

DRAGON MINING DEC QTR 08: PROGRESS IS BEING MADE

	Dec Qtr	Sept Qtr	Change
Production (oz)	21,061	17,755	19%
Head Grade (g/t)	4.60	4.05	14%
Cash Cost (per oz) (\$US)	520	595	-13%
Development Capital (per oz) (\$US) *	29	20	45%
Total Cost per Oz	549	615	-11%
Average Price (\$US)	762	815	-7%
Margin (\$) per oz	213	200	6%
Margin (%) per oz	39%	32%	19%
Cash Balance (A\$)	8.5	6.5	31%
Hedging Liability (A\$) *	3.2	3.6	-13%
Exploration (A\$)	1.2	1.8	-32%
Share Price (A\$)	0.036	0.06	-40%

* Sustaining Capital costs were taken from the Appendix 5B where the Development related costs and Fixed assets purchased were added together for the quarter. Please note these costs may not relate specifically to the quarter in question due to timing differences associated with payment. The exchange rate used to convert AUD to USD was 30 Sep 08: \$0.80 and 31 Dec 08: \$0.693.

The hedging liability was provided by the company in US\$ and converted to A\$ using the exchange rate at 31 Dec 08 (US\$0.69).

Dragon Mining (ASX:DRA) reported a record level of production for the December quarter of 21,061 (19% at an average cash cost of US\$520/oz which was 13% lower than the September quarter. The higher production levels were mostly attributable to the continued improvement of Dragon's Vammala operation in Finland, which produced a record 9,729 oz at an average head grade of 7.3g/t and cash cost of US\$570/oz (Sep Qtr: 8,122 oz @ 7.7 g/t @ US\$585/oz). Vast improvement was also seen at Svartliden in Sweden where 11,332 oz was produced at an improved head grade of 4.9g/t and an average cash cost of US\$476/oz (Sept Qtr: 9,633 oz @ 4.4g/t @ US\$659/oz). Sustaining capital costs remained relatively low at US\$29/oz and the Total Cost came in at US\$549/oz. The average price received for gold fell 7% to US\$762/oz. The margin however, still increased by \$13/oz or 6% over the previous quarter.

With increased cash flows from the improvement in operations, Dragon increased their cash balance for the quarter by 31% or A\$2m. This was achieved despite the purchase of 4,086,000 Convertible Notes on the market at an average price of just \$0.676 per note (Face Value \$1.05). Subsequent to the end of the quarter, a further 1,273,797 Notes were purchased at an average price of \$0.70 per note for a total of \$0.89m, also funded from cash reserves. This has seen Dragon's net liability associated with these notes decline to A\$19.2m from close to A\$23m at the beginning of the quarter. The hedging liability continued to decline and at the end of December 08 was A\$3.2m. This is made up of forward sales contracts for 4,750 oz at an incredibly low US\$409/oz.

Exploration expenditure for the quarter was A\$1.2m. The highlights were as follows:

Svartliden (Below the present Open Pit)

5m @ 11.24g/t from 73m or 56.2 grade metres
4m @ 7.39g/t from 100m or 29.5 grade metres
4m @ 18.23g/t from 164m or 72.9 grade metres
11m @ 9.83g/t from 36m or 108.1 grade metres

These results continue to highlight the potential for high grade mineralization below the open-pit mine and could lead to establishing an underground mining operation. An independent update of the resource estimate has commenced and the study is designed to better reflect the new status of this deposit. Results will be made available in early 2009.

Orivesi Gold Mine (Finland)

To attain a better understanding of the continuation and variation of lithology and gold grade within and between mineralized pipes, a trial drilling program was completed at both Sarvisuo and Kutema using a parallel/sub-parallel orientation. The highlights were as follows from the 420m level:

21.3m @ 28.8g/t from 29.7m or 613 grade metres.
49.55m @ 4.6g/t from 52.75m or 227.9 grade metres
28.6m @ 4.63g/t from 65m or 132.4 grade metres
18.75m @ 5.53g/t from 57.25m or 103.68 grade metres
8.5m @ 10.8g/t from 90m or 91.8 grade metres
1.10m @ 47.77g/t from 67.25m or 52.5 grade metres.
6.35m @ 5.44g/t from 8m or 34.54 grade metres.

Dragon provided an update on the increased dissolved metal values which were found in the mine water detected by internal water quality tests at Svartliden. Remedial work has been continuing and the County Board has expressed its approval of the proposed corrective measures and these will be fully implemented in 2009. Work has also begun on a new operating license application, with the aim of including the potential underground mining operation and re-negotiation of the environmental conditions attained in the original operating licence. This process is also expected to be completed during 2009.

All in all Dragon appears to have made excellent progress during the December 08 quarter, with record production levels and an improving balance sheet and hedge position. Since the quarterly result was released on the 23rd Jan, the share price has risen from \$0.047 to as high as \$0.09 on the 28th January, before settling back down to \$0.063 on the 29th January.

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