

## Introduction

During the quarter Dragon Energy Limited (ASX:DLE) undertook a reverse circulation drilling programme at the Big Toby phosphate prospect, EPM15212, to test targets favourable for hosting shallow, high grade mineralization. Results were disappointing and have not provided any basis for ongoing phosphate exploration within EPM15212. In recent months, the Company conducted a review of other exploration project opportunities and as a result of this review, has restructured its exploration priorities. Following the exploration results on its phosphate project during the quarter, the Company decided to withdraw from the Phosphate Rights Option Agreement with Summit Resources Ltd (ASX:SSM) and MM Mining Pty Ltd.

After a period of due diligence and in line with its stated objectives Dragon has reached an agreement to enter into a Joint Venture Agreement with Altera Resources Limited on its coal applications in Queensland. The applications cover an area of 5,626km<sup>2</sup> and contain Exploration Targets totaling some 405 to 540 Mt of domestic and export thermal coal.

## Exploration Activities

### Georgina Basin Phosphate Project

In September Dragon completed evaluation of the Big Toby phosphate prospect, EPM15212, located 40km west of Mt Isa. A total of 14 reverse circulation drill holes for 570m were drilled between August, 26 and August 30, 2009.

Holes were located to test for shallow phosphate mineralisation along the eastern margin of the Georgina Basin within targets identified using geological mapping and the interpretation of geophysical data. An existing wide spaced EM survey was re-processed with the aim of identifying areas where the phosphate host, the Cambrian Beetle Creek Formation, was in contact with the Proterozoic basement rocks at depths of less than 50m. Gravity surveys and 100,000 scale geological maps were reviewed to provide information on concealed basin margin embayments with the potential to host phosphate mineralisation. A total of 5 areas were identified as priority targets with holes located to test all targets although access difficulties compromised some locations.

In the southern part of the area basement comprising the Big Toby Granite was intersected at generally shallow depths with no phosphate facies present. In the northern area basement comprised Proterozoic Big Toby Granite in the south and rocks belonging to the Gunpowder Creek Formation further north. Weakly phosphatic material was intersected in BTR006 and BTR010.

### Queensland Coal Project

In September Dragon reached an agreement with Altera Resources Limited ("Altera") to enter into Joint Venture ("JV") Agreement on coal tenements applied for by Altera. The Exploration Permits for Coal Applications (EPCAs) cover an area of 5,626 km<sup>2</sup> in the Surat/Clarence-Moreton and Bowen Basins in Queensland.

The thirteen EPCAs comprise eight non-competing, two competing and three secondary applications. The Company advises that these applications are going through the grant process with the Queensland Department of Mines and Energy.

A detailed geological review and compilation completed during July 2009 by Altera highlighted the following:

- Altera's EPCAs cover a strategic area with potential for large tonnages of thermal coal.
- A large Inventory coal tonnage has been established, from which several Exploration Targets have been estimated, totaling some 405 to 540 Million tonnes.
- Whilst these Exploration Targets are conceptual in nature, there is potential for both open cut and underground mining in each area.
- Expected product coals range from domestic to export thermal and perhaps a semi-soft coking coal.

The terms of the JV proposal involve expenditure by Dragon Energy of \$3.5 million over 3 years to earn an 85% interest. 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 joint venture after Year 1.

Once Dragon Energy has earned an 85% interest, Altera has the option to sell its remaining 15% interest in the Project to Dragon Energy for an amount to be agreed between Dragon Energy and Altera and failing an agreement such amount will be determined by an independent expert. Subject to the above option, Altera will retain a 15% free carried interest until decision to mine.

The commencement date of the JV will be the first date by which at least six of the EPCA's have been granted including EPC 1664 near Toowoomba. The proposal is subject to formal documentation being signed within one month and the JV will be subject to at least six of the EPCAs being granted within 6 months of the date of the agreement.

### **Acquisition and Joint Venture Opportunities**

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

Several iron ore projects in Western Australia are also in the process of being evaluated. Dragon has chosen to focus on projects that contain JORC compliant resources, are well located in regard to infrastructure requirements and have iron contents that make the ore an attractive proposition for direct shipping. Over the longer term, with strengthening commodity prices and its strategic relations with Chinese investors and mining industry contacts, Dragon believes such acquisitions will form the basis to build a foundation for future growth.

For further information please refer to our website [www.dragonenergyltd.com.au](http://www.dragonenergyltd.com.au) or contact:

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Executive Director  
Dragon Energy Limited  
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**Competent Persons' Statements**

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr. Gang Xu (Managing Director) and Mr. Lindsay Cahill (Exploration Manager), who are members of The Australasian Institute of Mining and Metallurgy. They have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Messrs Xu and Cahill consent to the inclusion in the report of the matters based on their information in the form and context in which it appears*

*The information in this report that relates to Coal Resources or Coal Reserves is based on information compiled by Mark Biggs who is a member of the AusIMM. Mark Biggs is a full-time employee of Moultrie Database and Modelling Pty. Ltd. Mark Biggs is a consultant geologist with over 20 years of experience in exploring for and evaluating coal deposits. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves'. Mark Biggs consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

**About Dragon Energy**

Dragon Energy Limited (ASX: DLE) is an exploration and resources company. The listing of Dragon Energy on the Australian Securities Exchange (ASX) in February 2009 was facilitated by a cornerstone investor, the China-based Shandong Taishan Sunlight Group Company Limited ("Shandong Group"). Shandong Group controls 1.5 billion tonnes of coal and 100 million tonnes of iron ore resources in China as well as engaging in steel making and power generation. Shandong Group, essentially a private enterprise, will avail direct and indirect financial capacity and funding capability, wide industry connections, and mining know how, to underpin plans for Dragon Energy's growth and pursuit of suitable mine projects world-wide.

Dragon Energy has a twofold strategy:

- To participate in exploration projects with a view to advancing the status of the projects through to development or alternatively to introduce appropriate and suitable overseas partners, particularly from China, who may take long term positions in those project development opportunities; and
- To secure a leading position in advanced minerals projects and to bring development to fruition at the earliest opportunity.

Since listing, Dragon Energy has already evaluated a number of bulk commodity projects in Australia and USA and some metalliferous projects in Australia with a view to participating or securing development opportunities. Although preferred targets are in iron ore and coal, other commodities and minerals will be considered for review.

Dragon Energy's project evaluation efforts are facilitated by a small, but highly experienced, team of professionals with, collectively, vast experience in mineral exploration, development, financing and operations in Australia and overseas, in particular in start up projects.

[www.dragonenergy.com](http://www.dragonenergy.com)

**ASX Code: DLE**

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**DRAGON ENERGY LTD**

ABN

**38 119 992 175**

Quarter ended ("current quarter")

**30 September 2009**

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(96)	(96)
(b) development	-	-
(c) production	-	-
(d) administration	(283)	(283)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	7
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
<b>Net Operating Cash Flows</b>	<b>(372)</b>	<b>(372)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(26)	(26)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(26)</b>	<b>(26)</b>
1.13 Total operating and investing cash flows (carried forward)	(398)	(398)

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(398)	(398)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.(net)	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(2)	(2)
1.18	Dividends paid	-	-
1.19	Other	-	-
<b>Net financing cash flows</b>		<b>(2)</b>	<b>(2)</b>
<b>Net increase (decrease) in cash held</b>		<b>(400)</b>	<b>(400)</b>
1.20	Cash at beginning of quarter/year to date	5,258	5,258
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>4,858</b>	<b>4,858</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	90
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Executive director's remuneration	65
Services provided by director-related entities	25

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A
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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A
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+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

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

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(300)
4.2 Development	-
<b>Total</b>	<b>(300)</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,788	1,134
5.2 Deposits at call	3,070	4,124
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>4,858</b>	<b>5,258</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	EPM14395	Up to 80%	Up to 80%	0%
	EPM14712	Up to 80%	Up to 80%	0%
	EPM15212	Up to 80%	Up to 80%	0%

+ See chapter 19 for defined terms.

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	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.2 Interests in mining tenements acquired or increased	EPC1648	Up to 85%	0%	Up to 85%
	EPC1649	Up to 85%	0%	Up to 85%
	EPC1650	Up to 85%	0%	Up to 85%
	EPC1651	Up to 85%	0%	Up to 85%
	EPC1652	Up to 85%	0%	Up to 85%
	EPC1653	Up to 85%	0%	Up to 85%
	EPC1660	Up to 85%	0%	Up to 85%
	EPC1661	Up to 85%	0%	Up to 85%
	EPC1662	Up to 85%	0%	Up to 85%
	EPC1664	Up to 85%	0%	Up to 85%
	EPC1665	Up to 85%	0%	Up to 85%
	EPC1666	Up to 85%	0%	Up to 85%
	EPC1667	Up to 85%	0%	Up to 85%

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	142,379,707	46,814,750		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	- -	- -	- -	- -
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-		

+ See chapter 19 for defined terms.

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> <i>(description and conversion factor)</i>	11,150,000	-	<i>Exercise price</i> \$0.30	<i>Expiry date</i> 31 May 2012
7.8	Issued during quarter	-	-		
7.9	Exercised during quarter	-	-		
7.10	Expired during quarter	-	-		
7.11	<b>Debentures</b> <i>(totals only)</i>	-	-		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	-	-		

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX \(see note 4\)](#).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date: **30 October 2009**  
(Director)

Print name: **Gang Xu**

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

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+ See chapter 19 for defined terms.

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- 3      **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4      The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5      **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.