



ABN 38 119 992 175

INTERIM FINANCIAL REPORT

31 DECEMBER 2014

DRAGON ENERGY LTD
ABN 38 119 992 175

Interim Financial Report 31 December 2014

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DIRECTORS' REPORT

The directors present their financial statements of Dragon Energy Ltd ("Dragon Energy") for the six months ended 31 December 2014 and the auditor's review report thereon:

Directors

The directors of the Company at any time during or since the end of the half-year and until the date of this report are:

Name	Period of directorship
Mr Jie Chen <i>Chairman</i>	Director since 18 December 2008
Mr Gang Xu <i>Managing Director</i>	Director since 1 June 2006
Mr Michael van Uffelen <i>Non-Executive Director</i>	Director since 1 March 2015
Mr Weifeng Li <i>Non-Executive Director</i>	From 1 September 2013 to 1 March 2015

Review of Operations

Dragon Energy Limited (the "Company") is a Perth based exploration company which listed on the Australian Securities Exchange in February 2009 (ASX: DLE). Dragon's flagship project is the Pilbara Iron Project (Rocklea and Nameless Deposits), which has an Indicated and Inferred Resource (JORC Code 2004) defined at the Rocklea Project and an Inferred Resource (JORC Code 2004) at the Nameless Project. Dragon's portfolio of tenements has numerous multi-commodity targets, including Fe, Mn, Au and U in Western Australia.

During the half year to 31 December 2014, the Company progressed its goal of developing its Pilbara Iron Project as well as advancing its exploration projects. Rationalisation of its projects led to a number of cost cutting strategies; including tenement reduction and project relinquishments. Key activities undertaken included:

- The Pilbara Iron Project was progressed: A Mine Plan was reviewed by the DMP with Dragon following up a number of DMP queries.
- Carters Well and Mt Gibson Projects were relinquished.
- Tenement size reductions were undertaken for the Rocklea and Ashburton Projects.
- Dragon was selected by the DMP as preferred applicant for Petroleum Exploration Permit STP-EPA-0123. The permit is 1,277km² in area and lies onshore in the northern Perth Basin 50km east of Geraldton, and is 350km north of Perth, Australia.

For more details on the Company's activities over the half year period, please refer to the Quarterly Reports and the ASX announcements made during the half year.

DIRECTORS' REPORT (cont'd)

Results

The Company made a loss of \$691,077 after income tax for the half-year (2013: loss of \$387,279).

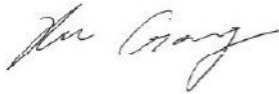
Events Subsequent to Reporting Date

There has not arisen in the interval between the end of the half-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.

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

Section 307C of the Corporations Act 2001 requires our auditor, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 5 and forms part of this director's report for the six months ended 31 December 2014.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2001.



Gang Xu
Managing Director

Dated at Perth, Western Australia, this 13th day of March 2015

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF DRAGON ENERGY LIMITED

As lead auditor for the review of Dragon Energy Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.



Dean Just
Director

BDO Audit (WA) Pty Ltd

Perth, 13 March 2015



**STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

for the half-year ended 31 December 2014

	Note	31 December 2014 \$	Half-Year 31 December 2013 \$
Revenue from continuing operations		17,579	36,802
Exploration and evaluation expenses	7	(375,324)	(160,338)
Corporate and administrative expenses		(333,384)	(263,759)
Net realised gain/(loss) on foreign currency exchange	10	52	16
(Loss) before income tax		(691,077)	(387,279)
Income tax		-	-
(Loss) for the half year		(691,077)	(387,279)
Other Comprehensive Income			
Items that will be reclassified to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
Other Comprehensive Income for the half year, net of tax		-	-
Total Comprehensive (loss) for the half year attributable to owners of Dragon Energy Ltd		(691,077)	(387,279)
Basic (loss) per ordinary share (cents)		(0.33 cents)	(0.19 cents)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Note	31 December 2014 \$	30 June 2014 \$
CURRENT ASSETS			
Cash and cash equivalents		1,172,945	1,742,101
Trade and other receivables		5,970	24,506
Other financial assets		6,453	14,197
Total Current Assets		1,185,368	1,780,804
NON-CURRENT ASSETS			
Property, plant and equipment		82,088	95,238
Exploration and evaluation assets	7	17,919,022	18,148,182
Total Non-Current Assets		18,001,110	18,243,420
TOTAL ASSETS		19,186,478	20,024,224
CURRENT LIABILITIES			
Trade and other payables	8	794,119	929,938
Provisions		8,771	19,621
Total Current Liabilities		802,890	949,559
TOTAL LIABILITIES		802,890	949,559
NET ASSETS		18,383,588	19,074,665
EQUITY			
Contributed equity	9	25,728,920	25,728,920
Reserves		93,500	93,500
Accumulated losses		(7,438,832)	(6,747,755)
TOTAL EQUITY		18,383,588	19,074,665

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

STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December 2014

	Contributed Equity \$	Share based payment reserve \$	Options premium reserve \$	Accumulated Losses \$	Total Equity \$
2014					
At 1 July 2014	25,728,920	46,040	47,460	(6,747,755)	19,074,665
(Loss) for the period	-	-	-	(691,077)	(691,077)
Total Comprehensive (loss) for the half-year	-	-	-	(691,077)	(691,077)
Transactions with equity holders in their capacity as equity holders	-	-	-	-	-
At 31 December 2014	25,728,920	46,040	47,460	(7,438,832)	18,383,588
2013					
At 1 July 2013	25,728,920	46,040	47,460	(5,918,930)	19,903,490
(Loss) for the period	-	-	-	(387,279)	(387,279)
Total Comprehensive (loss) for the half-year	-	-	-	(387,279)	(387,279)
Transactions with equity holders in their capacity as equity holders	-	-	-	-	-
At 31 December 2013	25,728,920	46,040	47,460	(6,306,209)	19,516,211

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

S T A T E M E N T O F C A S H F L O W S
for the half-year ended 31 December 2014

	31 December 2014 \$	Half-Year 31 December 2013 \$
Cash flows from operating activities		
Cash payments in the course of operations	(396,054)	(391,550)
Interest received	23,056	44,407
Net cash outflow from operating activities	(372,998)	(347,143)
Cash flows from investing activities		
Payments for exploration expenditure – acquisition costs	-	(158,715)
Payments for exploration expenditure – capitalised costs	(196,210)	(421,729)
Contribution from JV	-	300,000
Net cash outflow in investing activities	(196,210)	(280,444)
Cash flows from financing activities		
Repayment of borrowings	-	-
Net cash outflow from financing activities	-	-
Net decrease) in cash held	(569,208)	(627,587)
Cash and cash equivalents at the beginning of the period	1,742,101	2,635,895
Effects of exchange rate changes on cash and cash equivalents	52	16
Cash and cash equivalents at the end of the period	1,172,945	2,008,324

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

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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 annual financial statements of the entity as at and for the year ended 30 June 2014 are available upon request from the Company's registered office or may be viewed on the Company's website, www.dragonenergy.com.

Going concern

The interim financial report has been prepared on a going concern basis which assumes realising its assets and extinguishing its liabilities in the normal course of business. At 31 December 2014, the Company had net assets of \$18,383,588 (30 June 2014: \$19,074,665). The Company incurred a net loss after tax of \$691,077 (2013: \$387,279) and net operating and investing cash outflows of \$569,208 (2013: 627,587) and continues to incur expenditure on its exploration tenements drawing on its cash balances. As at 31 December 2014, the Company had \$1,172,945 (30 June 2014: \$1,742,101) in cash and cash equivalents.

Based upon the Company's existing cash resources, the ability to modify expenditure outlays if required, and the directors' confidence of sourcing additional funds, the directors consider there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and therefore the going concern basis of preparation to be appropriate for the preparation of the Company's interim financial report. Accordingly, no adjustments have been made to the interim financial report relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its debts as and when they become due and payable.

In the event that the Company does not modify expenditure outlays and raise the additional funding referred to above, there is a material uncertainty whether the Company will continue as a going concern in the future and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the interim financial report.

2. STATEMENT OF COMPLIANCE

This interim financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The interim financial report does not include full disclosures of the type normally included within the annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as the full financial report.

It is recommended that the Interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2014 and considered together with any public announcements made by Dragon Energy Ltd during the half-year ended 31 December 2014 in accordance with the continuous disclosure requirements arising under Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

This interim financial report was approved by the Board of Directors on 13th March 2015.

3. BASIS OF PREPARATION

This interim financial report has been prepared on the accruals basis and on an historical cost basis. All amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim financial report, the half-year has been treated as a discrete reporting period.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
4. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY ESTIMATES

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial report as at and for the year ended 30 June 2014.

5. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the half-year ended 31 December 2014, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2014 in the following table.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

(a) New and amended standards adopted by the Company

A number of new or amended standards became applicable for the current reporting period, however, the Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There will be some changes to the disclosures in the 30 June 2015 annual report as a consequence of these amendments.

(b) Impact of standards issued but not yet applied by the Company

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

6. SEGMENT REPORTING

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

	Mineral Exploration \$	Corporate \$	Company \$
31 December 2014			
Segment revenue			
Other unallocated revenue	-	17,579	<u>17,579</u>
Total revenue			<u>17,579</u>
Segment result	(375,324)	(333,332)	(708,656)
Unallocated revenues and expenses	-	-	<u>17,579</u>
Profit before related income tax expense			<u>(691,077)</u>
Segment assets as at 31 December 2014	17,919,022	1,267,456	<u>19,186,478</u>
Segment liabilities as at 31 December 2014	757,286	45,604	<u>802,890</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
6. SEGMENT REPORTING (continued)

	Mineral Exploration \$	Corporate \$	Company \$
31 December 2013			
Segment revenue			
Other unallocated revenue	-	36,802	<u>36,802</u>
Total revenue			<u>36,802</u>
Segment result	(160,338)	(263,744)	(424,081)
Unallocated revenues and expenses	-	-	<u>36,802</u>
Profit before related income tax expense			<u>(387,279)</u>
Segment assets as at 30 June 2014	18,148,182	1,876,042	<u>20,024,224</u>
Segment liabilities as at 30 June 2014	880,127	69,432	<u>949,559</u>

	31 December 2014 \$	30 June 2014 \$
7. EXPLORATION AND EVALUATION ASSETS		
Exploration, evaluation and development costs carried forward in respect of areas of interest (net of amounts written off) (a)	<u>17,919,022</u>	<u>18,148,182</u>
Reconciliation		
Carrying amount at beginning of period	18,148,182	17,576,118
Exploration and evaluation expenditure	84,542	841,093
Capitalised expenditure written off	<u>(313,702)</u>	<u>(269,029)</u>
Carrying amount at end of period	<u>17,919,022</u>	<u>18,148,182</u>

- (a) The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas.
- (b) Exploration and evaluation expenditure amount immediately expensed in the statement of profit or loss and other comprehensive income during the six months ended 31 December 2014 is \$61,622 (six months ended 31 December 2013: \$60,635)

	31 December 2014 \$	30 June 2014 \$
8. TRADE AND OTHER PAYABLES		
Trade creditors	18,956	36,322
Other creditors and accruals	17,877	25,073
Joint venture advance	<u>757,286</u>	<u>868,543</u>
	<u>794,119</u>	<u>929,938</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	31 December 2014 \$	30 June 2014 \$
9. CONTRIBUTED EQUITY		
206,426,374 (30 June 2014: 206,426,374) fully paid ordinary shares	<u>25,728,920</u>	<u>25,728,920</u>

There were no movements in issued capital during the six months ended 31 December 2014.

Options

There were no options to subscribe for ordinary fully paid shares granted or exercised during the six months ended 31 December 2014.

The following 47,460,245 options lapsed during the six months ended 31 December 2014:

Class	Expiry Date	Exercise Price	Number of Options lapsed
Listed Options	18 November 2014	\$0.35	47,460,245

	Half-Year	
	31 December 2014 \$	31 December 2013 \$
10. NET FOREIGN EXCHANGE GAINS AND LOSSES		
Net foreign exchange gains	52	16
Net foreign exchange gains recognised in loss before income tax	<u>52</u>	<u>16</u>

11. COMMITMENTS AND CONTINGENCIES

The changes to the commitments and contingencies disclosed in the most recent annual report are specified below. Other than the changes mentioned, all other commitments and contingencies remain consistent with those disclosed in the 2014 annual financial report.

Operating lease commitment

The Company leases its offices in West Perth, Western Australia. The lease is for a 2 year period from 1 December 2014. Future minimum rentals payable under the non-cancellable operating lease as at 31 December 2014 are as follows:

Not longer than 1 year	\$ 62,320
Longer than 1 year and not longer than 5 years	57,126
Longer than 5 years	-
	<u>119,446</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

11. COMMITMENTS AND CONTINGENCIES (continued)

Exploration Project commitments

Dragon currently holds 4 mineral projects comprising 11 tenements totaling 651km², including; the Rocklea, Nameless and Ashburton projects in the Pilbara region; the Lee Steere project in the Midwest region.

Lee Steere Project

An agreement provides that Polaris will retain a royalty right ("Royalty") of 1.0% of gross receipts from sales of iron ore from the Lee Steere and Ashburton projects. The Royalty obligation ends once Dragon Energy has paid to Polaris \$10 million in Royalty payments.

The Company entered into an agreement with Iron West Resources Pty Ltd ("Iron West"), a wholly owned subsidiary of Golden West Resources Limited, to farm out up to 55% of interest in Lee Steere Project (E69/2126 and E69/2377).

Under the terms of the farm-in agreement, Iron West can earn a 55% interest in the Tenements by spending approximately \$845,000 on exploration and making a payment of \$200,000 to Dragon in cash or shares in GWR. Iron West is obliged to spend a minimum \$350,000 on Joint Venture Expenditure within 36 months of the commencement date (extended by 12 months due to Native Title delays). After the farm-in period, Dragon will still hold 20% of Iron Ore rights and 45% rights for other minerals.

Exploration commitments

In addition to the above mentioned project costs, the Company have certain obligations to perform minimum exploration work on exploration licenses held. These obligations may vary over time, depending on the Company's exploration program and priorities. The obligations are also subject to variations by negotiation, joint venturing or relinquishing some of the relevant tenements. As at balance date, total exploration expenditure commitments which have not been provided for in the financial statements amount to \$350,000 per annum.

Contingent Liabilities

The Company does not have any contingent liabilities at balance and reporting date.

There have been no other further changes to the commitments and contingencies disclosed in the most recent annual financial statements.

12. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Company did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2014 and did not transfer any fair value amounts between the fair value hierarchies during the half-year ending 31 December 2014.

At 31 December 2014, the company carries the following financial instruments:

- Current receivables
- Current payables
- Cash and cash equivalents

Due to their short term nature, the carrying amount of current receivables, current payables and cash and cash equivalents is assumed to approximate their fair value

13. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the half-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.

D I R E C T O R S ' D E C L A R A T I O N

In the opinion of the directors of Dragon Energy Ltd:

1. the financial statements and notes, set out on pages 6 to 14, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the Company's financial position as at 31 December 2014 and its performance for the six months ended on that date; and
 - (b) complying with Accounting Standard AASB 134 "Interim Financial Reporting", the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the Corporations Act 2001.



Gang Xu
Managing Director

Dated at Perth, Western Australia this 13th day of March 2015.

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Dragon Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dragon Energy Ltd, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Dragon Energy Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Dragon Energy Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

- (a) giving a true and fair view of the company's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the company to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the company's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd



Dean Just
Director

Perth , 13 March 2015