



# HALF YEAR REPORT

For the 6 months ended 30 June 2011

## OVERVIEW

In 2011, Dragon Mining Limited ("Dragon Mining") embarked on an extensive exploration, development and capital expenditure program, investing in the future of the company.

Exploration was directed at enlarging the reserves and resources at the existing mines, as well as expanding the resources at the exciting Kuusamo Gold Project in northern Finland to enable the project to advance to a feasibility study in 2012.

Development includes a significant cut back and driving a decline at Svartliden in Sweden, establishing an underground mine at Jokisivu and extending the Kutema decline at Orivesi in southern Finland.

Capital expenditure included purchasing new mining equipment for Orivesi including a development drilling jumbo which was delivered in June.

**The half year results reflect expensing all the waste costs associated with the large cutbacks at Svartliden, treating ore from low grade stockpiles at Svartliden, remnant ore from pillars at Kutema and development ore from Jokisivu. This is a transitional period and the half year results should be placed in perspective with the Company's long term objectives.**

## INCOME STATEMENT

- Revenue from gold sales was \$32.2m (2010: \$49.3m).
- Gross profit from operations was \$2.1m (2010: \$20.8m).
- Net loss after tax was \$0.9m (2010: profit of \$21.3m).

## CASH AND TRADE RECEIVABLES

- Group cash at 30 June 2011 of \$21.6m.
- Trade receivables from gold concentrate delivered and bullion on hand of \$3.7m.
- Cash of \$4.3m lodged with Swedish authorities as rehabilitation bonds.
- Cash flow from operations was \$7.2m (2010: \$15.5m).

## OPERATIONS

- Gold production for the half year of 24,329 ounces (2010: 36,322) at an average cash cost US\$1,228/ounce (2010: US\$624/ounce).
- Svartliden produced 11,578 ounces at a cash cost of US\$1,437/ounce (2010: 19,461 ounces at a cash cost of US\$608/ounce). The high cash cost is the result of a cut back to the open pit which resulted in a large stripping ratio (all waste costs expensed and included in cash costs (US\$515/oz)), processing low grade stockpiles and resulting low recoveries.
- Production from the Vammala Production Centre of 12,751 ounces at a cash cost of US\$1,039/ounce, including refining costs of US\$240/ounce (2010: 16,861 ounces at a cash cost of US\$642/ounce, including refining costs of US\$128/ounce). The high cash cost was the result of processing low grade development ore, low plant recoveries and high refining costs.
- The average cash price received per ounce of gold sold from Svartliden was US\$1,379.
- The average sales price booked was US\$1,427 per ounce of gold at the Vammala Production Centre.

## DEVELOPMENT

### **Svartliden, Sweden**

- The contractor engaged to complete the decline and conduct underground mining mobilised to site and the first blast for the portal occurred on 12 August.

### **Orivesi, Finland**

- The development of the Kutema decline from the 720m level commenced in January and had advanced 315m by the end of June. The 740m access drive was completed and the 760m access drive commenced.
- The Sarvisuo decline was advanced from 540m to the 600m level.

### **Jokisivu, Finland**

- Development of the decline to provide access for underground mining commenced at the end of September 2010. The portal is located in the Kujankallio open pit, 35m below surface and the decline had advanced 870m or 125m in vertical depth. The development of the decline is on schedule and within budget with ore expected to be mined in October 2011.

## EXPLORATION

- Dragon Mining invested a total of \$5.0m on exploration in Sweden and Finland, directed particularly on increasing the resources at existing mines and the Kuusamo Gold Project.
- The Kuusamo Gold Project is an integral part of Dragon Mining's plan to significantly increase production in coming years, with the company seeking to capitalize on the excellent potential.

## CORPORATE

- Dragon Mining secured 100% ownership in the Svartliden Gold Mine from Pioneer Intertrade Company Limited for a total consideration of US\$1,000,000 and 500,000 ordinary, fully paid Dragon Mining shares.
- A debt facility of €3.8m (A\$5.1m) was secured from Nordea Bank in May. The loan has a current variable interest rate of 4.8% and is to be repaid in equal quarterly instalments from September 2011 until December 2012.
- The Share and Loan Sales Agreement ("Agreement") between Dragon Mining and Outokumpu Mining Oy ("Outokumpu") for the acquisition of Outokumpu's precious metals assets in Finland signed in October 2003, included an obligation of the payment of €1,000,000 in cash or shares when 100,000 ounces of gold was produced from any of the gold projects acquired. Since restarting the Orivesi Gold Mine in 2007 production of 100,000 ounces of gold was achieved in March 2011. In accordance with the Agreement payment was satisfied by issuing 892,105 ordinary fully paid shares in Dragon Mining at \$1.52 a share in May 2011.

## INVESTMENTS

### **Weld Range Metals Limited (39.95% Interest)**

- Weld Range Metals continued to evaluate various capital raising opportunities to fund the feasibility study for the project.

### **Sale of 20% Interest in Zara Gold Project**

- Further to the sale of the 20% interest in the Zara Gold Project, Eritrea, Dragon Mining is entitled to a payment of \$4.0 million from Chalice Gold Mines Limited 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.

PG Cordin



Executive Chairman

29 August 2011

## 1.0 REPORTING PERIOD

The reporting period is for the half year ended 30 June 2011 with the corresponding reporting period being for the half year ended 30 June 2010.

## 2.0 RESULTS FOR ANNOUNCEMENT TO THE MARKET

	A\$'000			
Revenues from gold sales	down	34.7%	to	32,154
Net Loss before tax for the period	down	N/A	to	(1,268)
Net Loss after tax for the period attributable to members	down	N/A	to	(387)

It is not proposed to pay dividends.

Refer to attached media release for further commentary regarding the half year to 30 June 2011 result.

## 3.0 NET TANGIBLE ASSET BACKING

	30 June 2011	30 June 2010*
Net tangible asset backing per ordinary security (dollars)	0.93	0.91

\*NTA backing per share has been restated to take into account the 1 for 10 share consolidation completed in November 2010.

## 4.0 CONTROL GAINED OR LOST OVER ENTITIES HAVING MATERIAL EFFECT

Not applicable.

## 5.0 DIVIDENDS

Not applicable.

## 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%
Harsund Joint Venture	0%*	0%

\* Dragon Mining entered into a Joint Venture Agreement with Botnia Exploration AB to earn up to 80% in the Harsund nr 1 exploration permit.

## 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**

**30 JUNE 2011**

**DRAGON MINING LIMITED  
HALF YEAR FINANCIAL REPORT  
30 JUNE 2011**

**TABLE OF CONTENTS**

<b>Corporate Information</b>	<b>2</b>
<b>Directors' Report</b>	<b>3</b>
<b>Consolidated Statement of Comprehensive Income</b>	<b>7</b>
<b>Consolidated Statement of Financial Position</b>	<b>8</b>
<b>Consolidated Statement of Changes in Equity</b>	<b>9</b>
<b>Consolidated Cash Flow Statement</b>	<b>10</b>
<b>Notes to the Financial Statements</b>	<b>11</b>
<b>Independent Auditor's Report</b>	<b>18</b>
<b>Auditor's Independence Declaration</b>	<b>20</b>

**DRAGON MINING LIMITED  
HALF YEAR FINANCIAL REPORT  
30 JUNE 2011**

**CORPORATE INFORMATION**

**Directors**

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

**Company Secretary**

Pauline Anne Collinson  
Craig Eon Hasson

**Registered Office**

Level 1, 173 Mounts Bay Road  
Perth, Western Australia 6000  
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  
Aleksanterinkatu 36  
Helsinki, Finland, FI-00020

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

National Australia Bank  
1232 Hay Street  
West Perth, Western Australia 6005

## **DIRECTORS' REPORT**

Your Directors submit the report of Dragon Mining Limited ("Dragon Mining" or "the Company") for the half year ended 30 June 2011.

### **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 – Executive Chairman  
Michael Dylan Naylor – Finance 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**

In 2011 Dragon Mining embarked on an extensive exploration, development and capital expenditure program, investing in the future of the company.

Exploration was directed at enlarging the reserves and resources at the existing mines, as well as expanding the resources at Kuusamo in northern Finland to enable the project to advance to a feasibility study in 2012.

Development includes a significant cut back at Svartliden in Sweden, establishing an underground mine at Jokisivu and Kutema decline at the Kutema lodes at Orivesi in southern Finland.

Capital expenditure includes purchasing new mining equipment for Orivesi including a development drilling jumbo which was delivered in June.

The half year results reflect treating ore from low grade stockpiles at Svartliden, remnant ore from pillars at Kutema and development ore from Jokisivu. This is a transitional period to achieve the Company's long term objectives.

The consolidated net loss after tax and before non-controlling interests of the consolidated entity for the half year ended 30 June 2011 was \$860,000 (half year ended 30 June 2010: profit of \$21,270,000). The loss included:

- Gross profit from operations of \$2,088,000 from the Svartliden Gold Mine in Sweden, Orivesi and Jokisivu Gold Mines in Finland;
- Exploration expenditure written off of \$1,733,000, comprising \$1,272,000 in Sweden and \$461,000 in Finland;
- Unrealised foreign currency exchange gains on Dragon Mining intercompany loans of \$1,328,000 and unrealised losses on gold and foreign exchange forward contracts of \$1,626,000; and
- Other net expenses of \$1,325,000 and an income tax benefit of \$408,000.

### **(a) Production**

#### *Svartliden, Sweden*

The Svartliden Gold Mine produced 11,578 ounces of gold in the 6 months to 30 June 2011 at a cash cost of US\$1,437/oz compared to gold production of 19,461 ounces at a cash cost of US\$608/oz for the 6 months ended 30 June 2010. The high cash cost is the result of a cut back to the open pit which resulted in a large stripping ratio (all waste mining costs of US\$515/oz expensed and included in the cash costs in accordance with the accounting policy which applies an average strip ratio over the life of mine), processing of low grade stockpiles and resulting low recoveries. Revenue from gold sales was A\$17,644,000.

The contractor engaged to complete the decline and conduct underground mining mobilised to site and the first blast for the portal occurred on 12 August.



## **DIRECTORS' REPORT**

### *Vammala Production Centre, Finland*

The Vammala Production Centre produced 12,751 ounces of gold in the 6 months to 30 June 2011 at a cash cost of US\$1,039/oz (including refining costs of US\$240 per ounce), compared to 16,861 ounces of gold at a cash cost of US\$642/oz (including refining costs of US\$128 per ounce) in the 6 months to 30 June 2010. Ore was sourced from the Orivesi and Jokisivu Gold Mines. The high cash cost was the result of processing low grade development ore, low plant recoveries and high refining costs. Revenue from gold sales was \$14,510,000.

### *Orivesi Gold Mine, Finland*

The Sarvisuo decline was advanced from 540m to the 600m level.

The development of the Kutema decline from the 720m level commenced in January and had advanced 315m by the end of June. The 740m access drive was completed and the 760m access drive commenced.

### *Jokisivu Gold Mine, Finland*

Development of the decline to provide access for underground mining commenced at the end of September 2010. The portal is located in the Kujankallio open pit, 35m below surface and the decline had advanced 870m or 125m in vertical depth. The development of the decline is on schedule and within budget with ore expected to be mined in the second half of 2011.

## **(b) Exploration**

Exploration continued on the Company's properties in Sweden and Finland, directed particularly on increasing the resources at existing mines.

In addition, a 12 month, 20,000 metre diamond core drilling program commenced in November 2010 focussed on the northern portion of the Kuusamo Gold Project, Finland and returned very encouraging results.

The Kuusamo Gold Project is an integral part of Dragon Mining's plan to significantly increase production in coming years, with the company seeking to capitalize on the excellent potential.

## **(c) Corporate**

### *Secured 100% Interest in the Svartliden Gold Mine*

Dragon Mining acquired a 20% interest in the Svartliden Gold Mine from Pioneer Intertrade Company Limited for US\$1,000,000 and 500,000 ordinary, fully paid Dragon shares.

The Company acquired an initial interest in August 1997, earned an 80% interest following completion of a feasibility study in 2002, and subsequently has been responsible for all exploration, development and financing costs.

### *Shares Issued to Outokumpu Mining Oy*

The Share and Loan Sales Agreement ("Agreement") between Dragon Mining and Outokumpu Mining Oy ("Outokumpu") for the acquisition of Outokumpu's precious metals assets in Finland signed in October 2003, included an obligation of the payment of €1,000,000 in cash or shares when 100,000 ounces of gold was produced from any of the gold projects acquired.

Since restarting the Orivesi Gold Mine in 2007 production of 100,000 ounces of gold was achieved in March 2011. In accordance with the Agreement payment was satisfied by issuing 892,105 ordinary fully paid shares in Dragon Mining at \$1.52 a share in May 2011.

### *On-Market Share Buyback*

In September 2010, the Company implemented an On-Market Share Buy-Back of up to 7 million ordinary shares, representing approximately 9.5% of the Company's issued capital. As at the date of this report, the Company has not purchased any shares.

### *Nordea Loan Facility*

The Company's 100% owned Finnish subsidiary, Polar Mining Oy secured and drew down a €3,800,000 (A\$5,100,000) debt facility ("Facility") with Nordea Bank, one of the Nordic regions leading financial institutions.

Finnvera Plc, a specialised financing company owned by the State of Finland that provides financing and guarantees to Finnish enterprises in a start-up or growth phase has guaranteed half of the Facility.

## **DIRECTORS' REPORT**

The variable interest rate is currently 4.8%, calculated quarterly in arrears and the Facility is to be repaid in equal quarterly instalments commencing September 2011 until December 2012.

### *Hedging*

The Nordea Facility was subject to the completion of a minimum euro denominated gold hedging program of 30,000 ounces (10,000 ounces in 2011 and 20,000 ounces in 2012) representing approximately 20% of the Finnish Proven and Probable Reserves.

This hedging program was executed in May and the average forward price achieved was €1,055/oz with all contracts outstanding at 30 June 2011.

The Company also implemented a SEK gold hedging program for the Svartliden Gold Mine to lock in a high gold price whilst major development expenditures (underground decline and cut backs to open pit) were occurring. The major expenditure is to be completed in the second quarter of 2012 and consequently there is no hedging beyond March 2012. As at 30 June 2011, 13,250 ounces of gold remain outstanding at an average forward price of 8,826 SEK/oz.

### **(d) Investments**

#### *Weld Range Metals (Dragon – 39.95%)*

Weld Range Metals continued to evaluate various capital raising opportunities to fund the feasibility study for the project to produce refined stainless alloy as a feedstock for stainless steel mills.

#### *Zara Gold Project*

Further to the sale of the 20% interest in the Zara Gold Project, Eritrea, Dragon Mining is entitled to payment of \$4.0 million from Chalice Gold Mines Limited 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.

### **Significant Events After Period End**

No circumstances or events have arisen subsequent to balance date that have had, or likely to have a material impact on the financial statements.

### **Rounding**

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

### **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 2011 in accordance with a resolution of the Directors.



MD Naylor  
Director

**DIRECTORS' DECLARATION**

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

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 2011 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.



MD Naylor  
Director

Signed in Perth 29 August 2011

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 30 JUNE 2011**

	Note	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000
Revenue from gold sales		32,154	49,252
Cost of Sales	3(a)	(30,066)	(28,451)
<b>Gross profit</b>		2,088	20,801
Other revenue	3(b)	538	207
Other income	3(c)	44	8,955
Exploration expenditure written off	10	(1,733)	(152)
Other expenses	3(d)	(1,799)	(1,735)
<b>(Loss) / profit before treasury, tax and finance costs</b>		(862)	28,076
Finance costs	3(e)	(108)	(805)
Loss on buyback of convertible notes		-	(6)
<b>(Loss) / profit before treasury and tax</b>		(970)	27,265
Foreign exchange gains / (losses)		1,328	(6,215)
Derivatives losses		(1,626)	(589)
<b>(Loss) / profit before tax</b>		(1,268)	20,461
Income tax benefit		408	809
<b>(Loss) / profit after income tax</b>		(860)	21,270
<b>Other comprehensive income</b>			
Foreign currency translation		15	2,010
Loss on available for sale investment		(980)	(171)
Income tax on items of other comprehensive income		213	51
<b>Total comprehensive (loss) / profit for the period</b>		(1,612)	23,160
<b>(Loss) / profit attributable to:</b>			
Members of Dragon Mining Limited		(387)	19,521
Non-controlling interest		(473)	1,749
		(860)	21,270
<b>Total comprehensive (loss) / profit attributable to:</b>			
Members of Dragon Mining Limited		(1,139)	21,296
Non-controlling interest		(473)	1,864
		(1,612)	23,160
<b>(Loss) / profit per share attributable to ordinary equity holders of the parent (cents per share)</b>			
Basic (loss) / profit per share		(0.52)	26.47
Diluted (loss) / profit per share		(0.52)	26.47

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2011**

	Note	30 June 2011 \$'000	31 Dec 2010 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		21,601	23,478
Trade and other receivables		6,792	9,123
Inventories		3,656	5,411
Derivative financial instruments		-	4
Prepayments		968	119
<b>TOTAL CURRENT ASSETS</b>		<b>33,017</b>	<b>38,135</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		8,108	6,122
Mineral exploration costs		28,227	29,712
Development costs		15,118	6,793
Investments in Associates		203	262
Available for sale investments		770	1,750
Deferred tax assets		642	554
Other receivables		1,515	-
Other non-current assets		4,304	4,144
<b>TOTAL NON-CURRENT ASSETS</b>		<b>58,887</b>	<b>49,337</b>
<b>TOTAL ASSETS</b>		<b>91,904</b>	<b>87,472</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		7,562	6,753
Interest bearing loans and borrowings	4	3,418	1
Provisions		1,480	3,067
Derivative financial instruments	7	1,610	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>14,070</b>	<b>9,821</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	4	1,708	-
Provisions		6,268	6,055
Deferred tax liabilities		-	539
Other liabilities		-	8
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>7,976</b>	<b>6,602</b>
<b>TOTAL LIABILITIES</b>		<b>22,046</b>	<b>16,423</b>
<b>NET ASSETS</b>		<b>69,858</b>	<b>71,049</b>
<b>EQUITY</b>			
Contributed equity		105,621	103,565
Reserves		6,671	6,102
Accumulated losses		(42,434)	(42,047)
Total parent entity interest		69,858	67,620
Non-controlling interest		-	3,429
<b>TOTAL EQUITY</b>		<b>69,858</b>	<b>71,049</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 30 JUNE 2011**

*Attributable to Equity Holders of the Parent*

	<i>Contributed Equity</i>	<i>Accumulated Losses</i>	<i>Foreign Currency Translation</i>	<i>Option Reserve</i>	<i>Convertible Note Premium Reserve</i>	<i>Available for Sale Reserve</i>	<i>Equity Reserve – Purchase of Non- controlling interests</i>	<i>Total</i>	<i>Non- controlling Interests</i>	<i>Total Equity</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>At 31 December 2010</b>	103,565	(42,047)	2,826	711	2,068	497	-	67,620	3,429	71,049
Loss for the period	-	(387)	-	-	-	-	-	(387)	(473)	(860)
Other comprehensive income / (loss)	-	-	15	-	-	(767)	-	(752)	-	(752)
Total comprehensive income / (loss) for the period	-	(387)	15	-	-	(767)	-	(1,139)	(473)	(1,612)
Transactions with owners in their capacity as owners:										
Purchase of non-controlling interest	700	-	-	-	-	-	1,321	2,021	(2,956)	(935)
Issue of shares	1,356	-	-	-	-	-	-	1,356	-	1,356
<b>At 30 June 2011</b>	<b>105,621</b>	<b>(42,434)</b>	<b>2,841</b>	<b>711</b>	<b>2,068</b>	<b>(270)</b>	<b>1,321</b>	<b>69,858</b>	<b>-</b>	<b>69,858</b>
<b>At 31 December 2009</b>	<b>103,488</b>	<b>(63,408)</b>	<b>1,062</b>	<b>711</b>	<b>2,068</b>	<b>-</b>	<b>-</b>	<b>43,921</b>	<b>-</b>	<b>43,921</b>
Profit for the period	-	19,521	-	-	-	-	-	19,521	1,749	21,270
Other comprehensive income / (loss)	-	-	1,895	-	-	(120)	-	1,775	115	1,890
Total comprehensive income / (loss) for the period	-	19,521	1,895	-	-	(120)	-	21,296	1,864	23,160
<b>At 30 June 2010</b>	<b>103,488</b>	<b>(43,887)</b>	<b>2,957</b>	<b>711</b>	<b>2,068</b>	<b>(120)</b>	<b>-</b>	<b>65,217</b>	<b>1,864</b>	<b>67,081</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2011**

	Note	6 months to 30 June 2011 \$'000	6 months to 30 June 2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		34,689	40,641
Payments to suppliers and employees		(27,632)	(24,038)
Interest received		443	112
Interest paid		(26)	(711)
Payments for rehabilitation		(194)	(368)
Payment of environmental bonds		(55)	(135)
Net Operating Cash Flows		<u>7,225</u>	<u>15,501</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(2,029)	(1,738)
Proceeds from sale of property, plant and equipment		55	18
Payments for mineral exploration		(4,976)	(2,909)
Payments for development		(6,369)	(962)
Proceeds on disposal of subsidiary	3(c)	-	8,000
Advances to Associate		(137)	-
Net Investing Cash Flows		<u>(13,456)</u>	<u>2,409</u>
<b>Cash flows from financing activities</b>			
Buyback of convertible notes		-	(4,772)
Purchase of non-controlling interest		(934)	-
Drawdown / (Repayment) of short-term factoring facility		1	(1)
Drawdown / (Repayment) of bank loans		5,155	(1,440)
Net Financing Cash Flows		<u>4,222</u>	<u>(6,213)</u>
Net (decrease) / increase in cash and cash equivalents		(2,009)	11,697
Cash and cash equivalents at the beginning of the period		23,478	4,397
Effects of exchange rate changes on cash and cash equivalents		132	(109)
<b>Cash and cash equivalents at the end of the period</b>		<u><u>21,601</u></u>	<u><u>15,985</u></u>

*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 for the period ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 29 August 2011.

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. The registered address is Level 1, 173 Mounts Bay Road, Perth, Western Australia 6000.

### **2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

#### **(a) Basis of Preparation**

This general purpose condensed financial report for the half year ended 30 June 2011 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year report does 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.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 31 December 2010 and considered together with any public announcements made by Dragon Mining Limited during the half year ended 30 June 2011 in accordance with the continuous disclosure obligations of the ASX listing rules.

#### **(b) Changes in Accounting Policy**

The accounting policies adopted in the preparation of the half year financial report are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2010.

The following Standards and Interpretations and all consequential amendments, which became applicable on 1 January 2011, have been adopted by the Group, but have had no impact on the financial position or performance of the Group, or on presentation or disclosure in its financial statements.

- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]
- Interpretation 19 Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
- AASB 124 (revised) Related Party Disclosures (December 2009)
- AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]
- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement
- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]
- AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

The Group has not elected to early adopt any other new Standards or amendments that are issued by not yet effective.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3 REVENUE AND EXPENSES**

	<b>Consolidated Entity</b>	
	<b>6 months to 30 June 2011 \$'000</b>	<b>6 months to 30 June 2010 \$'000</b>
<b>(a) Cost of Sales</b>		
Cost of production	26,635	24,313
Depreciation of mine properties, plant and equipment	684	1,368
Amortisation of development costs	2,446	2,770
Rehabilitation costs	301	-
	<b>30,066</b>	<b>28,451</b>
<b>(b) Other revenue</b>		
Finance revenue	519	143
Rent and service income	19	64
Total other revenue	<b>538</b>	<b>207</b>
<b>Breakdown of Finance Revenue</b>		
Bank and external interest	443	114
Interest from associate	76	29
	<b>519</b>	<b>143</b>
<b>(c) Other income</b>		
(Loss)/Gain on sale of plant and equipment	(2)	13
Gain on disposal of subsidiary (i)	-	8,900
Other	46	42
Total other income	<b>44</b>	<b>8,955</b>
<p>(i) Total consideration received consisted of \$8.0 million cash and 2 million shares at market value. The carrying value of cash, assets, and liabilities of the subsidiary were all nil at the date of disposal.</p>		
<b>(d) Other expenses</b>		
Management and administration expenses	1,668	1,524
Depreciation of non-mine site assets	43	46
Project generation expenses	29	135
Share of losses of associates	59	30
	<b>1,799</b>	<b>1,735</b>
<b>(e) Finance costs</b>		
Interest	46	676
Non-cash interest on convertible notes	-	75
Other	62	54
	<b>108</b>	<b>805</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4 INTEREST-BEARING LOANS AND BORROWINGS**

	<i>Maturity</i>	<b>Consolidated Entity</b>	
		<b>30 June 2011</b>	<b>31 Dec 2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>			
Bank loans (i)	<i>2012</i>	3,416	-
Factoring facility drawn down (ii)		2	1
		<u>3,418</u>	<u>1</u>
<b>Non-current</b>			
Bank loans (i)	<i>2012</i>	1,708	-
		<u>1,708</u>	<u>-</u>

(i) The bank loan is from Nordea Bank Finland Plc. The loan, half of which is guaranteed by the Finland State owned Finnvera Plc, was fully drawn down as at 30 June 2011. The loan is to be repaid in quarterly instalments until December 2012. The interest rate on amounts drawn under the facility are charged at monthly Euribor plus 3.28% and is payable monthly in arrears. The loan is denominated in euro and is secured by a first ranking fixed and floating charge over all the assets and undertakings of Polar Mining Oy including mortgages over key tenements.

(ii) In Finland, there is a minimum six week delay between shipment of gold concentrate and payment by the refiner. In order to access funds for working capital, the Company established a factoring facility where funds can be drawn down from Nordea Bank for up to a maximum of 75% of gold concentrate delivered to the refiner. Interest is payable at one week 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.

**5 DIVIDENDS PAID OR PROVIDED FOR**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6 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. Polar 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 2010.

	<b>Sweden</b> <b>30 June 2011</b> <b>\$'000</b>	<b>Finland</b> <b>30 June 2011</b> <b>\$'000</b>	<b>Unallocated</b> <b>30 June 2011</b> <b>\$'000</b>	<b>Total</b> <b>30 June 2011</b> <b>\$'000</b>
<b>Segment revenue</b>				
Gold sales to external customers	17,644	14,510	-	32,154
Interest revenue	44	-	475	519
Other revenue	-	19	-	19
<b>Total revenue</b>	<b>17,688</b>	<b>14,529</b>	<b>475</b>	<b>32,692</b>
Segment interest expense	354	586	-	940
Elimination of inter-company interest expense charged to segments				(894)
Total interest expense				46
Depreciation and amortisation	970	2,198	5	3,173
Exploration expenditure written off	1,272	461	-	1,733
<b>Segment result</b>				
Pre-tax segment (loss) / profit	<b>(3,744)</b>	<b>333</b>	-	<b>(3,411)</b>
Income tax benefit	382	26	-	408
Post tax segment (loss) / profit	(3,362)	359	-	(3,003)
Unallocated items:				
Corporate interest revenue				475
Corporate costs				(1,267)
Share of losses of associate				(59)
Unallocated treasury losses relating to intercompany loans advanced by parent				1,945
Elimination of inter-company interest expense and management fees in segment results				1,049
<b>Loss after tax as per the statement of comprehensive income</b>				<b>(860)</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6 SEGMENT REPORTING (CONTINUED)**

	Sweden 30 June 2010 \$'000	Finland 30 June 2010 \$'000	Unallocated 30 June 2010 \$'000	Total 30 June 2010 \$'000
<b>Segment revenue</b>				
Gold sales to external customers	27,673	21,579	-	49,252
Interest revenue	-	-	143	143
Other revenue	-	64	-	64
<b>Total revenue</b>	<b>27,673</b>	<b>21,643</b>	<b>143</b>	<b>49,459</b>
Segment interest expense	762	755	-	1,517
Corporate interest expense				606
Elimination of inter-company interest expense charged to segments				(1,372)
Total interest expense				751
Depreciation and amortisation	1,506	2,675	3	4,184
Exploration expenditure written off	-	152	-	152
<b>Segment Profit</b>				
Pre-tax segment result	<b>10,166</b>	<b>7,479</b>	-	<b>17,645</b>
Income tax (expense) / benefit	(711)	1,520	-	809
Post tax segment profit	9,455	8,999	-	18,454
Unallocated items:				
Corporate interest revenue				143
Corporate costs				(1,072)
Finance costs				(606)
Loss on buyback of convertible notes				(6)
Gain on disposal of 20% interest in Zara project				8,900
Share of losses of associate				(30)
Unallocated treasury losses relating to intercompany loans advanced by parent				(5,381)
Unallocated treasury losses relating to hedging				(589)
Elimination of inter-company interest expense and management fees in segment results				1,457
<b>Profit after tax as per the statement of comprehensive income</b>				<b>21,270</b>

**7 DERIVATIVE FINANCIAL INSTRUMENTS**

*Gold forwards*

Under the terms of Dragon Mining's gold forward sale contracts, at 30 June 2011 the Company is obligated to deliver 13,250 ounces of gold into gold forward sale contracts at a price of US\$1,374 per ounce deliverable over the period to March 2012 and 30,000 ounces at a price of US\$1,504 per ounce deliverable over the period to December 2012.

*Foreign currency forwards*

Under the terms of Dragon Mining's foreign currency forward contracts, at 30 June 2011 the Company is obligated to deliver USD into forward contracts. The Company is obligated to deliver USD 18,208,175 into Swedish Krona (SEK) forward contracts at a rate of 6.423 SEK for every 1 USD, deliverable over the period to March 2012. The Company is also obligated to deliver USD 45,120,000 into EUR forward contracts at a rate of 1.425 USD for every 1 EUR, deliverable over the period to January 2013.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **8 EXPENDITURE COMMITMENTS**

The only material changes to the commitments disclosed in the financial report for the year ended 31 December 2010 are specified 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 are detailed below.

	<b>Consolidated Entity</b>	
	<b>30 Jun 2011</b>	<b>31 Dec 2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	871	1,000
One year or later and no later than five years	2,953	2,736
	<b>3,824</b>	<b>3,736</b>

#### **Capital Commitments**

As at 30 June 2011 the consolidated entity had capital commitments of \$1,044,000 relating to the Svartliden underground mining contract, \$3,578,000 relating to the Svartliden Water Treatment Plant, and \$2,363,000 relating to the acquisition of equipment for the Orivesi Gold mine (31 Dec 2010: nil).

### **9 CONTINGENT ASSETS AND LIABILITIES**

There have been no changes to the contingent assets or liabilities from those items disclosed in the financial report for the year ended 31 December 2010.

### **10 EXPLORATION WRITE DOWNS**

The Board has reviewed the carrying value of the exploration assets of the group and as a result a write down of capitalised exploration expenditure of \$1,733,000 has been taken. The write down is mainly attributable to regional exploration tenements in Finland and Sweden where Dragon Mining no longer considers exploration on these tenements to be part of its long term business objectives and has no further plans to incur further significant exploration expenditure in exploring on these tenements.

### **11 PURCHASE OF NON-CONTROLLING INTEREST**

Dragon Mining acquired a 20% interest in the Svartliden Gold Mine from Pioneer Intertrade Company Limited for US\$1,000,000 and 500,000 ordinary, fully paid Dragon shares. Dragon Mining acquired an initial interest in August 1997, earned an 80% interest following completion of a feasibility study in 2002, and subsequently has been responsible for all exploration, development and financing costs. The fair value of the 20% interest acquired could not be reliably estimated, as a result the value of the acquisition and the corresponding increase in equity was determined by reference to the fair value of the cash consideration and equity instruments granted to Pioneer Intertrade Company Limited.

### **12 PRODUCTION MILESTONE PAYMENT**

The Share and Loan Sales Agreement ("Agreement") between Dragon Mining and Outokumpu Mining Oy ("Outokumpu") for the acquisition of Outokumpu's precious metals assets in Finland signed in October 2003, included an obligation of the payment of €1,000,000 in cash or shares when 100,000 ounces of gold was produced from any of the gold projects acquired.

The Orivesi Gold Mine achieved the production of 100,000 ounces of gold in March 2011, and in accordance with the Agreement the payment was satisfied by issuing 892,105 ordinary fully paid shares in Dragon Mining at a price of \$1.52 a share in May 2011. The issue price was based on a predetermined formula outlined in the Agreement and at the exchange rate on the date the payment became due. The payment was accrued in the year ending 31 December 2010.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**13 SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE**

No circumstances or events have arisen subsequent to balance date that have had, or likely to have a material impact on the financial statements.

## Independent auditor's report 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 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 2011 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.

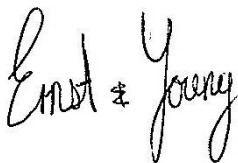
### Independence

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.

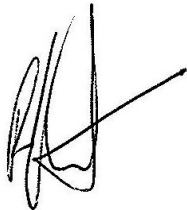
## Conclusion

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 2011 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*.

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Ernst & Young

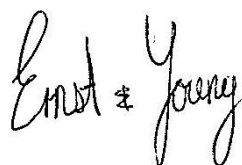
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R J Curtin  
Partner  
Perth  
29 August 2011

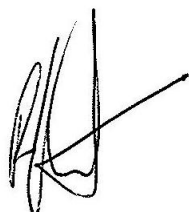


## Auditor's Independence Declaration to the Directors of Dragon Mining Limited

In relation to our review of the financial report of Dragon Mining Limited for the half-year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

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

R J Curtin  
Partner  
Perth  
29 August 2011