Dragon Mining

HALF YEAR REPORT

For the Half Year Ended 30 June 2013

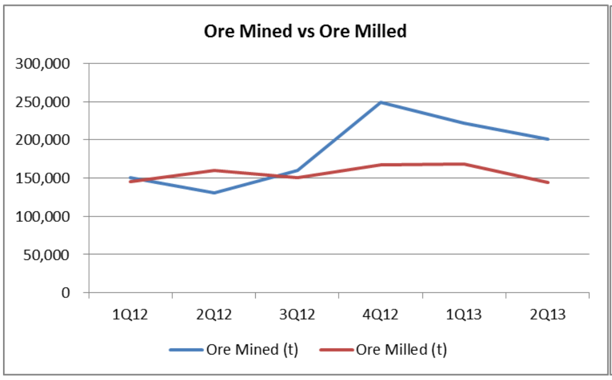
HALF YEAR HIGHLIGHTS

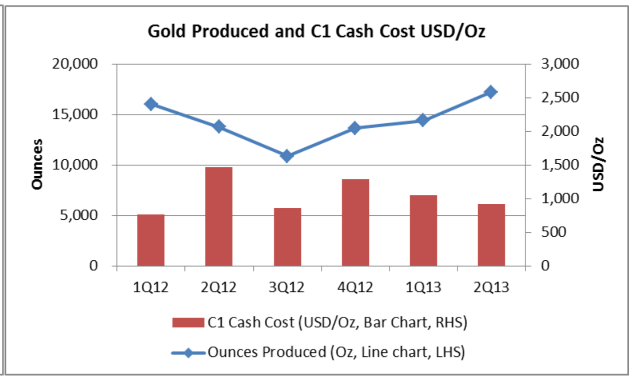
OVERVIEW

- Dragon Mining reported a consolidated net loss after tax for the period of $4.921 million, (1H12: loss of $4.204 million), from gold sales of $44.7 million (1H2012 $40.7 million)

- The first half of 2013 was characterised by strong production from both Production Centres, with 31,620 ounces produced (1H2012: 29,831 ounces) representing an increase of 6% over the prior comparable period. This level of production was achieved as a result of higher levels of development work undertaken in 2012 that enabled underground mining at all operations to deliver increased volumes of production ore.

- The increased production also contributed to an improvement in the C1 Cash Cost, which was US$978/oz for the 2013 half year (1H2012: US$1,088/oz) an improvement of 10.2% compared to the prior comparable period. The improvement in the C1 cash cost was also partly due to cash saving measures implemented within the group due to the weaker gold prices in the first half of 2013.





- No accidents were recorded at the Svartliden Production centre for the half year. Six accidents occurred in Finland and efforts to improve the safety performance continue.

- In response to the high level of volatility in and generally weaker gold prices, the Company took actions to preserve its cash reserves. These actions included delaying non-production critical capital expenditure and development activities together with the suspension of the majority of exploration activities. Examination of further actions that could be taken in the event that the gold price continues to weaken is underway.

- The volatile and weakening gold prices combined with a weakening of the AUD have had significant, but offsetting, impacts on the half year result. Included in the half year result is a provision for non-recoverability of loan from associate of $3.5 million as well as a $9.2 million impairment expense (resulting from impairment testing of Vammala Production Centre capitalised mine property assets) which was completely offset by foreign exchange gains of $9.2 million.

OPERATIONS

- At the Svartliden Production Centre, Sweden, the half year saw a significant increase in the mining rate, as both the open pit and underground operations operated simultaneously. Open pit mining was completed in accordance with the mine plan in April 2013, with underground mining continuing until expected completion in Q4 2013. The high mining rate compared to the milling rate resulted in an increase in stockpiles, with the ROM stockpile increasing by 89,396 tonnes and an increase in the marginal stockpile of 47,214 tonnes. The current volume of stockpiled material at Svartliden is estimated to be sufficient to allow the Svartliden Production Centre to continue operations until Jan 2015. The company is currently pursuing options to further extend the operations of this production centre, including processing ore from sites currently under development and exploration, as well as other strategic alternatives.

- At the Vammala Production Centre, Finland, the half year saw the opening of additional production stopes at the Orivesi and Jokisivu Gold Mines. ROM stockpiles also grew during the half, with 12,042 tonnes being added during the half.

PRIOR QUARTERLY PRODUCTION AND C1 CASH COST		
Quarter	**Gold Production (Ounces)**	**C1 Cash Cost (USD/oz)**
March 2012	16,041	755
June 2012	13,790	1,468
December 2012	13,670	1,219
March 2013	14,397	1,045
June 2013	**17,223**	**928**

ADVANCED PROJECTS

Orivesi Gold Mine, Finland

- Results from drilling at the Orivesi Gold Mine continued to return a series of encouraging high grade intercepts, which have improved confidence in the geological model and demonstrated the continuation of Pipe 5 of the Kutema lode system, at widths and grades commensurate with the existing model.
- Results also highlighted the downward continuation of Pipe 2 beyond the previously interpreted end of this Pipe at the 980m level, with a high grade intercept recorded at the 1005m level.

Jokisivu Gold Mine, Finland

- Underground diamond core drilling resumed at the Jokisivu Gold Mine, the initial program of underground drilling testing the Kujankallio Hinge Zone between the 145m and 245m levels that will enable the formulation of preliminary production plans between these levels. Assay results received from the initial two holes of the fourteen hole program were promising.

Kuusamo Mine Project, Finland

- Compilation of the Environmental Impact Assessment report continued during the half year, with the final report expected to be released for public comment in Q3 2013.

EXPLORATION

- At the Hanhimaa Joint Venture Project, Agnico Eagle advised Dragon Mining that diamond core drilling had commenced, the initial program returning gold intercepts from every hole, confirming the continuation of the main mineralised zone with depth at the Kiimalaki prospect and the continuation of the mineralised zone to the northwest at the Kellolaki prospect. A second phase of diamond core drilling has commenced, the first holes testing the Kiimakuusikko area.

CORPORATE

- During the quarter final deliveries against the forward derivative program were made and as at 30 June 2013 the group has no outstanding forward contracts and has no long term debt.

KEY FINANCIAL RESULTS:

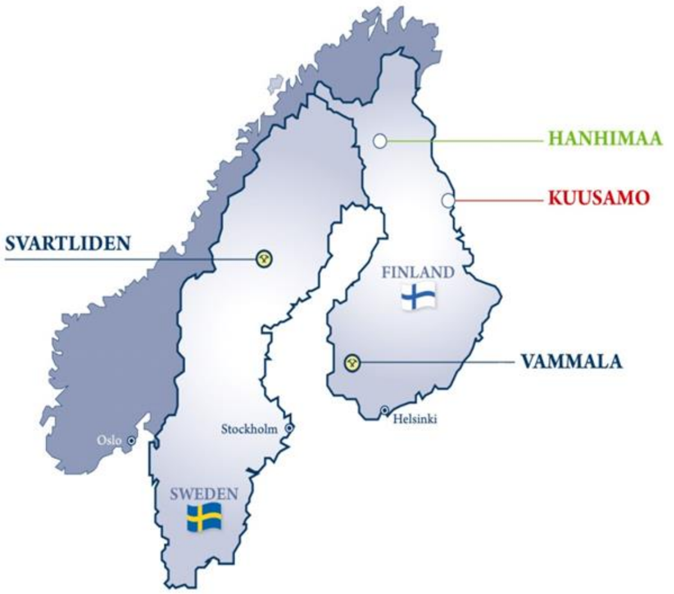
INCOME STATEMENT

- Revenue from gold sales was $44.7 million (1H2012: $40.6 million), increase of 10%.
- Net loss after tax was $4.9 million (2012: $4.2 million).
- Impairment write down for Vammala Production Centre capitalised mine properties of $9.2 million due to weaker gold prices (USD1250/oz at June 30, 2013)
- Foreign exchange gains of $9.2 million due to impact of weakening Australian dollar on intercompany loan balances.
- Provision of $3.463 million against loan receivable from associated entity.

CASH AND TRADE RECEIVABLES

- Group cash at 30 June 2013 of $6.9 million (Dec 2012: $5.5 million). Trade receivables from gold concentrate delivered and bullion on hand were $7.1 million with trade creditors amounting to $7.4 million.
- Cash generated from operations before exploration expenditure was positive $8.4 million (1H2012: $3.3 million).
- Net increase in cash and cash equivalents for the period was $1.2 million (1H2012 : decrease $1.4 million)

LOCATION OF PROJECTS



Note 1: With effect from the September 2012 quarter, the Company has adopted the C1 cash cost definitions as set out by MackenzieWood (formerly Brook Hunt).

APPENDIX 4D

For the 6 months ended 30 June 2013

1.0 REPORTING PERIOD

The reporting period is for the half year ended 30 June 2013 with the corresponding reporting period being for the half year ended 30 June 2012.

2.0 RESULTS FOR ANNOUNCEMENT TO THE MARKET

				A$'000
Revenues from gold sales	up	10.0%	to	44,676
Net loss before tax for the period	up	59.6%	to	(3,577)
Net loss after tax for the period attributable to members	up	17.0%	to	(4,921)

Refer to attached media release for further commentary regarding the half year to 30 June 2013 result.

3.0 NET TANGIBLE ASSET BACKING

	30 June 2013	30 June 2012
Net tangible asset backing per ordinary security (dollars)	0.51	0.58

4.0 CONTROL GAINED OR LOST OVER ENTITIES HAVING MATERIAL EFFECT

Not applicable.

5.0 DIVIDENDS

It is not proposed to pay a dividend.

6.0 DIVIDEND REINVESTMENT PLANS

Not applicable.

7.0 ASSOCIATES AND JOINT VENTURE ENTITIES

	Percentage holding	
	Current period	Previous corresponding period
Weld Range Metals Limited	39.95%	39.95%
Harpsund Joint Venture	0%*	0%

* Dragon Mining entered into a Joint Venture Agreement with Botnia Exploration AB to earn up to 80% in the Harpsund nr 1 and Brokojan nr 2 Exploration Permits.

8.0 ACCOUNTING STANDARDS USED FOR FOREIGN ENTITIES

The accounts have been prepared in compliance with International Financial Reporting Standards.

9.0 AUDIT DISPUTE OR QUALIFICATION

Not applicable.

This half year report should be read in conjunction with the most recent annual financial report.

DRAGON MINING LIMITED

ABN 19 009 450 051

HALF YEAR FINANCIAL REPORT

FOR THE SIX MONTHS ENDED

30 JUNE 2013

DRAGON MINING LIMITED
HALF YEAR FINANCIAL REPORT
30 JUNE 2013

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CORPORATE INFORMATION

Directors

Chairman – Peter George Cordin

Managing Director – Kjell Emil Larsson

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

Austin James

Registered Office

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Subiaco, Western Australia 6008
Telephone: 61 8 6311 8000
admin@dragon-mining.com.au
www.dragon-mining.com.au

ABN

19 009 450 051

Share Registry

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000
Contact Information
Within Australia: 1300 850 505
From Overseas: 61 3 9415 4000
Facsimile: 61 3 9473 2500
web.queries@computershare.com.au
www.computershare.com

Stock Exchange

ASX Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000
Quoted on the official list of the Australian Securities Exchange.

ASX Ordinary Share Code: DRA

Auditors

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

Legal Advisors

Clayton Utz
250 St Georges Terrace
Perth, Western Australia 6000

Bankers

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

Macquarie Bank Limited
235 St Georges Terrace
Perth, Western Australia 6000

HSBC Bank Australia Ltd
Level 1, 190 St Georges Terrace
Perth, Western Australia 6000

DIRECTORS' REPORT

Your Directors submit the report of Dragon Mining Limited ("Dragon Mining" or "the Company") for the half year ended 30 June 2013.

Directors

The names 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.

Peter George Cordin – Chairman
Kjell Emil Larsson – Managing Director
Toivo Tapani Järvinen – Non Executive Director
Markku Juhani Mäkelä – Non Executive Director
Peter Lynton Gunzburg – Non Executive Director
Christian Russenberger – Non Executive Director

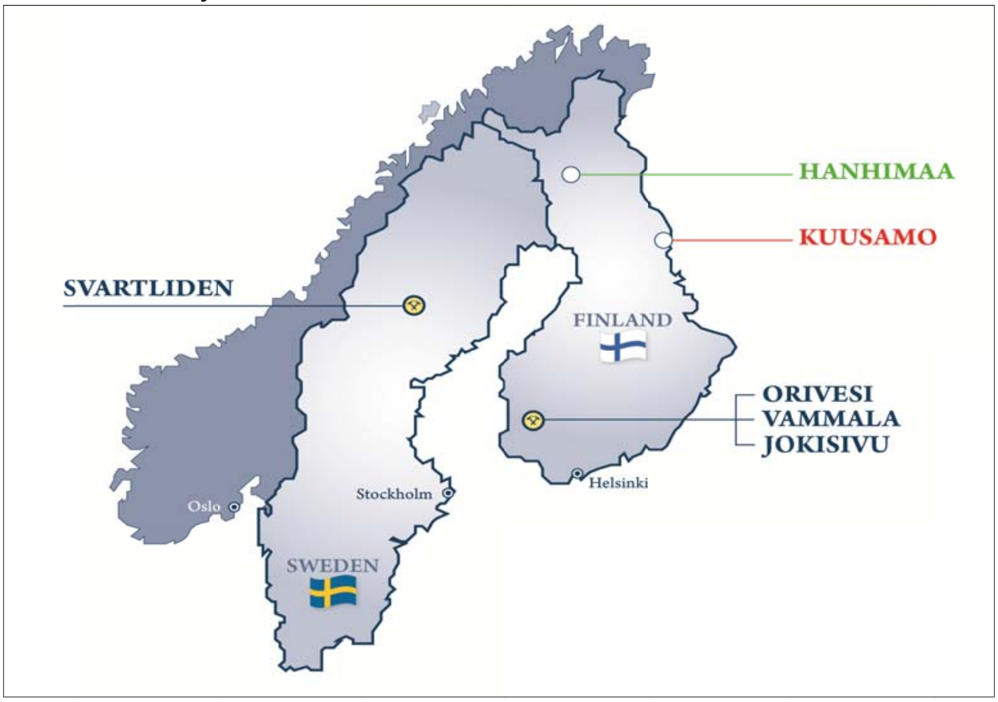
Review and Results of Operations

The consolidated net loss after tax of the consolidated entity for the period was $4.921 million (half year ended 30 June 2012 loss of $4.204 million). Notable items included:

- Revenue from gold sales of $44.7 million;
- Gold Production of 31,620 ounces;
- Gross profit from gold sales of $5.7 million;
- Exploration expenditure of $3.0 million;
- An impairment loss on capitalised mine properties of $9.2 million;
- Provision for non-recovery of loan to associated entity of $3.5 million;
- Unrealised foreign currency exchange gains on Dragon Mining intercompany loans of $9.2 million;
- Income tax expense of $1.34 million, incurred in the Groups' Swedish subsidiary;
- Net operating cash flow of $6.0 million

During the first half of 2013, the benefits of the expansive development schedule during 2012 began to be realised. At the Svartliden Production Centre, higher grade underground ore was mined and processed. At Vammala Production Centre, the opening of additional production stopes at the Orivesi and Jokisivu Gold Mines allowed a higher proportion of underground production ore to be processed. In the first half, development activities advanced at a lower rate as compared to 2012, but remained at a sufficient level to maintain future production rates.

Location of Projects and Production Centres



DIRECTORS' REPORT

An effective response to the recent fall in gold prices was implemented in order to protect the Groups' cash reserves. A number of activities were suspended or delayed, particularly non production related exploration and capital expenditure. The effect of these actions has allowed the group to increase its cash reserves over the half year.

OPERATIONS

Gold production for the half year was 31,620 ounces (1H2012: 29,831 ounces), comprising 13,930 ounces (1H2012: 11,956 ounces) from the Vammala Production Centre and 17,690 ounces (1H2012: 17,875 ounces) from the Svartliden Production Centre.

Both Production Centres operated at full capacity for the first half, with underground production ore comprising the bulk of the ore feed.

At Svartliden, open pit mining was concluded in accordance with the mine plan during April 2013. Underground mining is expected to complete during the fourth quarter of 2013, at which point the Svartliden Production Centre will commence processing stockpiled ore. The current volume of stockpiled ore at Svartliden is estimated to be sufficient to allow the Svartliden Production Centre to continue operations until January, 2015. The company is currently pursuing various options to further extend the operations of this production centre.

ADVANCED PROJECTS AND EXPLORATION

During the half year Dragon Mining invested a total of $3.0 million on exploration activities in Sweden and Finland, which included the completion of 7,891.45 metres of surface and underground diamond core drilling. Exploration levels decreased in comparison to previous years, with the majority of non-production related exploration activities suspended to preserve the Company's cash reserves following the fall in the gold price.

Results from drilling at the Orivesi Gold Mine continued to return a series of encouraging high grade intercepts, which have improved confidence in the geological model and demonstrated the continuation of Pipe 5 of the Kutema lode system, at widths and grades commensurate with the existing model. Results also highlighted the downward continuation of Pipe 2 beyond the previously interpreted end of this Pipe at the 980m level, with a high grade intercept recorded at the 1005m level. These intercepts are from the final series of holes in a program that was designed to further evaluate the Kutema lode system between the 880m and 960m levels and the first eight holes completed in an expansive twenty-seven hole program that is testing the Kutema lode system between the 960m and 1040m levels and the previously untested 1200m level.

Final assays were received from an underground exploration diamond core program that targeted areas to the north of the Kutema and Sarvisuo lode systems at the Orivesi Gold Mine. The drilling has improved the geological knowledge of this under-explored area and returned a series of promising intercepts that warrant follow-up drilling.

Underground diamond core drilling resumed at the Jokisivu Gold Mine during the period. The initial program of underground drilling is testing the Kujankallio Hinge Zone between the 145m and 245m levels and will enable the formulation of preliminary production plans between these levels. Assay results received from the initial two holes of the fourteen hole program were promising.

Results from drilling at the Kuusamo Mine Project, which targeted the north-western portion of the Juomasuo deposit yielded a number of very encouraging intersections. These intersections highlight the strike and down-dip extensions of a zone of gold mineralisation that is located outside the existing gold lode positions and may represent either an extension of a known lode or a new gold lode altogether.

Metallurgical test work on representative material from the Kuusamo Mine Project focussed on gravity and flotation processes advanced during the period. Finalisation of the test program at the GTK facility in Outokumpu, Finland, is awaiting completion of the tailings characterisation and reporting.

The Earn-In Agreement with Agnico Eagle Mines Limited (Agnico Eagle) was executed in February 2013, whereby Agnico Eagle could earn up to 70% interest in the Hanhimaa Gold Project with the staged expenditure of €9 million over six years.

DIRECTORS' REPORT

Agnico Eagle advised Dragon Mining that diamond core drilling has commenced with the initial program returning gold intercepts from every hole, confirming the continuation of the main mineralised zone with depth at the Kiimalaki prospect and the continuation of the mineralised zone to the northwest at the Kellolaki prospect. A second phase of diamond core drilling has commenced, the first holes testing the Kiimakuusikko area.

CORPORATE

Closure of Derivative contracts
During the half year, the group completed deliveries against the remaining forward foreign exchange and gold forward contracts. At 30 June 2013, the group is unhedged and debt free (other than for receivables factoring facilities).

Significant Events After Period End

Other than the Swedish State Prosecutor lodging an appeal against the favourable judgement in respect of the 2008 Swedish environmental claim (see Note 16), no circumstances or events have arisen subsequent to balance date that have had, or are likely to have, a material impact on the financial statements.

Rounding

The amounts contained in this report and in the financial statements 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.

Auditor's Independence Declaration

An independence declaration from our auditors, Ernst & Young, is attached to the Auditor's Independent Review Statement to the members and forms part of this Directors' Report.

Signed in Perth 29 August 2013 in accordance with a resolution of the Directors.

Peter G Cordin
Chairman

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Dragon Mining Limited:

In the opinion of the Directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of financial position of the consolidated entity as at 30 June 2013 and the performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* 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.

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

Peter G Cordin
Chairman

Signed in Perth 29 August 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 months to 30 June 2013 $'000	6 months to 30 June 2012 $'000
Revenue from gold sales		44,676	40,657
Cost of Sales	3(a)	(38,986)	(34,535)
Gross profit		5,690	6,122
Other revenue	3(b)	235	264
Other income	3(c)	49	82
Exploration expenditure		(3,001)	(5,336)
Other expenses	3(d)	(16,050)	(2,928)
Finance costs	3(e)	(158)	(181)
Foreign exchange gains/(losses)		9,151	(2,178)
Derivatives gains/(losses)		507	1,913
Loss before tax		(3,577)	(2,242)
Income tax (expense)/benefit		(1,344)	(1,962)
Loss after income tax		(4,921)	(4,204)
Other comprehensive income – *Items that may be reclassified subsequently to profit and loss*			
Foreign currency translation		(5,317)	1,247
Loss on available for sale investment		-	(90)
Income tax on items of other comprehensive income		-	-
Total comprehensive loss for the period		(10,238)	(3,047)
Loss attributable to:			
Members of Dragon Mining Limited		(4,921)	(4,204)
Non-controlling interest		-	-
		(4,921)	(4,204)
Total comprehensive loss attributable to:			
Members of Dragon Mining Limited		(10,238)	(3,047)
Non-controlling interest		-	-
		(10,238)	(3,047)
Loss per share attributable to ordinary equity holders of the parent (cents per share)			
Basic loss per share		(5.54)	(5.05)
Diluted loss per share		(5.54)	(5.05)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2013 $'000	31 Dec 2012 $'000
CURRENT ASSETS			
Cash and cash equivalents		6,874	5,546
Trade and other receivables		7,137	8,294
Inventories		18,247	13,752
Other assets		932	1,294
TOTAL CURRENT ASSETS		33,190	28,886
NON-CURRENT ASSETS			
Property, plant and equipment	4	16,160	25,826
Mineral exploration costs		3,879	3,480
Development costs		6,762	8,065
Investment in associate	5	-	-
Deferred tax assets		82	99
Other receivables	6	-	3,304
Other assets		5,262	4,497
TOTAL NON-CURRENT ASSETS		32,145	45,271
TOTAL ASSETS		65,335	74,157
CURRENT LIABILITIES			
Trade and other payables		7,382	9,611
Interest bearing loans and borrowings	7	2,351	1,865
Provisions	8	4,333	1,333
Derivative financial instruments		-	1,087
Income tax payable		-	290
Other liabilities		2,518	754
TOTAL CURRENT LIABILITIES		16,584	14,940
NON-CURRENT LIABILITIES			
Provisions	8	7,158	7,919
Derivative financial instruments		-	-
Deferred tax liabilities		992	574
TOTAL NON-CURRENT LIABILITIES		8,150	8,493
TOTAL LIABILITIES		24,734	23,433
NET ASSETS		40,601	50,724
EQUITY			
Contributed equity	12	119,992	119,992
Reserves		7,312	12,514
Accumulated losses		(86,703)	(81,782)
TOTAL EQUITY		40,601	50,724

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to Equity Holders of the Parent

	Contributed Equity	*Accumulated Losses*	*Foreign Currency Translation*	*Option Reserve*	*Convertible Note Premium Reserve*	*Available for Sale Reserve*	*Equity Reserve – Purchase of Non-controlling interests*	*Total*
	$'000	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***
At 31 December 2012	119,992	(81,782)	7,715	1,662	2,068	-	1,069	50,724
(Loss) for the period	-	(4,921)	-	-	-	-	-	(4,921)
Other comprehensive income/(loss)	-		(5,317)	-	-	-	-	(5,317)
Total comprehensive income/(loss) for the period	119,992	(86,703)	2,398	1,662	2,068	-	1,069	40,486
Transactions with owners in their capacity as owners:								
Share option expense	-	-	-	128	-	-	-	128
Forfeiture of options	-	-	-	(13)	-	-	-	(13)
Issue of shares								
At 30 June 2013	119,992	(86,703)	2,398	1,777	2,068	-	1,069	40,601
At 31 December 2011	105,621	(77,519)	7,946	1,278	2,068	(178)	1,069	40,285
Loss for the period	-	(4,204)	-	-	-	-	-	(4,204)
Other comprehensive income/(loss)	-	-	1,247	-	-	(90)	-	1,157
Total comprehensive income/(loss) for the period	-	(4,204)	1,247	-	-	(90)	-	(3,047)
Transactions with owners in their capacity as owners:								
Share option expense	-	-	-	285	-	-	-	285
Forfeiture of options	-	-	-	(18)	-	-	-	(18)
Issue of shares	14,375	-	-	-	-	-	-	14,375
At 30 June 2012	119,996	(81,723)	9,193	1,545	2,068	(268)	1,069	51,880

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months to 30 June 2013 $'000	6 months to 30 June 2012 $'000
Cash flows from operating activities		
Receipts from customers	45,361	38,361
Payments to suppliers and employees	(33,140)	(34,829)
Payments for mineral exploration	(3,339)	(5,336)
Interest received	210	142
Interest paid	(46)	(122)
Payments for rehabilitation	(49)	(86)
Income taxes paid	(2,149)	-
Net payments for derivative transactions	(598)	(79)
Payment of environmental bonds	(219)	(76)
Net Operating Cash Flows	6,031	(2,025)
Cash flows from investing activities		
Payments for property, plant and equipment	(1,895)	(1,972)
Proceeds from sale of property, plant and equipment	-	-
Payments for development	(3,041)	(8,303)
Advances to Associate	(159)	(500)
Net Investing Cash Flows	(5,095)	(10,775)
Cash flows from financing activities		
Proceeds from issue of shares	-	15,037
Share issue costs	-	(662)
Purchase of non-controlling interest	-	-
Drawdown/(Repayment) of short-term factoring facility	251	(1,369)
Drawdown/(Repayment) of bank loans	-	(1,590)
Net Financing Cash Flows	251	11,416
Net increase/(decrease) in cash and cash equivalents	1,187	(1,384)
Cash and cash equivalents at the beginning of the period	5,546	15,955
Effects of exchange rate changes on cash and cash equivalents	141	(193)
Cash and cash equivalents at the end of the period	6,874	14,378

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

NOTES TO THE FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The half year financial report of Dragon Mining Limited and it's controlled entities ("consolidated entity" or the "Group") for the period ended 30 June 2013 was authorised for issue in accordance with a resolution of the Directors on 26 August 2013.

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of Preparation

These general purpose condensed interim financial statements for the half year ended 30 June 2013 have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The financial statements do not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial statements should be read in conjunction with the annual report for the year ended 31 December 2012 and considered together with any public announcements made by Dragon Mining Limited during the half year ended 30 June 2013 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

(b) Financial Assets and Liabilities

Unless otherwise noted, the carrying value of financial assets and liabilities as disclosed in the financial statements approximates their fair value.

(c) Changes in Accounting Policy

Except as disclosed below, the accounting policies adopted in the preparation of the half year financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2012.

All new and amended Accounting Standards and Interpretations which became applicable on 1 January 2013 have been adopted by the Group, including those set out in the table below.

Reference and application dates	Title and Summary
AASB 2011-9 (AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049) Standard applicable: 1 June 2011. Applied by Group from 1 January 2013.	Amendments to Australian Accounting Standards – Presentation of items of Other Comprehensive Income This Standard amends the presentation of components of other comprehensive income including presenting separately those items that will be reclassified to profit and loss in the future and those that would not. Amendments will be applied retrospectively. The adoption of AASB 2011-9 had no effect on the financial position or performance of the Group. Additional disclosures have been made in the financial statements as a result of the adoption of AASB 2011-9.

NOTES TO THE FINANCIAL STATEMENTS

Reference and application dates	Title and Summary
AASB 10 Standard applicable: 1 January 2013. Applied by Group from 1 January 2013.	Consolidated Financial Statements AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated* and *Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control. The adoption of AASB 10 had no effect on the financial position or performance of the Group.
AASB 11 Standard applicable: 1 January 2013. Applied by Group from 1 January 2013.	Joint Arrangements AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Nonmonetary Contributions by Venturers. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. The adoption of AASB 11 had no effect on the financial position or performance of the Group. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.
AASB 12 Standard applicable: 1 January 2013. Applied by Group from 1 January 2013.	Disclosure of Interests in other Entities. AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced regarding the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The adoption of AASB 12 has disclosure impacts which are not relevant for the half year.
AASB 13 Standard applicable: 1 January 2013. Applied by Group from 1 January 2013.	Fair value measurement AASB 13 establishes a single source of guidance for determining fair value of assets and liabilities. AASB 13 does not ch ange when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. The adoption of AASB 13 had no effect on the financial position or performance of the Group.

NOTES TO THE FINANCIAL STATEMENTS

Reference and application dates	Title and Summary
Interpretation 20	Stripping Costs in the Production Phase of the Mine This interpretation applies to stripping costs incurred during the production phase of a surface mine. Production stripping costs are to be capitalised as part of an asset, if an entity can demonstrate that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the stripping activity asset. The stripping activity asset shall be depreciated or amortised on a systematic basis , over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate. In accordance with the transitional provisions, the Interpretation was applied prospectively by the Group from 1 January 2012. There was no asset balance relating to stripping activities undertaken during the production phase prior to the application of Interpretation 20. Furthermore, the change in policy had no material effect on the financial position or performance of the Group for the current or comparative period.

NOTES TO THE FINANCIAL STATEMENTS

3 REVENUE AND EXPENSES

	Consolidated Entity	
	6 months to 30 June 2013 $'000	**6 months to 30 June 2012 $'000**
(a) Cost of Sales		
Cost of production (i)	30,202	29,364
Depreciation of mine properties, plant and equipment (ii)	8,766	5,171
Rehabilitation costs	18	-
	38,986	34,535

(i) Costs of production includes a cost of $3.44m relating to the writedown of ore stockpiles to net realisable value.
(ii) As detailed in the 2012 Annual report certain prior period balances were reclassified to better reflect their nature. Accordingly depreciation of $3.862 million previously reported as relating to Development assets has been reclassified into depreciation of mine properties, plant and equipment.

(b) Other revenue		
Finance revenue	210	264
Rent and service income	25	-
Total other revenue	235	264
Breakdown of Finance Revenue		
Bank and external interest	51	142
Interest from associate	159	122
	210	264
(c) Other income		
Other	49	82
Total other income	49	82
(d) Other expenses		
Management and administration expenses	3,393	2,857
Depreciation of non-mine site assets	48	45
Project generation expenses	-	26
Provision for non-recoverability of loan from associate	3,463	-
Impairment of Mine Properties	9,146	-
	16,050	2,928
(e) Finance costs		
Interest	72	123
Other	86	58
	158	181

NOTES TO THE FINANCIAL STATEMENTS

4 PROPERTY, PLANT & EQUIPMENT

	Consolidated Entity	
	30 June 2013 $'000	**31 Dec 2012 $'000**
(a) Land		
At cost	1,376	1,239
(b) Buildings		
At cost	1,698	1,529
Less accumulated depreciation	(1,173)	(996)
	525	533
(c) Property, Plant and Equipment		
At cost	26,616	23,908
Less accumulated depreciation	(21,015)	(17,938)
	5,601	5,970
(d) Mine properties		
At cost (i)	66,161	54,266
Less accumulated depreciation and impairment	(57,503)	(36,182)
	8,658	18,084
Total property, plant and equipment	**16,160**	**25,826**

(i) As a result of the fall in the USD gold price, the Company carried out impairment testing of each Production Centre. The impairment test consisted of preparation of a discounted cash flow for each cash generating unit on a "value in-use" basis. The gold price used for the impairment test was USD$1250/oz.

Additional key inputs to the cashflow model included:

I) Estimates of future operating costs which were based on actual costs incurred to date;
II) The number of ore tonnes available for processing, which were based on the existing Reserve statement adjusted for current period production;
III) The pre-tax discount rate, which was 10%.

As a result of the impairment testing, $9.146 million was written down in respect of capitalised mine properties for the Vammala Production Centre in Finland. The Vammala Production Centre cash generating unit consists of the mill infrastructure located in Vammala, Finland, together with both the Jokisivu and Orivesi Gold Mines.

The impairment loss of $9.146 million is disclosed in the Statement of Comprehensive Income as part of the Other Expenses line (and is separately disclosed in Note 3(d)). The impairment writedown affects the Finland operating segment only.

NOTES TO THE FINANCIAL STATEMENTS

5 INVESTMENT IN ASSOCIATES

	Consolidated Entity	
(a) Investment details	**30 Jun 2013 $'000**	**31 Dec 2012 $'000**
Unlisted		
Weld Range Metals Limited - 39.95% interest	-	-
	-	-

6 NON CURRENT OTHER RECEIVABLES

	30 Jun 2013 $'000	31 Dec 2012 $'000
Non-Current		
Receivables from associate	3,463	3,304
Provision for Diminution (i)	(3,463)	-
	-	3,304

(i) During the period full provision has been made against the recovery of the outstanding loan from an associate.

7 INTEREST-BEARING LOANS AND BORROWINGS

	Maturity	30 June 2013 $'000	31 Dec 2012 $'000
Current			
Factoring facility drawn down (i)	*2013*	2,351	1,865
		2,351	1,865

(i) 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 contained in concentrate delivered to the refiner. Interest is payable at one week Euribor 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.

8 PROVISIONS

	30 June 2013 $'000	31 Dec 2012 $'000
Current		
Employee entitlements	2,170	1,333
Rehabilitation	2,163	-
	4,333	1,333
Non-current		
Employee entitlements	24	19
Rehabilitation	7,134	7,900
	7,158	7,919

NOTES TO THE FINANCIAL STATEMENTS

9 DIVIDENDS PAID OR PROVIDED FOR

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

10 SEGMENT REPORTING

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 Gold Mine. Dragon Mining Oy in Finland produces gold concentrate from the Orivesi and Jokisivu Gold Mines.

The accounting policies used by the Group in reporting segments are the same as in the prior reporting period ending 31 December 2012.

	Sweden 30 June 2013 $'000	**Finland 30 June 2013 $'000**	**Unallocated 30 June 2013 $'000**	**Total 30 June 2013 $'000**
Segment revenue				
Gold sales to external customers	27,627	17,049	-	44,676
Interest revenue	25	-	185	210
Other revenue	1	24	-	25
Total revenue	**27,653**	**17,073**	**185**	**44,911**
Segment result				
Pre-tax segment result	**5,901**	**(12,650)**	**-**	**(6,749)**
Income tax expense	(1,344)	-	-	(1,344)
Post tax segment result	4,557	(12,650)	-	(8,093)
Unallocated items:				
Corporate interest revenue				185
Corporate costs				1,272
Unallocated treasury losses relating to intercompany loans advanced by parent				-
Elimination of inter-company interest expense and management fees in segment results				1,715
Loss after tax as per the statement of comprehensive income				**(4,921)**

NOTES TO THE FINANCIAL STATEMENTS

10 SEGMENT REPORTING (CONTINUED)

	Sweden 30 June 2012 $'000	Finland 30 June 2012 $'000	Unallocated 30 June 2012 $'000	Total 30 June 2012 $'000
Segment revenue				
Gold sales to external customers	26,790	13,867	-	40,657
Interest revenue	54	10	200	264
Total revenue	**26,844**	**13,877**	**200**	**40,921**
Segment result				
Pre-tax segment (loss)/profit	**6,479**	**(7,907)**	**-**	**(1,428)**
Income tax expense	(1,962)	-	-	(1,962)
Post tax segment (loss)/profit	4,517	(7,907)	-	(3,390)
Unallocated items:				
Corporate interest revenue				200
Corporate costs				(1,585)
Unallocated treasury losses relating to intercompany loans advanced by parent				(1,190)
Elimination of inter-company interest expense and management fees in segment results				1,761
Loss after tax as per the statement of comprehensive income				**(4,204)**

The following table presents segment assets of the Group's operating segments as at 30 June 2013 and 31 December 2012:

	Sweden 30 June 2013 $'000	Finland 30 June 2013 $'000	Australia 30 June 2013 $'000
Segment Non Current assets			
At 30 June 2013	16,629	15,475	41
At 31 December 2012	18,060	23,863	3,348

11 DERIVATIVE FINANCIAL INSTRUMENTS

Gold forwards
During the half year, the Company delivered final ounces to close out the forward contracts. At period end, no gold forwards were outstanding.

Foreign currency forwards
During the half year, the Company completed deliveries required under the foreign currency forwards outstanding at the beginning of the period. At period end, no foreign currency forwards were outstanding.

NOTES TO THE FINANCIAL STATEMENTS

12 CONTRIBUTED EQUITY

	30 Jun 2013	31 Dec 2012	30 Jun 2013	31 Dec 2012
Share Capital	**Number of Shares**		**$'000**	**$'000**
Ordinary shares, fully paid	88,840,613	88,840,613	119,992	119,992

(a) Movements in Ordinary Share Capital during the past two half-years ended 30 June were as follows:

Half-year ended 30 June 2013:

	$'000	No. of shares
At 1 January 2013	119,992	88,840,613
Balance at 30 June 2013	119,992	88,840,613

Half-year ended 30 June 2012:

	$'000	No. of shares
At 1 January 2012	105,621	75,170,613
Rights issue (i)	15,037	13,670,000
Share issue costs	(662)	-
Balance at 30 June 2012	119,996	88,840,613

(i) A renounceable pro-rata rights issue of 13.67m shares at $1.10 per share to raise $15.037m was completed in March 2012;

13 SHARE OPTIONS

	30 Jun 2013	31 Dec 2012	30 Jun 2013	31 Dec 2012
	Number of Options		**$'000**	**$'000**
Share options	3,014,000	2,754,000	1,777	1,662

(a) Movements in Share Options during the past two half-years ended 30 June were as follows:

Half-year ended 30 June 2013:

	Date	$'000	No. of Options
At 1 January 2013		1,662	2,754,000
Grant of options (i)	30 May 2013	2	400,000
Cancellation of Options		(13)	(140,000)
Share based payment expense		126	
Balance at 30 June 2013		1,777	3,014,000

(i) Issued to Mr K Larsson (Managing Director) in accordance with the Dragon Mining Group Employee Incentive Plan and approved by shareholders at the Annual General Meeting held on 30 May 2013. The options have an exercise price of $1.00, an expiry date of 1 June 2015, vest at various dates to 1 June 2014 and have been determined to have a fair value of $0.1830 per option;

NOTES TO THE FINANCIAL STATEMENTS

Half-year ended 30 June 2012:

	Date	$'000	No. of Options
At 1 January 2012		1,278	2,694,000
Grant of options	30 May 2012	-	200,000
Grant of options	7 June 2012	-	280,000
Expiry of options	8 June 2012	-	(410,000)
Options forfeited		(18)	(130,000)
Share based payment expense for the period		285	-
Balance at 30 June 2012		1,545	2,634,000

14 EXPENDITURE COMMITMENTS

An update to the commitments disclosed in the financial report for the year ended 31 December 2012 is detailed below.

Exploration commitments

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

	Consolidated Entity	
	30 Jun 2013 $'000	31 Dec 2012 $'000
Within one year	1,127	1,022
One year or later and no later than five years	3,949	3,629
More than five years	0	30
	5,076	4,681

Capital Commitments

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

	Consolidated Entity	
	30 Jun 2013 $'000	31 Dec 2012 $'000
Within one year	824	2,231
One year or later and no later than five years	-	-
	824	2,231

Operating Lease Expense Commitments

Commitments relating to future operating leases in existence at the reporting date but not recognised as liabilities are as follows:

	Consolidated Entity	
	30 Jun 2013 $'000	31 Dec 2012 $'000
Within one year	9	9
One year or later and no later than five years	7	7
	16	16

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	
	30 Jun 2013 $'000	31 Dec 2012 $'000
Within one year	170	170
One year or later and no later than five years	-	-
	170	170

15 RELATED PARTY TRANSACTIONS

Dragon Mining continued to provide loans to an associate, Weld Range Metals, to fund its share of project costs. The balance of this loan at 30 June 2013 is $3.463m (31 December 2012: $3.304m).

There have been no significant changes to the nature, terms or conditions of related party transactions from those disclosed at 31 December 2012.

16 CONTINGENT ASSETS AND LIABILITIES

Svartliden Gold Mine, Sweden
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 waste rock dump and mining area to a water storage facility, termed the Clarification Pond (formerly the Clear Water Dam), continues to be addressed. Additional corrective measures and improvements were implemented during 2011 to reduce the levels of metals contained in the water pumped to the Clarification Pond. Despite improvements to the water treatment processes, metal levels and amounts exceeded guidelines, necessitating further corrective measures and improvements to the water treatment processes. All levels and corrective measures are reported to the inspecting authority.

During 2009, the company which operates the Svartliden Gold Mine was reported by the inspecting authority for a breach of discharging water to a nearby stream which is prohibited under the operating license. The allegation is based on the Company's report of elevated levels of dissolved metals in the water collected and tested from the nearby stream. An internal review has confirmed that no discharge occurred. A police investigation commenced during 2011.

In July 2012 we were advised the Prosecutor has decided to prosecute Dragon Mining (Sweden) AB (DMS) at the District Court of Lycksele, on the basis that the Company was in breach of condition 5 and 6 of the operating permit between January 1, 2009 and 30 June 2011. Condition 5 states that no emissions are allowed to Svartlidbäcken (Svartlid stream). The Prosecutor claims that DMS has allowed higher concentrations of metals to emerge from the site.

The Prosecutor was seeking a fine of 1,500,000 SEK (approximately A$215,000). In June 2013 the Court ruled that the company was not guilty and dismissed all charges. Subsequent to period end, the Prosecutor lodged an appeal against the acquittal of one of the minor charges. The Swedish Court of Appeal has not yet decided whether the appeal will be held.

17 SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

Other than as described in Note 16, no circumstances or events have arisen subsequent to balance date that have had, or are likely to have a material impact on the financial statements.

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To the members of Dragon Mining Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Dragon Mining Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Dragon Mining Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with 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.

GHM:MM:DRAGON:005

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Dragon Mining Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
29 August 2013

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

In relation to our review of the financial report of Dragon Mining Limited for the half-year ended 30 June 2013, 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

G H Meyerowitz
Partner
29 August 2013

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