DRAGON ENERGY

ABN 38 119 992 175

HALF-YEAR FINANCIAL STATEMENTS

31 DECEMBER 2009

DRAGON ENERGY LTD
ABN 38 119 992 175

Half-Year Financial Statements - 31 December 2009

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The directors present their financial statements on the consolidated entity consisting of Dragon Energy Ltd ("Dragon Energy") and its controlled entity for the six months ended 31 December 2009 and the auditor's review report thereon:

1. Directors

The directors of the Company at any time during or since the end of the half-year are:

Name	Period of directorship
Mr Jie Chen *Chairman*	Director since 18 December 2008
Mr Gang Xu *Managing Director*	Director since 1 June 2006
Mr Anthony Ho *Executive Director*	Director since 18 December 2008
Mr Qingyong Guo *Non-Executive Director*	Director since 18 December 2008
Mr Wenle Zeng *Non-Executive Director*	Director since 24 July 2007

2. Results

The loss of the consolidated entity for the half-year was $1,055,080 (2008: $192,905) after income tax of nil (2008: nil).

3. Review of Operations

Dragon Energy is an exploration and resource companies with one of China's leading coal mining groups as its major and cornerstone investor. Since its ASX listing achieved in February 2009, the Company has evaluated a number of bulk commodity projects in Australia and USA and certain metalliferous projects in Australia with a view to securing joint venture development opportunities. Although preferred targets are in iron ore and coal assets, other commodities and minerals will also be considered.

During the half year period to 31 December 2009, the Company has undertaken the following activities:

- A reverse circulation drilling programme at the Big Toby Phosphate Project located in the Georgina Basin in the Mt Isa region. The results from this drilling programme were regarded to be disappointing and did not support any further exploration investment in the project. Consequently, the Company decided to withdraw from the Phosphate Rights Option Agreement with Summit Resources Ltd and MM Mining Pty Ltd without any residual obligations.

- Dragon entered into a Joint Venture Agreement for an 85% interest with Altera Resources Limited on its coal applications in Queensland. The applications cover an area of 5,626km^2 and contain Exploration Targets totalling some 405 to 540 Mt of domestic and export thermal coal. Three out of the thirteen coal tenements were granted during this period. The commencement of the joint venture is upon the granting of at least six of these coal tenements.

- Applications were lodged for three 100% held iron ore prospective tenements in the Midwest region of WA.

- Dragon announced the acquisition from Polaris Metals NL of three Western Australian perspective iron ore projects in the Pilbara, Midwest and Earaheedy Basin. The projects comprise 7 tenements totalling 596km^2 in size and have sound potential to host large scale hematite and magnetite iron ore deposits.

- Negotiations and documentation commenced during the period to acquire coking coal projects in Queensland's Bowen Basin.

With significant holdings and interests of prospective iron ore and coal projects, the Company is well positioned to grow with exploration success. For more detail on the activities of the Company over the half year period, please refer to the Quarterly Reports and the ASX announcements made by Dragon Energy during the half year.

4. Auditor's independence declaration under Section 307C of the Corporations Act 2001

The auditor's declaration is set out on page 5 and forms part of the directors' report for the six months ended 31 December 2009.

Dated at Perth, Western Australia, this 10th day of March 2010.

Signed in accordance with a resolution of the directors:

Gang Xu
Managing Director

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

10 March 2010

Dragon Energy Limited
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 half-year ended 31 December 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 review; and

- No contraventions of any applicable code of professional conduct in relation to the review.

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

C Burton

Chris Burton
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2009

	Note	31 December 2009 $	31 December 2008 $
Revenue from continuing operations		80,498	3,858
Exploration and evaluation expenses written off	7	(790,432)	(33,097)
Corporate and administrative expenses		(345,146)	(163,666)
Loss before income tax		**(1,055,080)**	**(192,905)**
Income tax		-	-
Net loss for the period		**(1,055,080)**	**(192,905)**
Other Comprehensive Income			
Foreign currency translation differences for foreign operations		(152)	4,579
Other Comprehensive Income, net of tax		**(152)**	**4,579**
Total Comprehensive Income for the half year		**(1,055,232)**	**(188,326)**
Basic loss per share			
Ordinary shares (cents)		(0.74 cents)	(0.34 cents)

Diluted loss per share is not shown as all potential ordinary shares on issue would decrease the loss per share and are thus not considered dilutive.

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Note	31 December 2009 $	30 June 2009 $
CURRENT ASSETS			
Cash and cash equivalents		1,358,343	2,188,006
Trade and other receivables		3,200	18,111
Held to maturity investments		3,137,196	3,069,501
Other financial assets		17,776	12,726
Total Current Assets		4,516,515	5,288,344
NON CURRENT ASSETS			
Property, plant and equipment		76,450	40,295
Exploration and evaluation expenditure	7	-	300,000
Total Non Current Assets		76,450	340,295
TOTAL ASSETS		4,592,965	5,628,639
CURRENT LIABILITIES			
Trade and other payables		120,148	122,225
Provisions		47,966	22,289
Loans and borrowings		10,409	9,988
Total Non Current Liabilities		178,523	154,502
NON-CURRENT LIABILITIES			
Loans and borrowings		45,525	49,988
Total Non Current Liabilities		45,525	49,988
TOTAL LIABILITIES		224,048	204,490
NET ASSETS		**4,368,917**	**5,424,149**
EQUITY			
Contributed equity	8	6,580,885	6,580,885
Reserves		48,577	48,729
Accumulated losses		(2,260,545)	(1,205,465)
TOTAL EQUITY		**4,368,917**	**5,424,149**

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

DRAGON ENERGY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2009

2009	Issued Capital $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated Losses $	Total Equity $
At 1 July 2009	6,580,885	46,040	2,689	(1,205,465)	**5,424,149**
Total recognised gains and losses for the period:					
Loss for the period	-	-	-	(1,055,080)	(1,055,080)
Foreign currency translation reserve	-		(152)	-	(152)
Total Comprehensive Income for the half year	-	-	(152)	(1,055,080)	(1,055,232)
At 31 December 2009	**6,580,885**	**46,040**	**2,537**	**(2,260,545)**	**4,368,917**

2008	Issued Capital $	Share based payment reserve $	Foreign currency translation reserve $	Accumulated Losses $	Total Equity $
At 1 July 2008	493,790	46,040	(947)	(603,790)	**(64,907)**
Total recognised gains and losses for the period:					
Loss for the period	-	-	-	(192,905)	(192,905)
Foreign currency translation reserve	-	-	4,579	-	4,579
Total Comprehensive Income for the half year	-	-	4,579	(192,905)	(188,326)
Transactions with equity holders in their capacity as equity holders:					
Shares issued	5,268,830	-	-	-	5,268,830
Share issue costs	(219,308)	-	-	-	(219,308)
At 31 December 2008	**5,543,312**	**46,040**	**3,632**	**(796,695)**	**4,796,289**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

DRAGON ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2009

	31 December 2009 $	31 December 2008 $
Cash flows from operating activities		
Cash payments in the course of operations	(790,265)	(155,623)
Interest received	80,498	3,858
Net cash used in operating activities	**(709,767)**	**(151,765)**
Cash flows from investing activities		
Payments for property, plant and equipment	(48,007)	-
Payments for exploration and evaluation assets	-	(100,000)
Payments for acquisition of held to maturity investments	(67,695)	-
Net cash used in investing activities	**(115,702)**	**(100,000)**
Cash flows from financing activities		
Proceeds from the issue of share capital (net)	-	5,204,865
Proceeds from borrowings	-	35,883
Repayment of borrowings	(4,042)	(40,294)
Net cash provided by/ (used in) financing activities	**(4,042)**	**5,200,454**
Net increase/ (decrease) in cash held	**(829,511)**	**4,948,689**
Cash and cash equivalents at the beginning of the period	2,188,006	109,459
Effects of exchange rate changes on cash and cash equivalents	(152)	7,905
Cash and cash equivalents at the end of the period	**1,358,343**	**5,066,053**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

1. REPORTING ENTITY

Dragon Energy Ltd (the "Company") is a company domiciled in Australia. The consolidated half-yearly financial statements as at and for the six months ended 31 December 2009 cover the consolidated group of Dragon Energy Ltd and its subsidiary (together referred to as the "consolidated entity" or "Group").

The annual financial statements of the consolidated entity as at and for the year ended 30 June 2009 are available upon request from the Company's registered office or may be viewed on the Company's website, www.dragonenergyltd.com.

2. STATEMENT OF COMPLIANCE

The consolidated half-yearly financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. The consolidated half-yearly financial statements have been prepared on the accruals basis and on an historical cost basis.

The half-yearly financial statements do not include all notes of the type normally included within the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements.

It is recommended that the half-yearly financial statements report be read in conjunction with the annual financial statements for the year ended 30 June 2009 and considered together with any public announcements made by Dragon Energy Limited during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX Listing Rules and Corporations Act 2001.

These consolidated half-yearly financial statements were approved by the Board of Directors on 10 March 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current half-year period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of income statement with statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;
- the adoption of the single statement approach to the presentation of the statement of comprehensive income; and
- other financial statements are renamed in accordance with the Standard.

Operating Segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position.

Business Combinations and Consolidation Procedures

Revised AASB 3 is applicable prospectively from 1 July 2009. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to affect the Group, include the following:

- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation. Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit or loss unless the change relates to circumstances which existed at acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.
- If the Group holds less than 100% of the equity interests in an acquiree and the business combination results in goodwill being recognised, the Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group elects which method to adopt for each acquisition.
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

4. ESTIMATES

The preparation of the half-yearly financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated half-yearly financial statements, the significant judgments made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2009.

5. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 30 June 2009.

6. SEGMENT REPORTING

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

31 December 2009	Mineral Exploration $	Corporate and administrative $	Consolidated $
Segment revenue	-	-	-
Other unallocated revenue	-	-	80,498
Total revenue			80,498
Segment result	(790,432)	(345,146)	(1,135,578)
Unallocated revenues and expenses	-	-	80,498
Loss before related income tax expense			(1,055,080)
Segment assets	-	4,592,965	4,592,965

6. SEGMENT REPORTING (cont'd)

31 December 2008	Mineral Exploration $	Corporate and administrative $	Consolidated $
Segment revenue	-	-	-
Other unallocated revenue	-	-	3,858
Total revenue			3,858
Segment result	(33,097)	(163,666)	(196,763)
Unallocated revenues and expenses	-	-	3,858
Loss before related income tax expense			(192,905)
Segment assets as at 30 June 2009	300,000	5,328,639	5,628,639

7. EXPLORATION AND EVALUATION EXPENDITURE	31 December 2009 $	30 June 2009 $
Exploration, evaluation and development costs carried forward in respect of areas of interest (net of amounts written off) (a)	**-**	**300,000**
Reconciliation		
Carrying amount at beginning of period	300,000	-
Expenditure during the period - exploration	490,432	267,221
Expenditure during the period - acquisitions	-	300,000
Expenditure written off	(790,432)	(267,221)
Carrying amount at end of period	-	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 six months ended 31 December 2009 the consolidated entity wrote off expenditure totalling $790,432 (six months ended 31 December 2008: $33,097).

8. CONTRIBUTED EQUITY

142,379,707 (30 June 2009: 142,379,707) fully paid ordinary shares	6,580,885	6,580,885

There were no movements in issued capital during the six months ended 31 December 2009.

Options

There were no options to subscribe for ordinary fully paid shares granted or exercised during the six months ended 31 December 2009.

No options lapsed during the six months ended 31 December 2009.

The following options to subscribe for ordinary fully paid shares were outstanding at the end of the period:

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.

9. COMMITMENTS AND CONTINGENCIES

The changes to the commitments and contingencies disclosed in the most recent annual financial statements are specified below.

Exploration Project commitments

In October 2008, the Company entered into an agreement with rights to acquire an interest in a phosphate project. Under the terms of that agreement, the Company had a commitment of a minimum of $1,200,000 within 12 months of 12 February 2009, being the date on which Dragon received conditional approval for admission to the Official List of ASX. In October 2009, the Company surrendered its option and was released from the obligation to incur the minimum exploration expenditure. The settlement required Dragon to pay $125,000 to the joint owners of the tenements in consideration for the release. The Company has satisfied all environmental and rehabilitation obligations under the agreement.

In September 2009 Dragon reached an agreement with Altera Resources Limited ("Altera") to enter into a Joint Venture ("JV") Agreement on coal tenements applied for by Altera. The Exploration Permits for Coal Applications (EPCAs) cover an area of 5,626 km2 in the Surat/Clarence-Moreton and Bowen Basins in Queensland. The thirteen EPCAs comprise eight non-competing, two competing and three secondary applications. Three tenements were granted on the 5^{th} November 2009 and the remainder of the applications are presently going through the grant process with the Queensland Department of Mines and Energy.

The terms of the JV proposal involve expenditure by Dragon of $3.5 million over 3 years to earn an 85% interest. The first year's commitment for Dragon is $0.5m exploration expenditure plus rent and environmental bonds, with second and third year total expenditure commitment of $1.5m each. Dragon has the right to withdraw from the joint venture after Year 1. Once Dragon has earned an 85% interest, Altera has the option to sell its remaining 15% interest in the project to Dragon for an amount to be agreed between the parties.

Formal JV documentation has been signed and 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 JV is subject to at least six of the EPCA's being granted within six months of the date of the agreement.

In December 2009, Dragon acquired three iron ore projects from Polaris Metals N.L. ("Polaris"). The projects comprise 7 tenements totalling 596 km^2 in size, including the Pilbara Ashburton project, the Midwest Milly Milly project and the Lee Steere Range project. The major acquisition terms for the three projects are as follows:

- An aggregate cash payment of $450,000;
- Acquiring 100% of Ashburton and 100% of Milly Milly;
- Acquiring 75% of iron ore rights and 100% other mineral rights for Lee Steere;
- Dragon to sole fund the first $1million of iron ore exploration expenditure on Lee Steere; and
- Polaris retains a royalty right of $1.00 per tonne of iron ore mined, capped at $10 million aggregate for all three projects.

Exploration commitments

In addition to the abovementioned project commitments, Dragon has certain obligations to perform minimum exploration work on exploration licences held. These obligations may vary over time, depending on the Company's exploration program and priorities. The obligations are also subject to variations by negotiation, joint venturing or relinquishing some of the relevant tenements. As at balance date, total exploration expenditure commitments which have not been provided for in the financial statements amount to $701,500 per annum.

10. SUBSEQUENT EVENTS

There are no events subsequent to balance date that would have a material financial effect on the financial statements for the six months ended 31 December 2009.

In the opinion of the directors of Dragon Energy Ltd:

1. the financial statements and notes, set out on pages 6 to 13, are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the six months ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001;

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth, Western Australia this 10th day of March 2010.

Signed in accordance with a resolution of the directors.

Gang Xu
Managing Director

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

Matters Relating to the Electronic Presentation of the Half-Year Financial Report

This auditor's report relates to the half-year financial report of Dragon Energy Limited for the period ended 31 December 2009 included on Dragon Energy Limited's web site. The disclosing entity's directors are responsible for the integrity of Dragon Energy Limited's web site. We have not been engaged to report on the integrity of Dragon Energy Limited's web site. The auditor's review report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this half-year report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dragon Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entity it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Dragon Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 the time that this auditor's review report was made.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Dragon Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

BDO Audit (WA) Pty Ltd

BDO Audit

C Burton

Chris Burton
Director

Signed in Perth, Western Australia
Dated this 10th day of March 2010.