



## HALF YEAR REPORT

For the 6 months ended 30 June 2008

Operations at Svartliden Gold Mine, Sweden achieved record plant availability and a stable level of production over the six months. Following the successful recommencement of mining at Orivesi Gold Mine and processing at the Vammala Production Centre, Finland gold production for the six months was below that forecast primarily due to the complexity of the ore body mined resulting in lower than projected ore head grades. Despite the outcome the Company is confident of a positive future for mining and processing in southern Finland.

### INCOME STATEMENT

- Revenue from operations of \$32.2m (2007: \$15.9m).
- Earnings before interest, taxation, depreciation, amortisation and treasury transactions of \$7.3m.
- Depreciation and amortisation for the six months was \$2.9m at Svartliden and \$2.7m at Orivesi.
- Net loss after tax and write downs was \$12.3m.

The amortisation and depreciation charge for the operations in Sweden and Finland is significant due to the high cost of the development of Svartliden Gold Mine and the allocation of a significant portion of the purchase price paid for Polar Mining Oy to the Orivesi Gold Mine and the limit of the reserves at each operation. In addition, recent success with near mine exploration has yet to be converted into additional reserves for the operations.

Accounting standards require an impairment test on the carrying value of assets at each balance date. As a result of the application of the test with current reserves the Company has written down the carrying value of capitalised development expenditure at the Orivesi Gold Mine by \$6.0m.

Consequently the Board determined to review the carrying value of the other assets associated with Orivesi. As a result a further write down of capitalised exploration expenditure of \$6.4m has also been taken. The write down relates to the premium paid on the purchase of the assets in 2004.

Future cash flows from operations **will not be affected** and the result of taking large write downs is that future profits will be enhanced.

### CASH AND TRADE RECEIVABLES

- Group cash at 30 June 2008 of \$6.2m (2007: \$2.8m).
- Trade receivables from gold concentrate delivered and bullion on hand of \$4.2m (2007: \$0.8m).
- Cash flow from operations excluding interest and payment of rehabilitation bond of \$4.7m (2007: \$0.1m).
- Cash of SEK 20.2m (A\$3.5m) is lodged with Swedish Authorities as a rehabilitation bond for Svartliden.

Since 30 June 2008 a further 1,250 ounces of gold has been delivered into the gold forward contracts leaving a current outstanding balance of 6,500 ounces.

### OPERATIONS

- Gold production for the half year of 35,390 ounces.
- Svartliden produced 23,530 ounces at a cash cost of US\$517/ounce (2007: 24,456 ounces at a cash cost of US\$409/ounce).
- Production from the Vammala Production Centre of 11,860 ounces at a cash cost of US\$918/ounce.

## DEVELOPMENT

### Svartliden, Sweden

- A resource update by year end, including the depth extension exploration results will enable preliminary scoping studies to commence, examining the viability of underground mining.

### Orivesi, Finland

- Results from drilling have continued to define new lode positions at Sarvisuo on and below the 420m level, which will enable consideration to be given to extending mining. A resource statement of the Sarvisuo extension between the 420-460m levels is being finalised.

### Jokisivu, Finland

- An internal feasibility study is being reviewed and updated and mine planning and scheduling has commenced for the proposed two open pits at Kujankallio and Arpola with a decision to commence mining later this year.

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

- Joint Venture Partner Sub-Sahara Resources NL will advance the one million ounce Koka gold deposit towards development with a scoping/pre-feasibility study due for completion by October 2008.

## EXPLORATION

The Company invested a total of \$3.6m in exploration of the very prospective tenure around each of its key assets. There have been excellent drill results achieved from Svartliden and Orivesi.

### Svartliden, Sweden

- The initial results from depth extension drilling returned very encouraging results including **5.0m @ 22.25 g/t gold, 4.0m @ 7.15 g/t gold and 6.0m @ 8.81 g/t gold.**
- Geochemical surveys commenced in June across targets in the near mine area and will continue throughout the northern summer. Success with the surveys would result in drill testing during the northern winter.

### Orivesi, Finland

- Further high grade intercepts were received at the Sarvisuo extension including **3.00m @ 17.17 g/t gold, 9.30m @ 21.82 g/t gold, 3.35m @ 13.54 g/t gold and 10.75m @ 4.76 g/t gold.**

### Hanhimaa, Finland

- A preliminary resource statement for Kiimalaki and Kellolaki is expected to be completed by year end.
- An extensive field season including boulder hunting, bedrock chip sampling and trenching within the claim areas is being concluded and results are awaited.



PG Cordin

Managing Director

10 September 2008

# **DRAGON MINING LIMITED**

ABN 19 009 450 051

## **HALF YEAR FINANCIAL REPORT**

**30 JUNE 2008**

## **DIRECTORS' REPORT**

Your Directors submit the report of Dragon Mining Limited ("Dragon Mining" or "the Company") for the half year ended 30 June 2008.

### **Directors**

The names of the Company's Directors in office during the period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Andrew Edward Daley  
Peter George Cordin  
Toivo Tapani Järvinen  
Peter Lawson Munachen  
Michael Dylan Naylor – appointed 1 July 2008

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

The Svartliden Gold Mine exceeded expectations, outperformed budget and posted a net profit after tax and before intercompany interest of \$7.4m.

The Orivesi Gold Mine made a net operating loss before depreciation, amortisation, intercompany interest and write downs of \$0.5m and a net loss before intercompany interest and write downs of \$3.2m. The loss is attributable to:

- Stopping of the Sarvisuo lodes commencing approximately five months late as additional infill drilling and sampling was required to accurately locate the ore zones;
- Additional development was required to access the ore; and
- Initial ore grades from stopes were lower than forecast.

Accounting standards require an impairment test on the carrying value of assets at each balance date. As a result of the application of the test with current reserves, the Company has written down the carrying value of capitalised development expenditure at the Orivesi Gold Mine by \$6.0m.

Consequently the Board determined to review the carrying value of the other assets associated with Orivesi. As a result a further write down of capitalised exploration expenditure of \$6.4m has also been taken. The large write down is attributable to the fair value allocation of assets to the Orivesi Gold Mine when Dragon Mining acquired Polar Mining Oy in 2004 for \$19.5m in cash and shares. A large amount of the purchase price was allocated to the Orivesi Gold Mine assets.

Therefore the net loss after tax and minority interests of the consolidated entity for the half year ended 30 June 2008 was \$12,282,041 (half year ended 30 June 2007: loss of \$1,611,271).

### **(a) Production**

#### *Svartliden, Sweden*

The Svartliden Gold Mine produced 23,530 ounces of gold in the 6 months to 30 June 2008 at a cash cost of US\$518/oz compared to gold production of 24,456 ounces at a cash cost of US\$409/oz for the 6 months ended 30 June 2007.

Revenue from gold sales was A\$22.6m million and the average cash price received was US\$870 per ounce of gold sold.

Cash costs per ounce were high due to throughput limitations that were imposed by the Swedish environmental authorities for the months of January and February. The plant operated at half capacity during these months. From March throughput levels were back to normal.

During the half year two significant achievements were made being a record monthly production in March with 6,014 ounces of gold being produced and record continuous mill utilisation of 100% in April and May.

#### *Vammala Production Centre, Finland*

The Vammala Production Centre produced 11,860 ounces of gold in the 6 months to 30 June 2008 at a cash cost of US\$918/oz. The high cash cost is a direct result of a low average head grade from the Orivesi Gold Mine due to continuing mining of remnant and development ore. The mining of the Sarvisuo lodes commenced in April which was approximately five months late as additional infill drilling and sampling was required to accurately locate the ore zones.

Given the enhanced understanding of the geology and structure of the ore lodes, a new mine plan has been completed for the remaining stopes, which will reduce the average cash costs.

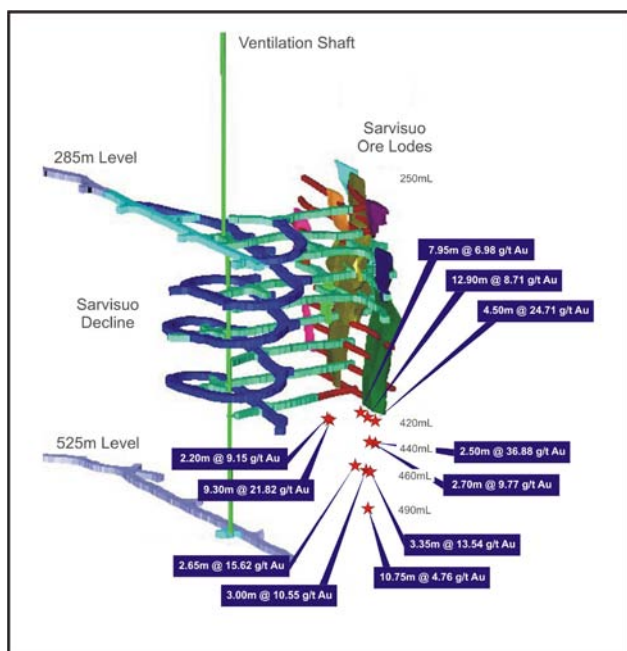
**DIRECTORS' REPORT**

Revenue from gold concentrate sales was A\$9.6m and the average sales price received was US\$895.

**(b) Development**

*Orivesi Gold Mine, Finland*

Results from drilling have continued to define the new lode positions at Sarvisuo on and below the 420m level. The success of the delineation drilling program between the 420m and 525m levels will enable the possible extension of mining at Sarvisuo, below the 420m level.



**Orivesi Gold Mine Development Including High Grade Gold Intercepts on the 420m, 440m, 460m and 490m Levels**

The resources below the 720m level at Kutema Deeps continue to be considered for development with an internal feasibility study to review and assess the viability of mining this ore.

*Jokisivu Gold Project, Finland*

The 2005 internal feasibility study is being reviewed and updated and mine planning and scheduling has commenced for the proposed two open pits at Kujankallio and Arpola.

Diamond drilling to upgrade the resource categories in preparation for open pit mining of the Kujankallio gold deposit commenced and initial results have returned a series of narrow high-grade intercepts.

A decision to commence mining at Jokisivu could be made later in the year.

*Vammala Nickel-Copper, Finland*

A Permit was granted by the Western Finland Environmental Permit Authority for the dewatering of the decline and mine workings of the Vammala nickel-copper mine in southern Finland.

Dewatering will enable an assessment of the condition of the decline and main production levels to determine the practicality of re-opening the Vammala mine to access the remaining ore and to explore for additional resources.

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

Joint Venture partner Sub Sahara Resources NL will advance the one million ounce Koka gold deposit towards development with a scoping/pre-feasibility study commenced and planned for completion by October 2008.

**DIRECTORS' REPORT**

**(c) Exploration**

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

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

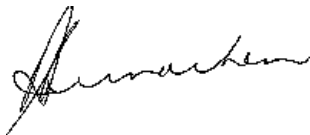
**Rounding**

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 9 September 2008 in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'PL Munachen', is written over a horizontal line.

PL Munachen  
Director

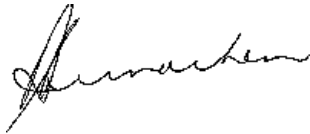
**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Dragon Mining Limited, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of financial position of the consolidated entity as at 30 June 2008 and the performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



PL Munachen  
Director

Signed in Perth 9 September 2008

**INCOME STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2008**

	Note	Consolidated Entity	
		6 months to 30 June 2008 \$'000	6 months to 30 June 2007 \$'000
<b>Continuing Operations</b>			
Revenue from gold sales	3(a)	32,224	15,947
Cash costs of production		(23,696)	(13,766)
<b>Gross profit before depreciation and amortisation</b>		8,528	2,181
Depreciation and amortisation	3(c)	(5,561)	(3,243)
<b>Gross profit/(loss)</b>		2,967	(1,062)
Other income	3(b)	463	552
Exploration expenditure written off		(6,397)	-
Development expenditure written off		(6,037)	-
Other expenses	3(e)	(1,530)	(1,676)
<b>Loss from continuing operations before treasury, tax and finance costs</b>		(10,534)	(2,186)
Finance costs	3(d)	(1,530)	(1,654)
<b>Loss before treasury and tax</b>		(12,064)	(3,840)
Treasury gains/(losses)	3(f)	(1,658)	1,920
<b>Loss before tax</b>		(13,722)	(1,920)
Income tax benefit		1,439	309
<b>Loss from continuing operations after income tax</b>		(12,283)	(1,611)
Net loss attributable to members of Dragon Mining Limited		(12,283)	(1,611)
Net loss attributable to outside equity interests		1	-
		(12,282)	(1,611)
<b>Loss per share (cents per share)</b>			
Basic loss per share		(1.67)	(0.37)
Diluted loss per share		(1.67)	(0.37)

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

**BALANCE SHEET AS AT 30 JUNE 2008**

	Note	Consolidated Entity	
		30 June 2008 \$'000	31 Dec 2007 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		6,152	7,975
Trade and other receivables		6,569	4,775
Inventories		4,601	4,174
Other current assets		395	372
<b>TOTAL CURRENT ASSETS</b>		<b>17,717</b>	<b>17,296</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		10,825	12,325
Mineral exploration costs		23,271	27,201
Development costs		8,676	16,468
Deferred tax assets		6,463	5,147
Other non-current assets		3,624	3,378
<b>TOTAL NON-CURRENT ASSETS</b>		<b>52,859</b>	<b>64,519</b>
<b>TOTAL ASSETS</b>		<b>70,576</b>	<b>81,815</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		6,697	6,101
Interest bearing loans and borrowings	4	24	25
Provisions		968	846
Derivative financial instruments	8	4,324	4,771
Other liabilities		56	110
<b>TOTAL CURRENT LIABILITIES</b>		<b>12,069</b>	<b>11,853</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		-	95
Interest-bearing loans and borrowings	4	23,769	23,575
Provisions		4,442	4,453
Other liabilities		150	10
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>28,361</b>	<b>28,133</b>
<b>TOTAL LIABILITIES</b>		<b>40,430</b>	<b>39,986</b>
<b>NET ASSETS</b>		<b>30,146</b>	<b>41,829</b>
<b>EQUITY</b>			
Contributed equity		103,488	103,488
Reserves		1,903	1,303
Accumulated losses		(75,252)	(62,970)
Total parent entity interest		30,139	41,821
Minority interest		7	8
<b>TOTAL EQUITY</b>		<b>30,146</b>	<b>41,829</b>

*The above Balance Sheet should be read in conjunction with the accompanying notes.*

**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2008**

<i>CONSOLIDATED</i>	<i>Attributable to Equity Holders of the Parent</i>					
	<i>Contributed Equity \$'000</i>	<i>Accumulated Losses \$'000</i>	<i>Reserves \$'000</i>	<i>Total \$'000</i>	<i>Minority Interests \$'000</i>	<i>Total Equity \$'000</i>
<b>At 31 December 2007</b>	103,488	(62,970)	1,303	41,821	8	41,829
Currency translation differences	-	-	600	600	-	600
Total income for the period recognised directly in equity	-	-	600	600	-	600
Loss for the period	-	(12,282)	-	(12,282)	(1)	(12,283)
Total recognised income and expense for the period	-	(12,282)	600	(12,282)	(1)	(12,283)
<b>At 30 June 2008</b>	<b>103,488</b>	<b>(75,252)</b>	<b>1,903</b>	<b>30,139</b>	<b>7</b>	<b>30,146</b>
<b>At 31 December 2006</b>	71,677	(65,050)	1,532	8,159	4	8,163
Currency translation differences	-	-	849	849	-	849
Total income for the period recognised directly in equity	-	-	849	849	-	849
Profit for the period	-	(1,611)	-	(1,611)	-	(1,611)
Total recognised income and expense for the period	-	(1,611)	849	(762)	-	(762)
Share based payment	-	-	204	204	-	204
<b>At 30 June 2007</b>	<b>71,677</b>	<b>(66,661)</b>	<b>2,585</b>	<b>7,601</b>	<b>4</b>	<b>7,605</b>

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

**CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 JUNE 2008**

	<b>Consolidated Entity</b>	
	<b>6 months to 30 June 2008 \$'000</b>	<b>6 months to 30 June 2007 \$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	31,264	16,410
Payments to suppliers and employees	(26,567)	(16,331)
Interest received	125	234
Interest paid	(1,330)	(1,167)
Payment of environmental bond	(328)	(431)
Net Operating Cash Flows	3,164	(1,285)
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(607)	(1,066)
Proceeds from sale of property, plant and equipment	7	406
Proceeds from sale of shares and options	-	2,051
Payments for mineral exploration	(3,656)	(1,633)
Payments for development	(600)	(7,385)
Repayments from other entities	-	734
Net Investing Cash Flows	(4,856)	(6,893)
<b>Cash flows from financing activities</b>		
Repayment of bank loans	(12)	(177)
Net Financing Cash Flows	(12)	(177)
Net decrease in cash and cash equivalents	(1,704)	(8,355)
Cash and cash equivalents at the beginning of the period	7,975	11,553
Effects of exchange rate changes on cash and cash equivalents	(119)	(358)
<b>Cash and cash equivalents at the end of the period</b>	6,152	2,840

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

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 CORPORATE INFORMATION**

The financial report of Dragon Mining Limited for the half year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 9 September 2008.

Dragon Mining Limited is a company limited by shares that is incorporated and domiciled in Australia and whose shares are publicly listed on Australian Stock 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 2008 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 2007 and considered together with any public announcements made by Dragon Mining Limited during the half year ended 30 June 2008 in accordance with the continuous disclosure obligations of the ASX listing rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

#### **(b) Changes in Accounting Policy**

Since 1 January 2008 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 January 2008. Adoption of these Standards and Interpretations did not have any effect on the financial performance of the Group.

- AASB Interpretation 4 (revised);
- AASB Interpretation 11;
- AASB Interpretation 12;
- AASB Interpretation 14; and
- AASB Interpretation 129.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 REVENUE AND EXPENSES

	Consolidated Entity	
	6 months to 30 June 2008 \$'000	6 months to 30 June 2007 \$'000
<b>(a) Revenue</b>		
Gold sales	32,224	15,947
	<hr/>	<hr/>
<b>(b) Other income</b>		
Finance revenue – bank interest	205	175
Gain on sale of plant and equipment	-	143
Other	258	234
Total other income	<hr/> 463 <hr/>	<hr/> 552 <hr/>
<b>(c) Depreciation and amortisation</b>		
Depreciation of mine properties, plant and equipment	1,965	1,697
Amortisation of exploration and development costs	3,596	1,546
	<hr/> 5,561 <hr/>	<hr/> 3,243 <hr/>
<b>(d) Finance costs</b>		
Interest	1,324	1,160
Interest unwind on discounting of convertible notes	206	205
Fair value change of held-for-trading investments	-	289
	<hr/> 1,530 <hr/>	<hr/> 1,654 <hr/>
<b>(e) Other expenses</b>		
Management and administration expenses	1,241	1,493
Exploration expenses	233	112
Depreciation of non-mine site assets	56	71
	<hr/> 1,530 <hr/>	<hr/> 1,676 <hr/>
<b>(f) Treasury</b>		
Gain on gold forward contracts	491	5,941
Net foreign currency losses	(2,149)	(4,021)
	<hr/> (1,658) <hr/>	<hr/> 1,920 <hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 INTEREST-BEARING LOANS AND BORROWINGS

	<i>Maturity</i>	Consolidated Entity	
		30 June 2008 \$'000	31 Dec 2007 \$'000
<b>Current</b>			
Bank loans (i)	2008	24	25
<b>Non-current</b>			
Bank loans (i)	2010	22	35
Convertible notes (ii)	2011	23,747	23,540
		23,769	23,575

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

(ii) 23,645,289 convertible notes were issued in 2006 at \$1.05 per note. The notes have a 10% coupon rate and are convertible into ordinary shares in February 2011 on the basis of 6 shares for 1 convertible note. The convertible note is secured by a second ranking deed of fixed and floating security but does not include the Finnish assets or any foreign securities held by Dragon Mining Limited.

5 RESERVES

Consolidated Entity	Foreign Currency Translation Reserve	Option Reserve	Convertible Note Premium Reserve	Total Reserves
Opening balance as at 1 January 2008	(1,476)	711	2,068	1,303
Translation of foreign entities' balance sheets	600	-	-	600
Closing balance as at 30 June 2008	(876)	711	2,068	1,903

Consolidated Entity	Foreign Currency Translation Reserve	Option Reserve	Convertible Note Premium Reserve	Total Reserves
Opening balance as at 1 January 2007	(1,044)	508	2,068	1,532
Translation of foreign entities' balance sheets	850	-	-	850
Share based payments	-	203	-	203
Closing balance as at 30 June 2007	(194)	711	2,068	2,585

6 DIVIDENDS PAID OR PROVIDED FOR

There were no dividends paid or provided for during the period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 SEGMENT REPORTING

	Sweden 30 Jun 2008 \$'000	Finland 30 Jun 2008 \$'000	Unallocated 30 Jun 2008 \$'000	Total 30 Jun 2008 \$'000
<b>Revenue</b>				
Sales	22,632	9,592	-	32,224
Other income	200	196	67	463
<b>Total revenue and other income</b>	<b>22,832</b>	<b>9,788</b>	<b>67</b>	<b>32,687</b>
<b>Results</b>				
Pre-tax segment profit/(loss)	4,849	(16,809)	(1,761)	(13,721)
Income tax benefit	1,439	-	-	1,439
Consolidated entity loss				(12,282)
<b>Significant non-cash expenses</b>				
Depreciation and amortisation	(2,869)	(2,745)	(3)	(5,617)
Development expenditure written off	-	(6,037)	-	(6,037)
Exploration expenditure written off	-	(6,397)	-	(6,397)

	Sweden 30 Jun 2007 \$'000	Finland 30 Jun 2007 \$'000	Unallocated 30 Jun 2007 \$'000	Total 30 Jun 2007 \$'000
<b>Revenue</b>				
Sales	15,947	-	-	15,947
Other income	187	125	240	552
<b>Total revenue and other income</b>	<b>16,134</b>	<b>125</b>	<b>240</b>	<b>16,499</b>
<b>Results</b>				
Pre-tax segment profit/(loss)	4,795	(1,858)	(4,857)	(1,920)
Income tax benefit			309	309
Consolidated entity profit				(1,611)
<b>Significant non-cash expenses</b>				
Depreciation and amortisation	(2,963)	(348)	(3)	(3,314)

8 DERIVATIVE FINANCIAL INSTRUMENTS

*Gold forwards*

Under the terms of Dragon Mining's gold forward sale contracts, at 30 June 2008 the Company is obligated to deliver 7,750 ounces of gold into gold forward sale contracts at a weighted average price of US\$413.34 per ounce. The forwards are spot deferred contracts that are rolled monthly. The Company delivers 500 ounces a month into these contracts.

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

### **9 EXPENDITURE COMMITMENTS**

The only material changes to the commitments disclosed in the financial report for the year ended 31 December 2007 are specified below.

#### **Exploration commitments**

Due to the nature of the consolidated entity's operations in exploring and evaluating areas of interest, it is very difficult to accurately forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain present interests in mineral tenements. Expenditure commitments on mineral tenure for the parent entity and consolidated entity can be reduced by selective relinquishment of exploration tenure or by the renegotiation of expenditure commitments. The approximate minimum level of exploration requirements are detailed below.

	<b>Consolidated Entity</b>	
	<b>30 Jun 2008</b>	<b>31 Dec 2007</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	1,129	1,010
One year or later and no later than five years	3,436	5,525
	<u>4,565</u>	<u>6,535</u>

#### **Capital Commitments**

As at 30 June 2008 the consolidated entity had capital commitments of \$804,466 (31 Dec 2007: nil) relating to the acquisition of equipment.

### **10 CONTINGENT ASSETS AND LIABILITIES**

Except for the item mentioned below, there have been no changes to the contingent assets or liabilities from those items disclosed in the financial report for the year ended 31 December 2007.

#### *Sami Claim*

The Svartliden Gold Mine is located in the reindeer-herding area of the Vapsten Sami Community, which has appealed the Mines Inspector's decision concerning financial compensation for infringement on their reindeer-herding rights. The Regional Property Court has decided to award Vapsten compensation of SEK 480,000 (A\$83,500) which is approximately 120% more than the amount recommended by the Mines Inspector. Vapsten has appealed this decision. Court initiated and managed mediation took place in April. The response from the Vapsten Sami included additional terms which are not acceptable to the Company and the case is likely to be referred back to the High Court of Appeal.

### **11 EXPLORATION AND DEVELOPMENT WRITE DOWNS**

Accounting standards require an impairment test on the carrying value of assets at each balance date. As a result of the application of the test with current reserves, the Company has written down the carrying value of capitalised development expenditure at the Orivesi Gold Mine by \$6.0m.

Consequently the Board determined to review the carrying value of the other assets associated with Orivesi. As a result a further write down of capitalised exploration expenditure of \$6.4m has also been taken. The large write down is attributable to the fair value allocation of assets to the Orivesi Gold Mine when Dragon Mining acquired Polar Mining Oy in 2004 for \$19.5m in cash and shares. A large amount of the purchase price was allocated to the Orivesi Gold Mine assets.

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

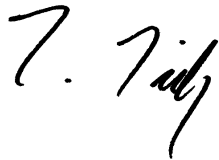
No circumstances or events have arisen subsequent to the end of the period that have had, or are likely to have, a material impact on the financial statements.

**Auditor's independence declaration to the Directors of Dragon Mining Limited**

In relation to our review of the financial report of Dragon Mining Limited for the half-year ended 30 June 2008, 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 that reads 'V. Tidy'.

V W Tidy  
Partner  
Perth  
9 September 2008

## **To the members of Dragon Mining Limited**

### **Report on the Condensed Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Dragon Mining Limited, which comprises the condensed balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### **Directors' Responsibility for the Half-Year Financial Report**

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

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report 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 2008 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.

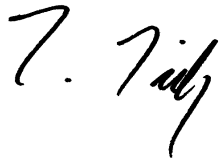
### Conclusion

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 2008 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Ernst & Young

A handwritten signature in black ink that reads 'V. Tidy'.

V W Tidy  
Partner  
Perth  
9 September 2008