DRAGON ENERGY LIMITED
ABN 38 119 992 175

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2010

CORPORATE DIRECTORY

Directors	Mr Jie Chen	Chairman
	Mr Gang Xu	Managing Director
	Mr Qingyong Guo	Executive Director
	Mr Anthony Ho	Executive Director
	Mr Wenle Zeng	Non-Executive Director

Company Secretary

Ms Karen Logan

Principal Place of Business and Registered Office

Suite 8, 1297 Hay Street
West Perth, Western Australia, 6005

Telephone: + 61 8 9322 6009
Facsimile: + 61 8 9322 6128

Website Address

www.dragonenergyltd.com

Auditor

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

Solicitor

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

Banker

National Australia Bank Limited
1232 Hay Street
Subiaco, Western Australia, 6008

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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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 2010 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 has been 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 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. He is a member of AusIMM and AICD.

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 licences in Shandong Province and one coal mining licence in Northwest China.

In 2004 he completed his masters degree in mine engineering and is currently working on his doctorate degree in project management.

Mr Anthony Ho
Executive Director – appointed 18 December 2008

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 consultancy 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 director of several companies listed on the ASX.

DIRECTORS (cont'd)

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.

COMPANY SECRETARY

Ms Karen Logan
Appointed 6 July 2010

Ms Logan graduated with a Bachelor of Commerce majoring in Accounting and Business Law from Curtin University in Western Australia and completed a Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia. She is a Chartered Secretary and a Fellow of the Financial Services Institute of Australasia.

Ms Logan has been a partner of a public practice since 2006 and has significant experience in capital raising projects and ASX listings. She is currently the secretary of a number of ASX-listed companies and provides corporate and accounting advice and services to those clients.

Mr Anthony Ho
Appointed 31 August 2007, resigned 6 July 2010.

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 Q Guo	Nil	-	-
Mr A Ho	Redisland Australia Limited	30/04/03	Present
	Brumby Resources Limited	24/02/06	Present
	Siburan Resources Limited	12/11/09	Present
	Capitol Health Limited	01/12/05	07/07/08
Mr W Zeng	Nil	-	-

DIRECTORS' INTERESTS

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

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

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	3	3	1	1	1	1
Mr G Xu	3	3	N/A	N/A	1	1
Mr A Ho	3	3	N/A	N/A	1	1
Mr Q Guo	3	3	1	1	N/A	N/A
Mr W Zeng	3	3	1	1	N/A	N/A

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 in the resource industry in Australia.

OPERATING AND FINANCIAL REVIEW

Operating review

During the year, the Company has continued to actively pursue acquisition and joint venture opportunities, focusing on projects in the coal and iron ore sectors, both in Australia and overseas.

In August and September 2009, the Company completed 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.

In October 2009, Dragon Energy finalised the terms of a joint venture agreement with Altera Resources Limited to earn an 85% interest in thirteen coal tenements in Queensland totalling 4,558 km^2. The joint venture commenced on 1 July 2010. Five out of the thirteen exploration permits have been granted to date. The Moranbah Project is located in the productive Bowen Basin. The Boonah Project is within the Surat Basin, while the remaining Permits are located in the Clarence-Moreton Basin on the NSW border. The primary targets are coking and thermal grade coal.

During the year, the Company has applied for and acquired 5 projects comprising 12 iron ore tenements in Western Australia totalling 1,193 km^2 in area. Carters Well, Milly Milly and the Mt Gibson Projects are located in the Midwest Region, within the Yilgarn Craton. The Lee Steere Range Project is located in the Earaheedy Basin immediately north of the Yilgarn. The Ashburton Project is situated in the Pilbara Region within the Ashburton Basin. The primary exploration targets include hematite and magnetite iron ore deposits. Other potential commodity targets include gold, base metals and uranium.

OPERATING AND FINANCIAL REVIEW (cont'd)

Financial review

The consolidated entity incurred a loss of $1,530,759 for the financial year (2009: loss of $601,675). This loss included the write-off of $300,000 (2009: nil) in capitalised exploration and evaluation assets and the incurrence of $695,826 (2009: $267,221) in exploration expenditure in accordance with the Company's accounting policies and corporate and administrative costs of $723,579 (2009: $455,062).

Significant Changes in the State of Affairs

The consolidated entity's net assets decreased by $1,533,448 to $3,890,701 during the financial year. The decrease in net assets principally comprised the net loss of $1,530,759 being incurred for the year.

On 4 June 2010, the parent entity's wholly owned subsidiary, Dragon Energy (China) Limited was deregistered.

RESULTS

The Company incurred a loss from operating activities of $1,530,759 (2009: loss of $601,675) after income tax for the financial year.

REVIEW OF ACTIVITIES

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

LIKELY DEVELOPMENTS

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

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

DIVIDENDS

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

ENVIRONMENTAL REGULATION

Dragon Energy's exploration and mining activities are governed by a range of environmental legislation and regulations. 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 the matters described in Note 29 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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

OPTIONS

Options granted

No options were granted during or since the end of the year.

Unissued shares under option

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

Class	Expiry Date	Exercise Price	Date Granted	Issue Price	Number of Options
Unlisted Options	31 May 2012	$0.30	13 May 2008	Nil	4,900,000
Unlisted Options	31 May 2012	$0.30	18 December 2008	Nil	6,250,000

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.

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 previous financial year, BDO Audit (WA) Pty Ltd (**BDO**), 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 previous financial year by the auditor and are satisfied that the provision of those non-audit services during the previous 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:

(a) all non-audit services were subject to the corporate governance procedures adopted by the Company; and

(b) 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.

NON-AUDIT SERVICES (cont'd)

Details of the amounts paid to the auditor of the Company, BDO, and its related practices for audit and non-audit services provided during the financial year are set out below.

	Consolidated	
	2010	**2009**
	$	**$**
Statutory audit:		
- audit and review of financial reports	27,478	27,250
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 11 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 30th day of August 2010.

Signed in accordance with a resolution of the directors:

Gang Xu
Managing Director

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

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

30th August 2010

Dragon Energy Limited
The Directors
PO Box 1968
West Perth WA 6872

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 2010, 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;
- 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 period.

C Burton

Chris Burton
Director

BDO

BDO Audit (WA) Pty Ltd

Perth, Western Australia

REMUNERATION REPORT

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

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

KEY MANAGEMENT PERSONNEL

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

Name	Position held
Mr J Chen	Executive Chairman
Mr G Xu	Managing Director
Mr Q Guo	Executive Director
Mr A Ho	Executive Director / Company Secretary / Chief Financial Officer
Mr W Zeng	Non-Executive Director

REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration policies for the directors and executives. If necessary, the Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Company.

PRINCIPLES OF REMUNERATION

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

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

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

REMUNERATION STRUCTURE

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

Non-executive director remuneration

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

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 Company. 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 Company. 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 Company 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:

	2010	2009	2008	2007[3]
Net loss for the year	$1,530,759	$601,675	$479,733	$124,056
Dividends paid	Nil	Nil	nil	nil
Change in share price	8.5 cents	12.5 cents	9.0 cents	Nil
Share price at beginning of the period	22.5 cents	10.0 cents	1.0 cent[2]	1.0 cent[2]
Share price at end of the period	31.0 cents	22.5 cents	10.0 cents[1]	1.0 cent[2]
Loss per share	1.08 cents	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 Company currently being in an evaluation and developmental phase, the Company's earnings is not considered to be a principle performance indicator. However, the overall level of key management personnel remuneration takes into account the achievement of strategic objectives, service criteria and growth in share price.

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. 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 (2009: 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. With effect from 1 December 2009, the Company resolved to pay $180,000 per annum (exclusive of statutory superannuation payment) for Mr Chen's services, under the terms of the Employment Agreement.

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 (**MD Employment Agreement**). The MD Employment Agreement specifies the duties and obligations to be fulfilled by the Managing Director. The term of the MD 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 MD Employment Agreement. With effect from 1 December 2009, the rate of remuneration was increased to $180,000 per annum (exclusive of statutory superannuation) under the terms of the MD Employment Agreement.

The MD 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 (**CFO Employment Agreement**). The CFO Employment Agreement specifies the duties and obligations to be fulfilled by the Chief Financial Officer. The term of the CFO 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 CFO 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 (**ED Employment Agreement**). The ED Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Director. The ED Employment Agreement is for an unlimited term and is capable of termination on one month's notice, or immediately by making payment in lieu of notice. Under the terms of the ED Employment Agreement, Mr Guo will be paid $80,000 per annum (exclusive of statutory superannuation) for Mr Guo's services. With effect from 1 December 2009, the Company resolved to pay $120,000 per annum (exclusive of statutory superannuation payment) for Mr Guo's services, under the terms of the ED Employment Agreement.

The ED 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 Company are:

		PRIMARY	POST-EMPLOYMENT	SHARE-BASED PAYMENTS			
		Salary & fees $	Superannuation $	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors							
Non-executive							
Mr W Zeng	2010	24,000	-	-	24,000	-	-
	2009	9,000	-	-	9,000	-	-
Executive							
Mr J Chen	2010	170,000	14,490	-	184,490	-	-
	2009	43,500	2,700	-	46,200	-	-
Mr G Xu	2010	162,117	25,000	-	187,117	-	-
	2009	107,993	20,349	-	128,343	-	-
Mr Q Guo	2010	89,333	7,500	-	96,833	-	-
	2009	9,000	-	-	9,000	-	-
Mr A Ho	2010	80,000	7,200	-	87,200	-	-
	2009	16,571	16,648	-	33,219	-	-
Total, all directors	**2010**	525,450	54,190	-	579,640		
	2009	186,065	39,697	-	225,762		

SHARE-BASED PAYMENTS

Options and rights over equity instruments granted as compensation

There were no options granted as compensation to key management person during or since the end of the financial year.

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

There were no LTI paid during or since the end of the financial year.

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"). This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

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

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Charter

The Board is accountable to shareholders for the performance of the Company. The Board operates under 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, the Managing Director, two executive directors and one non-executive 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 and 1,000,000 options exercisable at $0.30 each on or before 31 May 2012 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*.

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 Audit (WA) Pty Ltd (**BDO**). The appointment of BDO was ratified by members at the Annual General Meeting held on 21 January 2008.

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

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

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

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

Risk oversight

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

Reporting and assurance

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

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

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

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 12
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 12
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 12
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 12
Rec 2.2	The chairman should be an independent director.	No	Website & Page 12
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Website & Page 12
Rec 2.4	The board should establish a nomination committee.	No	Website & Page 13
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Website & Page 13
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes	Website & Page 12 & 13

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 3	**Promote ethical and responsible decision making**		
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ▪ 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 13
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 14
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website & Page 13 & 14
Pr 4	**Safeguard integrity in financial reporting**		
Rec 4.1	The board should establish an audit committee.	Yes	Website & Page 14
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 14
Rec 4.3	The audit committee should have a formal charter.	Yes	Website & Page 14
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website & Page 14
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 14
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website & Page 14
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 15
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 15

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 7	**Recognise and manage risk**		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website & Page 15
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 15
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 15
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 15
Pr 8	**Remunerate fairly and responsibly**		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 15
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 16
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 16

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	Note	Consolidated 2010 $	2009 $
Revenue		187,547	117,387
Other income		1,099	3,221
Corporate and administrative expenses		(723,579)	(455,062)
Exploration and evaluation expenses		(695,826)	(267,221)
Exploration and evaluation assets written off	11	(300,000)	-
Loss before income tax		**(1,530,759)**	**(601,675)**
Income tax	5	-	-
Net loss for the year		**(1,530,759)**	**(601,675)**
Other comprehensive income			
Foreign currency translation differences for foreign operations		(2,689)	3,636
Other comprehensive income, net of tax		**(2,689)**	**3,636**
Total comprehensive income for the year		**(1,533,448)**	**(598,039)**
Loss per share for loss attributable to the ordinary equity holders of the parent			
Basic loss per share (cents)	21	(1.08)	(0.61)

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 above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Note	Consolidated 2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	6	3,437,285	2,188,006
Trade and other receivables	7	11,141	18,111
Held to maturity investments	8	50,088	3,069,501
Other assets	9	8,470	12,726
Total Current Assets		3,506,984	5,288,344
NON CURRENT ASSETS			
Property, plant and equipment	10	80,177	40,295
Exploration and evaluation assets	11	517,799	300,000
Total Non Current Assets		597,976	340,295
TOTAL ASSETS		4,104,960	5,628,639
CURRENT LIABILITIES			
Trade and other payables	13	125,539	122,225
Provisions	14	37,862	22,289
Loans and borrowings	15	10,938	9,988
Total Current Liabilities		174,339	154,502
NON CURRENT LIABILITIES			
Loans and borrowings	15	39,920	49,988
Total Non Current Liabilities		39,920	49,988
TOTAL LIABILITIES		214,259	204,490
NET ASSETS		**3,890,701**	**5,424,149**
EQUITY			
Contributed equity	16	6,580,885	6,580,885
Reserves	17	46,040	48,729
Accumulated losses	18	(2,736,224)	(1,205,465)
TOTAL EQUITY		**3,890,701**	**5,424,149**

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2010

Consolidated	Contributed Equity $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2008	493,790	46,040	(947)	(603,790)	(64,907)
Total recognised gains and losses for the period:					
Loss for the year	-	-	-	(601,675)	(601,675)
Foreign currency translation reserve	-	-	3,636	-	3,636
Total comprehensive income for the year	-	-	3,636	(601,675)	(598,039)
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	6,087,095	-	-	-	6,087,095
Balance at 30 June 2009	**6,580,885**	**46,040**	**2,689**	**(1,205,465)**	**5,424,149**
Balance 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 year	-	-	-	(1,530,759)	(1,530,759)
Deconsolidation of subsidiary	-	-	(2,689)	-	(2,689)
Total comprehensive income for the year	-	-	(2,689)	(1,530,759)	(1,533,448)
Balance at 30 June 2010	**6,580,885**	**46,040**	**-**	**(2,736,224)**	**3,890,701**

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2010

	Note	Consolidated 2010 $	2009 $
Cash flows from operating activities			
Interest income		187,547	117,387
Cash payments in the course of operations		(1,361,053)	(629,127)
Net cash (outflow) from operating activities	27	(1,173,506)	(511,740)
Cash flows from investing activities			
Payments for property, plant & equipment		(68,120)	(1,858)
Payments for exploration expenditure – acquisition costs		(450,000)	(300,000)
Payments for exploration expenditure – capitalised costs		(67,799)	-
Payment for acquisition of held to maturity investment		-	(3,069,501)
Disposal of held to maturity investment		3,019,413	-
Net cash inflow/(outflow) from investing activities		2,433,494	(3,371,359)
Cash flows from financing activities			
Proceeds from the issue of share capital (net)		-	6,087,095
Proceeds from borrowings		-	42,237
Repayment of borrowings		(9,118)	(174,543)
Net cash inflow/(outflow) from financing activities		(9,118)	5,954,789
Net increase in cash held		**1,250,870**	**2,071,690**
Cash and cash equivalents at the beginning of the financial year	6	2,188,005	109,459
Net foreign exchange differences		(1,590)	6,857
Cash and cash equivalents at the end of the year	6	**3,437,285**	**2,188,006**

The above statement of cash flows should 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 2010 comprise the Company and its subsidiary (together referred to as the **consolidated entity**).

The nature of the operations and principal activities of the Company 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 Company and the financial report of the Company comply with the International Financial Reporting Standards (**IFRSs**) and interpretations adopted by the International Accounting Standards Board.

Separate financial statements for Dragon Energy Limited, as an individual entity, are no longer presented as the consequence of a change to the *Corporations Act 2001*. Financial information for Dragon Energy Limited as an individual entity is included in Note 26.

The financial statements were approved by the Board of Directors on 30 August 2010.

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.

The Company has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current financial year. 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.

<u>Presentation of Financial Statements</u>

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.

<u>Operating Segments</u>

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 Company's chief operating decision maker which, for the Company, 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.

Significant accounting judgements, estimates and assumptions

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

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

Exploration expenditure

The 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.

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.

Deferred taxation

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

Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements comprise the financial statements of Dragon Energy Ltd (the **Company**) and its subsidiary (as outlined in Note 24) as at 30 June each year.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company 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 the 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.

Business combinations (cont'd)

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

Foreign currency

Functional and presentation currency

Both the functional and presentation currency of Dragon Energy Ltd is Australian Dollars ($). The Hong Kong subsidiary's functional currency was Hong Kong Dollars which was 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 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 statements of comprehensive income are translated at the average exchange rates for the period.

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 statement of comprehensive income.

Segment reporting

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

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

Cash and cash equivalents

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

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

Trade and other receivables

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

Operating revenue

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

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

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

Share capital

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

Held-to-maturity investments

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

Exploration and evaluation expenditure

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

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

Property, plant and equipment

Recognition and measurement

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

Subsequent costs

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

Depreciation

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

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

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

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 Company'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 the statement of comprehensive income. 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 date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

(a) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

(a) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 date.

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

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 statement of financial position.

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

Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income 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 Company. Trade accounts payable are normally settled within 60 days.

Loans and borrowings

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

Employee benefits

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

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

Contributed equity

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

Share-based payment transactions

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

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

New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the standard.

New accounting standards and interpretations (cont'd)

- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvement Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 - Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Company's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Company's 30 June 2011 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

2. FINANCIAL RISK MANAGEMENT

Overview

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

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

Financial risk management objectives

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

2. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk

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

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

Liquidity risk

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

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

Market risk

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

Foreign currency risk

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

The Board does not consider the Company is materially exposed to changes in foreign exchange rates. As a result, the Company does not currently seek to mitigate its foreign currency exposures. Furthermore, as the Company's subsidiary was deregistered during the year, the Board does not intend to seek to mitigate Dragon's exposure to foreign currency risk.

The Company's investment in subsidiary was not hedged as that currency position was 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's exposure to interest rates primarily relates to the Company's cash and cash equivalents and held to maturity investments. The Company manages market risk by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates.

Other market price risk

The Company 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.

2. FINANCIAL RISK MANAGEMENT (cont'd)

Capital management (cont'd)

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

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

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

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

	Consolidated	
	2010	2009
3. REVENUE, INCOME AND EXPENSES	$	$
(a) Revenue		
Interest income	187,547	117,387
(b) Other income		
Foreign currency gains	1,099	3,221
(c) Employee benefits expense		
Wages and salaries	624,907	163,396
Superannuation	61,502	40,502
Other employee benefits expense	17,151	20,949
	703,560	224,847
(d) Finance costs		
Finance charges payable under finance leases	6,389	6,483
(e) Depreciation included in statement of comprehensive income		
Furniture and fixtures	4,993	91
Plant and equipment	531	518
Motor vehicles	22,714	17,839
	28,238	18,448
(f) Other expenses included in statement of comprehensive income		
Occupancy expenses	76,761	33,444
Consultancy expenses	60,630	117,798
	137,391	151,242

4. AUDITOR'S REMUNERATION

Audit services:		
BDO Audit (WA) Pty Ltd		
- audit and review of financial reports	27,478	27,250
Other services:		
- independent accountant's report for inclusion in a prospectus (BDO Kendalls Corporate Finance (WA) Pty Ltd)	-	6,060
	27,478	33,310

	Consolidated 2010 $	2009 $
5. TAXATION		
(a) Income tax expense	-	-
(b) Numerical reconciliation between tax expense and pre-tax net loss		
Loss before income tax expense	(1,530,759)	(601,675)
Income tax benefit calculated at rates noted in (d) below	459,228	180,502
Tax effect on amounts which are not tax deductible:		
Sundry amounts	(4,218)	(11,722)
Deferred tax asset not brought to account	(455,010)	(168,780)
Income tax expense	-	-
(c) Deferred tax assets not brought to account		
Unused tax losses	798,319	343,309
Timing differences	4,218	6,285
Capital raising costs in equity	62,105	84,930
Potential at 30%	864,642	434,524

(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	3,437,285	2,188,006

The Company'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

Sundry receivables	11,141	18,111

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 19.

8. OTHER INVESTMENTS

Current

Held to maturity investments	50,088	3,069,501

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

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

9. OTHER ASSETS

Current

Prepayments	8,470	12,726

10. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fixtures	Plant & Equipment	Motor Vehicles	Total $
Consolidated				
Year ended 30 June 2010				
At 1 July 2009, net of accumulated depreciation	1,767	621	37,907	40,295
Additions	41,655	465	26,000	68,120
Disposals	-	-	-	-
Depreciation charge for the year	(4,993)	(531)	(22,714)	(28,238)
At 30 June 2010, net of accumulated depreciation	38,429	555	41,193	80,177
At 30 June 2010				
Cost	43,513	2,035	97,355	142,903
Accumulated depreciation	(5,084)	(1,480)	(56,162)	(62,726)
Net carrying amount	38,429	555	41,193	80,177
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

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 ASSETS

	Consolidated 2010 $	Consolidated 2009 $
Exploration, evaluation and development expenditure carried forward in respect of areas of interest (net of amounts written off) (a)	517,799	300,000
Reconciliation		
Carrying amount at the beginning of the year	300,000	-
Exploration and evaluation expenditure	67,799	-
Acquisition of Ashburton, Milly Milly and Lee Steere Range Projects	450,000	-
Acquisition of Big Toby, Babbling Brooke and Riversleigh Projects	-	300,000
Capitalised expenditure written off	(300,000)	-
Carrying amount at the end of the year	517,799	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 consolidated entity wrote off capitalised expenditure totalling $300,000 (2009: nil) in respect of an abandoned area of interest.

Exploration and evaluation expenditure immediately expensed in the statement of comprehensive income amount to $695,826 (2009: $267,221).

12. INTANGIBLE ASSETS

	Consolidated 2010 $	Consolidated 2009 $
Goodwill, at cost		
Balance at 1 July	-	-
Acquisitions through business combinations	-	3,538
Impairment loss	-	(3,538)
	-	-

13. TRADE AND OTHER PAYABLES

	2010 $	2009 $
Trade creditors	36,211	70,462
Other creditors and accruals	89,328	51,763
	125,539	122,225

14. PROVISIONS

	2010 $	2009 $
Liability for employee benefits	37,862	22,289
Movements in provisions		
At 1 July	22,289	1,341
Arising during the year	56,129	20,948
Utilised	(2,540)	-
Unused amounts reversed	(38,016)	-
At 30 June	37,862	22,289

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.

	2010 $	2009 $
Current		
Finance lease liabilities	10,938	9,988
Non-Current		
Finance lease liabilities	39,920	49,988

Terms of loans and borrowings

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 Company are payable as follows:

	Consolidated		
	Minimum lease payments 2010 $	Interest 2010 $	Principal 2010 $
At 30 June 2010			
Less than one year	15,507	4,569	10,938
Between one and five years	40,574	654	39,920
	56,081	5,223	50,858

15. LOANS AND BORROWINGS (cont'd)

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

16. ISSUED CAPITAL

	Consolidated	
	2010 $	2009 $
142,379,707 (2009: 142,379,707) fully paid ordinary shares	6,580,885	6,580,885

(a) Ordinary shares

Movements during the year:	2010 Number of Shares	2009 Number of Shares	2010 $	2009 $
Balance at beginning of the year	142,379,707	47,826,207	6,580,885	493,790
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)
Balance at end of the year	142,379,707	142,379,707	6,580,885	6,580,885

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

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

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

(b) Options

Options granted

No options have been granted during or since the end of the Period.

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.

(c) Capital management

The Company's objectives when managing capital are disclosed in Note 2.

17. RESERVES

	Consolidated 2010 $	Consolidated 2009 $
Share based payments reserve		
Balance at beginning of the year	46,040	46,040
Share based payments	-	-
Balance at end of the year	46,040	46,040
Foreign currency translation reserve		
Balance at beginning of the year	2,689	(947)
Currency translation differences	(2,689)	3,636
Balance at end of the year	-	2,689
TOTAL RESERVES	46,040	48,729

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

Accumulated losses at the beginning of the year	(1,205,465)	(603,790)
Loss for the year	(1,530,759)	(601,675)
Accumulated losses at the end of the year	(2,736,224)	(1,205,465)

19. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

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

	Consolidated Carrying Amount 2010 $	Consolidated Carrying Amount 2009 $
Cash and cash equivalents	3,437,285	2,188,006
Trade and other receivables	11,141	18,111
Held to maturity investments	50,088	3,069,501
	3,498,514	5,275,618

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Credit risk (cont'd)

The credit quality is assessed and monitored as follows:

Credit quality of financial assets	Equivalent S&P rating[1] A+ and above	Equivalent S&P rating[1] BBB and below	Internally rated[2] No default	Total
At 30 June 2010				
Cash and cash equivalents	3,437,285	-	-	3,437,285
Sundry receivables	-	-	11,141	11,141
Held to maturity investments	50,088	-	-	50,088
	50,088	**-**	**11,141**	**3,498,514**
At 30 June 2009				
Cash and cash equivalents	2,188,006	-	-	2,188,006
Sundry receivables	-	-	18,111	18,111
Held to maturity investments	3,069,501	-	-	3,069,501
	3,069,501	**-**	**18,111**	**5,275,618**

1. The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.
2. Sundry receivables consists of GST refundable from the Australian Taxation Office and security bonds and deposits

Allowance for impairment loss

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

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.

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 2010	Carrying amount	Contractual cash flows	1 year	2-5 years
Finance lease liabilities	50,858	(56,081)	(15,507)	(40,574)
Trade and other payables	125,539	(125,539)	(125,539)	-
	176,397	(181,620)	(141,046)	(40,574)

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)

19. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Foreign currency risk

Exposure to foreign currency risk

During the year, the parent entity carried an inter-company loan with its subsidiary. The loan was denominated in the functional currency of the subsidiary (HKD), and was translated at reporting date at the prevailing spot rates through the income statement. To the extent appropriate, the parent entity provided for the non-recovery of the loan. The subsidiary was deregistered during the financial year. The net carrying value (in AUD) of the loan in the financial statements of the parent entity (after provision) at 30 June 2010 was nil (2009: nil).

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
	$	$	$	$
CNY	6.0322	5.0855	5.7863	5.5442
HKD	6.8602	5.7778	6.6340	6.2884

Interest rate risk

Profile

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

	Consolidated Carrying Amount	
	2010	2009
	$	$
Variable rate instruments		
Financial assets	3,487,373	5,257,507
Financial liabilities	-	-
	3,487,373	5,257,507

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 2009.

A change of 100 basis points in interest rates would have increased or decreased the consolidated entity's profit or loss by $34,874 (2009: $52,575).

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 $180,000 per annum (exclusive of superannuation). At 30 June 2010, the unexpired portion of the term of the agreement amounts to $171,675.

20. COMMITMENTS (cont'd)

Remuneration commitments (cont'd)

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 2010, the unexpired portion of the term of the agreement amounts to $141,700.

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 Company, under which Townshend York receives $50,000 per annum. At 30 June 2010, the unexpired portion of the term of agreement amounts to $31,250.

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

Operating lease commitment

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

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

	2010 $	2009 $
Not longer than 1 year	60,800	-
Longer than 1 year and not longer than 5 years	207,733	-
Longer than 5 years	-	-
	268,533	-

Exploration project commitments

In October 2009, Dragon Energy finalised the terms of a joint venture agreement with Altera Resources Limited (**Altera**) on coal tenements applied for by Altera. The Exploration Permits for Coal Applications (**EPCAs**) cover an area of 5,626 km^2 in the Surat/Clarence-Moreton and Bowen Basins in Queensland. The thirteen EPCAs comprise eight non-competing, two competing and three secondary applications. Five out of the thirteen permits have been granted by the Queensland Department of Mines and Energy to date. Pursuant to a deed of variation executed in April 2010, the parties agreed the joint venture would commence on 1 July 2010.

The terms of the joint venture 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 commitments of $1.5m each. Dragon Energy 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.

In March 2010, Dragon acquired two iron ore projects and a 75% joint venture interest in one iron ore project from Polaris Metals NL (**Polaris**). The projects comprise seven tenements totalling 786 km^2 in size, including the Pilbara Ashburton project, the Midwest Milly Milly project and the Lee Steere Range project.

The terms of the sale and joint venture agreement require that Dragon Energy sole fund the first $1 million of iron ore exploration expenditure (**Joint Venture Expenditure**) on the Lee Steere Range project (**Sole Fund Period**). If the Company does not spend $250,000 in Joint Venture Expenditure within 3 years, the Dragon Energy may elect to:

(a) pay Polaris the difference between $250,000 and the amount of Joint Venture Expenditure spent by Dragon Energy; or
(b) extend the Sole Fund Period for a further 1 year with Dragon Energy committing to sole fund $400,000 in Year 4. In the event Dragon Energy does not meet the sole fund obligation in Year 4, Polaris has the right to terminate the joint venture and retake the iron ore rights to the Lee Steere Range project.

20. COMMITMENTS (cont'd)

Exploration Project commitments (cont'd)

The joint venture commences on completion of the Sole Fund Period.

The agreement also provides that Polaris will retain a royalty right of 1.0% of gross receipts from sales of iron ore from all three projects (**Royalty**). The Royalty obligation ends once Dragon Energy has paid to Polaris $10 million in Royalty payments.

Exploration commitments

The Company has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Company's exploration program and priorities. These obligations are also subject to variations by negotiation, joint venturing or relinquishing some of the relevant tenements. As at balance date, total exploration expenditure commitments of the Company which have not been provided for in the financial statements amount to $402,500 per annum.

21. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2010 was based on the loss attributable to ordinary shareholders of $1,530,759 (2009: $601,575) and a weighted average number of ordinary shares outstanding during the year of 142,379,707 (2009: 98,289,650) shares calculated as follows:

	Consolidated	
Loss attributable to ordinary shareholders	**2010** **$**	**2009** **$**
Net loss for the year	(1,530,759)	(601,575)

Weighted average number of ordinary shares	**Number** **2010**	**Number** **2009**
Balance at beginning of year	142,379,707	47,826,207
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
	142,379,707	98,289,650

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 REPORTING

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

22. SEGMENT REPORTING (cont'd)

30 June 2010	Mineral Exploration $	Corporate and administrative $	Consolidated $
Segment revenue	-	187,547	187,547
Total revenue			187,547
Segment result	(995,826)	(534,933)	(1,530,759)
Loss before related income tax expense			(1,530,759)
Segment assets as at 30 June 2010	517,799	3,587,161	4,104,960
Segment liabilities as at 30 June 2010	7,591	206,668	214,259
30 June 2009			
Segment revenue	-	-	-
Other unallocated revenue	-	117,387	117,387
Total revenue			117,387
Segment result	(267,221)	(451,841)	(719,062)
Unallocated revenues and expenses	-	117,387	117,387
Loss before related income tax expense			(601,675)
Segment assets as at 30 June 2009	300,000	5,328,639	5,628,639
Segment liabilities as at 30 June 2009	17,758	186,732	204,490

23. KEY MANAGEMENT PERSONNEL

Key management personnel compensation

	Consolidated 2010 $	2009 $
Short-term employee benefits	525,450	186,065
Post-employment benefits	54,190	39,697
Other benefits	-	-
	579,640	225,762

Detailed remuneration disclosures are provided in the Remuneration Report on pages 8 to 11.

Options holdings of key management personnel

	Held at 1 July 2009	Granted as compensation	Exercised	Other changes	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
Mr J Chen	-	-	-	-	-	-	-
Mr G Xu	-	-	-	-	-	-	-
Mr Q Guo	-	-	-	-	-	-	-
Mr A Ho	500,000	-	-	-	-	-	500,000
Mr W Zeng	1,000,000	-	-	-	-	-	1,000,000

23. KEY MANAGEMENT PERSONNEL (cont'd)

Options holdings of key management personnel (cont'd)

	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	-	-	-	-	-	500,000
Mr W Zeng	1,000,000	-	-	-	-	-	1,000,000

No options held by key management personnel are vested but not exercisable at 30 June 2009 or 2010.

Shareholdings of key management personnel

2010	Held at 30 Jun 2009	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 Jun 2010
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

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

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

Other key management personnel transactions with the Company

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

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

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

		Transactions value for the year ended 30 June		Balance outstanding as at 30 June	
Director	**Transaction**	**2010**	**2009**	**2010**	**2009**
Mr A Ho	Company secretarial and accounting fees[1]	58,831	30,518	11,367	8,359
	Consultancy fees[2]	-	33,511	-	-

23. KEY MANAGEMENT PERSONNEL (cont'd)

Other key management personnel transactions with the Company (cont'd)

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, the Company borrowed a further $42,237 from Mr Xu for the purpose of funding its working capital. The loan was interest free and was repaid to Mr Xu during the previous financial year.

During the previous 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 2009 or 2010 financial years.

24. RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Dragon Energy Ltd and the subsidiary listed in the following table:

Name	Country of Incorporation	% Equity interest 2010	% Equity interest 2009	$ Investment 2010	$ Investment 2009
Dragon Energy (China) Limited	Hong Kong	-	100%	-	-

In the financial statements of the Company, the investment in the subsidiary was measured at cost less provision for diminution.

The deregistration of Dragon Energy (China) Limited was completed on 4 June 2010.

(b) Ultimate parent

Dragon Energy Ltd is the ultimate Australian parent entity and the ultimate parent of the consolidated entity is Shandong Taishan Sunlight Group Company Limited, which was incorporated in the People's Republic of China and owns 56.89% of Dragon Energy Ltd.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in Note 23.

(d) Loans to related parties

Loans were made by the Company to its wholly owned subsidiary for working capital purposes. The loans had no fixed date of repayment and was non-interest bearing.

Amounts receivable from the subsidiary were as follows:

	Company 2010 $	Company 2009 $
Non-current		
Unsecured loan to subsidiary	-	14,891
Allowance for impairment loss	-	(14,891)
	-	-

24. RELATED PARTY DISCLOSURES (cont'd)

(d) Loans to related parties (cont'd)

No dividends were received from the subsidiary in the 2010 or 2009 financial year.

No loans were advanced during the reporting period.

The subsidiary was deregistered during the financial year (see Note 25).

25. DECONSOLIDATION OF SUBSIDIARY

On 4 June 2010, the Company's wholly owned subsidiary Dragon Energy (China) Limited was deregistered in Hong Kong.

At the date of deregistration, Dragon Energy (China) Limited comprised only the loan owing to the parent entity, Dragon Energy Limited. A provision for impairment loss had been recognised in full in the financial statements of the parent entity at the date of deconsolidation.

The statement of comprehensive income includes net profit of $1,099 contributed by Dragon Energy (China) Limited to the net loss of the consolidated entity during the financial year. The net profit was recognised in other income during the 2010 financial year (see Note 3).

26. PARENT ENTITY INFORMATION

The following details information related to the parent entity, Dragon Energy Ltd, at 30 June 2010. The information presented has been prepared using accounting policies as disclosed in Note 1.

Statement of financial position

	2010 $	2009 $
CURRENT ASSETS		
Cash and cash equivalents	3,437,285	2,186,416
Trade and other receivables	11,141	18,111
Held to maturity investments	50,088	3,069,501
Other assets	8,470	12,726
Total Current Assets	3,506,984	5,286,754
NON CURRENT ASSETS		
Property, plant & equipment	80,177	40,295
Exploration and evaluation assets	517,799	300,000
Total Non Current Assets	597,976	340,295
TOTAL ASSETS	4,104,960	5,627,049
LIABILITIES		
Trade and other payables	125,539	122,225
Provisions	37,862	22,289
Loans and borrowings	10,938	9,988
Total Current Liabilities	174,339	154,502
NON CURRENT LIABILITIES		
Loans and borrowings	39,920	49,988
Total non-current liabilities	39,920	49,988
TOTAL LIABILITIES	214,259	204,490
NET ASSETS	**3,890,701**	**5,422,559**
EQUITY		
Contributed equity	6,580,885	6,580,885
Reserves	46,040	46,040
Accumulated losses	(2,736,224)	(1,204,366)
TOTAL EQUITY	**3,890,701**	**5,422,559**

Statement of comprehensive income

	2010	2009
Loss for the year	(1,531,858)	(603,926)
Other comprehensive income	-	3,301
Total comprehensive loss for the year	(1,531,858)	(600,625)

27. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES	**Consolidated 2010 $**	**Consolidated 2009 $**
Cash flows from operating activities		
Loss for the year	(1,530,759)	(601,675)
Adjustments for:		
Depreciation	28,238	18,448
Capitalised expenditure written off	300,000	-
Foreign exchange gain/loss	(1,099)	(3,221)
Operating loss before changes in working capital and provisions	(1,203,620)	(586,448)
Change in trade and other receivables	6,971	368
Change in trade and other payables	3,315	65,323
Change in prepayments	4,256	(11,932)
Change in provisions	15,572	20,949
Net cash used in operating activities	(1,173,506)	(511,740)

28. CONTINGENT LIABILITIES

The Company has no contingent liabilities at balance date.

29. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Company's joint venture with Altera Resources Limited to earn an 85% interest in thirteen coal tenements in Queensland commenced on 1 July 2010.

The financial effect of the above transaction has not been brought to account in the financial statements for the year.

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 11, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Company and the consolidated entity's financial position as at 30 June 2010 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) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and

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

The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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 2010.

Signed in accordance with a resolution of the directors:

Dated at Perth, Western Australia this 30th day of August 2010.

Gang Xu
Managing Director

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

Report on the Financial Report

We have audited the accompanying financial report of Dragon Energy Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 the time that this auditor's report was made.

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 consolidated entity's financial position as at 30 June 2010 and of its 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

(a) 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 the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO Audit

C Burton

Chris Burton
Director

Perth, Western Australia
Dated this 30th day of August 2010