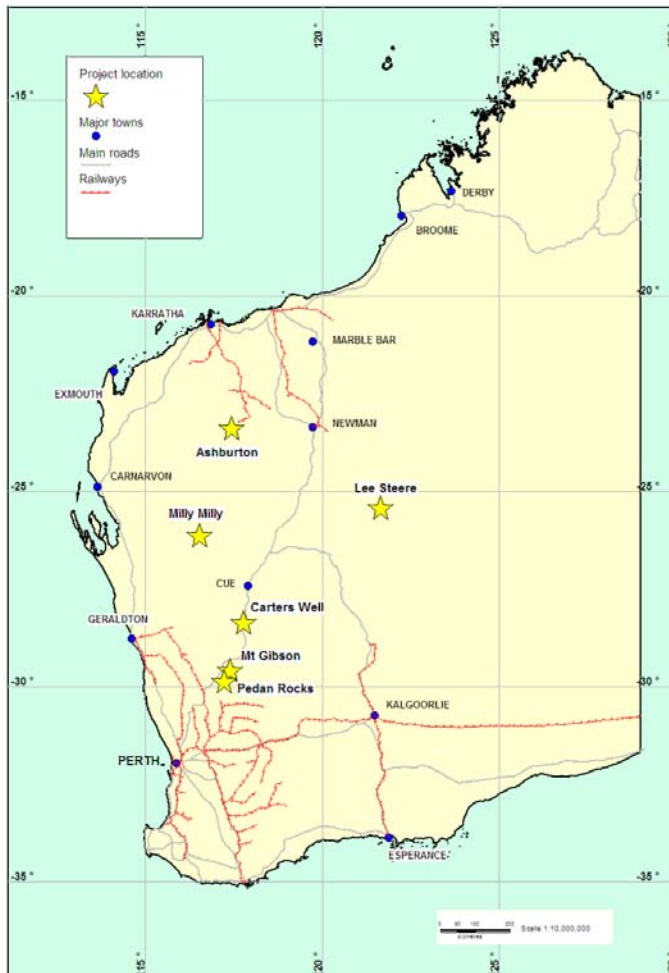


HIGHLIGHTS

- Dragon acquires three Western Australian iron ore projects in the Pilbara, Midwest and Earaheedy Basin.
- Three Queensland coal tenements granted.
- Applications lodged for three 100% held iron ore prospective tenements in the Midwest of WA.
- Negotiation to acquire coking coal projects in Queensland's Bowen Basin is at an advanced stage.

IRON ORE PROJECTS ACQUISITION

As part of its iron ore and coal growth strategy, Dragon Energy Ltd ("Dragon") announced that it had acquired three iron ore projects in Western Australia from Polaris Metals N.L. The projects comprise 7 tenements totaling 596 km² with potential to host hematite and magnetite iron ore deposits.



The Pilbara **Ashburton** project is less than 40km from rail and other infrastructure associated with the Paraburdoo operations of Rio Tinto Iron Ore. Earlier operators had established that significant deposits of alluvial/detrital iron deposits exist in the project area and that although this material had a bulk grade of around 20% Fe it could be upgraded to produce a 60% Fe product with a 21% yield.

Dragon acquired the Ashburton project for the potential of the tenements to contain concealed channel iron deposits within the braided drainages of Turee and Seven Mile Creeks which drain the ranges of the Brockman Iron Formation near Paraburdoo.

Figure 1: Location of WA Iron Ore projects

This style of deposit represents a high grade direct shipping target unlike the alluvial/detrital deposits which require beneficiation to attain export grades.

The Company has commenced planning to undertake a helicopter borne EM survey to map basement contours which will provide more precise information on the existence of channel iron deposits.

The Midwest **Milly Milly** project has potential to host significant Jack Hills style, high quality magnetite iron ore deposits. Exploration to date has been limited to reconnaissance mapping and surface sampling. Rock chip samples collected from the BIF units contained 30-40% Fe with a peak value of 44% Fe. Apart from the iron ore potential a chromite rich magnetite layer with an interpreted strike length of 1.6km provides an alternative exploration target.

The **Lee Steere Range** project, located in the Earaheedy Basin northeast of Wiluna, contains a 47km strike length of favourable iron rich lithologies with up to 66% Fe from rock chip samples being reported. Dragon's exploration focus will be on significant hematite/goethite and magnetite iron ores. The tenements are also prospective for calcrete hosted uranium mineralisation.

The major acquisition terms for the three projects are as follows:

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

WA IRON ORE APPLICATIONS

In November, 2009 Dragon applied for three Exploration Licences in the Mid West region of Western Australia. Dragon considers each application area to be prospective for banded iron formation (BIF) hosted iron ore mineralisation. They are well located being immediately adjacent to existing and emerging iron ore mines as well as historical and current gold and base metal mines. They are well placed to take advantage of developing infrastructure in the region.

These applications mark an important step for Dragon in securing a 100% interest in Australian tenements prospective for iron ore and gold mineralization. It is anticipated that these tenements will be granted toward the middle of 2010 allowing Dragon to commence exploration activities.

E59/1639 Carters Well

E59/1639 is 35km south of Mt Magnet and has an area of 142km². The tenement overlies the Coolaloo Dome, a granite batholith, having a prominently magnetic margin which reflects the presence of a hematite-magnetite-quartz shear (BIF) adjacent to the contact. The structure outcrops poorly but is well defined on the aeromagnetic data beneath shallow soil cover.

Dragon's exploration focus will be to evaluate the potential of the BIF as a source of high grade iron ore. Initial exploration will comprise ground magnetic traverses across the BIF to better define the thickness and orientation of the unit followed drilling that will provide information on tonnage potential and grade.

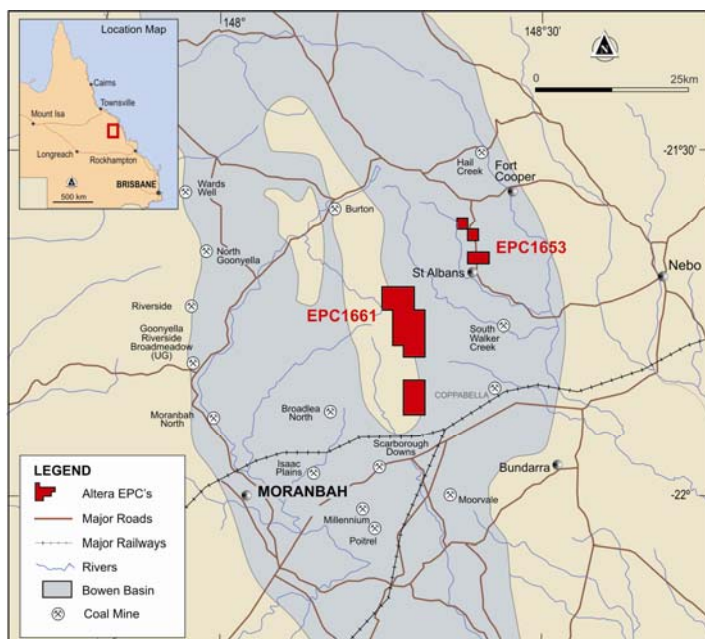
E59/1638 Mt Gibson

Dragon applied for the ground on the basis of regional geological mapping indicating that BIF was present in the southeast of the tenement where it produces a prominent magnetic high. There is no record of exploration for iron ore in the area. A similar prominent magnetic feature in the northwest of the tenement may also represent BIF units.

E59/1637 Pedan Rocks

E59/1637 covers an area of 131km² and is 270km from Perth and 60km northeast of the wheatbelt town of Wubin. Regionally it overlies the most southerly extent of the Retaliation greenstone belt that hosts the Extension Hill Hematite deposit some 25km to the north and the Mt Gibson gold deposits 10km to the north. It is well located for infrastructure being less than 20km from the Great Northern Highway.

QUEENSLAND COAL PROJECT



During the quarter Altera Resources Ltd (“Altera”) announced that three of its coal tenement applications in Queensland had been granted, EPC1649, EPC1652 and EPC1664. The granted tenements cover an area of some 950km².

These tenements are included in an agreement Dragon has signed with Altera to enter into a Joint Venture on 13 Exploration Permits for Coal Applications (“EPCAs”) in the Surat/Clarence Moreton and Bowen Basins in Queensland.

Figure 2: Bowen Basin Coal Tenements - Queensland

Under the terms of the agreement the commencement date of the JV will be the date by which at least six of the EPCA’s have been granted including EPC1664 near Toowoomba which has now been granted. The remaining ten applications are proceeding through the grant process with the Queensland Department of Mines and Energy and are expected to be granted during the first half of 2010.

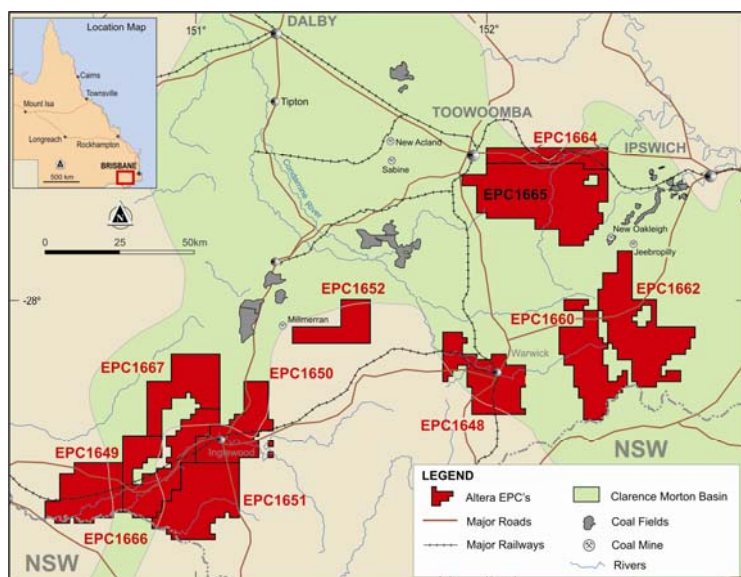


Figure 3: Clarence Morton Basin Coal Tenements - Queensland

GEORGINA BASIN PHOSPHATE PROJECT

After a review of exploration results from work undertaken on its phosphate projects in the Georgina Basin which were the subject of the Phosphate Rights Option Agreement with Summit Resources Ltd (ASX:SSM) and MM Mining Pty Ltd and MM Mining Pty Ltd (the "Agreement"), the Company has decided to withdraw from the Agreement. As consideration for the termination of all obligations under the Agreement, Dragon has paid \$125,000 to the joint holders of the tenements.

ACQUISITION AND JOINT VENTURE OPPORTUNITIES

During the quarter, the Company continued to actively pursue acquisition and joint venture opportunities in the commodities sector focusing on projects in the coal and iron ore sectors both in Australian and overseas.

Several coking coal projects in the Queensland Bowen Basin are in the process of being evaluated. Acquisition negotiations are at an advanced stage and the Company expects to be in a position to update shareholders in the near future. Dragon has chosen to focus on advanced exploration projects with a preference for those that contain near JORC compliant resources and are well located in regard to infrastructure requirements.

Over the longer term, with strengthening commodity prices and its strategic relations with Chinese investors and mining industry contacts, Dragon believes such acquisitions will form the basis to build a foundation for future growth.

TENEMENT SCHEDULE

Iron Ore Project Tenements

State	Prospect	Tenement	Status	Area (km ²)	Ownership
WA	Lee Steere	E69/2126	Granted	146	100%
WA	Lee Steere	E69/2377	Granted	81	100%
WA	Ashburton	E08/1511	Granted	112	100%
WA	Ashburton	E08/1512	Granted	80	100%
WA	Ashburton	E08/1513	Granted	112	100%
WA	Ashburton	E47/1528	Granted	64	100%
WA	Milly Milly	E09/1277	Granted	191	100%
WA	Pedan Rocks	E59/1637	Pending	131	100%
WA	Mt Gibson	E59/1638	Pending	89	100%
WA	Carters Well	E59/1639	Pending	142	100%
				958	

Coal Project Tenements

State	Prospect	Tenement	Status	Area (km ²)	Ownership
Qld	Millmerran_2	EPC1648	Non-competing	464	Earning 85%
Qld	Boonah_1	EPC1649	Granted	442	Earning 85%
Qld	Boonah_2	EPC1650	Non-competing	419	Earning 85%
Qld	Boonah_3	EPC1651	Non-competing	573	Earning 85%
Qld	Millmerran_1	EPC1652	Granted	250	Earning 85%
Qld	Moranbah_1	EPC1653	Non-competing	13	Earning 85%
Qld	Montivale_1	EPC1660	Non-competing	480	Earning 85%
Qld	Moranbah_2	EPC1661	Competing	74	Earning 85%
Qld	Montivale_2	EPC1662	Competing	700	Earning 85%
Qld	Toowoomba_2	EPC1664	Granted	256	Earning 85%
Qld	Toowoomba_1	EPC1665	Secondary	960	Earning 85%
Qld	Boonah_5	EPC1666	Secondary	585	Earning 85%
Qld	Boonah_4	EPC1667	Secondary	410	Earning 85%
				5,626	

Authorised by:

Gang Xu
Managing Director

For further information or corporate opportunities please refer to our website www.dragonenergy.com.au or contact:

Xu Gang
Managing Director
Telephone: +61 8 9322 6009
Mobile: +61 411 039 645

Anthony Ho
Executive Director & Company Secretary
Telephone: +61 8 6389 2688
Mobile: +61 422 862 829

Lindsay Cahill
Exploration Manager
Telephone: +61 8 9322 6009
Mobile: +61 430 828 803

Competent Persons Statement

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr. Gang Xu (Managing Director) and Mr. Lindsay Cahill (Exploration Manager), who are members of The Australasian Institute of Mining and Metallurgy. They have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are 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'. Messrs Xu and Cahill consent to the inclusion in the report of the matters based on their information in the form and context in which it appears

About Dragon Energy

Dragon Energy Limited (ASX: DLE) is an exploration and resources company. The listing of Dragon Energy on the Australian Securities Exchange (ASX) in February 2009 was facilitated by a cornerstone investor, the China-based Shandong Taishan Sunlight Group Company Limited (**Shandong Group**). Shandong Group controls 1.5 billion tonnes of coal and 100 million tonnes of iron ore resources in China as well as engaging in steel making and power generation. Shandong Group, essentially a private enterprise, will avail direct and indirect financial capacity and funding capability, wide industry connections, and mining know how, to underpin plans for Dragon Energy's growth and pursuit of suitable mine projects world-wide.

Dragon Energy has a twofold strategy:

- To participate in exploration projects with a view to advancing the status of the projects through to development or alternatively to introduce appropriate and suitable overseas partners, particularly from China, who may take long term positions in those project development opportunities; and
- To secure a leading position in advanced minerals projects and to bring development to fruition at the earliest opportunity.

Since listing in February 2009, Dragon Energy has already evaluated a number of bulk commodity projects in Australia and USA and some metalliferous projects in Australia with a view to participating or securing development opportunities. Although preferred targets are in iron ore and coal, other commodities and minerals will be considered for review.

Dragon Energy's project evaluation efforts are facilitated by a small, but highly experienced, team of professionals with, collectively, vast experience in mineral exploration, development, financing and operations in Australia and overseas, in particular in start up projects.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

DRAGON ENERGY LTD

ABN

38 119 992 175

Quarter ended ("current quarter")

31 December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(330)	(491)
(b) development	-	-
(c) production	-	-
(d) administration	(82)	(300)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	73	80
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(339)	(711)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(22)	(48)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
Net investing cash flows	(22)	(48)
1.13 Total operating and investing cash flows (carried forward)	(361)	(759)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(361)	(759)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.(net)	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(2)	(4)
1.18	Dividends paid	-	-
1.19	Other	-	-
Net financing cash flows		(2)	(4)
Net increase (decrease) in cash held		(363)	(763)
1.20	Cash at beginning of quarter/year to date	4,858	5,258
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	4,495	4,495

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	190
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Executive director's remuneration	177
Services provided by director-related entities	13

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(300)
4.2 Development	-
Total	(300)

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,328	1,788
5.2 Deposits at call	3,167	3,070
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,495	4,858

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.2 Interests in mining tenements acquired or increased	E59/1637	Application	0%	100%
	E59/1638	Application	0%	100%
	E59/1639	Application	0%	100%
	E69/2126	Beneficial	0%	100%
	E69/2377	Beneficial	0%	100%
	E08/1511	Beneficial	0%	100%
	E08/1512	Beneficial	0%	100%
	E08/1513	Beneficial	0%	100%
	E47/1528	Beneficial	0%	100%
	E09/1277	Beneficial	0%	100%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	142,379,707	46,814,750		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	- -	- -	- -	- -
7.5 +Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	11,150,000	-	<i>Exercise price</i> \$0.30	<i>Expiry date</i> 31 May 2012
7.8 Issued during quarter	-	-		
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter	-	-		
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: **29 January 2010**
(Director/Company Secretary)

Print name: **Anthony Ho**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.