



20 January 2011

Dear Shareholder

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

Dragon Energy Ltd (**Dragon Energy**) is undertaking a pro rata non-renounceable entitlement issue of shares on the basis of one (1) New Share for every two (2) Shares held at the record date at an issue price of \$0.30 per New Share (**Share Entitlement Issue**). The Company also undertaking a pro rata non-renounceable entitlement issue of New Options on the basis of one (1) New Option for every three (3) Shares held at the record date at an issue price of \$0.001 per Option (**Option Entitlement Issue**). Together, the Share Entitlement Issue and Option Entitlement Issue will raise up to \$21.4 million (the **Offers**).

Based on the Company's current issued capital the Offers will result in 71,189,854 New Shares being issued and 47,459,902 New Options being issued. The New Options will be exercisable at \$0.35 each on or before 18 November 2014.

The Prospectus relating to this issue has been lodged with the Australian Securities and Investments Commission and ASX and is available on the ASX website for inspection. The timetable and important dates of the Offers are set out below:

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 at 5:00pm WST
Prospectus sent to Shareholders and Opening Date of Offers	2 February 2011
Closing Date of Offers	16 February 2011 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.

ACN 119 992 175

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



The capital structure of the Company on completion of the Offers will be as follows (assuming the Offers are fully subscribed):

Shares	Number
Shares on issue at date of Prospectus	142,379,707
Shares offered pursuant to the Share Entitlement Issue	71,189,854
Total Shares after completion of the Offers	213,569,561

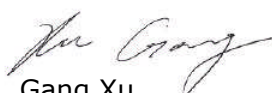
Options	Number
Options on issue at date of Prospectus	11,150,000
Options offered pursuant to the Option Entitlement Issue	47,459,902
Total Options after completion of the Offers	58,609,902

In calculating entitlements under the Offers fractions will be rounded up to the nearest whole number.

Full details of the Offers will be contained in the Prospectus that will be mailed to all shareholders who are registered on the Record Date. Shareholders eligible to participate should read the Prospectus carefully.

If you have any questions in relation to the Offers, please do not hesitate to contact the Company Secretary, Ms Karen Logan, on (61-8) 6389 2688.

Yours faithfully



Gang Xu
Managing Director