DRAGON ENERGY

ACN 119 992 175

ANNUAL REPORT

for the year ended 30 June 2009

CORPORATE DIRECTORY

Directors

Mr Jie Chen — Chairman
Mr Gang Xu — Managing Director
Mr Qingyong Guo
Mr Anthony Ho
Mr Wenle Zeng

Company Secretary

Mr Anthony Ho

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West Perth, Western Australia, 6005

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Registered Office

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Share Registry

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

Telephone: (61-8) 9323 2000
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Auditor

BDO Kendalls Audit & Assurance (WA) Pty Ltd
128 Hay Street
Subiaco, Western Australia, 6008

Bankers

National Australia Bank Limited
1232 Hay Street
West Perth, Western Australia, 6005

Solicitors

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

Stock Exchange

ASX Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia, 6000

ASX Code: DLE

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The directors present their report together with the financial report of Dragon Energy Ltd (the "Company") and of the consolidated entity, being the Company and its subsidiary for the year ended 30 June 2009 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
Executive Chairman – appointed 18 December 2008

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 is currently the 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 Chen is a resident in the PRC.

Mr Chen will be seeking re-election by shareholders at the 2009 Annual General Meeting.

Mr Gang Xu
Managing Director – appointed 1 June 2006

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 and is a member of AusIMM. Mr Xu has been active in developing Sino-Australian business ventures in the mining industry and has facilitated negotiations between Chinese and Australian parties in mining development investments and off-take agreements. Mr Xu is a resident in Australia.

Mr Qingyong Guo
Executive Director – appointed 18 December 2008

Mr Guo is a graduate in mine engineering from the China University of Mining and Technology. He was a mine engineer for a large China state-owned coal mine. Mr Guo is the General Manager of the Coal Project Generation Department for the Shandong Group. He was credited for securing Chinese government approvals of two iron ore mining licenses in Shandong province and one coal mining license in Northwest China. Mr Guo is also responsible for the construction of a new mid-sized coal mine in Northwest China which is expected to be in production in October 2009.

In 2004 he completed his masters degree in mine engineering and is currently working on his doctorate degree in project management. Mr Guo is a resident in the PRC but will be expected to work closely with Dragon Energy's Australian projects.

Mr Guo will be seeking re-election by shareholders at the 2009 Annual General Meeting.

DIRECTORS (cont'd)

Mr Anthony Ho
Chief Financial Officer – appointed 18 December 2008
Company Secretary – appointed 31 August 2007

Mr Ho is a commerce graduate of the University of Western Australia. He qualified as a Chartered Accountant in 1983 with Deloittes and is presently the principal of a public practice, specialising in providing corporate and financial services to ASX-listed companies.

Prior to establishing his practice in 1991, he spent 7 years in a senior corporate role with a major investment and resource group in Western Australia. He is currently a non executive director of Brumby Resources Limited and Redisland Australia Limited which are companies listed on ASX. Mr Ho is a resident in Australia.

Mr Ho will be seeking re-election by shareholders at the 2009 Annual General Meeting.

Mr Wenle Zeng
Non-Executive Director – appointed 24 July 2007

Mr Zeng is a science graduate in economic geology from the Nanjing University in the PRC and has over 20 years' experience in the uranium exploration and mining industry. He is presently the deputy director of the Geology and Mineral Resources Division of the Jiangxi Nuclear Industry Geological Bureau responsible for the bureau's uranium exploration and mining activities. Mr Zeng is currently overseeing the development of two state uranium projects in Jiangxi province in the PRC.

He has extensive experience and understanding of the regulatory aspects of the uranium industry in the PRC. In particular, Mr Zeng is well regarded in the PRC for his knowledge and experience of the volcanic and granite types of uranium mineralisation. He is currently completing a doctorate degree in economic geology at Guangzhou Institute of Geochemistry Chinese Academy of Sciences. Mr Zeng is a resident in the PRC.

Mr Zeng will be retiring by rotation and seeking re-election by shareholders at the 2009 Annual General Meeting.

Mr Nigel Bruce Clark
Non-Executive Chairman – appointed 5 October 2007, resigned 18 December 2008

Ms Alice McCleary
Non-Executive Director – appointed 5 October 2007, resigned 18 December 2008

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	KTL Technologies Limited	18/12/07	31/07/09
	UraniumSA Limited	08/08/06	16/02/09
Mr A Ho	Redisland Australia Limited	30/04/03	Present
	Brumby Resources Limited	24/02/06	Present
	Capitol Health Limited	01/12/05	07/07/08
Mr Q Guo	Nil	-	-
Mr W Zeng	Nil	-	-

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 Held	Board Meetings Attended	Nomination and Remuneration Committee Meetings Held	Nomination and Remuneration Committee Meetings Attended	Audit and Risk Committee Meetings Held	Audit and Risk Committee Meetings Attended
Mr J Chen	5	5	1	1	1	1
Mr G Xu	12	12	-	-	1	1
Mr A Ho	5	5	-	-	1	1
Mr Q Guo	5	5	1	1	-	-
Mr W Zeng	11	10	1	1	-	-
Mr N Clark	7	7	-	-	-	-
Ms A McCleary	7	7	-	-	-	-

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 Q Guo (Chairman)	Mr A Ho (Chairman)
Mr J Chen	Mr J Chen
Mr W Zeng	Mr G Xu

PRINCIPAL ACTIVITY

The principal activity of the consolidated entity during the year was the development of interests in exploration projects.

OPERATING AND FINANCIAL REVIEW

Operating review

The Company was successfully admitted to the Official List of ASX during the year. This listing was preceded by capital raisings aggregating $6,961,306 (of which $6,352,870 was raised during the year).

During the year, the Company acquired rights to explore and mine phosphate in the Georgina Basin in Queensland. The Company is also currently pursuing other acquisition and joint venture opportunities in the resources industry.

Financial review

The consolidated entity incurred a loss of $601,675 for the financial year (2008: $479,733). This loss included the write-off of $267,221 (2008: $54,426) in exploration expenditure in accordance with the consolidated entity's accounting policies and corporate and administrative costs of $403,169 (2008: $357,059).

During the year, the Company also completed a capital raising programme aggregating $6,352,870.

In December 2008, the Company secured a cornerstone investor, Shandong Taishan Sunlight Group Company Limited (the "Shandong Group"). The Company raised $5,000,000 from the Shandong Group by the issue of 81,000,000 shares and 6,250,000 options exercisable at $0.30 each before 31 May 2012.

Significant Changes in the State of Affairs

The Company was admitted to the Official List of ASX Limited ("ASX") on 13 February 2009 and official quotation of its shares on ASX commenced on 18 February 2009.

Significant Changes in the State of Affairs (cont'd)

The consolidated entity's net assets increased by $5,489,056 to $5,424,149 during the financial year. The increase in net assets principally comprised:

(a) an increase in exploration and evaluation expenditure (including acquisition costs) of $300,000 as a result of the acquisition of a portfolio of mineral exploration tenements located in the Queensland; and

(b) an increase in cash assets of $5,148,048 principally from capital raisings completed during the year.

Fully paid ordinary shares issued during the year were as follows:

- The issue of 1,918,300 fully paid ordinary shares at $0.10 each to raise $191,830;
- The issue of 715,000 fully paid ordinary shares at $0.10 each to raise $71,500;
- The issue of 5,500,000 fully paid ordinary shares at $0.001 each to raise $5,500;
- The issue of 81,000,000 fully paid ordinary shares at $0.0617 each to raise $5,000,000; and
- The issue of 5,420,200 fully paid ordinary shares at $0.20 each to raise $1,084,040.

Total shares on issue at 30 June 2009 are 142,379,707.

RESULTS

The consolidated entity incurred a loss from operating activities of $601,675 (2008: loss of $479,733) after income tax for the financial year.

REVIEW OF ACTIVITIES

During the year, the consolidated entity focussed its activities in capital raising and development of interests in exploration projects in the resource industry in Australia.

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. 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 Director's Report.

EVENTS SUBSEQUENT TO BALANCE DATE

Other than any matters described in Note 28 to these financial statements, there has not 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 consolidated entity, the results of those operations, or the state of affairs of the consolidated Entity in future financial years.

LIKELY DEVELOPMENTS

The consolidated entity will continue to pursue its main objective of developing interests in exploration projects. The consolidated entity is also currently pursuing other acquisition opportunities.

Further information about likely developments in the operations of the consolidated entity 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 consolidated entity.

OPTIONS

Options granted

During or since the end of the year, the Company granted the following options over unissued ordinary shares:

Class	Expiry Date	Exercise Price	Date Granted	Number of Options
Unlisted Options	31 May 2012	$0.30	18 December 2008	6,250,000

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
Unlisted Options	31 May 2012	$0.30	11,150,000

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 or any other entity.

DIRECTORS' INTERESTS

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

Director	Ordinary shares	Options
Mr J Chen	-	-
Mr G Xu[1]	13,596,207	-
Mr A Ho	-	500,000
Mr Q Guo	-	-
Mr W Zeng	250,000	1,000,000

1. Includes 8,010,000 shares held indirectly by Mr Xu & Ms Liu as trustee for the Xu and Liu Family Trust Account of which Mr Xu is a beneficiary. 5,586,207 shares are held indirectly by Chen & Xing Pty Ltd as trustee for the Gang Xu Super Fund Account of which Mr Xu is a director and beneficiary.

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 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.

NON-AUDIT SERVICES

During the financial year, BDO Kendalls Corporate Finance (WA) Pty Ltd ("BDO Kendalls Corporate Finance"), a related entity of BDO Kendalls Audit & Assurance (WA) Pty Ltd ("BDO Kendalls Audit & Assurance"), the Company's auditor, performed certain other services in addition to their statutory duties.

The Board and the Audit and Risk Committee have considered the non-audit services provided during the financial year by the auditor and are satisfied that the provision of those non-audit services during the financial year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, BDO Kendalls Audit & Assurance (WA) Pty Ltd, and its related practices for audit and non-audit services provided during the financial year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
	2009 **$**	**2008** **$**
Statutory audit:		
- audit of financial reports (BDO Kendalls Audit & Assurance)	27,250	6,095
Services other than statutory audit:		
Other Services		
- independent accountant's report for inclusion in a prospectus (BDO Kendalls Corporate Finance (WA) Pty Ltd)	6,060	-

REMUNERATION REPORT

The Remuneration Report is set out on pages 8 to 12 and forms part of the Directors' Report.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 3007C of the Corporations Act 2001 is included on page 7 of the financial report.

Dated at Perth, Western Australia this 1st day of September 2009.

Signed in accordance with a resolution of the directors:

Gang Xu
Managing Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
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ABN 79 112 284 787

1 September 2009

The Directors
Dragon Energy Ltd
79 Broadway
NEDLANDS WA 6009

Dear Sirs

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

As lead auditor of Dragon Energy Limited for the year ended 30 June 2009, 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.

This declaration is in respect of Dragon Energy Limited and the entity it controlled during the year.

C Burton

Chris Burton
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the consolidated entity in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

For the purposes of this report, key management personnel of the consolidated entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. The consolidated entity does not presently employ any executives, other than the executive directors.

KEY MANAGEMENT PERSONNEL

The following were key management personnel of the consolidated entity 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 (appointed 18 December 2008)
Mr G Xu	Managing Director
Mr Q Guo	Executive Director (appointed 18 December 2008)
Mr A Ho	Chief Financial Officer (appointed 18 December 2008)
Mr W Zeng	Non-Executive Director
Mr N Clark	Non-Executive Director (appointed 5 October 2007, resigned 18 December 2008)
Ms A McCleary	Non-Executive Director(appointed 5 October 2007, resigned 18 December 2008)

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 consolidated entity.

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 consolidated entity'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 consolidated entity's principal activity, the overall level of compensation does not have regard to the earnings of the consolidated entity.

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.

Non-executive directors generally do not receive performance related compensation. However, shareholders approved the grant of 4,000,000 options to non-executive directors on 20 March 2008.

REMUNERATION STRUCTURE (cont'd)

Non-executive director remuneration (cont'd)

The Board considers that the issue of 4,000,000 options as remuneration to the non-executive directors was appropriate at the date of grant. The Board believes it ensured that remuneration was competitive with market standards and provided an incentive to pursue longer term success for the Company. Furthermore, the Board considers the grant of options as remuneration reduced demand on the critical cash resources of the Company at that time, and assisted in ensuring the continuity of service of directors who have extensive knowledge of the Company, its business activities and assets and the industry in which it operates.

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 consolidated entity. As noted above, the Nomination and Remuneration Committee has access to external advice independent of management.

Long-term incentive

Long-term incentives ("LTI") may be provided to key management personnel via the Dragon Energy Employee Share Option Plan ("ESOP"). The LTI are provided as options over ordinary shares of the Company to key management personnel based on their position within the consolidated entity. Vesting conditions may be imposed on any LTI grants if considered appropriate, in accordance with the ESOP's terms and conditions.

LTI are considered to promote continuity of employment and provide additional incentive to recipients to increase shareholder wealth. Options may only be issued to directors subject to approval by shareholders in general meeting.

The Company has introduced a policy that prohibits employees and directors of the consolidated entity from entering into transactions that operate or are intended to operate to limit the economic risk or are designed or intended to hedge exposure to unvested Company securities. This includes entering into arrangements to hedge their exposure to LTI granted as part of their remuneration package. This policy may be enforced by requesting employees and directors to confirm compliance.

Consequences of performance on shareholder wealth

In considering the consolidated entity'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 since incorporation:

	2009	2008	2007[3]
Net loss for the year	$601,675	$479,733	$124,056
Dividends paid	Nil	nil	nil
Change in share price	12.5 cents	9.0 cents	Nil
Share price at beginning of the period	10.0 cents[1]	1.0 cent[2]	1.0 cent[2]
Share price at end of the period	22.5 cents	10.0 cents[1]	1.0 cent[2]
Loss per share	0.61 cents	1.33 cents	1,241 cents[2]

1. The last issue price per share in a seed capital raising prior to 30 June 2008.
2. The Company was incorporated on 1 July 2006 with an issued capital of $100 (100 shares of 1.0 cent each).
3. These figures cover the period from incorporation on 1 June 2006 to 30 June 2007.

REMUNERATION STRUCTURE (cont'd)

Consequences of performance on shareholder wealth (cont'd)

Due to the consolidated entity currently being in an evaluation and developmental phase, the consolidated entity'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.

As a result, remuneration was not paid to non-executive directors, the Chairman or the Chief Financial Officer until the Company was admitted to the Official List of ASX in February 2009. Since then, the level of remuneration has remained unchanged. Furthermore, total remuneration for all non-executive directors has remained unchanged since voted upon by shareholders in September 2007.

There were no performance related remuneration transactions during the financial year (2008: 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.

Mr Jie Chen, Executive Chairman, has an employment agreement effective from 1 April 2009 with the Company ("Employment Agreement"). The Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Chairman. The Employment Agreement is for an unlimited term and is capable of termination on one month's notice, or making payment in lieu of notice. The Company must pay to Mr Chen $120,000 per annum (exclusive of statutory superannuation) for Mr Chen's services.

The Employment Agreement is terminable by either the Company or Mr Chen giving written notice. Mr Chen has no entitlement to termination payment in the event of removal for misconduct.

Mr Gang Xu, Managing Director, has an employment agreement effective from 16 May 2008 with the Company ("Employment Agreement"). The Employment Agreement specifies the duties and obligations to be fulfilled by the Managing Director. The term of the Employment Agreement is 3 years. The Company must pay to Mr Xu $100,000 per annum (exclusive of statutory superannuation) for Mr Xu's services. With effect from 13 February 2009, the Company must pay $160,000 per annum (exclusive of statutory superannuation) for Mr Xu's services, under the terms of the Employment Agreement.

The Employment Agreement is terminable after its initial term by either the Company or Mr Xu giving written notice. Mr Xu has no entitlement to termination payment in the event of removal for misconduct.

Mr Anthony Ho, Chief Financial Officer, has an employment agreement effective from 13 February 2009 with the Company ("Employment Agreement"). The Employment Agreement specifies the duties and obligations to be fulfilled by the Chief Financial Officer. The term of the Employment Agreement is 3 years. The Company must pay to Mr Ho $80,000 per annum (exclusive of statutory superannuation) for Mr Ho's services.

The Employment Agreement is terminable after its initial term by either the Company or Mr Ho giving written notice. Mr Ho has no entitlement to termination payment in the event of removal for misconduct.

Mr Qingyong Guo, Executive Director, has an employment agreement dated 15 July 2009 with the Company ("Employment Agreement"). The Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Director. The Employment Agreement is for an unlimited term from the date of approval of an appropriate Australian work visa and is capable of termination on one month's notice, or making payment in lieu of notice. Under the terms of the Employment Agreement, Mr Guo will be paid $80,000 per annum (exclusive of statutory superannuation) for Mr Guo's services.

The Employment Agreement is terminable by either the Company or Mr Guo giving written notice. Mr Guo has no entitlement to termination payment in the event of removal for misconduct.

Refer to Note 20 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

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 consolidated entity are:

		PRIMARY	POST-EMPLOYMENT	SHARE-BASED PAYMENTS			
		Salary & fees $	Superannuation $	Options[3] $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors							
Non-executive							
Mr Q Guo[1]	2009	9,000	-	-	9,000	-	-
Mr W Zeng	2009	9,000	-	-	9,000	-	-
	2008	-	-	9,396	9,396	-	100%
Mr N Clark[2]	2009	-	-	-	-	-	-
	2008	-	-	18,792	18,792	-	100%
Ms A McCleary[2]	2009	-	-	-	-	-	-
	2008	-	-	9,396	9,396	-	100%
Executive							
Mr J Chen[1]	2009	43,500	2,700	-	46,200	-	-
Mr G Xu	2009	107,993	20,349	-	128,343	-	-
	2008	11,468	1,032	-	12,500	-	-
Mr A Ho[1]	2009	16,571	16,648	-	33,219	-	-
Total, all directors	**2009**	186,065	39,697	-	225,762		
	2008	11,468	1,032	37,584	50,084		

Notes in relation to the table of remuneration:

1. Appointed 18 December 2008.
2. Resigned 18 December 2008.
3. The fair value of the options is calculated at the date of grant using a Black-Scholes valuation model and allocated to each reporting period evenly over the period from grant date to vesting date. Since all options vested during the reporting period the value disclosed is the fair value of the options. Market conditions were not taken into account within the valuation model as the Company was not listed on the ASX at the date of grant.

The following factors and assumptions were used in determining the fair value of the options on grant date:

Grant date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
13 May 2008	31 May 2012	0.9396 cents	$0.30	$0.07	55.00%	7.00%	0.00%

All options are fully vested.

SHARE-BASED PAYMENTS

Options and rights over equity instruments granted as compensation

There were no options granted as compensation to key management person during the reporting period.

Details on options that were granted as compensation to each key management person during the previous reporting period are as follows:

	Number of options granted during 2008	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	Number of options vested during 2008
Executives						
Mr W Zeng	1,000,000	13 May 2008	0.9396 cents	$0.30	31 May 2012	1,000,000
Mr N Clark	2,000,000	13 May 2008	0.9396 cents	$0.30	31 May 2012	2,000,000
Ms A McCleary	1,000,000	13 May 2008	0.9396 cents	$0.30	31 May 2012	1,000,000

No options have been granted since the end of the financial year. The options were provided at no cost to the recipient.

No options have been exercised during the year and up to the date of this report.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

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* (2nd Edition) (the "Recommendations") that took effect for the financial year from 1 July 2008 to 30 June 2009. 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 were updated during the 2009 financial year to comply with the revised Recommendations and are available on the Company's website: www.dragonenergyltd.com.au. This statement reflects Dragon Energy's corporate governance system in place during the 2009 financial year and as at the date of this report.

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 the 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 consists of an executive chairman, two executive directors, one non-executive director and the Managing Director. 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. Although Mr Zeng holds 250,000 fully paid ordinary shares in the Company, the Board considers this immaterial. He is regarded as independent as Mr Zeng is not a substantial shareholder as defined by the *Corporations Act*.

Independence of non-executive directors and the Chairman of the Board (cont'd)

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.

Nomination and Remuneration Committee

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

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.

The Company is at variance with Recommendation 2.4 in that the Nomination and Remuneration Committee does not consist of a majority of independent directors. The Board considers that this composition is appropriate given the current size of the Company.

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 Board has adopted a Code of Conduct which 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.

Securities Trading Policy

The Dealing Rules for Employees and Directors sets out the rules relating to dealings by employees and directors in securities issued by the Company. Directors and employees may only trade in Dragon Energy securities during prescribed trading windows and only then if they are not in possession of inside information. All directors and employees are required to seek approval before trading in Dragon Energy securities during the trading windows.

Dragon Energy has instituted prohibitions on employees and directors from using derivatives or hedging arrangements that operate or are intended to operate to limit the economic risk of security holdings over unvested Company securities.

The Company will publicly disclose all derivatives or hedging arrangements over vested Dragon Energy securities taken out by a director of the Company.

The Dealing Rules reflects the matters set out in the commentary and guidance for Recommendation 3.2.

The Code of Conduct and a summary of the Dealing Rules for Employees and Directors 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 the Chief Financial Officer, Mr Ho.

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 or a majority of independent directors and is not chaired by an independent chairman. 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 Kendalls Audit & Assurance (WA) Pty Ltd ("BDO Kendalls"). The appointment of BDO Kendalls 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.

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. The Policy has regard to the Joint Australian/New Zealand Standard, AS/NZS 4360:2004, *Risk management*.

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.

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.

Non-executive directors generally do not receive performance related compensation. However, shareholders approved the grant of 4,000,000 options to non-executive directors in March 2008.

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

The Company is at variance with Recommendation 8.2 in that the Company's non-executive directors received options as remuneration during the previous financial year. The Board considers that the issue of 4,000,000 options as remuneration to the non-executive directors was appropriate at the date of grant. The Board believes it ensured that remuneration was competitive with market standards and provided an incentive to pursue longer term success for the Company. Furthermore, the Board considers the grant of options as remuneration reduced demand on the critical cash resources of the Company at that time, and assisted in ensuring the continuity of service of directors who have extensive knowledge of the Company, its business activities and assets and the industry in which it operates.

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 13
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 13
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 13

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 13 & 14
Rec 2.2	The chairman should be an independent director.	No	Website & Page 13 & 14
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Website & Page 13
Rec 2.4	The board should establish a nomination committee.	No	Website & Page 14
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Website & Page 14
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes	Website & Page 13 & 14
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: ▪ the practices necessary to maintain confidence in the company's integrity; ▪ the practices necessary to take account of their legal obligations and reasonable expectations of their stakeholders; and ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website & Page 15
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy.	Yes	Website & Page 15
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website & Page 15
Pr 4	**Safeguard integrity in financial reporting**		
Rec 4.1	The board should establish an audit committee.	Yes	Website & Page 15
Rec 4.2	The audit committee should be structured so that it: ▪ 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	Website & Page 15
Rec 4.3	The audit committee should have a formal charter.	Yes	Website & Page 15
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website & Page 15
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 16
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website & Page 16

	Requirement	Comply Yes/ No	Reference/ Explanation
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 16
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 16
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 16
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 16
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 16
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 16
Pr 8	**Remunerate fairly and responsibly**		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 17
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	No	Website & Page 17
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 17

INCOME STATEMENTS

for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Revenue from continuing operations		117,387	5,847	117,387	5,847
Other income	3	3,221	-	3,302	-
Corporate and administrative expenses		(403,170)	(357,059)	(389,406)	(357,059)
Depreciation expense		(18,448)	(17,440)	(18,448)	(17,440)
Exploration expenses		(267,221)	(54,426)	(267,221)	(54,426)
Occupancy expenses		(33,444)	(51,122)	(33,444)	(51,122)
Other expenses	3	-	(5,533)	(12,795)	(5,485)
Loss before income tax		(601,675)	(479,733)	(600,625)	(479,685)
Income tax	5	-	-	-	-
Net loss for the year		(601,675)	(479,733)	(600,625)	(479,685)
Basic and diluted loss per share attributable to ordinary equity holders of the Company (cents)	21	(0.61)	(1.33)		

These Income Statements are to be read in conjunction with the accompanying notes.

DRAGON ENERGY

BALANCE SHEETS

as at 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
CURRENT ASSETS					
Cash and cash equivalents	6	2,188,006	109,459	2,186,416	97,660
Trade and other receivables	7	18,111	18,479	18,111	18,479
Held to maturity investments	8	3,069,501	-	3,069,501	-
Other assets	9	12,726	794	12,726	794
Total Current Assets		5,288,344	128,732	5,286,754	116,933
NON CURRENT ASSETS					
Trade and other receivables	7	-	-	-	12,795
Property, plant & equipment	10	40,295	56,885	40,295	56,885
Exploration and evaluation expenditure	11	300,000	-	300,000	-
Total Non Current Assets		340,295	56,885	340,295	69,680
TOTAL ASSETS		5,628,639	185,617	5,627,049	186,613
CURRENT LIABILITIES					
Trade and other payables	13	122,225	56,901	122,225	56,901
Provisions	14	22,289	1,341	22,289	1,341
Loans and borrowings	15	9,988	132,306	9,988	132,306
Total Current Liabilities		154,502	190,548	154,502	190,548
NON CURRENT LIABILITIES					
Loans and borrowings	15	49,988	59,976	49,988	59,976
Total Non Current Liabilities		49,988	59,976	49,988	59,976
TOTAL LIABILITIES		204,490	250,524	204,490	250,524
NET ASSETS/ (DEFICIENCY)		**5,424,149**	**(64,907)**	**5,422,559**	**(63,911)**
EQUITY					
Issued capital	16	6,580,885	493,790	6,580,885	493,790
Reserves	17	48,729	45,093	46,040	46,040
Accumulated losses	18	(1,205,465)	(603,790)	(1,204,366)	(603,741)
TOTAL EQUITY/ (DEFICIENCY)		**5,424,149**	**(64,907)**	**5,422,559**	**(63,911)**

These Balance Sheets are to be read in conjunction with the accompanying notes.

DRAGON ENERGY

CASH FLOWS STATEMENTS

for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Cash flows from operating activities					
Interest income		117,387	5,847	117,387	5,847
Cash payments in the course of operations		(629,127)	(365,033)	(615,363)	(360,569)
Net cash used in operating activities	24	(511,740)	(359,186)	(497,976)	(354,722)
Cash flows from investing activities					
Payments for property, plant & equipment		(1,858)	(1,570)	(1,858)	(1,570)
Proceeds from sale of property, plant & equipment		-	5,585	-	5,585
Payments for exploration expenditure – acquisition costs		(300,000)	(50,000)	(300,000)	(50,000)
Payment for acquisition of held to maturity investment		(3,069,501)	-	(3,069,501)	-
Payment for acquisition of subsidiary		-	-	-	(1,372)
Net cash used in investing activities		(3,371,359)	(45,985)	(3,371,359)	(47,357)
Cash flows from financing activities					
Proceeds from the issue of share capital (net)		6,087,095	520,606	6,087,095	520,606
Payments for loan to controlled entity		-	-	-	(14,891)
Proceeds from borrowings		42,237	-	42,237	-
Repayment of borrowings		(174,543)	(6,797)	(174,543)	(6,797)
Net cash provided by financing activities		5,954,789	513,809	5,954,789	498,918
Net increase in cash held		**2,071,690**	**108,638**	**2,085,454**	**96,839**
Cash and cash equivalents at the beginning of the year	6	109,459	821	97,660	821
Effect of exchange rate changes on cash and cash equivalents		6,857	-	3,302	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**2,188,006**	**109,459**	**2,186,416**	**97,660**

These Cash Flows Statements are to be read in conjunction with the accompanying notes.

DRAGON ENERGY

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2009

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Opening balance as at 1 July 2007	100	-	(124,057)	(123,957)
Transactions with equity holders in their capacity as equity holders				
Shares issued	608,336	-	-	608,336
Share issue costs	(114,646)	-	-	(114,646)
Equity-settled share-based payment	-	46,040	-	46,040
Net income recognised directly in equity	**493,790**	**46,040**	**(124,057)**	**415,773**
Foreign currency translation reserve	-	(947)	-	(947)
Loss for the year	-	-	(479,733)	(479,733)
Balance as at 30 June 2008	**493,790**	**45,093**	**(603,790)**	**(64,907)**
Opening balance as at 1 July 2008	493,790	45,093	(603,790)	(64,907)
Transactions with equity holders in their capacity as equity holders:				
Shares issued	6,352,870	-	-	6,352,870
Share issue costs	(265,775)	-	-	(265,775)
Net income recognised directly in equity	**6,580,885**	**45,093**	**(603,790)**	**6,022,188**
Foreign currency translation reserve	-	3,636	-	3,636
Loss for the year	-	-	(601,675)	(601,675)
Balance as at 30 June 2009	**6,580,885**	**48,729**	**(1,205,465)**	**5,424,149**
Company				
Opening balance as at 1 July 2007	100	-	(124,056)	(123,956)
Transactions with equity holders in their capacity as equity holders				
Shares issued	608,336	-	-	608,336
Share issue costs	(114,646)	-	-	(114,646)
Equity-settled share-based payment	-	46,040	-	46,040
Net income recognised directly in equity	**493,790**	**46,040**	**(124,056)**	**415,774**
Loss for the year	-	-	(479,685)	(479,685)
Balance as at 30 June 2008	**493,790**	**46,040**	**(603,741)**	**(63,911)**
Opening balance as at 1 July 2008	493,790	46,040	(603,741)	(63,911)
Transactions with equity holders in their capacity as equity holders:				
Shares issued	6,352,870	-	-	6,352,870
Share issue costs	(265,775)	-	-	(265,775)
Net income recognised directly in equity	**6,580,885**	**46,040**	**(603,741)**	**6,023,184**
Loss for the year	-	-	(600,625)	(600,625)
Balance as at 30 June 2009	**6,580,885**	**46,040**	**(1,204,366)**	**5,422,559**

These Statements of Changes in Equity are to be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Company

Dragon Energy Ltd (the "Company") is a company domiciled in Australia. Dragon Energy Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements of the Company as at and for the year ended 30 June 2009 comprise the Company and its subsidiary (together referred to as the "consolidated entity").

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

Basis of preparation

Statement of compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with the Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial report of the consolidated entity and the financial report of the Company comply with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 1 September 2009.

Basis of measurement

The financial report is prepared on the accruals basis and the historical cost basis. The financial report is presented in Australian dollars.

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:

(i) Significant accounting judgments

Exploration expenditure

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 of as it is not considered viable.

(ii) Significant accounting estimates and assumptions

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 10.

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements comprise the financial statements of Dragon Energy Ltd and its subsidiary (as outlined in Note 26) as at 30 June each year (the "consolidated entity").

Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from inter-entity transactions have been eliminated in full.

The investment in subsidiary held by Dragon Energy Ltd is accounted for at cost in the separate financial statements of the Company less any impairment charges.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

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 consolidated entity's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the consolidated entity's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, 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 ($). The Hong Kong subsidiary's functional currency is Hong Kong Dollars which is translated to presentation currency.

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 balance sheet 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.

Translation of foreign operations

The assets and liabilities of the Hong Kong subsidiary are translated into Australian Dollars at the rate of exchange ruling at the balance sheet date. The income statements are translated at the average exchange rates for the period.

Foreign currency (cont'd)

Translation of foreign operations (cont'd)

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation will be recognised in the income statement.

Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. The directors have assessed the reportable business segments under AASB 114 Segment Reporting and have determined that on adoption of AASB 8 Segment Reporting (applicable from 1 January 2009), it is unlikely additional operating segments will need to be reported. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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 consolidated entity will not be able to collect all amounts due.

Operating revenue

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

Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the parent entity 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 consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity 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 consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity'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.

Financial instruments (cont'd)

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 Group's management has the positive intention and ability to hold to maturity. If the Group 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.

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 consolidated entity 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.

Property, plant and equipment (cont'd)

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.

Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries or other business combinations. Goodwill represents the excess of the cost of the acquisition over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill is measured at cost less accumulated impairment losses.

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 balance sheet 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

Income tax (cont'd)

(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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Dragon Energy Ltd and its subsidiary have 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 balance sheet.

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 consolidated entity, 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 income statement 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 is depreciated over the shorter of the asset's useful life and the lease term.

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. 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.

Employee benefits (cont'd)

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.

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 consolidated entity 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 consolidated entity.

New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the year ended 30 June 2009. These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on consolidated financial report	Application date for Group
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the consolidated entity's financial statements, and it is unlikely to impact the current disclosure of operating segments.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The consolidated entity has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the consolidated entity's financial report.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the consolidated entity's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The consolidated entity has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Impact on consolidated financial report	Application date for Group
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The consolidated entity does not have share-based payment arrangements that are affected by these amendments.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The consolidated entity may enter into some business combinations during a future financial year and may therefore require adoption of the amendments.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the consolidated entity changes its ownership interest in the existing subsidiary in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the consolidated entity's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009

New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Impact on consolidated financial report	Application date for Group
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the consolidated entity enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: ▪ quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); ▪ inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and ▪ inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	The consolidated entity has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Impact on consolidated financial report	Application date for Group
AASB 2009-Y	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	These amendments are unlikely to have any impact on the consolidated entity.	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 January 2009	The Interpretation is unlikely to have any impact on the consolidated entity since it does not currently undertake hedging activities.	1 July 2009
Amendments to International Financial Reporting Standards	Amendments to IFRS 2	The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular: ▪ the scope of AASB 2; and ▪ the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. A "group" has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Group and Treasury Share Transactions. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.	1 January 2010	The consolidated entity does not have share-based payment arrangements that are affected by these amendments.	1 July 2010

Determination of fair values

A number of the consolidated entity'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.

Determination of fair values (cont'd)

Depreciation

Items of property, plant and equipment are depreciated using the diminishing value method over their estimated useful lives to the consolidated entity. 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%

Assets are depreciated from the date the asset is ready for use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets continual use or subsequent disposal. The expected cash flows have been discounted to their present value in determining the recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

2. FINANCIAL RISK MANAGEMENT

Overview

The Company and the consolidated entity have 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 and consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included in Note 19.

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 and consolidated entity 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 consolidated entity 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 and consolidated entity'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 consolidated entity if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents. For the Company it arises from receivables due from subsidiaries.

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

2. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk

Liquidity risk arises from the financial liabilities of the consolidated entity and the consolidated entity'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 consolidated entity'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

The consolidated entity is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the consolidated entities, primarily the Australian dollar (AUD), but also the Hong Kong Dollar (HKD) and the Chinese Renminbi (CNY). The currencies in which these transactions primarily are denominated are AUD and HKD.

Foreign currency risk (cont'd)

The Board does not consider the Company or the consolidated entity are materially exposed to changes in foreign exchange rates. As a result, the consolidated entity does not currently seek to mitigate its foreign currency exposures.

The Company's investment in subsidiary is not hedged as that currency position is considered to be long-term in nature.

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

Interest rate risk

The Company and consolidated entity's exposure to interest rates primarily relates to the consolidated entity's cash and cash equivalents and held to maturity investments. The consolidated entity 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 and consolidated entity are 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.

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.

2. FINANCIAL RISK MANAGEMENT (cont'd)

Capital management (cont'd)

The consolidated entity 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 consolidated entity's approach to capital management during the year.

The consolidated entity is not subject to any externally imposed capital requirements.

	Consolidated		Company	
	2009	2008	2009	2008
3. OTHER INCOME AND EXPENSES	$	$	$	$
(a) Other income				
Foreign currency (gains)/losses	(3,221)	-	(3,302)	-
(b) Other expenses				
Impairment of goodwill	-	3,538	-	-
Provision for non-recovery of loans to controlled entity (Impairment loss)	-	-	12,795	2,096
Provision for diminution of investment in controlled entity	-	-	-	1,372
	-	5,533	12,795	5,485
(c) Employee benefits expense				
Wages and salaries	163,396	14,764	163,396	14,764
Superannuation	40,502	1,032	40,502	1,032
Other employee benefits expense	20,949	1,341	20,949	1,341
	224,847	17,137	224,847	17,137

4. AUDITOR'S REMUNERATION

Audit services:				
BDO Kendalls Audit & Assurance (WA) Pty Ltd				
- audit and review of financial reports	27,250	6,095	27,250	6,095
Other services:				
BDO Kendalls Corporate Finance (WA) Pty Ltd				
- independent accountant's report for inclusion in a prospectus	6,060	-	6,060	-
	33,310	6,095	33,310	6,095

5. TAXATION	**Consolidated 2009 $**	**Consolidated 2008 $**	**Company 2009 $**	**Company 2008 $**
(a) Income tax expense	-	-	-	-
(b) Numerical reconciliation between tax expense and pre-tax net loss				
Loss before income tax expense	(601,675)	(479,733)	(600,624)	(479,685)
Income tax benefit calculated at rates noted in (d) below	(180,502)	(143,920)	(180,187)	(143,906)
Tax effect on amounts which are not tax deductible:				
Sundry amounts	11,722	12,337	11,722	11,687
Deferred tax asset not brought to account	168,780	131,583	168,465	132,219
Income tax expense	-	-	-	-
(c) Deferred tax assets not brought to account				
Unused tax losses	343,309	174,529	343,001	174,536
Timing differences	6,285	402	6,285	1,031
Capital raising costs in equity	84,930	25,486	84,930	25,486
Potential at 30%	434,524	200,417	434,216	201,053

(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	2,188,006	109,459	2,186,416	97,660

The consolidated entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 19.

7. TRADE AND OTHER RECEIVABLES

Current				
Sundry Receivables	18,111	18,479	18,111	18,479
Non-Current				
Unsecured loan to controlled entity	-	-	14,891	14,891
Allowance for impairment loss	-	-	(14,891)	(2,096)
	-	-	-	12,795

Allowance for impairment loss

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $12,795 (2008: $2,096) has been recognised by the Company in the current year in respect of loans to controlled entity.

Other balances 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.

The consolidated entity's exposure to credit and currency risks and impairment losses related to trade and receivables are disclosed in Note 19.

8. OTHER INVESTMENTS

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current				
Held to maturity investments	3,069,501	-	3,069,501	-

Held to maturity investments consist of term deposits with an original maturity of greater than three months.

The consolidated entity's exposure to interest rate risks related to other investments is disclosed in Note 19.

9. OTHER ASSETS

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current				
Prepayments	12,726	794	12,726	794
Non-Current (Financial Asset)				
Investment in subsidiary:				
Shares in Dragon Energy (China) Limited (100% owned) – at cost	-	-	1,372	1,372
Provision for diminution in value of investment	-	-	(1,372)	(1,372)
	-	-	-	-

10. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fixtures	Plant & Equipment	Motor Vehicles	Total $
Consolidated and Company				
Year ended 30 June 2009				
At 1 July 2008, net of accumulated depreciation	-	1,139	55,746	56,885
Additions	1,858	-	-	1,858
Disposals	-	-	-	-
Depreciation charge for the year	(91)	(518)	(17,839)	(18,448)
At 30 June 2009, net of accumulated depreciation	1,767	621	37,907	40,295
At 30 June 2009				
Cost	1,858	1,570	71,355	74,783
Accumulated depreciation	(91)	(949)	(33,448)	(34,488)
Net carrying amount	1,767	621	37,907	40,295
Year ended 30 June 2008				
At 1 July 2007, net of accumulated depreciation	1,088	5,896	-	6,984
Additions	-	1,570	71,355	72,925
Disposals	(870)	(4,714)	-	(5,584)
Depreciation charge for the year	(218)	(1,613)	(15,609)	(17,440)
At 30 June 2008, net of accumulated depreciation	-	1,139	55,746	56,885
At 30 June 2008				
Cost	-	1,570	71,355	72,925
Accumulated depreciation	-	(431)	(15,609)	(16,040)
Net carrying amount	-	1,139	55,746	56,885

The finance lease liabilities disclosed in Note 15 are secured by the leased assets, the motor vehicles.

All items of property, plant and equipment are held by the parent entity.

11. EXPLORATION AND EVALUATION EXPENDITURE	**Consolidated 2009 $**	**Consolidated 2008 $**	**Company 2009 $**	**Company 2008 $**
Exploration, evaluation and development costs carried forward in respect of areas of interest (net of amounts written off) (a)	300,000	-	300,000	-
Reconciliation				
Carrying amount at the beginning of the year	-	-	-	-
Expenditure during the year - exploration	267,221	54,426	267,221	54,426
Expenditure during the year - acquisitions	300,000	-	300,000	-
Expenditure written off	(267,221)	(54,426)	(267,221)	(54,426)
Carrying amount at the end of the year	300,000	-	300,000	-

(a) The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas. During the year the Group wrote off expenditure totalling $267,221 [2008: $54,426].

12. INTANGIBLE ASSETS

Goodwill, at cost				
Balance at 1 July	-	-	-	-
Acquisitions through business combinations	3,538	3,538	-	-
Impairment loss	(3,538)	(3,538)	-	-
	-	-	-	-

Impairment testing was performed as at 30 June 2008 and an impairment loss of $3,538 was recognised in other expenses the income statement.

13. TRADE AND OTHER PAYABLES

Trade creditors	70,462	41,791	70,462	41,791
Other creditors and accruals	51,763	15,110	51,763	15,110
	122,225	56,901	122,225	56,901

14. PROVISIONS

Liability for employee benefits	22,289	1,341	22,289	1,341

15. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see Note 19.

Current				
Unsecured loan	-	123,259	-	123,259
Finance lease liabilities	9,988	9,047	9,988	9,047
	9,988	132,306	9,988	132,306
Non-Current				
Finance lease liabilities	49,988	59,976	49,988	59,976
	49,988	59,976	49,988	59,976

15. LOANS AND BORROWINGS (cont'd)

Terms of loans and borrowings

Unsecured loan

This unsecured loan did not bear interest and was repayable within seven business days of the listing of the Company on ASX.

Finance lease liabilities

The finance lease liabilities are secured by the leased assets, as in the event of default, the assets revert to the lessor.

Finance lease liabilities of the Company and the consolidated entity are payable as follows:

At 30 June 2009	Consolidated			Company		
	Minimum lease payments 2009 $	Interest 2009 $	Principal 2009 $	Minimum lease payments 2009 $	Interest 2009 $	Principal 2009 $
Less than one year	15,506	5,518	9,988	15,506	5,518	9,988
Between one and five years	60,307	10,319	49,988	60,307	10,319	49,988
	75,813	15,837	59,976	75,813	15,837	59,976

At 30 June 2008	Consolidated			Company		
	Minimum lease payments 2008 $	Interest 2008 $	Principal 2008 $	Minimum lease payments 2008 $	Interest 2008 $	Principal 2008 $
Less than one year	15,507	6,460	9,047	15,507	6,460	9,047
Between one and five years	70,295	10,319	59,976	70,295	10,319	59,976
	85,802	16,779	69,023	85,502	16,779	69,023

16. ISSUED CAPITAL

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
142,379,707 (2007: 47,826,207) fully paid ordinary shares	6,580,885	493,790	6,580,885	493,790

	2009 Number of Shares	2008 Number of Shares	2009 $	2008 $
Movements during the year:				
Balance at beginning of the year	47,826,207	10,000	493,790	100
Shares issued upon incorporation	-	-	-	-
Shares issued on 10 September 2007	-	23,586,207	-	23,586
Shares issued on 5 October 2007	-	10,250,000	-	10,250
Shares issued on 11 October 2007	-	10,980,000	-	274,500
Shares issued on 12 December 2007	-	3,000,000	-	300,000
Shares issued on 23 September 2008	1,918,300	-	191,830	-
Share issued on 10 October 2008	715,000	-	71,500	-
Shares issued on 18 November 2008	5,500,000	-	5,500	-
Shares issued on 18 December 2008	81,000,000	-	5,000,000	-
Shares issued on 12 February 2009	5,420,200	-	1,084,040	-
Share issue costs	-	-	(265,775)	(114,646)
Balance at end of the year	142,379,707	47,826,207	6,580,885	493,790

16. ISSUED CAPITAL (cont'd)

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.

Options

Options granted

During or since the end of the year, the Company granted the following options over unissued ordinary shares:

Class	Expiry Date	Exercise Price	Date Granted	Number of Options
Unlisted Options	31 May 2012	$0.30	18 December 2008	6,250,000

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

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 May 2012	$0.30	11,150,000

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.

17. RESERVES	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Share based payments reserve				
Balance at beginning of the year	46,040	-	46,040	-
Share based payments	-	46,040	-	46,040
Balance at end of the year	46,040	46,040	46,040	46,040
Foreign currency translation reserve				
Balance at beginning of the year	(947)	-	-	-
Currency translation differences	3,636	(947)	-	-
Balance at end of the year	2,689	(947)	-	-
TOTAL RESERVES	48,729	45,093	46,040	46,040

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.

18. ACCUMULATED LOSSES	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Accumulated losses at the beginning of the year	(603,790)	(124,057)	(603,741)	(124,056)
Loss for the year	(601,675)	(479,733)	(600,625)	(479,685)
Accumulated losses at the end of the year	(1,205,465)	(603,790)	(1,204,366)	(603,741)

19. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

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

	Consolidated Carrying Amount 2009 $	Consolidated Carrying Amount 2008 $	Company Carrying Amount 2009 $	Company Carrying Amount 2008 $
Cash and cash equivalents	2,188,006	109,459	2,186,416	97,660
Trade and other receivables	18,111	18,479	18,111	31,274
Held to maturity investments	3,069,501	-	3,069,501	-
	5,275,618	127,938	5,274,028	128,934

Liquidity risk

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

Consolidated

30 June 2009	Carrying amount	Contractual cash flows	1 year	2-5 years
Finance lease liabilities	59,976	(75,813)	(15,506)	(60,307)
Trade and other payables	122,225	(122,225)	(122,225)	-
	182,201	(198,038)	(137,731)	(60,307)

30 June 2008	Carrying amount	Contractual cash flows	1 year	2-5 years
Finance lease liabilities	69,023	(85,502)	(15,507)	(70,295)
Unsecured loan	123,259	(123,259)	(123,259)	-
Trade and other payables	56,901	(56,901)	(56,901)	-
	249,183	(265,662)	(195,667)	(70,295)

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Liquidity risk (cont'd)

Company

30 June 2009	**Carrying amount**	**Contractual cash flows**	**1 year**	**2-5 years**
Finance lease liabilities	59,976	(75,813)	(15,506)	(60,307)
Trade and other payables	122,225	(122,225)	(122,225)	-
	179,501	(198,038)	(137,731)	(60,307)

30 June 2008	**Carrying amount**	**Contractual cash flows**	**1 year**	**2-5 years**
Finance lease liabilities	69,023	(85,502)	(15,507)	(70,295)
Unsecured loan	123,259	(123,259)	(123,259)	-
Trade and other payables	56,901	(56,901)	(56,901)	-
	249,183	(265,662)	(195,667)	(70,295)

Foreign currency risk

Exposure to foreign currency risk

The parent entity carries an inter-company loan with its subsidiary (refer Note 7). The loan is denominated in the functional currency of the subsidiary (HKD), and is translated at reporting date at the prevailing spot rates through the income statement. To the extent appropriate, the parent entity has provided for the non-recovery of the loan. The net carrying value (in AUD) of the loan in the financial statements of the parent entity (after provision) at 30 June 2009 is nil (2008: $12,795).

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
CNY	5.0855	6.5413	5.5442	6.6002
HKD	5.7778	7.3296	6.2884	7.4555

Interest rate risk

Profile

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

	Consolidated Carrying Amount		**Company Carrying Amount**	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Variable rate instruments				
Financial assets	5,257,507	109,459	5,255,917	97,660
Financial liabilities	-	-	-	-
	5,257,507	109,459	5,255,917	97,660

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Interest rate risk (cont'd)

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 2008.

A change of 100 basis points in interest rates would have increased or decreased the consolidated entity's profit or loss by $525,751 (2008: $10,946) and the Company's profit or loss by $525,592 (2008: $9,776).

Fair value of financial instruments

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.

20. COMMITMENTS

Remuneration commitments

The Company has entered into an employment agreement with Mr Gang Xu to act as its Managing Director, under which Mr Xu is paid $160,000 per annum (exclusive of superannuation). At 30 June 2009, the unexpired portion of the term of the agreement amounts to $420,000.

The Company has entered into an employment agreement with Mr Anthony Ho to act as an executive director/ chief financial officer, under which Mr Ho is paid $80,000 per annum (exclusive of superannuation). At 30 June 2009, the unexpired portion of the term of the agreement amounts to $210,000.

Service contracts

The Company has entered into a service agreement with Townshend York Pty Ltd ("Townshend York"), a company associated with Mr Ho, to provide company secretarial and accounting services in connection with the operations of the consolidated entity, under which Townshend York receives $50,000 per annum. At 30 June 2009, the unexpired portion of the term of agreement amounts to $81,250.

Refer to Note 23 for details of these key management personnel transactions during the year.

The Company has entered into a service agreement with Torbinup Resources Pty Ltd ("Torbinup Resources") to provide exploration management services in connection with the operations of the consolidated entity, under which Torbinup Resources receives $85,000 per annum. At 30 June 2009, the unexpired portion of the term of agreement amounts to $56,667.

Exploration Project Commitment

The Company has entered into an agreement with rights to acquire an interest in a phosphate project. Under the terms of this agreement, the Company has a commitment of a minimum of $1,200,000 within 12 months of 12 February 2009, being the date on which Dragon Energy received conditional approval for admission to the Official List of ASX.

This expenditure includes $24,720 already incurred to 30 June 2009 by Dragon Energy on the project. The agreement also provides the Company with an option to proceed further beyond this commitment to acquire a 100% interest in the phosphate rights to the project.

21. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2009 was based on the loss attributable to ordinary shareholders of $601,575 (2008: $479,733) and a weighted average number of ordinary shares outstanding during the year of 98,289,650 (2008: 36,019,111) shares calculated as follows:

	Consolidated	
Loss attributable to ordinary shareholders	**2009 $**	**2008 $**
Net loss for the year	(601,575)	(479,733)

Weighted average number of ordinary shares	**Number 2009**	**Number 2008**
Balance at beginning of year	47,826,207	10,000
Effect of shares issued on 1 June 2006	-	-
Effect of shares issued on 10 September 2007	-	18,946,297
Effect of shares issued on 5 October 2007	-	7,533,470
Effect of shares issued on 11 October 2007	-	7,890,000
Effect of shares issued on 12 December 2007	-	1,639,344
Effect of shares issued on 23 September 2008	1,471,573	-
Effect of shares issued on 10 October 2008	515,192	-
Effect of shares issued on 18 November 2008	3,375,342	-
Effect of shares issued on 18 December 2008	43,052,055	-
Effect of shares issued on 12 February 2009	2,049,281	-
	98,289,650	36,019,111

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 16.

22. SEGMENT INFORMATION

The Company's exploration activities are predominantly located in Australia. It is expected that more than 90% of the consolidated entity's revenue from ordinary activities and assets relate to these operations.

23. RELATED PARTIES

Key management personnel compensation

	Consolidated		Company	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Short-term employee benefits	186,065	11,468	186,065	11,468
Post-employment benefits	39,697	1,032	39,697	1,032
Other benefits	-	37,584	-	37,584
	225,762	50,084	225,762	50,084

Individual key management personnel compensation disclosures

Information regarding individual key management personnel compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report on pages 8 to 12.

23. RELATED PARTIES (cont'd)

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 and their related parties were as follows:

Director	Transaction	Transactions value for the year ended 30 June 2009	2008	Balance outstanding as at 30 June 2009	2008
Mr A Ho	Company secretarial and accounting fees[1]	30,518	-	8,359	-
	Consultancy fees[2]	33,511	-	-	-

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 IPO. Terms for such services were based on market rates, and amounts were payable on a monthly basis.

During the previous financial year, Mr Xu purchased $5,585 of property, plant and equipment from the Company. The items were purchased at their written down value as at 30 June 2008. The terms and conditions of those transactions were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

During the financial year, the Company borrowed a further $42,237 (2008 $43,307) from Mr Xu for the purpose of funding its working capital. The loan was interest free and repayable within 7 business days of the Company listing on ASX. During the financial year, the balance of the outstanding loan was repaid to Mr Xu.

During the financial year, Shandong Taishan Sunlight Group Company Limited (the "Shandong Group"), a company of which Mr Chen is chairman, acquired a 56% interest in Dragon Energy. The Shandong Group invested $5,000,000 in return for 81,000,000 fully paid ordinary shares and 6,250,000 options exercisable at $0.30 each before 31 May 2012 in the capital of the Company.

There were no other key management personnel transactions during the 2008 or 2009 financial years.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Dragon Energy Ltd held, directly, indirectly or beneficially by each key management person, including their related entities, is as follows:

	Held at 1 July 2008	Granted as compensation	Exercised	Other changes	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
Mr J Chen	-	-	-	-	-	-	-
Mr G Xu	-	-	-	-	-	-	-
Mr Q Guo	-	-	-	-	-	-	-
Mr A Ho	500,000	N/A	-	-	-	-	500,000
Mr W Zeng	1,000,000	N/A	-	-	-	-	1,000,000
Mr N Clark[1]	2,000,000	N/A	-	(2,000,000)	-	-	-
Ms A McCleary[1]	1,000,000	N/A	-	(1,000,000)	-	-	-

23. RELATED PARTIES (cont'd)

Options and rights over equity instruments (cont'd)

	Held at 1 July 2007	Granted as compensation	Exercised	Other changes	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors							
Mr N Clark	-	2,000,000	-	-	2,000,000	2,000,000	2,000,000
Mr G Xu	-	-	-	-	-	-	-
Ms A McCleary	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Mr W Zeng	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Mr P Dillon	-	-	-	-	-	-	-
Mr N Li	-	-	-	-	-	-	-
Mr A Webster-Smith	-	-	-	-	-	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2008 or 2009.

Notes in relation to the tables of options and rights over equity instruments

1. Resigned 18 December 2008.

Movements in shares

The movement during the year in the number of ordinary shares in Dragon Energy Ltd held, directly, indirectly or beneficially by each key management person, including their related entities, is as follows:

2009	Held at 30 Jun 2008	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2009
Directors							
Mr J Chen	N/A	-	-	-	-	N/A	-
Mr G Xu	13,596,207	N/A	-	-	-	N/A	13,596,207
Mr Q Guo	N/A	-	-	-	-	N/A	-
Mr A Ho	N/A	-	-	-	-	N/A	-
Mr W Zeng	250,000	N/A	-	-	-	N/A	250,000
Ms A McCleary	250,000	N/A	-	-	-	250,000	N/A
Mr N Clark	500,000	-	-	-	-	500,000	N/A

2008	Held at 30 Jun 2007	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2008
Directors							
Mr N Clark	N/A	-	500,000	-	-	N/A	500,000
Mr G Xu	10,000	N/A	13,586,207	-	-	N/A	13,596,207
Ms A McCleary	N/A	-	250,000	-	-	N/A	250,000
Mr W Zeng	N/A	-	250,000	-	-	N/A	250,000
Mr P Dillon	-	N/A	-	-	-	-	N/A
Mr Naiming Li	-	N/A	-	-	-	-	N/A
Mr A Webster-Smith	-	N/A	-	-	-	-	N/A

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

23. RELATED PARTIES (cont'd)

Non-key management personnel disclosures

Loans are made by the Company to its wholly owned subsidiary for capital purchases and working capital purposes. The loan outstanding between the Company and its subsidiary has no fixed date of repayment and is non-interest bearing. Details of the Company's interest in its subsidiary are set out in Note 26.

Aggregate amounts receivable from the subsidiary are as follows (Note 7):

	Company	
	2009	2008
	$	$
Non-current		
Unsecured loan to controlled entity	14,891	14,891
Allowance for impairment loss	(14,891)	(2,096)
	-	12,795

No dividends were received from the subsidiary in the 2009 or 2008 financial year.

	Consolidated		Company	
	2009	2008	2009	2008
	$	$	$	$
24. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES				
Cash flows from operating activities				
Loss for the year	(601,675)	(479,733)	(600,625)	(479,685)
Adjustments for:				
Depreciation	18,448	17,440	18,448	17,440
Provision for non-recovery of loan to controlled entity	-	-	12,795	2,096
Provision for diminution of investment in controlled entity	-	-	-	1,372
Exploration expenditure written off	-	50,000	-	50,000
Share based payments expense	-	46,040	-	46,040
Foreign exchange gain/loss	(3,221)	(947)	(3,302)	-
Operating loss before changes in working capital and provisions	(586,448)	(367,200)	(572,684)	(362,737)
Change in trade and other receivables	368	(13,322)	368	(13,322)
Change in trade and other payables	65,323	20,789	65,323	20,790
Change in prepayments	(11,932)	(794)	(11,932)	(794)
Change in provisions	20,949	1,341	20,949	1,341
Net cash used in operating activities	(511,740)	(359,186)	(497,976)	(354,722)

25. CONTINGENT LIABILITIES

The Company has no contingent liabilities at balance date.

26. GROUP ENTITIES

Parent and ultimate holding company

During the year ended 30 June 2009 a majority of the Company's shares (56%) were acquired by Shandong Taishan Sunlight Group Company Limited (the "Shandong Group"). As a result the ultimate holding party of the consolidated entity is the Shandong Group, incorporated in the People's Republic of China.

	Country of Incorporation	Entity interest 2009	Entity interest 2008
Parent entity			
Dragon Energy Ltd	Australia		-
Subsidiary			
Dragon Energy (China) Limited	Hong Kong	100%	100%

In the financial statements of the Company, the investment in the subsidiary is measured at cost.

27. SHARE BASED PAYMENTS

During the previous financial year, the Company granted a total of 900,000 options to promoters on 13 May 2008. In addition, shareholders approved the following grant of options to directors on 20 March 2008:

Name	Number
Mr N Clark	2,000,000
Ms A McCleary	1,000,000
Mr W Zeng	1,000,000

Each option is convertible to one ordinary share and is exercisable at $0.30 each on or before 31 May 2012. All options vested immediately. There are no voting or dividend rights attaching to the options.

The fair value of the options was calculated at the date of shareholder approval using a Black-Scholes valuation model and fully expensed in the reporting period. The following table gives the assumptions made in determining the fair value of options on the date of grant:

Grant date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
13 May 2008	31 May 2012	0.9396 cents	$0.30	$0.07	55.00%	7.00%	0.00%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Total expense recognised in corporate and administrative expenses was nil (2008: $37,584) in respect of the 4,000,000 options granted to directors. An amount of nil (2008: $8,456) was recognised in issued capital (as share issue costs) in respect of the 900,000 options granted to promoters.

28. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the Company reached an agreement to enter into a joint venture ("JV") on thirteen Queensland Coal Project Exploration Applications ("EPCAs"). Under the terms of the proposed JV agreement, the Company has a $3.5m exploration expenditure commitment over 3 years to earn an 85% interest. The commencement of the JV is conditional on at least six of the EPCAs being granted by the Queensland Department of Mines and Energy. The first year's commitment for Dragon Energy is $0.5m exploration expenditure plus rent and environmental bonds, with second and third year total expenditure commitment of $1.5m each. Dragon Energy has the right to withdraw from the JV after Year 1 under the proposed JV agreement.

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 8 to 12, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2009 and of their performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1;

(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.

(d) 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 2009.

Signed in accordance with a resolution of the directors:

Dated at Perth, Western Australia this 1st day of September 2009.

Gang Xu
Managing Director

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF DRAGON ENERGY LIMITED

We have audited the accompanying financial report of Dragon Energy Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity's preparation and fair presentation of the financial report 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 entity'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 opinions.

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* would be in the same terms if it had been given to the directors at exactly the same time that this auditor's report was made.

BDO Kendalls

Auditor's 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 and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 pages 8 to 12 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Dragon Energy Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls

C Burton

Chris Burton
Director

Perth, Western Australia
Dated the 1st day of September 2009

DRAGON ENERGY

SHAREHOLDER INFORMATION

Details of shares and options as at 30 September 2009:

Top holders

The 20 largest registered holders of each class of equity security as at 30 September 2009 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Shandong Taishan Sunlight Group Company Limited	81,000,000	56.89
2.	Mr Gang Xu & Mrs Qiong Liu <Xu & Liu Family A/C>	8,010,000	5.63
3.	Chen & Xing Pty Ltd <Super Fund A/C>	5,586,207	3.92
4.	Refeng Zhang	5,000,000	3.51
5.	Serng Yee Liew	4,983,300	3.50
6.	Jiangxi Zhonghe Mining Development Co Ltd	4,000,000	2.81
7.	Aylworth Holdings Pty Ltd <J & RD Borshoff Family A/C>	1,000,000	0.70
8.	Jixue Jian	1,000,000	0.70
9.	Mentech Enterprises Group Pty Ltd	1,000,000	0.70
10.	Westessa Holdings Pty Ltd	1,000,000	0.70
11.	Shuxian Liu	800,000	0.56
12.	Guihua Zhang	737,300	0.52
13.	Ms Gillian Swaby	700,000	0.49
14.	Ms Narelle Therese Tottman & Mr Mark Tottman	690,000	0.48
15.	Ms Sheryl Annette Hogg	680,000	0.48
16.	Linyi Shandong Metals Trading Corp Pty Ltd	600,000	0.42
17.	Ms Karen Teresa Logan	600,000	0.42
18.	Ms Shu Bin Chen	500,000	0.35
19.	Mr Nigel Bruce Clark	500,000	0.35
20.	Jin Dai	500,000	0.35
		118,886,807	83.48

Options exercisable at $0.30 on or before 31 May 2012

	Name	No. of Options	%
1.	Shandong Taishan Sunlight Group Company Limited	6,250,000	56.05
2.	Mr Nigel Bruce Clark	2,000,000	17.94
3.	Ms Alice McCleary	1,000,000	8.97
4.	Wenle Zeng	1,000,000	8.97
5.	Hox5 Pty Ltd <A & K Ho Super Fund A/C>	500,000	4.47
6.	Peter Lance Dillon	100,000	0.90
7.	Ms Deng Ping Mao	100,000	0.90
8.	Mr Wei Dong Ji	100,000	0.90
9.	Mr Dehong Yu	100,000	0.90
		11,150,000	100.00

Distribution schedules

A distribution schedule of each class of equity security as at 30 September 2009:

Fully paid ordinary shares

Range	Holders	Units	%
1 - 1,000	2	200	0.00
1,001 - 5,000	8	25,365	0.02
5,001 - 10,000	445	4,441,565	3.12
10,001 - 100,000	48	1,701,770	1.20
100,001 - Over	75	136,210,807	95.66
Total	578	142,379,707	100.00

Options exercisable at $0.30 each on or before 31 May 2012

Range	Holders	Units	%
1 - 1,000	-	-	0.00
1,001 - 5,000	-	-	0.00
5,001 - 10,000	-	-	0.00
10,001 - 100,000	-	-	0.00
100,001 - Over	9	11,150,000	100.00
Total	9	11,150,000	100.00

Substantial shareholders

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

Substantial shareholder	Number of Shares
Shandong Taishan Sunlight Group Company Limited	81,000,000
Mr Gang Xu	13,596,207

Restricted Securities (as at 23 October 2009)

Fully paid ordinary shares

Number of Shares	Escrow Period
14,477,900	Restricted securities until 18 February 2010
95,564,957	Restricted securities until 18 February 2011

Options exercisable at $0.30 each on or before 31 May 2012

Number of Options	Escrow Period
10,750,000	Restricted securities until 18 February 2011

Unmarketable parcels

There are no unmarketable parcels of ordinary shares as at 30 September 2009.

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.

On-Market Buy Back

There is no current on-market buy-back.

ASX Admission Statement

During the period, the Company has applied its cash in a way consistent with its business objectives.

Summary of Tenements (as at 23 October 2009)

Projects	Licence Number	Area (km²)	Registered Holder / Applicant	Status	Dragon Energy Interest
Queensland					
Queensland Coal Project	EPC1648	464	Altera Resources Limited	Application	Earning up to 85%
	EPC1649	442	Altera Resources Limited	Application	Earning up to 85%
	EPC1650	419	Altera Resources Limited	Application	Earning up to 85%
	EPC1651	573	Altera Resources Limited	Application	Earning up to 85%
	EPC1652	250	Altera Resources Limited	Application	Earning up to 85%
	EPC1653	13	Altera Resources Limited	Application	Earning up to 85%
	EPC1660	480	Altera Resources Limited	Application	Earning up to 85%
	EPC1661	74	Altera Resources Limited	Application	Earning up to 85%
	EPC1662	700	Altera Resources Limited	Application	Earning up to 85%
	EPC1664	256	Altera Resources Limited	Application	Earning up to 85%
	EPC1665	960	Altera Resources Limited	Application	Earning up to 85%
	EPC1666	585	Altera Resources Limited	Application	Earning up to 85%
	EPC1667	410	Altera Resources Limited	Application	Earning up to 85%