

Profitability to return in 2012

Half Yearly Report

- **DRA reported a Net Loss of \$0.9m for 1H CY2011, down from \$20.8m NPAT for the previous corresponding period (pcp). Revenue was hampered by lower gold recoveries due to low grade stockpiles being fed through the Svartliden plant while the open pit cutback and underground decline progressed. Group cash costs were noticeably higher at US\$1,228/oz, up from US\$628/oz for the pcp. We expect more of the same for 2H CY2011, but will see cash costs reducing in 1Q CY2012 as the Svartliden cutback is completed and the underground commences ore production. We anticipate DRA returning to profitability in CY2012 and retain our BUY recommendation with a price target of \$2.29/share.**
- **Low-grade stockpiles processed.** Production from Svartliden was lower for 1H as a result of low ore production due to the cutback at the Svartliden pit. During the half DRA processed low-grade stockpiles (with lower recoveries) which resulted in production of 11,578oz of gold, down from 19,461oz in the pcp. Since July areas of higher grade ore has been accessed in the east of the pit and will intermittently increase the grade of the mill feed, providing more ounces and higher recovery. However, we will continue to see low gold production until 1Q CY2012 when the cutback is complete and the underground begins producing development ore.
- **Costs to stay high for the remainder of the year.** Cash costs were 96% higher on the pcp due to the treatment of low grade stockpiles and cutback costs being expensed rather than capitalised. Costs will remain high for the remainder of CY2011 while the Svartliden cutback continues. Treatment of the low grade stockpile will also continue to impact cash costs until 1Q CY2012.
- **Exploration.** DRA has committed A\$5m for exploration drilling at its Swedish and Finnish projects during 2H CY2011. 3 diamond drill rigs are currently working at the Kuusamo project, which currently has a 383koz resource. Follow up drilling of the Juomasuo deposit looks likely to increase the resource, with multiple high grade intersections extending to the south and west of the current resource envelope. The company released the results of 4 holes which included 31.9m @ 46g/t at a vertical depth of ~100m. Metallurgy remains a concern at Kuusamo because of the uranium content in the ore. DRA is investigating several processes which could be suitable for extracting a gold-copper concentrate.

31 August 2011

12mth Rating		BUY
Price	A\$	1.60
Target Price	A\$	2.29
12m Total Return	%	43.4

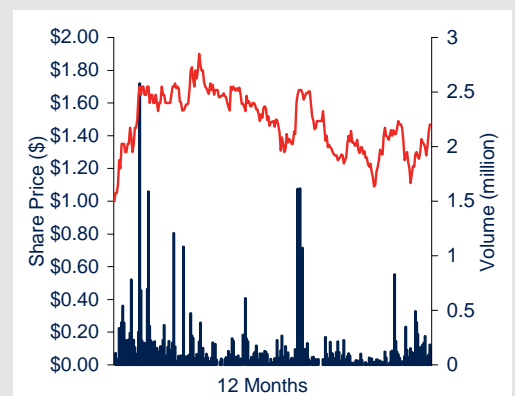
RIC: DRA.AX	BBG: DRA AU
Shares o/s	m 75.3
Free Float	%
Market Cap.	A\$m 120.5
Net Debt (Cash)	A\$m -23.5
Net Debt/Equity	% na
3m Av. D. T'over	A\$m 0.13
52wk High/Low	A\$ 1.90/1.00
2yr adj. beta	1.29

Valuation:

Methodology		DCF
Value per share	A\$	2.29

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12 Month Share Price Performance

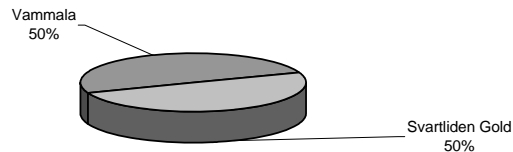
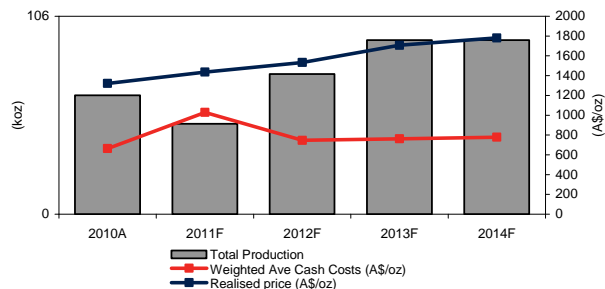


Performance %	1mth	3mth	12mth
Absolute	-7.6	6.4	33.0
Rel. S&P/ASX 300	4.6	16.8	28.0

Year End December 31	2010A	2011F	2012F	2013F	2014F
Reported NPAT (\$m)	30.6	5.8	36.8	47.0	52.5
Recurrent NPAT (\$m)	32.3	6.1	36.8	47.0	52.5
Recurrent EPS (cents)	43.2	8.2	48.9	62.5	69.7
EPS Growth (%)	1,228.6	(81.1)	499.7	27.8	11.6
PER (x)	3.7	19.6	3.3	2.6	2.3
EBITDA (\$m)	44.3	13.7	51.9	82.1	89.9
EV/EBITDA (x)	2.2	8.7	2.0	0.7	0.1
Capex (\$m)	5.0	23.7	26.9	6.7	6.8
Free Cashflow	28.6	(28.8)	12.6	45.8	51.0
FCFPS (cents)	38.3	(38.2)	16.8	60.9	67.7
PFCF (x)	4.2	(4.2)	9.5	2.6	2.4
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

Dragon Mining Limited**\$1.60**

Valuation	A\$m	A\$/sh
Svartliden Gold	69	0.91
Vammala	69	0.92
Forwards	(2)	(0.02)
Corporate	(6)	(0.07)
Exploration	19	0.25
Unpaid Capital	0	0.00
Cash	22	0.30
Equity Investment	1	0.01
Debt	0	0.00
Price Target (NAV)	173	2.29

Valuation Summary of Operating Assets**Gold Production Summary****Reserves & Resources**

Resources	Mt	Au g/t	Au koz
Svartliden	1.3	3.7	158
Vammala	3.2	5.7	583
Kuusamo	2.2	5.4	384
Total	6.7	5.0	1124.9

Reserves	Mt	Au g/t	Au koz
Svartliden	1.0	3.2	103
Vammala	0.9	4.5	128
Total	1.89	3.84	231.0

Directors

Name	Position
Peter Cordin	Executive Chairman
Michael Naylor	Finance Director
Peter Gunzburg	Non Executive Director
Tapani Jarvinen	Non Executive Director
Markku Makela	Non Executive Director
Christian Russenburger	Non Executive Director

Substantial Shareholders

Shareholder	Shares (m)	%
Eurogold	19	19
Nicholas Mathys	15	15

Year End Dec 31

Commodity Assumptions	2010A	2011F	2012F	2013F
A\$: US\$	0.93	1.05	1.03	0.94
Gold Price (US\$/oz)	1227	1509	1585	1604
Gold Price (A\$/oz)	1321	1444	1543	1706

Production Summary	2010A	2011F	2012F	2013F
Production (koz)				
Svartliden Gold	32	24	39	40
Vammala	31	25	36	53
Kaapelinkulma	0	0	0	0
Total Production	64	48	75	93

Cost Summary

Weighted Ave Cash Costs (A\$/oz)	663	1028	747	762
Weighted Ave Total Costs (A\$/oz)	823	1188	907	922
Realised price (A\$/oz)	1321	1436	1533	1706

Profit & Loss (A\$m)	2010A	2011F	2012F	2013F
Sales Revenue	92.0	71.3	114.7	158.6
Other Income	0.7	1.0	0.3	1.6
Operating Costs	42.9	51.2	55.9	70.8
Exploration Exp.	0.5	3.7	3.1	3.1
Corporate/Admin	5.0	3.7	4.1	4.2

EBITDA	44.3	13.7	51.9	82.1
Depn & Amort	8.1	7.8	12.0	14.9
EBIT	36.2	5.9	40.0	67.2
Interest	1.1	0.2	0.0	0.0

Operating Profit	35.1	5.7	39.9	67.2
Tax expense	2.8	(0.4)	3.1	20.2
Abnormal Losses / Minorities	1.7	0.3	0.0	0.0
NPAT	30.6	5.8	36.8	47.0

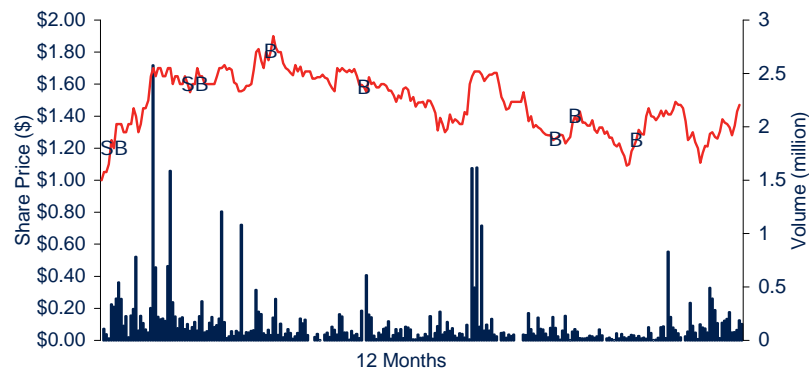
Normalised NPAT	31.8	6.0	36.8	47.0
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Cash Flow (A\$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	30.6	5.8	36.8	47.0
+ Interest/Tax/Expl Exp	4.1	3.5	6.2	23.3
- Interest/Tax/Expl Inc	9.5	13.9	15.4	32.7
+ Depn/Amort	8.1	7.8	12.0	14.9
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	33.3	3.3	39.6	52.5
- Capex (+asset sales)	5.0	23.7	26.9	6.7
- Working Capital Increase	1.4	8.6	0.0	0.0
- Other Investing	0.0	0.0	0.0	0.0
Free Cashflow	27.0	(29.1)	12.6	45.8
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	(5.5)	0.0	0.0	0.0
+ Debt drawdown (repaid)	(5.2)	(2.0)	(3.1)	0.0
Net Change in Cash	24.2	(31.1)	9.6	45.8
Cash at End Period	36.0	4.9	14.4	60.3
Net Cash/(Debt)	36.0	1.8	14.4	60.3

Balance Sheet (A\$m)	2010A	2011F	2012F	2013F
Cash	23.5	4.9	14.4	60.3
Total Assets	87.5	107.6	152.7	211.5
Total Debt	0.0	3.1	0.0	0.0
Total Liabilities	16.4	30.7	39.0	50.8
Shareholders Funds	71.0	76.9	113.7	160.7

Ratios	2010A	2011F	2012F	2013F
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	32.5	35.5	1591.4	na
Return on Equity (%)	43.1	7.6	32.4	29.3

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
07 Sep 10	Research Note	2.20	1.30	SB	
22 Oct 10	Research Note	2.10	1.60	SB	23.1%
06 Dec 10	Resources Review	2.04	1.70	B	6.3%
27 Jan 11	Research Note	1.98	1.58	B	-7.1%
17 May 11	Resources Review	2.18	1.28	B	-19.0%
27 May 11	Event Impact Email	2.28	1.37	B	7.0%
01 Jul 11	Event Impact Email	2.26	1.21	B	-11.7%
	Current Share Price		1.59		31.4%

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