



18 January 2011

Dear Option Holder

NON-RENOUNCEABLE SHARE ENTITLEMENT ISSUE AND OPTION ENTITLEMENT ISSUE

The Directors of Dragon Energy Ltd (**Dragon Energy** or the **Company**) announced on 12 January 2011 a 1 for 2 pro rata non-renounceable entitlement issue of shares to shareholders, to raise a minimum of approximately \$21.35 million (**Share Entitlement Issue**). The Company also announced it would be undertaking a 1 for 3 pro rata non-renounceable entitlement issue of options (exercisable at \$0.35 each and expiring 18 November 2014) (**New Option**) to shareholders, to raise a minimum of approximately \$47,460 (**Option Entitlement Issue**). Together, the Share Entitlement Issue and Option Entitlement Issue will raise up to \$21.4 million (the **Offers**).

The Share Entitlement Issue will be offered to existing shareholders on the basis of one (1) New Share for every two (2) Shares held at the record date at an issue price of \$0.30 per share (**New Share**) to raise approximately \$21.35m (before costs). Based on the Company's current issued capital the Share Entitlement Issue will result in 71,189,854 New Shares being issued.

The Option Entitlement Issue will be offered to existing shareholders on the basis of one (1) New Option for every three (3) Shares held at the record date at an issue price of \$0.001 per share to raise approximately \$47,460 (before costs). The Option Entitlement Issue will result in 47,459,902 New Options being issued.

The Company's major shareholder, Shandong Taishan Sunlight Group Company Limited (**Shandong Group**), has committed to underwrite a minimum of A\$18.0 million for the Share Entitlement Issue. The Shandong Group has also confirmed their intention to subscribe for their full entitlement under both the Offers.

Dragon Energy also announced the Record Date of 5:00pm (WST) on 28 January 2011 for the purposes of determining shareholders entitled to participate in the Offers (**Record Date**). A prospectus containing full details of the Offers was lodged with ASIC on 18 January 2011 and will be despatched to all shareholders on 2 February 2011. The Prospectus will be available on the ASX website (company announcements section, ASX code: DLE).

Under the terms of the options you currently hold, there is no entitlement to participate in the Offers, unless you exercise your options and are entered onto the register as a shareholder on or before the Record Date. Under the terms of your options you are entitled to receive 7 business days notice of an entitlement issue. The purpose of this letter is to give you that notice in order to permit you to participate in the Offers, should you wish to do so.

If you are not a shareholder and wish to participate in the Offers, it will be necessary for you to exercise all or part of your options, and the shares in respect of those options must have been allotted to you before the Record Date. If you wish to do so, you should complete a Notice of Exercise of Options and lodge the Notice with the Company, together with your payment for the number of shares you wish to take up. If payment for the exercise of options is not received by 28 January 2011, you will not be able to participate in the Entitlement Issue.

If you do not wish to participate in the Offers (in respect of your options), you do not need to take any action.

Before deciding whether to exercise any or all of your options, you should read the prospectus in its entirety and, if in any doubt, consult with your professional adviser. This letter is only intended to inform you of your rights in relation to your options. This letter is not an offer or an invitation to acquire shares in Dragon Energy or to participate in the Offers.

If you require further information, please contact the Company Secretary, on (61-8) 6389 2688, or the Company's Share Registry, Computershare Investor Services Pty Limited, Investor enquiries, on 1300 855 080, during normal business hours.

Yours faithfully


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