
DRAGON MOUNTAIN GOLD LIMITED

ACN 111 005 282

NOTICE OF GENERAL MEETING

TIME: 10.15 am (WST)

DATE: 5th July 2012

PLACE: Celtic Club
48 Ord Street
West Perth, Western Australia

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9215 6300.

CONTENTS PAGE

Business of the Meeting (setting out the proposed resolutions)	3
Explanatory Statement (explaining the proposed resolutions)	4
Glossary	15
Schedule 1 – Pro-forma consolidated statement of financial position	16
Proxy Form	(Enclosed)

IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.15 am (WST) on 5th July 2012 at:

Celtic Club
48 Ord Street
West Perth, Western Australia

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important.

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders at 10.15 am (WST) on 3 July 2012.

VOTING IN PERSON

To vote in person, attend the General Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes is set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

BUSINESS OF THE MEETING

Notice is given that a General Meeting of Shareholders will be held 10.15 am (WST) on 5th July 2012 at the Celtic Club, 48 Ord Street, West Perth, Western Australia.

The Explanatory Statement provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 5pm (WST) on 29th June 2012. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

AGENDA

SPECIAL BUSINESS

1. RESOLUTION 1 – APPROVAL OF CAPITAL REDUCTION

Subject to the passing of Resolution 2, to consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

*“That, for the purposes of Part 2J.1 of the Corporations Act and for all other purposes, approval is given for the Company to reduce its issued capital by approximately \$150,000,000 by way of an equal capital reduction, which is to be effected by the Company making a payment to all holders of Shares registered at 5pm (WST) on 13th July 2012 (**Record Date**), of:*

- (a) *an unfranked dividend of \$0.4497; and*
- (b) *a return of capital of \$0.1195,*

for each Share held by them on the Record Date, and otherwise on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

2. RESOLUTION 2 – AMENDMENT TO CONSTITUTION

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

“That for the purpose of Section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to amend the Constitution with immediate effect as set out in the Explanatory Statement.”

DATED: 1ST JUNE 2012

BY ORDER OF THE BOARD

**ROBERT GARDNER
DIRECTOR**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Meeting.

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

RESOLUTION 1 – APPROVAL OF CAPITAL REDUCTION

1. BACKGROUND AND OVERVIEW OF THE CAPITAL REDUCTION

The Company currently holds 83.6% of the issued capital of Warrior Advance Pty Ltd (**Warrior**), with the remaining 16.4% held by Kostar Investments Limited. Warrior held 100% of the issued capital of Long Province Resources Limited (**LPR**), a company incorporated in Hong Kong.

On 15th December 2011, the shareholders of the Company approved the sale by Warrior, of 100% of the issued capital of Long Province Resources Limited. The sale was completed on 30th December 2011.

Warrior has now advised the Company that it will declare a dividend and return of capital to be payable on or about 3rd July 2012. The Company's entitlement is approximately \$123.1 million. The Directors consider that this, together with an increase in the cash resources of the Company resulting from repayment of loans, will result in the Company having cash resources which are in excess of its foreseeable cash requirements.

Shareholders are being asked to consider and pass a Resolution authorising the Company to reduce its share capital by returning to each Shareholder an amount equal to \$0.5692 (comprising of an unfranked dividend of \$0.4497 and a return of capital of \$0.1195) per Share held by them at 5pm (WST) on 13th July 2012, representing a total return to shareholders of approximately \$150,000,000.¹

The money that will be used to make the payments to relevant Shareholders in respect of the Capital Reduction will be sourced from the Company's existing cash reserves.

Shareholders are entitled to participate in the return of capital if they are registered as holders of Shares at 5pm (WST) on 13th July 2012. The terms of the reduction are the same for each Shareholder.

For the purposes of the Corporations Act, the proposed return of capital is an "equal" reduction of capital which requires the approval of shareholders by ordinary resolution in general meeting. Accordingly, for the proposed return of capital to proceed, a majority of votes must be cast in favour of Resolution 1.

The purpose of this Explanatory Statement is to provide Shareholders with the information which the Directors believe to be material to Shareholders in deciding whether or not to pass Resolution 1.

¹. Calculated on the basis that as at the Record Date the Company has 263,530,515 Shares on issue (after the expected exercise of 4,720,000 options to acquire shares at an exercise price of 40 cents).

2. REQUIREMENTS FOR THE CAPITAL REDUCTION

The proposed reduction of capital is an equal capital reduction as:

- (a) it relates only to Shares;
- (b) it applies to Shareholders in proportion to the number of Shares they hold; and
- (c) the terms of the reduction will be the same for each Shareholder.

Under Section 256C of the Corporations Act, the proposed reduction of capital must be approved by an ordinary resolution passed at a general meeting of the Company.

Under Section 256B of the Corporations Act, the Company may only reduce its capital if it:

- (a) is fair and reasonable to Shareholders as a whole;
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders in accordance with Section 256C of the Corporations Act.

The Directors believe that:

- (a) the Capital Reduction is fair and reasonable to Shareholders as a whole for the reasons set out throughout this Explanatory Statement; and
- (b) the Capital Reduction will not prejudice the Company's ability to pay its creditors.

Resolution 1 requires the approval of Shareholders in accordance with Section 256C of the Corporations Act. The Notice of Meeting notifies Shareholders of the Meeting at which approval of Resolution 1 is being sought.

3. RATIONALE FOR THE CAPITAL REDUCTION

The primary purpose for the Capital Reduction is to distribute the Company's surplus capital to Shareholders.

The Board has considered the alternatives available to the Company regarding the application of its cash reserves. The Board is of the opinion that a return of capital to Shareholders on the terms set out in this Notice is the optimal use of the cash reserves for Shareholders for the following reasons:

- (a) the amount proposed to be returned to Shareholders is in excess of the Company's needs;
- (b) the Board is not aware of any current strategic investment opportunities, nor is the Board aware of or expects any to arise in the near term, which are consistent with the Company's business objectives or business plan; and

- (c) the cash reserves of the Company following the proposed return of capital will continue to be at a level to meet all reasonably foreseeable costs.

The Capital Reduction, if implemented, will return funds to Shareholders at a rate of \$0.5692 per Share (comprising of an unfranked dividend of \$0.4497 and a return of capital of \$0.1195).

The Board considers that the Capital Reduction is fair and reasonable to Shareholders as it will apply to all Shareholders equally.

4. ADVANTAGES AND DISADVANTAGES OF THE CAPITAL REDUCTION

The principal advantages and disadvantages to Shareholders of the Capital Reduction are as follows:

4.1 Advantages

The Board considers the following to be advantages of the proposed Capital Reduction to Shareholders:

- (a) **Effective capital management strategy:** the Board believes that the Capital Reduction represents an effective capital management strategy which is in the interests of Shareholders;
- (b) **No brokerage:** no brokerage is payable by Shareholders in connection with the Capital Reduction; and
- (c) **Unfranked Dividend:** Shareholders will receive \$0.5692 per Share which is comprised of an unfranked dividend of \$0.4493 and a return of capital of \$0.1199.

4.2 Disadvantages

The Board considers the following to be disadvantages of the proposed Capital Reduction to Shareholders:

- (a) **Cash reserves:** the Capital Reduction will diminish the Company's cash reserves; and
- (b) **Transaction costs:** the Company will incur transaction costs in connection with it undertaking the Capital Reduction.

5. INDICATIVE TIMETABLE

Subject to the Corporations Act requirements, the Company anticipates completion of the Capital Reduction in accordance with the following timetable (which is subject to change by the Company):

Company dispatches Notice of Meeting	*6 th June 2012
Cut off dates for lodging Proxy Form	*10.15 am (WST) 3 rd July 2012
Snapshot date for eligibility to vote at the General Meeting	*10.15 am (WST) 3 rd July 2012
General Meeting to approve the Capital Reduction	* 10.15 am (WST) 5 th July 2012

Record Date for determining entitlement to participate in Capital Reduction

*5 pm (WST) 13th July 2012

Distribution of payments to Shareholders under the Capital Reduction

*20th July 2012

**All dates and times are indicative only. The Company reserves the right to vary these dates and times.*

All dates and times refer to time observed in Perth, Western Australia.

6. OTHER INFORMATION FOR SHAREHOLDERS

6.1 Record Date

The Record Date is 13th July 2012.

6.2 Eligibility

All Shareholders who are:

- (a) registered as such as at 5pm (WST) on the Record Date; or
- (b) entitled to be registered as a Shareholder in the Company by virtue of a transfer of Shares executed before 5pm (WST) on the Record Date and lodged with the Company at that time,

will be entitled to participate in the Capital Reduction.

6.3 Amount of entitlement

Each Shareholder who is entitled to participate in the Capital Reduction will receive \$0.5692 per Share comprising of:

- (a) an unfranked dividend of \$0.4497; and
- (b) a return of capital of \$0.1195,

as a cash payment for each Share they hold at the Record Date.

6.4 Payment details

If Resolution 1 is approved by Shareholders, payments will be made on or about 20th July 2012. Shareholders will receive payment by way of cheque.

7. EFFECT OF PROPOSED CAPITAL REDUCTION ON THE COMPANY

Pro-Forma Statement of Financial Position

Set out in Schedule 1 is a projected consolidated statement of financial position of the Company as at 3rd July 2012, together with the pro-forma consolidated statement of financial position following completion of the Capital Reduction.

The pro-forma consolidated statement of financial position is provided as a guide only and does not contain all the disclosures that are usually provided in accounts included in an annual report prepared in accordance with the Corporations Act and does not represent the future financial position or prospects of the Company.

What is the effect on the Company's financial position?

The Board believes that the Company has cash reserves which are sufficient to fully fund the return of capital and to retain sufficient cash reserves for the purposes of the Company.

The Company does not believe that it will fully utilise its existing surplus cash reserves in the short to medium term and believes it is better to return the surplus to Shareholders.

The return of capital will reduce the profitability of the Company due to forgone interest income.

What is the effect on the Company's contributed equity

On completion of the Capital Reduction, the Company expects the contributed equity of the Company will be reduced by approximately \$150,000,000².

What is the effect on the Company's capital structure?

The return of capital will have no effect on the total number of Shares on issue as no Shares will be cancelled under the Capital Reduction. The Company expects a total of 4,720,000 Options will be exercised prior to the Record Date.

What is the impact on the dividend strategy of the Company?

The Company proposes to pay an unfranked dividend of \$0.4497 per Share to Shareholders separately to the Capital Reduction.

What is the impact on the Company's growth strategies?

It is the opinion of the Board that because of the current financial position of the Company, the Board's current intentions in relation to potential investment opportunities which are currently available and which the Board can reasonably foresee, and the capacity of the Company to raise additional finance if required, the Capital Reduction will not materially impact the Company's ability to fund its business operations.

What are the tax implications for the Company?

No adverse tax consequences are expected to arise for the Company as a result of the return of capital.

8. EFFECT OF THE PROPOSED EQUAL CAPITAL REDUCTION ON THE COMPANY'S CREDITORS

The Capital Reduction involves a reduction in the Company's paid up share capital (contributed equity). The Board considers that the Capital Reduction does not materially prejudice the Company's ability to pay its creditors.

² Calculated on the basis that as at the Record Date the Company has 263,530,515 Shares on issue (after the expected exercise of 4,720,000 Options).

9. EFFECT OF THE CAPITAL REDUCTION ON THE COMPANY'S SHAREHOLDERS

Subject to Shareholders approving Resolution 1, the Company will undertake a distribution of capital to Shareholders. Shareholders will be entitled to receive \$0.5692 comprising of:

- (a) an unfranked dividend of \$0.4497; and
- (b) a return of capital of \$0.1195

for every Share held on the Record Date.

The Capital Reduction will have no effect on the number of Shares held by Shareholders or on their proportionate interest in the share capital of the Company.

The Company has no partly paid shares on issue on issue. Accordingly, the Capital Reduction will have no effect on the amount unpaid on any of the Company's securities.

At the date of payment of the proposed return of capital, the Company expects to have 1,170,000 Options outstanding, comprising of 1,170,000 Options exercisable at 60 cents expiring on 23rd July 2012.

Under ASX Listing Rule 7.22.4, the exercise price of outstanding options will be reduced by the amount of the return of capital (ie \$0.1195 per Share) on the date of payment of the proposed return of capital.

In the event that Shareholder approval of Resolution 1 is not obtained, the proposed distribution of capital to Shareholders will not occur.

The proposed timetable for the transaction is set out in Section 5 of this Explanatory Statement.

What will you receive?

If the Capital Reduction is implemented, eligible Shareholders (being Shareholders recorded in the Company share register at 5pm (WST) on the Record Date) will receive \$0.5692 (comprising of an unfranked dividend of \$0.4497 and a return of capital of \$0.1195) for each Share held.

What is the impact on your shareholding in the Company?

The number of Shares in the Company that you hold will not change as a result of the Capital Reduction.

If the Capital Reduction is implemented, the value of your Shares may fall after the Capital Reduction is implemented.

Do you have to do anything to receive the payment?

If the Capital Reduction proceeds, you will automatically receive the funds you are entitled to receive, even if you vote against the capital reduction or do not vote at all.

Shareholders will receive payment by way of cheque.

What are the taxation implications of the Capital Reduction?

A general guide to the taxation implications for Shareholders of the Capital Reduction is set out in Section 11 of this Notice.

10. INFORMATION CONCERNING THE COMPANY'S SHARES

The rights attaching to Shares in the Company will not alter as a result of the Capital Reduction.

11. TAXATION

11.1 Introduction

This section summarises the expected tax treatment for Shareholders. This section is not intended to be an authoritative or complete analysis of the taxation laws applicable to the particular circumstances of Shareholders.

Shareholders should seek their own independent taxation advice, specific to their own circumstances, in order to determine their own tax implications resulting from the proposed Capital Reduction and Dividend.

The Capital Reduction is expected to be \$0.1195 per share and will be treated as a return of capital for tax purposes.

The Dividend is expected to be \$0.4497 per share and will be treated as an unfranked dividend for tax purposes. It is expected that 100% of the unfranked dividend will be Conduit Foreign Income (**CFI**).

11.2 Expected tax treatment of the Capital Reduction

The tax implications of the Capital Reduction will vary depending on each Shareholder's particular circumstances. The Board highly recommends that Shareholders seek their own independent advice as to the tax implications based on their own circumstances.

The outline below does not take into account or anticipate changes in the law (by legislation or judicial decision). In addition, the outline is not exhaustive of all income tax, capital gains tax (**CGT**) and goods and services tax (**GST**) considerations which may apply in the circumstances of any given Shareholder. If a Shareholder is engaged in a business of trading or investment, banks, insurance companies, tax exempt organisations, superannuation funds, persons who are temporary residents for Australian tax purposes will or may be subject to different tax consequences specific to their circumstance.

Income Tax and Capital Gains Tax Issues

The taxation consequences associated with the Capital Reduction will depend upon whether the Shareholder holds the Shares on Capital or Revenue Account. Specifically, this tax advice summary only outlines the position for Shareholders who hold their Shares on Capital Account. Shareholders who hold their Shares on other than Capital Account (i.e. on Revenue Account or as Trading Stock) will be taxed under the general provisions of the income tax law and not under the provisions that apply to capital transactions.

The Capital Reduction may result in CGT Event G1 – Capital Payment for Shares, being triggered. CGT Event G1 occurs when a company makes a return of capital where some or all of the payment (the non-assessable part) is not a

dividend and the payment is not included in the Shareholder's assessable income. The Capital Reduction will result in the cost base of the Shares being reduced.

A Shareholder will derive a capital gain where the amount of Capital Reduction exceeds their cost base. Any capital gain is to be included in the Shareholder's assessable income in the income year the Capital Reduction is made.

If a Shareholder is an individual or complying superannuation fund it may be entitled to reduce any net capital gain on its shares by the CGT discount if they have held their shares for at least 12 months. The discount is 50% for individuals and 33.33% for complying superannuation funds. A company is not entitled to the CGT discount.

GST Considerations

If a Shareholder is registered, or required to be registered for GST it will also need to consider whether there is a GST impact.

A supply of shares is an input taxed (exempt) supply for GST purposes. Consequently, the Capital Reduction paid to a Shareholder to the Company will not give rise to any GST liability.

It is recommended that Shareholders seek independent advice as to the GST consequences for them.

11.3 Expected tax treatment of the Dividend including a distribution of CFI

The taxation implications of the Dividend will vary depending on each Shareholder's particular circumstances. Shareholders should seek their own independent advice as to the tax implications based on their own circumstances.

Generally, the taxation consequences associated with the Dividend are that the Dividend will be treated as assessable income in the year it is paid. The Dividend will be an unfranked dividend. The Dividend statement will outline how much of the unfranked part of the Dividend is declared to be CFI. The board intends to declare 100% of the Dividend to be CFI.

Foreign Shareholders

Generally, dividends paid to non-residents are not subject to Australian income tax. The Dividend paid to a non-resident Shareholder will be exempt from Australian withholding tax as the unfranked portion of the Dividend is sourced is from CFI.

Resident Shareholders

The Dividend paid to resident Shareholders will be taxable and consequently included in the assessable income of the Shareholder.

Resident Corporate Shareholders

Generally, dividends paid to a resident corporate Shareholder will be taxable to the Shareholder. However, if the corporate Shareholder pays an unfranked dividend (that it declares to be CFI) within a certain time frame it will not have to pay tax on the Dividend. There are specific rules dealing with CFI and these should be closely reviewed by corporate Shareholders.

Resident Trust Shareholders

The Dividend paid to a resident trust Shareholder will retain its CFI characteristics and will be included as assessable income.

12. DIRECTORS' INTERESTS AND RECOMMENDATIONS

Set out below is a table which indicates the securities in which the Directors have an interest prior to the Capital Reduction and the amount they are likely to receive if Resolution 1 is passed and implemented:

Director	Company Shares	Options	Amount likely to be received if the Resolutions are passed and implemented
Robert Gardner	51,316,817	3,000,000 ¹ .	\$30,917,132
Paul Piercy	100,000	660,000 ² .	\$432,592
Ben Zhu	0	0	0

1. 1,500,000 exercisable at 20 cents and 1,500,000 exercisable at 25 cents, expiring 8th October 2013. It is expected these will be exercised before the Record Date.
2. 330,000 exercisable at 20 cents and 330,000 exercisable at 25 cents, expiring 30th April 2015. It is expected these will be exercised before the Record Date.

After considering all relevant factors, the Directors recommend that Shareholders vote in favour of Resolution 1 for the following reasons:

- (a) after a full and proper assessment of all available information they believe that the proposed transaction is in the best interests of the Company's Shareholders; and
- (b) in the opinion of the Directors, the benefits of the proposed transaction outweigh its disadvantages.

Each Director who is entitled to vote intends to vote the Shares held by him in favour of Resolution 1.

13. OTHER MATTERS

13.1 Lodgement with ASIC

The Company has lodged with the ASIC a copy of this Notice in accordance with Section 256C(5) of the Corporations Act. Copies of documents lodged in relation to the Company may be obtained for a fee from, or inspected at, an office of ASIC.

13.2 Other material information

There is no information material to the making of a decision by a Shareholder in the Company whether or not to approve Resolution 1 (being information that is known to any of the Directors and which has not been previously disclosed to Shareholders in the Company) other than as disclosed in this Explanatory Statement and all relevant annexure.

13.3 Resolution 1 Conditional on passing of Resolution 2

Resolution 1 is subject to, and conditional on, the passing of Resolution 2.

14. RESOLUTION 2 – AMENDMENT TO CONSTITUTION

14.1 General

A company may modify or repeal its constitution or a provision of its constitution by special resolution of Shareholders.

Resolution 2 is a special resolution which will enable the Company to amend its constitution (**Proposed Amendment**).

This will incorporate amendments to the Corporations Act since the current Constitution was adopted in 2007.

The Directors believe that it is preferable in the circumstances to amend the existing Constitution by implementing the Proposed Amendment rather than to replace the Constitution.

The Proposed Amendment is broadly consistent with the provisions of the existing Constitution.

The Directors believe the Proposed Amendment is not material nor will it have any adverse impact on Shareholders as it is an amendment to bring the Constitution into line with the Corporations Act. It is not practicable to list all of the changes to the Constitution in detail in this Explanatory Statement. However, a summary of the Proposed Amendment is set out below.

A copy of the Proposed Amendment is available for review by Shareholders at the at the Company's website www.dragonmountain.com.au/ and at the office of the Company. A copy of the Proposed Amendment can also be sent to Shareholders upon request to the Company Secretary +61 8 9215 6300. Shareholders are invited to contact the Company if they have any queries or concerns.

14.2 Summary of Proposed Amendment

Dividends (clause 27)

Section 254T of the Corporations Act was amended effective 28th June 2010.

There is now a three-tiered test that a company will need to satisfy before paying a dividend replacing the previous test that dividends may only be paid out of profits.

The amended requirements provide that a company must not a pay a dividend unless:

- (a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and
- (c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

The existing Constitution reflects the former profits test and restricts the dividends to be paid only out of the profits of the Company. The Proposed Amendment reflects the new requirements of the Corporations Act. The Directors consider it appropriate to amend the Constitution for this amendment to allow more flexibility in the payment of dividends, as contemplated by Resolution 1.

14.3 Recommendation of the Board

The Directors do not believe the potential disadvantages outweigh the potential advantages of adopting the Proposed Amendment to the Constitution and as a result consider that the Proposed Amendment is in the interest of Shareholders and unanimously recommend that Shareholders vote in favour of Resolution 2.

GLOSSARY

\$ means Australian dollars.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Capital Reduction means the proposed return of capital in accordance with Resolution 1 of this Notice of Meeting.

Company means Dragon Mountain Gold Limited (ACN 111 005 282).

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

General Meeting or **Meeting** means the meeting convened by the Notice.

Notice or **Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement and the Proxy Form.

Option means an option to acquire a Share.

Proxy Form means the proxy form accompanying the Notice.

Record Date means 5pm (WST) on 13th July 2012.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

WST means western standard time as observed in Perth, Western Australia.

SCHEDULE 1 - PRO FORMA STATEMENT OF FINANCIAL POSITION

	Audited Interim 31 Dec 11 \$'000	Projected Unaudited 3 July 12 \$'000	Pro-forma transactions \$'000	Unaudited Pro-forma \$'000
CURRENT ASSETS				
Cash and cash equivalents	151,620	156,075	(150,001)	6,074
Trade and other receivables	24,254	12	-	12
Other current assets	96	-	-	-
TOTAL CURRENT ASSETS	175,970	156,087	(150,001)	6,086
NON-CURRENT ASSETS				
Property, plant and equipment	68	31	-	31
Exploration assets	-	-	-	-
TOTAL NON-CURRENT ASSETS	68	31	-	31
TOTAL ASSETS	176,038	156,118	(150,001)	6,117
CURRENT LIABILITIES				
Trade and other payables	853	179	-	179
Financial liabilities	1,100	-	-	-
Employee benefits	9	13	-	13
Current tax liability	-	-	-	-
Deferred Tax Liability	-	-	-	-
TOTAL CURRENT LIABILITIES	1,962	192	-	192
TOTAL LIABILITIES	1,962	192	-	192
NET ASSETS	174,076	155,926	(150,001)	5,925
EQUITY				
Issued capital	60,104	63,589	(31,492)	32,097
Reserves	2,585	-	-	-
Retained earnings	87,283	92,336	(118,409)	(26,173)
Total Equity attributable to owners of the parent	149,972	155,925	(150,001)	5,924
Non-controlling interest	24,104	1	-	1
TOTAL EQUITY	174,076	155,926	(150,001)	5,925

Notes:

1. Significant Accounting Policies

The significant accounting policies that have been adopted in the preparation of the financial information are:

(a) Basis of Preparation

The financial information has been prepared in accordance with the recognition and measurement but not all disclosures requirements of the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

(b) **Historical cost convention**

The financial information has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets for which the fair value basis of accounting has been applied.

(c) **Principles of consolidation**

Subsidiaries

A controlled entity (or **subsidiary**) is any entity Dragon Mountain Gold Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where subsidiaries have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

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

2. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

3. Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the balance sheet 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:

- (a) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- (b) when the taxable temporary difference is associated with investments in subsidiaries, Associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- (i) when the deferred income tax asset relating to the deductible temporary difference 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 profit nor taxable profit or loss; or
- (ii) when the deductible temporary difference is associated with investments in subsidiaries, Associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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 taxation authority.

4. Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of all of its investments at initial recognition.

Loans and receivables

Loans and other receivables are included in trade and other receivables. 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.
Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or exploration asset is impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss for the period.,

Cash and Cash Equivalents

	Audited Interim 31 Dec 11	Projected Unaudited 3 July 12	Unaudited Pro forma 3 July 12
	\$'000	\$'000	\$'000
Cash at bank	151,620	156,075	156,075
<i>Adjustments arising in the preparation of the pro forma balance are summarized as follows:</i>			
Payment of cash consideration in relation to:			
- return of capital of \$0.1195 per share on 263,530,515 shares;			(31,597)
- unfranked dividend of \$0.4497 per share on 263,530,515 shares			(118,404)
Pro-Forma Balance			<u>6,074</u>