



## HALF YEAR REPORT

For the 6 months ended 30 June 2010

Dragon Mining Limited ("Dragon Mining") has consolidated its position as a profitable gold producer listed on ASX and is pleased to present a **record** half yearly profit of **\$21.3m** (including \$8.9m profit on the sale of Dragon Mining's 20% interest in the Zara Gold Project). Revenue for the half year has also increased for the fifth consecutive year to **\$49.3m** and operations in Sweden and Finland have continued to generate solid returns for the Company.

Dragon Mining remains focused on increasing mine life at the operations and this objective should be realised when the internal studies on the Jokisivu Gold Mine in Finland and Svartliden Gold Mine in Sweden are completed. A decision to commence underground development at both locations is expected in September.

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 gold sales has increased by 20% to \$49.3m (2009: \$40.9m).
- Gross profit from operations has increased by 157% to \$20.8m (2009: \$8.1m).
- Earnings before foreign currency, treasury and tax has increased by 310% to \$27.3m (2009: \$6.6m).
- Net profit after tax and foreign currency losses was \$21.3m (2009: loss of \$6.6m).

\$6.2m 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 2010 of \$16.0m.
- Trade receivables from gold concentrate delivered and bullion on hand of \$14.9m.
- Cash of \$4.0m lodged with Swedish and Finnish Authorities as rehabilitation bonds.
- Cash flow from operations increased by 64% to \$15.5m (2009: \$9.5m).

### OPERATIONS

- Gold production for the half year of 36,322 ounces (2009: 34,847) at an average cash cost US\$624/ounce (2009: US\$602/ounce).
- Svartliden produced 19,461 ounces at a cash cost of US\$608/ounce (2009: 18,273 ounces at a cash cost of US\$526/ounce).
- Production from the Vammala Production Centre of 16,861 ounces at a cash cost of US\$642/ounce, including refining costs of US\$128/ounce (2009: 16,574 ounces at a cash cost of US\$685/ounce, including refining costs of US\$112/ounce).
- The average cash price received per ounce of gold sold from Svartliden was US\$1,153.
- The average sales price booked was US\$1,182 per ounce of gold at the Vammala Production Centre.

### CORPORATE

Dragon Mining Investments Pty Ltd, a wholly owned subsidiary of Dragon Mining, purchased 4,592,495 Dragon Mining convertible notes ("Notes") during the six months ended 30 June 2010. Subsequently, a further 1,553,180 Notes were purchased at an average price of \$1.05 per Note. Of the 23,645,289 Notes on issue, 18,190,810 Notes are now held by the subsidiary and the outstanding liability associated with the Notes is \$5.7m. The Company has announced that it will redeem all outstanding Notes in early October 2010.

## **DEVELOPMENT**

### **Svartliden, Sweden**

- The internal study on the underground development continues to be progressed. Contract mining negotiations are being finalised and a development decision is expected in September 2010.

### **Orivesi, Finland**

- The company committed to the development of the decline at Sarvisuo from the 540m level to the 620m level, which will commence in September and will extend the operating mine at Orivesi.
- Planning to deepen the mine at Kutema Deeps from the 720m level continues to be considered, with a development decision expected before the end of the year.

### **Jokisivu, Finland**

- An internal study has been completed to determine the viability of developing an underground operation. The study is being reviewed and a development that would encompass both the Kujankallio and Arpola deposits should commence in 2010.

## **EXPLORATION**

The Company invested a total of \$2.9m in exploration of the prospective tenure around each of its key assets. Exploration programs in 2010 so far have concentrated on the Company's exploration properties in Sweden and Finland, particularly on increasing the resources at existing mines.

An aggressive exploration program commenced at Svartliden, with the objective of completing 22,000 metres of drilling over a 12 month period. The program, which is mainly targeting depth extensions has been designed to potentially extend mine life to more than 5 years. The first stage of the drilling has produced very encouraging results.

## **INVESTMENTS**

### **Weld Range Metals Limited (40% Interest)**

- Weld Range Metals continued to evaluate various capital raising opportunities to fund studies for the Weld Range Stainless Steel Project. Somerley Limited were appointed to act as financial advisors to assist in raising the funding for the feasibility study and development of the project. A scoping study to assist with the capital raising is nearing completion.

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

- Chalice Gold Mines Limited ("Chalice") exercised its option to purchase Dragon Mining's 20% interest in the Zara Gold Project, Eritrea which resulted in the Company receiving \$8.0 million in cash and 2 million Chalice shares which are escrowed for 12 months. In addition, Chalice has the obligation to pay Dragon Mining a further \$4.0 million on the delineation of a total of 1 million ounces of gold Reserves at the Zara Gold Project.



PG Cordin  
Executive Chairman  
27 August 2010

*Mr Neale Edwards BSc (Hons), a Member of the Australia Institute of Geoscientists, a full time employees of the company and have 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 2010 with the corresponding reporting period being for the half year ended 30 June 2009.

## 2.0 RESULTS FOR ANNOUNCEMENT TO THE MARKET

	A\$'000			
Revenues from continuing operations	up	20%	to	49,252
Profit before treasury and tax	up	310%	to	27,265
Net Profit for the period attributable to members	up	N/A	to	21,270

It is not proposed to pay dividends.

Refer to attached media release for further commentary regarding the half year to 30 June 2010 result.

## 3.0 NET TANGIBLE ASSET BACKING

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security (cents)	9.1	0.34

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

Dragon Mining (Eritrea) Limited, a 100% subsidiary of Dragon Mining Limited which held a 20% interest in the Zara Gold Project was sold on 22 June 2010.

## 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	0%	20%
Weld Range / Range Well	0%	8.75%*
Weld Range Metals Limited	39.95%	0

\* At 30 June 2009 Dragon Mining held 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 2010**

## **DIRECTORS' REPORT**

Your Directors submit the report of Dragon Mining Limited ("Dragon Mining" or "the Company") for the half year ended 30 June 2010.

### **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  
Michael Dylan Naylor  
Toivo Tapani Järvinen  
Markku Juhani Mäkelä  
Peter Lynton Gunzburg (appointed 8 February 2010)  
Christian Russenberger  
Andrew Edward Daley (retired 4 March 2010)  
Peter Lawson Munachen (retired 1 March 2010)

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

Dragon Mining Limited continued to consolidate its position as a profitable gold producer with a net profit after tax and before non-controlling interests of the consolidated entity for the half year ended 30 June 2010 of \$21,270,000 (half year ended 30 June 2009: loss of \$6,605,000). The profit included:

- Gross profit from operations of \$20,801,000 (up 157% from 2009) from the Svartliden Gold Mine in Sweden, Orivesi and Jokisivu Gold Mines in Finland;
- Sale of Dragon Mining's 20% interest in the Zara Gold Project for a profit of \$8,900,000;
- Unrealised foreign currency exchange losses on Dragon Mining intercompany loans of \$6,131,000 and realised foreign exchange losses on other items of \$84,000;
- Derivative losses of \$589,000, finance expenses of \$805,000, other net expenses of \$1,631,000 and an income tax benefit of \$809,000;

The unrealised foreign currency losses on intercompany loans arose from movements in the Australian dollar (AUD) against the euro (EUR) and Swedish krona (SEK) during the six months.

Due to the early funding requirements in Sweden (Dragon Mining Sweden (AB)) and Finland (Polar Mining Oy) for exploration and development, Dragon Mining Limited funded those operations until they maintained a positive cash flow and could support their ongoing liabilities and obligations. In addition, in accordance with Swedish and Finnish Corporations Law, these loans had to be primarily denominated in local currency (SEK and EUR).

The operations are cash flows positive and it is expected the intercompany loans will be repaid. In accordance with the requirements of the Australian Accounting Standards, exchange gains and losses on intercompany loans that do not form part of a reporting entities net investment in foreign operations are to be recognised in profit or loss.

The large foreign currency loss was attributable to movements in exchange rates during the year as follows:

- The AUD/EUR exchange rate as at 31 December 2009 was 0.6247 and as at 30 June 2010 was 0.6943 which represents a 11% strengthening of the AUD against the EUR, resulting in unrealised losses of \$4,749,000.
- The AUD/SEK exchange rate as at 31 December 2009 was 6.4206 and as at 30 June 2010 was 6.6875 which represents a 4% strengthening of the AUD against the SEK, resulting in unrealised losses of \$1,382,000.

## **DIRECTORS' REPORT**

### **(a) Production**

#### *Svartliden, Sweden*

The Svartliden Gold Mine produced 19,461 ounces of gold in the 6 months to 30 June 2010 at a cash cost of US\$608/oz compared to gold production of 18,273 ounces at a cash cost of US\$526/oz for the 6 months ended 30 June 2009.

Revenue from gold sales was A\$27.7 million and the average cash price received was US\$1,153 per ounce of gold sold.

#### *Vammala Production Centre, Finland*

The Vammala Production Centre produced 16,861 ounces of gold in the 6 months to 30 June 2010 at a cash cost of US\$642/oz (including refining costs of US\$128 per ounce), compared to 16,574 ounces of gold at a cash cost of US\$685/oz (including refining costs of US\$112 per ounce) in the 6 months to 30 June 2009. Ore was sourced from the Orivesi and Jokisivu Gold Mines.

Revenue from gold sales was A\$21.6 million and the average sales price booked was US\$1,182 per ounce of gold.

### **(b) Development**

#### *Svartliden Gold Mine, Sweden*

The feasibility study on the underground development at Svartliden continues to be progressed. A development decision is expected in September 2010.

#### *Orivesi Gold Mine, Finland*

The Board approved the development of the decline at Sarvisuo from the 540m level to the 620m level, which will commence in September and will extend the operating mine life at Orivesi.

#### *Jokisivu Gold Mine, Finland*

An internal feasibility study has been completed to determine the viability of developing an underground operation at Jokisivu. The study is being reviewed and a development that would encompass both the Kujankallio and Arpola deposits should commence in 2010.

### **(c) Exploration**

Exploration programs in 2010 so far have concentrated on the Company's exploration properties in Sweden and Finland, particularly on increasing the resources at existing mines.

An aggressive exploration program commenced at Svartliden, with the objective of completing 22,000 metres of drilling. The program has been designed to potentially extend mine life to more than five years. Much of the drilling has, and will continue to target depth extensions.

### **(d) Corporate**

#### *Convertible Notes*

Dragon Mining Investments Pty Ltd, a wholly owned subsidiary of Dragon Mining, purchased 4,592,495 Dragon Mining convertible notes ("Notes") during the 6 months ending 30 June 2010. The Company paid \$4,772,128 to repurchase Notes with a "face value" of \$4,822,117.

#### *Loans*

Polar Mining Oy, the Finnish subsidiary of Dragon Mining made a scheduled repayment of €1 million of the working capital facility for the development of Jokisivu provided by Nordea bank Finland Plc in June 2010. The remaining €1 million is scheduled to be repaid in December 2010.

#### *Commodity and Foreign Exchange Risk Management*

The Company sells gold in USD and meets operating and exploration costs by converting USD to Swedish krona (SEK) and euro (EUR). With the SEK and EUR weakening against the USD, less proceeds from gold sales need to be converted to cover these costs.

In May, the Company took advantage of the high USD gold price and the weak SEK and transacted a modest SEK gold forward program of 10,000 ounces at a gold price of 9,205 SEK an ounce to be delivered at 2,000 ounce per month commencing June 2010.

**DIRECTORS' REPORT**

**(e) Investments**

*Sale of 20% interest in Zara Gold Project*

Chalice Gold Mines Limited ("Chalice") exercised its option to purchase Dragon Mining's 20% interest in the Zara Gold Project, Eritrea which resulted in the Company receiving \$8.0 million in cash and 2 million Chalice shares which are escrowed for 12 months. In addition, Chalice has the obligation to pay Dragon Mining a further \$4.0 million on the delineation of a total of 1 million ounces of gold Reserves at the Zara Gold Project.

*Weld Range Metals (Dragon – 40%)*

Weld Range Metals continued to evaluate various capital raising opportunities to fund studies for the Weld Range Stainless Steel Project. Somerley Limited were appointed to act as financial advisors to assist in raising the funding for the feasibility study and development of the project. A scoping study to assist with the capital raising is nearing completion.

**Significant Events After Period End**

A further 1,553,180 Dragon Mining Notes were purchased during July 2010. The Company paid \$1,634,916 to repurchase the Notes, which have a "face value" of \$1,630,839.

The company will redeem all outstanding Notes in early October 2010.

**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 26 August 2010 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 2010 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 26 August 2010

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF YEAR ENDED 30 JUNE 2010**

	Note	Consolidated Entity	
		6 months to 30 June 2010 \$'000	6 months to 30 June 2009 \$'000
Revenue from gold sales		49,252	40,904
Cost of Sales	3(a)	(28,451)	(32,812)
<b>Gross profit</b>		20,801	8,092
Other revenue	3(b)	207	176
Other income	3(c)	8,955	236
Exploration expenditure written off		(152)	-
Other expenses	3(d)	(1,735)	(1,651)
<b>Profit before treasury, tax and finance costs</b>		28,076	6,853
Finance costs	3(e)	(805)	(1,002)
(Loss)/gain on buyback of convertible notes		(6)	805
<b>Profit before treasury and tax</b>		27,265	6,656
Foreign exchange losses		(6,215)	(16,293)
Derivatives – (losses) / gains		(589)	2,105
<b>Profit / (loss) before tax</b>		20,461	(7,532)
Income tax benefit		809	927
<b>Profit / (loss) after income tax</b>		21,270	(6,605)
<b>Other comprehensive income</b>			
Foreign currency translation		2,010	6,060
Loss on available for sale financial asset		(120)	-
<b>Total comprehensive profit / (loss) for the period</b>		23,160	(545)
<b>Profit/(loss) attributable to:</b>			
Members of Dragon Mining Limited		19,521	(6,601)
Non-controlling interest		1,749	(4)
		21,270	(6,605)
<b>Total comprehensive profit / (loss) attributable to:</b>			
Members of Dragon Mining Limited		21,296	(541)
Non-controlling interest		1,864	(4)
		23,160	(545)
<b>Profit / (loss) per share attributable to ordinary equity holders of the parent (cents per share)</b>			
Basic profit / (loss) per share		2.65	(0.90)
Diluted profit / (loss) per share		2.65	(0.90)

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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

	Note	Consolidated Entity	
		30 June 2010 \$'000	31 Dec 2009 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		15,985	4,397
Trade and other receivables		17,439	9,514
Inventories		6,419	7,035
Other current assets		76	115
<b>TOTAL CURRENT ASSETS</b>		<b>39,919</b>	<b>21,061</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		7,570	7,713
Mineral exploration costs		28,518	28,465
Development costs		7,193	7,203
Investments in Associates		276	326
Available for sale investments		780	-
Deferred tax assets		3,989	3,314
Other non-current assets		3,951	3,978
<b>TOTAL NON-CURRENT ASSETS</b>		<b>52,277</b>	<b>50,999</b>
<b>TOTAL ASSETS</b>		<b>92,196</b>	<b>72,060</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		7,914	6,624
Interest bearing loans and borrowings	4	8,738	3,205
Provisions		4,003	1,288
Derivative financial instruments	7	589	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>21,244</b>	<b>11,117</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	4	-	11,987
Provisions		3,862	5,026
Other liabilities		9	9
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>3,871</b>	<b>17,022</b>
<b>TOTAL LIABILITIES</b>		<b>25,115</b>	<b>28,139</b>
<b>NET ASSETS</b>		<b>67,081</b>	<b>43,921</b>
<b>EQUITY</b>			
Contributed equity		103,488	103,488
Reserves		5,616	3,841
Accumulated losses		(43,887)	(63,408)
Total parent entity interest		65,217	43,921
Non-controlling interest		1,864	-
<b>TOTAL EQUITY</b>		<b>67,081</b>	<b>43,921</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 2010

**STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 30 JUNE 2010**

*Attributable to Equity Holders of the Parent*

<b>CONSOLIDATED</b>	<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>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>
<b>At 31 December 2009</b>	103,488	(63,408)	1,062	711	2,068	-	43,921	-	43,921
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>65,217</b>	<b>1,864</b>	<b>67,081</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>-</b>	<b>43,613</b>	<b>5</b>	<b>43,618</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 2010**

	Note	Consolidated Entity	
		6 months to 30 June 2010 \$'000	6 months to 30 June 2009 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		40,641	42,486
Payments to suppliers and employees		(24,038)	(31,608)
Interest received		112	39
Interest paid		(711)	(1,085)
Payments for rehabilitation		(368)	-
Payment of environmental bonds		(135)	(376)
Net Operating Cash Flows		<u>15,501</u>	<u>9,456</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,738)	(1,283)
Proceeds from sale of property, plant and equipment		18	109
Payments for mineral exploration		(2,909)	(3,032)
Payments for development		(962)	(1,312)
Proceeds on disposal of subsidiary	3(c)	8,000	-
Net Investing Cash Flows		<u>2,409</u>	<u>(5,518)</u>
<b>Cash flows from financing activities</b>			
Buyback of convertible notes		(4,772)	(2,847)
Repayment of short-term factoring facility		(1)	(1,101)
Repayment of bank loans		(1,440)	(12)
Net Financing Cash Flows		<u>(6,213)</u>	<u>(3,960)</u>
Net increase / (decrease) in cash and cash equivalents		11,697	(22)
Cash and cash equivalents at the beginning of the period		4,397	8,534
Effects of exchange rate changes on cash and cash equivalents		(109)	(564)
<b>Cash and cash equivalents at the end of the period</b>		<u><u>15,985</u></u>	<u><u>7,948</u></u>

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

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

### **1 CORPORATE INFORMATION**

The half year financial report of Dragon Mining Limited for the period ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 26 August 2010.

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 2010 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 2009 and considered together with any public announcements made by Dragon Mining Limited during the half year ended 30 June 2010 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 2009, except for the adoption of new and amended Accounting Standards and Interpretations as of 1 January 2010, noted below.

##### ➤ AASB 3 (Revised) Business Combinations

The revised Standard introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

In accordance with the transitional provisions of the revised Standard, the change in accounting policy was applied prospectively and did not have any impact on the financial position or performance of the Group.

##### ➤ AASB 127 (Revised) Consolidated and Separate Financial Statements

The revised Standard, which has been applied prospectively from 1 January 2010 in accordance with the transitional provisions of the Standard, requires total comprehensive income to be allocated to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Group previously only attributed losses to the non-controlling interests in excess of their share of the equity of the subsidiary where the non-controlling interest had a binding obligation and the ability to make an additional investment. As a result of the adoption of the revised Standard, the previous allocation of losses to the parent entity remains and is not reversed by subsequent profits. Accordingly, the Group recognised non-controlling interests in total comprehensive income for the year amounting to \$1,834,000 for Dragon Mining (Sweden) AB from 1 January 2010.

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

### **2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)**

The following Standards and Interpretations and all consequential amendments, which became applicable on 1 January 2010, 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 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]
- AASB Int. 17 and 2008-13 Distributions of Non-cash Assets to Owners and consequential amendments to AASB Australian Accounting Standards AASB 5 and AASB 110
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]
- AASB 2009-7 Editorial Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]

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 2010 \$'000</b>	<b>6 months to 30 June 2009 \$'000</b>
<b>(a) Cost of Sales</b>		
Cost of production	24,313	27,252
Depreciation of mine properties, plant and equipment	1,368	3,444
Amortisation of development costs	2,770	2,116
	<u>28,451</u>	<u>32,812</u>
<b>(b) Other revenue</b>		
Finance revenue	143	56
Rent and service income	64	68
Other	-	52
Total other revenue	<u>207</u>	<u>176</u>
<b>Breakdown of Finance Revenue</b>		
Bank and external interest	114	56
Interest from associate	29	-
	<u>143</u>	<u>56</u>
<b>(c) Other income</b>		
Gain on sale of plant and equipment	13	109
Gain on disposal of subsidiary (i)	8,900	-
Other	42	127
Total other income	<u>8,955</u>	<u>236</u>
 (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.		
<b>(d) Other expenses</b>		
Management and administration expenses	1,524	1,539
Depreciation of non-mine site assets	46	60
Project generation expenses	135	52
Share of losses of associates	30	-
	<u>1,735</u>	<u>1,651</u>
<b>(e) Finance costs</b>		
Interest	676	832
Non-cash interest on convertible notes	75	122
Other	54	48
	<u>805</u>	<u>1,002</u>

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

**4 INTEREST-BEARING LOANS AND BORROWINGS**

	<i>Maturity</i>	<b>Consolidated Entity</b>	
		<b>30 June 2010</b>	<b>31 Dec 2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>			
Bank loans (i)	2010	1,440	3,202
Factoring facility drawn down (ii)		2	3
Convertible notes (iii)	2011	7,296	-
		<u>8,738</u>	<u>3,205</u>
<b>Non-current</b>			
Convertible notes (iii)	2011	-	11,987
		<u>-</u>	<u>11,987</u>

(i) The bank loan is from Nordea Bank Finland Plc and was used to fund the development of the Jokisivu Gold Mine. The loan, half of which is guaranteed by the Finland State owned Finnvera Plc, was fully drawn down as at 31 December 2009. The first loan repayment was made in June 2010 and the final instalment is to be made in December 2010. The interest rate on amounts drawn under the facility are charged at monthly Euribor plus 3% 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.

(iii) 23,645,289 convertible notes ("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 a further 4,592,495 Notes during the period ended 30 June 2010 leaving 7,007,659 Notes remaining. In July 2010 the company announced that it will redeem all outstanding Notes in early October 2010.

**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 2009, with the exception of income tax (expense)/benefit, which has now been allocated as it relates directly to the operating segments. The allocation has been applied prospectively from 1 January 2010.

	<b>Sweden</b>	<b>Finland</b>	<b>Unallocated</b>	<b>Total</b>
	<b>30 June 2010</b>	<b>30 June 2010</b>	<b>30 June 2010</b>	<b>30 June 2010</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<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 result</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
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>

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

**6 SEGMENT REPORTING (CONTINUED)**

	Sweden 30 June 2009 \$'000	Finland 30 June 2009 \$'000	Unallocated 30 June 2009 \$'000	Total 30 June 2009 \$'000
<b>Segment revenue</b>				
Gold sales to external customers	22,296	18,608	-	40,904
Interest revenue	17	1	38	56
Other revenue	52	68	-	120
<b>Total revenue</b>	<b>22,365</b>	<b>18,677</b>	<b>38</b>	<b>41,080</b>
<b>Segment interest expense</b>				
Segment interest expense	892	707	-	1,599
Corporate interest expense				1,001
Elimination of inter-company interest expense charged to segments				(1,646)
<b>Total interest expense</b>				<b>954</b>
<b>Segment Result</b>				
Pre-tax segment result	<b>4,039</b>	<b>931</b>	-	<b>4,970</b>
Unallocated items:				
Corporate interest revenue				38
Corporate costs				(1,097)
Finance costs				(997)
Gain on buyback of convertible notes				805
Unallocated treasury losses				(12,974)
Elimination of inter-company interest expense and management fees in segment result				1,723
Income tax benefit				927
<b>Loss after tax as per the statement of comprehensive income</b>				<b>(6,605)</b>

**7 DERIVATIVE FINANCIAL INSTRUMENTS**

*Gold forwards*

Under the terms of Dragon Mining's gold forward sale contracts, at 30 June 2010 the Company is obligated to deliver 8,000 ounces of gold into gold forward sale contracts at a price of US\$1,232 per ounce. 2,000 ounces is to be delivered into the forward contracts per month until October 2010.

*Foreign Currency forwards*

Under the terms of Dragon Mining's foreign currency forward contracts, at 30 June 2010 the Company is obligated to deliver USD 9,856,000 into Swedish Krona (SEK) forward contracts at a rate of 7.47 SEK for every 1 USD. USD 2,464,000 is to be delivered into the forward contracts per month until October 2010.

## **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 2009 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 2010</b>	<b>31 Dec 2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	815	560
One year or later and no later than five years	2,583	2,581
	<b>3,398</b>	<b>3,141</b>

#### **Capital Commitments**

As at 30 June 2010 the consolidated entity had no capital commitments (31 Dec 2009: 20) relating to the acquisition of equipment.

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

Except for the items 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 2009.

#### *Sami Claim*

The Svartliden Mine is located in the reindeer herding area of the Vapsten Sami Community ("Vapsten"). Vapsten have been seeking financial compensation since 2003 for infringement on their reindeer herding rights and in June, following repeated appeals through the lower Courts, the High Court of Appeal delivered its decision to award 985,500 Swedish Krona ("SEK") plus interest and legal costs to the Vapsten. The total compensation is approximately 1.8 million SEK (A\$0.3 million) which has been provided for. Both parties had the right to lodge an appeal against the decision by 19 July 2010. The company has been notified that the High Court of Appeal ruling is final.

#### *Zara Gold Project*

During the period Dragon Mining sold its 20% interest in the Zara Gold Project, Eritrea to Chalice Gold Mines. As part of the sale and purchase agreement Chalice has the obligation to pay a further \$4.0 million on the delineation of a total of 1 million ounces of gold Reserves 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.

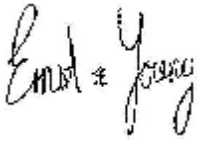
### **10 SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE**

A further 1,553,180 Dragon Mining convertible notes ("Notes") were purchased during July 2010. The Company paid \$1,634,916 to repurchase the Notes, which have a "face value" of \$1,630,839.

The company will redeem all outstanding Notes in October 2010.

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

In relation to our review of the half-year financial report of Dragon Mining Limited for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

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

Ernst & Young

A handwritten signature in black ink, appearing to be 'R J Curtin'.

R J Curtin  
Partner  
Perth  
26 August 2010

## Independent auditor's report to the members of Dragon Mining Limited

### Report on the 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 2010, 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 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 Australia Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine 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 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 2010 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.

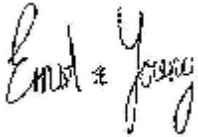
### Independence

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.

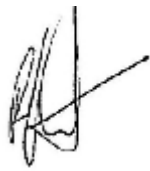
## Conclusion

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 2010 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*.



Ernst & Young



R J Curtin  
Partner  
Perth  
26 August 2010