



## Quarterly Activities Report For the Quarter Ended 30 September 2007

### HIGHLIGHTS

#### OPERATIONS

- Svartliden, Sweden gold production for the quarter of 13,633 ounces (YTD: 38,088 ounces) at an average cash cost of US\$405 per ounce (YTD: US\$407 per ounce).
- Vammala, Finland gold production for the quarter of 7,698 ounces (YTD: 8,395 ounces) at an average cash cost of US\$505 per ounce (including refining costs of US\$95 per ounce) (YTD: US\$505 per ounce).

#### DEVELOPMENT

- Development work at Sarvisuo, Finland continued with a total development advance of 330m. The Sarvisuo decline advanced 182m, and only 30m of development remains.
- A new resource of **180,600 tonnes @ 8.4 g/t gold containing 48,900 ounces** between the 280-380m level at Sarvisuo completed and provides greater confidence in the resource model.
- A significant increase in resource estimates for the Kutema Pillars and Kutema Deeps areas in Finland. The Kutema Pillars resource is **156,500 tonnes @ 5.4 g/t gold representing 27,200 ounces** and Kutema Deeps has a revised resource of **825,400 tonnes @ 5.7 g/t representing 150,900 ounces**, which is more than a 100% increase from the previous quoted resource.
- The initial Mineral Resource estimates for the Stormi and Ekojoki nickel-copper deposits in Finland, totalling **2.7Mt @ 0.47% nickel and 0.35% copper** were completed. The Company will focus closely on the Stormi deposit, further assessing the potential to add to this resource through the application of modern exploration techniques, review the status of the historic workings and commence the permitting processes to mine and process nickel-copper ore at Vammala.

#### EXPLORATION

- Underground verification drilling continued from the 260m and 380m levels at Sarvisuo returning further high-grade gold indications including **6.5m @ 62.69 g/t gold** from 76.50m, **6.0m @ 12.39 g/t gold** from 59.00m and **3.25m @ 118.30 g/t gold** from 62.00m including **2.3m @ 166.66 g/t gold**.
- The maiden geological model and grade estimation of gold mineralisation for the Kaapelinkulma deposit in Finland was completed giving a resource of **115,900 tonnes @ 5.3 g/t gold representing 19,700 ounces**. Infill and step out drilling results are pending from the recent drilling campaign.

#### CORPORATE

- An underwritten non-renounceable rights issue to shareholders and a non-renounceable rights issue to noteholders were completed at an issue price of \$0.115 per share raising \$28.3 million before underwriting fees and expenses. The proceeds were used to close out 68,850 ounces of the gold hedge book.
- Group cash and bullion at the end of September was A\$6.9m.
- 1,849 ounces of Svartliden gold production delivered into the hedge book. The average cash price received per ounce of all gold sold from Svartliden was US\$655 (YTD: US\$557 per ounce).
- The average sales price received per ounce of gold sold from Vammala was US\$670 (gross of refining costs) and \$4.4m is receivable from smelters.



## OPERATIONS

### SWEDEN

#### Svartliden

### PRODUCTION SUMMARY

Table 1 – Production Summary

	Ore Mined (t)	Ore Milled (t)	Head Grade (g/t)	Recovery (%)	Plant Availability (%)	Total Gold Production (Ounces)
Sep 2007 Quarter	79,234	92,461	5.09	90.13	97.37	13,633
Jun 2007 Quarter	73,149	92,408	4.97	89.33	94.83	13,184
Mar 2007 Quarter	108,051	79,492	4.90	90.20	90.90	11,271

The operation had no lost time injuries. As at 30 September 2007 the lost time injury free hours totalled 251,839.

Svartliden produced 13,633 ounces of gold from 92,461 tonnes of ore milled at a head grade of 5.09 g/t at a cash cost of US\$405 per ounce. Cash costs have remained steady and the main reason for the modest increase in cash costs is the weakening US\$ against the Swedish Krona. However the US\$ gold price has increased which has more than offset the costs associated with the weakening of the US\$.

Ore mined was 79,234 tonnes at an average grade of 5.0 g/t and was sourced from the western extension northern and main lodes. A total of 2,055m of grade control drilling was conducted and good grade control drilling coverage exists for the short to mid-term mine planning and scheduling.

The availability of the process plant continued to improve and was 97.37% with one planned shutdown to repair the trash screen, vibrator feeder and cyclone feed pipe and a number of small shutdowns for other maintenance.

A decision on process plant improvements is being finalised including the installation of a gravity concentrator and a tailings thickener with the objective of improving recoveries and reducing operating costs.

The Environmental Court of Umeå has advised Dragon Mining (Sweden) AB the application to increase plant throughput at Svartliden to 500,000 tonnes per annum in production year 3 (1 March 2007 to 28 February 2008) and production year 4 (1 March 2008 to 28 February 2009) has not been approved. The ability to produce 500,000 tonnes per annum in year 5 is not affected.

Having received the decision in detail, the Company's senior personnel and legal representative met with the County Administration Board to investigate and understand further the rationale.

The Company is considering an appeal to a higher court whilst assessing the mining and processing options for the next sixteen months.



## FINLAND

### Vammala Production Centre

**Table 2 – Production Summary**

	Ore Mined (t)	Ore Milled (t)	Head Grade (g/t)	Recovery (%)	Plant Utilisation (%)	Total Gold Production (Ounces)
Sep 2007 Quarter	21,243	37,902	7.73	81.77	77.20	7,698

The operation had no lost time injuries.

Vammala produced 7,698 ounces of gold from 37,902 tonnes of ore milled at a head grade of 7.73 g/t at a cash cost of US\$505 per ounce (including refining costs of US\$95 per ounce). Cash costs are high as a result of low throughput and grade ore which was mined from the Kutema stopes and trucked from remnant stockpiles. Production will remain at this level until ore is mined from Sarvisuo which is expected to commence in November 2007.

Ore mined was 21,243 tonnes and was sourced from the 470m, 645m and 665m level stopes at Kutema. A total of 34,573 tonnes of ore was transported to Vammala.

The utilisation of the plant is low due to ore supply shortage. Plant utilisation will improve when ore is sourced from Sarvisuo.

Concentrate delivery agreements were finalised with Boliden Harjavalta Oy and Norrdeutsche Affinerie Ag (German). Concentrate deliveries commenced in July and the majority of the ore being delivered to the nearby Boliden Harjavalta smelter.

## DEVELOPMENT

### FINLAND

#### Orivesi

Mine development works continued at the Orivesi Gold Mine. Mine development advanced 330m, with the Sarvisuo decline advancing 182m. Due to the high gold grades expected, the completion of the confirmatory drilling profile at the lower levels of the Sarvisuo system is required before the commencement of mining of the ore body.

Since the commencement of development, the project has achieved lateral development of 1,724m and decline development of 1,077m.

Independent geological consultants Resource Evaluations Pty Ltd ("Res Eval") completed an update of the geological model and grade estimation of gold mineralisation for a portion of the Sarvisuo lode system. The updated resource incorporates data gathered from in excess of 7,500m of diamond core drilling completed between the 280m and 380m levels at Sarvisuo, since September 2006 up to June 2007.

The updated resource of 180,600 tonnes at 8.4 g/t gold containing 48,900 ounces for the area subjected to the recent delineation drilling program compares well with the resource figure for the same area of 198,400 tonnes at 7.9 g/t gold containing 50,200 ounces, estimated in 2005.

Overall this result has provided the company with a higher level of confidence in the resource model, through a better understanding of the geometry and grade distribution of the Sarvisuo lode system. The new combined Indicated and Inferred Mineral Resource for the portion of the Sarvisuo lode system subjected to delineation drilling is summarised in Table 3.

**Table 3 – Sarvisuo Lode System between 280m and 380m levels Insitu Mineral Resource**

	<b>Tonnes (t)</b>	<b>Gold (g/t)</b>	<b>Ounces (ozs)</b>
Indicated	171,500	8.5	46,700
Inferred	9,100	7.6	2,200
<b>Total</b>	<b>180,600</b>	<b>8.4</b>	<b>48,900</b>

*Gold Tonnage Distributions subdivided by JORC Categories; ID2 Estimate for Gold using 10mE x 2mN x 10mRL Block Dimensions; Reported at a 3g/t gold Lower Cut Off. High grade cut of 30g/t was applied to each zone based on statistical analysis, except for Lode 6 where a 100g/t top cut was applied.*

Res Eval also completed mineral resource estimates for the Kutema Pillars and Kutema Deeps areas.

These new resource estimates encompass material associated with the remaining pillars (Kutema Pillars) above the 720m level and the depth extensions of the Kutema lode system (Kutema Deeps) from the 720m level to the 1100m level at the Orivesi Mine. The insitu mineral resources at Kutema now total 178,100 ounces and are provided in detail in Tables 4 and 5.

The resource for the Kutema Deeps represents more than a 100% increase on the previously quoted resource estimate of 70,900 ounces, computed by Outokumpu Mining Oy prior to Dragon's involvement in the project. The resource for the remnant pillars had previously not been estimated.

**Table 4 - Kutema Pillars Insitu Mineral Resources**

	<b>Tonnes (t)</b>	<b>Gold (g/t)</b>	<b>Ounces (ozs)</b>
Measured	123,100	5.6	22,100
Indicated	33,400	4.8	5,100
<b>Total</b>	<b>156,500</b>	<b>5.4</b>	<b>27,200</b>

*Tonnage Distributions subdivided by JORC Categories; ID2 Estimate using 10mE x 5mN x 10mRL Block Dimensions; Reported at a 3.0 g/t Au Cut Off. A minimum down hole width of two metres was used. The resource is reported using high grade cuts 80 g/t Au for Lode 1 and 110 g/t Au for Lode 2 (Main Lode).*

**Table 5 - Kutema Deeps Insitu Mineral Resources**

	<b>Tonnes (t)</b>	<b>Gold (g/t)</b>	<b>Ounces (ozs)</b>
Indicated	310,400	5.1	50,800
Inferred	515,000	6.0	100,100
<b>Total</b>	<b>825,400</b>	<b>5.7</b>	<b>150,900</b>

*Tonnage Distributions subdivided by JORC Categories; ID2 Estimate using 10mE x 5mN x 10mRL Block Dimensions; Reported at a 3.0 g/t Au Cut Off. A minimum down hole width of two metres was used. The resource is reported using high grade cuts 80 g/t Au for Lode 1 and 110 g/t Au for Lode 2 (Main Lode).*

Minimal underground development and drilling is required to bring the medium grade remnant mineralisation from the Kutema Pillars into production, with mining of pillar material having already commenced in July his year.

The resource estimated for Kutema Deeps represents a substantial, medium to high grade depth extension below the existing underground mine, which had been developed down to the 720m level. Planning of new development to deepen the mine to the 800m level is in progress and minimal underground development is required to bring this upper part of the new resource into production.

A significant amount of drilling is required below the 860m level to accurately define this portion of the new resource, as well as assist with the overall interpretation of the lode structure. A program to undertake underground drilling at Kutema Deeps is in preparation.



## Vammala Nickel-Copper

The initial Mineral Resource estimates for the Stormi and Ekojoki nickel-copper deposits, totalling 2.7Mt at 0.47% nickel and 0.35% copper were completed by Res Eval. Res Eval have classified all resources as Inferred and reported the estimate in accordance with the 2004 edition of the JORC Code. The details of the Stormi and Ekojoki resources are presented in Tables 6 and 7.

The resource is based on historical drilling data compiled by Dragon, from areas not previously mined at the Stormi nickel-copper deposit and the unmined Ekojoki nickel-copper occurrence.

**Table 6 - Stormi In-situ Inferred Mineral Resources reported at a 0.3% nickel lower cut-off**

Zone	Tonnes	Nickel (%)	Copper (%)	Nickel (t)	Copper (t)
LM-1	837,200	0.40	0.30	3,349	2,512
LM-2	74,700	0.60	0.30	448	224
PM-3	238,500	0.50	0.30	1,193	716
PM-5	182,400	0.50	0.40	912	730
D-Margin	228,100	0.40	0.20	912	456
Teinilä	25,600	1.00	0.80	256	205
Sotka	13,700	1.20	0.70	164	96
<b>Total</b>	<b>1,600,200</b>	<b>0.45</b>	<b>0.31</b>	<b>7,234</b>	<b>4,938</b>

*Tonnage distributions subdivided by JORC Categories, ID2 estimate using 10mE x 10mN x 10mRL block dimensions and a minimum down hole width of approximately two metres.*

**Table 7 - Ekojoki In-situ Inferred Mineral Resources reported at a 0.3% nickel lower cut-off**

Zone	Tonnes	Nickel (%)	Copper (%)	Nickel (t)	Copper (t)
A-Lens	107,000	0.50	0.50	535	535
B C – Lens	221,200	0.70	0.70	1,548	1,548
Eko Lens	47,800	1.00	0.30	478	143
North HW Lens	104,500	0.50	0.50	523	523
North Lens	585,100	0.40	0.30	2,340	1,755
South 1 Lens	4,700	0.70	0.70	33	33
South 2 Lens	19,500	0.50	0.30	98	59
South 3 Lens	6,100	0.60	0.40	37	24
<b>Total</b>	<b>1,095,900</b>	<b>0.51</b>	<b>0.42</b>	<b>5,591</b>	<b>4,620</b>

*Tonnage distributions subdivided by JORC Categories, ID2 estimate using 10mE x 10mN x 10mRL block dimensions and a minimum down hole width of approximately two metres.*

The Stormi Mineral Resource is located within the Vammala Mining Leases and includes seven different sulphide lodes, of which the higher-grade Teinilä and Sotka lodes occur near surface. The Ekojoki deposit is located approximately 3km west of the Vammala Production Centre and 1km west of the Stormi deposit.

The Company now intends to focus on the Stormi deposit, further assessing the potential to add to this resource through the application of modern exploration techniques, review the status of the historic workings and commence the permitting processes to mine and process nickel-copper ore at Vammala.



## EXPLORATION

### SWEDEN

#### Svartliden

An update of the geological model and grade estimation of gold mineralisation of the Svartliden deposit was completed following receipt of the final results from the resource confirmation drilling program. Undertaken by independent geological consultants Coffey Mining, the updated resource incorporates all data collected up to 24 August 2007, including grade control and exploration drilling.

The resulting resource of 2.56 Mt at 4.2g/t gold containing 350,000 ounces is down from the previous estimate of 376,000 ounces (Depleted to 24 August 2007). The combined Measured, Indicated and Inferred Mineral Resource is summarised in Table 8, whilst all significant intercepts obtained from the resource confirmation drilling program are provided in Table 9.

The 7% decrease in contained metal is largely attributed to the area in the western portion of the Svartliden deposit, where results from recent in-pit and grade control drilling has reduced the down-dip and western strike extent of the lode system.

**Table 8 - Svartliden Gold Mine August 2007 Insitu Mineral Resource (Depleted to 24/08/2007)**

	Tonnes (t)	Gold (g/t)	Ounces (ozs)
Measured	582,000	4.9	92,000
Indicated	1,475,000	4.1	195,000
Inferred	507,000	3.8	63,000
<b>Total</b>	<b>2,564,000</b>	<b>4.2</b>	<b>350,000</b>

*Gold Tonnage Distributions subdivided by JORC Categories; MIK Derived SMU Model Estimates for Gold using 12.5mE x 5mN x 2.5mRL SMU Dimensions; Reported at a 1.3g/t gold Lower Cut Off.*

**Table 9 – Significant intercepts from in-pit confirmation drilling**

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)
<b>Eastern Domain</b>							
SVC135	7187311	1588731	161	-50.0	4.0	3.0	3.59
					34.0	5.0	21.70
SVC136	7187287	1588739	341	-50.0	3.0	3.0	8.46
SVC138	7187272	1588665	161	-50.0	15.0	11.0	3.92
					29.0	3.0	2.48
SVC139	7187237	1588624	161	-55.0	9.0	3.0	7.96
SVC141	7187188	1588588	341	-55.0	55.0	3.0	15.24
<b>Western Domain</b>							
SVC125	7187037	1588113	342	-70.0	11.0	5.0	4.03
					54.0	2.0	2.08
SVC126	7187038	1588113	341	-43.0	1.0	24.0	8.34
					29.0	2.0	2.78
SVC127	7187067	1588134	161	-60.0	20.0	8.0	14.16
SVC128	7187038	1588190	343	-69.0	36.0	17.0	6.03
SVC131	7187076	1588309	339	-51.0	45.0	3.0	13.44
SVC132	7187072	1588284	341	-49.2	43.0	3.0	12.54
					48.0	3.0	8.98
SVC134	7187189	1588545	200	-55	45.0	11.0	17.71
SVC143	7187161	1588501	117	-67	14.0	5.0	7.22

*Lower cut- off grade 1.8 g/t gold. Analysis of half core was completed at the ALS Chemex laboratory in Romania using procedure Au-AA25, following sample preparation at the ALS Chemex facility in Sweden.*



Drilling has now recommenced at Svartliden and will continue through to the end of the year examining depth extensions of the lode system, which previously had returned promising intersections of 6.0m grading 7.9 g/t gold from 128.65m in drill hole SV0672 and 5.0m grading 19.0 g/t gold from 157m in drill hole SV9708 in the central portion of the deposit.

Drilling is also planned to test a series of previously undrilled targets in close vicinity of the Svartliden operation. Most activity will focus on the 800m eastern strike extension of the host geological sequence, following on from recent drill campaigns when Svartliden type mineralisation was identified right up to the eastern most boundary of the Exploitation Concession.

Exploration activities also recommenced on Dragon's 257km<sup>2</sup> regional permit holding. Till sampling programs were instigated across permit areas not encompassed in previous campaigns, whilst a total of 200 line kilometres of ground magnetic surveys were undertaken across three prospect areas that were identified from previous exploration activities. Results from the regional till and final processed images from the ground geophysical surveys will be available for review in November.

### Orgsjön Joint Venture (Earning 80% Interest)

No exploration was undertaken.

### FINLAND

#### Orivesi

Underground diamond core drilling continued during at the Orivesi Mine. Drilling in the Sarvisuo area focused on delineation drilling from the 260m and 380m levels prior to moving one of the two drill rigs to undertake down dip exploration drilling from the 525m level. A total of 2,429m were completed from 18 holes.

**Table 10 – Intercepts from delineation drilling completed at Sarvisuo**

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)	
<b>Sarvisuo - 260m Level</b>								
KU-932	6838488.01	2508913.44	000.2	6.4	53.40	2.25	1.42	
					59.50	1.50	2.21	
					70.60	2.40	2.78	
KU-933	6838489.04	2508905.59	000.6	7.1	56.50	1.50	1.26	
KU-934	6838489.44	2508897.78	000.5	6.7	27.60	0.85	2.11	
					31.80	0.50	1.55	
					55.00	8.10	4.64	
			<i>includes 2.55 metres @ 9.38g/t gold from 56.45 metres</i>					
					63.95	0.80	2.70	
					67.80	0.40	1.08	
KU-935	6838544.68	2508877.55	001.8	5.0	7.20	0.85	2.43	
KU-936	6838528.77	2508873.20	349.4	4.6	14.40	1.45	1.71	
KU-937	6838524.90	2508872.70	336.9	5.2	18.70	0.30	1.43	
					27.80	0.40	33.80	
					46.00	0.60	1.11	
KU-938	6838523.80	2508872.46	325.1	3.9	29.20	2.30	2.34	
					54.80	1.00	1.15	
					69.00	1.20	4.50	
					86.35	1.80	4.03	
<b>Sarvisuo - 340m Level</b>								
KU-907	6838502.61	2508821.35	2.5	-6.1	70.10	0.75	1.06	
					76.50	6.50	62.69	
					83.65	1.90	7.00	
					88.20	1.75	2.49	
KU-915	6838491.52	2508898.07	12.7	0.6	59.00	6.00	12.39	
			<i>includes 1.00 metres @ 51.90g/t gold from 61.50 metres</i>					
					69.70	1.15	1.47	
KU-919	6838501.99	2508819.44	333.7	-35.0	30.20	0.55	2.50	
					55.85	1.05	3.56	

**Table 10 – Intercepts from delineation drilling completed at Sarvisuo (continued)**

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)	
					59.20	0.85	24.96	
KU-920	6838502.05	2508819.66	342.6	-31.0	53.00	1.35	2.05	
KU-921	6838502.26	2508820.30	350.8	-27.8	76.00	1.00	2.69	
					78.00	1.00	2.48	
KU-922	6838502.52	2508821.18	3.0	-26.1	61.00	1.00	8.99	
					66.00	4.00	2.74	
					73.00	4.00	7.20	
			<i>includes 0.80 metres @ 18.95g/t gold from 75.00 metres</i>					
					80.00	1.00	2.26	
					87.70	1.30	1.69	
KU-929	6838491.69	2508897.69	6.6	-16.9	57.50	1.20	1.06	
					62.00	3.25	118.30	
			<i>includes 2.30 metres @ 166.66g/t gold from 62.00 metres</i>					
					74.40	1.30	1.13	
KU-931	6838491.12	2508898.47	20.2	-19.5	63.00	0.45	7.17	
					65.00	2.00	5.68	
					70.00	2.00	2.41	
					73.00	1.50	1.93	
					75.00	2.30	2.66	
					85.00	1.40	5.79	
KU-956	6838490.28	2508899.63	42.2	1.1	71.00	1.00	1.83	
					74.30	0.70	3.33	
					118.15	0.65	1.03	
<b>Sarvisuo - 380m Level</b>								
KU-947	6838497.08	2508834.84	358.8	-1.8	48.90	1.10	1.05	
					70.00	1.00	2.59	
					86.80	2.20	35.20	
KU-948	6838496.93	2508835.05	006.1	-2.5	52.00	0.65	2.78	
					53.65	1.50	39.08	
			<i>includes 0.85 metres @ 67.80g/t gold from 53.65 metres</i>					
					57.20	2.55	1.92	
					88.55	0.85	9.43	
KU-949	6838496.89	2508835.66	014.9	-7.2	54.30	1.10	1.35	
					57.05	1.50	1.11	
KU-955	6838495.55	2508882.42	000.9	1.0	47.70	0.65	2.27	
					64.20	2.25	1.07	
					70.00	0.70	1.85	

Analysis of half core was completed at the ALS Chemex laboratory in Perth, Australia using procedure Au 50g FA AA finish, following sample preparation at the Okun Autolahetti Oy facility in Finland. Lower cut-off grade of 1g/t gold.

Exploration drilling at Kutema returned a narrow intercept from a hole that was completed from the 570m level, whilst low grade intercepts were received from an exploration hole drilled to the northeast from the 340m level at Sarvisuo.

**Table 11 - Intercept from exploration drilling completed at the Orivesi Gold Mine**

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)
<b>Kutema - 570m Level</b>							
KU-869	6838509.11	2508533.15	060.5	-2.0	160.45	1.95	1.34
<b>Sarvisuo – 340m Level</b>							
KU-956	6838490.28	2508899.63	042.2	1.1	71.00	1.00	1.83
					74.30	0.70	3.33
					118.15	0.65	1.03

Analysis of half core was completed at the ALS Chemex laboratory in Perth, Australia using procedure Au 50g FA AA finish, following sample preparation at Okun Autolahetti Oy facility in Finland. Lower cut-off grade of 1g/t gold.



## Orivesi Regional

No exploration was undertaken.

## Jokisivu

Preliminary boulder hunting was carried out in the Jokisivu region.

Proceedings were completed for the acquisition of land incorporated in the Jokisivu mining concession.

## Ritakallio

Results from analysis of samples from the diamond core drilling program completed at Ritakallio during the June quarter were received. Better results are provided in Table 12.

**Table 12 – Intercepts from drilling completed at the Ritakallio prospect**

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)
HU/RK-1	6779089.1	2431931.6	330	-49.5	16.45	0.60	1.75
					30.25	0.85	1.72
HU/RK-4	6779161.8	2432033.6	222	-44.7	27.15	3.65	1.62
HU/RK-5	6778924.7	2432205.4	222	-54.9	23.55	0.90	1.40
					27.35	0.65	5.21
HU/RK-6	6778451.0	2432836.9	222	-44.7	0.80	1.15	1.06
HU/RK-7	6778397.7	2433085.4	210	-44.7	20.10	1.00	2.35
					31.25	1.10	2.03
					72.25	3.20	1.10

*Analysis of half core was completed at the ACME laboratory in Vancouver, Canada using procedure Au 30g leached with 180ml HCL-HNO<sub>3</sub>-H<sub>2</sub>O and analysed by ICP/ES & MS, following sample preparation at Okun Autolahetti Oy facility in Finland.*

## Kaapelinkulma

A 3,000m diamond core drilling program commenced at Kaapelinkulma late in June and by the end of the September, 19 holes had been completed for a total advance of 1,663m.

A total of 1093 samples have been submitted for preparation and analysis, results to date having been received from only 207 samples. No significant results were returned.

Independent geological consultants Resource Evaluations Pty Ltd completed the maiden geological model and grade estimation of gold mineralisation for the Kaapelinkulma deposit. Results are provided in Table 13.

**Table 13 – Kaapelinkulma Insitu Mineral Resource**

	Tonnes (t)	Gold (g/t)	Ounces (ozs)
Indicated	72,000	4.3	10,100
Inferred	43,900	6.8	9,600
<b>Total</b>	<b>115,900</b>	<b>5.3</b>	<b>19,700</b>

*Gold Tonnage Distributions subdivided by JORC Categories; ID2 Estimate for Gold using 10mE x 2mN x 5mRL Block Dimensions; Reported at a 1g/t gold Lower Cut Off and a top cut of 40g/t Au except Object 2 with 20 g/t Au. A minimum down hole width of approximately two metres was used.*

## Liesjärvi

No field activities were undertaken.



### **Tammijärvi**

No field activities were undertaken.

### **Kuusamo**

No field activities were undertaken.

Environmental consultants Lapin Vesitutkimus Oy prepared a report on eight water samples taken from the Juomasuo test pit and the nearby water ways. Water in the pit has slightly elevated levels of uranium.

### **Hanhimaa**

Excavation of approximately 800m of new trenches was completed in the Kellolaki-Kiimalakki area. Some old trenches were also filled and three small test pits were excavated further north of this area. All trenches have been subjected to sampling by way of percussion drilling and mapping of the trenches is in progress. Results from the percussion drilling are pending.

The bedrock chip-sampling program which commenced in June was completed. A total of ten profiles were drilled, yielding 558 bedrock chip and base of till samples. Assay results have been received from the first six profiles, returning some anomalous gold and arsenic values in altered rocks. Results from the final four profiles remain pending.

Results of humus sampling (26 samples) were also received. Gold values are below detection limit, whilst other elements like silver, arsenic, mercury and copper display minor variations.

### **Sukseton**

Fifteen claims in the Sukseton area in northern Finland were granted, increasing the Company's holding in this area to 1,519 hectares.

Encompassing portion of the Central Lapland Greenstone belt, this under explored region is considered to be prospective for gold and base metals as indicated by the encouraging results recently announced by TSX listed Agnico Eagle Mines Limited, on their Kuotko, Paha and Hako properties, and the presence of their three million ounce Suurikuusikko gold deposit, south of the Sukseton area.

Dragon intends to extend their aggressive exploration program currently underway at their Hanhimaa project, 10 kilometres to the southwest to include Sukseton following compilation of all historic data pertaining to this new area.

### **CVRD-Inco Nickel Alliance (50% interest)**

Geological mapping, MMI sampling and a Slingram geophysical survey were completed during the September quarter in the Ruossakero-Tsohkkoaivi-Kalkkkoaivi areas. A total of 898 MMI samples were collected during the field season and have been dispatched for analysis.

The Slingram survey was conducted over the south west portion of the Ruossakero hill, across an area identified during a MMI sampling program undertaken in 2006. The new geophysical survey confirmed the presence of an anomaly and this area will be subjected to drill testing in the coming months when a small diamond core drilling program will be undertaken in the Ruossakero area.

### **Kuhmo Nickel Joint Venture (5% Free Carried Interest)**

Joint Venture partner, ASX listed Vulcan Resources Limited have advised Dragon that they had received further significant nickel intersections from drilling on the Kuhmo Nickel project.



Drilling at the Hietaharju nickel sulphide occurrence has intersected multiple shallow zones of nickel sulphide mineralisation. Drilling was designed to test for shallow extensions of previously drilled mineralisation, confirming those extensions and also discovering a number of new zones.

**Table 14 – Hietaharju drilling results**

Hole ID	From (m)	Interval (m)	Ni (%)	Cu (%)	Co (%)	Pd (g/t)	Pt (g/t)
SMS/HIE-21	36.97	0.06	1.68	0.52	0.13	0.60	0.82
SMS/HIE-22	10.78	0.27	1.59	0.24	0.12	1.84	0.75
	28.20	11.7	1.09	0.52	0.07	0.90	0.40
SMS/HIE-23	35.36	0.32	2.49	0.96	0.16	1.14	0.28
	38.30	8.83	0.95	0.34	0.06	0.68	0.38
SMS/HIE-24	10.85	6.67	2.05	1.19	0.11	3.21	1.91
	21.39	1.67	2.37	1.31	0.13	2.86	1.77
	30.70	0.74	1.13	5.66	0.06	3.10	0.20
SMS/HIE-25	1.75	3.15	2.45	1.39	0.14	4.30	2.58
	29.07	1.05	2.18	0.98	0.12	2.47	1.41
	33.17	2.13	2.46	0.97	0.13	2.11	1.81
	38.25	0.25	2.94	0.65	0.17	3.48	2.01
SMS/HIE-26	18.79	0.91	2.40	0.83	0.13	3.51	2.41
	29.10	17.75	0.87	0.52	0.05	0.99	0.51
SMS/HIE-27	15.50	1.20	1.56	0.66	0.12	4.26	0.63
	30.60	0.10	0.72	22.20	0.04	4.64	3.36
	48.10	0.70	2.30	1.27	0.12	6.98	2.50
SMS/HIE-28	24.60	5.00	2.11	1.52	0.11	3.65	2.68

Drilling has now been completed at three (Peura-aho, Vaara and Hietaharju) of six nickel occurrences to be tested during this drilling campaign.

### Outokumpu Database Review

Review of the Outokumpu exploration and mining database to which Dragon retains exclusive rights continued.

Information gathered during this period has resulted in lodging applications for a series of Claims and Claim Reservations in northern Finland.

## RUSSIA

### OA0 Kivijarvi (84.98% interest)

Preparations for a small drilling program on the Kamennosersk licence area commenced. A total of 20 shallow drill holes will be drilled to test a regional gold anomaly in till.

Discussions continued with the holder of the Kivijarvi nickel licences concerning the Kivijarvi nickel properties and database.

## ERITREA

### Zara Joint Venture (Diluting to 20% Interest)

Joint Venture partner Sub Sahara Resources NL advised they had completed Stage 3 of the Zara Joint Venture Agreement, having spent in excess of US\$3.3 million on exploration. This expenditure level dilutes Dragon's interest to 20%. Dragon will now be free carried through to completion of a bankable feasibility study.

Drilling of the Koka Prospect returned further multiple, significant high grade gold intercepts and that initial metallurgical tests returned very encouraging results. The Koka deposit has now been defined on a 20 x 40m base over 640m of strike. It remains open along strike and at depth. Significant results are provided in Table 15.



Table 15 – Koka Prospect Diamond Drill Assay Intercepts

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)
ZARD043	1824163	390165	102	-50	113	1	1.53
					135	2	1.81
					144	1	1.38
					147	1	2.22
ZARD044	1824268	390226	102	-50	18	1	2.12
					21	1	4.57
					26	3	4.89
					35	19	9.37
					62	1	5.39
					68	5	2.82
					76	5	9.67
					88	1	2.41
					94	1	4.90
ZARD046	1824305	390236	102	-50	18	1	1.99
					22	7	12.23
					32	1	4.11
					49	6	5.08
					70	1	3.99
ZARD047	1824383	390245	102	-50	79	2	30.92
					12	5	15.98
					23	2	1.43
					30	2	1.59
					50	1	2.16
					63	5	2.99
					91	3	7.23
					98	6	66.87
ZARD048	1824345	390247	102	-50	114	1	2.15
					119	1	4.08
					122	1	32.40
					15	1	6.94
					30	1	4.06
					38	1	40.00
					42	1	3.39
ZARD049	1824425	390264	102	-50	46	7	3.69
					62	1	9.48
					72	2	1.22
					89	1	33.96
					83	1	2.69
					90	2	1.94
					97	1	5.49
ZARD050	1824380	390193	102	-50	102	1	17.29
					83	1	2.70
					95	1	2.94
					103	2	5.99
					130	2	9.60
					136	1	3.30
ZARD051	1824475	390232	102	-50	140	8	3.55
					60	1	20.70
					65	1	3.20
					68	3	4.18
ZARD052	1824423	390203	102	-50	88	1	8.33
					68	8	4.94
					91	5	25.75
					117	1	10.02
					121	1	2.96
					124	1	5.72
					129	7	6.18
					141	6	7.13
					153	3	2.67
					162	1	4.03

**Table 15 – Koka Prospect Diamond Drill Assay Intercepts (continued)**

Hole	North	East	Azimuth (°)	Dip (°)	From (m)	Interval (m)	Au (g/t)
ZARD053	1824048	390135	102	-50	131	1	2.12
					150	1	75.90
ZARD055	1824186	390242	102	-50	16	24	15.41
					44	3	4.29
					54	21	7.80
ZARD057	1824241	390197	102	-53	64	1	7.70
					92	8	1.52
					105	10	2.62
					150	8	1.82
ZARD058	1824481	390213	102	-51	80	1	4.73
					88	12	6.17
					123	14	4.69
ZARD059	1824275	390206	102	-53	78	1	12.13
					88	8	2.57
					114	4	6.75
					130	1	8.58
					143	2	3.00
					150	2	12.75
ZARD060	1824401	390194	102	-51	82	1	11.94
					109	4	5.17
					119	2	5.17
					133	1	4.41
					157	1	5.08
ZARD061	1824122	390175	102	-53	112	4	2.58

All samples are prepared at the African Horn Laboratory in Asmara, Eritrea and then analysed by Genalysis Laboratories in Perth, Western Australia.

Metallurgical test work was completed by specialist metallurgical consultants, Ammtec Limited on three representative composite metallurgical samples selected from 3 diamond drill holes (ZARD009, ZARD015 & ZARD035).

Gravity separation results were excellent ranging from 40% in the ZARD015 sample, 42% in ZARD009 and 73% in ZARD035.

**Table 16- Resulting metallurgical recoveries, including gravity**

Sample	From To (m)	Head Grade (g/t)	Grind Size	% Au Extraction at Hours				Consumption (Kg/t)	
				8hr	12hr	24hr	48hr	Lime	NaCN
ZARD009	215-233	5.23	75um	94.9	97.2	98.5	99.35	0.22	0.33
ZARD015	88-101	25.7	75um	91.1	93.8	96.3	99.69	0.24	0.36
ZARD035	94-106	2.93	75um	97.2	97.9	98.4	99.32	0.20	0.39

## AUSTRALIA

### Weld Range Joint Ventures (Various Interests)

Joint Venture partners ASX listed Minara Resources Limited advised that no exploration was undertaken on the Weld Range group of properties.

An environmental reconnaissance survey was conducted in anticipation of an infill drilling program on the nickel laterite deposit early in 2008.



## CORPORATE

### Cash Balances and Movements

As at 30 September 2007, Dragon held \$6.9m in cash and bullion. Refer to Appendix 5B for principle movements in cash.

### Rights Issue

An underwritten non-renounceable rights issue to shareholders and a non-renounceable rights issue to noteholders were completed at an issue price of \$0.115 per share raising \$28.3 million before underwriting fees and expenses. The principal purpose of the raising was to close out the Company's hedge book which remained from the initial financing of Svartliden established in November 2003.

As part of the rights issue, a call option was purchased at a cost of US\$236,800 for 80,000 ounces of gold at a strike price of \$US705 to limit the maximum cost to the Company to close out the hedge book. As the spot price of gold was below the strike price of the option at the time the rights issue was completed (expiry date of the option), the option lapsed.

### Hedging

11,150 ounces of gold remains hedged at an average forward price of US\$411 per ounce. Using the 30 September 2007 spot gold price of US\$743.20, the mark to market of the hedge book was a negative amount of US\$3.7m.

The principle movements in the hedge book were as follows:

- 1,849 ounces of gold was delivered into the hedge book from Svartliden production; and
- Proceeds from the rights issue were used to close out 68,850 ounces of gold at an average price of US\$706 for a total cost of A\$26.9 million.

The increase in the US\$ gold price combined with the fall in the A\$/US\$ exchange rate limited the total ounces of the hedge book that was closed out.

The remaining hedge book represents less than 5% of the Company's gold reserves and various alternatives to manage the residual hedged ounces are being assessed and the Company is confident the substantial improvements in cash flows will assist in this objective.

### Gold Sales

Production from Svartliden was sold at an average cash price of US\$655 per ounce. Due to the substantial close out of the hedge book, the Company was able to take advantage of the high price of gold.

Gold concentrate from the Vammala Production Centre was sold at an average price of US\$670 (gross of refining costs) and \$4.4m is receivable at 30 September 2007. The Company shipped 6,815 ounces of gold concentrate and cash proceeds will commence in October 2007.

### Borrowings

Dragon has a total of 23,645,289 A\$1.05 convertible notes on issue with an associated liability of A\$24.9m. No convertible notes were converted to ordinary shares.

### Placement

A private placement raising \$5.1 million at an issue price of \$0.10 was completed in July 2007 and costs associated with the placement were limited to \$75,000.



**Note 1:** *The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Neale Edwards BSc (Hons), a Member of the Australian Institute of Geoscientists and Mr Urpo Kuronen MSc (Geology), a Member of the Australian Institute of Mining and Metallurgy, who are 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 and Mr Urpo Kuronen consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

**Note 2:** *All statements in this report, other than statements of historical facts that address future timings, activities, events and developments that the Company expects, are forward looking statements. Although Dragon Mining Limited, its subsidiaries, officers and consultants believe the expectations expressed in such forward looking statements are based on reasonable expectations, investors are cautioned that such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward looking statements. Factors that could cause actual results to differ materially from forward looking statements include, amongst other things commodity prices, continued availability of capital and financing, timing and receipt of environmental and other regulatory approvals, and general economic, market or business conditions.*



## Appendix 5B

### Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Dragon Mining Limited

ABN

19 009 450 051

Quarter ended ("current quarter")

30 September 2007

#### Consolidated statement of cash flows

		Current quarter	Year to date (9 months)
		\$A'000	\$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	10,146	26,486
1.2	Payments for (a) exploration and evaluation	(862)	(2,831)
	(b) development	(748)	(9,174)
	(c) production	(8,170)	(22,323)
	(d) administration	(436)	(2,260)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	55	284
1.5	Interest and other costs of finance paid	(622)	(1,886)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	198	198
<b>Net Operating Cash Flows</b>		<b>(439)</b>	<b>(11,506)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(361)	(781)
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	-	2,045
	(c)other fixed assets	-	402
1.10	Loans to other entities	-	(228)
1.11	Loans repaid by other entities	-	962
1.12	Close out of hedge book	-	-
<b>Net investing cash flows</b>		<b>(361)</b>	<b>2,400</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(800)</b>	<b>(9,106)</b>



1.13	Total operating and investing cash flows (brought forward)	(800)	(9,106)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	31,822	31,822
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(5)	(181)
1.18	Dividends paid	-	-
1.19	Close out of hedge book	(26,895)	(26,895)
<b>Net financing cash flows</b>		4,922	4,746
<b>Net increase (decrease) in cash held</b>		4,122	(4,360)
1.20	Cash at beginning of quarter/year to date	2,840	11,553
1.21	Exchange rate adjustments to item 1.20	(33)	(264)
1.22	<b>Cash at end of quarter</b>	6,929	6,929

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	102
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Payment to director's of salaries, fees and consulting fees.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil



### Financing facilities available

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities (convertible notes)	24,828	24,828
3.2 Credit standby arrangements	Nil	Nil

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,702
4.2 Development	483
<b>Total</b>	<b>3,185</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	6,019	2,071
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Gold bullion	910	769
<b>Total: cash at end of quarter</b> (item 1.22)	<b>6,929</b>	<b>2,840</b>



## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
	<b>Finland</b> Teerijärvi		100%	0%
	<b>Russia</b> Shaverka Korpiselkä		84.98% 84.98%	0% 0%
6.2	Interests in mining tenements acquired or increased			
	<b>Claims</b>			
	<b>Finland</b>			
	2007110 Hakahuhdanmaa		0%	100%
	2007110 Uusiskylä		0%	100%
	2007110 Herajärvi		0%	100%
	2007109 Jalonoja		0%	100%
	200795 Palokangas		0%	100%
	2007107 Tepasto 1		0%	100%
	2007107 Tepasto 2		0%	100%
	2007107 Tepasto 3		0%	100%
	2007107 Tepasto 4		0%	100%
	2007107 Tepasto 5		0%	100%
	2007107 Tepasto 6		0%	100%
	2007107 Tepasto 7		0%	100%
	2007107 Tepasto 8		0%	100%
	2007107 Tepasto 9		0%	100%
	2007107 Tepasto 10		0%	100%
	2007107 Tepasto 11		0%	100%
	<b>Sweden</b>			
	Pauträsk nr 5		0%	100%



### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>*Ordinary securities</b>	737,345,151	737,345,151		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through expired partly paid shares	51,000,000 245,951,602	51,000,000 245,951,602	\$0.10 \$0.115	\$0.10 \$0.115
7.5 <b>*Convertible debt securities</b> <i>(description)</i>	23,645,289	23,645,289	\$1.05	\$1.05
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	21,250,000 1,500,000 1,000,000 6,000,000 75,000 5,900,000	- - - - - -	<i>Exercise price</i> 20 c 17.5 c 14 c 21 c 21 c 17.5 c	<i>Expiry date</i> 4 Nov 2007 N/A N/A N/A 21 Dec 2011 8 June 2012
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Lapsed during quarter				



7.11	<b>Debentures</b> (totals only)		
7.12	<b>Unsecured notes</b> (totals only)		

### Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

(Managing Director)

Print name: PETER CORDIN

18 October 2007

### Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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