



18 January 2011

Company Announcements Office  
Australian Stock Exchange  
PO Box H224  
Australia Square  
Sydney NSW 2000

**NON-RENOUNCEABLE SHARE ENTITLEMENT ISSUE AND OPTION ENTITLEMENT  
ISSUE**

The Company is pleased to release its prospectus for the non-renounceable share entitlement issue and option entitlement issue, and accompanying Appendix 3B.

Gang Xu  
*Managing Director*

ACN 119 992 175

Suite 8 1297 Hay Street, West Perth, Western Australia, 6005  
T: (61-8) 9322 6009 F: (61-8) 9322 6128





**DRAGON ENERGY LTD**

**ABN 38 119 992 175**

**PROSPECTUS**

for

- a pro rata non-renounceable entitlement issue of approximately 71,189,854 Shares (**New Shares**) on the basis of 1 New Share for every 2 Shares held on the Record Date at an issue price of \$0.30 per New Share, to raise approximately \$21,356,956 before costs (**Share Entitlement Issue**); and
- a pro rata non-renounceable entitlement issue of approximately 47,459,902 Options exercisable at \$0.35 each with an expiry date of 18 November 2014 (**New Options**) on the basis of 1 New Option for every 3 Shares held on the Record Date at an issue price of \$0.001 per New Option to raise approximately \$47,460 before costs (**Option Entitlement Issue**).

**The Share Entitlement Issue is conditionally underwritten by  
Shandong Taishan Sunlight Group Company Ltd**

**Refer to Section 7.2 for details regarding the terms of the  
Underwriting Agreement.**

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the Securities being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The Securities offered by this Prospectus should be considered as speculative.

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## SECTION 1: SUMMARY OF IMPORTANT DATES AND IMPORTANT NOTES

### IMPORTANT DATES

|                                                                        |                                   |
|------------------------------------------------------------------------|-----------------------------------|
| Lodgement of Prospectus with ASIC                                      | 18 January 2011                   |
| Notice sent to Shareholders                                            | 20 January 2011                   |
| Ex Date                                                                | 21 January 2011                   |
| Record Date for determining Shareholder Entitlements                   | 28 January 2011<br>at 5:00pm WST  |
| Prospectus sent to Shareholders and Opening Date of Offers             | 2 February 2011                   |
| Closing Date of Offers                                                 | 16 February 2011<br>at 5:00pm WST |
| ASX notified of any under subscriptions                                | 21 February 2011                  |
| Despatch date/ Securities entered into Shareholders' security holdings | 24 February 2011                  |

These dates are determined based on the current expectations of the Directors and may change without prior notice but subject to the Corporations Act and the ASX Listing Rules.

### IMPORTANT NOTICES

Shareholders should read this document in its entirety and, if in doubt, should consult their professional advisers.

This Prospectus is dated 18 January 2011. A copy of this Prospectus was lodged with the ASIC and ASX on that date. The ASIC and ASX take no responsibility for the content of this Prospectus.

The expiry date of the Prospectus is 17 February 2012 (**Expiry Date**). No Securities will be allotted or issued on the basis of this Prospectus after the Expiry Date.

Applications for New Shares and New Options offered pursuant to the Offers in this Prospectus can only be submitted on an original Entitlement and Acceptance Forms which accompany this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

The Entitlement Issue to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and the Corporations Regulations 2001. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008.

The Offers and the content of the Prospectus are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act sets out how the Offers must be made.

There are differences in how securities are regulated under Australian law.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you need to make a complaint about the Offer, please contact the Securities Commission, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

## SECTION 1: SUMMARY OF IMPORTANT DATES AND IMPORTANT NOTES (cont'd)

### IMPORTANT NOTICES (cont'd)

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Offers may involve a currency exchange risk. The currency for the New Shares and New Options is not New Zealand dollars. The value of the New Shares and New Options will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the New Shares and New Options to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

As noted in the Prospectus at Section 3.7, the Company will apply to the ASX for quotation of the New Shares and New Options offered under this Prospectus. If quotation is granted, the New Shares and New Options will be able to be traded on the ASX. Shareholders resident in New Zealand wishing to trade the Securities through that market may have to make arrangements for a participant in that market to sell the securities on their behalf. As the ASX does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to Shareholders resident in New Zealand about the Securities and trading may differ from securities markets that operate in New Zealand.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

### RISK FACTORS

Prospective investors in the Company should be aware that subscribing for Securities the subject of this Prospectus involves a number of specific risks, including (but not limited to):

- no prior market for the Company's New Options;
- exploration and development risks;
- resource estimates;
- commodity prices and exchange rates;
- effect of underwriting on control of the Company;
- market conditions; and
- the ability to obtain future funding.

Details of these risks and other risks are set out in Section 6 of this Prospectus and investors are urged to consider those risks carefully (and, if necessary, consult their professional adviser) before deciding whether to invest in the Company.

The risk factors set out in Section 6 of this Prospectus, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Securities. Accordingly, an investment in the Company should be considered speculative.

### ELECTRONIC PROSPECTUS

Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian or New Zealand resident and must only access the Prospectus from within Australia or New Zealand.

The Corporations Act prohibits any person passing onto another person an Entitlement and Acceptance Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

## SECTION 2: CORPORATE DIRECTORY

### Directors

Mr Jie Chen (Chairman)  
Mr Gang Xu (Managing Director)  
Mr Anthony Ho (Executive Director)  
Mr Qingyong Guo (Non-Executive Director)  
Mr Wenle Zeng (Non-Executive Director)

### Company Secretary

Ms Karen Logan

### Share Registry\*

Computershare Investor Services Pty Limited  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000

Telephone: 61 8 9323 2000

Facsimile: 61 8 9323 2033

### Principal Place of Business & Registered Office

Suite 8, 1297 Hay Street  
West Perth WA 6005

Telephone: 61 8 9322 6009

Facsimile: 61 8 9322 6128

Website: [www.dragonenergyltd.com](http://www.dragonenergyltd.com)

### Solicitors

Steinepreis Paganin  
Level 4, The Read Buildings  
16 Milligan Street  
Perth WA 6000

### (i) Auditors\*

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

### Underwriter to the Share Entitlement Issue

Shandong Taishan Sunlight Group Company Ltd  
Laiwu City  
Shandong Province 271100  
China

\* These parties have been included for information purposes only. They have not been involved in the preparation of this Prospectus.

## SECTION 3: DETAILS OF THE OFFERS

### 3.1 Offers of Securities

The Company is making two separate offers pursuant to this Prospectus, being the Share Entitlement Issue and the Option Entitlement Issue. The purpose of the Offers and the use of the funds raised pursuant to the Offers are set out in Section 4 of this Prospectus.

#### Share Entitlement Issue

Under the Share Entitlement Issue, the Company offers for subscription approximately 71,189,854 New Shares pursuant to a pro rata non-renounceable entitlement issue to holders of Shares on the basis of 1 New Share for every 2 Shares held on the Record Date at an issue price of \$0.30 per New Share to raise up to approximately \$21,356,956. Fractional Entitlements will be rounded up to the nearest whole number.

The Share Entitlement Issue will raise a minimum of \$21,356,956 (before costs).

Holders of existing Options will not be entitled to participate in the Share Entitlement Issue. The Company currently has 10,750,000 Options on issue as at the date of this Prospectus, which may be exercised by the Option Holder prior to the Record Date in order to participate in the Share Entitlement Issue.

#### Option Entitlement Issue

Under the Option Entitlement Issue, the Company offers for subscription approximately 47,459,902 New Option, exercisable at \$0.35 each with an expiry date of 18 November 2014 pursuant to a pro rata non-renounceable entitlement issue to holders of Shares on the basis of 1 New Option for every 3 Shares held on the Record Date at an issue price of \$0.001 per New Option to raise up to approximately \$47,460. Fractional Entitlements will be rounded up to the nearest whole number.

The Option Entitlement Issue will raise a minimum of \$49,460 (before costs).

Holders of existing Options will not be entitled to participate in the Option Entitlement Issue. The Company currently has 10,750,000 Options on issue as at the date of this Prospectus, which may be exercised by the Option Holder prior to the Record Date in order to participate in the Option Entitlement Issue.

### 3.2 How to Accept the Share Entitlement Issue

Your acceptance of the Share Entitlement must be made on the Share Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Share Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Share Entitlement.

You may participate in the Share Entitlement Issue as follows:

- (a) if you wish to accept your Share Entitlement in full:
  - (i) complete the Share Entitlement and Acceptance Form, filling in the details in the spaces provided; and
  - (ii) attach your cheque or attend to payment via the BPay option for the amount indicated on your Share Entitlement and Acceptance Form; or
- (b) if you only wish to accept part of your Share Entitlement:
  - (iii) fill in the number of New Shares you wish to accept in the space provided on the Share Entitlement and Acceptance Form; and
  - (iv) attach your cheque or attend to payment via the BPay option for the appropriate application monies (at \$0.30 per New Share); or
- (c) if you do not wish to accept all or part of your Share Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to "Dragon Energy Ltd – Subscription Account" and crossed "Not Negotiable".

## SECTION 3: DETAILS OF THE OFFERS (cont'd)

### 3.2 How to Accept the Share Entitlement Issue (cont'd)

Your completed Share Entitlement and Acceptance Form and cheque must reach the Company's Share Registry, no later than 5:00pm (WST) on the Closing Date.

The Share Entitlement Issue is non-renounceable. Accordingly, a Shareholder may not sell or transfer all or part of their Share Entitlement.

### 3.3 How to Accept the Option Entitlement Issue

Your acceptance of the Option Entitlement must be made on the Option Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Option Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Option Entitlement.

You may participate in the Option Entitlement Issue as follows:

- (d) if you wish to accept your Option Entitlement in full:
  - (v) complete the Option Entitlement and Acceptance Form, filling in the details in the spaces provided; and
  - (vi) attach your cheque or attend to payment via the BPay option for the amount indicated on your Option Entitlement and Acceptance Form; or
- (e) if you only wish to accept part of your Option Entitlement:
  - (vii) fill in the number of New Options you wish to accept in the space provided on the Option Entitlement and Acceptance Form; and
  - (viii) attach your cheque or attend to payment via the BPay option for the appropriate application monies (at \$0.001 per New Option); or
- (f) if you do not wish to accept all or part of your Option Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to "Dragon Energy Ltd – Subscription Account" and crossed "Not Negotiable".

Your completed Option Entitlement and Acceptance Form and cheque must reach the Company's Share Registry, no later than 5:00pm (WST) on the Closing Date.

The Option Entitlement Issue is non-renounceable. Accordingly, a Shareholder may not sell or transfer all or part of their Option Entitlement.

### 3.4 Minimum Subscription

There is no minimum level of subscription in respect of the Offers.

### 3.5 Underwriter

The Share Entitlement Issue is conditionally underwritten by Shandong Taishan Sunlight Group Company Ltd (**Shandong Group** or **Underwriter**). The Shandong Group is a major Shareholder of the Company.

Refer to Section 7.2 of this Prospectus for further details of the terms of underwriting and Sections 7.3 and 7.4 for details of the current and potential voting power of the Shandong Group as a result of the underwriting, and the Shandong Group's intentions with respect to the Company.

## SECTION 3: DETAILS OF THE OFFERS (cont'd)

### 3.6 Shortfall

If you do not wish to take up any part of your Share Entitlement or Option Entitlement you are not required to take any action. That part of your Share Entitlement or Option Entitlement not taken up will form part of the Shortfall and will be dealt with by the Directors in consultation with the Underwriter, having consideration of the terms of the Underwriting Agreement.

The offer of the Shortfall is a separate offer pursuant to this Prospectus and will remain open after the Closing Date.

#### *Shortfall Shares*

Only parties nominated by the Underwriter may apply for Shortfall Shares. The issue price of any Shares offered pursuant to the Shortfall offer shall be \$0.30, being the price at which the Share Entitlement Issue has been offered pursuant to this Prospectus.

#### *Shortfall Options*

The issue price of any Options offered pursuant to the Shortfall Offer shall be \$0.001, being the price at which the Option Entitlement has been offered to Shareholders pursuant to this Prospectus.

The Directors reserve the right to allot and issue the Shortfall Options progressively at their discretion.

While the Directors intend to deal with applications for the Shortfall Options in a fair and equitable manner as between applicants, the Directors reserve the right to allot to an applicant under the Shortfall Offer a lesser number of Shortfall Options than the number for which the applicant applies, or to reject an application, or to not proceed with placing the Shortfall Options.

The offer of Shortfall Options will remain open after the Option Entitlement Issue has closed for a period not exceeding 3 months.

### 3.7 Official Quotation on ASX

Application for official quotation by ASX of the Securities offered pursuant to this Prospectus will be made on the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus, (or such period as is varied by the ASIC), the Company will not offer any Securities and will repay all application monies for the Securities within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the Securities is not to be taken in any way as an indication of the merits of the Company or the Securities now offered for subscription.

### 3.8 Allotment of Securities

Securities issued pursuant to the Prospectus will be allotted as soon as practicable after the Closing Date. The Company will allot the Securities on the basis of a Shareholder's Share Entitlement or Option Entitlement. Where the number of Securities issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

Pending allotment and issue of the Securities or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on such bank account and each Applicant waives the right to claim any such interest.

### 3.9 Overseas Shareholders

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify these Securities the subject of this Prospectus or otherwise permit a public offering of the Securities the subject of this Prospectus in any jurisdiction outside Australia.

## SECTION 3: DETAILS OF THE OFFERS (cont'd)

### 3.9 Overseas Shareholders (cont'd)

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Securities pursuant to this Prospectus. The return of a completed Share Entitlement and Acceptance Form or Option Entitlement and Acceptance Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained.

### 3.10 Taxation Implications

The Directors do not consider that it is appropriate to give Applicants advice regarding the taxation consequences of applying for Securities under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Applicants. Potential Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Securities offered pursuant to this Prospectus.

### 3.11 Clearing House Electronic Sub-Register System (CHES) and Issuer Sponsorship

The Company will not be issuing Share and Option certificates. The Company will apply to ASX to participate in CHES, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHES will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Securities allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Reference Number and explain, for future reference, the sale and purchase procedures under CHES and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

### 3.12 Privacy Act

If you complete an application for Securities, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds, and will use that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and Option Holder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company Share Registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its Share Registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for Securities, the Company may not be able to accept or process your application.

## SECTION 3: DETAILS OF THE OFFERS (cont'd)

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### 3.13 Risk Factors

Prospective investors in the Company should be aware that subscribing for Securities the subject of this Prospectus involves a number of specific risks, including (but not limited to):

- no prior market for the Company's New Options;
- exploration and development risks;
- resource estimates;
- commodity prices and exchange rates;
- effect of underwriting on control of the Company;
- market conditions; and
- the ability to obtain future funding.

Details of these risks and other risks are set out in Section 6 of this Prospectus and investors are urged to consider those risks carefully (and, if necessary, consult their professional adviser) before deciding whether to invest in the Company.

The risk factors set out in Section 6 of this Prospectus, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Securities. Accordingly, an investment in the Company should be considered speculative.

### 3.14 Enquiries

Any questions concerning the Offers should be directed to the Company Secretary, Ms Karen Logan, on (61-8) 6389 2688.

## SECTION 4: PURPOSE AND EFFECT OF THE OFFERS

### 4.1 Purpose of the Offers

The purpose of the Offers is to raise approximately \$21,404,416 (before expenses). The proceeds of the Offers are planned to be used in accordance with the table set out below:

| <b>Proceeds of the Offers</b>                                                                                                               | <b>\$</b>         |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Acquisition and associated costs pursuant to the Rocklea Sale Agreement (Refer Section 7.2)                                                 | 2,850,000         |
| Exploration and evaluation at the Nameless Project                                                                                          | 3,000,000         |
| Exploration and evaluation at the Rocklea Project                                                                                           | 2,000,000         |
| Exploration and evaluation at the Moranbah, Boonah and Clarence Morton Projects in accordance with the Altera Joint Venture Agreement       | 3,500,000         |
| Exploration and evaluation at the Lee Steere Project in accordance with the Polaris Joint Venture Agreement                                 | 1,000,000         |
| Exploration and evaluation at the Milly Milly, Mt Gibson and Ashburton Projects                                                             | 450,000           |
| Offset of loan from the Shandong Group against application moneys payable by the Underwriter for its Entitlement Shares (Refer Section 7.2) | 3,500,000         |
| General working capital and capital available to pursue potential investment opportunities                                                  | 5,024,416         |
| Expenses of the Offers <sup>1</sup>                                                                                                         | 80,000            |
| <b>Total</b>                                                                                                                                | <b>21,404,416</b> |

Note:

1. Refer to Section 7.8 for further details relating to the estimated expenses of the Offers.

### 4.2 Effect of the Offers

The principal effect of the Offers will be to:

- (a) increase the cash reserves by \$17,824,416 and retire debt of \$3,500,000 owing to the Shandong Group (Refer Sections 4.3 and 7.2) after completion of the Offers after deducting the estimated expenses of the Offers;
- (b) increase the number of Shares on issue from 147,379,707 to approximately 213,569,561 Shares following completion of the Offers; and
- (c) increase the number Options on issue from 10,750,000 to approximately 58,209,902 Options following completion of the Offers.

### 4.3 Consolidated Balance Sheet and Pro Forma Balance Sheet

The unaudited Balance Sheet as at 31 December 2010 and Pro Forma Balance Sheet as at 31 December 2010 set out below have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. They have been prepared on the assumption that all Securities pursuant to the Offers are issued.

These Balance Sheets have been prepared to provide Shareholders and Option holders with information on the assets and liabilities of the Company and pro forma assets and liabilities of the Company as noted below. The historical and pro forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

## SECTION 4: PURPOSES AND EFFECT OF THE OFFERS (cont'd)

### 4.3 Consolidated Balance Sheet and Pro Forma Balance Sheet (cont'd)

|                                      | Note | 31 December 2010<br>Unaudited<br>\$ | 31 December 2010<br>Pro Forma<br>\$ |
|--------------------------------------|------|-------------------------------------|-------------------------------------|
| <b>Current Assets</b>                |      |                                     |                                     |
| Cash and cash equivalents            | 1    | 1,980,485                           | 18,804,901                          |
| Trade and other receivables          |      | 17,941                              | 17,941                              |
| Held to maturity receivables         |      | 51,163                              | 51,163                              |
| Other assets                         |      | 22,448                              | 22,448                              |
| <b>Total Current assets</b>          |      | <b>2,072,037</b>                    | <b>18,896,453</b>                   |
| <b>Non Current Assets</b>            |      |                                     |                                     |
| Property, plant and equipment        |      | 71,222                              | 71,222                              |
| Exploration and evaluation assets    | 2    | 1,241,518                           | 5,741,518                           |
| <b>Total Non Current Assets</b>      |      | <b>1,312,740</b>                    | <b>5,812,740</b>                    |
| <b>Total Assets</b>                  |      | <b>3,384,777</b>                    | <b>24,709,193</b>                   |
| <b>Current Liabilities</b>           |      |                                     |                                     |
| Trade and other payables             |      | 50,221                              | 50,221                              |
| Provisions                           |      | 44,188                              | 44,188                              |
| Loans and borrowings                 | 3    | 5,604                               | 5,604                               |
| <b>Total Current Liabilities</b>     |      | <b>100,013</b>                      | <b>100,013</b>                      |
| <b>Non Current Liabilities</b>       |      |                                     |                                     |
| Loans and borrowings                 |      | 39,921                              | 39,921                              |
| <b>Total Non Current Liabilities</b> |      | <b>39,921</b>                       | <b>39,921</b>                       |
| <b>Total Liabilities</b>             |      | <b>139,933</b>                      | <b>139,933</b>                      |
| <b>NET ASSETS</b>                    |      | <b>3,244,843</b>                    | <b>24,569,259</b>                   |
| <b>Equity</b>                        |      |                                     |                                     |
| Contributed equity                   | 4    | 6,558,884                           | 27,853,840                          |
| Reserves                             | 5    | 46,040                              | 75,500                              |
| Accumulated losses                   |      | (3,360,081)                         | (3,360,081)                         |
| <b>TOTAL EQUITY</b>                  |      | <b>3,244,843</b>                    | <b>24,569,259</b>                   |

#### Note 1: Cash and cash equivalents

|                                                                     | \$                |
|---------------------------------------------------------------------|-------------------|
| Unaudited Balance as at 31 December 2010                            | 1,980,485         |
| Part payment pursuant to Rocklea Sale Agreement (Refer Section 7.2) | (1,000,000)       |
| Proceeds of the Offers                                              | 17,904,416        |
| Expenses of the Offers                                              | (80,000)          |
| Pro Forma Balance as at 31 December 2010                            | <b>18,804,901</b> |

#### Note 2: Exploration and evaluation assets

|                                                                                                          | \$               |
|----------------------------------------------------------------------------------------------------------|------------------|
| Unaudited Balance as at 31 December 2010                                                                 | 1,241,518        |
| Part payment pursuant to Rocklea Sale Agreement                                                          | 1,000,000        |
| Payment pursuant to Rocklea Sale Agreement via loan received from the Shandong Group (Refer Section 7.2) | 3,500,000        |
| Pro Forma Balance as at 31 December 2010                                                                 | <b>5,741,518</b> |

## SECTION 4: PURPOSES AND EFFECT OF THE OFFERS (cont'd)

### 4.3 Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet (cont'd)

|                                                                                                                                                    |             |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>Note 3: Loans and borrowings (Current)</b>                                                                                                      | <b>\$</b>   |
| Unaudited Balance as at 31 December 2010                                                                                                           | 5,604       |
| Loan received from the Shandong Group in accordance with the Loan Agreement to fund payment pursuant to Rocklea Sale Agreement (Refer Section 7.2) | 3,500,000   |
| Conversion of loan from the Shandong Group to Shares pursuant to the Share Entitlement Issue (Refer Section 7.2)                                   | (3,500,000) |
| Pro Forma Balance as at 31 December 2010                                                                                                           | 5,604       |
| <b>Note 4: Contributed equity</b>                                                                                                                  | <b>\$</b>   |
| Unaudited Balance as at 31 December 2010                                                                                                           | 6,558,884   |
| Proceeds of the Share Entitlement Issue                                                                                                            | 17,856,956  |
| Conversion of loan from the Shandong Group to Shares pursuant to the Share Entitlement Issue (Refer Section 7.2)                                   | 3,500,000   |
| Expenses of the Share Entitlement Issue                                                                                                            | (62,000)    |
| Pro Forma Balance as at 31 December 2010                                                                                                           | 27,853,840  |
| <b>Note 5: Reserves</b>                                                                                                                            | <b>\$</b>   |
| Unaudited Balance as at 31 December 2010                                                                                                           | 46,040      |
| Proceeds of the Option Entitlement Issue                                                                                                           | 47,460      |
| Expenses of the Option Entitlement Issue                                                                                                           | (18,000)    |
| Pro Forma Balance as at 31 December 2010                                                                                                           | 75,500      |

### 4.4 Effect on Capital Structure

| <b>Shares</b>                                                         | <b>Number</b>      |
|-----------------------------------------------------------------------|--------------------|
| Shares on issue at date of Prospectus                                 | 142,379,707        |
| Shares offered pursuant to the Share Entitlement Issue <sup>1</sup>   | 71,189,854         |
| <b>Total Shares after completion of the Offers</b>                    | <b>213,569,561</b> |
| <b>Options</b>                                                        | <b>Number</b>      |
| Options on issue at date of Prospectus <sup>1</sup>                   | 10,750,000         |
| Options offered pursuant to the Option Entitlement Issue <sup>1</sup> | 47,459,902         |
| <b>Total Options after completion of the Offers<sup>1</sup></b>       | <b>58,209,902</b>  |

Notes:

- Assumes that no Options currently on issue are exercised prior to the Record Date. Please see Section 4.5 for an outline of the Options on issue at the date of this Prospectus.

The Company is unable to determine how many of the Options will be exercised by Option Holders to enable them to participate in the Share Entitlement Issue and Option Entitlement Issue. Accordingly, the Company is unable to determine the total amount of funds that will be raised pursuant to the Offers and hence the effect on its capital structure.



## SECTION 4: PURPOSES AND EFFECT OF THE OFFERS (cont'd)

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### 4.5 Options

The Company currently has the following Options on issue as at the date of this Prospectus, which may be exercised by the Option Holder prior to the Record Date in order to participate in the Offers:

|                                                                      | Number     |
|----------------------------------------------------------------------|------------|
| Unquoted Options exercisable at \$0.30 each on or before 31 May 2012 | 10,750,000 |

## SECTION 5: RIGHTS AND LIABILITIES ATTACHING TO SECURITIES

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### 5.1 Terms of Shares

There is only one class of share on issue in the Company, being fully paid ordinary shares. The rights attaching to Shares are:

- (a) set out in the constitution of the Company; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares and of certain provisions of the Constitution. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

Full details of the rights and liabilities attaching to Shares are set out in the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

### Voting

Subject to any restriction on voting imposed due to a breach of the Listing Rules relating to restricted shares or any escrow agreement entered into by the Company and a member, every holder of Shares present in person or by proxy, attorney or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of Shares who is present in person or by proxy, attorney or representative has one vote for every Share held by him or her, but, in respect of partly-paid shares, shall have a fraction of a vote for each partly-paid share.

A poll may be demanded before a vote is taken, or before or immediately after the declaration of the result of the show of hands by the chairperson of the meeting, by at least five Shareholders present in person or by proxy, attorney or representative, or by any one or more Shareholders who are together entitled to not less than 5% of the total voting rights of all those Shareholders having the right to vote on the resolution.

### Dividends

Subject to the Corporations Act, the Constitution, the ASX Listing Rules and any rights or restrictions attached to a class of shares, the Company may, as resolved by the Directors, pay dividends out of the Company's profits. The Directors may determine the method and time for payment of the dividend.

### Transfer of Shares

Generally, shares are freely transferable, subject to satisfying the requirements of the ASX Listing Rules, ASTC Settlement Rules and the Corporations Act.

A Shareholder may transfer Shares by a market transfer in accordance with any computerised or electronic system established or recognised by ASX or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.

The Directors may refuse to register any transfer of Shares, other than a market transfer, where permitted or required by the Listing Rules, the ASTC Settlement Rules, the Corporations Act or under the Constitution. The Company must comply with such obligations as may be imposed on it by the Listing Rules and where appropriate the ASTC Settlement Rules in connection with any market transfer and may not prevent, delay or in any way interfere with the registration of a market transfer where to do so would be contrary to the provisions of any of the Listing Rules or the ASTC Settlement Rules.

### Meetings and Notice

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the Listing Rules.

Under the Corporations Act, a notice must currently be provided to the shareholders of a listed entity at least 28 days in advance of a meeting.

## SECTION 5: RIGHTS AND LIABILITIES ATTACHING TO SECURITIES (cont'd)

### Further issues of Shares

Subject to any restrictions on the allotment of Shares imposed by the Corporations Act, the Listing Rules or any special rights of the holders of Shares or a class of Shares, the allotment and issue of Shares is under the control of the Directors, who may issue and cancel shares on such terms and conditions as they see fit.

In addition, the Board has the power to grant to any person an option over unissued Shares for such consideration as it determines.

### Winding Up

Subject to the Corporations Act, the ASX Listing Rules, the Constitution and any rights and restrictions attached to a class of Shares, on a winding up of the Company any surplus must be divided among the Shareholders in proportion to the Shares held by them.

A liquidator may, with the sanction of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as the liquidator considers fair on any property to be divided, and may determine how the division is to be carried out as between the Shareholders. The liquidator may, with the sanction of a special resolution of the Shareholders, vest the whole or any part of the property in trustees on such trusts for the benefit of contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

### Shareholder Liability

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will, therefore, not become liable for forfeiture.

### Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at a general meeting. At least 28 days written notice specifying the nature of the resolution must be given.

### Indemnity

The Company (except as may be prohibited by Part 2D of the Corporations Act) indemnifies every officer, auditor and agent of the Company against any liability incurred by him or her in his or her capacity as officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring, or in defending any proceedings, whether civil or criminal.

## 5.2 Terms and Conditions of New Options

The 47,459,902 New Options forming part of the Option Entitlement Issue have the following terms and conditions:

a) *Exercise Price*

The exercise price of each Option is 35 cents.

b) *Entitlement*

Each Option shall entitle the holder the right to subscribe (in cash) for one Share in the capital of the Company.

c) *Option Period*

The Options will expire at 5.00pm WST on 18 November 2014 (**Expiry Date**). Subject to clause (g), Options may be exercised at any time prior to the expiry date and Options not exercised shall automatically expire on the Expiry Date.

## SECTION 5: RIGHTS AND LIABILITIES ATTACHING TO SECURITIES (cont'd)

d) *Ranking of Share Allotted on Exercise of Option*

Each Share allotted as a result of the exercise of any Option will, subject to the Constitution of the Company, rank in all respects *pari passu* with the existing Shares in the capital of the Company on issue at the date of allotment.

e) *Voting*

A registered owner of an Option (**Option Holder**) will not be entitled to attend or vote at any meeting of the members of the Company unless they are, in addition to being an Option Holder, a member of the Company.

f) *Transfer of an Option*

Options are transferrable at any time prior to the Expiry Date. This right is subject to any restrictions on the transfer of Options that may be imposed by the ASX in circumstances where the Company is listed on the ASX.

g) *Method of Exercise of an Option*

- (i) The Company will provide to each Option Holder a notice that is to be completed when exercising the Options (**Notice of Exercise of Options**). Options may be exercised by the Option Holder by completing the Notice of Exercise of Options and forwarding the same to the Company Secretary to be received prior to the Expiry Date. The Notice of Exercise of Options must state the number of Options exercised and the consequent number of ordinary shares in the capital of the Company to be allotted; which number of Options must be a multiple of 2,500 if only part of the Option Holder's total Options are exercised, or if the total number of Options held by an Option Holder is less than 2,500, then the total of all Options held by that Option Holder must be exercised.
- (ii) The Notice of Exercise of Options by an Option Holder must be accompanied by payment in full for the relevant number of shares being subscribed, being an amount of 35 cents (\$0.35) per Share.
- (iii) Subject to paragraph (g)(i) above, the exercise of less than all of an Option Holder's Options will not prevent the Option Holder from exercising the whole or any part of the balance of the Option Holder's entitlement under the Option Holder's remaining Options.
- (iv) Within 14 days from the date the Option Holder properly exercises Options held by the Option Holder, the Company shall issue and allot to the Option Holder that number of Shares in the capital of the Company so subscribed for by the Option Holder.
- (v) If the Company is listed on the ASX, the Company will within 3 business days from the date of issue and allotment of Shares pursuant to the exercise of an Option, apply to the ASX for, and use its best endeavours to obtain, Official Quotation of all such Shares, in accordance with the Corporations Act and the Listing Rules of the ASX.
- (vi) The Company will generally comply with the requirements of the Listing Rules in relation to the timetables imposed when quoted Options are due to expire. Where there shall be any inconsistency between the timetables outlined herein regarding the expiry of the Options and the timetable outlined in the Listing Rules, the timetable outlined in the Listing Rules shall apply.

(h) *ASX Quotation*

The Company will apply for quotation of the Options on the ASX.

(i) *Reconstruction*

In the event of a reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of the Option Holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital, at the time of the reconstruction.

## **SECTION 5: RIGHTS AND LIABILITIES ATTACHING TO SECURITIES (cont'd)**

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*(i) Participation in New Share Issues*

There are no participating rights or entitlements inherent in the Options to participate in any new issues of capital which may be made or offered by the Company to its shareholders from time to time prior to the expiry date unless and until the Options are exercised. The Company will ensure that during the exercise period, the record date for the purposes of determining entitlements to any new such issue, will be at least seven (7) business days after such new issues are announced (or such other date if required under the Listing Rules) in order to afford the Option Holder an opportunity to exercise the Options held by the Option Holder.

*(k) No Change of Options' Exercise Price or Number of Underlying Shares*

There are no rights to change the exercise price of the Options or the number of underlying Shares if there is a bonus issue to the holders of ordinary shares. If the Company makes a pro rata issue of securities (except a bonus issue) to the holders of ordinary shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the Option exercise price shall be reduced according to the formula specified in the Listing Rules.

## SECTION 6: RISK FACTORS

### 6.1 Introduction

The Securities offered under this Prospectus should be considered speculative because of the nature of the exploration activities of the Company. Potential investors should be aware that an investment in the Company involves risks which may be higher than the risks associated with other investments. Whilst the Directors recommend the Offers, potential investors should consider whether the Options offered is a suitable investment having regard to their own personal investment objectives and financial circumstances and the specific and general risk factors set out below.

Some of the major risks associated with an investment in the Company are outlined below. These risk factors are largely beyond the control of the Company and its Directors because of the nature of the proposed business of the Company.

The following list is not intended to be an exhaustive list of the risk factors to which the Company is exposed. The Securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, return on capital or the market value of those Securities. Potential investors should consider that the investment in the Company is speculative and consult their professional advisor before deciding whether to apply for Securities under this Prospectus.

### 6.2 Risks specific to the Company

The current and future operations of the Company, including exploration, appraisal and production activities, may be affected by a range of factors, including:

#### 6.2.1 Dependence on key personnel

Dragon Energy's future depends, in part, on its ability to attract and retain key personnel. It may not be able to hire and retain such personnel at compensation levels consistent with its existing compensation and salary structure. Its future also depends on the continued contributions of its executive management team and other key management and technical personnel, the loss of whose services would be difficult to replace. In addition, the inability to continue to attract qualified personnel could have a material adverse effect on Dragon Energy's business.

#### 6.2.2 No prior market for the New Options

Prior to the Option Entitlement Issue, there has been no public market for the Dragon Energy Options and there can be no assurance regarding the future development of the market for Dragon Energy Options. The Offer price of \$0.001 per Option has been determined after taking into consideration a number of factors, including but not limited to, the Company's financial history and operating conditions, the future prospects of the Company and the prospects for the industry in which Dragon Energy operates, the management of the Company and prevailing market conditions.

There can be no assurance that the Offer price for Options will correspond with the price at which Dragon Energy Options will trade on the ASX upon official quotation or that an active market for Dragon Energy Options will develop or, if developed, that such a market will be sustained.

#### 6.2.3 Insurance

The Company, where economically feasible, may insure its operations in accordance with industry practice. However, even if insurance is taken out, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company. Insurance of all risks associated with mineral exploration and production is not always available and where available the costs can be prohibitive.

#### 6.2.4 Reliance on third parties

The Company does not presently hold legal title to a number of the mining tenements in which it holds an interest, and its rights in respect of those mining tenements are held through its interest in applicable agreements. The Company is, therefore, reliant on third parties to comply with the terms and conditions of such agreements and conditions attaching to the mining tenements. Should the third parties breach the terms of these agreements or the conditions attaching to the mining tenements, the Company's rights in respect of the relevant mining tenements may be adversely affected.

## SECTION 6: RISK FACTORS (cont'd)

### *6.2.5 Joint venture parties, agents and contractors*

The Directors are unable to predict the risk of financial failure or default by a participant in any joint venture to which the Company is or may become a party or the insolvency or management failure by any of the contractors used by the Company in any of its activities or the insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

### *6.2.6 Potential control effect of the underwriting*

The Share Entitlement Issue is underwritten by the Shandon Group on the terms described in Sections 7.2 and 7.3 of this Prospectus. As set out in Section 7.3, if some of all of the Shareholders do not take up their Entitlement under the Share Entitlement Issue, and there is Shortfall, then the Share Entitlement Issue and the underwriting of the Share Entitlement Issue by the Shandon Group may have an effect on the control of the Company. Refer to Section 7.3 of this Prospectus for further details.

## **6.3 General mineral industry risks**

### *6.3.1 Exploration risks*

Exploration is a high risk activity that requires large amounts of expenditure over extended periods of time. There can be no guarantee that the Company's planned exploration programmes will lead to successful exploration results and the discovery of a commercial deposit or further, a commercial mining operation.

There is no assurance that exploration and development of the mineral interests owned by the Company, or any other projects that may be acquired by the Company in the future can be commercially exploited.

### *6.3.2 Metallurgy*

Mineral recoveries are dependent upon the metallurgical process and by its nature contain elements of significant risk such as:

- o identifying a metallurgical process through testwork to produce a saleable mineral and/or concentrate;
- o developing an economic process route to produce a viable mineral and/or concentrate; and
- o changes in mineralogy in the ore deposit can result in inconsistent recovery affecting the economic viability of the project.

### *6.3.3 Resources estimates*

Resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and mining plans which may, in turn, adversely affect the Company's operations.

### *6.3.4 Development and mining*

The operations of the Company may be affected by various factors including, but not limited to, failure to acquire and/or delineate economically recoverable ore bodies; failure to achieve predicted grades in exploration and mining; unfavourable geological conditions; failing to receive the necessary approvals from all relevant authorities and parties; unseasonal weather patterns; unanticipated technical and operational difficulties encountered in extraction and production activities; mechanical failure of operating plant and equipment; unanticipated metallurgical problems which may affect extraction costs; unexpected shortages or increase in the price of consumables, spare parts and plant and equipment; cost overruns; risk of access to the required level of funding and contracting risk from any third parties providing essential services.

In the event that the Company commences production, its operations may be disrupted by a variety of risks and hazards which are beyond its control, including environmental hazards, industrial accidents, technical failures, labour disputes, lack of skilled labour, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions and fires, explosions and other accidents.

## SECTION 6: RISK FACTORS (cont'd)

### 6.3.5 Commodity Price and Exchange Rate Risks

To the extent the Company is involved in mineral production the revenue derived through the sale of commodities may expose the potential income of the Company to commodity price and exchange rate risks. Commodity prices fluctuate and are affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations for precious and base metals, technological advancements, forward selling activities and other macro-economic factors.

Furthermore, international prices of various commodities are denominated in United States dollars, whereas the income and expenditure of the Company are and will be taken into account in Australian currency, exposing the Company to fluctuations and volatility of the rate of exchange between United States dollar and the Australian dollar as determined in international markets.

### 6.3.6 Native Title and access risks

The mining tenements in which the Company holds an interest extend over areas in which legitimate native title rights of indigenous Australians exist. The ability of the Company to gain access to some or all of the mining tenements and to conduct exploration development and mining operations remains subject to native title rights and the terms of registered native title agreements.

### 6.3.7 Environmental risk

The operations and activities of the Company are subject to State and Federal laws and regulations concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. The Company attempts to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

### 6.3.8 Title risks

Under the prospecting and exploration licences and certain other contractual agreements to which Dragon Energy is or may in the future become a party, Dragon Energy is or may become subject to payments, the mining lease and other obligations. In particular, holders of prospecting and exploration licences and mining leases are required to meet the prescribed expenditure conditions on those tenements. Failure to meet these expenditure commitments will render the licence liable to be forfeited unless a total or partial exemption is granted in accordance with the WA Mining Act or *Mineral Resources Act 1989* (Qld) (as applicable).

Further, there is no guarantee that current or future applications, extensions or renewals of the tenements in which the Company has an interest will be granted.

Even if Dragon Energy is entitled to seek an exemption from the requirement to meet expenditure requirements, it may nevertheless be the subject of an attempt by a third party to claim a failure to satisfy expenditure conditions which may need to be resolved through litigation. There is no guarantee that this will result in a satisfactory resolution to the Company.

### 6.3.9 Competition

The Company competes with other companies, including major mineral exploration and production companies. Some of these companies have greater financial and other resources than Dragon Energy and, as a result, may be in a better financial position to compete for future business opportunities. Many of the Company's competitors not only explore for and produce minerals, but also carry out refining operations and other productions on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

### 6.3.10 Failure to lodge a caveat

As the Company is not recorded as being registered as the holder of a legal interest in many of the mining tenements in which it holds an interest, the Company may be in a position, in certain cases, to lodge a caveat over the mining tenement to protect its interest. If the Company does not lodge a caveat, or delays in lodging a caveat, the Company's rights over a particular tenement/s may be detrimentally affected.

The Directors note that as at the date of this Prospectus, the Company had not lodged caveats in respect its rights over any of the mining tenements in which it holds an interest.

## SECTION 6: RISK FACTORS (cont'd)

### 6.4 General Risks

#### 6.4.1 Economic factors

Factors such as inflation, currency fluctuation, interest rates, supply and demand and industrial disruption have an impact on operating costs, commodity prices and stock market processes. The Company's operation and Share prices can be affected by these factors, which are beyond the control of the Company and its Directors. Domestic and world economic conditions may affect the performance of the Company. Factors such as rising or slowing demand for goods, inflation or interest rates could impact on sales, revenues and costs. In addition, exchange rate movements will affect revenues and expenses incurred in other currencies.

#### 6.4.2 Share market conditions

Stock market conditions may affect the value of listed securities, regardless of the operating performance of the Company. Stock market conditions are affected by many factors such as:

- general economic outlook;
- movements in, or outlook on, interest rates and inflation rates;
- currency fluctuation;
- commodity prices;
- changes in investor sentiment towards particular market sectors;
- the demand for, and supply of, capital;
- liquidity of the Company's Shares or Options; and
- terrorism or other hostilities.

Investors should recognise that once the Shares or New Options are listed on ASX, the price of the Shares or New Options may fall as well as rise. In addition, recent world events have affected the price of securities in various sectors. Such events are unpredictable and their impact on individual companies or markets is beyond the control of the Company. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

#### 6.4.3 Government factors

The introduction of new legislation or amendments to existing legislation by governments, and the decisions of courts and tribunals, can impact adversely on the assets, operations and, ultimately, the financial performance of the Company.

Any adverse developments in political and regulatory conditions in the countries in which the Company could conduct business, could materially affect the Company's prospects. Political changes, such as changes in both monetary and fiscal policies, expropriation, methods and rates of taxation and currency exchange controls may impact the performance of the Company as a whole.

#### 6.4.4 Future capital needs and additional funding

The future capital requirements of the Company will depend on many factors including its business development activities. The Company believes its available cash and the net proceeds of these Offers should be adequate to fund its business development activities, exploration program and other Company objectives in the short term as stated in this Prospectus.

Should the Company require additional funding there can be no assurance that additional financing will be available on acceptable terms, or at all. Any inability to obtain additional finance, if required, would have a material adverse effect on the Company's business and its financial condition and performance.

#### 6.4.5 Potential acquisitions

As part of its business strategy, the Company may make acquisitions of or significant investments in companies, products, technologies or resource projects. Any such future transaction would be accompanied by the risks commonly encountered in making acquisitions of companies, products, technologies or resource projects.



## SECTION 6: RISK FACTORS (cont'd)

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### 6.5 Speculative Nature of Investment

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Securities offered under this Prospectus.

Therefore, the Securities offered pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the Securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Securities.

## SECTION 7: ADDITIONAL INFORMATION

### 7.1 Continuous Disclosure Obligations

The Company is a “disclosing entity” (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's Securities.

This Prospectus is a “transaction specific prospectus”. In general terms “transaction specific prospectuses” are only required to contain information in relation to the effect of the issue of securities on a company and the rights and liabilities attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act, states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
  - (i) the financial statements of the Company for the financial year ended 30 June 2010 being the last financial statements for a financial year, of the Company lodged with the ASIC before the issue of this Prospectus;
  - (ii) any half year financial statements of the Company lodged with ASIC since the lodgement of the last financial statements for the year ended 30 June 2010 lodged with ASIC before the issue of this Prospectus; and
  - (iii) any documents used to notify ASX of information relating to the Company in the period from lodgement of the financial statements referred to in paragraph (i) above until the issue of the Prospectus in accordance with the Listing Rules as referred to in Section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgement of the 2010 audited financial statements:

## SECTION 7: ADDITIONAL INFORMATION (cont'd)

### 7.1 Continuous Disclosure Obligations (cont'd)

| Date       | Disclosure Notice Title                                                                 |
|------------|-----------------------------------------------------------------------------------------|
| 12/01/2011 | DLE announces underwritten \$21.4m Share Entitlement Issue and Option Entitlement Issue |
| 11/01/2011 | Lee Steere Project exploration update                                                   |
| 20/12/2010 | Securities Trading Policy                                                               |
| 29/11/2010 | Results of Meeting                                                                      |
| 29/10/2010 | Notice of Annual General Meeting/Proxy Form                                             |
| 29/10/2010 | Annual Report to shareholders                                                           |

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's website at [www.dragonenergyltd.com](http://www.dragonenergyltd.com).

### 7.2 Material Contracts

The following are summaries of the significant terms of the material agreements which relate to the business of the Company.

#### Underwriting Agreement

The Company has entered into a conditional Underwriting Agreement with Shandong Group (an entity registered in China and a substantial Shareholder of the Company) (**Underwriter**), pursuant to which the Underwriter agrees, subject to the Corporations Act and the Listing Rules, to underwrite the Share Entitlement Issue to a minimum of A\$18 million and a maximum of the full A\$21,356,956 (at the Underwriter's discretion).

There is no fee payable to the Underwriter in respect of the Underwriter's underwriting commitment, however the Company agrees to pay the Underwriter's reasonable legal fees incurred in connection with the Underwriting Agreement, this Prospectus and related matters. All other costs, charges and expenses of the Share Entitlement Issue including all reasonable out-of-pocket expenses of the Underwriter and of marketing and promoting the Share Entitlement Issue are to be paid by the Company provided such costs, charges and expenses (including legal fees) shall not exceed the sum of \$3,000.

The Company gives numerous warranties to the Underwriter under the Underwriting Agreement which are considered standard for an agreement of this nature. The Underwriting Agreement is also subject to a number of termination events which are also considered standard, but which include (without limitation):

- (a) anything of a material nature contained in this Prospectus is found to be or becomes false or materially misleading or there is a material omission from this Prospectus;
- (b) the Underwriter reasonably forms the view that a supplementary or replacement prospectus must be lodged with ASIC and the Company does not lodge a supplementary prospectus or a replacement prospectus (as the case may be) in the form and content and within the time reasonably required by the Underwriter or the Underwriter reasonably forms the view that a supplementary prospectus or a replacement prospectus may prejudice the Share Entitlement Issue;
- (c) six weeks (or such longer period as reasonably agreed by the parties) elapses after the date of issue of this Prospectus without permission having been granted by the ASX (subject to the usual conditions) for the New Shares to be quoted on the ASX;
- (d) the ASX 200 Index, the Dow Jones Index or the NASDAQ Index falls at least 15% below its level on the date of execution of the Underwriting Agreement; and
- (e) the Reserve Bank of Australia Official Cash Rate increases by 1.5% from its level on the date of execution of the Underwriting Agreement.

## SECTION 7: ADDITIONAL INFORMATION (cont'd)

### Underwriting Agreement (cont'd)

The current and potential voting power of the Underwriter as a result of its underwriting commitment is described in Section 7.3 below. The Underwriter is entitled to contract sub-underwriters with respect to its underwriting obligations and if this occurs, the Underwriter's potential increase in voting power as a result of the underwriting will be diluted.

### Loan Agreement

The Company entered into an unsecured Loan Agreement with Shandong Group (**Lender**) on 17 January 2011 pursuant to which the Lender agrees to advance an interest free loan of A\$3.5 million to the Company to be applied towards the acquisition of the Rocklea project (as announced to the market on 22 October 2010), new acquisitions and the Company's short term working capital requirements.

The Underwriter and the Company have agreed that, subject to the Corporations Act and the Listing Rules, the Loan shall be applied in full to the application moneys payable by the Underwriter for its Entitlement Shares and the Shortfall Shares.

### Rocklea Sale Agreement

On 19 October 2010, the Company entered into an agreement with Fortescue Resources Pty Ltd (**Fortescue**), Mr Mark Creasy and WA Exploration Services Pty Ltd (**Vendors**), pursuant to which the Company agreed to purchase 100% of the legal and beneficial interest in the Rocklea Project (comprising Exploration Licence 47/1024-I (**Tenement**) and related mining information) (**Rocklea Sale Agreement**).

In consideration for the acquisition of the Rocklea Project, the Company must pay the Vendors:

- (a) \$4,500,000 (excl GST) at completion;
- (b) on or before the first anniversary of the completion date, a further \$1,500,000 (excl GST); and
- (c) on or before the second anniversary of the completion date, a final payment of \$1,000,000 (excl GST).

The Vendors are entitled to require the Company to grant a registrable first ranking fixed charge over the Tenement in order to secure payment of the deferred component of the consideration. Until such time as the deferred consideration has been paid to the Vendors in full, the Company provides the following non-exhaustive covenants in favour of the Vendors:

- (d) to preserve the Tenement and maintain it in good standing;
- (e) not to sell, assign, sublease, transfer, Farmout or grant any rights to all or part of the Tenement or grant any mineral rights or split commodity rights in relation to the Tenement, without the Vendors' prior written consent; and
- (f) not to permit any new encumbrances in relation to the Tenement without the Vendors' prior written consent.

If any party defaults in the performance of the Rocklea Sale Agreement and such default continues unremedied for 14 days after receipt of a default notice, then the non-defaulting party or parties may rescind the Rocklea Sale Agreement and/or sue the defaulting party for specific performance.

The parties otherwise provide various representations and warranties to each other which are considered standard for an agreement of this nature.

## SECTION 7: ADDITIONAL INFORMATION (cont'd)

### 7.3 Current and Potential Voting Power of the Underwriter

The Shandong Group (as Underwriter) currently has a relevant interest in 81,000,000 Shares, representing 56.89% of the voting power in the Company. The Underwriter also has a relevant interest in 6,250,000 Unquoted Options in the Company. Pursuant to the terms of the Underwriting Agreement, the Underwriter has agreed to underwrite a minimum of \$18.0m and up to the full subscription amount of the Share Entitlement Issue (being \$21,356,956).

The potential effect that the issue of Shares under the Share Entitlement Issue will have on the control of the Company is as follows:

- (a) if all Shareholders take up all of the Entitlement under the Share Entitlement Issue, the percentage interest in the Shares of the Company held by the Underwriter (and any other major Shareholders) would not change and there would not be any effect on the control of the Company.
- (b) if some of all of the Shareholders do not take up their Entitlement under the Share Entitlement Issue, and there is Shortfall, then the Share Entitlement Issue may have an effect on the control of the Company as detailed below.

To comply with the requirement to disclose the Underwriter's potential voting power in the Company, the table below sets out various scenarios to indicate the effect of the Company's shareholding depending on the Shortfall (if any).

The potential maximum increase in the voting power of the Underwriter as a result of the underwriting is set out below and will only occur if no Shareholders take up their Share Entitlement under the Share Entitlement Issue. In the table below, it is assumed that the Underwriter will take up its full Entitlement as a Shareholder under the Share Entitlement Issue and no Options are exercised prior to the Record Date. Furthermore, it is assumed that the Underwriter will apply for all Shortfall under the Share Entitlement Issue and will not contract any sub-underwriters.

| Event/Date                                                          | Number of Shares held by Underwriter | Voting Power of Underwriter | Increase |
|---------------------------------------------------------------------|--------------------------------------|-----------------------------|----------|
| Date of Prospectus                                                  | 81,000,000                           | 56.89%                      | -        |
| After issue of Shares assuming maximum Shortfall to the Underwriter | 152,189,854                          | 71.26%                      | 14.37%   |
| After issue of Shares assuming 75% Shortfall to the Underwriter     | 144,517,391                          | 67.67%                      | 10.78%   |
| After issue of Shares assuming 50% Shortfall to the Underwriter     | 133,008,695                          | 62.28%                      | 5.93%    |
| After issue of Shares assuming 25% Shortfall to the Underwriter     | 124,377,174                          | 58.24%                      | 1.35%    |

### 7.4 Underwriter's intentions

The Underwriter has indicated that its intentions mentioned in this Section are based on the facts and information regarding the Company and the general business environment which are known to it as at the date of this Prospectus. Any future decisions will, of course, be reached by the Underwriter based on all material information and circumstances at the relevant time. Accordingly, if circumstances change or new information becomes available in the future, the Underwriter's intentions could change.

The Underwriter has informed the Company that on the facts and circumstances presently known to it, it is supportive of the Company's current direction. The Underwriter has indicated that it is presently willing to consider any proposals the Company's Board and management may put forward as to how the Underwriter could support and assist the Company towards its objectives.

The Underwriter has advised the Company that since it is presently supportive of the Company's current direction, the Underwriter does not currently intend to make any major changes to the Company's direction and objectives, and that other than as disclosed in this Prospectus, the Underwriter:

- (a) does not currently intend to make any significant changes to the Company's existing businesses;

## SECTION 7: ADDITIONAL INFORMATION (cont'd)

### 7.4 Underwriter's intentions (cont'd)

- (b) does not currently intend to inject further capital into the Company other than participating in the Offers and underwriting the Share Entitlement Issue;
- (c) does not currently intend to become involved in decisions regarding the future employment of the Company's present employees and contemplates that they will continue in the ordinary course of business;
- (d) does not currently intend for any property be transferred between the Company and the Underwriter or any person associated with the Underwriter;
- (e) does not currently intend to redeploy the fixed assets of the Company; and
- (f) does not currently intend to change the Company's existing financial or dividend policies.

The requirements of the Corporations Act and the Listing Rules in relation to conflicts of interest and "related party" transactions will apply in the event that the Underwriter is considered a related party of the Company.

The Underwriter will make decisions on its course of action in light of material facts and circumstances at the relevant times and after it receives appropriate legal and financial advice on such matters, where required, including in relation to any requirement for Shareholder approvals.

The statements reflect current intentions only as at the date hereof which may change as new information becomes available or circumstances change or with the passage of time.

### 7.5 Directors' Interests

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (i) the promotion or formation of the Company; or
- (ii) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers pursuant to this Prospectus; or
- (iii) the Offers pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the Company or Offers pursuant to this Prospectus.

Directors' interests in Securities of the Company at the date of this Prospectus are:

| Director                 | Shares     | Unquoted Options | Share Entitlement <sup>2,3</sup> | Option Entitlement <sup>2,4</sup> |
|--------------------------|------------|------------------|----------------------------------|-----------------------------------|
| Mr Jie Chen <sup>1</sup> | -          | -                | nil                              | nil                               |
| Mr Gang Xu               | 13,596,204 | -                | 6,798,104                        | 4,532,069                         |
| Mr Anthony Ho            | -          | 500,000          | nil                              | nil                               |
| Mr Qingyong Guo          | -          | -                | nil                              | nil                               |
| Mr Wenle Zeng            | 250,000    | 1,000,000        | 125,000                          | 83,333                            |

Notes:

- Mr Chen is the chairman of the Shandong Group (the Underwriter) which holds 81,000,000 Shares, and 6,250,000 Unquoted Options as at the date of this Prospectus.
- Assumes that the relevant Director does not exercise any Options held by that Director prior to the Record Date.
- Each of the Directors has indicated that they do not intend to subscribe for their Entitlement under the Share Entitlement Issue.
- Each of the Directors has indicated that it is their present intention to subscribe for their full Entitlement under the Option Entitlement Issue.

## SECTION 7: ADDITIONAL INFORMATION (cont'd)

### 7.5 Directors' Interests (cont'd)

The Constitution of the Company provides that the non-executive Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors and in default of agreement then in equal shares. The executive Director has a contract of employment with the Company.

The Company paid to the Directors a total of \$225,762 for the year ended 30 June 2009 and \$579,640 for the year ended 30 June 2010. In addition to the above, the Directors have been paid fees totalling \$332,266 from 1 July 2010 until the date of this Prospectus. Directors, companies associated with the directors or their associates are also reimbursed for all reasonable expenses properly incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

Townshend York Pty Ltd (**Townshend York**), a company associated with Mr Ho, provides company secretarial, accounting and consultancy services to the Company. Townshend York will be paid approximately \$15,000 for consultancy services in relation to this Prospectus. The Company paid to Townshend York a total of \$64,029 for the year ended 30 June 2009 and \$58,831 for the year ended 30 June 2010. In addition to the above, Townshend York has been paid fees totalling \$33,131 from 1 July 2010 until the date of this Prospectus.

### 7.6 Interests and Consents of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (ii) the promotion or formation of the Company; or
- (iii) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer pursuant to this Prospectus; or
- (iv) the Offer pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Offers pursuant to this Prospectus.

Pursuant to Section 716 of the Corporations Act, the Shandong Group has given and has not withdrawn its consent to being named as Underwriter to the Share Entitlement Issue in the Corporate Directory of this Prospectus in the form and context in which it is named. The Shandong Group has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

The Shandong Group will not be paid an underwriting fee. In the past two years, the Shandong Group has not been paid any fees by the Company.

Pursuant to Section 716 of the Corporations Act, Steinepreis Paganin has given, and has not withdrawn its consent to being named as solicitors to the Company in the Corporate Directory of this Prospectus in the form and context in which it is named. Steinepreis Paganin has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

Steinepreis Paganin act as Solicitors to the Company. Steinepreis Paganin will be paid approximately \$10,000 for services in relation to this Prospectus. Over the past two years, Steinepreis Paganin has been paid fees totalling \$14,395 (exclusive of GST and disbursements) for services provided to the Company.

## SECTION 7: ADDITIONAL INFORMATION (cont'd)

### 7.7 Legal Proceedings

There is no litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus.

### 7.8 Estimated Expenses of Offers

The estimated expenses of the Offers are as follows:

|                             | \$            |
|-----------------------------|---------------|
| ASIC fees                   | 2,068         |
| ASX fees                    | 40,783        |
| Legal expenses              | 10,000        |
| Printing and other expenses | 27,149        |
| <b>Total</b>                | <b>80,000</b> |

### 7.9 Market Price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

Highest: \$0.25 on 25 November 2010.

Lowest: \$0.20 on 20 October 2010.

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was \$0.205 on 17 January 2011.

### 7.10 Electronic Prospectus

Pursuant to Class Order 00/044, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the application form. If you have not, please phone the Company and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both.

The Company reserves the right not to accept an application form from a person if it has reason to believe that when that person was given access to the electronic application form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

### 7.11 Directors' Consent

Each of the Directors of Dragon Energy Ltd has consented to the lodgement of this Prospectus with the ASIC in accordance with Section 720 of the Corporations Act.

  
 Signed on behalf of  
 Dragon Energy Ltd  
 Gang Xu  
 Managing Director

## SECTION 8: DEFINITIONS

**Altera Joint Venture Agreement** means the joint venture agreement dated 28 October 2009 and deed of variation dated 28 April 2010 between the Company and Altera Resources Limited.

**Applicant** means a person who applies for Shares or Options under the Offers.

**ASIC** means the Australian Securities and Investments Commission.

**ASTC Settlement Rules** means the ASTC Settlement Rules issued by the ASX Settlement and Transfer Corporation Pty Limited.

**ASX** means the ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange as appropriate.

**Business Day** means a day on which trading takes place on the stock market of ASX.

**CHESS** means ASX Clearing House Electronic Sub-registry System.

**Closing Date** means the closing date of the Offers, being 5.00pm (WST) 16 February 2011.

**Company, Dragon or Dragon Energy** means Dragon Energy Ltd (ABN 38 119 992 175).

**Constitution** means the Company's Constitution as at the date of this Prospectus.

**Corporations Act** means the *Corporations Act* 2001 (Cth).

**Director** means a director of the Company at the date of this Prospectus.

**Dollar** or **\$** means Australian dollars.

**Dragon** or **Dragon Energy** means Dragon Energy Ltd (ABN 38 119 992 175).

**Expiry Date** means 17 February 2012.

**Issue** means the issue of Securities offered by this Prospectus.

**Listing Rules** or **ASX Listing Rules** means the Listing Rules of the ASX.

**New Option** means an option to acquire a Share at an exercise price of \$0.35 on or before 18 November 2014 on the terms set out in Section 5.2 of this Prospectus.

**New Share** means a Share offered pursuant to the Share Entitlement Issue.

**Offers** means the offer of Securities pursuant to this Prospectus, consisting of the Share Entitlement Issue and Option Entitlement Issue.

**Option** means an option to acquire a Share and where the context permits means the Options the subject of the Offers.

**Option Entitlement** means the entitlement of a Shareholder who is eligible to participate in the Option Entitlement Issue.

**Option Entitlement and Acceptance Form** means the entitlement issue application form relating to the Option Entitlement Issue either attached to or accompanying this Prospectus.

**Option Entitlement Issue** means the offer pursuant to the Prospectus of 1 New Option for every 3 Shares held by a Shareholder on the Record Date to raise \$47,460.

**Option Holder** means a person who holds Options as at the date of the Prospectus.

**Option Shortfall Application Form** means the shortfall application form attached to or accompanying this Prospectus.

## SECTION 8: DEFINITIONS (cont'd)

**Polaris Joint Venture Agreement** means the joint venture agreement dated 29 March 2010 between the Company and Polaris Metals NL.

**Prospectus** means this prospectus.

**Record Date** means 5pm (WST) on 28 January 2011.

**Securities** means Shares and Options.

**Shandong Group** means Shandong Taishan Sunlight Group Company Ltd (Registration Number 370000400003967).

**Share** means a fully paid ordinary share in the capital of the Company and where the context permits means the Shares the subject of the Offers.

**Shareholder** means a shareholder of the Company.

**Share Entitlement** means the entitlement of a Shareholder who is eligible to participate in the Share Entitlement Issue.

**Share Entitlement and Acceptance Form** means the entitlement issue application form relating to the Share Entitlement Issue either attached to or accompanying this Prospectus.

**Share Entitlement Issue** means the offer pursuant to the Prospectus of 1 New Share for every 2 Shares held by a Shareholder on the Record Date to raise \$21,356,956.

**Share Registry** means Computershare Investor Services Pty Limited (ABN 48 078 279 277).

**Shortfall Options** means those Options under the Option Entitlement Issue not applied for by Shareholders under their Option Entitlement.

**Shortfall Shares** means those Shares under the Share Entitlement Issue not applied for by Shareholders under their Share Entitlement.

**Underwriter** means Shandong Group.

**Unquoted Option** means an option exercisable at \$0.30 each on or before 31 May 2012 which is not quoted on ASX.

**WST** means Western Standard Time.

**DRAGON ENERGY LTD**

ACN 119 992 175

**REGISTERED OFFICE:** Suite 8, 1297 Hay Street  
WEST PERTH WA 6005  
Tel: (61-8) 9322 6009 Fax: (61-8) 9322 6128

**POSTAL ADDRESS:** PO Box 1968  
WEST PERTH WA 6872

**APPLICANT'S DETAILS:**

Full name (PLEASE PRINT)

Title, Given Name(s) & Surname or Company Name

[illegible]

Joint Applicant #2 or <designated account>

[illegible]

Joint Applicant #3 or <designated account>

[illegible]

Postal Address (PLEASE PRINT)

| Street Number | Street       |
|---------------|--------------|
| 1             | 1st Street   |
| 2             | 2nd Street   |
| 3             | 3rd Street   |
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| 100           | 100th Street |

[illegible][illegible]

Suburb/Town

State

Post Code

[illegible]

ABN, Tax File Number or Exemption

### Applicant #2

Applicant #3

|  |  |  |  |
|--|--|--|--|
|  |  |  |  |
|--|--|--|--|

CHES HIN or Existing SRN (where applicable)

[illegible]

|                               |                                                  |
|-------------------------------|--------------------------------------------------|
| Number of Options applied for | Application Money enclosed at \$0.001 per Option |
|                               | A\$.....                                         |

I/We whose full name(s) and address appear above hereby apply for the number of Options shown above (to be allocated to me/us by the Company in respect of this Application) under the Prospectus on the terms set out in the Prospectus.

Cheque Details:

PLEASE ENTER  
CHEQUE  
DETAILS  
THANKYOU

| Drawer | Bank | BSB or Branch | Amount |
|--------|------|---------------|--------|
|        |      |               |        |

My/Our contact numbers in the case of inquiry are:

Telephone (    ) .....

Fax ( ) .....

NOTE: Cheques should be made payable to "Dragon Energy Ltd – Subscription Account", crossed "NOT NEGOTIABLE" and forwarded to the address outlined on the back of this Shortfall Application Form to arrive no later than **5.00 pm WST on that date which is 3 months after the Closing Date (or such earlier date as directed by the Company)**.

## Declaration

**This Shortfall Application Form does not need to be signed. By lodging this Shortfall Application Form and a cheque for the application money this Applicant hereby:**

- (1) applies for the number of Options specified in the Shortfall Application Form or such lesser number as may be allocated by the Directors;
- (2) agrees to be bound by the Constitution of the Company; and
- (3) authorises the Directors to complete or amend this Shortfall Application Form where necessary to correct any errors or omissions.

## INSTRUCTIONS TO APPLICANTS

Please post or deliver the completed Shortfall Application Form together with a cheque to the share registry of the Company. If an Applicant has any questions on how to complete this Shortfall Application Form, please telephone the Company. The Form must be received by the Share Registry no later than **5.00pm on the date which is 3 months after the Closing Date (or such earlier date as directed by the Company)**.

### A. Application for Options

The Shortfall Application Form must only be completed in accordance with instructions included in the Prospectus.

### B. Name of Applicant

Write the Applicant's FULL NAME. This must be either an individual's name or the name of a company. Please refer to the bottom of this page for the correct form of registrable title. Applications using the incorrect form of registrable title may be rejected.

### C. Name of Joint Applicants or Account Designation

If JOINT APPLICANTS are applying, up to three joint Applicants may register. If applicable, please provide details of the Account Designation in brackets. Please refer to the bottom of this page for instructions on the correct form of registrable title.

### D. Address

Enter the Applicant's postal address for all correspondence. If the postal address is not within Australia, please specify Country after City/Town.

### E. Contact Details

Please provide a contact name and daytime telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Shortfall Application Form.

### F. CHES HIN or existing SRN Details

The Company participates in CHES. If the Applicant is already a participant in this system, the Applicant may complete this section with their existing CHES HIN. If the applicant is an existing shareholder with an Issuer Sponsored account, the SRN for this existing account may be used. Otherwise leave the section blank and the Applicant will receive a new Issuer Sponsored account and statement.

### G. Cheque Details

Make cheques payable to "Dragon Energy Ltd – Subscription Account" in Australian currency and cross them **"Not Negotiable"**. Cheques must be drawn on an Australian Bank. The amount of the cheque should agree with the amount shown on the Shortfall Application Form.

### H. Declaration

By completing the Shortfall Application Form, the Applicant will be taken to have made to the Company the declarations and statements therein. The Shortfall Application Form does not need to be signed.

If a Shortfall Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors as to whether to accept a Shortfall Application Form, and how to construe, amend or complete it, shall be final. A Shortfall Application Form will not however, be treated as having offered to subscribe for more Options than is indicated by the amount of the accompanying cheque.

**Forward your completed application together with the application money to:**

**Dragon Energy Ltd  
Suite 8, 1297 Hay Street  
WEST PERTH WA 6005**

**Dragon Energy Ltd  
PO Box 1968  
WEST PERTH WA 6872**

## CORRECT FORMS OF REGISTRABLE TITLE

Note that ONLY legal entities are allowed to hold securities. Shortfall Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. Shortfall Application Forms cannot be completed by persons under 18 years of age. Examples of the correct form of registrable title are set out below.

| Type of Investor                                                                                          | Correct Form of Registration                                          | Incorrect Form of Registration                   |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|--------------------------------------------------|
| Individual Use given names in full, not initials                                                          | Mr John Alfred Smith                                                  | J A Smith                                        |
| Company Use the company's full title, not abbreviations                                                   | ABC Pty Ltd                                                           | ABC P/L or ABC Co                                |
| Joint Holdings Use full and complete names                                                                | Mr Peter Robert Williams & Ms Louise Susan Williams                   | Peter Robert & Louise S Williams                 |
| Trusts Use the trustee(s) personal name(s).                                                               | Mrs Susan Jane Smith <Sue Smith Family A/C>                           | Sue Smith Family Trust                           |
| Deceased Estates Use the executor(s) personal name(s).                                                    | Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>      | Estate of late John Smith or John Smith Deceased |
| Minor (a person under the age of 18) Use the name of a responsible adult with an appropriate designation. | Mr John Alfred Smith <Peter Smith A/C>                                | Master Peter Smith                               |
| Partnerships Use the partners personal names.                                                             | Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C> | John Smith and Son                               |
| Long Names.                                                                                               | Mr John William Alexander Robertson-Smith                             | Mr John W A Robertson-Smith                      |
| Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s).                         | Mr Michael Peter Smith <ABC Tennis Association A/C>                   | ABC Tennis Association                           |
| Superannuation Funds Use the name of the trustee of the fund.                                             | Jane Smith Pty Ltd <Super Fund A/C>                                   | Jane Smith Pty Ltd Superannuation Fund           |

# Appendix 3B

## New issue announcement, application for quotation of additional securities and agreement

*Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.*

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003, 24/10/2005.

Name of entity

**DRAGON ENERGY LTD**

ABN

**38 119 992 175**

We (the entity) give ASX the following information.

### Part 1 - All issues

*You must complete the relevant sections (attach sheets if there is not enough space).*

- |   |                                                                                                                                                                                                                                              |                                                                                                                                        |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 1 | +Class of +securities issued or to be issued                                                                                                                                                                                                 | <b>Shares and Options.</b>                                                                                                             |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued                                                                                                                                                | <b>71,189,854 Shares pursuant to the Share Entitlement Issue; and<br/>47,459,902 Options pursuant to the Option Entitlement Issue.</b> |
| 3 | Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion) | <b>Fully paid ordinary shares; and<br/>Options exercisable at \$0.35 each on or before 18 November 2014.</b>                           |

+ See chapter 19 for defined terms.

**Appendix 3B**  
**New issue announcement**

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| <p>4 Do the <sup>+</sup>securities rank equally in all respects from the date of allotment with an existing <sup>+</sup>class of quoted <sup>+</sup>securities?</p> <p>If the additional securities do not rank equally, please state:</p> <ul style="list-style-type: none"> <li>• the date from which they do</li> <li>• the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment</li> <li>• the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment</li> </ul> | <p><b>Yes.</b></p> <p><b>Options – No. Options over unissued shares may only be exercised in accordance with their terms and conditions. Upon conversion of the options to shares, the shares will rank equally with existing shares.</b></p> <p><b>Shares and Options are expected to be quoted on a deferred settlement basis on 17 February 2011.</b></p>                                                                                         |        |                    |             |                                    |            |                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------------------|-------------|------------------------------------|------------|--------------------------------------------------------------------------|
| <p>5 Issue price or consideration</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p><b>\$0.30 per Share; and<br/>\$0.001 per Option.</b></p>                                                                                                                                                                                                                                                                                                                                                                                          |        |                    |             |                                    |            |                                                                          |
| <p>6 Purpose of the issue<br/>(If issued as consideration for the acquisition of assets, clearly identify those assets)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p><b>Funds raised from the Offers will be applied to the settlement of the acquisition of the Rocklea Project and exploration and evaluation programmes, focussing on the Company's Rocklea and Nameless Projects.</b></p>                                                                                                                                                                                                                          |        |                    |             |                                    |            |                                                                          |
| <p>7 Dates of entering <sup>+</sup>securities into uncertificated holdings or despatch of certificates</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <p><b>On or around 24 February 2011.</b></p>                                                                                                                                                                                                                                                                                                                                                                                                         |        |                    |             |                                    |            |                                                                          |
| <p>8 Number and <sup>+</sup>class of all <sup>+</sup>securities quoted on ASX (including the securities in clause 2 if applicable)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <table> <tr> <th data-bbox="686 1411 989 1478">Number</th><th data-bbox="989 1411 1291 1478"><sup>+</sup>Class</th></tr> <tr> <td data-bbox="686 1478 989 1545">213,569,561</td><td data-bbox="989 1478 1291 1545"><b>Fully paid ordinary shares.</b></td></tr> <tr> <td data-bbox="686 1545 989 1697">47,459,902</td><td data-bbox="989 1545 1291 1697"><b>Options exercisable at \$0.35 each on or before 18 November 2014.</b></td></tr> </table> | Number | <sup>+</sup> Class | 213,569,561 | <b>Fully paid ordinary shares.</b> | 47,459,902 | <b>Options exercisable at \$0.35 each on or before 18 November 2014.</b> |
| Number                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <sup>+</sup> Class                                                                                                                                                                                                                                                                                                                                                                                                                                   |        |                    |             |                                    |            |                                                                          |
| 213,569,561                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Fully paid ordinary shares.</b>                                                                                                                                                                                                                                                                                                                                                                                                                   |        |                    |             |                                    |            |                                                                          |
| 47,459,902                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Options exercisable at \$0.35 each on or before 18 November 2014.</b>                                                                                                                                                                                                                                                                                                                                                                             |        |                    |             |                                    |            |                                                                          |

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<sup>+</sup> See chapter 19 for defined terms.

|    |                                                                                                                                     |                |                                |
|----|-------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| 9  | Number and <sup>+</sup> class of all <sup>+</sup> securities not quoted on ASX (including the securities in clause 2 if applicable) | Number         | <sup>+</sup> Class             |
|    |                                                                                                                                     | 10,750,000     | Restricted unquoted options.   |
|    |                                                                                                                                     | 400,000        | Unrestricted unquoted options. |
| 10 | Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)                                  | Not Applicable |                                |

## Part 2 - Bonus issue or pro rata issue

|    |                                                                                                                                                                                                                                                         |                                                                                                                                                                                |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11 | Is security holder approval required?                                                                                                                                                                                                                   | No                                                                                                                                                                             |
| 12 | Is the issue renounceable or non-renounceable?                                                                                                                                                                                                          | Share Entitlement Issue: Non-renounceable; and<br>Option Entitlement Issue: Non-renounceable.                                                                                  |
| 13 | Ratio in which the <sup>+</sup> securities will be offered                                                                                                                                                                                              | Pursuant to the Share Entitlement Issue, one new share for every two shares held; and<br>Pursuant to the Option Entitlement Issue, one new option for every three shares held. |
| 14 | <sup>+</sup> Class of <sup>+</sup> securities to which the offer relates                                                                                                                                                                                | Share Entitlement Issue: Fully paid ordinary shares (Shares); and<br>Option Entitlement Issue: Options exercisable at \$0.35 each on or before 18 November 2014 (Options).     |
| 15 | <sup>+</sup> Record date to determine entitlements                                                                                                                                                                                                      | 28 January 2011                                                                                                                                                                |
| 16 | Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?                                                                                                                                                      | No                                                                                                                                                                             |
| 17 | Policy for deciding entitlements in relation to fractions                                                                                                                                                                                               | Rounded up to the next whole number                                                                                                                                            |
| 18 | Names of countries in which the entity has <sup>+</sup> security holders who will not be sent new issue documents<br><br><small>Note: Security holders must be told how their entitlements are to be dealt with.<br/>Cross reference: rule 7.7.</small> | Not Applicable                                                                                                                                                                 |
| 19 | Closing date for receipt of acceptances or renunciations                                                                                                                                                                                                | 16 February 2011                                                                                                                                                               |

<sup>+</sup> See chapter 19 for defined terms.

**Appendix 3B**  
**New issue announcement**

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|    |                                                                                                                                                             |                                                                                           |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| 20 | Names of any underwriters                                                                                                                                   | <b>Shandong Taishan Sunlight Group Company Ltd (Registration Number 370000400003967).</b> |
| 21 | Amount of any underwriting fee or commission                                                                                                                | <b>Nil.</b>                                                                               |
| 22 | Names of any brokers to the issue                                                                                                                           | <b>Not Applicable</b>                                                                     |
| 23 | Fee or commission payable to the broker to the issue                                                                                                        | <b>Not Applicable</b>                                                                     |
| 24 | Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of <sup>+</sup> security holders                             | <b>Not Applicable</b>                                                                     |
| 25 | If the issue is contingent on <sup>+</sup> security holders' approval, the date of the meeting                                                              | <b>Not Applicable</b>                                                                     |
| 26 | Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled                                        | <b>2 February 2011</b>                                                                    |
| 27 | If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders | <b>18 January 2011</b>                                                                    |
| 28 | Date rights trading will begin (if applicable)                                                                                                              | <b>Not Applicable</b>                                                                     |
| 29 | Date rights trading will end (if applicable)                                                                                                                | <b>Not Applicable</b>                                                                     |
| 30 | How do <sup>+</sup> security holders sell their entitlements <i>in full</i> through a broker?                                                               | <b>Not Applicable.</b>                                                                    |

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<sup>+</sup> See chapter 19 for defined terms.

|    |                                                                                                                          |                         |
|----|--------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 31 | How do <sup>+</sup> security holders sell <i>part</i> of their entitlements through a broker and accept for the balance? | <b>Not Applicable.</b>  |
| 32 | How do <sup>+</sup> security holders dispose of their entitlements (except by sale through a broker)?                    | <b>Not Applicable.</b>  |
| 33 | <sup>+</sup> Despatch date                                                                                               | <b>24 February 2011</b> |

## Part 3 - Quotation of securities

*You need only complete this section if you are applying for quotation of securities*

34 Type of securities  
(tick one)

(a) ☒ Securities described in Part 1

(b) ☐ All other securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

### Entities that have ticked box 34(a)

#### Additional securities forming a new class of securities

*Tick to indicate you are providing the information or documents*

35 ☐ If the <sup>+</sup>securities are <sup>+</sup>equity securities, the names of the 20 largest holders of the additional <sup>+</sup>securities, and the number and percentage of additional <sup>+</sup>securities held by those holders

36 ☐ If the <sup>+</sup>securities are <sup>+</sup>equity securities, a distribution schedule of the additional <sup>+</sup>securities setting out the number of holders in the categories  
1 - 1,000  
1,001 - 5,000  
5,001 - 10,000  
10,001 - 100,000  
100,001 and over

37 ☐ A copy of any trust deed for the additional <sup>+</sup>securities

### Entities that have ticked box 34(b)

**Questions 38 to 42 - Not Applicable**

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<sup>+</sup> See chapter 19 for defined terms.

**Quotation agreement**

1        +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2        We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those +securities should not be granted +quotation.
- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.
- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3        We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4        We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.

Sign here: ..... Date: **18 January 2011**  
**(Managing Director)**

Print name:        **Gang Xu**

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+ See chapter 19 for defined terms.