FULL YEAR RESULTS AND FINANCIAL STATEMENTS

For the year ended 31 December 2010

Dragon Mining Limited is pleased to announce a **record profit after tax** of **$24.7m** for the year ended 31 December 2010. The Company has consolidated its position as a profitable gold producer with **gross profit from operations increasing for the fourth consecutive year to $35.0m.** The Svartliden Gold Mine in Sweden and the Orivesi and Jokisivu Gold Mines in Finland continued to perform well.

STATEMENT OF COMPREHENSIVE INCOME

- Revenue from gold sales has increased by 23% to $91.9m (2009: $74.7m).
- Gross profit from operations has increased by 146% to $35.0m (2009:$14.2m).
- Profit before foreign currency, treasury and tax increased by 252% to $38.2m (2009: $10.8m).
- Net profit after tax ($2.8m) and foreign currency losses ($10.7m) increased to $24.7m (2009: loss of $8.0m).

CASH, TRADE RECEIVABLES AND LISTED INVESTMENTS

- Group cash of $23.5m (2009: $4.4m).
- Trade receivables from gold concentrate delivered and bullion on hand of $6.1m (2009: $6.2m).
- Cash flow from operations increased by 168% to $42.0m (2009: $15.7m).
- $12.1m spent on repurchasing convertible notes (2009: $6.7m).
- 2.3m Chalice Gold Mines Limited shares are held (escrowed until June 2011) with a market value of $1.8m.

OPERATIONS

- Gold production for the year of 71,598 ounces at an average cash cost per ounce of US$678/ounce (2009: 66,149 ounces at an average cash cost of US$630/ounce).
- Svartliden produced 40,135 ounces at an average cash cost of US$624/ounce (2009: 37,400 ounces at an average cash cost of US$584/ounce).
- Production from the Vammala Production Centre of 31,463 ounces at an average cash cost of US$747/ounce, including refining costs of US$159/ounce. (2009: 28,749 ounces at an average cash cost of US$690/ounce, including refining costs of US$122/ounce). Ore was sourced from the Jokisivu and Orivesi Gold Mines.
- The average cash price received per ounce of gold sold from Svartliden was US$1,371 and the average sales price booked was US$1,386 per ounce of gold from the Vammala Production Centre.

DEVELOPMENT

Svartliden Gold Mine, Sweden

- The success of exploration drilling in the eastern portion of the Svartliden open pit will enable production to be extended into 2014. Optimisation studies have shown that the eastern portion of the open cut can be expanded and deepened, extending open pit production until July 2012. Extending the open pit has resulted in the deferral of the commencement of the decline until mid-2011.

Orivesi Gold Mine, Finland

- A staged development of the Kutema Deeps deposit commenced following an internal study which highlighted the prospectively of the project to 1080m level, the initial objective is to extend the decline to the 800m level with development ore expected to be processed in the third quarter of 2011.

Jokisivu Gold Mine, Finland

- The underground development at Jokisivu commenced in September 2010 and had advanced 364 metres at the end of December 2010. The Company completed an internal study which highlighted the prospectively of the project and the first development ore is expected to be processed in the second quarter of 2011.

EXPLORATION

The Company continues to invest ($8.3m in 2010) in exploration on the very prospective tenure around each of its key assets, which has resulted in the Company closing in on a five year mine life at each mine. There have been a series of excellent exploration results from Svartliden, Orivesi and Kuusamo.

Svartliden Gold Mine, Sweden

- An aggressive exploration campaign commenced with the objective of 22,000 metres of drilling being completed over a 12 month period. As at 31 December 2010, 17,800m metres of this program has been drilled. Production from the open pit has been extended until June 2012 and along with the underground, extended production into 2014.

Orivesi Gold Mine, Finland

- Diamond drilling results have confirmed the presence of mineralisation below the current planned base of the Sarvisuo decline at the 620m level.

- Results from a diamond drilling campaign returned a significant intercept of **20.0m @ 34.67 g/t gold** from testing of the up-dip extensions of the Sarvisuo lode system. The intercepts confirm that the Sarvisuo lode system extends to shallower depths, at widths and grades that potentially are amenable to mining. In addition, results were received from a diamond drilling campaign designed to evaluate the area west of Sarvisuo which included a number of highlights including **6.45m @ 31.18 g/t gold, 4.00m @ 7.01 g/t gold, 1.65m @ 63.89 g/t gold** and **1.45m @ 56.40 g/t gold.** These intercepts have provided further evidence of the existence of a new mineralised pipe or pipe cluster west of Sarvisuo, in close proximity to the existing development.

Kuusamo Gold Project, Finland

- Exploration at Kuusamo recommenced in late 2010 with an initial 1,700m campaign of diamond core drilling targeting depth extensions at the Juomasuo deposit. This program was designed to follow up historical drill intercepts at Juomasuo that includes highlights of **19.20m @ 179.52 g/t gold, 3.70m @ 426.98 g/t gold, 19.60m @ 63.70 g/t gold, 4.12m @ 265.50 g/t gold, and 8.00m @ 48.85 g/t gold.**

- A new Mineral Resource was completed totalling **2.19 million tonnes @ 5.4 g/t gold for 383,500 ounces**, an increase of **204,700 ounces** (114%) in contained gold ounces. The new Resource includes an Indicated Resource of 0.79mt @ 7.0 g/t gold and an Inferred Resource 1.40mt @ 4.6 g/t gold.

INVESTMENTS

Sale of Zara Joint Venture, Eritrea

- In June 2010, Dragon Mining sold its interest in the Zara Gold Project to Chalice Gold Mines Limited ("Chalice") for $8.0 million in cash and 2 million Chalice shares which are escrowed for 12 months. This resulted in an $8.9m profit. Dragon Mining is entitled to a further payment of $4.0 million from Chalice on the delineation of a 1 million ounce gold Reserve at the Zara Gold Project. On 4 June 2010, Chalice announced a maiden gold Reserve at the Zara Gold Project of 760,000 ounces from an Indicated gold Resource of 840,000 ounces.

Weld Range Metals (40% Interest)

- Weld Range Metals Limited received positive scoping study results with an after tax NPV (at an 11% real discount rate) of A$681m. The scoping study completed by ProMet Engineers, found that the Weld Range Metals Project is technically and economically feasible using process equipment and technology currently used by the steel industry. The Company continues to evaluate various capital raising opportunities to fund a definitive feasibility study.

DIVIDENDS

- The Directors considered a dividend payment for the current year. However, in light of exploration and development needs, it was decided that it is in the best interest of shareholders to not pay a dividend. The Directors review the Company's dividend policy on a regular basis.

PG Cordin

Executive Chairman

25 February 2011

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 he is undertaking 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(c) Fair Values for Instruments Recognised at Fair Value (continued)

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

	As at 31 December 2010				As at 31 December 2009			
	Quoted market price (level 1) $'000	Valuation technique – market observable inputs (level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000	Quoted market price (level 1) $'000	Valuation technique – market observable inputs (level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial Assets								
Available-for-sale financial assets	1,750	-	-	1,750	-	-	-	-
Financial derivative assets	-	4	-	4	-	-	-	-
	1,750	4	-	1,754	-	-	-	-

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

For financial instruments not quoted in active markets, the Group uses a valuation technique such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

The fair value of unlisted debt and equity securities, as well as other investments that do not have an active market, are based on valuation techniques using market data that is not observable. Where the impact of credit risk on the fair value of a derivative is significant, and the inputs on credit risk are not observable, the derivative would be classified as based on non observable market inputs (Level 3).

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

(d) Credit Risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 FINANCIAL INSTRUMENTS (continued)

(d) Credit Risk (continued)

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

	2010 $'000	2009 $'000
Cash and cash equivalents		
Counterparties with external credit ratings		
A+	23,478	4,397
BBB	-	-
Total cash and cash equivalents	23,478	4,397
Trade and Other Receivables		
Counterparties with external credit ratings		
A+	1,709	2,318
Counterparties without external credit ratings		
Counterparties with no defaults in the past	7,414	7,196
Total trade and other receivables	9,123	9,514
Environmental and other bonds		
Counterparties with external credit ratings		
A+	3,911	3,956
Counterparties without external credit ratings		
Counterparties with no defaults in the past	233	22
Total trade and other receivables	4,144	3,978

(e) Interest Rate Risk

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

	2010 $'000	2009 $'000
Financial assets		
Cash and cash equivalents	23,478	4,397
Receivables from associate	1,302	944
Environmental bonds	4,144	3,978
	28,924	9,319
Financial liabilities		
Bank loans	-	3,202
Factoring facility drawn down	1	3
	1	3,205

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.

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

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 2010, 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.

Ernst & Young

R J Curtin
Partner
Perth
24 February 2011

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

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 consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (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 and International Standards on Auditing. 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.

ERNST & YOUNG

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 consolidated entity's financial position at 31 December 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

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 8 to 13 of the directors' report for the year ended 31 December 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

R J Curtin
Partner
Perth
24 February 2011