

Quarterly Report to 30 June 2010

Highlights

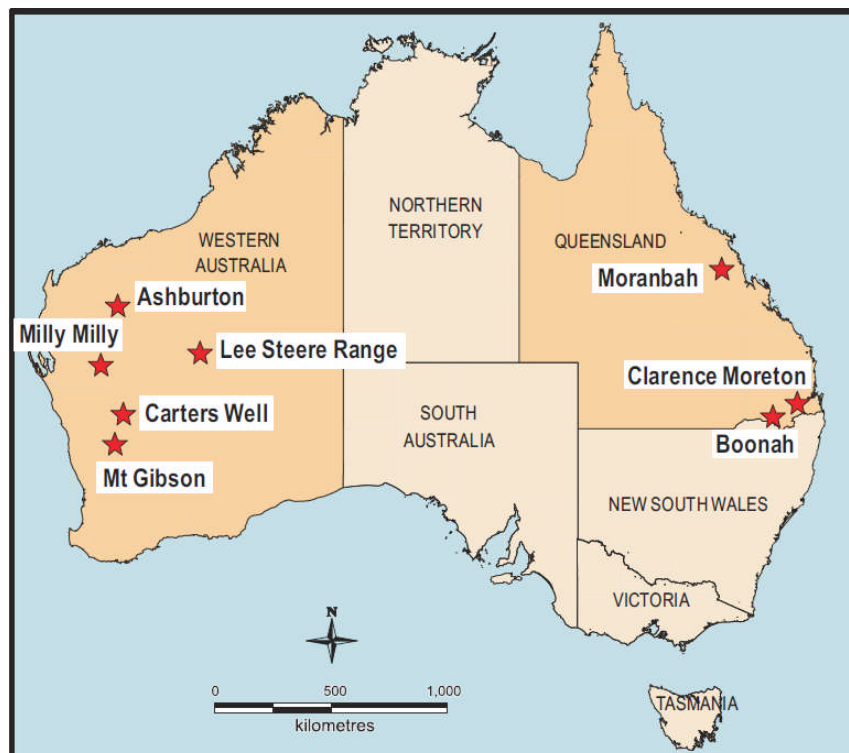
- 100% owned iron ore tenements in WA expanded to 1,193km² in area.
- Detailed planning for aggressive exploration was undertaken on Western Australian iron ore projects and Queensland coal projects.
- Appointment of new Exploration Manager.
- Continual project evaluations and commercial negotiations for iron ore projects.
- JV agreement with Altera Resources Ltd on 13 Exploration Claims (5 granted) was triggered 1st July 2010.

Introduction

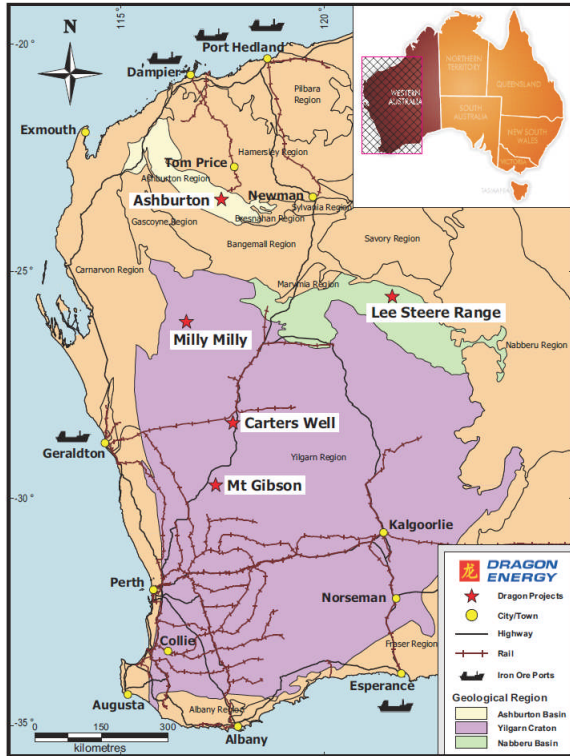
Dragon Energy Ltd (“Dragon”) controls a portfolio of mineral exploration and coal tenements in Western Australia and Queensland.

The WA tenements were acquired from a combination of Dragon applications and an agreement finalised with Polaris Metals NL in March 2010. These tenements are located in the Midwest and Pilbara provinces. The primary exploration targets are iron ore, with the potential for gold, base metals and uranium.

In Queensland, a Joint Venture with Altera Resources Ltd (“Altera”) on 13 Exploration Permits for Coal Applications commenced 1st July 2010. A total of five Permits have been granted to date. These Permits are situated in the Surat/Clarence-Moreton and Bowen Basins. The exploration targets include large tonnages of thermal and coking coal.



Project Locations



WA Project Locations

PROJECTS - WESTERN AUSTRALIA

(Dragon 100%)

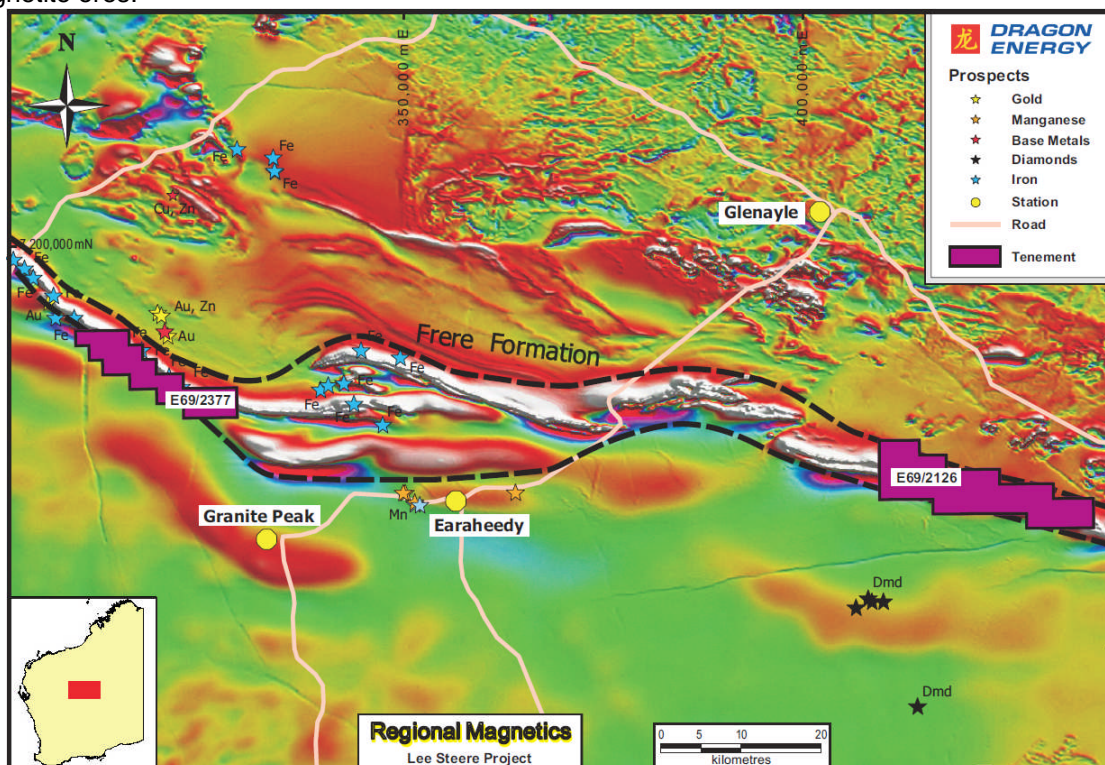
Dragon holds 5 projects in Western Australia, comprising 12 tenements (including 5 applications), totalling 1,193km² in area. The primary exploration targets include hematite and magnetite iron ore deposits. Other potential commodity targets include gold, base metals and uranium.

Carters Well, Milly Milly and the Mt Gibson Projects are located in the Midwest Region, within the Yilgarn Craton. The Lee Steere Range Project is located in the Earaeheedy Basin immediately north of the Yilgarn. The Ashburton Project is situated in the Pilbara Region within the Ashburton Basin.

During this quarter exploration activities were restricted to project appraisals in preparation for field work in the subsequent periods.

Lee Steere Range (E69/2126, E69/2377)- The Lee Steere Range project is located 158-256km NE of Wiluna, and 70-180km east of Giralia's Earaeheedy iron project.

Previous exploration activities in the 1970s identified enriched hematite mineralisation of BIFs within the Frere Formation along the Lee Steere Range; rock chips of up to 66.1% Fe were reported. The project contains a 48km strike length of favourable iron rich lithologies, as identified from magnetics and abundant outcrop. Dragon's exploration focus will be on significant hematite/goethite and magnetite ores.



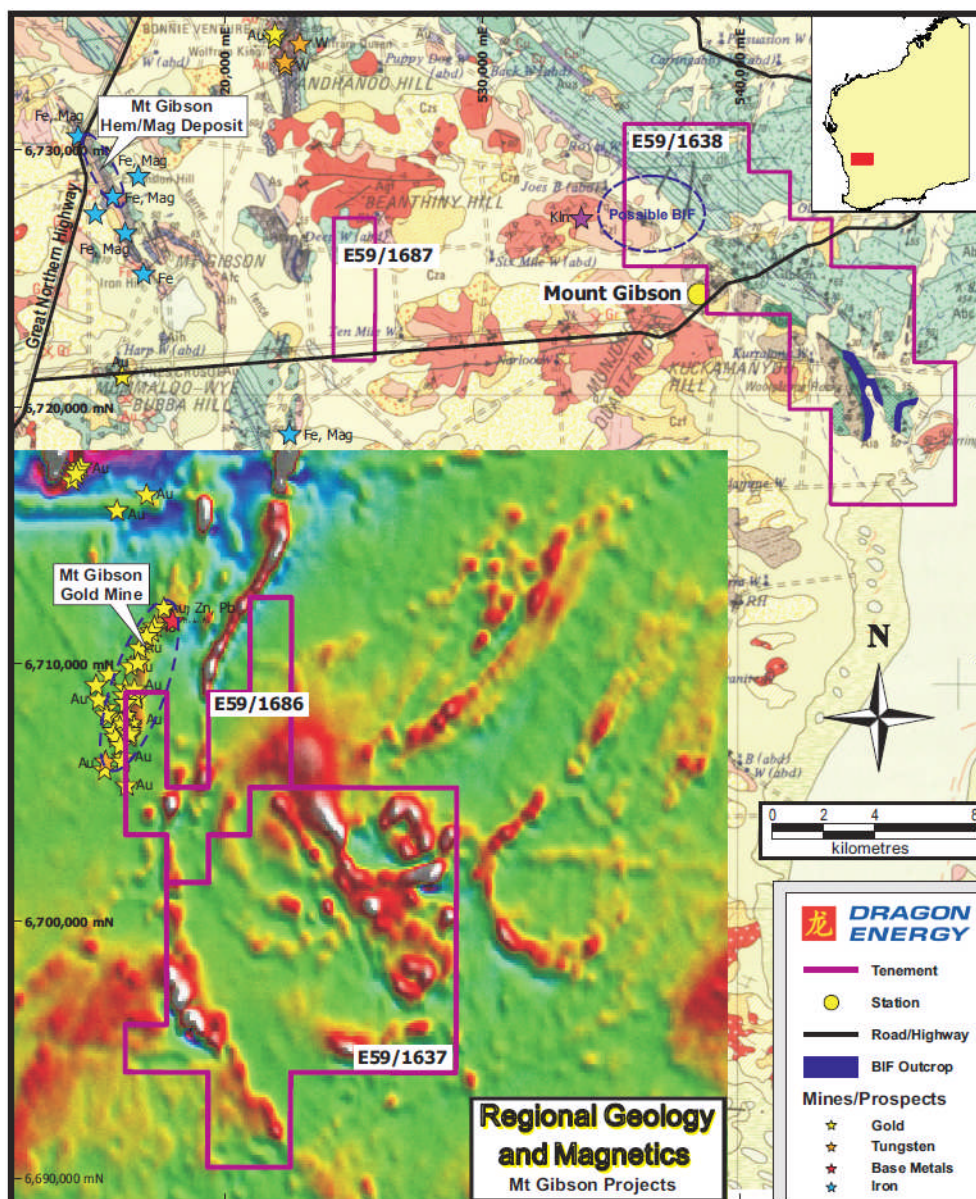
Lee Steere Range- Regional Magnetics

Mt Gibson (E59/1637-38, 1686-87)- These tenements lie 80km NE of Wubin, 7-32km south and east of the Extension Hill Hematite/Magnetite Project, and partly hosts the Mt Gibson Gold Operation. The project is situated in the Midwest region of the Yilgarn Craton.

A 7km outcrop of magnetite (hematite)-amphibole-quartz BIF has been mapped on E59/1638 within the southern Ninghan Belt. A similar prominent magnetic feature to the NW of the tenement may also represent BIF units. There is no record of exploration for iron ore in the area.

E59/1686 incorporates a couple of open pits from the Mount Gibson Gold Operation (870,000oz mined, 559,000oz indicated and inferred resource), within the southern Retaliation Belt, which hosts the Mt Gibson iron deposits to the north. Regional Magnetics indicates that similar geological and structural features extend within E59/1686 and E59/1637, together with higher intensity BIF/ultramafic magnetic characteristics. An investigation of gold will be undertaken in conjunction with iron.

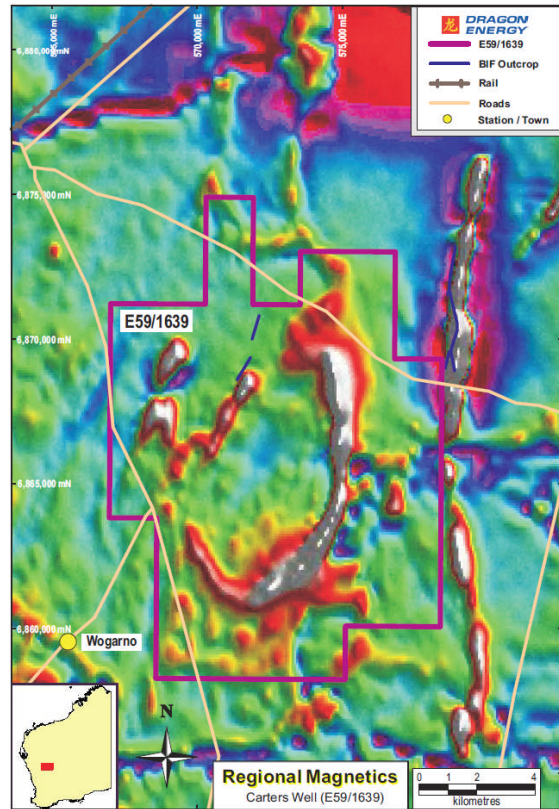
In May 2010, Dragon applied for a further two Exploration Licences in the Midwest region of Western Australia. These tenements, **E59/1686** and **E59/1687**, are currently progressing through the application process.



Mt Gibson- Regional Geology & Magnetics

Carters Well (E59/1639)- the project is located 31km south of Mt Magnet, adjacent to the Great Northern Highway, and 9km from rail.

The tenement overlies the Coolaloo Dome, a granite batholith having a prominently magnetic margin which may reflect the presence of a hematite-magnetite-quartz shear (BIF) adjacent to the contact. BIF has been mapped within the western granitoids, and the Magnet-Wydney Fold Belt greenstones on the eastern margin. The structure outcrops poorly but is well defined on the aeromagnetic data beneath shallow soil cover.

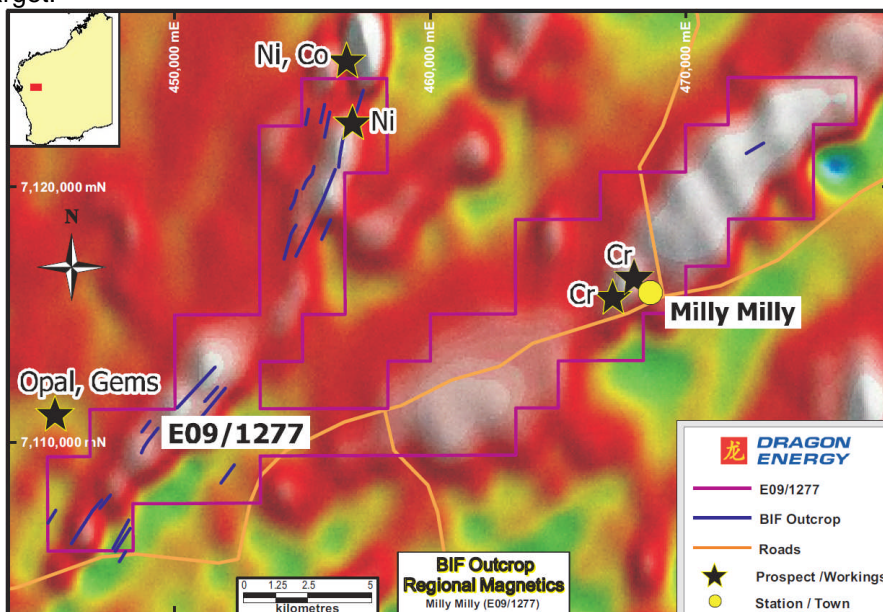


Carters Well- Regional Magnetics with BIF Outcrop

Milly Milly (E09/1277)- the project is located 196km west of Meekatharra, and 58km east of the Jack Hills iron operation in the northern Yilgarn Craton.

The project has potential to host Jack Hills style, high quality magnetite iron ore deposits. BMR regional magnetic surveys indicate favourable host rocks of 42km strike within the tenement. GSWA mapping indicates 26km strike of BIF (quartz-magnetite) outcrop, with exploration to date returning rock chip results of 30-40% Fe with a peak value of 44% Fe.

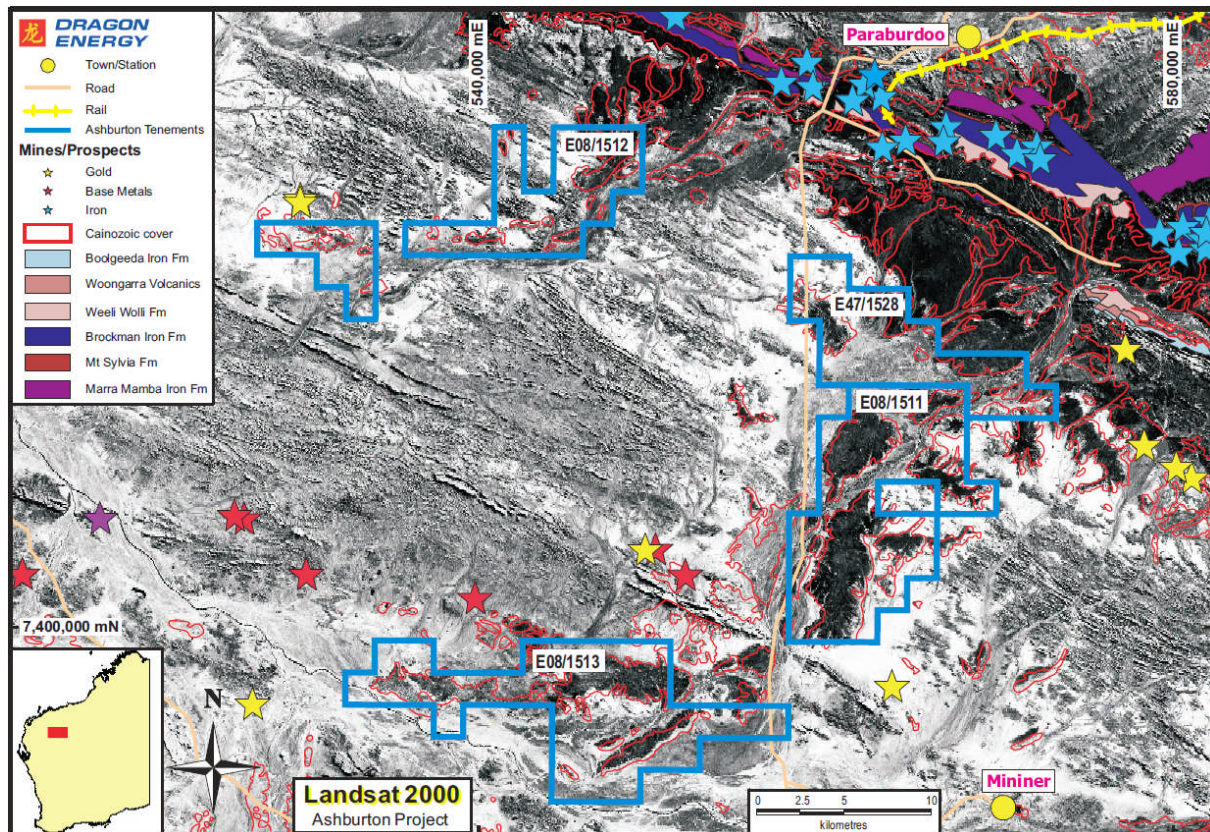
A chromite rich magnetite layer with an interpreted strike length of 1.6km provides an alternative exploration target.



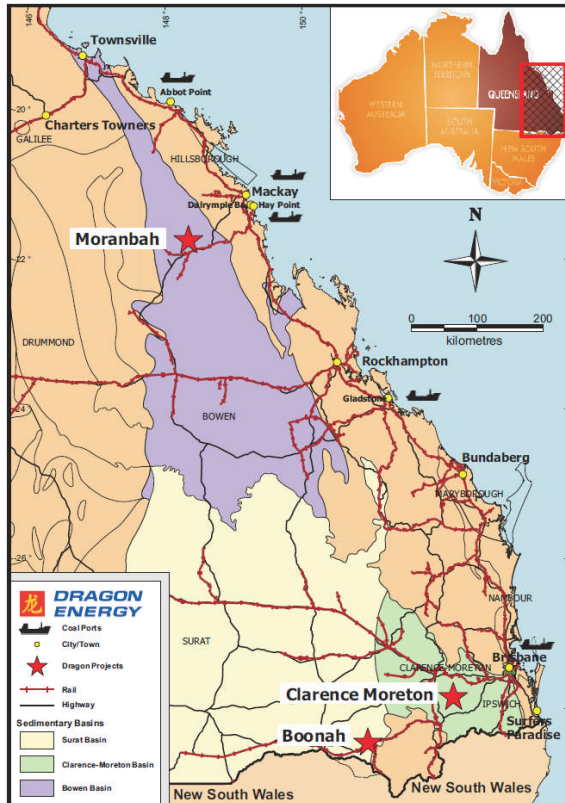
Milly Milly- Regional Magnetic BMR Data & BIF Outcrop

Ashburton (E08/1511-13, E47/1528)- the project is 10-40km from rail and other infrastructure associated with the Paraburdoo operations of Rio Tinto Iron Ore.

Approximately 50% of the project area has a Cainozoic cover which potentially conceals channel iron deposits (CID) within the braided drainages of Turee and Seven Mile Creeks, which drain the ranges of the Brockman Iron Formation near Paraburdoo. Significant deposits of alluvial/detrital iron deposits exist in the project area- this material has a bulk grade of around 20% Fe which could be upgraded to produce a 60% Fe product with a 21% yield. However, CIDs represent the priority target, potentially producing a high grade direct shipping ore product.



Ashburton- Landsat 2000 with Cainozoic sediment cover



Queensland Project Locations

PROJECTS - QUEENSLAND

(Dragon earning 85%)

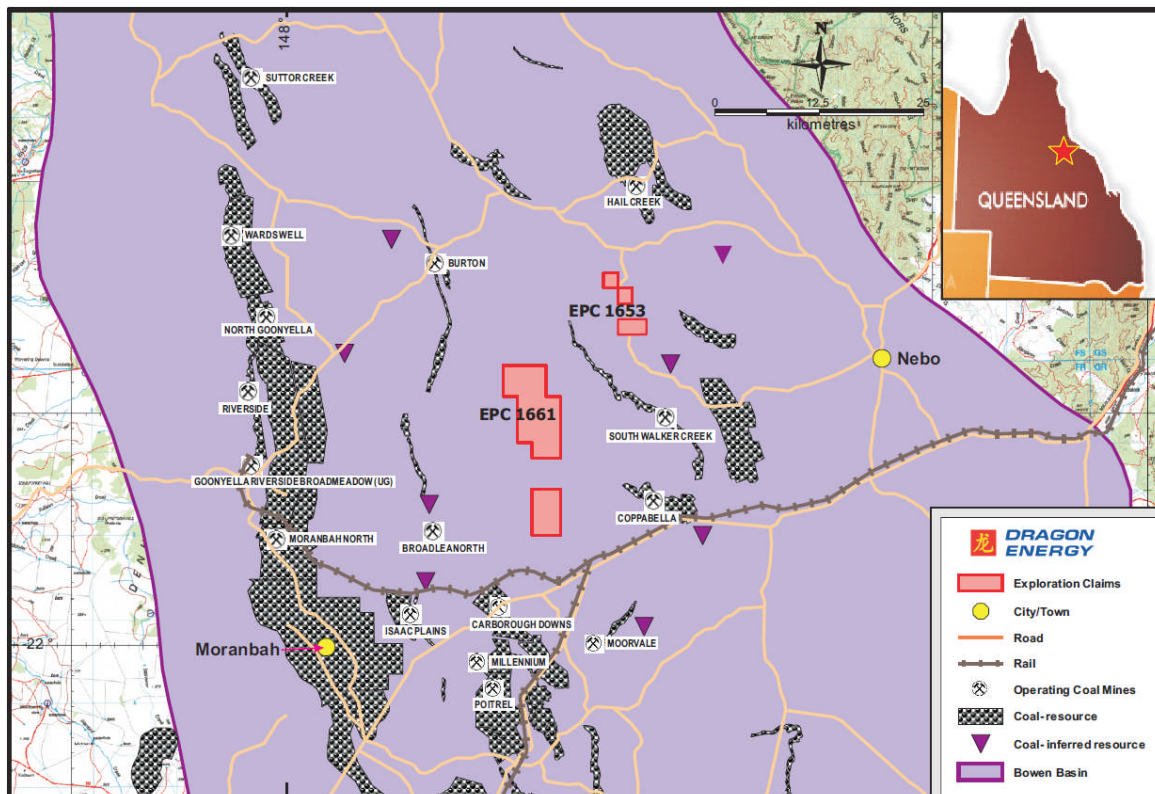
A Joint Venture agreement with Alterra Resources Ltd on 13 Exploration Permits for Coal commenced 1st July 2010. They total a significant 4,558km² in area. Dragon will be earning an 85% interest upon meeting agreed expenditure goals.

The Moranbah Project is located in the productive Bowen Basin. The Boonah Project is within the Surat Basin, while the remaining Permits are located in the Clarence Moreton Basin on the NSW border. The primary exploration targets are coking and thermal grade coal.

A large historical drilling database covering the tenements and adjacent areas has been acquired, and will be used to undertake exploration in the subsequent periods.

Moranbah (EPC1653, 1661)- the project is located 100km west of Mackay, and 30km from the town of Nebo.

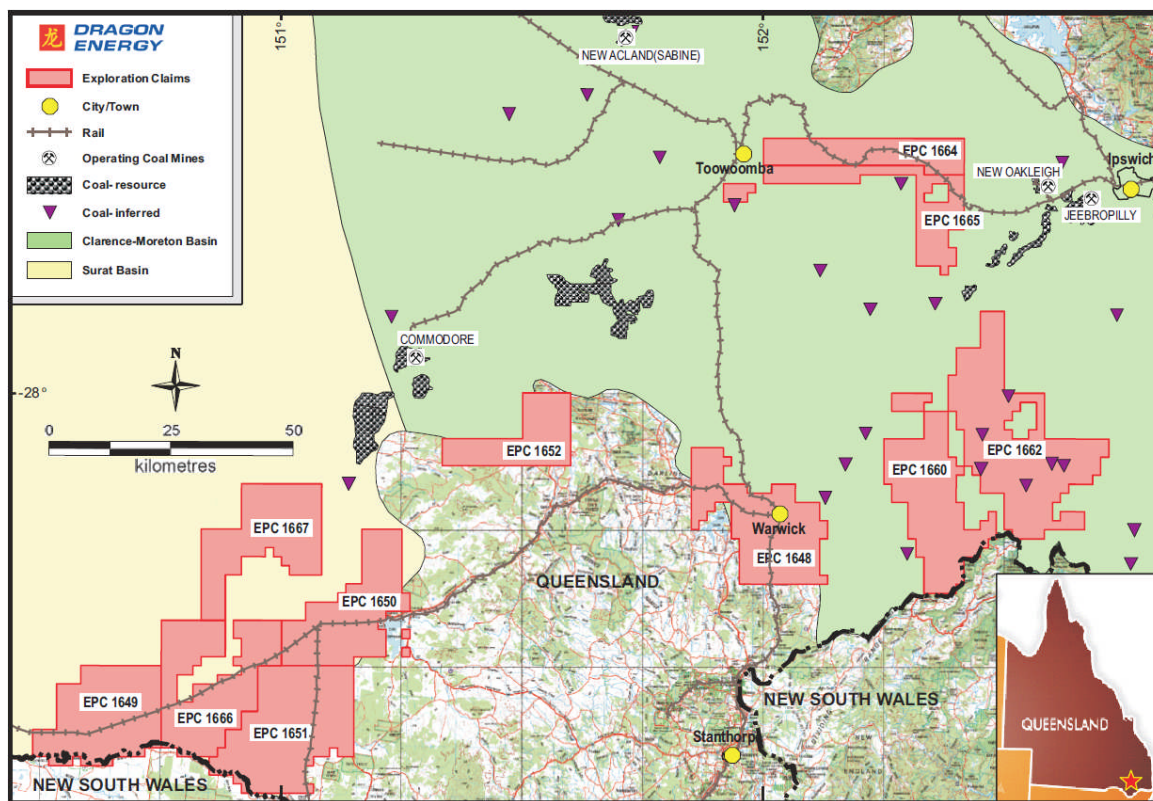
It is situated within the Bowen Basin proximal to a number of operating coal mines, including the South Walker Creek, Coppabella and Riverside.



Moranbah- Project Location

Boonah (EPC1649-51, 1666-67) & Clarence Moreton (EPC1648, 1652, 1660, 1662, 1664, 1665)- these projects are 60 to 230km west of Brisbane, predominantly on the border with NSW.

The Boonah Project Claims lie within the Surat Basin which overlies the Clarence-Moreton and Bowen Basins. The remaining Exploration Claims fall within the Clarence Moreton Basin. A number of coal mines are located nearby, and numerous inferred coal resources (particularly notable on EPC1662).



Clarence Moreton & Boonah Project Location

Acquisition and Joint Venture Opportunities

During the quarter, Dragon continued to actively pursue acquisition and joint venture opportunities focusing on projects in the coal and iron ore sectors, both in Australia and overseas.

Dragon’s strategy is to focus on exploration projects with (near) JORC compliant resources and well located in relation to infrastructure requirements. A couple of iron ore projects in the Pilbara region are in the negotiation stage, and Dragon expects to be in a position to update shareholders in the near future. Coking and thermal coal projects in Queensland are also in the process of being evaluated.

Over the longer term, with strengthening commodity prices and strategic relations with Chinese investors and mining industry contacts, Dragon believes such acquisitions will form the basis to build a foundation for future growth.

Dragon Energy Tenement Schedule

| Western Australian Projects | Tenement | Status | Area (km ²) | Ownership | Target |
|---|------------|----------------|-------------------------|-----------|----------|
| Yilgarn Craton (Midwest Region) | | | | | |
| Carters Well | E59/1639 | Pending | 142 | 100% | Fe |
| Milly Milly | E09/1277-I | Granted | 191 | 100% | Fe, Cr |
| Mt Gibson | E59/1637 | Pending | 131 | 100% | Fe, Au |
| | E59/1638 | Pending | 89 | 100% | Fe |
| | E59/1686 | Pending | 36 | 100% | Fe, Au |
| | E59/1687 | Pending | 9 | 100% | Fe |
| Ashburton Basin (Pilbara Region) | | | | | |
| Ashburton | E08/1511-I | Granted | 112 | 100% | Fe (CID) |
| | E08/1512-I | Granted | 80 | 100% | Fe (CID) |
| | E08/1513-I | Granted | 112 | 100% | Fe (CID) |
| | E47/1528-I | Granted | 64 | 100% | Fe (CID) |
| Earaheedy Basin | | | | | |
| Lee Steere Range | E69/2126-I | Granted | 146 | 100% | Fe |
| | E69/2377 | Granted | 81 | 100% | Fe, U |

| Queensland Projects | Tenement | Status | Area (km ²) | Ownership | Target |
|--------------------------------|----------|----------------|-------------------------|-------------|--------|
| Bowen Region | | | | | |
| Moranbah | EPC1653 | Non-competing | 13 | earning 85% | Coal |
| | EPC1661 | Competing | 74 | earning 85% | Coal |
| Clarence-Moreton Region | | | | | |
| Boonah | EPC1649 | Granted | 414 | earning 85% | Coal |
| | EPC1650 | Non-competing | 396 | earning 85% | Coal |
| | EPC1651 | Non-competing | 540 | earning 85% | Coal |
| | EPC1666 | Secondary | 456 | earning 85% | Coal |
| | EPC1667 | Secondary | 387 | earning 85% | Coal |
| Clarence Moreton | EPC1648 | Non-competing | 433 | earning 85% | Coal |
| | EPC1652 | Granted | 234 | earning 85% | Coal |
| | EPC1660 | Granted | 447 | earning 85% | Coal |
| | EPC1662 | Competing | 657 | earning 85% | Coal |
| | EPC1664 | Granted | 240 | earning 85% | Coal |
| | EPC1665 | Granted | 267 | earning 85% | Coal |

Authorised by:

Gang Xu
Managing Director

For further information or corporate opportunities please refer to our website www.dragonenergy.com and contact:

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Competent Person's Statement

The information in this report that relates to Exploration Results is based on information compiled by Mr Lindsay Cahill (Exploration Consultant), who is a member of Australasian Institute of Geoscientists. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Cahill consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

About Dragon Energy

Dragon Energy Limited ("Dragon") was incorporated in June 2006 and in February 2009 was admitted to the official List of Australian Securities Exchange. The Company's Listing on the ASX was facilitated by cornerstone investor the China-based Shandong Taishan Sunlight Group Company Limited ("Shandong Group"), which controls 1.5 billion tonnes of coal and 100 million tonnes of iron ore resources in China as well as engaging (in a lesser capacity) in steel making and power generation. It has also facilitated many large commercial mining transactions in the Chinese resources sector.

Shandong Group is essentially a private enterprise and provides Dragon with direct and indirect financial capacity, wide industry connections, and mining know how, to underpin Dragon's growth and pursuit of mineral projects.

Dragon has evaluated numerous projects worldwide, mostly in bulk commodities, coal and iron ore. By June 2010, Dragon has solely applied for and acquired 12 iron ore tenements in Western Australia totalling 1,193km² and has an 85% Joint-Venture interest in 13 coal tenements in Queensland totalling 4,558km².

Dragon's short to medium term focus is to aggressively explore these tenements to ascertain prospectivity and to upgrade known resources in other cases. Dragon has the advantages of ready funding capacity and a preparedness to pursue projects with a long term outlook.

At the same time Dragon will continue to review new opportunities in spite of the volatility in the financial markets, in the industry and in the political domain.

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 ENERGY LTD

ABN

38 119 992 175

Quarter ended ("current quarter")

30 June 2010

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|----------------------------|--|
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for (a) exploration and evaluation | (220) | (760) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (69) | (669) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 39 | 187 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other | - | - |
| Net Operating Cash Flows | (250) | (1,242) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a)prospects | - | (450) |
| (b)equity investments | - | - |
| (c) other fixed assets | (20) | (68) |
| 1.9 Proceeds from sale of: (a)prospects | - | - |
| (b)equity investments | - | - |
| (c)other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other | - | - |
| Net investing cash flows | (20) | (518) |
| 1.13 Total operating and investing cash flows (carried forward) | (270) | (1,760) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|--------------|----------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (270) | (1,760) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc.(net) | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | (3) | (9) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other | - | - |
| | Net financing cash flows | (3) | (9) |
| | Net increase (decrease) in cash held | (273) | (1,769) |
| 1.20 | Cash at beginning of quarter/year to date | 3,761 | 5,258 |
| 1.21 | Exchange rate adjustments to item 1.20 | (1) | (2) |
| 1.22 | Cash at end of quarter | 3,487 | 3,487 |

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 | 199 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

| | |
|--|-----|
| Executive directors' remuneration | 171 |
| Non-executive director's remuneration | 6 |
| Services provided by director-related entities | 22 |

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

N/A

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

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|--------------|
| 4.1 Exploration and evaluation | (275) |
| 4.2 Development | - |
| Total | (275) |

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 | 3,437 | 3,711 |
| 5.2 Deposits at call | 50 | 50 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 3,487 | 3,761 |

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 | - | - | - | - |

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|--------------------|----------------------------------|-------------------------------------|-------------------------------|
| 6.2 Interests in mining tenements acquired or increased | E 59/1686 | Application | 0% | 100% |
| | E 59/1687 | Application | 0% | 100% |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 Preference +securities <i>(description)</i> | - | - | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 142,379,707 | 46,814,750 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | - - | - - | - - | - - |
| 7.5 +Convertible debt securities <i>(description)</i> | - | - | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | 11,150,000 | - | Exercise price \$0.30 | Expiry date 31 May 2012 |
| 7.8 Issued during quarter | - | - | | |
| 7.9 Exercised during quarter | - | - | | |
| 7.10 Expired during quarter | - | - | | |
| 7.11 Debentures <i>(totals only)</i> | - | - | | |
| 7.12 Unsecured notes <i>(totals only)</i> | - | - | | |

+ See chapter 19 for defined terms.

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: Date: **26 July 2010**
(Company Secretary)

Print name: **Karen Logan**

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.

+ See chapter 19 for defined terms.