



## HALF YEAR REPORT

For the 6 months ended 30 June 2009

Dragon Mining Limited continued to consolidate its position as a profitable gold producer with a gross profit from operations at both the Svartliden Gold Mine in Sweden and the Orivesi Gold Mine in Finland. The maiden operating profit from the Orivesi Gold Mine in conjunction with the commencement of the development of the Jokisivu Gold Mine in Finland has increased the confidence of continued positive mining and processing in southern Finland.

The Company also continues to invest in exploration of the very prospective tenure around each of its key assets. There have been excellent exploration results from Svartliden, Orivesi and Jokisivu and the Company continues to increase resources within close proximity of its two production centres.

### INCOME STATEMENT

- Revenue from continuing operations has increased by 27% to \$40.9m (2008: \$32.2m).
- Gross profit before depreciation and amortisation increased by 60% to \$13.7m (2008: \$8.5m).
- Gross profit from operations has increased by 172% to \$8.1m (2008: \$3.0m).
- Earnings before foreign currency, treasury and tax of \$6.6m (2008: loss of \$12.1m).
- Net loss after tax and foreign currency losses was \$6.6m (2008: loss of \$12.3m).

\$16.3m of foreign currency losses were booked due to the effect on Dragon Mining intercompany loans of the strengthening of the Australian dollar against the Euro and Swedish Krona. These losses do not affect cash flow.

### CASH AND TRADE RECEIVABLES

- Group cash at 30 June 2009 of \$8.0m (2008: \$8.5m).
- Trade receivables from gold concentrate delivered and bullion on hand of \$6.7m (2008: \$4.2m).
- Cash of \$4.2m lodged with Swedish and Finnish Authorities as a rehabilitation bonds.
- Cash flow from operations increased by 199% to \$9.5m (2008: \$3.2m).

### OPERATIONS

- Gold production for the half year of 34,847 ounces (2008: 35,390).
- Svartliden produced 18,273 ounces at a cash cost of US\$526/ounce (2008: 23,530 ounces at a cash cost of US\$518/ounce).
- Production from the Vammala Production Centre of 16,574 ounces at a cash cost of US\$685/ounce, including refining costs of US\$112/ounce. (2008: 11,860 ounces at a cash cost of US\$918/ounce, including refining costs of US\$130/ounce).
- The average cash price received per ounce of gold sold from Svartliden was US\$833.
- The average sales price booked was US\$909 per ounce of gold at the Vammala Production Centre.

## DEVELOPMENT

### Orivesi, Finland

- The Sarvisuo resource was updated in June incorporating all new drill data up to 23 June 2009. The Measured, Indicated and Inferred Resource of 318,000 tonnes @ 6.5 g/t gold (66,200 ounces) between the 130m and 600m levels effectively offsets the production over the past six months.
- Drilling at Sarvisuo from the 525m level has continued to highlight the depth extensions.
- Drilling has continued at Kutema Deeps with the aim of improving the confidence between the 700 and 800m levels to provide a base from which a decision to extend the decline and commence mining.

### Jokisivu, Finland

- The development of the Kujankallio open pit at the Jokisivu Gold Mine in Finland commenced in May and is Dragon Mining's third operating gold mine with ore to be processed at the Vammala Production Centre which is located 40km northeast of Jokisivu.
- Kujankallio site preparation works have commenced as planned including logging, ditching, construction of noise barriers and roads and sedimentation works.

### Zara Joint Venture, Eritrea (20% Interest)

- In August, the manager of the joint venture Sub-Sahara Resources NL ("Sub-Sahara") and Australian listed Chalice Gold Mines Limited ("Chalice") merged by way of a Scheme of Arrangement.
- Four exploration licenses covering the Zara Gold Project were extended by the Government of Eritrea for a further 12 months. The extension requires Chalice to complete a pre-feasibility study by the end of October 2009 and a full feasibility study by 25 May 2010.
- Dragon Mining's interest in the joint venture remains unchanged at 20% and the Company is free carried until completion of a bankable feasibility study. The Company is also encouraged that Chalice has adequate funding to advance the project and meet the Eritrean Governments requirements.

## EXPLORATION

The Company invested a total of \$3.0m in exploration of the prospective tenure around each of its key assets.

### Svartliden, Sweden

- Drilling has mainly focussed on the depth extensions for the underground resource estimation.
- Recent drill highlights include 14.00m @ 8.57 g/t gold, 5.00m @ 8.67 g/t gold, 5.00m @ 12.85 g/t gold, 4.00m @ 12.11 g/t gold, 8.00m @ 6.02 g/t gold, 5.00m @ 15.90 g/t gold and 5.00 @ 9.10 g/t gold.
- Upon receipt of final results the maiden resource estimate for the Svartliden underground area will be completed.



PG Cordin  
Managing Director  
27 August 2009

*Mr Neale Edwards BSc (Hons), a Member of the Australia Institute of Geoscientists, a full time employee of the company and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the Australasian Code of Reporting for Exploration Results, Mineral Resources and Ore Reserves, Mr Neale Edwards consents to the inclusion in the report of the matters based on this information, in the form and context in which it appears.*

## 1.0 REPORTING PERIOD

The reporting period is for the half year ended 30 June 2009 with the corresponding reporting period being for the half year ended 30 June 2008.

## 2.0 RESULTS FOR ANNOUNCEMENT TO THE MARKET

	<b>A\$'000</b>			
Revenues from continuing operations	up	27%	to	40,904
Profit from continuing operations before treasury and tax	n/a	n/a	to	6,656
Loss after tax attributable to members from continuing operations	down	46%	to	(6,601)
Net loss for the period attributable to members	down	46%	to	(6,601)

It is not proposed to pay dividends.

Refer to attached media release for further commentary regarding the half year to 30 June 2009 result.

## 3.0 NET TANGIBLE ASSET BACKING

	<b>Current period</b>	<b>Previous corresponding period</b>
Net tangible asset backing per ordinary security (cents)	0.34	n/a

## 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
Zara Joint Venture	20%	20%
Weld Range / Range Well	8.75%*	8.75%*

\* Dragon Mining holds 35% of the Platinum Group Metal rights on the same tenements and a 25% interest in all mineral rights to a depth of 20 metres on Mining Lease M51/546 in the Weld Range Project Area.

## 8.0 ACCOUNTING STANDARDS USED FOR FOREIGN ENTITIES

The accounts have been prepared in compliance with International Accounting 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 2009**

## **DIRECTORS' REPORT**

Your Directors submit the report of Dragon Mining Limited ("Dragon Mining" or "the Company") for the half year ended 30 June 2009.

### **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.

Andrew Edward Daley  
Peter George Cordin  
Michael Dylan Naylor  
Toivo Tapani Järvinen  
Markku Juhani Mäkelä  
Peter Lawson Munachen

### **Review and Results of Operations**

Dragon Mining Limited continued to consolidate its position as a profitable gold producer with a gross profit from operations of \$8,092,056 from the Svartliden Gold Mine in Sweden and Orivesi Gold Mine in Finland. The maiden operating profit from the Orivesi Gold Mine for the half year was \$2,588,552.

\$16,293,172 of foreign currency losses were booked due to the effect on Dragon Mining intercompany loans of the strengthening of the Australian dollar against the Euro and Swedish Krona.

In addition, other contributors to the net result were derivative gains of \$2,105,121, finance expenses of \$1,001,863, gain on the repurchase of Dragon Mining convertible notes of \$805,930, other net expenses of \$1,235,813 and a tax benefit of \$926,839. The tax benefit represents previously unrecognised tax losses for Dragon Mining (Sweden) AB.

Therefore the net loss after tax and minority interests of the consolidated entity for the half year ended 30 June 2009 was \$6,600,902 (half year ended 30 June 2008: loss of \$12,282,041).

#### **(a) Production**

##### *Svartliden, Sweden*

The Svartliden Gold Mine produced 18,273 ounces of gold in the 6 months to 30 June 2009 at a cash cost of US\$526/oz compared to gold production of 23,530 ounces at a cash cost of US\$518/oz for the 6 months ended 30 June 2008.

Revenue from gold sales was A\$22.3m million and the average cash price received was US\$833 per ounce of gold sold due to the delivery of 3,000 ounces into the gold hedge book.

Though cash costs and production were generally in line with expectations, the half year cash cost per ounce was hindered by the problems associated with a scheduled shutdown to install a mill grate discharge to improve grinding performance and cooling problems associated with the new mill motor installed to comply with the requirements of the electrical power provider.

##### *Vammala Production Centre, Finland*

The Vammala Production Centre produced 16,574 ounces of gold in the 6 months to 30 June 2009 at a cash cost of US\$685/oz (including refining costs of US\$112 per ounce), compared to 11,860 ounces of gold at a cash cost of US\$918/oz (including refining costs of US\$130 per ounce) in the 6 months to 30 June 2008.

Revenue from gold sales was A\$18.6m million and the average sales price booked was US\$909 per ounce of gold.

Cash costs were higher than budget due to lower than expected grades. This was principally due to greater dilution as a result of mining small stopes. In addition, the Vammala stockpiles were depleted by 65% in June due to a low mining rate. As movements in stockpiles are included in cash costs per ounce the abnormal depletion resulted in an additional US\$38 per ounce in the reported half year cash cost.

#### **(b) Development**

##### *Orivesi Gold Mine, Finland*

The development of the Sarvisuo extension between the 520m and 540m levels commenced and exploration drilling has continued to highlight depth extensions at Sarvisuo. The resources below the 720m level at Kutema Deeps continue to be considered for development.

## **DIRECTORS' REPORT**

### *Jokisivu Gold Project, Finland*

The development of the Kujankallio open pit at the Jokisivu Gold Mine in Finland commenced in May and is Dragon mining's third operating gold mine with ore to be processed at the Vammala Production Centre which is located 40km northeast of Jokisivu.

Kujankallio site preparation works commenced as planned including logging, construction of noise barriers, roads and sedimentation infrastructure.

### *Zara Joint Venture, Eritrea (20% Interest)*

In August, a merger by way of a Scheme of Arrangement between the manager of the joint venture Sub-Sahara Resources NL ("Sub-Sahara") and Australian listed Chalice Gold Mines Limited ("Chalice") was approved by Sub-Sahara shareholders.

Sub-Sahara advised that the four exploration licenses covering the Zara Gold Project were extended by the Government of Eritrea for a further 12 months. The extension requires a pre-feasibility study to be completed by the end of October 2009 and a full feasibility study completed by 25 May 2010.

Dragon Mining's interest in the joint venture remains unchanged at 20% and the Company is free carried until completion of a bankable feasibility study. The Company is encouraged that Chalice has adequate funding to advance the project and meet the Eritrean Governments requirements.

### **(c) Exploration**

The Company continues to invest in exploration of the very prospective tenure around each of its key assets. There have been excellent exploration results from Svartliden and Orivesi.

Given the encouraging results, the short term goal is to increase resources and reserves within close proximity of the Company's two production centres.

### **(d) Corporate**

Dragon Mining Investments Pty Ltd, a wholly owned subsidiary of Dragon Mining purchased 3,602,259 Dragon Mining convertible notes ("Notes") during the half year. The Company paid \$2,847,000 to repurchase Notes with a "face value" of \$3,782,372.

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

A further 2,000,000 Notes were purchased on 31 July 2009. The Company paid \$1,700,000 to repurchase the Notes, which have a "face value" of \$2,100,000.

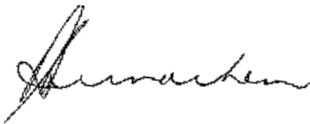
### **Rounding**

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 27 August 2009 in accordance with a resolution of the Directors.



PL Munachen  
Director

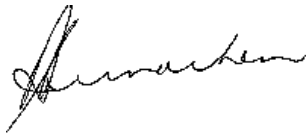
**DIRECTORS' DECLARATION**

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 2009 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.



PL Munachen  
Director

Signed in Perth 27 August 2009

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 30 JUNE 2009**

	Note	Consolidated Entity	
		6 months to 30 June 2009 \$'000	6 months to 30 June 2008 \$'000
<b>Continuing Operations</b>			
Revenue from gold sales		40,904	32,224
Cash costs of production		(27,252)	(23,696)
<b>Gross profit before depreciation and amortisation</b>		13,652	8,528
Depreciation and amortisation	3(c)	(5,560)	(5,561)
<b>Gross profit</b>		8,092	2,967
Other revenue	3(a)	176	349
Other income	3(b)	236	114
Exploration expenditure written off		-	(6,397)
Development expenditure written off		-	(6,037)
Other expenses	3(e)	(1,651)	(1,530)
<b>Profit/(loss) before treasury, tax and finance costs</b>		6,853	(10,534)
Finance costs	3(d)	(1,002)	(1,530)
Gain on buyback of convertible notes		805	-
<b>Profit/(loss) before treasury and tax</b>		6,656	(12,064)
Foreign exchange – gains/(losses)		(16,293)	(2,149)
Derivatives – gains/(losses)		2,105	491
<b>Loss before tax</b>		(7,532)	(13,722)
Income tax benefit		927	1,439
<b>Loss after income tax</b>		(6,605)	(12,283)
<b>Other comprehensive income</b>			
Foreign currency translation		6,060	600
<b>Total comprehensive loss for the period</b>		(545)	(11,683)
<b>Loss attributable to:</b>			
Members of Dragon Mining Limited		(6,601)	(12,282)
Outside equity interests		(4)	(1)
		(6,605)	(12,283)
<b>Total comprehensive loss attributable to:</b>			
Members of Dragon Mining Limited		(541)	(11,682)
Outside equity interests		(4)	(1)
		(545)	(11,683)
<b>Loss per share attributable to ordinary equity holders of the parent (cents per share)</b>			
Basic loss per share		(0.90)	(1.67)
Diluted loss per share		(0.90)	(1.67)

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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2009**

	Note	Consolidated Entity	
		30 June 2009 \$'000	31 Dec 2008 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		7,948	8,534
Trade and other receivables		8,678	9,907
Inventories		5,130	6,156
Other current assets		135	409
<b>TOTAL CURRENT ASSETS</b>		<b>21,891</b>	<b>25,006</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		8,548	10,788
Mineral exploration costs		27,701	29,269
Development costs		8,157	10,398
Deferred tax assets		5,104	4,857
Other non-current assets		4,308	4,603
<b>TOTAL NON-CURRENT ASSETS</b>		<b>53,818</b>	<b>59,915</b>
<b>TOTAL ASSETS</b>		<b>75,709</b>	<b>84,921</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		7,886	9,827
Interest bearing loans and borrowings	4	23	1,129
Provisions		1,413	1,443
Derivative financial instruments	7	1,139	3,245
<b>TOTAL CURRENT LIABILITIES</b>		<b>10,461</b>	<b>15,644</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	4	16,387	19,928
Provisions		5,234	5,175
Other liabilities		9	11
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>21,630</b>	<b>25,114</b>
<b>TOTAL LIABILITIES</b>		<b>32,091</b>	<b>40,758</b>
<b>NET ASSETS</b>		<b>43,618</b>	<b>44,163</b>
<b>EQUITY</b>			
Contributed equity		103,488	103,488
Reserves		2,157	(3,903)
Accumulated losses		(62,032)	(55,431)
Total parent entity interest		43,613	44,154
Minority interest		5	9
<b>TOTAL EQUITY</b>		<b>43,618</b>	<b>44,163</b>

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

**DRAGON MINING LIMITED**  
For the Half Year ended 30 June 2009

**STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 30 JUNE 2009**

*Attributable to Equity Holders of the Parent*

<b>CONSOLIDATED</b>	<b>Contributed Equity</b>	<b>Accumulated Losses</b>	<b>Foreign Currency Translation</b>	<b>Option Reserve</b>	<b>Convertible Note Premium Reserve</b>	<b>Total</b>	<b>Minority Interests</b>	<b>Total Equity</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>At 31 December 2008</b>	103,488	(55,431)	(6,682)	711	2,068	44,154	9	44,163
Loss for the period	-	(6,601)	-	-	-	(6,601)	(4)	(6,605)
Other comprehensive income	-	-	6,060	-	-	6,060	-	6,060
Total comprehensive income / (loss) for the period	-	(6,601)	6,060	-	-	(541)	(4)	(545)
<b>At 30 June 2009</b>	<b>103,488</b>	<b>(62,032)</b>	<b>(622)</b>	<b>711</b>	<b>2,068</b>	<b>43,613</b>	<b>5</b>	<b>43,618</b>
<b>At 31 December 2007</b>	103,488	(62,970)	(1,476)	711	2,068	41,821	8	41,829
Loss for the period	-	(12,282)	-	-	-	(12,282)	(1)	(12,283)
Other comprehensive income	-	-	600	-	-	600	-	600
Total comprehensive income / (loss) for the period	-	(12,282)	600	-	-	(11,682)	(1)	(11,683)
<b>At 30 June 2008</b>	<b>103,488</b>	<b>(75,252)</b>	<b>(876)</b>	<b>711</b>	<b>2,068</b>	<b>30,139</b>	<b>7</b>	<b>30,146</b>

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

**STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2009**

	<b>Consolidated Entity</b>	
	<b>6 months to 30 June 2009 \$'000</b>	<b>6 months to 30 June 2008 \$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	42,486	31,264
Payments to suppliers and employees	(31,608)	(26,567)
Interest received	39	125
Interest paid	(1,085)	(1,330)
Payment of environmental bonds	(376)	(328)
Net Operating Cash Flows	9,456	3,164
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(1,283)	(607)
Proceeds from sale of property, plant and equipment	109	7
Payments for mineral exploration	(3,032)	(3,656)
Payments for development	(1,312)	(600)
Net Investing Cash Flows	(5,518)	(4,856)
<b>Cash flows from financing activities</b>		
Purchase of convertible notes	(2,847)	-
Proceeds / (repayment) of short-term factoring facility	(1,101)	-
Repayment of bank loans	(12)	(12)
Net Financing Cash Flows	(3,960)	(12)
Net decrease in cash and cash equivalents	(22)	(1,704)
Cash and cash equivalents at the beginning of the period	8,534	7,975
Effects of exchange rate changes on cash and cash equivalents	(564)	(119)
<b>Cash and cash equivalents at the end of the period</b>	<b>7,948</b>	<b>6,152</b>

*The above 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 2009 was authorised for issue in accordance with a resolution of the Directors on 27 August 2009.

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 2009 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 2008 and considered together with any public announcements made by Dragon Mining Limited during the half year ended 30 June 2009 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 2008, except for the adoption of new standards and interpretations as at 1 January 2009, noted below.

➤ AASB 8 *Operating Segments*

AASB 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments as detailed in Note 6.

➤ AASB 101 *Presentation of Financial Statements (revised 2007)*

The revised standard introduces a number of terminology changes, including revised titles for the financial statements, and has resulted in a number of changes in presentation and disclosure.

The following standards and Interpretations and all consequential amendments, which became applicable on 1 January 2009, have also 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 123 *Borrowing Costs*

➤ AASB 2008-1 *Amendments to Australian Accounting Standards – Share-Based Payments: Vesting Conditions and Cancellations*

➤ AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation*

➤ AASB 2008-5/  
AASB 2008-6 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

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

➤ AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*

➤ AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives*

➤ Interpretation 16 *Hedges of Net Investments in Foreign Operations*

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

**3 REVENUE AND EXPENSES**

	<b>Consolidated Entity</b>	
	<b>6 months to 30 June 2009 \$'000</b>	<b>6 months to 30 June 2008 \$'000</b>
<b>(a) Other revenue</b>		
Finance revenue – bank interest	56	205
Rent and service income	68	95
Other	52	49
Total other revenue	<u>176</u>	<u>349</u>
<b>(b) Other income</b>		
Gain on sale of plant and equipment	109	7
Other	127	107
Total other income	<u>236</u>	<u>114</u>
<b>(c) Depreciation and amortisation</b>		
Depreciation of mine properties, plant and equipment	3,444	1,965
Amortisation of exploration and development costs	2,116	3,596
	<u>5,560</u>	<u>5,561</u>
<b>(d) Finance costs</b>		
Interest	832	1,324
Non-cash interest on convertible notes	122	206
Other	48	-
	<u>1,002</u>	<u>1,530</u>
<b>(e) Other expenses</b>		
Management and administration expenses	1,539	1,241
Exploration expenses	52	233
Depreciation of non-mine site assets	60	56
	<u>1,651</u>	<u>1,530</u>

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

**4 INTEREST-BEARING LOANS AND BORROWINGS**

	<i>Maturity</i>	<b>Consolidated Entity</b>	
		<b>30 June 2009 \$'000</b>	<b>31 Dec 2008 \$'000</b>
<b>Current</b>			
Bank loans (i)	<i>2009</i>	21	26
Factoring facility drawn down (ii)		2	1,103
		<u>23</u>	<u>1,129</u>
<b>Non-current</b>			
Bank loans (i)	<i>2010</i>	-	10
Convertible notes (iii)	<i>2011</i>	16,387	19,918
		<u>16,387</u>	<u>19,928</u>

(i) This loan was used to purchase certain plant and equipment at Svartliden and is secured over the plant and equipment.

(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.

(iii) 23,645,289 convertible notes were issued in 2006 at \$1.05 per note. The notes have a 10% coupon rate and are convertible into ordinary shares in February 2011 on the basis of 6 shares for 1 convertible note. The convertible note is secured by a second ranking deed of fixed and floating security but does not include the Finnish assets or any foreign securities held by Dragon Mining Limited. Dragon Mining Investments Pty Ltd, a wholly owned subsidiary of Dragon Mining, purchased 4,086,000 Dragon Mining convertible notes ("Notes") in 2008 and a further 3,602,259 Notes during the half year to 30 June 2009.

**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 adopted AASB 8 *Operating Segments* with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports that are used by the chief operating decision makers in order to allocate resources to the segment and to assess its performance.

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

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

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

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

	Sweden 30 Jun 2009 \$'000	Finland 30 Jun 2009 \$'000	Total 30 Jun 2009 \$'000
<b>Revenue</b>			
Revenue from gold sales	22,296	18,608	40,904
Other revenue	69	69	138
Other income	127	109	236
<b>Total segment revenue and other income</b>	<u>22,492</u>	<u>18,786</u>	41,278
Other revenue			38
Total revenue and other income			<u><u>41,316</u></u>
<b>Result</b>			
Pre-tax segment result	<u>4,039</u>	931	4,970
<b>Reconciliation of pre-tax segment result to net loss before tax:</b>			
Net corporate charges			(1,059)
Finance costs			(997)
Elimination of inter-company interest expense and management fees in segment result			1,723
Gain on buyback of convertible notes			805
Unallocated treasury losses			(12,974)
Loss before tax			<u><u>(7,532)</u></u>
<b>Segment assets</b>			
Segment operating assets	<u>25,493</u>	41,259	66,752
Corporate assets			3,853
Deferred tax assets			5,104
Total assets			<u><u>75,709</u></u>

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

**6 SEGMENT REPORTING (CONTINUED)**

	Sweden 30 Jun 2008 \$'000	Finland 30 Jun 2008 \$'000	Total 30 Jun 2008 \$'000
<b>Revenue</b>			
Revenue from gold sales	22,632	9,592	32,224
Other revenue	136	124	260
Other income	42	72	114
<b>Total segment revenue and other income</b>	<u>22,810</u>	<u>9,788</u>	<u>32,598</u>
Other revenue			89
Total revenue and other income			<u>32,687</u>
<b>Result</b>			
Pre-tax segment result	<u>4,849</u>	<u>(16,809)</u>	<u>(11,960)</u>
<b>Reconciliation of pre-tax segment result to net loss before tax:</b>			
Net corporate charges			(729)
Finance costs			(1,444)
Elimination of inter-company interest expense and management fees in segment result			2,183
Unallocated treasury losses			(1,772)
Loss before tax			<u>(13,722)</u>
	Sweden 31 Dec 2008 \$'000	Finland 31 Dec 2008 \$'000	Total 31 Dec 2008 \$'000
<b>Segment assets</b>			
Segment operating assets	<u>29,084</u>	<u>46,298</u>	75,382
Corporate assets			4,682
Deferred tax assets			4,857
Total assets			<u>84,921</u>

**7 DERIVATIVE FINANCIAL INSTRUMENTS**

*Gold forwards*

Under the terms of Dragon Mining's gold forward sale contracts, at 30 June 2009 the Company is obligated to deliver 1,750 ounces of gold into gold forward sale contracts at a weighted average price of US\$404.95 per ounce. The forwards are spot deferred contracts that are rolled monthly. The Company delivers 500 ounces a month into these contracts and will make the final delivery in August 2009.

## **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 2008 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 parent entity and consolidated entity can be reduced by selective relinquishment of exploration tenure or by the renegotiation of expenditure commitments. The approximate minimum level of exploration requirements are detailed below.

	<b>Consolidated Entity</b>	
	<b>30 Jun 2009</b>	<b>31 Dec 2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	936	990
One year or later and no later than five years	2,401	2,724
	<b>3,337</b>	<b>3,714</b>

#### **Capital Commitments**

As at 30 June 2009 the consolidated entity had capital commitments of \$89,464 (31 Dec 2008: nil) relating to the acquisition of equipment.

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

Except for the item mentioned below, 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 2008.

#### *Sami Claim*

The Svartliden Gold Mine is located in the reindeer-herding area of the Vapsten Sami Community, which has appealed the Mines Inspector's decision concerning financial compensation for infringement on their reindeer-herding rights. The Regional Property Court awarded Vapsten compensation of SEK 480,000 (A\$77,000) which is approximately 120% more than the amount recommended by the Mines Inspector. Vapsten has appealed this decision. Court initiated and managed mediation took place in April 2008. The response from the Vapsten Sami included additional terms which are not acceptable to the Company and the case has been referred back to the High Court of Appeal. The Court will visit Svartliden in September 2009 to assess the claim.

#### *Mining Tenements*

In April 2009, Dragon Mining Limited was served with a writ of summons by Ron Morellini alleging causes of action in negligence and for breach of contract arising from the forfeiture of certain mining tenements in 2002.

Although the proceedings have been dismissed because the writ was issued in the incorrect name, solicitors have indicated that proceedings are likely to be commenced against a wholly owned subsidiary of Dragon Mining Limited, Weld Range Metals Limited, in due course but that the claim will be limited to a cause of action for breach of contract.

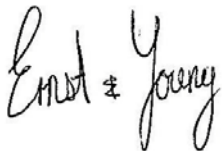
In the absence of a statement of claim, Weld Range Metals Limited has been unable to assess the merits of the claim. However, the circumstances surrounding the claim suggest that the claim is of questionable substance and the action if bought, will be vigorously defended.

### **10 SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE**

A further 2,000,000 Dragon Mining convertible notes ("Notes") were purchased on 31 July 2009. The Company paid \$1,700,000 to repurchase the Notes, which have a "face value" of \$2,100,000.

## 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 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'R J Curtin'.

R J Curtin  
Partner  
27 August 2009

To the members of Dragon Mining Limited

## Report on the Condensed 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 2009, and 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 and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 Interim and Other Financial Reports 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 2009 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.

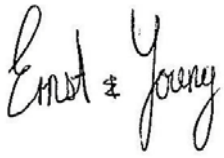
### Independence

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.

### 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:

- i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its 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*.

A handwritten version of the Ernst & Young logo in cursive script.

Ernst & Young

A handwritten signature in cursive script, appearing to read 'R J Curtin'.

R J Curtin  
Partner  
Perth  
27 August 2009