



ACN 119 992 175

ANNUAL REPORT

for the year ended 30 June 2013



C O R P O R A T E D I R E C T O R Y

Directors

Mr Jie Chen	Chairman
Mr Gang Xu	Managing Director
Mr Rodney Illingworth	Non-Executive Director
Mr Weifeng Li	Non-Executive Director

Company Secretary

Mr Leonard Math
Mr Ziming Yan

**Principal Place of Business and
Registered Office**

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West Perth, Western Australia, 6005

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Facsimile: + 61 8 9322 6128

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Auditor

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

Solicitor

Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
Perth, Western Australia, 6000

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia, 6000

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ASX Limited
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Perth, Western Australia, 6000

ASX Code: DLE
: DLEO



MANAGING DIRECTOR'S LETTER

Dear Shareholders,

It gives me great pleasure to present to you the Annual Report for the year ended 30 June 2013.

Dragon Energy Ltd's operations were focussed throughout the year on the ongoing transformation from an exploration and early scoping stage company, to a fully-fledged iron ore project developer and ultimately a producer.

Dragon acquired Ausquest Limited's Rocklea Project in 2010 and consolidated the project with the acquisition of Murchison Metals Limited's Rocklea Iron Ore Project in August 2012, for a cash consideration of \$3.2m. Murchison Metal's project is located directly adjacent to Dragon's deposit which was updated in 2012 with an Indicated and Inferred Mineral JORC Resource of 93.59Mt @ 52.19% Fe (59.16% caFe), using a 50% Fe cut-off grade. The consolidation of the Rocklea Project brings together the two halves of the Rocklea Channel Iron Mineralisation into one single ore-body. This consolidation substantially increased the Indicated and Inferred Mineral Resource to 182.6Mt @ 52.7% Fe (59.5% caFe).

Also, in July 2012 the Company announced a maiden Inferred JORC Resource of the Nameless Project of 81Mt @ 52.39% Fe (57.08% caFe). This increased the Company's Pilbara Iron Project Indicated and Inferred Mineral Resource to 263.6Mt @ 52.6% Fe (58.8% caFe), using a 50% Fe cut-off grade.

Dragon's transformation continued with securing a mining lease (M47/1471) over the Rocklea Central and Rocklea North deposits. The lease was granted in May 2013 following the execution of a Native Title Mining Agreement with the Yinhawanka Part A claimant group. On behalf of the Board, I would like to thank the Yinhawangka People for giving us the opportunity to work with them to develop the Pilbara Iron Project, and at the same time providing opportunities to their community.

While the focus of the Company is the development of the Pilbara Iron Project, we are committed to pursuing new discoveries. During the year we entered into an Ashburton Project joint venture with Shandong Energy and Shandong Lunan. Both Shandong Energy and Shandong Lunan will jointly fund A\$2,000,000 of exploration to earn a combined interest of up to 65%. As of this date, year one exploration commenced with a surface geochemistry study and the DMP's approval for a drilling programme. The Ashburton Project is located in the Ashburton Basin, south of the Pilbara Region in Western Australia. The project is prospective for iron, base metals and/or gold mineralisation.

We have also entered into an agreement with Iron West Resources Pty Ltd ("Iron West"), a wholly owned subsidiary of Golden West Resources Limited ("GWR") to farm out up to 55% interest in the Lee Steere Project. Under the terms of the farm-in agreement, Iron West can earn a 55% interest in the project by spending approximately A\$854,000 on exploration and making a payment of A\$200,000 to Dragon in cash or shares in GWR. We believe GWR will be an excellent partner of the advancement of the Lee Steere Project.

At the corporate level, I am very pleased that both Mr Rodney Illingworth and Mr Weifeng Li joined the Board of Dragon in September 2013.

Mr Illingworth has a wealth of experience in project development in remote areas, management of capital projects, and negotiating indigenous land use agreements with communities throughout Western Australia and the Northern Territory; while Mr Li has over twenty years' experience in resource planning and technical services including strategic planning, business planning and budgeting for mine operations. He has undertaken LOM studies, project evaluation, pre-feasibility studies and feasibility studies on over 100 open pits and underground mines including a number of world-class deposits in iron ore, nickel and gold.

Their appointments are critical to Dragon as their rich, practical knowledge and experience will assist the Company significantly in advancing our Pilbara Iron Project.



MANAGING DIRECTOR'S LETTER

Sadly, Mr Timothy Williams resigned as Chief Operating Officer / Executive Director. Since joining the Company in early 2012, his efforts have led to the successful negotiation of native title agreement and a good understanding of project infrastructure and approval requirements. On behalf of the Board, I thank Tim for his contributions and wish him well in his future endeavours.

Despite the volatility in iron ore spot prices and the world economy, we remain positive in the iron ore market and confident in the long term viability of our Pilbara Iron Project. The year ahead will see Dragon continue to advance the Pilbara Iron Project including finalising transport options.

The Board believes that Dragon will successfully complete the transition from project developer to producer in the coming years, and I invite you to continue to share in that vision for the journey ahead.

A handwritten signature in black ink, appearing to read 'Mr Gang Xu'.

Mr Gang Xu
Managing Director

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Dragon Energy Ltd (the **Company** or **Dragon Energy**) for the year ended 30 June 2013 and the auditor's report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Mr Jie Chen (Age:51)

Executive Chairman

Special Responsibilities: Executive Chairman
Member of the Nomination and Remuneration Committee
Member of the Audit and Risk Committee

Mr Chen has over 30 years of operational and management experience in the mining industry in the People's Republic of China (**PRC**). He started his mining and management career in 1979 with a large China state-owned coal mining enterprise in the PRC. Mr Chen was the former chairman of the Shandong Taishan Sunlight Group Company Limited (**Shandong Group**) since 2002. Under his leadership, the Shandong Group formed three vertically integrated businesses in coal, iron ore mining, processing and manufacturing with operations in Shandong, Guizhou, Ningxia and Xinjiang. The coal mine under his management holds a safety record of over 5,000 days with no fatality.

Mr Chen has a Masters degree in economics and is currently working on a doctorate degree in mine engineering with the China University of Mining and Technology. He has received numerous distinguished awards at provincial and national levels for his achievements in entrepreneurship and leadership including being one of the 10 excellent entrepreneurs in Shandong Province, top 20 best mine managers in the PRC and PRC's excellent entrepreneur.

Mr Gang Xu (Age:49)

Managing Director

Special Responsibilities: Managing Director
Member of the Audit and Risk Committee

Mr Xu is a geologist with over 20 years' experience in the mining and energy industry. He spent 9 years as a senior exploration geologist with the China National Nuclear Corporation (CNNC) which explored for uranium in eastern and northern China. Mr Xu was also the Finance and Marketing Manager for Sino Gold Limited which developed the first international standard mining operation in the PRC. In addition to his technical skills and experience in exploration and mining, he has significant diverse experience in business research, marketing and finance.

Mr Xu completed his Masters of Business Administration in the United States in 1997. He also completed his Masters of Geology in the PRC. He is a member of AusIMM.

Mr Weifeng Li (Age:59) - Independent

Non-Executive Director – appointed 1 September 2013

Special Responsibilities: Chairman of the Nomination and Remuneration Committee
Member of the Audit and Risk Committee

Mr Li has previously held senior mine engineering positions with Mt Gibson Iron, KCGM, Sons of Gwalia Limited and WMC and has over twenty years' experience in resource planning and technical services including strategic planning, business planning and budgeting for mine operations. He has undertaken LOM Studies, project evaluation, pre-feasibility studies and feasibility studies over 100 open pits and underground mines including a number of world-class deposits in Iron Ore, Nickel and Gold.

Mr Li is currently a non-executive director of ASX Listed Sherwin Iron Limited ASX: (SHD).

DIRECTORS' REPORT (cont'd)

Mr Rodney Illingworth (Age:45) - Independent

Non-Executive Director – appointed 1 September 2013

Special Responsibilities: Chairman of the Audit and Risk Committee
Member of the Nomination and Remuneration Committee

Mr Illingworth has a wealth of experience in project development in remote areas, management of capital projects, and negotiating indigenous land use agreements with communities throughout Western Australia and the Northern Territory.

Mr Illingworth has dealt with governments at all levels implementing and obtaining approvals for project development and conservation plans. He has many years of corporate experience in both private and public companies in various businesses based in Northern Western Australia and the Northern Territory.

Mr Illingworth is currently an executive director of ASX Listed Sherwin Iron Limited (ASX: SHD).

Mr Timothy Williams (Executive Director & Chief Operating Officer) – Resigned 31 August 2013.

JOINT COMPANY SECRETARIES

Mr Leonard Math – Appointed 1 July 2013

Mr Leonard Math graduated from Edith Cowan University, majoring in Accounting and Information Systems in 2003 and is a member of the Institute of Chartered Accountants. He is also a member of the Australian Institute of Company Directors. In 2005 Mr Leonard Math worked in the audit division at Deloitte before joining GDA Corporate. He is currently the Manager for Corporate Services at GDA Corporate.

His public company responsibilities include corporate compliance roles, including extensive liaison with ASX and ASIC, control and implementation of corporate governance, completion of annual financial reports and auditor liaison, and shareholder relations with registry and shareholders both retail and institutional.

He is also the Company Secretary of ASX listed Mako Hydrocarbons Ltd, Elemental Minerals Limited, Ishine International Resources Ltd, Padbury Mining Ltd, RMA Energy Limited and Global Gold Holdings Limited.

Mr Math is currently a non-executive director of ASX Listed Kangaroo Resources Limited (ASX: KRL)

Mr Ziming Yan – Appointed 1 July 2013

Mr Yan graduated from Edith Cowan University with a Master of International Business degree, and he also has a Bachelor of Accounting degree with Adelaide University. He has been a staff member of Dragon energy since 2011.

Mr Anthony Ho resigned as Company Secretary on 30 June 2013.

D I R E C T O R S ' R E P O R T (c o n t ' d)

DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship	
		From	To
Mr J Chen	Nil	-	-
Mr G Xu	Nil	-	-
Mr W Li**	Sherwin Iron Limited	20/01/12	-
Mr R Illingworth**	Sherwin Iron Limited	20/01/12	-
Mr T Williams*	Nil	-	-

* Resigned 31 August 2013

**Appointed 1 September 2013

DIRECTORS' INTERESTS

The relevant interest of each director in the securities of the Company at the date of this report is as follows:

Director	Ordinary shares	Options
Mr J Chen	-	-
Mr G Xu	13,596,207	4,532,069
Mr W Li**	-	-
Mr R Illingworth**	-	-
Mr T Williams*	-	-

* Resigned 31 August 2013

**Appointed 1 September 2013

D I R E C T O R S ' R E P O R T (c o n t ' d)

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Nomination and Remuneration Committee Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr J Chen	4	3	1	1	1	1
Mr G Xu	4	4	-	-	1	1
Mr T Williams*	4	4	-	-	-	-
Mr W Li**	-	-	-	-	-	-
Mr R Illingworth**	-	-	-	-	-	-

* Resigned 31 August 2013

**Appointed 1 September 2013

Committee membership

As at the date of the report, the Company had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors:

Members acting on the committees of the Board during the financial year were:

Nomination and Remuneration Committee	Audit and Risk Committee
Mr W Li (Chairman)	Mr R Illingworth (Chairman)
Mr J Chen	Mr J Chen
Mr R Illingworth	Mr W Li
	Mr G Xu

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the development of interests in exploration projects in the resource industry in Australia.

DIRECTORS' REPORT (cont'd)

Overview

Dragon Energy Ltd ("Dragon") is a mineral exploration company which controls a portfolio of tenements in Western Australia.

Dragon presently holds 9 projects located in the Pilbara and Midwest regions of Western Australia. These projects comprise 26 tenements, totalling 1,504km² in area. The primary exploration target is iron ore, with the potential for manganese, gold, base metals and uranium.

The advancement of the early development of the Pilbara Iron Project (the Rocklea and Nameless Projects) continued during the year with various studies and commercial negotiations of short term infrastructure transport options and port access.

A JV agreement with Shandong Energy and Shandong Lunan was executed in April 2013, whereupon the JV partners will earn up to 65% of the Ashburton Project. First phase joint venture exploration activities to be initiated upon FIRB approval and JV programme approval.

A farm-out agreement of the Lee Steere Project was initiated in December 2012 with Iron West Resources Pty Ltd (subsidiary of Golden West Resources Limited).

Onground exploration activities were undertaken on the Ashburton, Carters Well, Lee Steere and Meekatharra Projects. Rocklea mining tenement (M47/1471-I) and Yamarna exploration tenement (E38/2665) were granted during the reporting period.

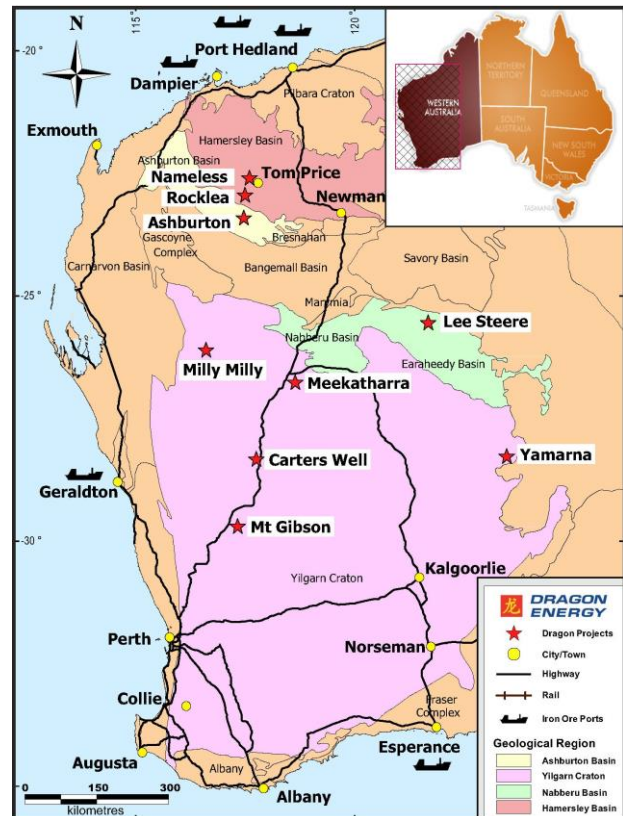
Pilbara Iron Project (Rocklea & Nameless Deposits)

The Pilbara Iron Project is Dragon's most advanced, flagship project, comprising the Rocklea and Nameless Channel Iron Deposits (CID) in the central Pilbara Iron Ore Province of Western Australia.

The project is ideally placed to be one of the Pilbara region's next producing iron ore mines. Inferred and Indicated Mineral JORC Resources¹ have been identified of **383.1Mt @ 50.94% Fe** using a 45% Fe cut-off grade, which includes a higher grade component of **263.6Mt @ 52.6% Fe** using a 50% Fe cut-off grade (Table 1).

The Rocklea Deposit is located 33km southwest and the Nameless Deposit is 10km northwest of the mining town of Tom Price, in the Pilbara region.

¹ Rocklea Central & North, and Nameless Mineral Resources were updated in 2012 using an in situ density of 2.7 t/m³ and 2.65 t/m³ respectively, Rocklea South Mineral Resource was updated in 2009 using an in situ density of 2.37 t/m³ in accordance with the guidelines of the Australasian Code for reporting Exploration Results, Mineral Resources and Ore reserves (JORC Code 2004). No mining parameters were applied to the model.



An infill drill out of the deposits was completed early 2012 and resources calculated in July 2012. The acquisition of Murchison's Rocklea Iron Project in August 2012 increased the Rocklea project area to 350.6km². Mapping of unexplored areas of recently acquired tenements resulted in the definition of an Exploration Target² of 6–9.8Mt at a grade of 54–59% Fe (59–65% calcined Fe).

Native title access agreement negotiations were completed and a mining lease (M47/1471-I) was subsequently granted.

² Exploration Target is reported according to the 2004 JORC Code- the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

DIRECTORS' REPORT (cont'd)

Pilbara Iron Project 50% Fe cut-off grade		Mt	Fe %	caFe ³ %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Rocklea Deposit								
Central ⁴	Indicated	78.94	52.37	59.31	8.48	3.27	0.030	11.71
	Inferred	9.44	51.40	58.49	8.69	3.58	0.030	12.13
South ⁵	Indicated	15.0	53.2	60.0	7.7	4.0	0.040	11.4
	Inferred	74.0	53.2	59.9	8.3	3.4	0.030	11.2
North ⁶	Inferred	5.22	50.97	58.11	8.00	4.62	0.034	12.28
sub-total		182.6	52.7	59.5	8.3	3.4	0.031	11.5
Nameless Deposit								
	Inferred	81.00	52.39	57.08	7.55	5.69	0.051	8.21
Total Mineral Resource		263.6	52.6	58.8	8.1	4.1	0.037	10.5

Pilbara Iron Project 45% Fe cut-off grade		Mt	Fe %	caFe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Rocklea Deposit								
Central	Indicated	96.32	51.85	58.77	8.80	3.48	0.030	11.78
	Inferred	12.00	50.89	57.98	8.91	3.85	0.030	12.23
South	Indicated	19.0	52.23	58.94	8.41	4.51	0.040	11.39
	Inferred	88.0	52.44	59.09	8.97	3.71	0.030	11.26
North	Inferred	8.75	50.47	57.52	8.41	5.03	0.035	12.27
sub-total		224.1	52.01	58.82	8.83	3.74	0.031	11.58
Nameless Deposit								
	Inferred	159.00	49.43	53.85	9.71	7.10	0.050	8.20
Total Mineral Resource		383.1	50.94	56.76	9.19	5.13	0.039	10.18

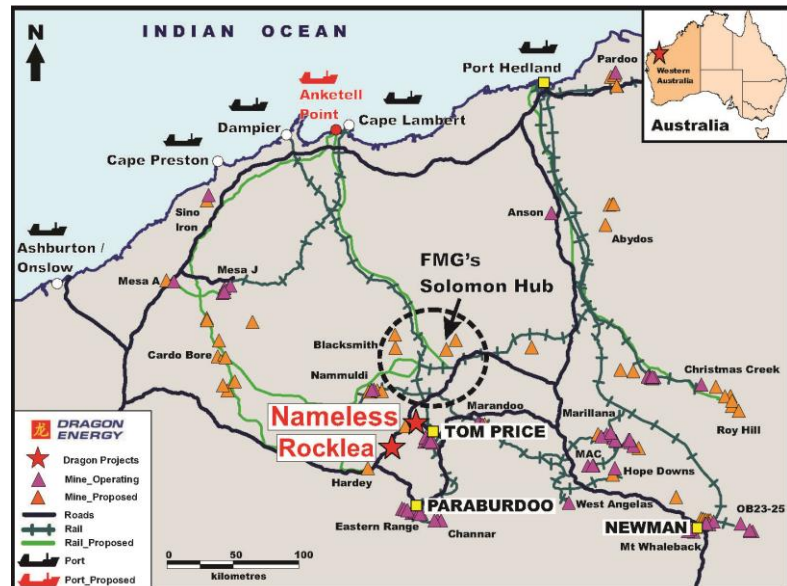
Table 1: Pilbara Project- JORC Resources

Following the decision to pursue rapid development of the Pilbara Iron Project a number of studies and negotiations have been completed or are in the planning phase.

A number of Environmental Studies have been completed in preparation of a Mine Plan for the Department of Mines and Petroleum approvals.

Ongoing and planned activities included; metallurgical, water and logistics (port, road, rail) studies. Dragon is attempting to identify and secure financing for the projects development.

A Mine Plan is being developed to carry out trial mining in the near future.



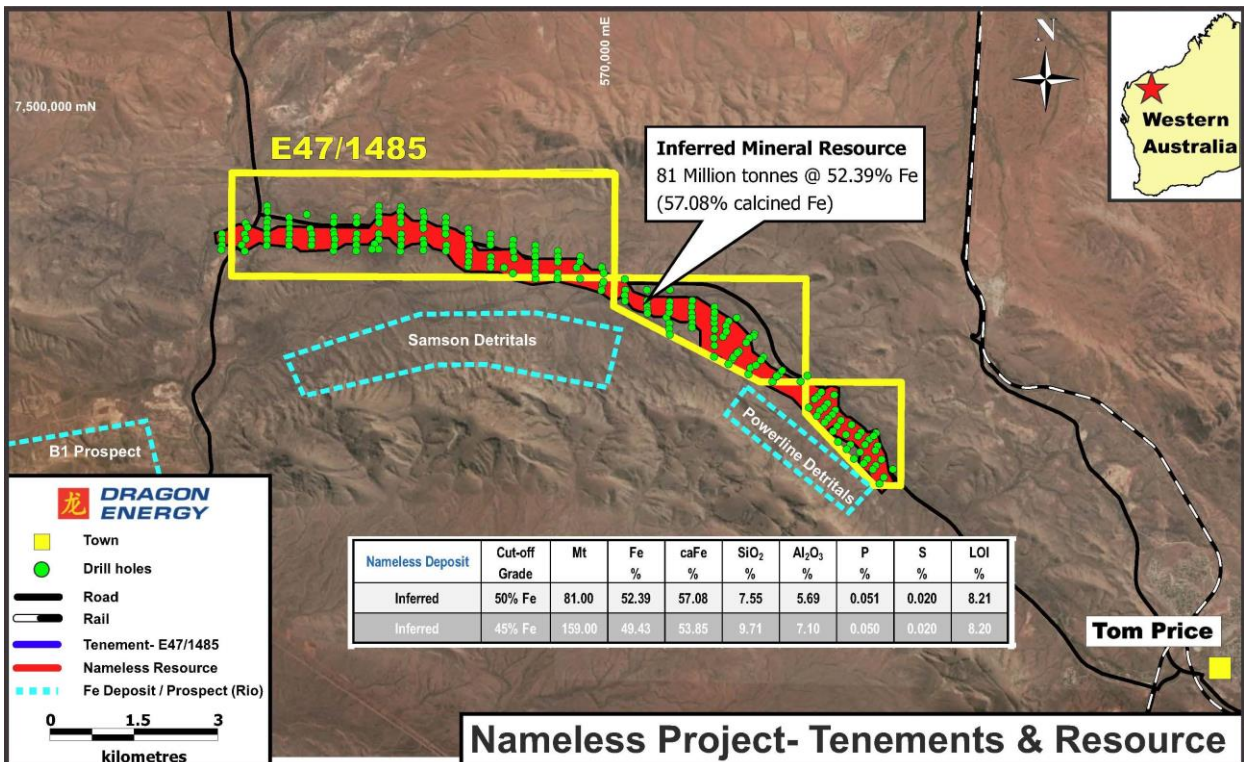
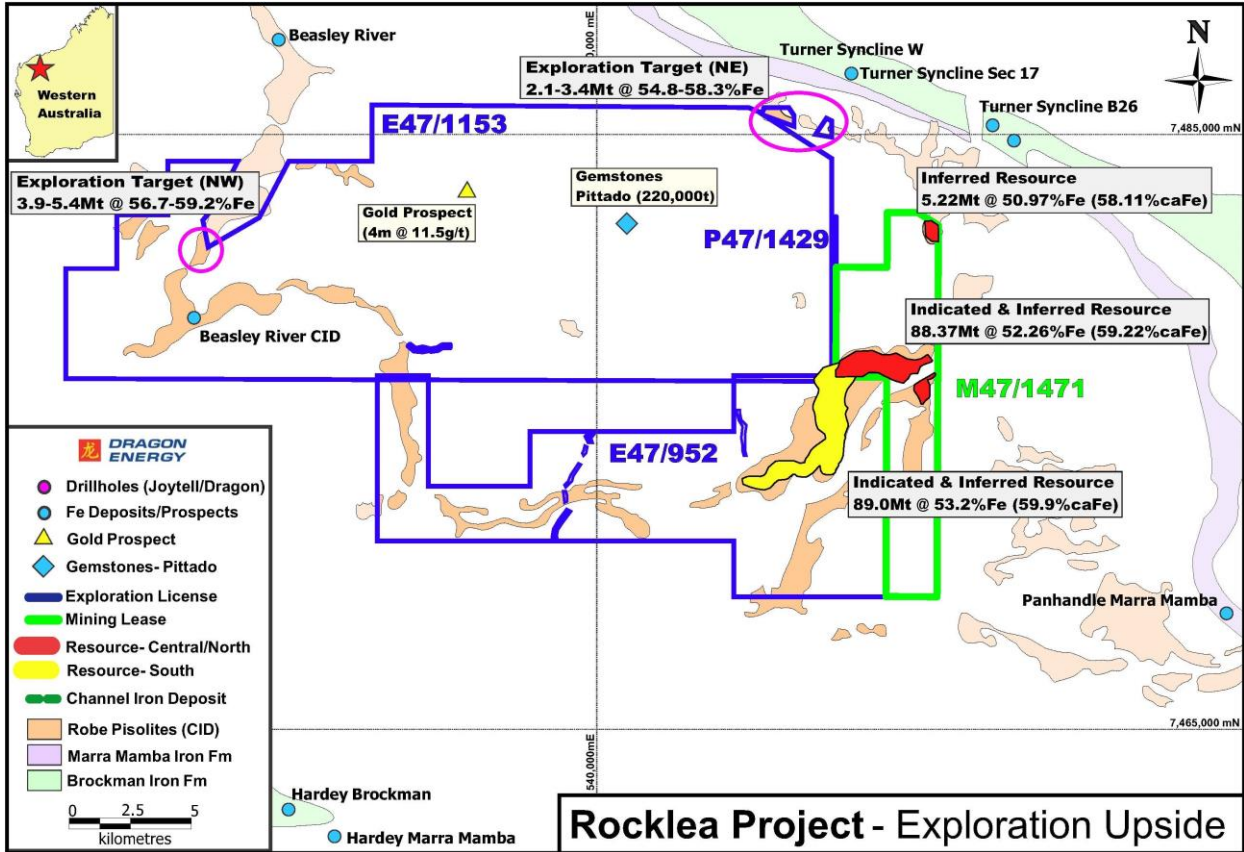
³ Dragon calculated calcined iron using the following formula: $caFe\% = (Fe\% / (100 - LOI)) * 100$ which is the grade after interstitial water has been removed.

⁴ "Rocklea Central" was previously named "Rocklea Main" in the Mineral Resource ASX Release reported 25 July 2012.

⁵ "Rocklea South" was previously named "Rocklea Iron Ore Project" in the Mineral Resource ASX Release reported 30 September 2009.

⁶ "Rocklea North" was previously named "Rocklea North Pod" in the Mineral Resource ASX Release reported 25 July 2012.

DIRECTORS' REPORT (cont'd)



DIRECTORS' REPORT (cont'd)

Carters Well Project

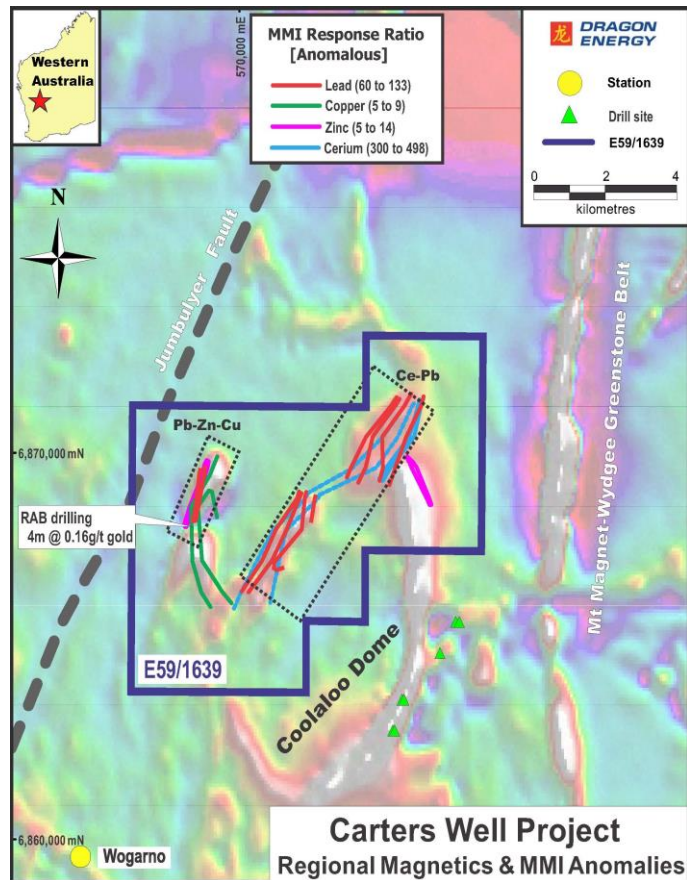
The project is located 30km south of Mt Magnet, adjacent to the Great Northern Highway, in the Yilgarn Craton of the Midwest.

The tenement overlies the Coolaloo Dome, a granite batholith having a prominently magnetic margin which may reflect the presence of a hematite-magnetite-quartz shear (BIF) adjacent to the contact. The structure outcrops poorly but is well defined on the aeromagnetic data beneath transported overburden.

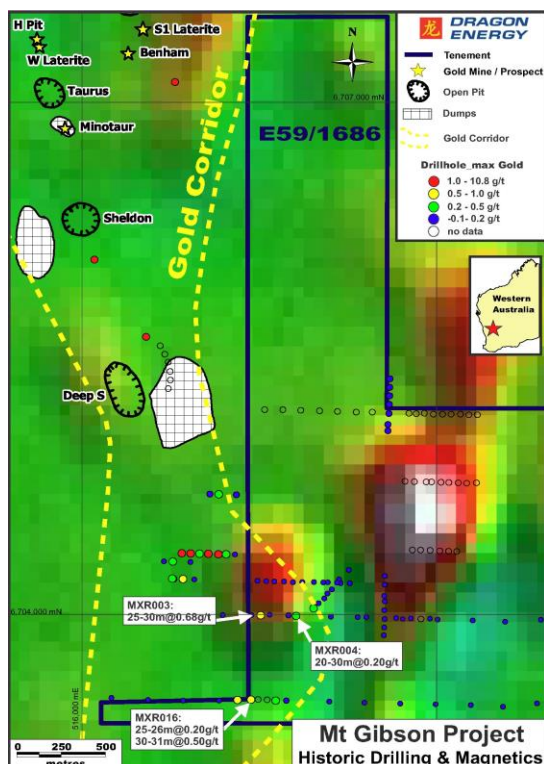
Major NE striking faults on the Boogardie Synform exhibit important control over many of the gold ore deposits in the Mt Magnet district. Such NE structures are exhibited in the project area.

Of the 4 anomalous zones identified from MMI soil sampling RC drilling tested a 3km NE striking gold and coincident silver anomaly in the southeast area of the project. No assays of significance received, this portion of the tenement was subsequently relinquished.

Future exploration activities will target the remaining anomalies, particularly as path finder elements in the Mt Magnet region include Cu and Zn (Parkinson Pit) and Pb (Stellar and Quasar Deposits).



Mt Gibson Project



The Mt Gibson project lies 80km northeast of Wubin, 7-32km south and east of the Extension Hill Hematite/Magnetite Project, and is adjacent to the Mt Gibson Gold Operation.

E59/1686 lies adjacent to the Mount Gibson Gold Operation (870,000oz mined), within the southern Retaliation Belt. Regional magnetics indicates that similar geological and structural features hosting gold mineralisation extend within E59/1686 and E59/1637, together with magnetic (BIF/ultramafic) units. A "Gold Corridor" has been interpreted from previous exploration which transgresses E59/1686. Anomalous mineralisation identified from drilling, including 5m @ 0.68g/t from 25m depth (MXR003).

Dragon is reviewing drilling options to test the Gold Corridor where it transgresses E59/1686 and a possible surface geochemistry programme over E59/1637 which has had a paucity of exploration activities.

Soil and stream sampling of E59/1687 and E59/1638 did not reveal significant mineralisation; as such these tenements were relinquished.

DIRECTORS' REPORT (cont'd)

Lee Steere Project

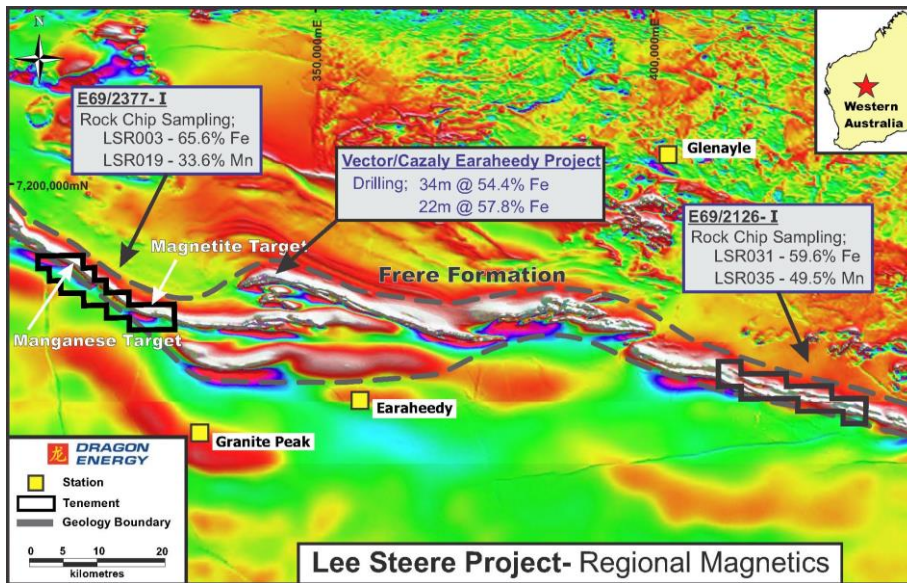
The Lee Steere project is located some 200km NE of Wiluna, in the Earraheedy Basin of the Midwest.

Previous exploration activities in the 1970s identified enriched hematite mineralisation of Banded Iron Formations and Superior-type iron within the Frere

Formation; rock chips of up to 66.1% Fe were reported. The project contains 48km strike of the prospective Frere Formation, as identified from magnetics and outcrop.

A farm-out agreement with Iron West Resources Pty Ltd (subsidiary of Golden West Resources Limited) was established December 2012. Recent exploration activities have included an aeromagnetic survey, photo-geological mapping and (anomalous iron) rock chip results. This information is currently being analysed for follow-up fieldwork.

Tenement E69/2126 was extended for a further 2 years.



Ashburton Project

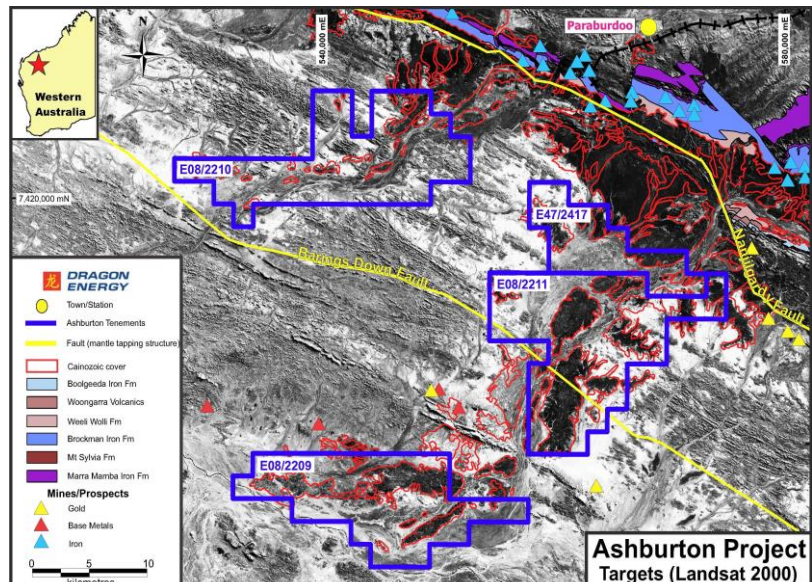
The project is located in the Ashburton Basin 10 to 40km from rail and other infrastructure associated with the Paraburdoo operations of Rio Tinto Limited.

Field reconnaissance demonstrated that there is a paucity of outcrop over E08/2211 and E08/2209. These tenements host the greatest thicknesses and areal extent of Cainozoic sediments, which potentially fill palaeochannels presently incised by Turee Creek as it flows south into Ashburton River. The braided drainages of Turee Creek and Seven Mile Creek drain the ranges of the Brockman Iron Formation near Paraburdoo, as such these palaeochannels may host detrital and/or Channel Iron Mineralisation (CIM).

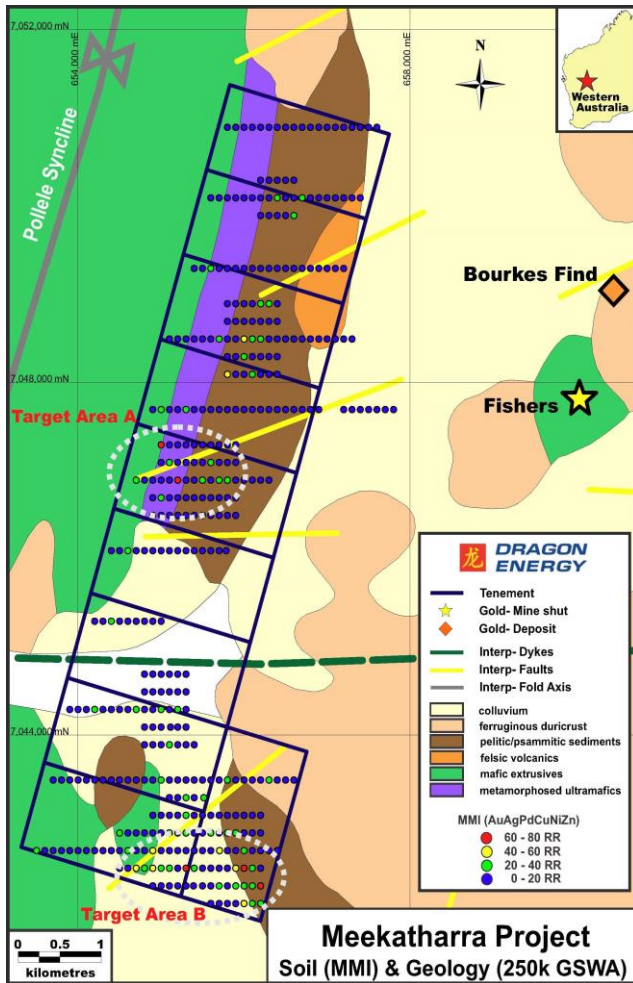
Elevated alluvial gravel beds are evident with the ground surface dominated in parts by iron (hematite) gravels. Small outcrops of foliated ferruginised sediments and ironstone were observed- possibly shear or gossan in the basement sediment. These outcrops returned up to 51% Fe, 555ppm Zn and 292ppm Ni and may be

associated with mantle tapping structures (identified by a 2011 seismic survey), namely the Barings Down Fault which transects E08/2211.

During the quarter a JV agreement with Shandong Energy and Shandong Lunan was executed. The JV partners are required to fund \$2m of exploration to earn up to 65% of the project. Preparation of a work programme has commenced and will be initiated upon approval by the joint venture partners and with FIRB approval.



Meekatharra Project



The project area is located 13km SE of the town of Meekatharra, within the Midwest Region of the Yilgarn Craton.

The project lies in the Archaean Meekatharra greenstone belt, a regional NE trending synclinal structure. Gold was discovered in the area in the 1890s, with mineralisation generally structurally hosted and associated with quartz veining.

Limited historic exploration activities in the project area identified linear northerly trending arsenic anomalies with coincident weakly anomalous gold mineralisation to the north. Gold anomalies with coincident strongly anomalous arsenic to the south were identified on lithological contacts.

MMI soil infill sampling late 2012 identified two target areas associated with NE fault structures:

- Target A overlies an ultramafic contact with a possible extension of faulting from Bourkes Find, while
- Target B overlies magnetic sediments (BIF?) and lies along a contact with extrusive mafics.

Both of these targets are proximal to a dolerite dyke. Follow-up drilling is planned to test these target areas.

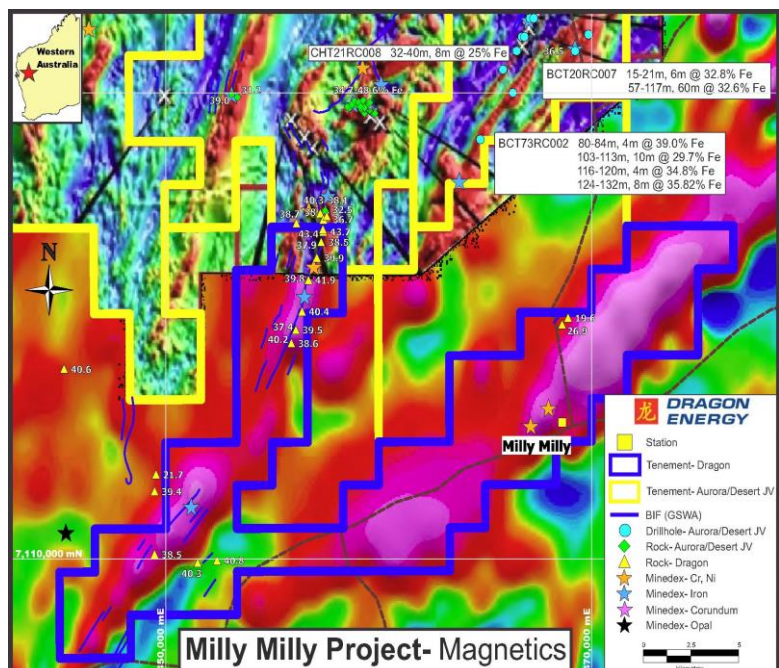
Tenement P51/2743 was relinquished.

Milly Milly Project

The project is located 196km west of Meekatharra, and 58km east of the Jack Hills iron operation in the northern Yilgarn Craton.

The project has the potential to host high quality magnetite iron ore deposits, with drilling to the north returning significant magnetite intercepts. BMR regional magnetic surveys indicate favourable host rocks of 42km strike within the tenement. Banded Iron Formation (quartz-magnetite) outcrop has been mapped in the project area by the GSWA. Rock chip sampling returned grades of up to 44% Fe. A chromite rich magnetite layer with an interpreted strike length of 1.6km provides an alternative exploration target.

No exploration undertaken as the tenement is progressing through the application process.

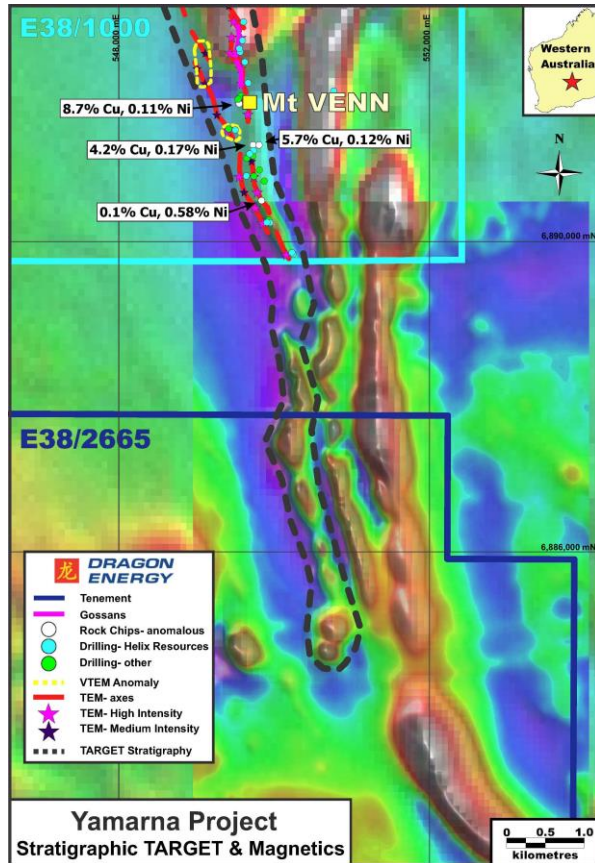


DIRECTORS' REPORT (cont'd)

Yamarna Project (E38/2665)

The Yamarna project area is located 120km NE of Laverton, within the Goldfields-Esperance Region.

The project is situated on the Jutson Rocks Greenstone Belt, east of the Cosmo-Newberry



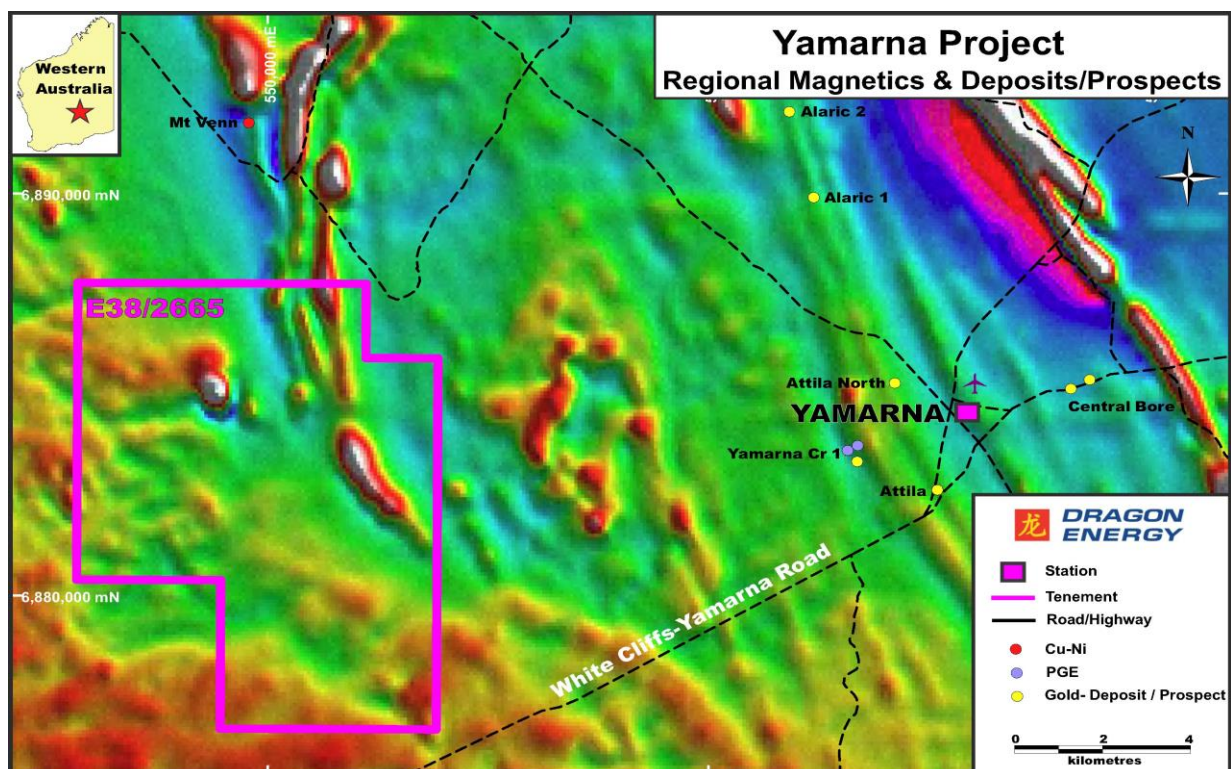
Greenstones and west of the Yamarna Greenstones. It lies 5km to the south of Global Metals Exploration NL & Platina Resources' Mt Venn Cu-Ni Prospect. Magnetics indicate that the greenstone succession at Mt Venn is also present on E38/2665.

Mt Venn is considered highly prospective for gabbro complex hosted nickel-copper mineralisation and for 'Kambalda style' mineralisation within komatiite flows related to the area's gabbro margin intrusions. In 1971 Tasminex intersected semi-massive sulphides (pyrrhotite & chalcopyrite): TDH03- 0.3m@ 2.85% Cu from 56m & 0.3m@ 0.44% Ni from 63m. In 2005 Helix Resources intersected 4m@ 1.3% Cu (incl 2m @ 1.2% Ni) from 33m (MVRC010).

Previous exploration work included mapping, VTEM and TEM geophysics and drilling, which was not extended onto E38/2665 due to lack of outcrop. However, magnetics indicates that the base metals stratigraphic host rocks extends for 3.3km onto E38/2665.

Negotiations underway to formalise a Native access agreement, in order for exploration activities to be undertaken in the project area.

Planned activities include field reconnaissance, geochemical soil and rock sampling and ground geophysical surveys.



DIRECTORS' REPORT (cont'd)

Dragon Energy Tenement Schedule (Updated on 31/07/2013)

Project	Tenement	Area (km ²)	Status	Registered Holder	Ownership	Grant Date
Pilbara Region						
Ashburton	E08/2211-I	167.0	Granted	Dragon Energy Ltd^	100%	28/07/2011
	E08/2210-I	145.1	Granted	Dragon Energy Ltd^	100%	02/03/2012
	E08/2209-I	132.2	Granted	Dragon Energy Ltd^	100%	02/03/2012
	E47/2417-I	63.1	Granted	Dragon Energy Ltd^	100%	02/12/2011
Nameless	E47/1485-I	19.7	Granted	Dragon Energy Ltd	100%	20/03/2006
Rocklea	M47/1471-I	28.4	Granted	Dragon Energy Ltd	100%	28/05/2013
	E47/952-I	78.7	Granted	Dragon Energy Ltd	100%	21/01/2008
	P47/1429-I	0.7	Granted	Dragon Energy Ltd	100%	10/09/2009
	E47/1153-I	202.8	Granted	Joytell Pty Ltd	iron ore JV	03/08/2006
Midwest Region						
Carters Well	E59/1639	63.5	Granted	Dragon Energy Ltd	100%	18/01/2011
Lee Steere	E69/2126-I	74.3	Granted	Dragon Energy Ltd*	100%	27/04/2008
	E69/2377-I	80.6	Granted	Dragon Energy Ltd*	100%	17/09/2008
Meekatharra	P51/2734	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2735	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2736	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2737	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2738	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2739	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2740	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2741	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2742	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
	P51/2744	2.0	Granted	Dragon Energy Ltd	100%	22/05/2012
Milly Milly	E09/1811	191.2	Pending	Dragon Energy Ltd	100%	pending
Mt Gibson	E59/1637	131.1	Granted	Dragon Energy Ltd	100%	18/01/2011
	E59/1686	30.2	Granted	Dragon Energy Ltd	100%	21/01/2011
Goldfields-Esperance						
Yamarna	E38/2665	75.7	Granted	Dragon Energy Ltd	100%	30/07/2012

* Iron West Resources Pty Ltd JV, Polaris 1% iron ore royalty

^ Shandong Energy/Lunan JV- earning 65% interest

DIRECTORS' REPORT (cont'd)

Competent Person's Statement

The information in the report to which this statement is attached that relates to Exploration Results is based on information compiled by Mr Mark Hafer, who is a Member of The Australian Institute of Geoscientists. Mr Hafer is a full-time employee of the company.

The information that relates to the Nameless Mineral Resource Estimate (JORC 2004) was compiled by Dr. Bielin Shi who is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists, and an employee of CSA Global Pty Ltd. The information that relates to the Rocklea (Main & North) Mineral Resource Estimate (JORC 2004) is based on information compiled by Mr James Farrell who is a Member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and a Member of The Australian Institute of Geoscientists and an employee of Golder Associates Pty Ltd. The information that relates to the Rocklea (South) Mineral Resource Estimate (JORC 2004) was compiled by Mr. Daniel Guibal who is a Fellow of the Australasian Institute of Mining and Metallurgy, and an employee of SRK Consulting.

Messrs Hafer, Shi, Farrell and Guibal have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Messrs Hafer, Shi, Farrell and Guibal consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

DIRECTORS' REPORT (cont'd)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company's net assets decreased by \$1,256,725 to \$19,903,490 during the financial year. The decrease in net assets principally relates to the losses incurred during the year.

On 21 August 2012, the Company completed the acquisition of Murchison Metals Ltd's Rocklea Project for a cash consideration of \$3,200,000.

RESULTS

The Company incurred a loss of \$1,256,725 for the financial year after income tax (2012: loss of \$396,273). This loss included the write-off of \$55,381 (2012: \$Nil) in capitalised exploration and evaluation assets and the incurrence of \$557,690 (2012: \$644,697) in exploration expenditure in accordance with the Company's accounting policies, corporate and administrative costs of \$861,954 (2012: loss of \$1,051,624) and net profit from foreign currency exchange of \$45 (2012: \$737,748).

REVIEW OF ACTIVITIES

During the year, the Company focused its activities in development of interests in exploration projects in the resource industry in Australia.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company will continue to pursue its main objective of developing interests in exploration projects. The Company also continues to pursue other acquisition and joint venture opportunities.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the Company.

DIVIDENDS

No dividend has been declared or paid by the Company to the date of this report.

ENVIRONMENTAL REGULATION

Dragon Energy's exploration and mining activities are governed by a range of environmental legislation and regulations. The National Greenhouse and Energy Reporting Act 2007 require the entity to report its annual greenhouse gas emissions and energy use.

As the Company is still in the development phase of its interests in exploration projects, Dragon Energy is not yet subject to the public reporting requirements of environmental legislation and regulations. To the best of the directors' knowledge, the Company has adequate systems in place to ensure compliance with the requirements of the applicable environmental legislation and is not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 30 June 2013, Mr Anthony Ho resigned as Company Secretary.

On 1st July 2013 Mr Leonard Math and Mr Ziming Yan were appointed as Joint Company Secretaries. Mr Leonard Math was also appointed as Chief Financial Officer on the same date.

On 31 August 2013, Mr Timothy Williams resigned as Chief Operating Officer / Executive Director. Mr Rodney Illingworth and Mr Weifeng Li were appointed as non-executive directors effective from 1 September 2013.

D I R E C T O R S ' R E P O R T (c o n t ' d)

OPTIONS

Options granted

There were no options granted during or since the end of the year.

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Listed Options (DLEO)	18 November 2014	\$0.35	47,460,245

None of these options were exercised during the financial year. These options do not entitle the holder to participate in any share issue of the Company.

INDEMNIFICATION OF OFFICERS AND AUDITORS

Indemnification

The Company has agreed to indemnify the current Directors and Company Secretary of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

The Company paid a premium of \$10,101 during the year in respect of a director and officer liability insurance policy, insuring the directors of the Company, the company secretary, and all executive officers of the Company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

NON-AUDIT SERVICES

Details of amounts paid or payable to the Company's auditor, BDO Audit (WA) Pty Ltd (**BDO**), for audit and non-audit services provided during the year are set out below.

The Board and the Audit and Risk Committee are satisfied that the provision of the non-audit services is compatible with general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- (a) all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- (b) none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

DIRECTORS' REPORT (cont'd)

NON-AUDIT SERVICES (CONT'D)

	2013 \$	2012 \$
<p>The following amounts were paid or payable for services provided by the auditors of the Company and its related practices.</p>		
Audit services:		
BDO Audit (WA) Pty Ltd		
- audit and review of financial reports	29,216	34,777
BDO Tax		
- provision of taxation advice	-	5,100
	<u>29,216</u>	<u>39,877</u>

REMUNERATION REPORT

The Remuneration Report sets out on pages 18 to 21 forms part of the Directors' Report and signed as part of it.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 17 and forms part of the Directors' Report.

AUDITOR

BDO Audit (WA) Pty Ltd continues in office in accordance with Section 327 of the *Corporations Act 2001*.

Dated at Perth, Western Australia this 27th day of September 2013.

Signed in accordance with a resolution of the directors:



Mr Gang Xu
Managing Director

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF DRAGON ENERGY LIMITED

As lead auditor of Dragon Energy Limited for the period ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.



CHRIS BURTON

Director

BDO Audit (WA) Pty Ltd

Perth, 27 September 2013

AUDITED REMUNERATION REPORT

This Remuneration Report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* (the Act) and its Regulations. This information has been audited as required by Section 308 (3C) of the Act.

For the purposes of this report, key management personnel of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Company at any time during the financial year and unless otherwise indicated were key management personnel for the entire financial year:

Name	Position held
Mr J Chen	Executive Chairman
Mr G Xu	Managing Director
Mr W Li	Non-Executive Director – Appointed 1 September 2013
Mr R Illingworth	Non-Executive Director – Appointed 1 September 2013
Mr T Williams	Executive Director / Chief Operating Officer – Resigned 31 August 2013
Mr L Math	Company Secretary / Chief Financial Officer – Appointed 1 July 2013
Mr Ziming Yan	Company Secretary – Appointed 1 July 2013
Mr A Ho	Company Secretary – Resigned 30 June 2013

NOMINATION & REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration policies for the directors and executives. If necessary, the Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Company. No advice was obtained during the year.

Further information on the Nomination and Remuneration Committee's role, responsibilities and membership is set out in the section entitled Corporate Governance Statement in this Annual Report.

PRINCIPLES OF REMUNERATION

The remuneration structures explained below are competitively set to attract and retain suitably qualified and experienced candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the achievement of strategic objectives;
- the Company's performance including:
 - the growth in share price; and
 - the amount of incentives within each key management person's compensation.

Given the evaluation and developmental nature of the Company's principal activity, the overall level of compensation does not have regard to the earnings of the Company.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive directors' remuneration is clearly distinguished from that of executives.

Non-executive director remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2007 General Meeting, is not to exceed \$500,000 per annum. Directors' fees cover all main board activities and membership of committees.

There is currently no performance related compensation for non-executive directors in place.

AUDITED REMUNERATION REPORT (cont'd)

REMUNERATION STRUCTURE (cont'd)

Non-executive director remuneration (cont'd)

Non-executive directors do not receive any retirement benefits, other than statutory superannuation.

Executive remuneration

Remuneration for executives is set out in employment agreements. Details of these employment agreements are provided below.

Executive directors may receive performance related compensation but do not receive any retirement benefits, other than statutory superannuation.

Fixed remuneration

Fixed remuneration consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation funds.

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee through a process that considers individual and overall performance of the Company. As noted above, the Nomination and Remuneration Committee has access to external advice independent of management.

Short-term and Long-term incentive

The Company does not have any short-term and long-term incentive plans.

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the directors have regard to the following indices in respect of the current financial year and the previous financial periods:

	2013	2012	2011	2010	2009
Net loss for the year	\$1,256,725	\$396,273	\$1,529,708	\$1,530,759	\$601,675
Dividends paid	Nil	Nil	Nil	Nil	Nil
Change in share price	(10.0)cents	4 cents	(19.5)cents	8.5 cents	12.5 cents
Share price at beginning of the period	15.5 cents	11.5 cents	31.0 cents	22.5 cents	10.0 cents
Share price at end of the period	0.06 cents	15.5 cents	11.5 cents	31.0 cents	22.5 cents
Loss per share	0.61 cents	0.19 cents	0.93 cents	1.08 cents	0.61 cents

AUDITED REMUNERATION REPORT (cont'd)

REMUNERATION STRUCTURE (cont'd)

Consequences of performance on shareholder wealth (cont'd)

Due to the Company currently being in an evaluation and developmental phase, the Company's earnings is not considered to be a principle performance indicator. However, the overall level of key management personnel remuneration takes into account the achievement of strategic objectives, service criteria and growth in share price.

There were no performance related remuneration transactions during the financial year (2012: nil).

EMPLOYMENT AGREEMENTS

The Company has entered into an employment agreement with its executive directors. The employment agreements outline the components of remuneration paid to the executives and are reviewed on an annual basis.

During the financial year ended 30 June 2013, the following base salary applies:

Name	Base Salary (p.a)	Term of Agreement	Notice Period
Mr J Chen	\$280,000	No fixed term	1 month
Mr G Xu	\$280,000	No fixed term	6 months
Mr T Williams	\$158,991	No fixed term	1 month

Effective 1 July 2013, the following base salary applies:

Name	Base Salary (p.a)	Term of Agreement	Notice Period
Mr J Chen	\$180,000	No fixed term	1 month
Mr G Xu*	\$210,000	No fixed term	6 months
Mr T Williams	\$108,000	No fixed term	1 month
Mr W Li	\$30,000	No fixed term	1 month
Mr R Illingworth	\$30,000	No fixed term	1 month

*Executed on 18 July 2013

Both executives have no entitlement to termination payment in the event of removal for misconduct.

No remuneration consultant has been used during the year.

Refer to Note 18 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with Directors.

AUDITED REMUNERATION REPORT (cont'd)

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Details of the nature and amount of each major element of the remuneration of each key management person of the Company are:

		SHORT TERM		POST-EMPLOYMENT	SHARE-BASED PAYMENTS	Total	Performance related %
		Salary & fees \$	Non-Monetary \$	Superannuation \$	Options \$		
Directors							
<i>Non-executive</i>							
<i>Executive</i>							
Mr J Chen	2013	280,000	-	25,200	-	305,200	-
	2012	280,000	2,185	25,200	-	307,385	-
Mr G Xu	2013	280,000	-	25,200	-	305,200	-
	2012	280,000	2,186	25,200	-	307,386	-
Mr T Williams (i)	2013	166,991	-	14,039	-	181,030	-
	2012	68,789	2,186	5,749	-	76,724	-
Mr A Ho (ii)	2013	100,000	-	9,000	-	109,000	-
	2012	147,521	2,186	9,000	-	158,707	-
Total, all directors and executive	2013	826,991	-	73,439	-	900,430	-
	2012	776,310	8,743	65,149	-	850,202	-

(i) Appointed 3 February 2012 as Executive Director and Chief Operating Officer, resigned 31 August 2013.

(ii) Resigned as Executive Director on 13 June 2012. Appointed as Company Secretary on 13 June 2012. Resigned as Company Secretary on 30 June 2013.

SHARE-BASED COMPENSATION

There were no share-based remuneration transactions during the year.

USE OF REMUNERATION CONSULTANTS

During the year, the Company did not use any remuneration consultants.

VOTING AND COMMENTS MADE AT THE COMPANY'S 2012 ANNUAL GENERAL MEETING

Dragon Energy Ltd received 91.9% of "yes" votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

This is the end of the audited remuneration report.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

The Board and management of Dragon Energy Limited (**Dragon Energy** or the **Company**) recognise their duties and obligations to shareholders and other stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

The Company acknowledges the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendment* (2nd Edition) (the "Recommendations"). This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

The Company's corporate governance policies are available on the Company's website:
www.dragonenergyltd.com.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Charter

The Board is accountable to shareholders for the performance of the Company. The Board operates under a Board Charter that details its functions, responsibilities and powers and those delegated to management.

On appointment, non-executive directors receive formal letters of appointment setting out the terms and conditions of appointment. The formal letter of appointment covers the matters referred to in the guidance and commentary for Recommendation 1.1. Executive directors are employed pursuant to employment agreements.

Evaluation of the performance of senior executives

The performance of senior executives is evaluated in accordance with the Performance Evaluation Process. A performance evaluation for senior executives has taken place in the reporting period and was carried out in accordance with the process disclosed.

The Board Charter and Performance Evaluation Process are available on the Dragon Energy website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Board currently consists of an executive chairman, a managing director and two non-executive directors. Details of their skills, experience and expertise and the period of office held by each director have been included in the Directors' Report. The number of board meetings and the attendance of the directors are set out in the Directors' Report.

The roles of Chairman and the Managing Director are not exercised by the same individual. The Board Charter summarises the roles and responsibilities of the Chairman, Mr Chen and the Managing Director, Mr Xu.

Independence of non-executive directors and the Chairman of the Board

The Board has assessed the independence of the non-executive directors and the Chairman using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1.

The Chairman, Mr Chen does not satisfy the tests of independence as detailed in the Recommendations, He is also a shareholder of Shandong Taishan Sunlight Group Company Limited ("Shandong Group"). Shandong Group is the ultimate parent holding 70.25% of issued capital of Dragon Energy Ltd.

The Company is at variance with Recommendations 2.1 and 2.2 in that the majority of directors are not independent and the Chairman is not independent. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management. Furthermore, each individual member of the Board is satisfied that whilst the Company may not comply with Recommendations 2.1 and 2.2, all directors bring an independent judgement to bear on Board decisions.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T (c o n t ' d)

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three members and is chaired by Mr Li.

The Nomination and Remuneration Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 2.4.

For information on the skills, experience and expertise of the Nomination and Remuneration Committee members, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Nomination and Remuneration Committee are included in the Directors' Report.

In accordance with Recommendation 2.4 the Nomination and Remuneration Committee consist of a majority of independent directors.

Board renewal and succession planning

The appointment of directors is governed by the Company's Constitution and the Appointment and Selection of New Directors policy. In accordance with the Constitution of the Company, no director except a managing director shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election.

The Company has not adopted a policy in relation to the retirement or tenure of directors.

The appointment of the company secretary is a matter for the Board. Information on the skills, experience and qualifications of the company secretary can be found in the Directors' Report.

Evaluation of the performance of the Board, its committees and individual directors

The performance of the Board, its committees and individual directors are evaluated in accordance with the Performance Evaluation Process. Performance evaluations of the Board, the Nomination and Remuneration Committee, the Audit and Risk Committee and individual directors have taken place in the reporting period and were carried out in accordance with the process disclosed.

Induction and education

When appointed to the Board, a new director will receive an induction appropriate to their experience. Directors may participate in continuing education to update and enhance their skills and knowledge from time to time, as considered appropriate.

Access to information and advice

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual directors and Board committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties, after consultation with the Chairman.

The Company's Constitution, Nomination and Remuneration Committee Charter and the policy for Appointment and Selection of New Directors are available on the Dragon Energy website.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Code of Conduct applies to all directors and officers of the Company. It sets out Dragon Energy's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards. The Code of Conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1.

CORPORATE GOVERNANCE STATEMENT (cont'd)

Diversity Policy

The Board has adopted a Diversity Policy which sets out the Company's aims and practices in relation to recognising and respecting diversity in employment. The Policy reinforces the Company's commitment to actively managing diversity as a means of enhancing the Company's performance by recognising and utilising the contributions of diverse skills and talent from its employees.

The Diversity Policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

Gender Diversity

The Board is responsible for establishing and monitoring on an annual basis the achievement against gender diversity objectives and strategies, including the representation of women at all levels of the organisation.

The proportion of women within the whole organisation as at the date of this report is as follows:

	%
Women employees in the whole organisation	0%
Women in Senior Executive positions	N/A
Women on the Board of Directors	0%

The Board acknowledges the absence of female participation on the Board of Directors. However, as noted above, the Board has determined that the composition of the current Board represents the best mix of Directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

The Company is at variance with Recommendation 3.3 in that it has not set or disclosed measurable objectives for achieving gender diversity in accordance with its Diversity Policy. Due to the size of the Company, the Board does not deem it practical to limit the Company to specific targets for gender diversity as it operates in a very competitive labour market where positions are sometimes difficult to fill. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

The Code of Conduct and Diversity Policy are available on the Dragon Energy website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

The Audit and Risk Committee consists of three members, and is chaired by Mr Illingworth, an independent director.

The Audit and Risk Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 4.3. For information on the skills, experience and expertise of the Audit and Risk Committee members, refer to the Directors' Report. Details of the members and their attendance at meetings of the Audit and Risk Committee are included in the Directors' Report.

The Company is at variance with Recommendation 4.2 in that the Audit and Risk Committee does not consist only of non-executive directors. The Board considers that this composition is appropriate given the current size of the Company. Furthermore, the Board considers that the Audit and Risk Committee is of a sufficient size and possesses sufficient technical expertise to discharge its mandate effectively.

External auditor

Consistent with its Charter, the Audit and Risk Committee reviews the external auditor's terms of engagement and audit plan, and assesses the independence of the external auditor. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years.

The Company's independent external auditor is BDO Audit (WA) Pty Ltd (**BDO**). The appointment of BDO was ratified by members at the Annual General Meeting held on 21 January 2008.

The Audit and Risk Committee Charter is available on the Dragon Energy website.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T (c o n t ' d)

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Continuous Disclosure Policy sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.

The Continuous Disclosure Policy is available on the Dragon Energy website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Shareholder Communications Policy sets out the Company's aims and practices in respect of communicating with both current and prospective shareholders. The Policy reinforces the Company's commitment to promoting investor confidence by requiring:

- compliance with the continuous disclosure obligations;
- compliance with insider trading laws;
- compliance with financial reporting obligations;
- compliance with shareholder meeting requirements, including the provision of an opportunity for shareholders and other stakeholders to hear from and put questions to the Board, management and auditor of the Company;
- communication with shareholders in a clear, regular, timely and transparent manner; and
- response to shareholder queries in a prompt and courteous manner.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

The Shareholder Communications Policy is available on the Dragon Energy website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

Dragon Energy recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company. As a result, the Board has adopted a Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control.

Risk oversight

Dragon Energy's risk management framework is supported by the Board of Directors, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee also has delegated responsibilities in relation to risk management and the financial reporting process as set out in the Audit and Risk Committee Charter. Further detail regarding the Audit and Risk Committee can be found above at Principle 4: Safeguarding integrity in financial reporting.

Reporting and assurance

When considering the Audit and Risk Committee's review of financial reports, the Board receives a written statement declaration in accordance with section 295A of the *Corporations Act*, signed by the Managing Director and Chief Financial Officer, that the Company's financial reports give a true and fair view, in all material respects with, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial reports are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

Similarly, in a separate written statement the Managing Director and the Chairman of the Audit and Risk Committee also confirm to the Board that the Company's risk management and internal control systems are operating effectively in relation to material business risks for the period, and that nothing has occurred since period-end that would materially change the position.

The Risk Management Policy is available on the Dragon Energy website.

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has delegated responsibilities in relation to the Company's remuneration policies as set out in the Nomination and Remuneration Committee Charter. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1. Further detail regarding the Nomination and Remuneration Committee can be found above at Principle 2: Structure the board to add value.

Non-executive directors' remuneration policy

The structure of non-executive directors' remuneration is clearly distinguished from that of executives. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2007 General Meeting, is not to exceed \$500,000 per annum.

There is currently no performance related compensation for non-executive directors in place.

Neither the non-executive directors nor the executives of the Company receive any retirement benefits, other than superannuation.

Executive directors' remuneration policy

As noted previously, executive directors are employed pursuant to employment agreements. Summaries of these employment agreements are set out in the Remuneration Report.

Further details regarding the remuneration arrangements of the Company are set out in the Remuneration Report.

The checklist below summarises the Company's compliance with the Recommendations.

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 1	Lay solid foundations for management and oversight		
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.	Yes	Website & Page 22
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 22
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 22
Pr 2	Structure the board to add value		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 22
Rec 2.2	The chairman should be an independent director.	No	Website & Page 22
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Website & Page 22
Rec 2.4	The board should establish a nomination committee.	Yes	Website & Page 23
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Website & Page 23
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes	Website & Page 23

CORPORATE GOVERNANCE STATEMENT (cont'd)

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 3	Promote ethical and responsible decision making		
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> ▪ the practices necessary to maintain confidence in the company's integrity; ▪ the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Yes	Website & Page 23
Rec 3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Website & Page 24
Rec 3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the Diversity Policy and progress towards achieving them.	No	Website & Page 24
Rec 3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Website & Page 24
Rec 3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website & Page 24
Pr 4	Safeguard integrity in financial reporting		
Rec 4.1	The board should establish an audit committee.	Yes	Website & Page 24
Rec 4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> ▪ consists only of non-executive directors; ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair, who is not the chair of the board; and ▪ has at least three members. 	No No Yes	Website & Page 24
Rec 4.3	The audit committee should have a formal charter.	Yes Yes	Website & Page 24
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website & Page 24
Pr 5	Make timely and balanced disclosure		
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.	Yes	Website & Page 25
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website & Page 25
Pr 6	Respect the rights of shareholders		
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website & Page 25
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 25

CORPORATE GOVERNANCE STATEMENT (cont'd)

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 7	Recognise and manage risk		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website & Page 25
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Website & Page 25
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Website & Page 25
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 25
Pr 8	Remunerate fairly and responsibly		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 26
Rec 8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair; and ▪ has at least three members. 	Yes	Website & Page 26
Rec 8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Website & Page 26
Rec 8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 26



**STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
for the year ended 30 June 2013

	Note	2013 \$	2012 \$
Revenue from continuing operations	3	217,255	562,300
Other income	3	1,000	-
Corporate and administrative expenses		(861,954)	(1,051,624)
Exploration and evaluation salary and general expenses		(557,690)	(644,697)
Exploration and evaluation assets written off	10	(55,381)	-
Net realised gain on foreign currency exchange		45	737,748
		<hr/>	<hr/>
Profit/(Loss) before income tax		(1,256,725)	(396,273)
Income tax	5	-	-
		<hr/>	<hr/>
Net profit/(loss) attributable to the owners of Dragon Energy Ltd		(1,256,725)	(396,273)
 Other Comprehensive Income			
Items that may be reclassified to profit or loss		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
Items that will not be reclassified to profit or loss		<hr/>	<hr/>
Foreign currency translation differences for foreign operations (net of tax)		-	-
		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
Other Comprehensive Income for the half year, net of tax		-	-
		<hr/>	<hr/>
Total Comprehensive Income/(Loss) for the year attributable to owners of Dragon Energy Ltd		(1,256,725)	(396,273)
 Basic loss per share			
Ordinary shares (cents)	19	<hr/>	<hr/>
		(0.61)	(0.19)
 Dilutive earnings/(loss) per share			
Ordinary shares (cents)		<hr/>	<hr/>
		N/A	N/A

Diluted loss per share for year ended 30 June 2013 is not shown as all potential ordinary shares on issue would decrease the loss per share and are thus not considered dilutive.

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.



STATEMENT OF FINANCIAL POSITION
as at 30 June 2013

	Note	2013 \$	2012 \$
CURRENT ASSETS			
Cash and cash equivalents	6	2,635,895	9,430,528
Trade and other receivables	7	40,591	94,960
Other assets	8	19,361	36,809
Total Current Assets		2,695,847	9,562,297
NON CURRENT ASSETS			
Property, plant and equipment	9	9,699	34,394
Exploration and evaluation assets	10	17,576,118	12,762,027
Total Non Current Assets		17,585,817	12,796,421
TOTAL ASSETS		20,281,664	22,358,718
CURRENT LIABILITIES			
Trade and other payables	11	282,137	95,973
Provisions	12	96,036	102,530
Other payables	13	-	1,000,000
Total Current Liabilities		378,173	1,198,503
TOTAL LIABILITIES		378,173	1,198,503
NET ASSETS		19,903,490	21,160,215
EQUITY			
Contributed equity	14	25,728,920	25,728,920
Reserves	15	93,500	93,500
Accumulated losses	16	(5,918,930)	(4,662,205)
TOTAL EQUITY		19,903,490	21,160,215

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2013

2012	Contributed Equity	Share Based Payment Reserve	Option Premium Reserve	Accumulated Losses	Total Equity
Balance at 1 July 2011	\$ 25,728,920	\$ 46,040	\$ 47,460	\$ (4,265,932)	\$ 21,556,488
<i>Total recognised gains and losses for the year</i>					
Loss for the period	-	-	-	(396,273)	(396,273)
Total comprehensive income/(loss) for the year	-	-	-	(396,273)	(396,273)
Transactions with equity holders in their capacity as equity holders	-	-	-	-	-
Balance at 30 June 2012	25,728,920	46,040	47,460	(4,662,205)	21,160,215
2013	Contributed Equity	Share Based Payment Reserve	Option Premium Reserve	Accumulated Losses	Total Equity
Balance at 1 July 2012	\$ 25,728,920	\$ 46,040	\$ 47,460	\$ (4,662,205)	\$ 21,160,215
<i>Other Comprehensive Income and losses for the year</i>					
Loss for the year	-	-	-	(1,256,725)	(1,256,725)
Total comprehensive income/(loss) for the year	-	-	-	(1,256,725)	(1,256,725)
Transactions with equity holders in their capacity as equity holders	-	-	-	-	-
Balance at 30 June 2013	25,728,920	46,040	47,460	(5,918,930)	19,903,490

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Interest received		232,182	535,353
Payments to suppliers and employees		(1,356,739)	(1,650,894)
Net cash outflow from operating activities	23	(1,124,557)	(1,115,541)
Cash flows from investing activities			
Payments for property, plant & equipment		(1,738)	(5,359)
Payments for exploration expenditure – acquisition costs		(4,204,733)	(1,500,000)
Payments for exploration expenditure – capitalised costs		(1,463,650)	(3,354,822)
Release of held to maturity investment		-	51,163
Net cash outflow from investing activities		(5,670,121)	(4,809,018)
Cash flows from financing activities			
Repayment of borrowings		-	(39,921)
Net cash inflow/(outflow) from financing activities		-	(39,921)
Net increase/(decrease) in cash held		(6,794,678)	(5,964,480)
Cash and cash equivalents at the beginning of the financial year	6	9,430,528	14,657,260
Effect of exchange rate changes on cash and cash equivalents		45	737,748
Cash and cash equivalents at the end of the year	6	2,635,895	9,430,528

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The financial report of Dragon Energy Ltd for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of directors on 27th September 2013. Dragon Energy Ltd (the **Company** or **Dragon Energy**) is a company limited by shares incorporated in Australia whose securities are quoted on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

Basis of preparation

Statement of compliance

Dragon Energy is a for profit entity.

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASBs) and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). The financial report of the Company also complies with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Basis of measurement

The financial statement is prepared on the accruals basis and the historical cost basis. The financial statement is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are outlined below:

Exploration expenditure

The exploration expenditure is subject to department of mines limitation.

The write-off and carrying forward of exploration acquisition costs is based on an assessment of an area of interest's viability and/or the existence of economically recoverable reserves. Information may come to light in a later period which results in the asset being written off as it is not considered viable.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. The condition of the assets is assessed at least once per year and considered against the remaining useful life. Depreciation charges are included in Note 9.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Significant accounting judgements, estimates and assumptions (Cont'd)

Deferred taxation

Deferred tax assets in respect of tax losses have not been brought to account as it is not considered probable that future taxable profits will be available against which they could be utilised.

Provision for rehabilitation

The Company does not have any rehabilitation requirements per any of their tenement licences, and as such, do not recognise any tenement rehabilitation provisions.

Summary of Significant Accounting Policies

Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Company's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Company's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of profit or loss and other comprehensive income but only after a reassessment of the identification and measurement of the net assets acquired.

Foreign currency

Functional and presentation currency

Both the functional and presentation currency of Dragon Energy Ltd is Australian Dollars (\$).

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the board.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less any impairment losses recognised. Collectability of trade receivables is reviewed on an ongoing basis. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Company will not be able to collect all amounts due.

Revenue recognition

Revenue represents interest received and reimbursements of exploration expenditures. Interest income is recognised as it accrues.

Earnings per share

Basic earning per share is calculated by dividing the net earning attributable to members of the company for the reporting period by the weighted average number of ordinary shares of the Company.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits greater than 3 months are classified as held to maturity investments and valued at amortised costs.

Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits.

Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that the restoration will be completed within one year of abandoning the site.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Items of property, plant and equipment are depreciated using the diminishing value method over their estimated useful lives of each part of an item of property, plant and equipment. The depreciation rates used for each class of asset for the current period are as follows:

- | | |
|-------------------------|-----|
| ▪ Plant and Equipment | 33% |
| ▪ Fixtures and Fittings | 25% |
| ▪ Motor Vehicles | 25% |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- (a) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- (a) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Income tax (cont'd)

The carrying amount of deferred income tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss and other comprehensive income.

Dragon Energy Ltd has unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Trade and other payables

Liabilities are initially recognised at fair value and subsequently measured at cost for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days.

Loans and borrowings

Loans are recognised at their principal amount, subject to set-off arrangements. Borrowing costs are recognised as an expense when incurred.

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share-based payment transactions

The grant date fair value of options granted to employees (including key management personnel) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are account for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

New accounting standards and interpretations

Reference	Title	Nature of Change	Application date of standard	Impact on Entity financial statements	Application date for Entity
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	<p>Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated.</p> <p>AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.</p>	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The Entity has not yet made an assessment of the impact of these amendments.	1 July 2015

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

New accounting standards and interpretations (cont'd)

AASB 10 (issued August 2011)	Consolidated Financial Statements	<p>Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present:</p> <ul style="list-style-type: none"> • Power over investee (whether or not power used in practice) • Exposure, or rights, to variable returns from investee • Ability to use power over investee to affect the company's returns from investee. • Introduces the concept of 'defacto' control for entities with less than 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. This could result in more instances of control and more entities being consolidated. 	Annual reporting periods commencing on or after 1 January 2013	<p>When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the company does not have any special purpose entities.</p> <p>The 'Entity' does not have 'defacto' control of any entities with less than 50% ownership interest in an entity.</p>	1 July 2013
AASB 11 (issued August 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the company has not entered into any joint arrangements.	1 July 2013
AASB 12 (issued August 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from AASB 127 <i>Consolidated and Separate Financial Statements</i> , AASB 128 <i>Investments in Associates</i> and AASB 131 <i>Interests in Joint Ventures</i> . Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods commencing on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.	1 July 2013

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

New accounting standards and interpretations (cont'd)

AASB 13 (issued September 2011)	Fair Value Measurement	<p>AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.</p> <p>Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements.</p> <p>Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments</p>	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.
AASB 119 (reissued September 2011)	Employee Benefits	Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date
AASB 2010-8 (issued December 2010)	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (AASB 112)	For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.	Periods commencing on or after 1 January 2012	The company does not have any investment property measured using the fair value model. There will therefore be no impact on the financial statements when these amendments are first adopted.
AASB 2011-4 (issued July 2011)	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	Amendments to remove individual key management personnel (KMP) disclosure requirements from AASB 124 to eliminate duplicated information required under the <i>Corporation Act 2001</i>	Annual periods commencing on or after 1 July 2013	When this standard is first adopted for the year ended 30 June 2014 the company will show reduced disclosures under Key Management Personnel note to the financial statements

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

New accounting standards and interpretations (cont'd)

Interpretation 20 (issued November 2011)	Stripping Costs in the Production Phase of a Surface Mine	Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 <i>Inventories</i> if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met.	Annual periods commencing on or after 1 January 2013	The company does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.
AASB 2012-5 (issued June 2012)	Annual Improvements to Australian Accounting Standards 2009-2011 Cycle	Non-urgent but necessary changes to IFRSs (IAS1, IAS 16 & IAS 32)	Periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2013, there will be no material impact.
IFRS (issued December 2011)	Mandatory Effective Date of IFRS 9 and Transition Disclosures	Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods commencing on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

2. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. There has been no change from prior year in relation to all of the exposures. Further quantitative disclosures are included in Note 17.

Dragon Energy's risk management framework is supported by the Board, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the Company and considering the effectiveness of its internal control system. Management and the Audit and Risk Committee report to the Board.

The Board has established an overall Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control.

Financial risk management objectives

The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents. For the Company it arises from receivables due from subsidiaries.

The Company does not hold any credit derivatives to offset its credit exposure.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Foreign currency risk

During the financial year, the Company was exposed to currency risk as it held Chinese Renminbi (CNY) bank balances and on transactions that were denominated in a currency other than the respective functional currencies of the entity, primarily the Australian dollar (AUD), but also the Chinese Renminbi (CNY). The currencies in which these transactions primarily were denominated were AUD and CNY.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

2. FINANCIAL RISK MANAGEMENT (cont'd)

The Board does not consider the Company is materially exposed to changes in foreign exchange rates as at 30 June 2013, the Company held immaterial balance in CNY. As a result, the Company does not currently seek to mitigate its foreign currency exposures.

The Board believes the reporting date risk exposures are representative of the risk exposure inherent in financial instruments.

Interest rate risk

The Company's exposure to interest rates primarily relates to the Company's cash and cash equivalents and held to maturity investments. The Company manages market risk by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates.

Other market price risk

The Company is involved in the exploration and development of mining tenements for minerals. Should the Company successfully progress to a producer, revenues associated with mineral sales, and the ability to raise funds through equity and debt, will have some dependence upon commodity prices.

Fair value measurements

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Capital management

When managing capital, the Board's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board are constantly adjusting the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may issue new shares, sell assets to reduce debt or consider payment of dividends to shareholders.

The Board has no current plans to issue further shares on the market.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels.

The Company has no formal financing and gearing policy or criteria during the year having regard to the early status of its development and low level of activity. This position has not changed from the previous year.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

3. REVENUE, INCOME AND EXPENSES	2013 \$	2012 \$
(a) Revenue		
Interest income	217,255	562,300
(b) Other income		
Tenement reward	1,000	-
	1,000	-
(c) Employee benefits expense		
Wages and salaries	626,628	806,553
Superannuation	108,707	120,374
Other employee benefits expense	(6,494)	52,193
	728,841	979,120
(d) Depreciation included in statement of profit or loss and other comprehensive income		
Furniture and fixtures	17,373	18,999
Plant and equipment	2,560	2,813
Motor vehicles	6,500	8,730
	26,433	30,542
(e) Minimum lease payment		
Rent and outgoings	78,893	64,344
	78,893	64,344
4. AUDITOR'S REMUNERATION		
The following amounts were paid or payable for services provided by the auditors of the Company and its related practices.		
Audit services:		
BDO Audit (WA) Pty Ltd		
- audit and review of financial reports	29,216	34,777
BDO Tax		
- provision of taxation advice	-	5,100
	29,216	39,877
5. TAXATION		
(a) Income tax expense		
	-	-
(b) Numerical reconciliation between tax expense and pre-tax net loss		
Loss before income tax expense	(1,256,725)	(396,273)
Income tax benefit calculated at rates noted in (d) below	(377,018)	(118,882)
Tax effect on amounts which are not tax deductible:		
Sundry amounts	-	-
Non-deductible expenses	5,753	6,133
Deferred tax asset not brought to account	371,265	112,749
Income tax expense	-	-

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

5. TAXATION (cont'd)

	2013	2012
	\$	\$
(c) Deferred tax assets not brought to account		
Unused tax losses	6,996,878	5,277,834
Timing differences	37,923	5,134
Capital raising costs in equity	7,916	28,327
Exploration Expenditure	(5,272,835)	(3,828,608)
Potential at 30%	<u>1,761,965</u>	<u>1,482,687</u>

(d) Tax Rates

The potential tax benefit in respect of tax losses not brought into account has been calculated at 30%.

6. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	644,463	1,004,086
Term deposits	1,991,432	8,426,442
	<u>2,635,895</u>	<u>9,430,528</u>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 17.

7. TRADE AND OTHER RECEIVABLES

Sundry receivables	40,591	94,960
	<u>40,591</u>	<u>94,960</u>

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 17.

As at 30 June 2013, trade and other receivables do not contain impaired assets and are not past due.

8. OTHER ASSETS

Current

Prepaid expenses	<u>19,361</u>	<u>36,809</u>
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NOTES OF THE FINANCIAL STATEMENTS (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT	Furniture & Fixtures	Plant & Equipment	Motor Vehicles	Total \$
Year ended 30 June 2012				
At 1 July 2011, net of accumulated depreciation	36,781	5,941	16,855	59,577
Additions	4,013	1,346	-	5,359
Disposals	-	-	-	-
Depreciation charge for the year	(18,999)	(2,813)	(8,730)	(30,542)
At 30 June 2012, net of accumulated depreciation	<u>21,795</u>	<u>4,474</u>	<u>8,125</u>	<u>34,394</u>
At 30 June 2012				
Cost	62,138	9,354	97,356	168,848
Accumulated depreciation	(40,343)	(4,880)	(89,231)	(134,454)
Net carrying amount	<u>21,795</u>	<u>4,474</u>	<u>8,125</u>	<u>34,394</u>
Year ended 30 June 2013				
At 1 July 2012, net of accumulated depreciation	21,795	4,474	8,125	34,394
Additions	1,738	-	-	1,738
Disposals	-	-	-	-
Depreciation charge for the year	(17,373)	(2,560)	(6,500)	(26,433)
At 30 June 2013, net of accumulated depreciation	<u>6,160</u>	<u>1,914</u>	<u>1,625</u>	<u>9,699</u>
At 30 June 2013				
Cost	63,876	9,354	97,356	170,586
Accumulated depreciation	(57,716)	(7,440)	(95,731)	(160,887)
Net carrying amount	<u>6,160</u>	<u>1,914</u>	<u>1,625</u>	<u>9,699</u>

10. EXPLORATION AND EVALUATION ASSETS	2013 \$	2012 \$
Exploration, evaluation and development expenditure carried forward in respect of areas of interest (net of amounts written off) (a)	<u>17,576,118</u>	<u>12,762,027</u>
Reconciliation		
Carrying amount at the beginning of the year	12,762,027	9,407,204
Exploration and evaluation expenditure	1,506,023	1,854,823
Acquisition of Ausquest Projects	-	1,500,000
Acquisition of Murchison Projects	3,363,448	-
Capitalised expenditure written off	(55,381)	-
Carrying amount at the end of the year	<u>17,576,118</u>	<u>12,762,027</u>

(a) The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas.

Exploration and evaluation expenditure immediately expensed in the statement of profit or loss and other comprehensive income amount to \$557,690 (2012: \$644,697).

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

11. TRADE AND OTHER PAYABLES	2013	2012
	\$	\$
Trade creditors	228,271	95,973
Other creditors and accruals	53,866	-
	<u>282,137</u>	<u>95,973</u>

The Company's exposure to credit and liquidity risks related to trade and other payables are disclosed in Note 17.

12. PROVISIONS

Liability for employee benefits	<u>96,036</u>	<u>102,530</u>
Movements in provisions		
At 1 July	102,530	61,050
Arising during the year	77,038	89,649
Utilised	(36,179)	(1,713)
Unused amounts reversed	(47,353)	(46,456)
At 30 June	<u>96,036</u>	<u>102,530</u>

13. OTHER PAYABLES

Current

Accrual of Rocklea acquisition costs	<u>-</u>	<u>1,000,000</u>
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Pursuant to the Rocklea Sale Agreement, the Company has paid the final cash payment of \$1.0m on 5 March 2013. Refer Note 18.

14. ISSUED CAPITAL

206,426,374 (2012: 206,426,374) fully paid ordinary shares	<u>25,728,920</u>	<u>25,728,920</u>
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	2013		2012		2013	2012
	Number of	Issue	Number of	Issue	\$	\$
	Shares	price	Shares	price		
<i>Movements during the year:</i>						
Opening balance	206,426,374		206,426,374		25,728,920	25,728,920
Share issue costs	-		-		-	-
Closing balance	<u>206,426,374</u>		<u>206,426,374</u>		<u>25,728,920</u>	<u>25,728,920</u>

Ordinary shares entitle the holder to participate in dividends and the proceeds from winding up of the Company in proportion to the number and amounts paid on the shares held.

On a show of hands every holder of ordinary securities present at a shareholder meeting in person or by proxy is, entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

14. ISSUED CAPITAL (cont'd)

Options

Options granted

There were no options granted during or since the end of the year.

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Listed Options	18 November 2014	\$0.35	47,460,245

These options do not entitle the holder to participate in any share issue of the Company or any other entity.

No options were exercised during the year.

15. RESERVES	2013 \$	2012 \$
Share based payments reserve		
Balance at beginning of the year	46,040	46,040
Share based payments	-	-
Balance at end of the year	46,040	46,040
Option premium reserve		
Balance at beginning of the year	47,460	47,460
Options issued	-	-
Balance at end of the year	47,460	47,460
TOTAL RESERVES	93,500	93,500

Share-based payments reserve

This reserve is used to record the value of equity-settled share-based payments provided to employees and directors as part of their remuneration.

Foreign currency translation reserve

This reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Option premium reserve

This reserve comprises of monies raised from issue of 47,460,245 options at \$0.001 per option during the share and option entitlement issue in February 2011.

16. ACCUMULATED LOSSES

Accumulated losses at the beginning of the year	(4,662,205)	(4,265,932)
Loss for the year	(1,256,725)	(396,273)
Accumulated losses at the end of the year	(5,918,930)	(4,662,205)

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS DISCLOSURE

For financial risk exposure and management objectives please refer to note 2.

Credit risk

Exposure to credit risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2013	2012
	\$	\$
Cash and cash equivalents	2,635,895	9,430,528
Trade and other receivables	40,591	26,946
Held to maturity investments	-	-
	2,676,487	9,457,474

The credit quality is assessed and monitored as follows:

Credit quality of financial assets	Equivalent S&P Rating ¹		Internally Rated ²	Total
	AA- and above	BBB and Below	No Default	
At 30 June 2013				
Cash and cash equivalents	2,635,895	-	-	2,635,895
Trade and other receivables – current	-	-	40,591	40,591
	2,635,895	-	40,591	2,676,487
At 30 June 2012				
Cash and cash equivalents	9,430,528	-	-	9,430,528
Held to maturity investments	-	-	26,946	26,946
	9,430,528	-	26,946	9,457,474

1. The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.
2. Trade and other receivables consists of security bonds and deposits.

Allowance for impairment loss

A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

Balance within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities on an undiscounted basis, including estimated interest payments. Cash flows for assets and liabilities without fixed amount or timing are based on conditions existing at year end.

30 June 2013	Carrying amount	Contractual cash flows	1 year	2-5 years	>5 years
Financial Liabilities					
Trade and other payables	282,137	(282,137)	(282,137)		
	282,137	(282,137)	(282,137)		
30 June 2012	Carrying amount	Contractual cash flows	1 year	2-5 years	>5 years
Financial Liabilities					
Trade and other payables	1,095,973	(1,095,973)	(1,095,973)	-	-
	1,095,973	(1,095,973)	(1,095,973)	-	-

Foreign currency risk

Exposure to foreign currency risk

In February 2011, the Company's major shareholder, Shandong Taishan Sunlight Group Company Limited (Shandong Group), committed to underwrite a minimum of A\$18.0 million for the Rights Issue. The Shandong Group fully subscribed for their entitlement under both the Rights Issue and Option Entitlement Issue. As a result, a total of A\$19,226,115 were received from the Shandong Group. The majority of the monies were received in functional currency of Shandong Group (CNY) and were translated at reporting date at the prevailing spot rates through the statement of profit or loss and other comprehensive income.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013 \$	2012 \$	2013 \$	2012 \$
CNY	6.4420	6.5455	5.6379	6.4092

The following summarizes the sensitivity of the Company's financial assets and financial liabilities to foreign currency risk during the 2013 financial year:

	2013			
	Profit \$	-5% Equity \$	Profit \$	+5% Equity \$
Financial instruments in foreign currency				
Financial assets	-	-	-	-
Financial liabilities	(17)	(17)	17	17
	2012			
	Profit \$	-5% Equity \$	Profit \$	+5% Equity \$
Financial instruments in foreign currency				
Financial assets	-	-	-	-
Financial liabilities	(507)	(507)	507	507

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	Carrying Amount	
	2013	2012
	\$	\$
Variable rate instruments		
Financial assets	2,635,895	9,430,528
Financial liabilities	-	-
	<u>2,635,895</u>	<u>9,430,528</u>

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The Board assessed a 100 basis point movement as being reasonably possible based on short term historical movements. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2013.

A change of 100 basis points in interest rates would have increased or decreased the Company's profit or loss by \$ 131,795 (2012: \$94,305).

	2013			
	+100 basis points		-100 basis points	
	Profit	Equity	Profit	Equity
	\$	\$	\$	\$
Financial instruments with interest rate				
Financial assets	131,795	(131,795)	131,795	(131,795)
Financial liabilities	-	-	-	-

	2012			
	+100 basis points		-100 basis points	
	Profit	Equity	Profit	Equity
	\$	\$	\$	\$
Financial instruments with interest rate				
Financial assets	94,305	(94,305)	94,305	(94,305)
Financial liabilities	-	-	-	-

The weighted average effective interest rate on variable rate instruments was 3.70% in the 2013 financial year.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

18. COMMITMENTS

Remuneration commitments

The Company has entered into a consultancy agreement with Xu and Liu Pty Ltd with Mr Gang Xu to act as the Company's Managing Director. Under the agreement, Xu and Liu Pty Ltd will be paid \$210,000 per annum (plus GST) with effect from 18 July 2013. Mr Xu is a director and a beneficiary of Xu and Liu Pty Ltd. The consultancy agreement can be terminated with a 6 months' notice.

Refer to Note 21 for details of these key management personnel transactions during the year.

Operating lease commitment

The Company leases its offices in West Perth, Western Australia. The lease is for a 5-year period from December 2009.

Future minimum rentals payable under the non-cancellable operating lease as at 30 June are as follows:

	2013 \$	2012 \$
Not longer than 1 year	67,703	67,703
Longer than 1 year and not longer than 5 years	28,209	95,912
Longer than 5 years	-	-
	95,912	163,615

Exploration Project commitments

Dragon currently holds 9 projects comprising 26 tenements totalling 1,504km², including; the Rocklea, Nameless and Ashburton projects in the Pilbara region; the Mt Gibson, Milly Milly, Carters Well, Lee Steere and Meekatharra projects in the Midwest region; and the Yamarna project in the Goldfields-Esperance region.

The terms of the sale and joint venture agreement require that Dragon Energy sole fund the first \$1 million of iron ore exploration expenditure ("Joint Venture Expenditure") on the Lee Steere Range project ("Sole Fund Period"). The Company met the \$250,000 in Joint Venture Expenditure within the 3 years of the agreement. The Sole Fund Period is extended for a further 1 year with Dragon committing to sole fund \$200,000 in year 4. The joint venture commences on completion of the Sole Fund Period. The agreement also provides that Polaris will retain a royalty right of 1.0% of gross receipts from sales of iron ore from all three projects ("Royalty"). The Royalty obligation ends once Dragon Energy has paid to Polaris \$10 million in Royalty payments.

In October 2010, the Company entered into a tenement sale agreements with Fortescue Resources Pty Ltd (a wholly owned subsidiary of AusQuest Limited), and their joint venture partners ("Vendors") to acquire the Rocklea Project (E47/1024-I), located in the Pilbara iron ore province ("Rocklea Sale Agreement"). The cash consideration payments for the Rocklea Project of \$7m (plus GST) were completed during the financial year. Mining Lease 47/1471-I (over E47/1024-I) was granted 28/05/2013.

Dragon Energy Ltd acquired Murchison Metals Limited's Rocklea (South) iron ore project, including tenements E47/952-I and P47/1429-I, as well as the iron ore rights to E47/1153-I which is held by Joytell Pty Ltd for a cash consideration of \$3.2m on 21/08/2012. This payment was completed in July 2013.

The Company has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Company's exploration program and priorities. These obligations are also subject to variations by negotiation, joint venturing or relinquishing some of the relevant tenements. The total exploration minimum expenditure commitments of the Company amounts to \$1,032,767 per annum, these commitments are not reflected in the financial statements.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

19. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic loss per share at 30 June 2013 was based on the loss attributable to ordinary shareholders of \$1,256,725 (2012: \$396,273) and a weighted average number of ordinary shares outstanding during the year of 206,426,374 (2012: 206,426,374) shares calculated as follows:

	Number 2013	Number 2012
Weighted average number of ordinary shares		
Balance at beginning of year	206,426,374	206,426,374
	<u>206,426,374</u>	<u>206,426,374</u>
	2013	2012
	\$	\$
Loss attributable to ordinary shareholders		
Net loss for the year	<u>(1,256,725)</u>	<u>(396,273)</u>

Diluted earnings per share must be calculated where potential ordinary shares on issue are dilutive. As the potential ordinary shares on issue would decrease the loss per share in the current period, they are not considered dilutive, and not shown. The number of potential ordinary shares is set out in Note 14.

20. SEGMENT REPORTING

The Board has determined that the consolidated entity has one reportable segment, being mineral exploration in Australia.

	Mineral Exploration \$	Corporate and administrative \$	Company \$
30 June 2013			
Segment revenue			
Other unallocated revenue	-	-	<u>218,255</u>
Total revenue	-	-	<u>218,255</u>
Segment result	(613,070)	(861,909)*	<u>(1,474,980)</u>
Loss before related income tax expense			<u>(1,256,725)</u>
Segment assets as at 30 June 2013	17,576,118	2,705,546**	<u>20,281,664</u>
Segment liabilities as at 30 June 2013	186,534	191,640	<u>378,174</u>
30 June 2012			
Segment revenue			
Other unallocated revenue	-	-	<u>562,300</u>
Total revenue			<u>562,300</u>
Segment result	(644,697)	(313,876)	<u>(958,573)</u>
Unallocated revenues and expenses			<u>(396,273)</u>
Loss before related income tax expense			<u>(396,273)</u>
Segment assets as at 30 June 2012	12,762,027	9,596,691	<u>22,358,718</u>
Segment liabilities as at 30 June 2012	1,000,000	198,503	<u>1,198,503</u>

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

20. SEGMENT REPORTING (cont'd)

*Corporate and administrative results consist of:

Depreciation	(26,433)
Employee benefit	(174,998)
Consultancy	(218,866)
Payroll tax	(59,635)
Rent and Outgoings	(87,765)
General other administrative expenses	(294,258)
Gain from foreign currency exchange	45
Corporate and administrative segment result as at 30 June 2013	(861,909)

**Corporate and administrative assets consist of:

Cash and cash equivalents	2,635,895
Trade and other receivables	59,952
Property, plant and equipment	9,699
Corporate and administrative segment assets as at 30 June 2013	2,705,546

21. KEY MANAGEMENT PERSONNEL

Key management personnel compensation

	2013 \$	2012 \$
Short-term employee benefits	826,991	776,310
Non-Monetary benefits	-	8,743
Post-employment benefits	73,439	65,149
Other benefits	-	-
	<u>900,430</u>	<u>850,202</u>

Detailed remuneration disclosures are provided in the Remuneration Report on pages 21 to 23.

Options holdings of key management personnel

	Held at 1 July 2012	Granted as compensation	Exercised	Other changes	Held at date of resignation	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
Directors								
Mr J Chen	-	-	-	-	-	-	-	-
Mr G Xu	4,532,069	-	-	-	-	4,532,069	-	4,532,069
Mr T Williams (i)	-	-	-	-	-	-	-	-
Mr A Ho (ii)	-	-	-	-	-	-	-	-
	Held at 1 July 2011	Granted as compensation	Exercised	Other changes	Held at date of resignation	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
Directors								
Mr J Chen	-	-	-	-	-	-	-	-
Mr G Xu	4,532,069	-	-	-	-	4,532,069	-	4,532,069
Mr A Ho	-	-	-	-	-	-	-	-

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

Shareholdings of key management personnel

	Held at 1 July 2012	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2013
2013							
Directors							
Mr J Chen	-	N/A	-	-	-	N/A	-
Mr G Xu	13,596,207	N/A	-	-	-	N/A	13,596,207
Mr T Williams (i)	-	-	-	-	-	N/A	-
Mr A Ho (ii)	-	N/A	-	-	-	N/A	-
2012							
Directors							
Mr J Chen	-	N/A	-	-	-	N/A	-
Mr G Xu	13,596,207	N/A	-	-	-	N/A	13,596,207
Mr A Ho (ii)	-	N/A	-	-	-	-	-

(i) Appointed 3 February 2012, resigned 31 August 2013.

(ii) Appointed 24 July 2007, resigned as Director 13 June 2012.

No shares or options were granted to key management personnel during the year as compensation.

Other key management personnel transactions with the Company

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company during the year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amount recognised during the year relating to key management personnel were as follows:

Director	Transaction	Transactions value for the year ended 30 June		Balance outstanding as at 30 June	
		2013	2012	2013	2012
Mr A Ho	Company secretarial and accounting fees ¹	-	47,521	-	-
	Consultancy fees ²	-	-	-	-

Notes in relation to the table of related party transactions

1. A company associated with Mr Ho provides company secretarial and accounting services in connection with the operations of the Company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.
2. A company associated with Mr Ho provided consultancy services in respect of the Company's capital raising in February 2011. Terms for such services were based on market rates.

There were no other key management personnel transactions other than disclosed above.

NOTES OF THE FINANCIAL STATEMENTS (cont'd)

22. RELATED PARTY DISCLOSURES

(a) Ultimate parent

Dragon Energy Ltd is the ultimate Australian entity. The Company notes that it has a controlling shareholder being Shandong Taishan Sunlight Group Company Limited, which was incorporated in the People's Republic of China and owns 70.25% of Dragon Energy Ltd.

(b) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in Note 21.

(c) Loans to related parties

No loans were advanced to related parties during the reporting period.

23. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES

	2013 \$	2012 \$
Cash flows from operating activities		
Loss for the year	(1,256,725)	(396,273)
Adjustments for:		
Depreciation	26,433	30,542
Capitalised expenditure written off	55,381	-
Foreign exchange gain/loss	(45)	(737,748)
Operating loss before changes in working capital and provisions	<u>(1,174,957)</u>	<u>(1,103,479)</u>
Change in trade and other receivables	11,996	(54,495)
Change in trade and other payables	27,449	19,983
Change in prepayments	17,449	(19,030)
Change in provisions	(6,494)	41,480
Net cash used in operating activities	<u><u>(1,124,556)</u></u>	<u><u>(1,115,541)</u></u>

24. CONTINGENT LIABILITIES

The Company has no contingent liabilities at reporting date.

25. EVENTS OCCURRING AFTER THE REPORTING DATE

On 30 June 2013, Mr Anthony Ho resigned as Company Secretary. Mr Leonard Math and Mr Ziming Yan have been appointed as Joint Company Secretaries on 1 July 2013. Mr Leonard Math was also appointed as Chief Financial Officer on the same date.

On 31 August 2013, Mr Timothy Williams resigned as Chief Operating Officer / Executive Director. Mr Rodney Illingworth and Mr Weifeng Li were appointed as non-executive directors effective from 1 September 2013.

On 15 July 2013, the Company received a funding amount of A\$300,000 for Stage 1 under the Ashburton Joint Venture Agreement with Shandong Energy and Shandong Lunan. Shandong Energy and Shandong Lunan will each earn 15% interest respectively in the Ashburton Project before the end of year period.

There has no other events other than disclosed above arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

In the opinion of the directors of Dragon Energy Ltd:

- (a) the financial statements and notes, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 1 to 16, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and chief financial officer for the year ended 30 June 2013.

Signed in accordance with a resolution of the directors:

Dated at Perth, Western Australia this 27th day of September 2013.

A handwritten signature in black ink, appearing to read "Mr Gang Xu".

Mr Gang Xu
Managing Director

INDEPENDENT AUDITOR'S REPORT

To the members of Dragon Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Dragon Energy Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Dragon Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



Opinion

In our opinion:

- (a) the financial report of Dragon Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Dragon Energy Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink that reads 'Chris Burton'.

Chris Burton

Director

Perth, 27 September 2013

ASX ADDITIONAL INFORMATION

Additional information required by Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 27 September 2013.

(a) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

Rank	Name	Units	% of Units
1.	SHANDONG TAISHAN SUNLIGHT GROUP COMPANY LIMITED	145,020,384	70.25
2.	MR GANG XU + MRS QIONG LIU <XU & LIU FAMILY A/C>	8,010,000	3.88
3.	CHEN & XING PTY LTD <SUPER FUND A/C>	5,586,207	2.71
4.	RENFENG ZHANG	5,000,000	2.42
5.	SERNG YEE LIEW	4,400,000	2.13
6.	JIANGXI ZHONGHE MINING DEVELOPMENT CO LTD	4,000,000	1.94
7.	MS CUI YING CEN	1,250,000	0.61
8.	AYLWORTH HOLDINGS PTY LTD <J & RD BORSHOFF FAMILY A/C>	1,000,000	0.48
9.	JIXUE JIAN	1,000,000	0.48
10.	WESTESSA HOLDINGS PTY LTD	1,000,000	0.48
11.	SHUXIAN LIU	800,000	0.39
12.	MS GILLIAN SWABY	800,000	0.39
13.	GUIHUA ZHANG	737,300	0.36
14.	MR CHUANSHUI YIN	600,000	0.29
15.	MRS SHERYL ANNETTE HOGG	540,000	0.26
16.	MS SHU BIN CHEN	500,000	0.24
17.	MISS KAREN TERESA LOGAN	500,000	0.24
18.	PACWAY INVESTMENTS PTY LTD	500,000	0.24
19.	HUASHUN WANG	500,000	0.24
20.	RM CAPITAL PTY LTD	484,923	0.23
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)		182,228,814	88.28
Total Remaining Holders Balance		24,197,560	11.72

(b) Distribution of equity security holders

Analysis of numbers of equity security holders by size of holding:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	6	734	0.00
1,001 - 5,000	14	38,630	0.02
5,001 - 10,000	429	4,273,065	2.07
10,001 - 100,000	83	3,761,416	1.82
100,001 - 9,999,999,999	75	198,352,529	96.09
Total	607	206,426,374	100.00

ASX ADDITIONAL INFORMATION

(c) Twenty Largest Option Holders

The names of the twenty largest holders of options are:

Rank	Name	Units	% of Units
1.	SHANDONG TAISHAN SUNLIGHT GROUP COMPANY LIMITED	20,000,000	42.14
2.	JIXUE JIAN	7,000,000	14.75
3.	MR GANG XU + MRS QIONG LIU <XU & LIU FAMILY A/C>	2,670,000	5.63
4.	CHEN & XING PTY LTD <SUPER FUND A/C>	1,862,069	3.92
5.	RENFENG ZHANG	1,666,667	3.51
6.	SERNG YEE LIEW	1,466,667	3.09
7.	JIANGXI ZHONGHE MINING DEVELOPMENT CO LTD	1,333,334	2.81
8.	GUIHUA ZHANG	1,045,767	2.20
9.	MR PETER LANCE DILLON	650,000	1.37
10.	MR MARK HAFER	500,000	1.05
11.	MR HENRY KWOK TAI NG	500,000	1.05
12.	HONGSHAN ZHANG	500,000	1.05
13.	LIN LIU	492,834	1.04
14.	GUANPENG LI	483,334	1.02
15.	JIAN ZHANG	400,000	0.84
16.	MENTECH ENTERPRISES GROUP PTY LTD	333,334	0.70
17.	GOFFACAN PTY LTD <KMM FAMILY A/C>	266,668	0.56
18.	SHUXIAN LIU	266,667	0.56
19.	MS WEILI MIAN	260,469	0.55
20.	MS CUI YING CZN	250,001	0.53
Totals: Top 20 holders of OPTIONS EXP 18/11/14 @ \$0.35		41,947,811	88.39
Total Remaining Holders Balance		5,512,434	11.61

(d) Distribution of Option Holders

Analysis of numbers of equity security holders by size of holding:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	4	2,273	0.00
1,001 - 5,000	14	48,222	0.10
5,001 - 10,000	3	22,335	0.05
10,001 - 100,000	25	1,189,594	2.51
100,001 - 9,999,999,999	48	46,197,821	97.34
Total	94	47,460,245	100.00

ASX ADDITIONAL INFORMATION

(e) Substantial Shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares	Percentage
SHANDONG TAISHAN SUNLIGHT GROUP COMPANY LIMITED	145,020,384	70.25%
MR GANG XU	13,596,207	6.61%

(f) Restricted Securities

There are no restricted securities as at 27 September 2013

(g) Unmarketable Parcels

There were no holdings of less than a marketable parcel of ordinary shares.

(h) Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands, every member present in person or by proxy shall have one vote, and upon a poll, each share shall have one vote.

Options do not carry any voting rights.

(i) On Market Buy Back

There is no current on market buy-back.

(j) Interest in Mining Tenements

As at the date of this report, there is no change to the tenement schedule listed on page 12 of the review of operations.