

## DRAGON MINING LIMITED

### INVESTMENT DATA

Share price (last trade 25 August 2011):	\$A1.27
ASX Code:	DRA

### ISSUED CAPITAL

FPO shares (issued):	75.2M
Unlisted options:	1.0M
Market capitalisation (fully diluted):	\$A95M

### MAJOR SHAREHOLDERS

Eurogold Limited:	19.9%
Nicholas Mathys:	15.8%
Phoenix Fund Limited	5.0%

### DIRECTORS

Peter Cordin:	Executive Chairman
Peter Gunzburg	Non Exec. Director
Tapani Jarvinen:	Non Exec. Director
Markku Makela:	Non Exec. Director
Christian Russenberger:	Non Exec. Director
Michael Naylor:	Finance Director

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25th August 2011

### KEY POINTS

- Valuation A\$2.80 per Dragon share.
- The key asset is Kuusamo, which is potentially a +80,000 ozpa, sub US\$700 cash cost/oz producer with excellent exploration prospects.
- Community relations and metallurgy need to be addressed before Kuusamo's development can be considered.
- Under current schedules and prices Svartliden and Vammala should generate about A\$125 million total cash flow (net of hedging) in calendar years 2012, 2013 and 2014.

### KUUSAMO

Outokumpu drilled and assessed the project from 1985 to 2003; a period straddling the 1995 corporate decision to withdraw from mining. Resources were defined at five distinct deposits over about 15 kilometres of strike. A combination of geophysics and outcrop sampling was used to discover the deposits, and much of the area under cover remains prospective. Parts of the deposits were drilled on tight grids and a trial pit was mined at the largest known deposit Juomasuo, extracting about 17,500 tonnes at 6 g/t Au which was treated through Outokumpu's concentrator in Finland. Juomasuo is a multiple lode system and Outokumpu's drilling left scope for extensions and additional lodes in many positions.

Dragon purchased Kuusamo as part of a portfolio in 2003. Despite its substantial estimated resources Kuusamo was left on the shelf until mid 2010, due mainly to allocation of resources elsewhere. Resources were re-estimated by consultant Runge in January 2011, at 2.2 million tonnes at 5.4 g/t (383,000 ozs Au) of which Juomasuo accounted for 1.4 million tonnes at 5.7 g/t (259,000 ozs). Dragon began drilling Juomasuo in November 2010 and to July 2011 the results of seventeen additional holes were reported.

Juomasuo appears to host several gold lodes of uncertain orientation and interrelationship. There is some continuity between 20 metre spaced holes and 40 metre spaced sections, but also some unexplained complexity. The high grade portion of the lodes appears to have relatively short strike and dip lengths (less than 100 metres), with low grade or narrow extensions. Two isolated high grade

intercepts at the eastern edge of the drilled area indicate potential for additional near surface lodes. The depth continuation is generally open beneath 200 metres, although to date none of the deeper intersections have matched the grade and width intersected nearer surface. One intercept (2.4 metres at 8.2 g/t) at 320 metres vertical depth shows the system persists at depth.

Dragon's drilling so far is likely to have increased resources at Juomasuo by 10-20%. There is clearly potential to add more resources, perhaps 30-50% above the current estimate, in the drill out to 200 metres depth. As it is a multiple lode system there is also potential for discovery of new lode positions. EM anomalism extends to the east of Juomasuo and it seems Outokumpu did not adequately test this area. There is also no reason Juomasuo should not have a depth component and underground mining prospects with a value proportionate to (but less than) the open pit prospects. For valuation purposes an inventory of 2.1 million tonnes at 5 g/t are assumed in an open pit design with a strip ratio of 12:1.

Drilling commenced at Hangaslampi, 1 km south of Juomasuo, in mid 2011. So far the results from only four holes have been received, with no significant effect on the resource model. Hangaslampi and nearby Pohjasvaara would each contribute high grade open pit ore to any future operation. An inventory of 250,000 tonnes at 5 g/t (4:1 strip ratio) is assumed.

In each of the Kuusamo deposits gold is associated with cobalt and uranium minerals. At least some of the highest grade intercepts correspond with high grade cobalt and/or uranium, so a process design will need to deal with either separation and disposal or extraction to saleable form of the gold, cobalt and uranium. At Juomasuo the contained cobalt value is about 15% that of the gold, while uranium probably constitutes about 5-10% of the gold value. While both cobalt and uranium may present opportunities as by products, Dragon's first priority is to identify a method of maximum gold recovery, with an acceptable tailing for disposal.

Dragon cites Outokumpu's test results in claiming +90% gold recovery by cyanide leaching a concentrate. More information needs to be made available on this before deciding whether it is a viable process route. Outokumpu's tests were constrained by its smelter capabilities. Recovery of the uranium and/or cobalt is subject to various metallurgical, market and environmental factors, none of which are yet defined.

The presence of uranium at Kuusamo is likely to provoke some opposition to any mining proposition. Juomasuo is 10 km from Ruka, one of Finland's two major ski fields, but is not connected by line of sight or drainage channels. Finland currently produces about a third of its domestic electricity through nuclear power production at four reactors operated by Finnish utility companies. A fifth reactor is under construction and two others are planned. However uranium has not been produced in Finland for more than 50 years. In February 2010 Cameco agreed to buy uranium produced at the operating Sotkamo nickel-zinc mine in eastern Finland owned by the Talvivaara Mining Company Plc. The agreements are subject to ratification by the Euratom Supply Agency, the approval of the European Commission pursuant to the Euratom Treaty and permits from the appropriate Finnish authorities. If Talvivaara succeeds in obtaining these approvals and exporting uranium, Dragon's public relations task would be made easier.

For valuation purposes 90% recovery of the gold from cyanide leaching a concentrate is assumed, with no credit or cost from cobalt or uranium.

In general Finland provides an environment conducive to mining. Unit operating costs are about 30% cheaper than in Australia due mainly to better infrastructure and less competition for skilled labour. Up to four years should be allowed for submission and approvals processes.

Other base case assumptions;

- Life of mine production – 340,000 ozs gold.
- Production rate – 600,000 tpa ore, 85,000 ozs pa gold.
- Gold price US\$1,800/oz.
- Drill-out and feasibility study cost – US\$20 million
- Capital cost of construction, commissioning – US\$70 million
- Rehabilitation allowance – US\$10 million
- Operating costs – US\$60 million pa, US\$90/tonne ore, US\$620/oz gold.
- Discount rate 7%
- Tax rate 26%

A discounted cash flow model using the above assumptions gives NPV of US\$125 million. Add 50% for depth and regional exploration prospects to arrive at US\$190 million; an estimate of the project value if development was certain. A discount should be applied to reflect the processing and permitting risks. Under my reading of these risks if Kuusamo

was placed on the market as it stands fair value would be US\$40-70 million.

### VAMMALA PRODUCTION CENTRE

Vammala is going through a period of high unit costs following the early pinch out of the Sarvisuo lodes. The two main ore sources for Vammala are now Kutema Deeps and Kujankallio underground, both of which are in development. Kujankallio's stacked lodes are not a straightforward mining proposition and there is some risk production forecasts will need to be scaled back. Kutema Deeps grades are interpreted to strengthen with depth. Costs will take some time to settle down, and are probably going to remain above US\$800 per ounce produced.

Both Kutema Deeps and Kujankallio are open at depth and may be extended. The Sarvisuo West and Sarvisuo up-dip lodes, both close to existing development, may also be developed after further drilling.

### SVARTLIDEN

Svartliden has about twelve months open pit and two years underground mining left in schedule. With the help of stockpiled low grade ore the project will wind up in late 2014 unless new ore sources are found. Regional discoveries are unlikely to be drilled out and permitted in time, so efforts are being concentrated near mine. Prospects to the east of the pit are the most promising. The host sequence has been intersected in a single hole about 800 metres east of the pit, with follow up drilling still to come.

The process and costs of site rehabilitation have been studied as part of the mining permit process. Dragon estimates the SEK30M (A\$5M) environmental bond will cover the costs.

Under the current schedule Svartliden costs (development and stripping costs are expensed immediately) will drop below \$US1000/oz in 2013, when waste removal and underground development rates ease.

## Production Forecasts – Svartliden and Vammala

<i>Year Ending 31st December</i>	<i>2010A</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
<b>Svartliden 100%</b>					
Ore mined open pit (000t)	298	202	168		
Grade open pit (gAu/t)	3.88	3.49	3.71		
Ore mined underground (000t)			170	180	70
Grade underground (gAu/t)			3.00	4.68	4.68
Ore treated (000t)	336	340	338	350	113
Head grade (g/t)	4.07	2.86	3.35	3.20	3.52
Attrib gold prodn (000oz)	40	27	33	33	13
Capital expenditure (\$USM)	0.2	4.3	7.0	3.6	0.7
Cash prodn cost (\$US/oz)	547	1,116	1,125	956	1,050
<b>Vammala 100%</b>					
Sarvisuo ore mined (000t)	169	99	44		
Sarvisuo grade (g/t)	5.0	4.6	4.3		
Kutema ore mined (000t)		68	100	180	180
Kutema grade (g/t)		3.6	5.0	5.6	5.6
Jokisivu pit ore mined (000t)	66	34			
Jokisivu pit grade (g/t)	3.8	3.5			
Jokisivu ug ore mined (000t)		84	108	108	108
Jokisivu ug grade (g/t)		4	5.8	5.8	5.8
Ore treated (000t)	239	268	252	288	288
Head grade (g/t)	4.8	4.0	5.2	5.7	5.7
Attrib gold prodn (000oz)	31	29	35	43	43
Capital expenditure (\$USM)	13.4	16.6	17.6	9.8	6.7
Cash prodn cost (\$US/oz)	888	1,071	897	807	813
<b>Total</b>					
Ore treated (000t)	575	608	591	638	401
Head grade (g/t)	4.36	3.38	4.15	4.31	5.06
Attrib gold prodn (000oz)	72	56	68	76	56
Capital expenditure (\$USM)	13.5	20.8	24.6	13.4	7.4
Cash prodn cost (\$US/oz)	697	1,093	1,008	872	867

## Valuation as at December 2011.

Assumptions: Gold \$US1,800 per ounce. USDEUR 0.69, USDSEK 6.50, AUDUSD 1.00. Discount rate 7% real, after tax.

<b>Assets</b>	<b>\$M</b>	<b>cps</b>
Svartliden 100%	44	59
Vammala	96	128
Kuusamo	50	66
Minority interest		
Exploration	20	26
Chalice shares	1	1
Chalice contingent pmt	1	1
Cash, receivable	20	27
Fwd sales, debt	(20)	(27)
Option adjustment		
<b>Share valuation</b>	<b>209</b>	<b>278</b>

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## DISCLOSURE

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