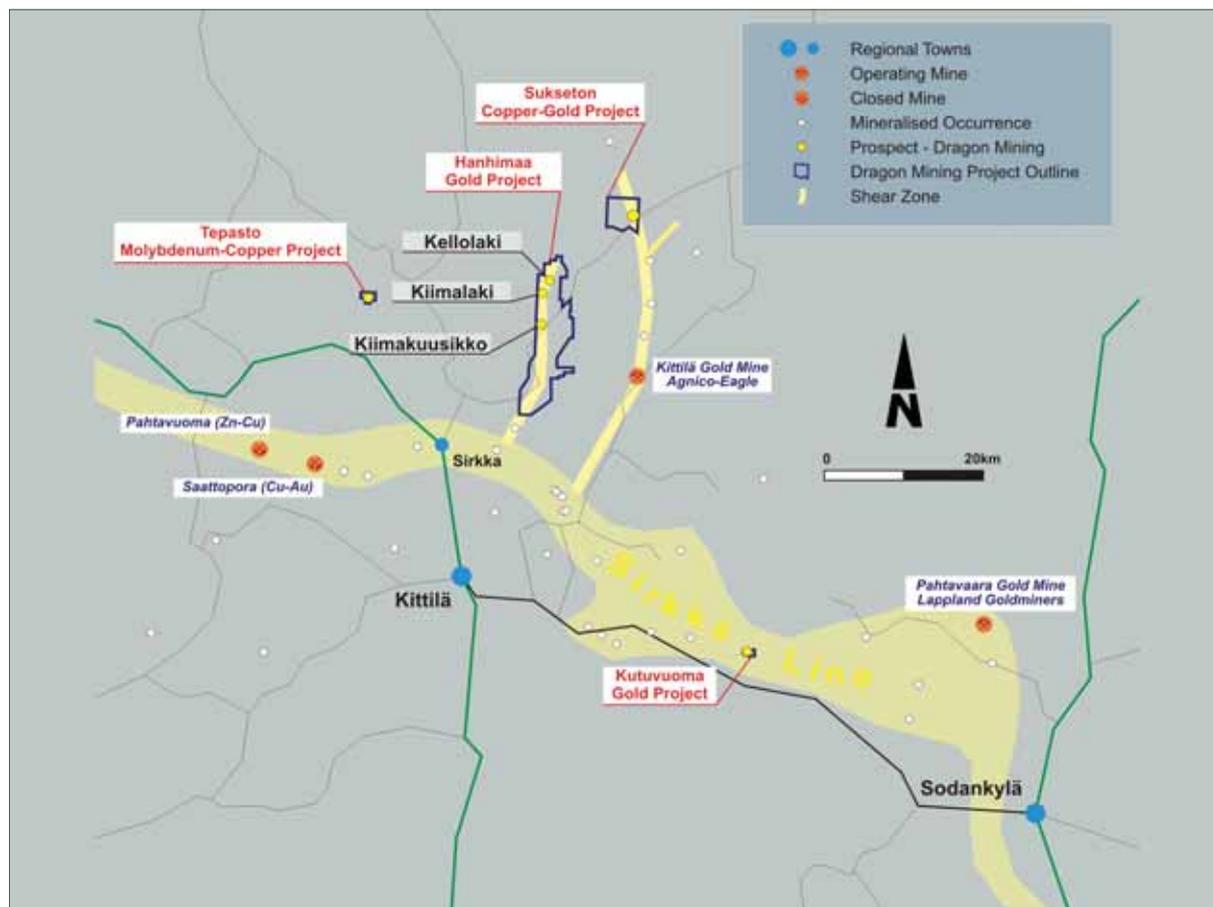
Results were received during the year for the heavy mineral samples collected from the Lepola area, returning generally low grades for gold. A detailed review of historic exploration data was conducted indicating that the area southwest of the previous exploration work is considered to possess the best potential for gold, copper and tungsten mineralisation and requires further testing.

Exploration Review

Finland (continued)

Northern Finland

Dragon Mining holds a portfolio of exploration tenements north of the Arctic Circle, encompassing highly prospective ground on and near the mineral rich Sirkka Line. This region is host to the company's principal early stage exploration project, Hanhima, that encompasses 20 kilometres of the Hanhima Shear Zone and the Sukseton, Tepasto and Kutuvuoma projects.



Northern Finland Projects

Hanhima Gold Project

The gold potential of the Hanhima Shear Zone was first identified in 2002 when indications of gold were found via geochemical sampling and trenching. Since then, three gold prospects – Kiimalaki, Kellolaki and Kiimakuusikko have been located within the 100-200 metre wide domain of strongly sheared and hydrothermally altered rocks, in the northern part of the more than 20 kilometre long, north-south trending structure. The Hanhima structure resembles the Kiistala Shear Zone 10 kilometres to the east, which hosts the 6 million ounce Kittilä Gold Mine and several other gold occurrences.

The exploration campaign instigated during 2007 continued into 2009 with further trenching, geochemical surveys and diamond core drilling.

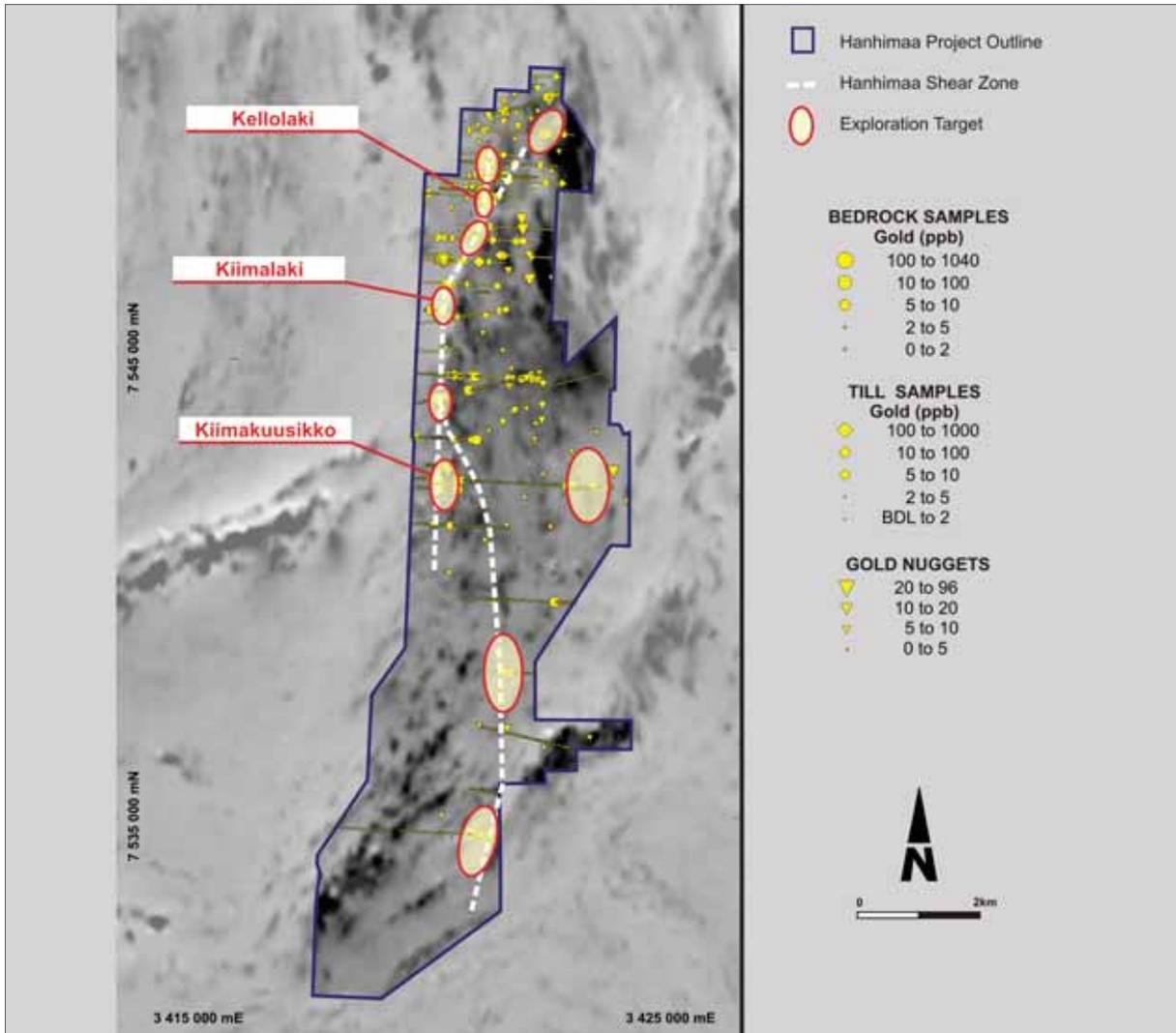
A trenching program in the Kiimakuusikko area was completed, with six trenches excavated over a total length of 480 metres. Results from a set of grab samples collected from the trenches returned a best gold grade of 2.18 g/t, whilst results from shallow percussion drilling returned a best result of 3.0m @ 2.36 g/t gold.

A total of 812 geochemical samples from 406 sample stations were collected, from 16 Profiles largely located in the southern half of the project area. Results have been received and are currently subject to interpretation.

A six hole (1,162 metres) diamond core drilling program testing an EM anomaly and a low magnetic zone, west of the Kiimalaki alteration zone was completed. The drilling program has provided valuable information on the geology of the targeted area, though failed to return any significant gold values.

Given the amount of work completed on the Hanhima project area since 2007, the project still remains at an early stage of systematic evaluation, a number of targets only partially tested. Efforts will continue to be directed towards the defining of the overall potential of the area, prior to focussing on the more encouraging prospects in order to establish a Resource inventory base from which the project can advance from exploration to operational status.

Finland (continued)



Hanhimaa geochemical results, highlighting identified exploration targets

Sukseton Gold-Copper Project

Dragon Mining holds 1,519 hectares of claims in the Sukseton area. Encompassing a portion of the Central Lapland Greenstone belt, this under-explored region is considered to be prospective for gold and base metals.

Previous exploration focused on base metals, the potential for gold not realised until the late 1980's with the discovery of a mineralised zone containing copper and gold, over 100 metres wide and along strike over several hundreds of metres. Historic drilling and trenching returned a number of encouraging results including, 2.20m @ 5.35 g/t gold and 4.60m @ 2.80 g/t gold in diamond drill core, and 2.50m @ 5.90 g/t gold from channel sampling.

Compilation of the historic exploration data from the Sukseton area has continued during the year. Historic activities include extensive till sampling, which defined several distinct gold anomalies, some of which remain untested. Further interpretation of the results will be conducted prior to the recommencement of exploration activities.

Kutuvuoma Gold Project

The Kutuvuoma Gold Project was previously explored between 1993 and 1998 and a portion of the Kutuvuoma deposit was mined by open pit methods between 1998 and 1999, with ore processed at the Pahtavaara Mine 30 kilometres to the east. It is estimated that during this period approximately 3,200 ounces of gold was produced.

A non-JORC (2004) compliant resource of 78,900t @ 7.3 g/t gold (18,500 ounces), prepared prior to the commencement of mining operation was estimated. The remaining resources remain open both along strike and with depth.

Compilation of the historic exploration data from Kutuvuoma area has continued during 2009. Extensive till sampling surveys have been conducted in the Kutuvuoma area, with a total of 1,524 till samples collected. The results highlight several gold anomalies, the most prominent gold anomaly being located above the known deposit, whilst some anomalies have not been tested by either trenching or drilling.

Exploration Review

Australia

Weld Range Metals Limited (40% Interest)

Dragon Mining announced during September 2009 that a 40% owned subsidiary, Weld Range Metals Limited ("Weld Range Metals") had moved to a 100% interest in the Weld Range tenements with the purchase of majority interests from the other joint venture partners.

The tenements which are known to host chromium, iron, nickel, cobalt and platinum group metals are located 70 kilometres northwest of Cue in the Murchison District, close to the centre of the new iron ore province in the Mid-West region of Western Australia.

Historical work on the tenements has been reappraised by independent consultants Snowden Mining Industry Consultants, resulting in an updated Inferred Resource estimate for the chromium rich portion of the laterite. The chromium Mineral Resource has been classified as Inferred in accordance with the 2004 JORC Code, based upon the geology, mineralisation interpretations and drill hole data. The Mineral Resource reported above a 4% chromium cut-off grade is **63.5Mt at 5.2% Cr, 38.1% Fe and 0.38% Ni** (Note 26).

The resources identified in the chrome mineralised area are near surface and amendable to bulk open cut mining. Snowden has reported a high grade zone (above a cut-off grade of 4.2% Cr) comprising 10.5 Mt with an average grade of 6.2% Cr, 45% Fe and 0.41% Ni, included within the total Inferred Mineral Resource. Approximately 86% of this high grade zone is from surface to a depth of 4 metres. A portion of this higher grade zone will provide plant feed for the first 10 to 20 years of the Project. Mining studies will be undertaken as part of a scoping study.

Weld Range Metals' plans to evaluate mining and processing of the chromium resources for vertically integrated production of refined stainless alloys as feed stock for stainless steel mills in Asia, Europe and the United States. Weld Range Metals has commenced a capital raising program to fund scoping and feasibility studies for the Weld Range Stainless Steel project.

Eritrea

Zara Joint Venture (20% Interest)

Dragon Mining hold a 20% interest in the Zara Joint Venture located in the northern highlands of Eritrea on the Zara River, approximately 160 kilometres northwest of the Eritrean capital Asmara. The project hosts the 944,000 ounce Koka Gold Deposit, which has been shown from an independent Scoping Study to potentially be a financially robust project based on a gold price of US\$800 per ounce. The Scoping Study estimated that the Koka Gold Project would have capital costs of US\$97.8 million and average cash operating costs of US\$424 per ounce over a project life of approximately six years, with annual production averaging approximately 110,000 ounces per annum.

In March 2010, Dragon Mining granted managers of the Joint Venture, Chalice Gold Mines Limited (Chalice) an option to purchase Dragon Mining's 20% interest for a total consideration of up to \$16.2 million.

Chalice can exercise the option at anytime up until 30 June 2010 by paying \$8 million cash and issuing to Dragon Mining 2 million Chalice shares with an escrow period of 12 months.

In addition, Chalice has agreed to pay a further \$4 million cash to Dragon Mining on the delineation of 1 million ounces of gold Reserves at the Zara Gold Project.



Health , Safety, Environment and Community Review

Dragon Mining has a commitment to ongoing development and improvement in the areas of corporate responsibility for health, safety, environment and community relations, over and above meeting regulatory and license requirements. Continual improvements within the fields of health, safety, and environment are achieved by working closely with stakeholders including employees, contractors, and local communities.



Health, Safety, Environment and Community Relations

Health

In addition to meeting the high standards of regulatory requirements at its operations for occupational health, Dragon Mining has a policy of encouraging involvement of all employees in developing health initiatives. Development of site specific health initiatives is seen as an important part in achieving continuing improvement in health management of Company workplaces.

Dragon Mining's health policy is built on two main pillars, physical health and psychological health. Both are interrelated and equally important in maintaining a robust and productive workforce. Significant steps have been taken to improve the working environment including organisational changes, individual development plans, systematic improvement work, health and safety training, management courses and annual medical checkups.

Safety

Dragon Mining is committed to creating and maintaining a safe environment at the workplace.

At each site, the safety of personnel and local communities are of fundamental concern to Dragon Mining. The Company seeks to conduct both exploration and operations in an efficient and effective manner whilst providing:

- ◆ A healthy and safe workplace;
- ◆ Information on the hazards of the workplace and training on how to work safely; and
- ◆ Consultation at all staff levels on health and safety matters.

No employee is expected to carry out work they reasonably consider to be unsafe.

In Sweden and Finland, management has developed a workplace safety culture that thoroughly engages the entire workforce, not just management and safety professionals. The Company recognises that best safety practice is not just compliance with regulatory standards and rigorous safety monitoring, but is dependant on all employees embracing responsibility for work place safety culture.

Workplace training can develop what safety professionals refer to as 'conscious competence' in a Company's workforce that results in a high level of safety. However it is possible to go further if training is coupled with the acceptance of a workplace culture of individual commitment resulting in automatic analysis of risk and implementation of risk minimisation strategies at a personal level.

Dragon Mining sees development of workplace safety as a process of continual optimisation and improvement. In Sweden, a major overhaul of the safety management processes and reporting was completed and implemented during the year which is a requirement of the European Seveso directive, a European Union law aimed at improving the safety of sites containing large quantities of dangerous substances. A continuation of this work has resulted in increased safety training on site, improved incident reporting, heightened safety awareness, and updated work procedures.

One of Dragon Mining's primary goals for 2010 is to integrate continual risk assessment into daily work practices and make risk assessment a natural part of working at all operations.

Dragon Mining Sweden has nominated a key group of employees to the Swedish Association of Mines, Minerals, and Metal Producers (SveMin) - Annual Work Place Health and Safety Award. This group of employees has been central in progressing workplace health and safety during 2009 and the company is proud to recognise their efforts. In addition the Company is active in branch wide workplace health and safety initiatives, and represents Sweden's smaller mining companies on SveMin's WHS committee.

Environmental Management

Dragon Mining operates in three national regulatory environments and the supra-national regime of the European Union. While compliance with these regulatory environments and specific operational licence conditions are the basis of the Company's environmental management procedures, Dragon Mining is committed to the principle of developing and implementing best applicable practices (BAP) in environmental design and management.

In Sweden a new Environmental Impact Study (EIS) for the entire Svartliden operation has been performed during 2009 as part of the application for a new operating licence that includes underground mining. This EIS and related field studies has provided a detailed comparison to base line measurements taken during the projects feasibility study and confirms the low, almost imperceptible, impact of the mine site on the surrounding environment.

The Company has developed operations that embrace best applicable environmental design and management. Significant aspects of the Svartliden Gold Mine that illustrate BAP principles include:

- ◆ Best possible integration of the site's natural characteristics with the design of the project. The project is located in a shallow valley. A compact footprint has been designed in sympathy with the morphology and hydrology of the site. This enables both the natural and process water flows to be controlled and in the case of the process water, contained;
- ◆ Integration of the tailings storage facility with the waste rock storage provides optimal arrangement not only during operation but in the eventual decommissioning scenario;
- ◆ Characterisation of the ore and all waste materials prior to and during mining enables optimal handling and storage design;
- ◆ Instrumentation and monitoring of waste rock and tailings storage provides feedback into ongoing optimisation of site practices;
- ◆ The project recycles more than 90% of its process water;

Health, Safety, Environment and Community Relations

Environmental Management (continued)

- ◆ Progressive rehabilitation is performed in parallel to production to minimise final rehabilitation requirements and reduce total environmental impact;
- ◆ The eventual decommissioning has been incorporated into the design of the project to ensure that post mining, the site can ultimately be returned to an environmentally stable state;
- ◆ The project's environmental performance is not only subject to regular reporting and review by regulators but also to independent audit; and
- ◆ Long term plans to accommodate future reserves include use of the open pit for tailings storage, tailings backfill in the underground mine, water treatment for suspended metals and de-nitrification of water in the tailings storage facility.

Significant aspects of the Finnish operations that illustrate BAP principles include:

- ◆ Make up process water for the Vammala Plant is obtained from the old underground mining areas. Process water is discharged into the tailings dam and recycled to the plant;
- ◆ Excess water from the tailings dam is regularly sampled and monitored and returned to the old mine;
- ◆ Water is collected, treated and discharged into the local water course from the Orivesi Gold Mine conforming with discharge standards;
- ◆ All surface drainage water from the Vammala Plant is collected and pumped to the process water circuit; and
- ◆ Noise levels of mining at the Vammala Production Facility and the Orivesi Gold Mine are continually measured to ensure they are within the permitted levels.

The Company also seeks to contribute to the broader aspirations of mining companies and regulators in its operational theatres by participating in the dissemination and exchange of data and information in both formal and informal forums.



Health, Safety, Environment and Community Relations

Community Relations

Dragon Mining recognises that its operations involve a range of community stakeholders in addition to its workforce. All facets of the Company's activities are carried out in consultation with other nearby land users and community organisations representing a wide range of local communities and organisations.

The Company is seeking to maintain dialogue between stakeholders and the Company operations. The many issues that are being successfully addressed include:

- ◆ Establishing a dialogue with indigenous persons in conjunction with the County Administration Board;
- ◆ Management of the impact on hunting ranges;
- ◆ Snow mobile access around the perimeter of the mine site; and
- ◆ Local road maintenance.

Dragon Mining continues to develop community relations around its operations in order to maximise the benefits with a wide range of local communities, organisations and individual landowners.





Reserves & Resources

Resources - Gold

Area	Project	Classification	Tonnes	Gold (g/t)	Gold (ounces)
SVARTLIDEN	Open Pit (1)	Measured	429,000	3.3	45,500
		Indicated	431,000	3.2	43,800
		Inferred	34,000	2.5	2,700
		Total	894,000	3.2	92,000
	Underground (2)	Indicated	259,000	7.2	59,700
		Inferred	53,000	6.8	11,700
		Total	312,000	7.1	71,400
	Stockpiles (3)	Measured	42,000	3.6	4,900
		Indicated	286,000	1.8	16,900
		Total	328,000	2.2	21,000
	Total	Measured	471,000	3.3	50,400
		Indicated	976,000	3.8	120,400
		Inferred	87,000	5.1	14,400
Total		1,534,000	3.8	185,200	
VAMMALA	Orivesi – Kutema Pillars (4)	Indicated	92,200	3.4	10,000
		Total	92,200	3.4	10,000
	Orivesi – Kutema Deeps (5)	Indicated	310,400	5.1	50,800
		Inferred	515,000	6.0	100,100
		Total	825,400	5.7	150,900
	Orivesi – Sarvisuo Lodes (6)	Measured	148,000	8.0	38,100
		Indicated	90,000	5.9	17,000
		Inferred	55,000	7.8	13,600
		Total	292,000	7.3	68,700
	Jokisivu – Kujankallio (7)	Measured	58,000	5.3	9,800
		Indicated	566,000	5.5	100,000
		Inferred	717,000	6.6	152,100
		Total	1,341,000	6.1	261,900
	Jokisivu – Arpola (8)	Indicated	354,000	6.3	71,700
		Inferred	136,000	8.0	35,000
		Total	490,000	6.8	106,700
	Kaapelinkulma (9)	Indicated	78,000	8.4	21,000
Inferred		83,000	4.1	10,900	
Total		161,000	6.2	31,900	
Total	Measured	206,000	7.2	47,900	
	Indicated	1,490,600	5.7	270,600	
	Inferred	1,506,000	6.4	311,700	
	Total	3,202,600	6.1	630,200	

Resources - Gold (continued)

Area	Project	Classification	Tonnes	Gold (g/t)	Gold (ounces)
KUUSAMO	Juomasuo (10)	Inferred	779,000	4.2	105,200
		Total	779,000	4.2	105,200
	Hangaslampi (11)	Inferred	176,000	6.0	34,000
		Total	176,000	6.0	34,000
	Pohjasvaara (12)	Inferred	82,000	3.2	8,400
		Total	82,000	3.2	8,400
	Meurastuksenaho (13)	Inferred	284,000	2.3	21,000
		Total	284,000	2.3	21,000
	Sivakkaharju (14)	Inferred	28,000	11.3	10,200
		Total	28,000	11.3	10,200
	Total	Inferred	1,349,000	4.1	178,800
		Total	1,349,000	4.1	178,800
	Scandinavian Total	Measured	677,000	4.5	98,300
		Indicated	2,466,600	4.9	391,000
Inferred		2,942,000	5.3	504,900	
Total		6,085,600	5.1	994,200	
ZARA JV (DRAGON - 20% INTEREST)	Koka (15)	Indicated	4,550,000	5.9	867,000
		Inferred	490,000	4.9	77,000
		Total	5,040,000	5.8	944,000
	Total	Measured			
		Indicated	4,550,000	5.9	867,000
		Inferred	490,000	4.9	77,000
		Total	5,040,000	5.8	944,000
	Group Total*	Measured	677,000	4.5	98,300
Indicated		3,376,600	5.2	564,400	
Inferred		3,040,000	5.3	520,300	
Total		7,093,600	5.2	1,183,000	

* Group Total includes 20% of the Zara JV Total

Reserves - Gold

Area	Project	Classification	Tonnes	Gold (g/t)	Gold (ounces)	
SVARTLIDEN	Open Pit (16)	Proved	176,900	4.2	23,600	
		Probable	273,400	3.0	26,800	
		Total	450,300	3.5	50,400	
	Stockpiles (17)	Proved	42,000	3.6	4,900	
		Probable	-	-	-	
		Total	42,000	3.6	4,900	
Total Ore Reserves			492,300	3.5	55,300	
VAMMALA	Orivesi – Sarvisuo (18)	Proved	-	-	-	
		Probable	105,200	5.9	20,000	
		Total	105,200	5.9	20,000	
	Orivesi – Kutema (19)	Proved	-	-	-	
		Probable	3,700	6.6	800	
		Total	3,700	6.6	800	
	Jokisivu - Kujankallio (20)	Proved	56,000	5.3	9,500	
		Probable	33,500	4.9	5,300	
		Total	89,500	5.2	14,800	
	Total Ore Reserves			198,400	5.6	35,600
	Group Total	Proved	274,900	4.3	38,000	
		Probable	415,800	3.9	52,900	
Total		690,700	4.1	90,900		

Resources - Other Metals

Area	Project	Classification	Tonnes	Nickel (%)	Copper (%)
VAMMALA	Stormi (21)	Measured			
		Indicated			
		Inferred	1,600,000	0.40	0.30
		Total	1,600,000	0.40	0.30
	Ekojoki (22)	Measured			
		Indicated			
		Inferred	1,096,000	0.50	0.40
		Total	1,096,000	0.50	0.40
	Vammala Total	Measured			
		Indicated			
		Inferred	2,696,000	0.47	0.34
		Total	2,696,000	0.47	0.34

Area	Project	Classification	Tonnes	Nickel (%)	Copper (%)	Cobalt (%)	Palladium (g/t)	Platinum (g/t)
KUHMO JV (DRAGON - 5% INTEREST)	Vaara (23)	Measured						
		Indicated	7,502,000	0.32	0.02	0.01	0.15	0.07
		Inferred	739,000	0.27	0.02	0.01	0.11	0.07
		Total	8,241,000	0.32	0.02	0.01	0.14	0.07
	Peura-aho (24)	Measured						
		Indicated	405,000	0.63	0.29	0.04	0.62	0.28
		Inferred	90,000	0.48	0.23	0.03	0.42	0.21
		Total	495,000	0.60	0.27	0.04	0.58	0.27
	Hietaharju (25)	Measured						
		Indicated	848,000	0.85	0.44	0.06	1.25	0.53
		Inferred	235,000	0.59	0.27	0.04	0.89	0.34
		Total	1,083,000	0.80	0.40	0.05	1.17	0.49
	Vammala Total	Measured						
		Indicated	8,755,000	0.39	0.08	0.02	0.27	0.13
		Inferred	1,064,000	0.36	0.09	0.02	0.31	0.14
		Total	9,819,000	0.38	0.08	0.02	0.28	0.13

Reserves & Resources

Notes

(1)	<p>This Mineral Resource Statement has been compiled in accordance with the guidelines defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code, 2004 Edition).</p> <p>All information in this Statement which relates to Mineral Resources is based on, and accurately reflects reports prepared by the persons named below. All of the persons listed are Members of the Australasian Institute of Mining and Metallurgy or the Australian Institute of Geoscientists and have the necessary experience relevant to the style of mineralisation, the type of deposit and the activity undertaken to qualify as a 'Competent Person' under the JORC Code, 2004.</p> <p>Svartliden Drill hole Database and Geology – Neale Edwards, Chief Geologist, Dragon Mining Limited Svartliden Resource Estimate - Ingvar Kirchner, Manager Resource Geology, West Perth, Coffey Mining Ltd</p> <p>Each of the Competent Persons has given their consent for the inclusion of the material in the form and context in which it appears.</p>
(3, 16, 17)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Neale Edwards BSc (Hons), a Member of the Australian Institute of Geoscientists, who is a full time employee of the company and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Person as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mr Neale Edwards consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.</p>
(2, 4 to 7, 9, 21, 22)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Paul Payne BAppSc, a Member of the Australian Institute of Mining and Metallurgy, who is a full time employee of Runge Limited and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mr Paul Payne consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.</p>
(8)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Ms Ivy Chen BSc (Hons) in 2005. Ms Ivy Chen, a Member of the Australian Institute of Mining and Metallurgy, was then a full time employee of Maxwell Geoservices Pty Ltd and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Person as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. The Arpola Mineral Resource remains unchanged since that date. Maxwell Geoservices Pty Ltd has verified the form and context in which the information regarding the Arpola Mineral Resource has been used and considers it to be consistent with the original work undertaken in 2005.</p>
(10, 11)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Esa Sandberg, formerly of Outokumpu Mining Services. The Juomasuo and Hangaslampi Mineral Resources has remained unchanged since estimation.</p> <p>Mr Neale Edwards BSc (Hons), a Member of the Australian Institute of Geoscientists and Mr Urpo Kuronen MSc (Geology), a Member of the Australian Institute of Mining and Metallurgy, who are full time employees of the company and have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mr Neale Edwards and Mr Urpo Kuronen have verified the form and context in which the information regarding the Juomasuo and Hangaslampi Mineral Resources have been used and consider it to be consistent with the original work undertaken.</p>
(12 to 14)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Jarmo Lahtinen and Rauno Hugg both formerly of Outokumpu Finmines. The Pohjasvaara, Meurastuksenaho and Sivakkaharju Mineral Resources has remained unchanged since estimation.</p> <p>Mr Neale Edwards BSc (Hons), a Member of the Australian Institute of Geoscientists and Mr Urpo Kuronen MSc (Geology), a Member of the Australian Institute of Mining and Metallurgy, who are full time employees of the company and have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mr Neale Edwards and Mr Urpo Kuronen have verified the form and context in which the information regarding the Pohjasvaara, Meurastuksenaho and Sivakkaharju Mineral Resources have been used and consider it to be consistent with the original work undertaken.</p>
(15)	<p>The information in this report that relates to the Mineral Resource is based on information compiled by Brian Wolfe, who is a Member of the Australasian Institute of Mining and Metallurgy. Brian Wolfe is an employee of Coffey Mining Ltd. Brian Wolfe has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and for the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, mineral Resources and Ore Reserves – The JORC Code". Brian Wolfe consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.</p>
(18 to 20)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Neale Edwards BSc (Hons), a Member of the Australian Institute of Geoscientists and Mr Urpo Kuronen MSc (Geology), a Member of the Australian Institute of Mining and Metallurgy, who are full time employees of the company and have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mr Neale Edwards and Mr Urpo Kuronen consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.</p>
(23 to 25)	<p>The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information as lodged with the ASX on 23 October 2009 by Vulcan Resources Limited "Increase in Kuhmo Nickel Project Resources: Now a Significant Emerging Nickel Province". These resources have been reported according to the Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 JORC Code). The Resource estimates are based on information compiled and reviewed by Dr Alistair Cowden BSc (Hons), PhD, MAusIMM, MAIG; Mr Jarmo Vesanto, MSc (Geology), MAusIMM and Mr Jani Impola, MSc (Geology), MAusIMM, all of whom have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Dr Alistair Cowden, Mr Jarmo Vesanto and Mr Jani Impola consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.</p>
(26)	<p>The Mineral Resource statement has been prepared by Mrs Christine Standing of Snowden Mining Industry Consultants. Mrs Christine Standing is a member of The Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves. Mrs Christine Standing has consented to the inclusion in this report of the Mineral Resource statement based on her information in the form and context in which it appears.</p>



Financial Report

Directors' Report

Your Directors submit the report on the consolidated entity (referred to hereafter as the "Dragon Mining" or the "Group") consisting of Dragon Mining Limited and the entities it controlled at the end of or during the year ended 31 December 2009.

Corporate Information

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

Directors

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

Andrew Edward Daley

*BSc (Hons), Grad Dip (Geo Sc), C. Eng, FAusIMM, MIOM3.
Non-Executive Chairman*

Mr. Daley was appointed as a Non Executive Director on 2 March 2005 and Non Executive Chairman on 20 March 2006. He is a mining engineer and worked initially for Anglo American and Rio Tinto in Africa before moving to Australia in 1981. Moving into the resource finance sector in the mid 1980s he held executive roles in the National Australia Bank, Chase Manhattan and Barclays Capital, in Australia and UK. After returning to Australia in 2003 he was, until recently, a Principal in a boutique resource finance advisory group in Melbourne. He is also Non-Executive Chairman of Uranex NL (appointed as a Non-Executive Director in November 2007 and Chairman in November 2009), a Non Executive Director of PanAust Limited (appointed August 2004), and Kentor Gold Limited (appointed November 2004), all ASX listed.

In the past three years he has also been a director of AIM-listed companies Gladstone Pacific Nickel Limited (appointed February 2005 and resigned December 2007) and Minerva Resources Plc (appointed July 2007 and resigned July 2009).

Mr Daley is a member of the Audit and Risk Management Committee and the Remuneration and Nomination Committee.

Peter George Cordin

*BE, MIEAust, CPEng, FAusIMM (CP).
Managing Director and Chief Executive Officer*

Mr Cordin was appointed Managing Director on 20 March 2006. He is a civil engineer with more than 35 years experience in the evaluation and operation of resource projects within Australia and overseas. He has direct experience in the construction and management of diamond and gold operations in Australia and Indonesia. Mr Cordin was Managing Director of Grant's Patch Mining Limited (100,000 ounces gold per year production) and was Director – Operations of Forsyth NL, responsible for all group operations in Australia involving the annual production of 320,000 ounces of gold from five mines. More recently he was involved in the development of resource projects in Kazakhstan and New Caledonia.

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

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

Michael Dylan Naylor

*BComm, CA, ACIS.
Finance Director*

Mr Naylor was appointed Finance Director on 1 July 2008. He has been the Chief Financial Officer of the Company since May 2006 and was joint Company Secretary between 4 July 2007 and 1 July 2008. Mr Naylor is a Chartered Accountant and Chartered Secretary with 14 years of resources related financial experience in Australia, Canada, Europe and Africa. Prior to his involvement with Dragon Mining, Mr Naylor was the Financial Controller of an ASX-listed company with extensive gold operations in Australia and Africa, and held senior management positions in both Perth and Toronto with a major international accounting firm.

Toivo Tapani Järvinen

*Lic. Tech.
Non-Executive Director*

Mr Järvinen was appointed a Non-Executive Director on 22 December 2003. Mr Järvinen was employed by the Outokumpu Group from 1985 until October 2006 and was a member of the Outokumpu Group Executive Committee and President of Outokumpu Technology. Until his retirement on 31 December 2009, he was President and CEO of Outotec Oyj (appointed October 2006), a publicly listed company on the OMX Nordic Exchange Helsinki.

Mr Järvinen is a Board member of International Copper Association Ltd (appointed October 1995), Normet Oy (appointed March 2007), the Association of Finnish Steel & Metal Producers (appointed December 2006), Chairman of the Board of the Finnish-Latin American Trade Association (appointed November 2003), Okmetic Oyj, a publicly listed company on the OMX Nordic Exchange Helsinki (appointed March 2008), Konecranes Plc, a publicly listed company on the NASDAQ OMX Helsinki (appointed March 2009), Chairman of the Cleantech Finland Business Forum (appointed September 2009), Chairman of Laatukeskus Excellence Finland Oy (appointed March 2009) and Chairman of the Industry Council of Technology Academy of Finland (appointed October 2009).

Directors' Report

Directors (continued)

Dr Markku Juhani Mäkelä

Prof PhD

Non-Executive Director

Professor Mäkelä was appointed a Non-Executive Director on 13 November 2008. He majored in geology and mineralogy at the University of Helsinki and holds over 38 years experience from a variety of scientific, operational and administrative activities in the economic geological and mining sector in Finland and globally, latest as a Director of the Geological Survey of Finland (GTK) until his retirement in October 2008. Prior to joining GTK in 1994, Dr. Mäkelä spent six years as a Technical Manager and Alternate Director of the UN Revolving Fund for Natural Resources Exploration and he remains a member of the UN Committee on Energy and Natural Resources for Development.

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

Peter Lawson Munachen

FCA

Non-Executive Director

Mr Munachen was appointed a Non-Executive Director on 24 March 2005. Mr Munachen is a Fellow of the Institute of Chartered Accountants of Australia and a Fellow of the Australia Institute of Company Directors. He has 37 years corporate and administration experience in mineral and hydrocarbon resources companies. He has served as a director or officer of a number of listed companies specialising in corporate finance and project acquisition.

He is currently CEO of ASX listed Norwest Energy NL (appointed November 2003 and as CEO December 2008), a Non-Executive Director of Currie Rose Resources Inc (appointed April 2005) which is listed on the Toronto Stock Exchange (TSX).

He was formerly a Director of Pancontinental Oil & Gas NL (appointed February 1991, resigned 5 January 2009), Sub-Sahara Resources NL (appointed April 2004 and resigned August 2009) and Newland Resources Ltd (appointed August 2001 and resigned October 2009).

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

Christian Russenberger

BBA

Non-Executive Director

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

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

Peter Lynton Gunzburg

BComm

Non-Executive Director

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

Mr Gunzburg was appointed Executive Chairman of Eurogold Limited in September 2001. Mr Gunzburg was appointed Chairman of Fleetwood Corporation Limited on February 2002 however has now stepped down from that role and is a Non-Executive Director, appointed Chairman of PieNetworks Limited on April 2002 and appointed Non-Executive Director of AIM listed Brinkley Mining Plc on September 2009.

He was formerly a Non-Executive Director of AIM listed Matra Petroleum PLC (appointed July 2006 and resigned September 2009) and Non-Executive Director of Strike Oil Limited (appointed October 2006 and resigned 16 December 2008).

Company Secretary

Pauline Anne Collinson

Mrs Collinson was appointed Company Secretary on 4 July 2007. She is also Company Secretary of ASX-listed Eurogold Limited and has over 25 years of experience in the mining industry.

Directors' Report

Interests in the Shares and Options of the Company

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

	Ordinary Shares		Options		Convertible Notes	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
AE Daley	-	310,000	2,000,000	-	-	70,000
PG Cordin	-	3,000,000	4,000,000	-	-	-
MD Naylor	-	447,500	1,000,000	-	-	11,500
TT Järvinen	-	-	1,000,000	-	-	-
MJ Mäkelä	-	-	-	-	-	-
PL Munachen	-	-	1,000,000	-	-	-
C Russenberger	-	-	-	-	-	-
PL Gunzburg*	-	101,048,721	-	-	-	50,000

*Mr Gunzburg is a Director of ASX listed Eurogold Limited and AIM listed Brinkley Mining PLC, companies which own 6,615,000 and 93,593,721 shares respectively.

Nature of Operations and Principal Activities

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

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

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

Results

The net loss after tax and minority interests of the consolidated entity for the year ended 31 December 2009 was \$7,977,000 (2008: profit of \$7,539,000). The loss for the 2009 financial year included gross profit from operations of \$14,239,000, foreign currency losses of \$21,360,000, derivative gains of \$3,245,000, finance expenses of \$2,064,000, gain on the repurchase of Dragon Mining convertible notes of \$1,450,000 and other net expenses of \$3,487,000.

Dragon Mining continued to consolidate its position as a profitable gold miner with a gross profit from operations at both the Svartliden Gold Mine in Sweden and the Orivesi Gold Mine in Finland. Gross profit from operations increased 36% to \$14,239,000 which reflects a higher gold price.

The net loss after tax and minority interests was adversely affected by unrealised foreign currency losses on intercompany loans which have arisen from large swings in the Australian dollar (AUD) against the euro (EUR) and Swedish krona (SEK) during the year.

Due to the early funding requirements in Sweden (Dragon Mining Sweden ("DMS")) and Finland (Polar Mining ("Polar")) for exploration and development, Dragon Mining Limited funded those operations until they maintained a positive cash flow and could support their ongoing liabilities and obligations. In addition, in accordance with Swedish and Finnish Corporations Law, these loans had to be primarily denominated in local currency (SEK and EUR).

The operations are cash flow positive and it is Dragon Mining's expectation that DMS and Polar will repay these intercompany loans. In accordance with the requirements of the Australian Accounting Standards, exchange gains and losses on intercompany loans that do not form part of a reporting entities net investment in foreign operations are recognised in profit or loss.

The large loss was attributable to large movements in exchange rates during the year as follows:

- ◆ The AUD/SEK exchange rate as at 31 December 2008 was 5.3644 and as at 31 December 2009 was 6.4206 which represents a 20% strengthening of the AUD against the SEK.
- ◆ The AUD/EUR exchange rate as at 31 December 2008 was 0.4900 and as at 31 December 2009 was 0.6247 which represents a 27% strengthening of the AUD against the EUR.

The combination of these exchange rate movements has resulted in foreign currency losses of \$21,360,000 for the year ended 31 December 2009.

Financial Position

As at 31 December 2009 the Company had net assets of \$43,921,000 and an excess of current assets over current liabilities of \$9,944,000.

Directors' Report

Dividends

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

Review of Operations

Production

The Group's gold production for the year was 66,149 ounces at an average cash cost of US\$630 per ounce compared to gold production of 74,206 ounces at an average cash cost of US\$596 per ounce in 2008.

Svartliden Gold Mine, Sweden

The Svartliden Gold Mine produced 37,400 ounces of gold for the year at a cash cost of US\$584 per ounce compared to gold production of 44,495 ounces at a cash cost of US\$530 per ounce in 2008.

In November, an updated resource estimate was completed for the open-pit portion of the deposit resulting in 1,025,000t at 3.2 g/t gold or 105,000 ounces which represents a 35% increase in tonnes and ounces.

Vammala Production Centre, Finland

The Vammala Production Centre in Finland produced 28,749 ounces of gold for the year at a cash cost of US\$690 (including refining costs of US\$122 per ounce) compared to gold production of 29,711 ounces of gold at a cash cost of US\$696 per ounce (including refining costs of US\$111 per ounce) in 2008. Ore was sourced from the Orivesi and Jokisivu Gold Mines.

Development

Svartliden Gold Mine, Sweden

A maiden resource for the depth extension of 312,000 tonnes @ 7.1 g/t for 71,400 ounces was estimated during the year. The high grade nature of the resource and its consistent geometry suggests good prospects for the establishment of an underground mining operation. Company engineers are finalising an internal feasibility study to confirm the economic viability of an underground mining operation.

The County Administration Board also gave permission for a one kilometre exploration decline and 100,000 tonne test mining operation under the terms of the current operating licence.

Jokisivu Gold Mine, Finland

Development was completed and production commenced from the Kujankallio open pit.

Exploration

Exploration programs in 2009 concentrated on advancing the Company's exploration properties in Sweden and Finland, particularly concentrating on increasing the resources near existing operating facilities.

Corporate

Dragon Mining closed out the remaining forward gold contracts from the original project financing of the Svartliden Gold Mine. The Company is now unhedged and in a position to take full advantage of the high gold prices.

Dragon Mining Investments Pty Ltd, a wholly owned subsidiary of Dragon Mining purchased 7,959,135 Dragon Mining convertible notes ("Notes") during the year at an average price of \$0.84 per Note, a 20% discount to their face value. A total of 11,600,154 Notes remain outstanding with a face value of \$12.1m.

Polar Mining Oy, the Finnish subsidiary of Dragon Mining secured a €2 million working capital facility on favourable terms from Nordea Bank Finland Plc to fund the Jokisivu Gold Mine development.

Investments

Zara Joint Venture, Eritrea (20% interest)

In December 2009 joint venture partner Sub-Sahara Resources NL and Australian listed Chalice Gold Mines Limited ("Chalice") merged by way of Scheme of Arrangement.

The findings of an independent Scoping Study undertaken on the Zara Project in Eritrea were released by Chalice. The Scoping Study estimates that the Koka Gold Project will have capital costs of US\$97.8 million and average cash operating costs of US\$424 per ounce over the project life of approximately six years, with annual production averaging 110,000 ounces per annum.

Weld Range Metals Limited (40% interest)

Weld Range Metals Limited purchased a 100% interest in the Weld Range tenements in Western Australia with the purchase of majority interests from the previous joint venture partners for a total consideration of \$2,350,000 (Dragon Mining's contribution \$940,000). Weld Range Metals has commenced a capital raising program to fund scoping and feasibility studies for the Weld Range Stainless Steel project.

Directors' Report

Significant Changes in the State of Affairs

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

Significant Events after Period End

A further 486,800 Notes were purchased on 3 February 2010. The Company paid \$487,624 to repurchase the Notes.

Mr Daley and Mr Munachen have announced their resignations from Dragon Mining, effective 4 March 2010 and 1 March 2010 respectively.

Likely Developments and Expected Results

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

- ◆ Continued production of gold from the open cut at the Svartliden Gold Mine;
- ◆ Continued production of gold concentrate processed at the Vammala Production Centre from ore mined at the Orivesi and Jokisivu Gold Mines;
- ◆ Development of the Svartliden Gold Mine underground operation;
- ◆ Development of the Kujankallio underground operation at the Jokisivu Gold Mine; and
- ◆ Continued gold exploration.

Environmental Regulation

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

At Svartliden, an environmental breach reported in 2008 concerning levels of arsenic and other metals contained in surface runoff and ground water which is pumped from the mining area to a water storage facility, termed the Clear Water Dam (CWD), continues to be addressed with several corrective measures implemented during 2009 resulting in a decrease in the levels of arsenic and metals contained in the water pumped to the CWD. Further corrective measures are to be implemented during 2010. All levels and corrective measures are continually reported to the inspecting authority.

Water discharged from the CWD to the environment complies in every respect with the Environmental Permit.

During 2009 the company which operates Svartliden was reported by the inspecting authority, of supposedly discharging water to a nearby stream which is prohibited under the operating licence. The accusation is based on the company's reports that indicate elevated levels of dissolved metals in the stream. An internal review has confirmed that no discharge occurred. An external investigation is expected to be conducted during 2010.

The company is currently preparing a new operating licence application that includes underground operations and aims to achieve environmental requirements for the entire operation, which can be realistically and practically achieved. Other than what is stated, the Directors are not aware of any other significant breaches during the period covered by this report.

Share Options

Unissued Shares

As at the date of this report there are 13,375,000 unissued ordinary shares in respect of which options are outstanding. These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

	Number of Options
Balance at the beginning of the period	13,375,000
Share options cancelled from 1 Jan 2009 to the date of this report	-
Total number of options outstanding as at the date of this report	13,375,000

Refer to the Remuneration Report and notes 20 and 28 for further details of Company options.

Convertible Notes

23,645,289 convertible notes were issued in 2006 at \$1.05 per note. The notes have a 10% coupon rate and are redeemable or can be converted into ordinary shares in February 2011 on the basis of 6 shares for 1 convertible note. As at 31 December 2009, a wholly owned subsidiary of Dragon Mining had purchased 12,045,135 convertible notes and a total of 11,600,154 Notes remain outstanding with a face value of \$12.1m.

Directors' Report

Indemnification and Insurance of Directors and Officers

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

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

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

Remuneration Report (Audited)

The remuneration report outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, including any Director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and the Group receiving the highest remuneration.

Details of Key Management Personnel (including the five highest paid executives of the Company and Group)

(i) Directors

AE Daley	Chairman (non-executive)
PG Cordin	Managing Director
MD Naylor	Finance Director
TT Järvinen	Director (non-executive)
MJ Makela	Director (non-executive)
PL Munachen	Director (non-executive)
C Russenberger	Director (non-executive) (appointed 18 November 2009)
PL Gunzburg	Director (non-executive) (appointed 8 February 2010)

(ii) Executives

PA Collinson	Company Secretary
NM Edwards	Chief Geologist
UO Kuronen	Manager Geology (Polar Mining Oy)
KE Marttala	Manager - Operations – Dragon Mining (Sweden) AB
HO Pöyry	Manager - Operations (Polar Mining Oy)

Other than the appointment of Mr Gunzburg, there were no changes to Directors or key management personnel after reporting date and prior to the date when the financial report was authorised for issue.

However, Mr Daley and Mr Munachen have announced their resignations from Dragon Mining, effective 4 March 2010 and 1 March 2010 respectively.

Dragon Mining Remuneration Policy

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

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

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

Directors' Report

Remuneration Report (Audited) (continued)

Company Performance

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

	2009	2008	2007	2006*	2006**
Net profit/(loss) after tax (\$'000s)	(7,977)	7,539	2,080	4,133	(30,861)
Basic earnings per share (cents)	(1.08)	1.02	0.38	0.94	(7.21)
Diluted earnings per share (cents)	(1.08)	1.02	0.38	0.94	(7.21)
Market Capitalisation (\$'000s)	73,734	29,494	95,855	70,463	61,655
Closing Share Price (\$)	0.10	0.04	0.13	0.16	0.14

* Denotes 6 months ending 31 December 2006.

** Denotes year ending 30 June 2006.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the Managing Director and the executive team.

Executive remuneration is reviewed annually having regard to individual and business performance, relevant comparative information and internal and independent external advice.

Remuneration Structure

In accordance with best practice governance, the structure of Non-Executive Director and Senior Executive remuneration is separate and distinct. The remuneration structure for the Executive Directors is the same as that of the executive team.

Non-Executive Director Remuneration

Objective

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

Structure

The Company's constitution and ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. Non-Executive Directors' fees not exceeding an aggregate of \$300,000 per annum have been approved by shareholders at the Annual General Meeting in November 2006.

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

Each Non-Executive Director receives a fee for being a Director of the Company. An additional fee is payable for each Board Committee on which a Director sits.

The Chairman of the Company receives additional fees 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. Non Executive Directors have performance hurdles in order to exercise their options. During 2006 the Non-Executive Directors were issued STIs in the form of options and in order to exercise these options, the volume weighted average share price of Dragon Mining must exceed \$0.25 for 5 consecutive days.

Executive Directors and Senior Executive Remuneration

Objective

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

Structure

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

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

Directors' Report

Remuneration Report (Audited) (continued)

Remuneration consists of the following key elements:

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

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

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

Fixed Remuneration

Objective

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

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

Structure

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

Variable Remuneration – Short Term Incentive (STI)

Objective

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

Structure

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

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

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

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

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

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward executives and Directors in a manner which aligns this element of remuneration with the creation of shareholder wealth.

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

Directors' Report

Remuneration Report (Audited) (continued)

Structure

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

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

Employment Contracts

The Managing Director, Mr PG Cordin, is employed under contract. His employment contract has been extended by 12 months and expires on 30 November 2010. Under the terms of the contract:

- ◆ Mr Cordin may resign from his position and thus terminate this contract by giving three months written notice.
- ◆ The Company may terminate this employment contract by providing 12 months' written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Cordin's remuneration).
- ◆ Mr Cordin receives fixed remuneration of \$430,000 per annum.
- ◆ The Company will pay Mr Cordin a completion bonus of \$200,000 based on certain criteria being met by the end of his contract.
- ◆ Upon completion of Mr Cordin's contract, the Board may also determine to pay Mr Cordin an additional bonus of up to \$200,000 if, in the view of the Board, the Company has entered into a corporate or project acquisition that is in accordance with Dragon Mining's corporate objectives.

Mr MD Naylor, the Finance Director, is also employed under contract. His current employment contract commenced on 29 May 2009 and expires on 29 May 2011. Under the terms of the contract:

- ◆ Mr Naylor may resign from his respective position and thus terminate his contract by giving three months written notice.
- ◆ The Company may terminate this employment contract by providing 12 months written notice or provide payment in lieu of the notice period (based on the fixed component of Mr Naylor's remuneration).
- ◆ Mr Naylor receives fixed remuneration of \$280,000 per annum.

All other executives have rolling contracts. The Company may terminate the executive's employment agreement by providing six months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

LTI Options

All Executives' and Directors' LTI options operate under the following conditions:

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

Compensation Options: Granted and Vested During the Period (Consolidated)

No options vested or were granted during the years ended 31 December 2009 or 31 December 2008.

Shares Issued on Exercise of Remuneration Options (Consolidated)

No Director or key management personnel exercised remuneration options in the year ended 31 December 2009 or 31 December 2008.

Directors' Report

Remuneration Report (Audited) (continued)

Compensation of Key Management Personnel (Consolidated)

		Short Term			Post Employment	Long Term	Equity	Total
		Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Other	Share-based Payment	
		\$	\$	\$(1)	\$	\$	\$	
Directors								
AE Daley	Dec 2009	90,000	-	-	-	-	-	90,000
	Dec 2008	90,000	-	-	-	-	-	90,000
PG Cordin	Dec 2009	310,471	100,000 (6)	87,481	35,005	-	-	432,957
	Dec 2008	310,208	-	55,042	32,615	-	-	397,865
MD Naylor (2)	Dec 2009	226,103	27,523 (5)	28,495	24,896	-	-	307,017
	Dec 2008	200,612	-	26,162	19,980	-	-	246,754
TT Järvinen	Dec 2009	40,000	-	-	-	-	-	40,000
	Dec 2008	40,000	-	-	-	-	-	40,000
MJ Mäkelä(3)	Dec 2009	43,333	-	-	-	-	-	43,333
	Dec 2008	5,333	-	-	-	-	-	5,333
PL Munachen	Dec 2009	50,000	-	-	-	-	-	50,000
	Dec 2008	50,000	-	-	-	-	-	50,000
C Russenberger (4)	Dec 2009	4,822	-	-	-	-	-	4,822
	Dec 2008	-	-	-	-	-	-	-
Executives								
P Collinson	Dec 2009	13,357	-	-	-	-	-	13,357
	Dec 2008	16,059	-	-	-	-	-	16,059
NM Edwards	Dec 2009	170,231	-	-	15,321	-	-	185,552
	Dec 2008	154,857	-	-	13,937	2,679	-	171,473
HO Pöyry	Dec 2009	205,943	-	425	34,598	-	-	240,966
	Dec 2008	195,379	-	416	48,303	-	-	244,098
UO Kuronen	Dec 2009	193,211	-	425	32,459	-	-	226,095
	Dec 2008	183,561	-	416	45,387	-	-	229,364
KE Marttala	Dec 2009	354,208	-	-	124,947	-	-	479,155
	Dec 2008	361,278	-	-	88,290	-	-	449,568
Total	Dec 2009	1,701,679	127,523	116,826	267,226	-	-	2,213,254
Total	Dec 2008	1,607,287	-	82,036	248,512	2,679	-	1,940,514

- (1) Non-monetary benefits include, where applicable, the cost to the Company of providing fringe benefits, the fringe benefits tax on those benefits and all other benefits received by the executive.
- (2) Appointed Finance Director 1 July 2008, Chief Financial Officer from May 2006 – June 2008.
- (3) Appointed 13 November 2008.
- (4) Appointed 18 November 2009.
- (5) The cash bonus paid to Mr Naylor in 2009 was based on performance and represented 10% of his total remuneration. His annual performance appraisal was conducted by the Managing Director. Mr Naylor was assessed based on his contribution to operational performance, risk management and company leadership. The grant date was 29 May 2009.
- (6) Refer to Mr Cordin's employment contract outlined in the remuneration report for more details. Due to the need to meet performance criteria, the bonus has not yet vested. Based on performance criteria, Mr Cordin may not receive a bonus but may be eligible to receive a bonus of \$400,000. Mr Cordin's bonus represents 19% of his total remuneration.

End of Remuneration Report.

Directors' Report

Directors' Meetings

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

	BOARD		AUDIT AND RISK MANAGEMENT		REMUNERATION AND NOMINATION	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
AE Daley	8	7	3	2	2	2
PG Cordin	8	8	-	-	2	2
MD Naylor	8	8	-	-	-	-
TT Järvinen	8	8	-	-	-	-
MJ Mäkelä	8	8	3	3	-	-
PL Munachen	8	8	3	3	2	2
C Russenberger (1)	1	1	-	-	-	-

(1) Appointed 18 November 2009.

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

Rounding

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

Non-Audit Services

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

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 the auditor of the parent entity.

	31 Dec 2009 \$
Tax compliance services	17,000
	17,000

Directors' Report

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 31 December 2009. This written Auditor's Independence Declaration is attached to the Auditor's Independent Audit Report to the members and forms part of this Directors' Report.

Signed in accordance with a resolution of the Directors.



MD Naylor

Finance Director

26 February 2010

Directors' Report

Directors' Declaration

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

1. In the opinion of the Directors:
 - (a) The financial statements and notes and the additional disclosures included in the Directors' report designated as audited of the Company and of the consolidated entity, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and of their performance, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration is made after receiving the declarations required to be made to Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2009.

This declaration is made in accordance with a resolution of the Board of Directors.



MD Naylor

Finance Director

26 February 2010

Corporate Governance Statement

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

The Board has adopted the "Corporate Governance Principles and Recommendations" established by the ASX Corporate Governance Council and published by the ASX in August 2007.

Unless otherwise stated, Dragon Mining Limited's corporate governance practices were in place throughout the year ended 31 December 2009.

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

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

The Board of Directors

Board Role and Responsibilities

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

The key responsibilities of the Board include:

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

Board Composition

The Board is comprised of six Non-Executive Directors including the Chairman and two Executive Directors being the MD and Finance Director.

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

DIRECTOR	ROLE OF DIRECTOR	FIRST APPOINTED	NON-EXECUTIVE	INDEPENDENT
Andrew Edward Daley	Non-Executive Chairman	March 2005	Yes	Yes
Peter George Cordin	Managing Director	March 2006	No	No
Michael Dylan Naylor	Finance Director	July 2008	No	No
Toivo Tapani Järvinen	Non-Executive Director	December 2003	Yes	Yes
Markku Juhani Mäkelä	Non-Executive Director	November 2008	Yes	Yes
Peter Lawson Munachen	Non-Executive Director	March 2005	Yes	Yes
Christian Russenberger	Non-Executive Director	November 2009	Yes	Yes
Peter Lynton Gunzburg	Non-Executive Director	February 2010	Yes	No

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

Review of Performance of Senior Executives

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

Corporate Governance Statement

Structure of the Board

Independence

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

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

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

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

The Board has reviewed and considered the positions and associations of each of the eight Directors in office at the date of this report and consider that four of the Directors are independent. Mr PG Cordin, Mr MD Naylor and PL Gunzburg (substantial shareholder) are not considered to be independent. As such the majority of the Board are independent and the Chairman is an independent Director.

Chairman and Managing Director

The roles of the Chairman and the MD are not exercised by the same individual. The Chairman is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring Directors are properly briefed for meetings. The Board has delegated responsibility for the day-to-day activities to the MD and senior executives. The Remuneration and Nomination Committee ensure that the Board members are appropriately qualified and experienced to discharge their responsibilities and have in place procedures to assess the performance of the MD and senior executives. The MD is accountable to the Board for all authority delegated to that position and senior executives.

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

Board Evaluation Process

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

Due to the fact that the Company has 8 Directors, the costs associated with engaging an external consultant is not seen to be beneficial to the Company. As such, the Directors have agreed to undertake the performance evaluation process themselves.

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

Remuneration and Nomination Committee

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

The Remuneration and Nomination Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the MD and senior executives. The MD is excluded from determining his own salary. In addition, the Committee is responsible for reviewing the appropriateness of the size of the Board relative to its various responsibilities. Recommendations are made to the Board on these matters. Further roles and responsibilities of this Committee can be found in the Committee's charter which is posted on the Company website.

Corporate Governance Statement

Code of Conduct

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

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

Refer to the Company website for specific Code of Conduct.

Securities Trading

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

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

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

Corporate Reporting

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

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

Audit and Risk Management Committee

The Audit and Risk Management Committee consists of three Non-Executive Directors, Mr AE Daley, Mr PL Munachen (Chairman) and Dr Markku Juhani Mäkelä.

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

The Audit and Risk Management Committee is also responsible for:

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

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

The MD and Finance Director will inform the Board annually in writing that:

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

Corporate Governance Statement

External Auditors

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

Ernst & Young's existing policy requires that its audit team provide a statement as to their independence. This statement was received by the Audit and Risk Management Committee for the period ended 31 December 2009.

Continuous Disclosure

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

The Company is committed to:

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

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

Shareholder Communication

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

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

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

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

Remuneration Policies

This policy governs the operations of the Remuneration and Nomination Committee. The Committee reviews and reassesses the policy at least annually and obtains the approval of the Board.

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

Statement of Comprehensive Income

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Revenue from gold sales		74,658	69,980	-	-
Cost of sales	2(a)	(60,419)	(59,494)	-	-
Gross profit		14,239	10,486	-	-
Other revenue	2(b)	365	760	4,466	4,208
Other income	2(c)	483	306	303	-
Exploration expenditure written off		(74)	(7,054)	-	-
Development expenditure written off		-	(6,037)	-	-
Other expenses	2(d)	(3,558)	(2,986)	(2,700)	(10,701)
Profit/(loss) before treasury, tax and finance costs		11,455	(4,525)	2,069	(6,493)
Finance costs	2(e)	(2,064)	(3,169)	(2,894)	(2,901)
Gain on buyback of convertible notes		1,450	1,267	-	-
Profit/(loss) before treasury and tax		10,841	(6,427)	(825)	(9,394)
Foreign exchange – gains/(losses)		(21,360)	12,960	(17,521)	12,130
Derivatives – gains	2(f)	3,245	1,634	-	-
Profit/(loss) before tax		(7,274)	8,167	(18,346)	2,736
Income tax expense	3	(712)	(627)	-	-
Profit/(loss) after income tax		(7,986)	7,540	(18,346)	2,736
Other comprehensive income/(loss)					
Foreign currency translation		7,744	(5,206)	-	-
Total comprehensive profit/(loss) for the period		(242)	2,334	(18,346)	2,736
Profit/(loss) attributable to:					
Members of Dragon Mining Limited		(7,977)	7,539	(18,346)	2,736
Minority interest	18	(9)	1	-	-
		(7,986)	7,540	(18,346)	2,736
Total comprehensive profit/(loss) attributable to:					
Members of Dragon Mining Limited		(233)	2,333	(18,346)	2,736
Minority interest	18	(9)	1	-	-
		(242)	2,334	(18,346)	2,736
Earnings/(loss) per share attributable to ordinary equity holders of the parent (cents per share)					
Basic earnings/(loss) per share	22	(1.08)	1.02		
Diluted earnings/(loss) per share	22	(1.08)	1.02		

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

Statement of Financial Position

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Current Assets					
Cash and cash equivalents	4	4,397	8,534	2,665	4,564
Trade and other receivables	5	9,514	9,907	967	22
Inventories	6	7,035	6,156	-	-
Other assets	11	115	409	47	45
Total Current Assets		21,061	25,006	3,679	4,631
Non-Current Assets					
Trade and other receivables	5	-	-	42,267	59,007
Property, plant and equipment	9	7,713	10,788	11	8
Mineral exploration costs	10	28,465	29,269	-	-
Development costs	10	7,203	10,398	154	463
Investments in subsidiaries	7	-	-	4,402	4,402
Investments in associate	8	326	-	326	-
Deferred tax assets	3	3,314	4,857	-	-
Other assets	11	3,978	4,603	-	-
Total Non-Current Assets		50,999	59,915	47,160	63,880
Total Assets		72,060	84,921	50,839	68,511
Current Liabilities					
Trade and other payables	12	6,624	9,827	1,132	867
Interest bearing loans and borrowings	13	3,205	1,129	-	-
Provisions	14	1,288	1,443	86	67
Derivative financial instruments	29	-	3,245	-	-
Total Current Liabilities		11,117	15,644	1,218	934
Non-Current Liabilities					
Interest-bearing loans and borrowings	13	11,987	19,928	24,368	23,955
Provisions	14	5,026	5,175	50	73
Other liabilities	15	9	11	-	-
Total Non-Current Liabilities		17,022	25,114	24,418	24,028
Total Liabilities		28,139	40,758	25,636	24,962
Net Assets		43,921	44,163	25,203	43,549
Equity					
Contributed equity	16	103,488	103,488	103,488	103,488
Reserves	17	3,841	(3,903)	2,779	2,779
Accumulated losses		(63,408)	(55,431)	(81,064)	(62,718)
Total parent entity interest		43,921	44,154	25,203	43,549
Minority interest	18	-	9	-	-
Total Equity		43,921	44,163	25,203	43,549

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

Statement of Changes in Equity

Consolidated	Attributable to Equity Holders of the Parent							
	Contributed Equity	Accumulated Losses	Foreign Currency Translation	Option Reserve	Convertible Note Premium Reserve	Total	Minority Interest	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2008	103,488	(62,970)	(1,476)	711	2,068	41,821	8	41,829
Profit for the period	-	7,539	-	-	-	7,539	1	7,540
Other comprehensive loss	-	-	(5,206)	-	-	(5,206)	-	(5,206)
Total comprehensive income / (loss) for the period	-	7,539	(5,206)	-	-	2,333	1	2,334
At 31 December 2008	103,488	(55,431)	(6,682)	711	2,068	44,154	9	44,163
Loss for the period	-	(7,977)	-	-	-	(7,977)	(9)	(7,986)
Other comprehensive income	-	-	7,744	-	-	7,744	-	7,744
Total comprehensive income / (loss) for the period	-	(7,977)	7,744	-	-	(233)	(9)	(242)
At 31 December 2009	103,488	(63,408)	1,062	711	2,068	43,921	-	43,921

Parent	Attributable to Equity Holders of the Parent							
	Contributed Equity	Accumulated Losses	Foreign Currency Translation	Option Reserve	Convertible Note Premium Reserve	Total	Minority interest	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2008	103,488	(65,454)	-	711	2,068	40,813	-	40,813
Profit for the period	-	2,736	-	-	-	2,736	-	2,736
Total comprehensive income for the period	-	2,736	-	-	-	2,736	-	2,736
At 31 December 2008	103,488	(62,718)	-	711	2,068	43,549	-	43,549
Loss for the period	-	(18,346)	-	-	-	(18,346)	-	(18,346)
Total comprehensive income / (loss) for the period	-	(18,346)	-	-	-	(18,346)	-	(18,346)
At 31 December 2009	103,488	(81,064)	-	711	2,068	25,203	-	25,203

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

Statement of Cash Flows

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities					
Receipts from customers		76,646	64,978	-	-
Payments to suppliers and employees		(59,019)	(51,076)	(2,009)	(1,904)
Interest received		115	528	82	177
Interest expenses		(1,861)	(2,706)	(1,818)	(2,484)
Payment of environmental bonds		(171)	(952)	-	-
Net Operating Cash Flows	4	15,710	10,772	(3,745)	(4,211)
Cash flows from investing activities					
Payments for property, plant and equipment		(3,010)	(1,442)	(9)	(4)
Proceeds from sale of property, plant and equipment		17	9	-	-
Payments for mineral exploration		(6,246)	(6,583)	-	-
Payments for development		(4,469)	(1,529)	-	-
Advances to associate		(940)	-	(940)	-
Repayment of loans from controlled entities		-	-	3,048	6,152
Net Investing Cash Flows		(14,648)	(9,545)	2,099	6,148
Cash flows from financing activities					
Buyback of convertible notes		(6,697)	(2,770)	-	-
(Repayment of)/proceeds from short-term factoring facility		(1,100)	1,103	-	-
Proceeds from / (repayment of) bank loans		3,216	(25)	-	-
Net Financing Cash Flows		(4,581)	(1,692)	-	-
Net increase/(decrease) in cash and cash equivalents		(3,519)	(465)	(1,646)	1,937
Cash and cash equivalents at the beginning of the period		8,534	7,975	4,564	2,591
Effects of exchange rate changes on cash and cash equivalents		(618)	1,024	(253)	36
Cash and cash equivalents at the end of the period	4	4,397	8,534	2,665	4,564

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

(a) Corporate Information

The financial report of Dragon Mining Limited ("consolidated entity" or the "Group") for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the Directors on 26 February 2010.

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

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

(b) Basis of Preparation

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

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and which are measured at fair value through profit and loss.

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

The consolidated accounts have been prepared on the going concern basis of accounting, which assumes that the consolidated entity will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of business. However, the consolidated entity may consider alternative funding sources to assist the achieving of ongoing business activities including the redemption of the Convertible Notes.

(c) Compliance Statement

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

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

(d) Basis of Consolidation

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

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

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

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Minority interests represent a portion of profit or loss and net assets in Kivijarvi OAO, a subsidiary of Polar Mining Oy, not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. The Group's interest in Kivijarvi OAO was sold during the 2009 financial year.

Minority interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

(e) Revenue Recognition

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

Bullion and Concentrate Sales

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

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Interest

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

Rental Revenue

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

(f) Income Taxes

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

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

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

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

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

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

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

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

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

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

Tax Consolidation Legislation

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

(g) Goods and Services Tax (GST)

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

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

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

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

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)**(h) Foreign Currency Transactions and Balances***Functional & Presentation Currency*

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

Transaction & Balances

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

Group Companies

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

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

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

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

(i) Trade and Other Receivables

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

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

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

(j) Inventories

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

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

(k) Property, Plant and Equipment*Cost and Valuation*

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

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

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

Depreciation

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

Mining plant and equipment 10-33%

Other plant and equipment 5-50%

Buildings 4-33%

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

Impairment

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

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

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

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

Disposal

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

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

(l) Joint Ventures

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

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

(m) Exploration & Development Expenditure

Areas in Exploration and Evaluation

Exploration and evaluation costs related to an area of interest are carried forward only when rights of tenure to the area of interest are current and provided that one of the following conditions is met:

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

Costs carried forward in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)**Areas in Development**

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

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

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

Deferred Waste

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

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

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

(n) 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 of three months or less, and bank overdrafts.

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

(o) Investments and Other Financial Assets

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

Financial assets at fair value through profit or loss

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

Loans and Receivables

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

Held-to-Maturity Investments

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

Available-for-Sale Financial Assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of balance date.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Purchases and sales of investments are recognised on trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred all the risks and rewards of ownership.

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

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

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

(p) Recoverable Amount of Non-Financial Assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired.

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

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

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

(q) Investment in Associate

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

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

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

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

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

(r) 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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

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.

(s) Provisions

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

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

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

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

(t) Employee Benefits***Wages, Salaries and Annual Leave***

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

Long Service Leave

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

Share Based Payments

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

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

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

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

Superannuation

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

(u) Restoration and Rehabilitation Costs

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

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

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

(v) Borrowing Costs

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

(w) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

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

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

(x) Derivative Financial Instruments

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

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

(y) Convertible Notes

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

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

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

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

(z) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

(aa) Earnings per Share

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

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

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

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

(ab) Segment Reporting

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

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

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

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

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

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

(ac) 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.

(ad) Significant Accounting Judgments

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

Determination of Mineral Resources and Ore Reserves

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

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.

(ae) Significant Accounting Estimates and Assumptions

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

Mine Rehabilitation Provision

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Fair Valuations of Derivative Financial Instruments

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

Impairment of Assets

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

Given the nature of the consolidated entity's mining activities, future changes in long term assumptions upon which these estimates are based, may give rise to material adjustments to the carrying value of the CGU. This could lead to a reversal of part, or all, of impairment losses recorded during the year, or the recognition of additional impairment losses in the future (refer to Note 31 for details of impairment losses). The inter-relationships of the significant assumptions upon which estimated future cash flows are based, however, are such that it is impractical to disclose the extent of the possible effects of a change in a key assumption in isolation. Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of each CGU, relatively modest changes in one or more assumptions could require a material adjustment to the carrying value of the related non-current assets within the next reporting period.

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

Income Taxes

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

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

Exploration Expenditure

Expenditure and development expenditure that does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the statement of comprehensive income.

Life-of-Mine Stripping Ratio

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

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

Share-Based Payments

The Group measures the cost of cash settled transactions with employees by reference to the fair value at the grant date using the Black & Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 28.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

(af) 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 2009, and no change to the Group's accounting policy is required:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	1 January 2010
AASB 3 (Revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group has not yet determined which accounting policy to adopt if the Group enters into a business combination.	1 January 2010
AASB 127 (Revised)	Consolidated and Separate Financial Statements	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's statement of comprehensive income.	1 January 2010
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 January 2010
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project.	1 July 2009	The Group may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 January 2010
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item is being hedged and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	The Interpretation will not have an impact on the Group since it does not apply hedge accounting to any of its financial instruments.	1 January 2010
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]	This Standard makes amendments to Australian Accounting Standards AASB 2 Share-based Payment and AASB 138 Intangible Assets and AASB Interpretations 9 Reassessment of Embedded Derivatives and 16 Hedges of a Net Investment in a Foreign Operation. The main amendment of relevance to Australian entities is that made to Interpretation 16 which allows qualifying hedge instruments to be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements in AASB 139 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment.	1 July 2009	The Group may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 January 2010

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	1 January 2010
AASB 9 and 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: <ul style="list-style-type: none"> ◆ two categories for financial assets being amortised cost or fair value ◆ removal of the requirement to separate embedded derivatives in financial assets ◆ strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ◆ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ◆ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ◆ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income 	1 January 2013	The Group has not yet determined the impact on the Group's financial statements.	1 January 2013
AASB 2009-12	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)	1 January 2011	The Group has not yet determined the impact on the Group's financial statements.	1 January 2011

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

- ◆ AASB Int. 17 and AASB 2008-13 Distributions of Non-cash Assets to Owners and consequential amendments to Australian Accounting Standards AASB 5 and AASB 110
- ◆ AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]
- ◆ AASB 2009-7 Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]
- ◆ AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]
- ◆ AASB 2009-9 Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
- ◆ AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
- ◆ AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]
- ◆ Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

Notes to the Financial Statements

1. Summary of Significant Accounting Policies (continued)**(ag) New Accounting Standards and Interpretations***Changes in accounting policies and disclosures.*

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2009.

- ◆ AASB 7 Financial Instruments
- ◆ AASB 8 Operating Segments
- ◆ AASB 101 Presentation of Financial Statements (revised 2007)
- ◆ AASB 123 Borrowing Costs (revised 2007)
- ◆ AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation
- ◆ AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- ◆ AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- ◆ AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 29. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 29.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in Note 24, including the related revised comparative information.

AASB 101 Presentation of Financial Segments

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

Notes to the Financial Statements

2. Revenue and Expenses

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
a) Cost of sales				
Cost of production	48,581	49,566	-	-
Depreciation of mine properties, plant and equipment	4,053	4,036	-	-
Amortisation of development costs	7,473	5,892	-	-
Rehabilitation costs	312	-	-	-
	60,419	59,494	-	-
b) Other revenue				
Finance revenue	135	528	4,306	4,058
Management fees	-	-	160	150
Rent and service income	230	232	-	-
	365	760	4,466	4,208
Breakdown of finance revenue				
Bank and external interest	131	528	82	177
Associate	4	-	4	-
Subsidiaries	-	-	4,220	3,881
	135	528	4,306	4,058
c) Other income				
Gain on sale of plant and equipment	5	9	-	-
Net gain on disposal of 60% interest in subsidiary	305	-	303	-
Other	173	297	-	-
	483	306	303	-
d) Other expenses				
Management and administration expenses	3,236	2,486	2,269	1,713
Depreciation of non-mine site assets	113	154	6	7
Project generation expenses	202	325	-	-
Share of losses of associate (refer to Note 8)	7	-	7	-
Amortisation of development costs	-	-	309	308
Impairment of plant and equipment	-	21	-	-
Write down of subsidiary loans	-	-	109	8,673
	3,558	2,986	2,700	10,701
e) Finance costs				
Interest	1,756	2,707	2,481	2,487
Non-cash interest on convertible notes	216	414	413	414
Other	92	48	-	-
	2,064	3,169	2,894	2,901

Notes to the Financial Statements

2. Revenue and Expenses (continued)

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
f) Derivatives – gains				
Gain on gold forward contracts	3,245	1,634	-	-
g) Employee benefits				
Wages and salaries	9,902	9,489	1,150	851
Defined contribution superannuation expense	1,645	1,378	88	72
Other employee benefits	1,305	1,182	30	24
	12,852	12,049	1,268	947
h) Lease payments included in the statement of comprehensive income				
Minimum lease payments – operating leases	186	642	-	-

Notes to the Financial Statements

3. Income Tax

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
The major components of income tax are:				
Statement of comprehensive income				
<i>Current income tax</i>				
Current income tax charge	-	-	-	-
<i>Deferred income tax</i>				
Relating to utilisation of tax losses	712	627	-	-
Income tax expense reported in the statement of comprehensive income	712	627	-	-
Amounts charged or credited directly to equity				
Share issue costs	-	-	-	-
Income tax benefit reported in equity	-	-	-	-
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit/(loss) before income tax	(7,274)	8,167	(18,346)	2,736
At the Group's statutory income tax rate of 30% (31 Dec 2008: 30%)	(2,182)	2,450	(5,504)	821
Unrealised foreign exchange	16	(3,639)	16	(3,639)
Effect of different rates of tax on overseas income	(340)	368	-	-
Gain on purchase of convertible notes	(435)	(380)	-	-
Gain on disposal of 60% interest in subsidiary	(91)	-	(91)	-
Non-deductible exploration expenditure written off	-	1,103	-	-
Provision for non-recoverability of intercompany loans	-	-	33	2,602
Other	46	118	40	35
Deferred tax assets not recognised	3,743	-	5,132	-
Previously unrecognised tax losses now brought to account	(443)	-	-	-
Tax losses not brought to account	398	607	374	181
Income tax expense/(benefit) reported in the statement of comprehensive income	712	627	-	-

Notes to the Financial Statements

3. Income Tax (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Deferred income tax				
Deferred income tax at reporting date relates to the following:				
CONSOLIDATED				
<i>Deferred tax assets</i>				
Share issue costs	200	346	146	214
Convertible note issue costs	99	188	89	89
Convertible note interest	92	188	96	-
Leave entitlements	41	42	1	(4)
Rehabilitation provision	624	597	(27)	(147)
Property, plant and equipment	11	2	(9)	(1)
Exploration expenditure	-	878	878	(878)
Unrealised foreign exchange	5,181	-	(5,181)	
Unrealised losses on gold forward contracts	-	627	627	709
Other	94	43	(51)	(25)
Tax asset utilised to offset deferred tax liabilities	(242)	(653)	(411)	(333)
Recognised tax losses	3,314	4,857	712	627
Unrecognised deferred tax assets	(6,100)	(2,258)	3,842	376
Gross deferred income tax assets	3,314	4,857		
<i>Deferred tax liabilities</i>				
Prepayments	-	(14)	(14)	3
Capitalised exploration expenditure	(104)	(377)	(273)	(212)
Convertible note borrowing costs	(138)	(262)	(124)	(124)
Deferred tax asset netted off against deferred tax liability	242	653	411	333
Gross deferred income tax liabilities	-	-		
Deferred tax expense/(benefit)			712	627
PARENT				
<i>Deferred tax assets</i>				
Share issue costs	200	346	146	214
Convertible note issue costs	99	188	89	89
Convertible note interest	92	188	96	-
Leave entitlements	41	42	1	(4)
Property, plant and equipment	3	2	(1)	(1)
Unrealised foreign exchange	5,181	-	(5,181)	-
Other	94	43	(51)	(25)
Tax asset utilised to offset deferred tax liabilities	(184)	(415)	(231)	(213)
Unrecognised deferred tax assets	(5,526)	(394)	5,132	(60)
Gross deferred income tax assets	-	-		
<i>Deferred tax liabilities</i>				
Prepayments	-	(14)	(14)	3
Capitalised exploration expenditure	(46)	(139)	(93)	(92)
Convertible note borrowing costs	(138)	(262)	(124)	(124)
Deferred tax asset netted off against deferred tax liability	184	415	231	213
Gross deferred income tax liabilities	-	-		
Deferred tax expense/(benefit)			-	-

Notes to the Financial Statements

3. Income Tax (continued)

Future benefits of tax losses total approximately \$14,897,839 (2008: \$18,383,810) (consolidated) and \$3,253,897 (2008: \$2,995,688) (parent). Only benefits to the extent of the projected profit over the life of mine at Dragon Mining (Sweden) AB, totalling \$3,314,000, have been brought to account. The consolidated and parent entities have available capital losses at a tax rate of 30% amounting to \$3,772,105 (2008: \$3,767,101).

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

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

Tax consolidation

Effective July 1 2003, for the purpose of income taxation, Dragon Mining Limited and its 100% Australian owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing and funding arrangement whereby each entity in the tax consolidated group has agreed to pay a tax equivalent amount to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. For the year ended 31 December 2009, there are no tax consolidation contribution adjustments (2008: nil). The nature of the tax funding arrangement for the Dragon Mining Limited tax consolidated group is such that no tax consolidation contributions by (or distributions to) equity participants would be expected to arise. The head entity of the tax consolidation group is Dragon Mining Limited. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

4. Cash and Cash Equivalents

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	4,355	5,751	2,623	1,781
Short-term deposits	42	2,783	42	2,783
	4,397	8,534	2,665	4,564

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

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

The fair value of cash and cash equivalents is \$4,396,956.

Notes to the Financial Statements

4. Cash and Cash Equivalents (continued)

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Reconciliation of net profit/(loss) after tax to net cash flows from operations				
Net profit/(loss) after tax	(7,977)	7,539	(18,346)	2,736
Adjustments for:				
- Depreciation and amortisation	11,639	10,082	315	315
- Impairment of plant and equipment	-	21	-	-
- Exploration expenditure written off	74	7,054	-	-
- Development expenditure written off	-	6,037	-	-
- Group loans provided for	-	-	109	8,673
- Gain on gold forward contracts	(3,245)	(1,634)	-	-
- Net foreign currency losses/(gains)	21,360	(12,960)	17,521	(12,130)
- Gain on buyback of convertible notes	(1,450)	(1,267)	-	-
- Gain on disposal of 60% interest in subsidiary	(305)	-	(303)	-
- Equity accounted share of loss of associate	7	-	7	-
- Net profit on disposal of property, plant and equipment	(5)	(9)	-	-
- Tax	712	627	-	-
- Non-cash interest on convertible notes	216	414	413	414
- Non-cash rehabilitation costs	312	-	-	-
- Rehabilitation provision discount adjustment	214	194	-	-
- Movement in minority interest	(9)	1	-	-
Changes in operating assets and liabilities				
- (Increase)/decrease in receivables	1,336	(5,132)	(160)	(384)
- (Increase) in interest receivable	-	-	(3,559)	(3,881)
- (Increase)/decrease in other current assets	295	(37)	(3)	(10)
- (Increase) in inventories	(879)	(1,982)	-	-
- (Increase) in deferred waste	(1,161)	(1,680)	-	-
- Increase/(decrease) in trade creditors and accruals	(5,246)	2,885	265	43
- Increase/(decrease) in provisions	(178)	619	(4)	13
Net operating cash flows	15,710	10,772	(3,745)	(4,211)

Notes to the Financial Statements

5. Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current				
Trade debtors (i)	6,233	8,137	-	-
Other debtors (ii)	2,318	1,667	23	22
Receivables from associate (iii)	944	-	944	-
Bullion on hand	19	103	-	-
	9,514	9,907	967	22
Non-current				
Receivables from controlled entities (iii)	-	-	93,592	115,116
Allowance for doubtful debts	-	-	(51,325)	(56,109)
	-	-	42,267	59,007
Movements in allowance for doubtful debts				
Balance at the beginning of period	-	-	56,109	47,436
Charge for the year	-	-	109	8,673
Amounts reversed on capitalisation of loans (iv)	-	-	(4,893)	-
Balance at the end of the period	-	-	51,325	56,109

- (i) Trade debtors are non-interest-bearing and generally on 45-60 day terms.
(ii) Other debtors are non-interest bearing and generally on 30 day terms.
(iii) For terms and conditions relating to receivables from associate and controlled entities refer to Note 23.
(iv) Related to the sale of 60% interest in Weld Range Metals Limited. Refer to Note 7.

No current receivables are past due or impaired. An analysis of current receivables is set out in the financial instruments note (Note 29).

6. Inventories

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Work in progress – at cost				
- Ore and concentrate stockpiles	4,493	3,027	-	-
- Gold in circuit	1,938	1,632	-	-
Raw materials and stores – at cost	604	1,497	-	-
	7,035	6,156	-	-

Notes to the Financial Statements

7. Investments in Subsidiaries

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Non-current				
At cost				
- Shares in subsidiaries – unlisted	-	-	7,422	12,519
- Impairment allowance	-	-	(3,020)	(8,117)
	-	-	4,402	4,402

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding		Cost of Parent Entity's Investment	
			Dec 2009 %	Dec 2008 %	2009 \$'000	2008 \$'000
Weld Range Metals Limited (i)	Australia	Ord	40	100	-	5,097
Less: impairment allowance					-	(5,097)
					-	-
Dragon Mining (Eritrea) Ltd	Australia	Ord	100	100	-	-
Dragon Mining Investments Pty Ltd	Australia	Ord	100	100	-	-
Dragon Mining (Sweden) AB	Sweden	Ord	80	80	2,844	2,844
Viking Gold & Prospecting AB	Sweden	Ord	100	100	-	-
Polar Mining Oy	Finland	Ord	100	100	4,578	4,578
Less: impairment allowance					(3,020)	(3,020)
					4,402	4,402
Kivijärvi OAO (ii)	Russia	Ord	-	84.98	-	-
					4,402	4,402

Disposal of Controlled Entity

(i) Weld Range Metals Limited

In February 2008, Dragon Mining and Atomaer Holdings Pty Ltd ("Atomaer") entered into an agreement under which Dragon Mining engaged Atomaer, at its sole cost and risk, to assist the Company to acquire majority interests in and management control of Mining Tenements held by Weld Range Metals Limited ("Weld Range Metals"), procure access to process technology and raise capital for the evaluation and development of the minerals and metals contained in the Weld Range Metals Mining Tenements. Under the terms of the agreement, Atomaer had the right to acquire a 60% interest in Weld Range Metals.

Dragon Mining disposed of a 60% interest in Weld Range Metals (formerly Dragon Resources Ltd) on 26 October 2009.

Notes to the Financial Statements

7. Investments in Subsidiaries (continued)

The results of Weld Range Metals for the period 1 January 2009 until the disposal date are:

	Consolidated Entity
	2009
	\$ '000
Revenue	-
Expenses	(2)
Loss before income tax	(2)
Income tax benefit	-
Loss after income tax	(2)
The net assets of Weld Range Metals at the date of disposal were as follows:	
Exploration and evaluation	162
Total Assets	162
Creditors	134
Total Liabilities	134
Net Assets	28

Dragon Mining's consideration for the disposal of the 60% interest in Weld Range Metals was \$1. The net gain reported in the statement of comprehensive income was calculated as follows:

	Consolidated Entity
	2009
	\$ '000
Consideration received	-
Carrying amount of net assets sold	(28)
Reversal of impairment loss	333
Profit before income tax	305
Income tax benefit	-
Profit after income tax	305

The Company's remaining interest in Weld Range Metals is accounted for as an investment in an associate. Refer to note 8.

(ii) Kivijärvi OAO

The Group's interest in Kivijärvi OAO, which was 80% owned by Polar Mining OY, was sold on 15 December 2009 for 200 rubles (A\$7). The net assets of Kivijärvi OAO as at the date of sale were A\$1,046, resulting in a loss on sale to the Group of A\$882.

Notes to the Financial Statements

8. Investments In Associate

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
(a) Investment details				
Unlisted				
Weld Range Metals Limited	326	-	326	-
	326	-	326	-

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

	Consolidated Entity
	2009
	\$'000
Weld Range Metals Limited	
At 1 January	-
Cost recognised at 26 October 2009 net of impairment allowance.	333
Share of loss after income tax	(7)
	326

a) Fair value of investment in unlisted associate

The fair value of the Group's investment in Weld Range Metals is \$332,640. The fair value of Dragon Mining's interest in Weld Range Metals was calculated based on Atomaer's subscription price of \$500,000 for 15,500,000 shares. Weld Range Metals has 25,811,834 shares on issue which values Dragon Mining's 39.95% interest at \$332,640.

b) Summarised financial information

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

	Consolidated Entity
	2009
	\$'000
Extract from Weld Range Metals Limited's statement of financial position:	
Current assets	49
Non-current assets	2,921
	2,970
Current liabilities	100
Non-current liabilities	2,359
	2,459
Net assets	511
Share of associate's net assets	204
Extract from Weld Range Metals Limited's statement of comprehensive income:	
Revenue	-
Expenses	(19)
	(19)

Notes to the Financial Statements

8. Investments in Associate (continued)

Contingent Liabilities

In April 2009, Dragon Mining was served with a writ of summons by Ron Morellini alleging causes of action in negligence and for breach of contract arising from the forfeiture of certain mining tenements in 2002. Although the proceedings have been dismissed because the writ was issued in the incorrect name, Mr Morellini's solicitors have indicated that proceedings are likely to be commenced against Weld Range Metals in due course and that the claim will be limited to a cause of action for breach of contract.

In the absence of a statement of claim, Weld Range Metals Limited has been unable to assess the merits of Mr Morellini's claim. However, the circumstances surrounding the claim suggest that the claim is of questionable substance and, in any event, the action will be vigorously defended.

9. Property, Plant and Equipment

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Land				
At cost	1,366	1,710	-	-
Buildings				
At cost	1,358	1,580	-	-
Less accumulated depreciation	(709)	(591)	-	-
	649	989	-	-
Mine properties, plant and equipment				
At cost	23,185	24,982	53	54
Less accumulated depreciation	(17,487)	(16,893)	(42)	(46)
	5,698	8,089	11	8
Total property, plant and equipment	7,713	10,788	11	8

Reconciliations

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

	2009	2008	2009	2008
Land				
Carrying amount at beginning of period	1,710	1,471	-	-
Net foreign exchange movement	(344)	239	-	-
Carrying amount at end of period	1,366	1,710	-	-
Buildings				
Carrying amount at beginning of period	989	774	-	-
Additions	113	329	-	-
Depreciation	(268)	(229)	-	-
Impairment	-	(10)	-	-
Net foreign exchange movement	(185)	125	-	-
Carrying amount at end of period	649	989	-	-
Mine properties, plant and equipment				
Carrying amount at beginning of period	8,089	10,080	8	11
Additions	2,897	1,113	9	4
Disposals	(12)	-	-	-
Impairment	-	(11)	-	-
Reclassification (to)/from development costs	(65)	94	-	-
Depreciation	(3,898)	(3,961)	(6)	(7)
Net foreign exchange movement	(1,313)	774	-	-
Carrying amount at end of period	5,698	8,089	11	8

Notes to the Financial Statements

9. Property, Plant and Equipment (continued)

Impairment Loss

The impairment loss represents the write down of certain property, plant and equipment to recoverable amount under AASB 136 "Impairment of Assets" (refer to note 1 and note 31).

Borrowing Costs

There are no borrowing costs capitalised into the cost of property, plant and equipment held on the statement of financial position as at 31 December 2009 (2008: nil).

Property, Plant and Equipment Pledged as Security for Liabilities

Property, plant and equipment is encumbered to the extent set out in Notes 13 and 29(f).

10. Mineral Exploration and Development Costs

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Exploration and evaluation				
Balance at beginning of financial period	29,269	25,779	-	-
Current period expenditure	6,246	6,583	-	-
Disposals (i)	(162)	-	-	-
Expenditure written off (ii)	(74)	(7,054)	-	-
Transfers to development	(236)	(375)	-	-
Net foreign exchange movement	(6,578)	4,336	-	-
Total exploration expenditure	28,465	29,269	-	-
Development				
Balance at beginning of financial period	10,398	17,890	463	771
Current period expenditure	4,469	1,529	-	-
Expenditure written off	-	(6,037)	-	-
Transfers from exploration	236	375	-	-
Reclassification from/(to) property, plant & equipment	65	(94)	-	-
Amortisation	(7,473)	(5,892)	(309)	(308)
Movement in deferred waste	1,161	1,681	-	-
Additions to rehabilitation asset	390	-	-	-
Net foreign exchange movement	(2,043)	946	-	-
Total development expenditure	7,203	10,398	154	463
Total mineral exploration and development expenditure	35,668	39,667	154	463

(i) Relates to the sale of 60% of Weld Range Metals Limited. Refer to note 7.

(ii) Refer to note 31(b) for details of expenditure written off.

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

Exploration, Evaluation and Development Pledged as Security for Liabilities

Exploration, Evaluation and Development is encumbered to the extent set out in Notes 13 and 29(f).

Borrowing Costs

There are no borrowing costs capitalised into the cost of mineral exploration and development costs held on the statement of financial position as at 31 December 2009 (2008: nil).

Notes to the Financial Statements

11. Other Assets

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current				
Prepayments	115	409	47	45
Non-current				
Environmental bonds receivable	3,978	4,603	-	-

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

12. Trade and Other Payables

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current				
Trade payables and accruals	6,624	9,827	1,132	867

Trade payables are non-interest bearing and are normally settled on 30 day terms. For terms and conditions relating to related party loans, refer to note 23.

13. Interest-Bearing Loans and Borrowings

	Maturity	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Current					
Bank loans (i)	2010	3,202	26	-	-
Factoring facility drawn down (ii)		3	1,103	-	-
		3,205	1,129	-	-
Non-current					
Bank loans (i)		-	10	-	-
Convertible notes (iii)	2011	11,987	19,918	24,368	23,955
		11,987	19,928	24,368	23,955

- (i) The bank loan is from Nordea Bank Finland Plc and was used to fund the development of the Jokisivu Gold Mine. The loan, half of which is guaranteed by the Finland State owned Finnvera Plc, was fully drawn down as at 31 December 2009, and is to be repaid in two equal instalments in June 2010 and December 2010. The interest rate on amounts drawn under the facility are charged at monthly euribor plus 3% and is payable monthly in arrears. The loan is denominated in euro and is secured by a first ranking fixed and floating charge over all the assets and undertakings of Polar Mining Oy including mortgages over key tenements.
- (ii) In Finland, there is a minimum six week delay between shipment of gold concentrate and payment by the refiner. In order to access funds for working capital, the Company established a factoring facility where funds can be drawn down from Nordea Bank for up to a maximum of 75% of gold concentrate delivered to the refiner. Interest is payable at one week Libor plus a credit margin of 1.35% on funds drawn down. In addition the facility attracts a collateral management fee and a credit insurance fee which insures 90% of the nominal value of an assigned invoice.
- (iii) 23,645,289 convertible notes were issued in 2006 at \$1.05 per note. The notes have a 10% coupon rate and are redeemable or convertible into ordinary shares in February 2011 on the basis of 6 shares for 1 convertible note. The convertible note is secured by a second ranking deed of fixed and floating security. Dragon Mining Investments Pty Ltd, a wholly owned subsidiary of Dragon Mining, purchased a further 7,959,135 Dragon Mining convertible notes ("Notes") during the year ended 31 December 2009 leaving 11,600,162 Notes remaining.

Notes to the Financial Statements

14. Provisions

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current				
Employee entitlements	1,288	1,443	86	67
Non-current				
Employee entitlements	50	73	50	73
Rehabilitation	4,976	5,102	-	-
	5,026	5,175	50	73
	Rehabilitation			
	\$'000			
Balance at 1 January 2009	5,102			
Additions	731			
Rehabilitation borrowing cost unwound	214			
Utilised	(61)			
Net foreign exchange movement	(1,010)			
Balance at 31 December 2009	4,976			

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

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

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

15. Other Liabilities

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Non-current				
Other	9	11	-	-

16. Contributed Equity

	2009	2008	2009	2008
	Number of Shares		\$'000	\$'000
Share Capital				
Ordinary shares, fully paid	737,345,151	737,345,151	103,488	103,488

Ordinary shares have the right to receive dividends as declared and entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. The Company has granted options to Directors and executives to subscribe for the Company's shares. Details of the options are provided at Note 28.

(a) Ordinary Shares Movements During the Period

There were no movements in ordinary shares during 2009 or 2008.

(b) Capital Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain

Notes to the Financial Statements

16. Contributed Equity (continued)

optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

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

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

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
Gearing ratio	20%	22%	46%	31%

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

17. Reserves

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Foreign currency translation reserve (i)	1,062	(6,682)	-	-
Option reserve (ii)	711	711	711	711
Convertible note premium reserve (iii)	2,068	2,068	2,068	2,068
	3,841	(3,903)	2,779	2,779
Movements in foreign currency translation reserve				
Balance at the beginning of period	(6,682)	(1,476)	-	-
Translation of foreign entities' statement of financial positions	7,744	(5,206)	-	-
Balance at the end of period	1,062	(6,682)	-	-
Movements in option reserve				
Balance at the beginning of period	711	711	711	711
Balance at the end of the period	711	711	711	711
Movements in convertible note premium reserve				
Balance at the beginning of period	2,068	2,068	2,068	2,068
Balance at the end of the period	2,068	2,068	2,068	2,068

Nature and Purpose of Reserves

Foreign Currency Translation Reserve

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

Option Reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to Note 28 for further details of these benefits.

Convertible Note Premium Reserve

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

Notes to the Financial Statements

18. Minority Interest in Controlled Entities

	2008
	\$'000
Minority interest comprises:	
- Share capital	4
- Accumulated profit	4
- Current profit for the period	1
	9

Kivijärvi OAO, which was 80% owned by Polar Mining OY, was sold on 15 December. The minority interest share of the current period loss for Kivijärvi OAO was \$9,000. Refer to Note 7 for details of the disposal.

19. Dividends Paid or Provided For

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

20. Director and Executive Disclosures

(a) Details of Key Management Personnel

Directors

AE Daley	Chairman (non-executive)
PG Cordin	Managing Director
MD Naylor	Finance Director
TT Järvinen	Director (non-executive)
MJ Makelä	Director (non-executive)
PL Munachen	Director (non-executive)
C Russenberger	Director (non-executive) (appointed 18 November 2009)

Executives

PA Collinson	Company Secretary
NM Edwards	Chief Geologist
HO Pöyry	Operations Manager – Polar Mining Oy
UO Kuronen	Manager Geology – Polar Mining Oy
KE Marttala	General Manager – Dragon Mining (Sweden) AB

Other than the appointment of Peter Lynton Gunzburg as a Non-Executive Director on 8 February 2010, there were no changes to Directors or key management personnel after reporting date and prior to the date when the financial report was authorised for issue.

Mr Daley and Mr Munachen have announced their resignations from Dragon Mining, effective 4 March 2010 and 1 March 2010 respectively.

(b) Compensation of Key Management Personnel

	Consolidated		Parent	
	2009	2008	2009	2008
<i>Key Management Personnel</i>	\$	\$	\$	\$
Short-term	1,946,028	1,689,323	1,191,816	948,273
Post-employment	267,226	248,512	75,222	66,532
Other long term benefits	-	2,679	-	2,679
Share-based payment	-	-	-	-
	2,213,254	1,940,514	1,267,038	1,017,484

Notes to the Financial Statements

20. Director and Executive Disclosures (continued)

(c) Option Holdings of Key Management Personnel

	Balance at beginning of period	Granted as remuneration	Options exercised	Forfeited	Balance at end of period	Vested as at 31 December 2009	
	1 January 2009				31 December 2009	Exercisable	Not Exercisable
Directors							
AE Daley	2,000,000	-	-	-	2,000,000	-	2,000,000
PG Cordin	4,000,000	-	-	-	4,000,000	4,000,000	-
MD Naylor	1,000,000	-	-	-	1,000,000	1,000,000	-
TT Järvinen	1,000,000	-	-	-	1,000,000	-	1,000,000
MJ Mäkelä	-	-	-	-	-	-	-
PL Munachen	1,000,000	-	-	-	1,000,000	-	1,000,000
C Russenberger (i)	-	-	-	-	-	-	-
Executives							
NM Edwards	500,000	-	-	-	500,000	500,000	-
HO Pöyry	500,000	-	-	-	500,000	500,000	-
UO Kuronen	500,000	-	-	-	500,000	500,000	-
KE Marttala	500,000	-	-	-	500,000	500,000	-
Total	11,000,000	-	-	-	11,000,000	7,000,000	4,000,000

(i) Appointed 18 November 2009.

	Balance at beginning of period	Granted as remuneration	Options exercised	Forfeited	Balance at end of period	Vested as at 31 December 2008	
	1 January 2008				31 December 2008	Exercisable	Not Exercisable
Directors							
AE Daley	2,000,000	-	-	-	2,000,000	-	2,000,000
PG Cordin	4,000,000	-	-	-	4,000,000	4,000,000	-
MD Naylor	1,000,000	-	-	-	1,000,000	1,000,000	-
TT Järvinen	1,000,000	-	-	-	1,000,000	-	1,000,000
MJ Mäkelä	-	-	-	-	-	-	-
PL Munachen	1,000,000	-	-	-	1,000,000	-	1,000,000
Executives							
NM Edwards	500,000	-	-	-	500,000	500,000	-
HO Pöyry	500,000	-	-	-	500,000	500,000	-
UO Kuronen	500,000	-	-	-	500,000	500,000	-
KE Marttala	500,000	-	-	-	500,000	500,000	-
Total	11,000,000	-	-	-	11,000,000	7,000,000	4,000,000

(d) Ordinary Shareholdings of Key Management Personnel

Shares held in Dragon Mining Limited	Balance 1 Jan 2009	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2009
(number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors					
AE Daley	310,000	-	-	-	310,000
PG Cordin	3,000,000	-	-	-	3,000,000
MD Naylor	447,500	-	-	-	447,500
Total	3,757,500	-	-	-	3,757,500

Notes to the Financial Statements

20. Director and Executive Disclosures (continued)

Shares held in Dragon Mining Limited	Balance 1 Jan 2008	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2008
(number)	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors					
AE Daley	310,000	-	-	-	310,000
PG Cordin	2,000,000	-	1,000,000	-	3,000,000
MD Naylor	447,500	-	-	-	447,500
Total	2,757,500	-	1,000,000	-	3,757,500

(e) Holdings of Convertible Notes of Key Management Personnel

Convertible Notes issued by Dragon Mining Limited held	Balance 1 Jan 2009	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2009
(number)					
Directors					
AE Daley	70,000	-	-	-	70,000
MD Naylor	11,500	-	-	-	11,500
Total	81,500	-	-	-	81,500

Convertible Notes issued by Dragon Mining Limited held	Balance 1 Jan 2008	Granted as remuneration	Net change other	Held at the date of resignation	Balance 31 December 2008
(number)					
Directors					
AE Daley	70,000	-	-	-	70,000
MD Naylor	11,500	-	-	-	11,500
Total	81,500	-	-	-	81,500

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

21. Remuneration of Auditors

The auditor of Dragon Mining Limited is Ernst & Young.

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
Remuneration of Ernst & Young (Australia) for:				
- auditing or reviewing accounts	85,500	80,300	83,500	65,000
- tax consulting	17,000	17,884	17,000	17,884
	102,500	98,184	100,500	82,884
Remuneration of Ernst & Young (other than Australia) for:				
- auditing or reviewing accounts	46,215	61,756	-	-
- tax consulting	7,066	6,685	-	-
	53,281	68,441	-	-
Remuneration of non-Ernst & Young audit firms for:				
- other services	19,245	9,992	-	-

Notes to the Financial Statements

22. 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 by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive options and dilutive convertible notes).

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

	Consolidated Entity	
	2009	2008
Basic earnings/(loss) per share		
Profit/(loss) used in calculation of basic earnings/(loss) per share (\$'000)	(7,977)	7,539
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	737,345,151	737,345,151
Basic earnings/(loss) per share (cents)	(1.08)	1.02
Diluted earnings/(loss) per share		
Profit/(loss) used in calculation of basic earnings/(loss) per share (\$'000)	(7,977)	7,539
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	737,345,151	737,345,151
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted EPS	737,345,151	737,345,151
Number of potential ordinary shares that are not dilutive and hence not included in calculation of diluted EPS	82,975,624	155,246,734
Diluted earnings/(loss) per share (cents)	(1.08)	1.02

There are no instruments (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

486,800 Dragon Mining Limited convertible notes were purchased on 3 February 2010 which will reduce the potential number of ordinary shares by 2,920,800. There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

23. Related Party Transactions

(a) Director Related Transactions

The Directors of Dragon Mining Limited at any time during the period were:

AE Daley

PG Cordin

MD Naylor

TT Järvinen

MJ Mäkelä

PL Munachen

C Russenberger (appointed 18 November 2009)

- (i) Golden Valley Services Pty Ltd, a subsidiary company of Coal of Africa Limited of which Mr PG Cordin is a Non-Executive Director, rents office premises to the Company. The rental amounted to \$95,864 for the year ended 31 December 2009 (2008: \$81,750).
- (ii) Coal of Africa Limited, of which Mr PG Cordin is a Non-Executive Director, invoices the Company for office services. This amount was \$27,955 for the year ended 31 December 2009 (2008: \$37,507). Additionally, the Company invoices Coal of Africa Limited for office services. This amount was \$29,060 for the year ended 31 December 2009 (2008: \$54,796).
- (iii) The Company has effected Directors' and Officers' Liability Insurance.

(b) Wholly Owned Group

Proceeds were transferred from Dragon Mining Limited to Dragon Resources Ltd, Dragon Mining (Sweden) AB ("DMS") (80% owned) and Polar Mining Oy ("Polar") to fund exploration and development activities. Ownership interests in these controlled

Notes to the Financial Statements

23. Related Party Transactions (continued)

entities are set out in Note 7.

Interest is charged at 10% (2008: 10%) on the loan to DMS giving rise to interest of \$1,737,667 for the year ended 31 December 2009 (2008: \$1,848,302). A 137,000,000 Swedish krona capital loan has been advanced to DMS that does not attract interest.

Interest is charged at 10% (2008: 10%) on the loan to Polar, payable on first written demand of the lender. Interest of \$1,498,600 for the year ended 31 December 2009 (2008: \$2,032,472) has arisen as a result of this loan. A 20,000,000 euro capital loan has been advanced to Polar, which is repayable on 31 October 2010 and does not attract interest.

Dragon Mining Investments Pty Ltd purchased 7,959,135 Dragon Mining convertible notes ("Notes") during the year. Proceeds were transferred to Dragon Mining Investments Pty Ltd to fund the purchase of the Notes. The Group paid \$6,696,596 to repurchase Notes with a "face value" of \$8,357,092. Interest is charged at 10% on this loan.

The balance of the inter-entity loan accounts between Dragon Mining Limited and its controlled entities is disclosed in Note 5.

(c) Associate

Dragon Mining has a 40% interest in Weld Range Metals Limited ("Weld Range Metals"), which owns the Weld Range tenements in Western Australia. Mr PG Cordin, Mr MD Naylor and Mr PL Munachen (resigned 22 February 2010) are Directors of Weld Range.

On 17 December 2009, Dragon Mining provided a \$940,000 loan to Weld Range Metals to fund its pro-rata share of the acquisition on the Weld Range tenements from the previous joint venture partners. Interest on the loan to Weld Range Metals is charged at the ANZ business mortgage rate plus 1% per annum. The loan has a fixed and floating charge over all of the assets of Weld Range Metals. Interest of \$3,541 was charged during the year.

24. Segment Reporting

Identification of reportable segments

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

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

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

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts and in the prior period except for intercompany loans which are initially recognised at the consideration received. Intercompany loans receivable and payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

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

The Sweden segment result includes derivative gains and losses relating to forward gold sales entered into as part of the initial financing of the Svartliden Gold Mine.

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

Major customers

The Group has one major customer to which it provides gold concentrate from the Vammala Production Centre in Finland. It accounts for 42% of external revenue (2008: 38%).

Notes to the Financial Statements

24. Segment Reporting (continued)

	Sweden	Finland	Unallocated	Total
	2009	2009	2009	2009
	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Gold sales to external customers	43,088	31,570	-	74,658
Interest revenue	31	18	86	135
Other revenue	-	230	-	230
Total revenue	43,119	31,818	86	75,023
Segment interest expense	2,013	1,482		3,495
Corporate interest expense				1,713
Elimination of inter-company interest expense charged to segments				(3,236)
Total interest expense				1,972
Depreciation and amortisation	6,007	5,626	6	11,639
Exploration expenditure written off	-	74	-	74
Segment profit				
Pre-tax segment profit	7,807	1,268		9,075
Unallocated items:				
Corporate interest revenue				86
Corporate costs				(2,345)
Finance costs				(1,713)
Gain on buyback of convertible notes				1,450
Gain on disposal of 60% of Weld Range Metals Limited				305
Share of losses of associate				(7)
Unallocated treasury losses relating to intercompany loans advanced by parent				(17,521)
Income tax expense				(712)
Elimination of inter-company interest expense and management fees in segment results				3,396
Loss after tax as per the statement of comprehensive income				(7,986)
Segment assets				
Segment operating assets	23,180	41,550		64,730
Unallocated items:				
Investment in associate				326
Other corporate assets				3,690
Deferred tax assets				3,314
Total assets				72,060
Segment acquisitions of non-current assets	3,733	9,831		13,564
Unallocated items:				
Corporate and other acquisitions				161
				13,725

Notes to the Financial Statements

24. Segment Reporting (continued)

	Sweden	Finland	Unallocated	Total
	2008	2008	2008	2008
	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Gold sales to external customers	43,249	26,731	-	69,980
Interest revenue	197	152	179	528
Other revenue	-	232	-	232
Total revenue	43,446	27,115	179	70,740
Segment interest expense	1,860	2,240		4,100
Corporate interest expense				2,902
Elimination of inter-company interest expense charged to segments				(3,881)
Total interest expense				3,121
Depreciation and amortisation	5,871	4,204	7	10,082
Exploration expenditure written off	-	6,397	657	7,054
Development expenditure written off	-	6,037	-	6,037
Segment profit/(loss)				
Pre-tax segment profit/(loss)	10,142	(14,933)		(4,791)
Unallocated items:				
Corporate interest revenue				178
Corporate costs				(1,747)
Finance costs				(2,901)
Gain on buyback of convertible notes				1,267
Unallocated treasury gains relating to intercompany loans advanced by parent				12,130
Income tax expense				(627)
Elimination of inter-company interest expense and management fees in segment results				4,031
Profit after tax as per the statement of comprehensive income				7,540
Segment assets				
Segment operating assets	29,084	46,298		75,382
Unallocated items:				
Corporate assets				4,682
Deferred tax assets				4,857
				84,921
Segment acquisitions of non-current assets	3,696	5,854		9,550
Unallocated items:				
Corporate acquisitions				4
				9,554

Notes to the Financial Statements

25. Joint Ventures

Zara (Gold) – Eritrea (20% Interest)

The Zara Joint Venture ("Joint Venture") comprises Licenses and is situated in northern Eritrea, approximately 160km northwest of Asmara city. The project is managed by Chalice Gold Mines Limited ("Chalice") and Dragon Mining has a 20% interest and is free carried through to completion of a bankable feasibility study.

Under the terms of the Joint Venture, Dragon Mining must repay its 20% contribution to expenditure above US\$3.3m from 50% of Dragon Mining's production cash flow from the Zara gold project. Dragon Mining has been advised by Chalice a total of US\$13.8m has been spent on the project as at 31 December 2009. Should the project be developed, Dragon Mining's share of the expenditure already incurred after the free carried interest would be US\$2.1m which would repayable from 50% of Dragon Mining's production cash flow from Zara. The Joint Venture is an unincorporated joint venture.

26. 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 parent entity and 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 are detailed below.

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	560	990	-	-
One year or later and no later than five years	2,581	2,724	-	-
	3,141	3,714	-	-

(b) Capital Commitments

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

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	20	-	-	-
One year or later and no later than five years	-	-	-	-
	20	-	-	-

(c) Operating Lease Expense Commitments

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

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	164	670	-	-
One year or later and no later than five years	12	24	-	-
	176	694	-	-

Notes to the Financial Statements

26. Expenditure Commitments (continued)

(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:

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	674	836	674	836
One year or later and no later than five years	114	133	114	133
	788	969	788	969

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.

27. Contingent Assets and Liabilities

Sami Claim

The Svartliden Gold Mine is located in the reindeer-herding area of the Vapsten Sami Community, which has appealed the Mines Inspector's decision concerning financial compensation for infringement on their reindeer-herding rights. The Regional Property Court awarded Vapsten compensation of SEK 480,000 (A\$77,000) which is approximately 120% more than the amount determined by the Mines Inspector. The decision of the Property Court was appealed and the High Court of Appeal initiated and managed mediation which took place in April 2008. The final position of the Vapsten Sami, however, included terms which were not acceptable to the Company, and the case was referred back to the High Court of Appeal. The High Court of Appeal visited the Svartliden Gold Mine in October 2009 to inspect the area and listen to representatives of the parties. Subsequently in January 2010, the Sami Community submitted their delayed comments to the Company's written submission of May 2009 along with, in the Company's opinion, a number of incorrect statements, which the Company will vigorously argue against. The Company will submit its response in February 2010 and a Court decision is expected in the first half of 2010.

28. Share-Based Payment Plans

Director and Executive Share Options

Directors, executives and certain members of staff of the consolidated entity hold options over ordinary shares of the Company. Each option entitles the holder to one ordinary share upon exercise. The options were issued for nil consideration and vest immediately. The options cannot be transferred without the Company's prior approval and the Company does not intend to list the options on ASX. No options provide dividend or voting rights to holders. The following share options were on issue as at 31 December 2009:

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
22 May 2006 (i)	500,000	22 May 2006	22 May 2006	n/a	\$0.175	\$0.05
7 Dec 2006 (ii)	1,000,000	7 Dec 2006	7 Dec 2006	n/a	\$0.14	\$0.05
7 Dec 2006 (ii)	1,000,000	7 Dec 2006	7 Dec 2006	n/a	\$0.175	\$0.04
7 Dec 2006 (iii)	4,000,000	7 Dec 2006	7 Dec 2006	n/a	\$0.21	\$0.04
7 Dec 2006 (iv)	2,000,000	7 Dec 2006	7 Dec 2006	n/a	\$0.21	\$0.04
8 Feb 2007 (v)	75,000	8 Feb 2007	8 Feb 2007	21 Dec 2011	\$0.21	\$0.05
8 June 2007 (vi)	4,800,000	8 June 2007	8 June 2007	8 June 2012	\$0.175	\$0.03
Options balance at end of period	13,375,000					

- (i) Issued to Mr MD Naylor.
- (ii) Issued to Directors as outlined in the Directors' Report and Note 20.
- (iii) 4,000,000 of these options were issued with terms specifying that in order to exercise the options, the volume weighted share price of Dragon Mining Limited must exceed \$0.25 for 5 consecutive days. There is no service condition attached to this award.
- (iv) Issued to PG Cordin.
- (v) Issued to an employee in place of partly paid shares which were cancelled in 2006.
- (vi) Issued to key employees in accordance with Dragon Mining Group Employee Incentive Option Plan.

Notes to the Financial Statements

28. Share-Based Payment Plans (continued)

(i) Option valuation

No share options were granted during 2009 or 2008.

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

WAEP = weighted average exercise price

	2009		2008	
	Number	WAEP	Number	WAEP
Outstanding at start of period	13,375,000	\$0.19	14,125,000	\$0.19
Granted during period	-	-	-	-
Forfeited during period	-	-	(750,000)	\$0.175
Balance at end of period	13,375,000	\$0.19	13,375,000	\$0.19
Exercisable at the end of period	13,375,000	\$0.19	13,375,000	\$0.19

(ii) Balance at end of period

The share options on issue at the end of the period had an exercise price of between \$0.14 and \$0.21. The 4,875,000 options with an expiry date had a weighted average remaining life of 2.4 years. The remaining 8,500,000 options had no expiry date.

29. 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 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 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) Net Fair Values

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1, with the exception of convertible notes. The fair values of the convertible notes and bank loans are shown in the table below and represent the market values as at 31 December 2009 and 31 December 2008.

	Consolidated Entity		Parent Entity	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
2009				
Bank loans	3,202	3,202	-	-
Convertible notes	11,987	11,600	24,368	23,645
2008				
Convertible notes	19,918	13,692	23,955	16,552

Notes to the Financial Statements

29. Financial Instruments (continued)

(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.

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 Scandinavian 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.

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.

Since the consolidated entity trades only with recognised third parties, there is no requirement for collateral.

(d) 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:

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	4,397	8,534	2,665	4,564
Receivables from associate	944	-	944	-
Environmental bonds	3,978	4,603	-	-
	9,319	13,137	3,609	4,564
Financial liabilities				
Bank loans	3,202	26	-	-
Factoring facility drawn down	3	1,103	-	-
	3,205	1,129	-	-

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

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

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

(e) Foreign Exchange Risk

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

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

Management, in conjunction with guidance from the Board, regularly reviews the need for foreign exchange hedging. Management will continue to monitor movements in exchange rates and may enter into derivative instruments if necessary. At present, the Group does not specifically hedge its exposure to foreign currency exchange rate movements.

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

Notes to the Financial Statements

29. Financial Instruments (continued)

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

(i) US dollar

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	264	1,408	1	1,068
Trade receivables	6,252	8,240	-	-
	6,516	9,648	1	1,068
Financial liabilities				
Factoring facility drawn down	3	1,103	-	-
Gold forward contracts	-	3,245	-	-
	3	4,348	-	-
Net exposure	6,513	5,300	1	1,068

(ii) Euro

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	-	1,228	-	1,228
Trade receivables	-	-	46,434	57,366
	-	1,228	46,434	58,594
Financial liabilities				
Bank loan	-	-	-	-
Net exposure	-	1,228	46,434	58,594

(iii) Swedish krona

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Trade and other receivables	-	-	21,338	34,859
Net exposure	-	-	21,338	34,859

(f) Commodity Price Risk

The Group is exposed to movements in the gold price.

As part of the initial financing of the Svartliden Gold Mine in Sweden, the Group entered into gold forward contracts to manage the gold price of a proportion of anticipated sales of gold. These contracts were closed out in August 2009.

Management, in conjunction with guidance from the Board, regularly reviews the need for gold derivatives. Management will continue to monitor movements in the gold price and may enter into derivative instruments if necessary.

The following tables summarise the US dollar gold derivatives facility held with Macquarie Bank Limited ("MBL").

Notes to the Financial Statements

29. Financial Instruments (continued)

	2009	2008	2009	2008
	Volume Ounces	Forward Price US\$	Volume Ounces	Volume Ounces
3 months or less*	-	-	4,750	409.09
	-	-	4,750	

* The forward contracts were on a monthly spot deferred basis.

The consolidated entity has a line of credit available from a major international bank for gold and foreign exchange forward contracts. This line of credit is unused and expires in March 2010. The security for this line of credit consists of:

- a first ranking fixed and floating charge over all the assets and undertakings of Dragon Mining Limited, Dragon Mining (Sweden) AB and Svartliden Gold Project assets together with a registered first ranking mortgage over the Svartliden Gold Project Exploitation Concessions and any other material tenements.
- a secured guarantee from Dragon Mining, including a first ranking share mortgage over Dragon Mining's shares in Dragon Mining (Sweden) AB, a fixed charge over the proceeds and the gold account.

The following table summarises the unrealised gains and losses recognised in the statement of comprehensive income on forward gold sales entered into as part of the initial financing of the Svartliden Gold Mine in Sweden, showing the periods in which they were expected to be realised:

	31 December 2008	
	Gains/(Losses)	Gains/(Losses)
	US\$ '000	A\$ '000
3 months or less	(2,241)	(3,245)
	(2,241)	(3,245)

At 31 December 2009, the gold price was US\$1,104/oz (31 December 2008: US\$881/oz).

(g) Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets and liabilities to interest rate risk, foreign exchange risk and gold price risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit and equity would have been affected as shown. The analysis has been performed on the same basis for 2009 and 2008.

Consolidated		Interest Rate Risk		Interest Rate Risk		Foreign Exchange Risk		Foreign Exchange Risk	
		-1%		+1%		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
31 December 2009		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets	Note								
Cash and cash equivalents	(i)	(44)	(44)	44	44	29	29	(24)	(24)
Trade receivables	(ii)	-	-	-	-	695	695	(568)	(568)
Receivables from associate	(iii)	(9)	(9)	9	9	-	-	-	-
Receivables/loans from controlled entities	(iv)	-	-	-	-	9,175	9,175	(7,507)	(7,507)
Environmental bonds	(v)	(40)	(40)	40	40	-	-	-	-
Financial liabilities									
Interest-bearing loans and borrowings	(vi)	32	32	(32)	(32)	-	-	-	-
Total increase/(decrease)		(61)	(61)	61	61	9,899	9,899	(8,099)	(8,099)

- (i) Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
- (ii) Trade receivables include A\$0.02m of gold bullion and A\$6.2m of gold concentrate receivables denominated in USD.
- (iii) Receivables from associate are denominated in AUD and are at floating exchange rates.
- (iv) Intercompany loans are denominated in AUD, SEK and euros. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in profit or loss.
- (v) Interest-bearing environmental cash bonds that have been deposited with Swedish and Finnish government authorities.
- (vi) A\$3.2m of the Group's borrowings are at a floating rate and are denominated in USD and euros.

Notes to the Financial Statements

29. Financial Instruments (continued)

Consolidated		Interest Rate Risk		Interest Rate Risk		Foreign Exchange Risk		Foreign Exchange Risk	
31 December 2008		-1%		+1%		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets	Note								
Cash and cash equivalents	(i)	(85)	(85)	85	85	293	293	(240)	(240)
Trade and other receivables	(ii)	-	-	-	-	916	916	(749)	(749)
Receivables/loans from controlled entities	(iii)	-	-	-	-	11,816	11,816	(9,668)	(9,668)
Environmental bonds	(iv)	(46)	(46)	46	46	-	-	-	-
Financial liabilities									
Interest-bearing loans and borrowings	(v)	11	11	(11)	(11)	(123)	(123)	100	100
Derivative financial instruments	(vi)	-	-	-	-	(361)	(361)	295	295
Total increase/(decrease)		(120)	(120)	120	120	12,541	12,541	(10,262)	(10,262)

- (i) Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates.
- (iv) Trade receivables include A\$0.1m of gold bullion and A\$8.1m of gold concentrate receivables denominated in USD.
- (v) Intercompany loans are denominated in AUD, SEK and euros. Though these loans are eliminated upon consolidation, changes in the value of the loans due to movements in exchange rates will have an effect on the consolidated result, since in accordance with Australian Accounting Standards, exchange gains or losses on intercompany loans that do not form part of a reporting entity's net investment in a foreign operation are recognised in profit or loss.
- (vi) Interest-bearing environmental cash bonds that have been deposited with Swedish and Finnish government authorities.
- (vii) A\$1.1m of the Group's borrowings are at a floating rate and are denominated in USD.
- (viii) Derivative financial instruments are gold forward contracts. The close-out value of these agreements is affected by the USD/AUD exchange rate, the gold price and lease rates.

Parent		Interest Rate Risk		Interest Rate Risk		Foreign Exchange Risk		Foreign Exchange Risk	
31 December 2009		-1%		+1%		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets									
Cash and cash equivalents	(i)	(27)	(27)	27	27	-	-	-	-
Receivables from associate	(ii)	(9)	(9)	9	9	-	-	-	-
Receivables from controlled entities	(iii)	-	-	-	-	7,530	7,530	(6,161)	(6,161)
Total increase/(decrease)		(36)	(36)	36	36	7,530	7,530	(6,161)	(6,161)

Parent		Interest Rate Risk		Interest Rate Risk		Foreign Exchange Risk		Foreign Exchange Risk	
31 December 2008		-1%		+1%		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets									
Cash and cash equivalents	(i)	(46)	(46)	46	46	255	255	(209)	(209)
Receivables from associate	(ii)	-	-	-	-	10,247	10,247	(8,384)	(8,384)
Total increase/(decrease)		(46)	(46)	46	46	10,502	10,502	(8,593)	(8,593)

- (i) Cash and cash equivalents are denominated in AUD, euros and USD and include deposits at call at floating and short-term fixed interest rates.
- (ii) Receivables from associate are denominated in AUD and are at floating exchange rates.
- (iii) Intercompany loans are denominated in AUD, SEK and euros.

Notes to the Financial Statements

29. Financial Instruments (continued)

(h) Liquidity Risk

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

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

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	11,047	16,255	3,177	3,350
One year or later and no later than five years(i)	12,317	22,832	25,093	27,590
Later than five years	9	11	-	-
	23,373	39,098	28,270	30,940

(i) A subsidiary of Dragon Mining holds Dragon Mining convertible notes with a face value of \$12,647,392 (2008: \$4,290,300) that have been excluded from the consolidated balance.

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

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

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

30. Significant Events After Period End

A further 486,800 Dragon Mining convertible notes ("Notes") were purchased on 3 February 2010. The Company paid \$487,624 to repurchase the Notes.

Mr Daley and Mr Munachen have announced their resignations from Dragon Mining, effective 4 March 2010 and 1 March 2010 respectively.

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

31. Impairment

The following are non-current assets that are subject to impairment testing as required under AASB 136 *Impairment of Assets* for the consolidated entity.

(a) Property, Plant and Equipment

At 31 December 2009 and 31 December 2008, certain items of property, plant and equipment were written down as they were considered obsolete.

(b) Capitalised Development and Exploration and Evaluation Expenditure

Accounting standards require an impairment test on the carrying value of assets at each balance date and assess whether there is any indication that an asset may be impaired.

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

As at 31 December 2009, given the profitable performance of the operations and the high gold price, there is no indicator that impairment exists.

As at the half year ended 30 June 2008, the recoverable amount testing was triggered by delays in production from the Sarvisuo ore lodes, additional development access to the ore zones and initial or grades being lower than forecast. The Company wrote down the carrying value of capitalised development expenditure at the Orivesi Gold Mine by \$6,037,330.

Notes to the Financial Statements

31. Impairment (continued)

Certain estimates and assumptions were required to be made including:

Estimate/Assumption	Basis – 2008 Half Year
Future cash flows	Life of mine plan
Future realised gold price	US\$850 per ounce
USD/EUR spot exchange rate	1.56
Discount rate	Industry Weighted Average Cost of Capital (WACC) of 10% real pre-tax.
Economically recoverable ore reserves	Ore reserves and mineral resource estimates in accordance with Australasian Code for Reporting of Exploration Results Mineral Resources and Ore Reserves as revised June 2005.

Consequently the Board determined at 30 June 2008 to review the carrying value of the other assets associated with Orivesi. As a result a further write down of capitalised exploration expenditure of \$6,396,611 was also taken. The large write down was attributable to the fair value allocation of assets to the Orivesi Gold Mine when Dragon Mining acquired Polar Mining Oy in 2004 for \$19,549,373 in cash and shares. A large amount of the purchase price was allocated to the Orivesi Gold Mine assets.

Lastly, as at 31 December 2008 a write down of the carrying value associated with Russian exploration assets of \$657,447 occurred.



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

Report on the Financial Report

We have audited the accompanying financial report of Dragon Mining Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(c), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Independent Audit Report



Auditor's Opinion

In our opinion:

1. the financial report of Dragon Mining Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Dragon Mining Limited and the consolidated entity at 31 December 2009 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 37 to 41 the directors' report for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Dragon Mining Limited for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

A stylized signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to be "R J Curtin".

R J Curtin
Partner
Perth
26 February 2010

Auditor's Independence Declaration



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Auditor's independence declaration to the directors of Dragon Mining Limited

In relation to our audit of the financial report of Dragon Mining Limited for the financial year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

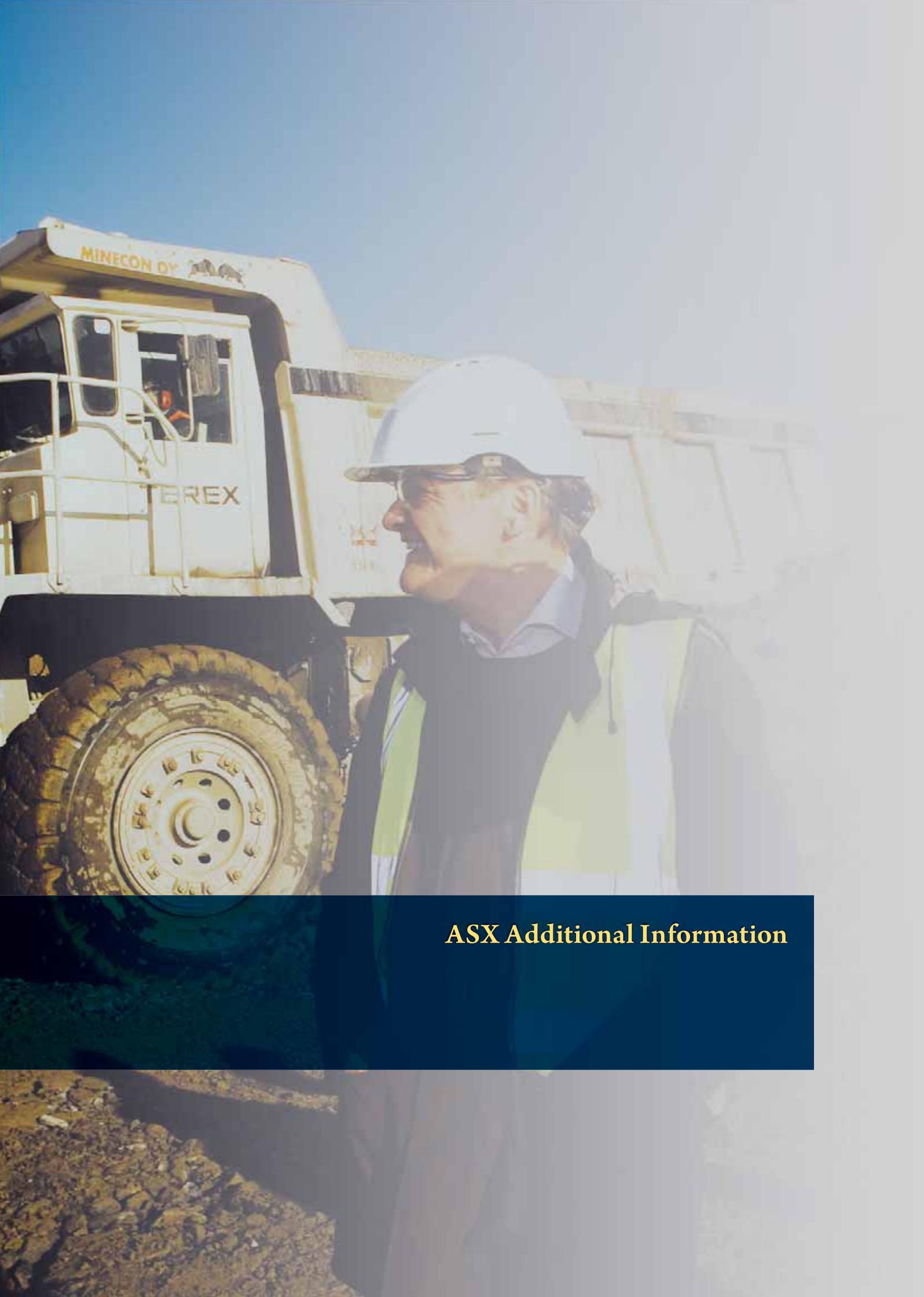
A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink, appearing to be 'R J Curtin', written in a bold, blocky style.

R J Curtin
Partner
Perth
26 February 2010

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ASX Additional Information

ASX Additional Information

Additional information as required by the Australian Securities Exchange and not shown elsewhere in this Report is as follows. The information is current as at 19 March 2010.

Statement of Listed Shareholdings

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

Spread of Holdings			Number of Holdings	Number of Units	Number of Total Issued Capital %
1	-	1,000	102	10,013	0.00
1,001	-	5,000	226	888,604	0.12
5,001	-	10,000	479	4,053,809	0.55
10,001	-	100,000	1,425	56,331,621	7.64
100,001	&	over	334	676,061,104	91.69
			2,566	737,345,151	100.00

The number of shareholders holding less than a marketable parcel is 361.

Top 20 shareholders of ordinary shares as at 19 March 2010

		Number of Shares	% Shares Issued
1.	ANZ Nominees Limited	320,171,695	43.42
2.	Brinkley Mining PLC	93,593,721	12.69
3.	HSBC Custody Nominees (Australia) Limited	40,405,459	5.48
4.	Citicorp Nominees Pty Limited	31,768,348	4.31
5.	Eurogold Limited	28,780,039	3.90
6.	Merrill Lynch (Australia) Nominees Pty Ltd	12,542,597	1.70
7.	Miningnut Pty Ltd	10,500,000	1.42
8.	JP Morgan Nominees Australia Limited	5,796,089	0.79
9.	Wolfgang Feldhus	4,200,000	0.57
10.	National Nominees Limited	3,654,456	0.50
11.	Paul Jason Melrose	3,378,090	0.46
12.	Cordin Pty Ltd (The Cordin Super Fund)	3,000,000	0.41
13.	Campbell Kitchener Hume & Associates Pty Ltd	2,705,000	0.37
14.	Ignatius LIP Pty Ltd (Super Fund A/C)	2,500,000	0.34
15.	Betty Callaghan	2,322,863	0.32
16.	Queensland Investment Corporation	2,118,317	0.29
17.	Radek Bures	2,000,000	0.27
18.	Nigel Cameron Pye	2,000,000	0.27
19.	Denman Investments Limited	1,993,900	0.27
20.	William Jangsing Lee	1,852,727	0.25

The portion of shares held by the 20 largest shareholders in the Company is 78.03%.

Voting Rights

All ordinary shares carry one vote per share without restriction.

ASX Additional Information

The distribution of convertible notes in the Company is as follows:

Spread of Holdings			Number of Holdings	Number of Units	Number of Total Issued Notes %
1	-	1,000	1	1,000	0.00
1,001	-	5,000	41	120,000	0.51
5,001	-	10,000	11	98,600	0.42
10,001	-	100,000	30	1,065,091	4.50
100,001	&	over	10	22,360,598	94.57
			93	23,645,289	100.00

The number of convertible note holders holding less than a marketable parcel is nil.

Top 20 convertible note holders as at 19 March 2009

		Number of Notes	% Notes Issued
1.	Dragon Mining Investments Pty Ltd	12,531,935	53.00
2.	ANZ Nominees Limited (Cash Income A/C)	5,923,024	25.05
3.	National Nominees Limited	1,494,450	6.32
4.	HSBC Custody Nominees (Australia) Limited	923,033	3.90
5.	Peter Alfred Ternes	462,000	1.95
6.	Mannwest Group Pty Ltd	300,000	1.27
7.	Mannkal Economic Education Foundation	250,000	1.06
8.	Aggregated Capital Pty Ltd	200,000	0.85
9.	Goffacan Pty Ltd	161,156	0.68
10.	Citicorp Nominees Pty Limited	115,000	0.49
11.	Aldershot Pty Ltd	80,000	0.34
12.	Andrew Daley & Ineke Daley	70,000	0.30
13.	Terence Michael Rohde & Beverley Megal Rohde	58,400	0.25
14.	Carmant Pty Ltd	57,422	0.24
15.	John Gerard Davies & Eric John Hodgins	50,000	0.21
16.	Dyspo Pty Ltd	50,000	0.21
17.	Peter Lynton Gunzburg	50,000	0.21
18.	Merrill Lynch (Australia) Nominees Pty Ltd	50,000	0.21
19.	Bryan Milner & Marie Anders	50,000	0.21
20.	Nefco Nominees Pty Ltd	50,000	0.21

The portion of convertible notes held by the 20 largest convertible note holders in the Company is 96.96%.

Voting Rights

One vote for each note, but limited to matters affecting the rights of such notes.

ASX Additional Information

Option Holders

Name	Number of Options	Number of Holders
Employees of Dragon Mining Limited's subsidiary companies		
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.175 per share.	3,800,000	17
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.21 per share.	75,000	1
Employees of Dragon Mining Limited		
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.175 per share.	500,000	1
Directors of Dragon Mining Limited		
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.21 per share. Hurdles apply.	4,000,000	3
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.14 per share. No hurdle.	1,000,000	1
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.175 per share. No hurdle.	2,000,000	1
- Entitle the holder to subscribe for ordinary shares at an exercise price of \$0.21 per share. No hurdle.	2,000,000	1

Voting Rights

Option holders have no voting rights.

Substantial Shareholders

The substantial shareholders pursuant to the provisions of the Corporations Act are as follows:

Name	Number of Shares	% of Contributing Shares
Nicolas Mathys	130,141,865	17.65
Eurogold Limited/Brinkley Mining PLC/Allied Properties Limited	123,213,760	16.71

There were no unquoted equity securities shareholdings greater than 20%.

Corporate Directory

Directors

Executive Chairman - Peter George Cordin
Finance Director - Michael Dylan Naylor
Non-Executive Director - Toivo Tapani Järvinen
Non-Executive Director - Markku Juhani Mäkelä
Non-Executive Director - Christian Russenberger
Non-Executive Director - Peter Lynton Gunzburg

Company Secretary

Pauline Anne Collinson

Registered Office

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ABN

19 009 450 051

Share Registry

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Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000

Contact Information

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From Overseas: 61 3 9415 4000
Facsimile: 61 3 9473 2500
Email: web.queries@computershare.com.au
Website: www.computershare.com

Stock Exchange

ASX Limited
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2 The Esplanade
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Quoted on the official list of the Australian Securities Exchange.

ASX Ordinary Share Code: DRA

ASX Company Convertible Note Code: DRAG

Auditors

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

Legal Advisors

Clayton Utz
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Perth, Western Australia 6000

Bankers

Nordea Bank Finland Plc
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Helsinki, Finland

Macquarie Bank Limited
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National Australia Bank
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