



Quarterly Report

For the period ended 31 December 2010

Highlights

- Acquisition of Nameless Project in the Pilbara finalised and data handover completed
- Modelling of mineralisation and design of a resources drilling programme of Nameless Project
- Ground gravity test survey completed at western tenement of Lee Steere Project
- Modelling of geophysical data completed and drillhole targets identified of western tenement of Lee Steere Project
- Field reconnaissance and rock chip sampling of eastern tenement of the Lee Steere Project
- Continual project evaluations and commercial negotiations for iron ore and coal projects

Subsequent to Quarter End

- Acquisition of Rocklea Project in the Pilbara finalised and data handover completed
- Five West Australian exploration tenements granted
- Underwritten rights issue and option entitlement issues launched subsequent to quarter end to raise \$21.4 million, expected close in February 2011
- Major shareholder Shandong Group supported Dragon by underwriting minimum \$18 million for the rights issue, and provided a short term \$3.5 million unsecured interest free loan to finance Rocklea acquisition

ASX Announcement
ASX Code: DLE
Released: 28 January 2011

For Further Information

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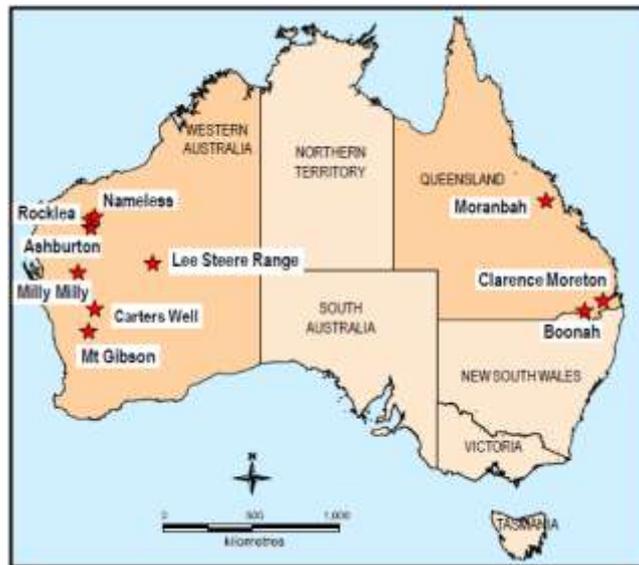


Introduction

Dragon Energy Ltd (“Dragon”) is a Western Australia based explorer which controls a portfolio of mineral exploration tenements and coal exploration permits in Western Australia and Queensland.

The WA tenements are located in the Pilbara and Midwest regions. Primary exploration targets are iron ore, with the potential for manganese, gold, base metals and uranium. These tenements were acquired from a combination of applications to the Department of Mines and Petroleum, a farm in agreement with Polaris Metals NL (Polaris”), and two tenements purchased from AusQuest Limited (“AusQuest”).

The Queensland exploration permits are situated in the Surat/Clarence-Moreton and Bowen Basins. Exploration targets are thermal and coking coal. These permits were acquired through a farm in with Altera Resources Ltd (“Altera”).



Project Locations

During this quarter exploration activities included a field assessment of the eastern tenement and geophysical modelling of the western tenement of the Lee Steere Project, preliminary modelling and resource drilling design of the Nameless Project.



WA Project Locations

PROJECTS - WESTERN AUSTRALIA

(Dragon 100%)

Dragon holds 7 projects in Western Australia, comprising 18 tenements (including 11 applications), totalling 1,399km² in area. The primary exploration targets include iron (hematite & magnetite) and manganese mineralisation. Other potential commodity targets include gold, base metals and uranium.

Carters Well, Milly Milly, Mt Gibson and Lee Steere Projects are located in the Midwest Region, within the Yilgarn Craton and Eoraheedy Basin. The Ashburton, Rocklea and Nameless Projects are situated in the Pilbara Region within the Ashburton and Hamersley Basins.

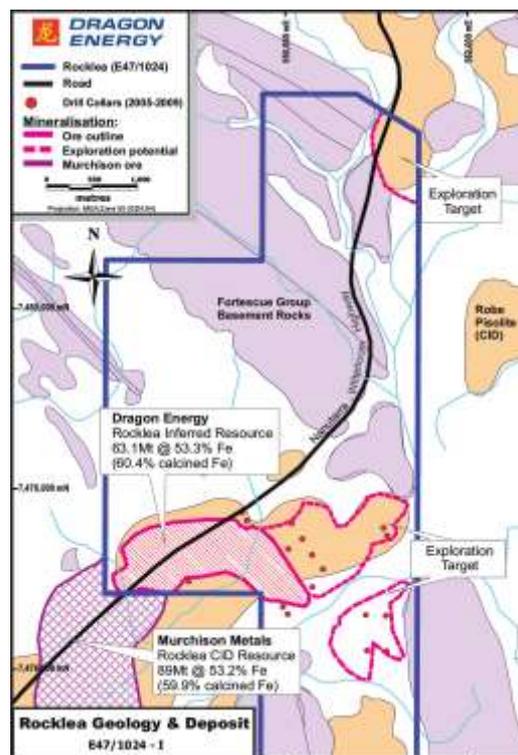
Rocklea (E47/1024-I) - Located 33km southwest of the mining town of Tom Price, and immediately north of Murchison Metals’ Rocklea CID project in the Pilbara.

The Rocklea Project is located on the eastern side of the Rocklea dome where Archaean age Fortescue Group Formations dip to the east and are overlain by Tertiary age CID and other Cainozoic deposits of sand and gravels. The Rocklea CID comprises goethitic and hematitic detrital deposits of the Tertiary Robe Pisolites.

Drilling from 2005-2009 outlined an Inferred Resource of 63.1Mt @ 53.4% Fe (60.4% caFe), including a higher grade component of 28.2Mt @ 55.6% Fe (62.7% caFe) (AusQuest ASX release 17 August 2009).

This resource is open to the south and east, and outcropping CID in the NE corner of the tenement has not been drill tested.

Subsequent to the end of quarter, the purchase of the project was completed in January 2011, whereupon the geological and drilling data were transferred to Dragon Energy for assessment. Step-out and exploratory drilling programmes will be designed to infill and step-out from existing drill sites. Field checking of a GSWA mapped CID outcrop upon the unexplored non-contiguous tenement to the south will also be undertaken.



Rocklea- Geology & Resource

	Million tonnes	Fe (%)	caFe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (1000°C) (%)	Cut-off grade
Inferred	63.1	53.38	60.37	7.69	2.54	0.03	11.59	50%
Inferred	28.2	55.58	62.68	6.04	2.26	0.03	11.33	54%

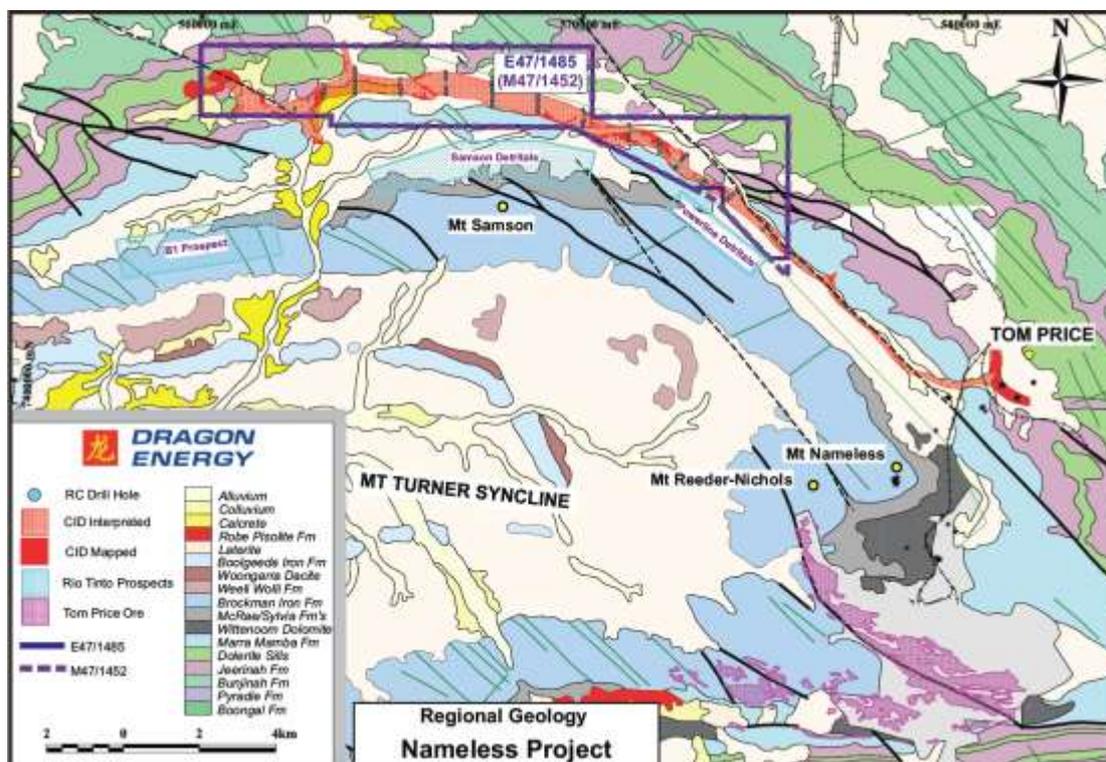
Source: AusQuest 17 August 2009 ASX announcement

Nameless (E47/1485-I & M47/1452) - Located 10km NW of Tom Price in the Pilbara.

The project is situated along the south-dipping northern limb of the Mt Turner Syncline within the South Pilbara Basin of the Hamersley Basin. Bedrock lithologies comprise volcano-sedimentary rocks from the Fortescue and Hamersley Groups, with the Marra Mamba Iron Formation paralleling the southern boundary of the tenement. Cainozoic cover sequences include the Robe Pisolite Formation.

Mapping by AusQuest delineated 15km strike of a prospective 200-600m wide palaeochannel, of which 12.5km was drill tested by AusQuest on 400m to 1200m spaced drilling traverses. A total of 89 holes for 3,044m on 400-1200m spaced traverses were drilled in 2006 and 2008. CID mineralisation is up to 24m in thickness and infill drilling is required to define its continuity.

The purchase of the project was completed in October 2010, whereupon the geological and drilling data was transferred to Dragon Energy. Preliminary modelling and the design of a resource drilling programme were undertaken. A heritage clearance will be organised in the following quarter, and negotiations will be initiated with the native landholders with regards to the Mining Lease application.



Nameless- Regional Geology

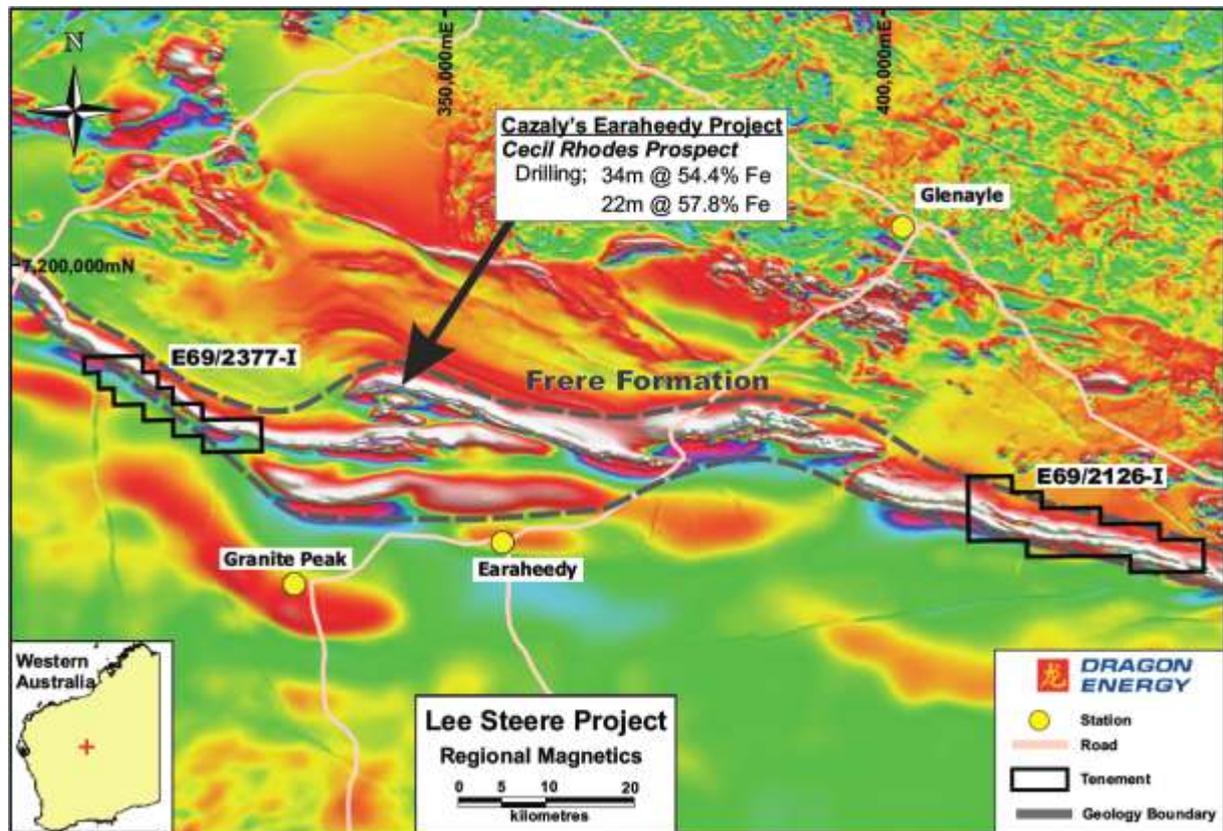
Lee Steere (E69/2126, E69/2377)- The Lee Steere project is located some 200km NE of Wiluna, and 70km east of Giralia’s Earaaheedy advanced iron project.

Previous exploration activities in the 1970s identified enriched hematite mineralisation of BIFs and Superior-type iron within the Frere Formation; rock chips of up to 66.1% Fe were reported. The project contains 48km strike of the prospective Frere Formation, as identified from magnetics and outcrop. Dragon’s exploration focus will be on supergene enriched hematite/goethite and manganese mineralisation.

During the quarter Dragon carried out a gravity survey over a small test area centred over the startabound Mn and Fe outcrop of E69/2377, and reconnaissance mapping and sampling over the Frere Formation at E69/2126. Stratigraphic units with variably elevated iron were observed within the Formation as discontinuous units, with the largest being a granular iron outcrop of dimensions 90x20m, returned 59.6% Fe. A number of outcrops, pods and surface encrustations of manganese were observed in the area. The highest Mn grade of 49.5% (LSR035) was received from a discontinuous 100m Mn-rich pod of apparent 24m thickness with diffuse Mn enrichment of the host

rock margins over a 200x30m area.

Dragon intends to carry out further field reconnaissance on as yet unexplored areas of E69/2126. Ground magnetic and gravity 3D modelling of the western tenement have helped define exploratory drill sites.



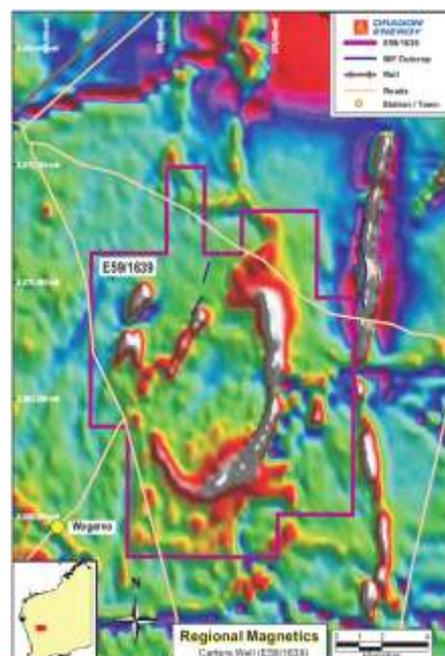
Lee Steere- Regional Magnetics

Carters Well (E59/1639)

The project is located 31km south of Mt Magnet, adjacent to the Great Northern Highway, and 9km from rail.

The tenement overlies the Coolaloo Dome, a granite batholith having a prominently magnetic margin which may reflect the presence of a hematite-magnetite-quartz shear (BIF) adjacent to the contact. BIF has been mapped within the western granitoids, and the Magnet-Wydege Fold Belt greenstones on the eastern margin. The structure outcrops poorly but is well defined on the aeromagnetic data beneath shallow soil cover.

No exploration undertaken during the quarter. The tenement was granted 18 January 2011.



Carters Well- Regional Magnetics

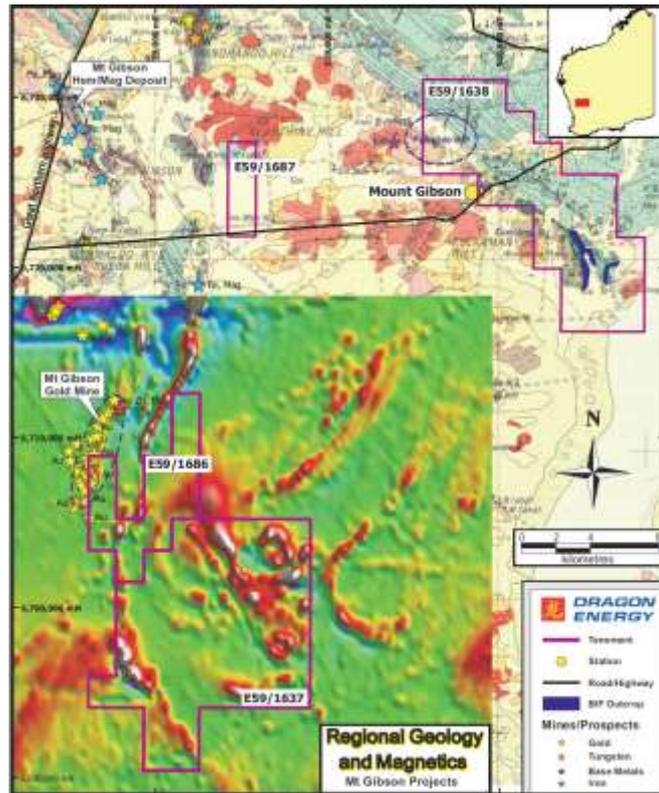
Mt Gibson (E59/1637-38, 1686-87)

These tenements lie 80km NE of Wubin, 7-32km south and east of the Extension Hill Hematite/Magnetite Project, and partly hosts the Mt Gibson Gold Operation. The project is situated in the Midwest Region of the Yilgarn Craton.

A 7km outcrop of magnetite (hematite)-amphibole-quartz BIF has previously been mapped on E59/1638 within the southern Ninghan Belt. A similar prominent magnetic feature to the NW of the tenement may also represent BIF units. There is no record of exploration for iron ore in the area.

E59/1686 incorporates a couple of open pits from the Mount Gibson Gold Operation (870,000oz mined), within the southern Retaliation Belt, which hosts the Mt Gibson iron deposits to the north. Regional magnetics indicates that similar geological and structural features extend within E59/1686 and E59/1637, together with higher intensity BIF/ultramafic magnetic characteristics. An investigation of gold will be undertaken in conjunction with iron.

No exploration undertaken as these tenements are currently progressing through the application process. E59/1637 and E59/1638 were granted on 18 January 2011. E59/1686 and E59/1687 were granted on 21 January 2011.

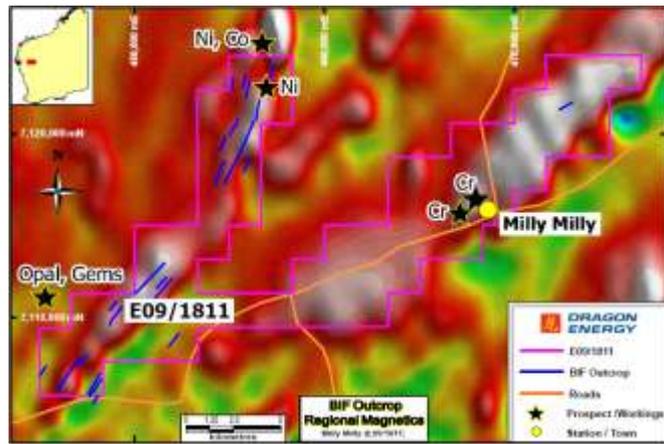


Mt Gibson- Regional Geology & Magnetics

Milly Milly (E09/1811)

The project is located 196km west of Meekatharra, and 58km east of the Jack Hills iron operation in the northern Yilgarn Craton.

The project has potential to host Jack Hills style, high quality magnetite iron ore deposits. BMR regional magnetic surveys indicate favourable host rocks of 42km strike within the tenement. GSWA mapping indicates 26km strike of BIF (quartz-magnetite) outcrop, with previous exploration to date returning rock chip results of 30-40% Fe with a peak value of 44% Fe.



Milly Milly- Regional Magnetic BMR Data & BIF Outcrop

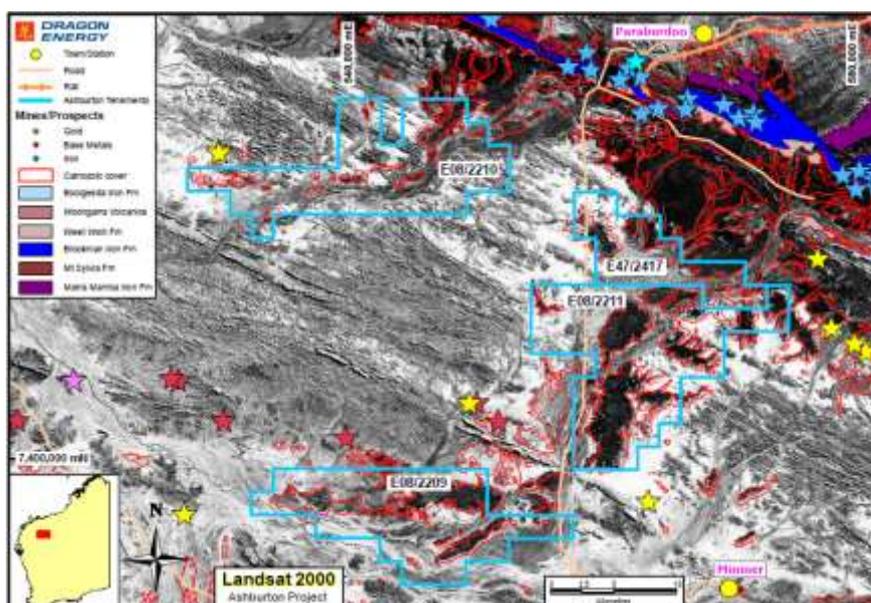
A chromite rich magnetite layer with an interpreted strike length of 1.6km provides an alternative exploration target.

No exploration undertaken as these tenements are currently progressing through the application process.

Ashburton (E08/2209-2211, E47/2417)- the project is 10-40km from rail and other infrastructure associated with the Paraburdoo operations of Rio Tinto Iron Ore.

Approximately 50% of the project area has a Cainozoic cover which potentially conceals channel iron deposits (CID) within the braided drainages of Turee and Seven Mile Creeks, which drain the ranges of the Brockman Iron Formation near Paraburdoo. Significant deposits of alluvial/detrital iron deposits exist in the project area- this material has a bulk grade of around 20% Fe which could be upgraded to produce a 60% Fe product with a 21% yield. However, CIDs represent the priority target, potentially producing a high grade direct shipping ore product.

No exploration undertaken as these tenements are currently progressing through the application process.



Ashburton- Landsat 2000 with Cainozoic sediment cover



Queensland Project Locations

PROJECTS - QUEENSLAND

(Dragon earning 85%)

A Joint Venture agreement with Altera Resources Ltd on 13 Exploration Permits for Coal, totalling 4,558km² in area commenced July 2010. Dragon will be earning an 85% interest upon meeting agreed expenditure goals.

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 exploration targets are coking and thermal grade coal.

Following a field reconnaissance trip IMC Mining Solutions Pty Ltd was engaged to generate drill targets in the Surat/Clarence-Moreton and Bowen Basin EPCs. The focus in the southern permits was upon the Evergreen formation, located below the thin Walloon

Coal Measures.

A number of tenements were released back to Altera after a number of considerations, including depth to exploration target and potential social issues. The remaining permits are under review due to the overly long granting process of permits in Queensland and expenditure commitments.

Moranbah (EPC1653, 1661)- the project is located 100km west of Mackay, and 30km from the town of Nebo.

It is situated within the Bowen Basin proximal to a number of operating coal mines, including the South Walker Creek, Coppabella and Riverside.

The permits are currently progressing through the application process.

Boonah (EPC1650-51, 1666-67)- the projects is 200km west of Brisbane, on the border with NSW.

The Boonah Project Claims lie within the Surat Basin which overlies the Clarence-Moreton and Bowen Basins. Intergen’s subsidiary Millmerran Operating Company operates the Commodore coal mine, which is located 30km to the north.

The Clarence-Moreton project (EPC1648, EPC1652, EPC1660, EPC1662, EPC1664-5) and EPC1649 was released back to the tenement holder; Altera Releases. The remaining permits are currently progressing through the application process.

Corporate

During the quarter, Dragon focused on completing the acquisition of the Rocklea and Nameless Projects, which were acquired from AusQuest and its Joint Venture partners. Acquisition of the Nameless Project (E47/1485-I, M47/1452) was completed in October 2010 for cash consideration of A\$500,000. Financing for Nameless was through internal funds. At the same time, Dragon entered into an agreement to acquire Rocklea for cash consideration of \$7.0m, payable according to:

- a cash payment of \$4.5m on or before 19 January 2011;
- a second cash payment of \$1.5m on or before 19 January 2012; and
- final cash payment of \$1.0m on or before 19 January 2013.

Subsequent to quarter end, Dragon announced an underwritten \$21.4m rights issue and option entitlement issue. The rights issue is offered on the basis of 1 new share to every 2 existing shares at \$0.30 per new share. The option entitlement issue is offered on the basis of 1 new option for every 3 existing shares at \$0.001 per option. The options are exercisable at \$0.35 each on or before 18 November 2014. Both issues are non-renounceable. Prospectus for these issues has been announced and is expected to be sent to shareholders on 2 February 2011. The issues are expected to close on 16 February 2011. Funds raised through the issues will be applied to:

- support Dragon's exploration activities;
- finance Rocklea and future potential acquisitions; and
- fund general working capital.

Dragon's major shareholder, Shandong Taishan Sunlight Group Company Limited ("Shandong Group"), demonstrated their support by underwriting minimum \$18m for the rights issue. In addition, Shandong Group provided a \$3.5m unsecured interest free loan to assist Dragon to complete the Rocklea acquisition. The loan is repayable upon completion of the rights issue. Dragon has completed settlement for Rocklea in late January and has assumed 100% title of the tenement.

Dragon continues to actively pursue acquisition and joint venture opportunities focusing on projects in the coal and iron ore sectors, both in Australia and overseas.

The AusQuest acquisition and rights issues are significant milestones which will underpin Dragon's medium term development. The Company is building up its internal technical and corporate expertise to facilitate this development. Further announcements will be made in due course.

Authorised by:

Gang Xu Managing Director

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Competent Person's Statement

The information in the report to which this statement is attached that relates to Exploration Results is based on information compiled by Mr Mark Hafer, who is a Member of The Australian Institute of Geoscientists. Mr Hafer is a full-time employee of the company. Mr Hafer has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Hafer consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

About Dragon Energy

Dragon Energy Limited ("Dragon") listed on the Australian Securities Exchange (ASX) in February 2009 (**ASX: DLE**). The Company's listing on the ASX was facilitated by cornerstone investor the China-based Shandong Taishan Sunlight Group Company Limited ("Shandong Group"), which controls 1.5Bt of coal and 100Mt of iron ore resources in China as well as engaging in steel making and power generation. It has also facilitated many large commercial mining transactions in the Chinese resources sector. Shandong Group is a private enterprise and provides Dragon with direct and indirect financial capacity, wide industry connections and mining technical expertise, to underpin Dragon's growth and pursuit of mineral projects.

Dragon's flagship projects are Rocklea and Nameless iron projects in the Pilbara with a sizeable JORC resource defined at Rocklea and significant CID exploration targets at the Nameless Project. Dragon Energy portfolio of tenements has numerous multi-commodity targets, including Fe, Mn, Au and U in Western Australia and coal interest in Queensland.