

Quarterly Report

For the period ended 30 September 2011

ASX Announcement

ASX Code: DLE

Released: 27 October 2011

Highlights

- Advancement of exploration and early development of the Pilbara Iron Projects (the Rocklea and Nameless Projects) including:
 - Final approvals for an infill and step-out drilling programme of the Rocklea Project received. Access clearing by dozer initiated. A 200 hole, 9600m RC drilling programme to commence final week of October;
 - Heritage Survey of the Nameless Project completed, awaiting approvals for drilling;
 - Scoping Study nearing completion for the development of the Pilbara Iron Projects; and
 - Level 2 Flora and Fauna surveys commenced at the Rocklea Project
- MMI geochemical surface sampling at the Carters Well Project completed. A total of four MMI anomalies (Response Ratios) identified, including a 3.5km gold anomaly.
- Applied for two additional projects; Yamarna and Meekatharra, located within the Goldfields-Esperance and Midwest regions respectively.

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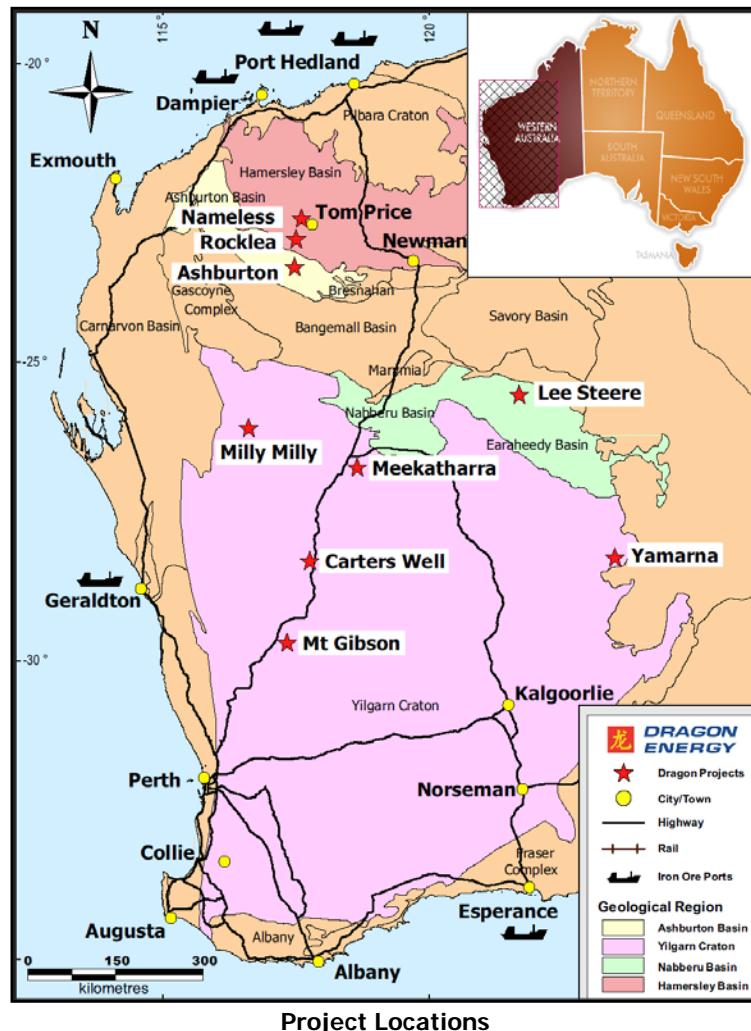
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Introduction

Dragon Energy Ltd ("Dragon") is a mineral exploration company which controls a portfolio of exploration tenements in Western Australia.

Dragon presently holds 9 projects located in the Pilbara and Midwest regions of Western Australia. These projects comprise 31 tenements (including 21 applications), totalling 1,505km² in area. Primary exploration targets are iron ore, with the potential for manganese, gold, base metals and uranium.

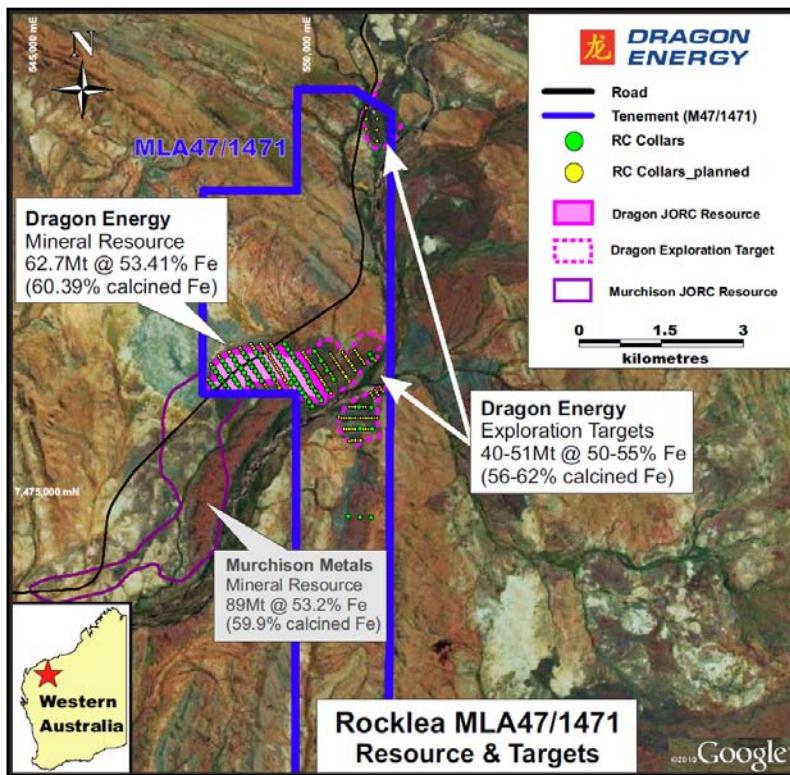


Following the decision in the previous quarter to pursue rapid development of the Pilbara Iron Project, GHD was commissioned to complete a scoping study. This study is expected to be completed in the December quarter.

Exploration activities included preparation of an infill and step-out resource drilling programme of the existing inferred resource at the Rocklea Project, which received final approvals during the September quarter. Dozer clearing of tracks and drill sites commenced, with the RC Rig arriving on site in the final week of October. The resource drilling programme at the Nameless Project is progressing through the approval process. A MMI geochemistry programme over the Carters Well Project was completed during the September quarter.

Level 2 Flora and Fauna Surveys commenced over the Rocklea Project, as part of the overall approval process for mining development.

Rocklea Project is 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 margin 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:

62.7Mt @ 53.41% Fe (60.39% caFe).

The Resource is open to the east and SE, and outcropping CID in the NE corner of the tenement remains to be drill tested. An Exploration Target of 40 to 51Mt at a grade of 50-55% Fe (56-62% calcined Fe) has been calculated by Dragon.

	Million tonnes	Fe (%)	caFe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (1000°C) (%)	Cut-off grade
Inferred	62.7	53.41	60.39	7.73	2.80	0.034	11.56	50%
Inferred	28.0	55.62	62.71	6.03	2.06	0.034	11.31	54%

Source: Golder Associates 2011 Resource Statement updated for Dragon Energy Ltd

A drilling programme has been designed to infill and step-out from existing drill sites, and test the CID in the NE area of the tenement. Final approvals for drilling have been received, and access tracks and drill sites are currently being cleared. Drilling will commence in the final week of October.



Rocklea- Drill site Clearing (Managing Director- Gang Xu, contractors- Ian & Hayden, Exploration Manager- Mark Hafer)

Negotiations with the native landholders in relation to a recently submitted mining lease application (M47/1471) are expected to be initiated in the December quarter. Level 2 Flora and Fauna Surveys commenced over the Rocklea Project, in preparation for potential mining development.

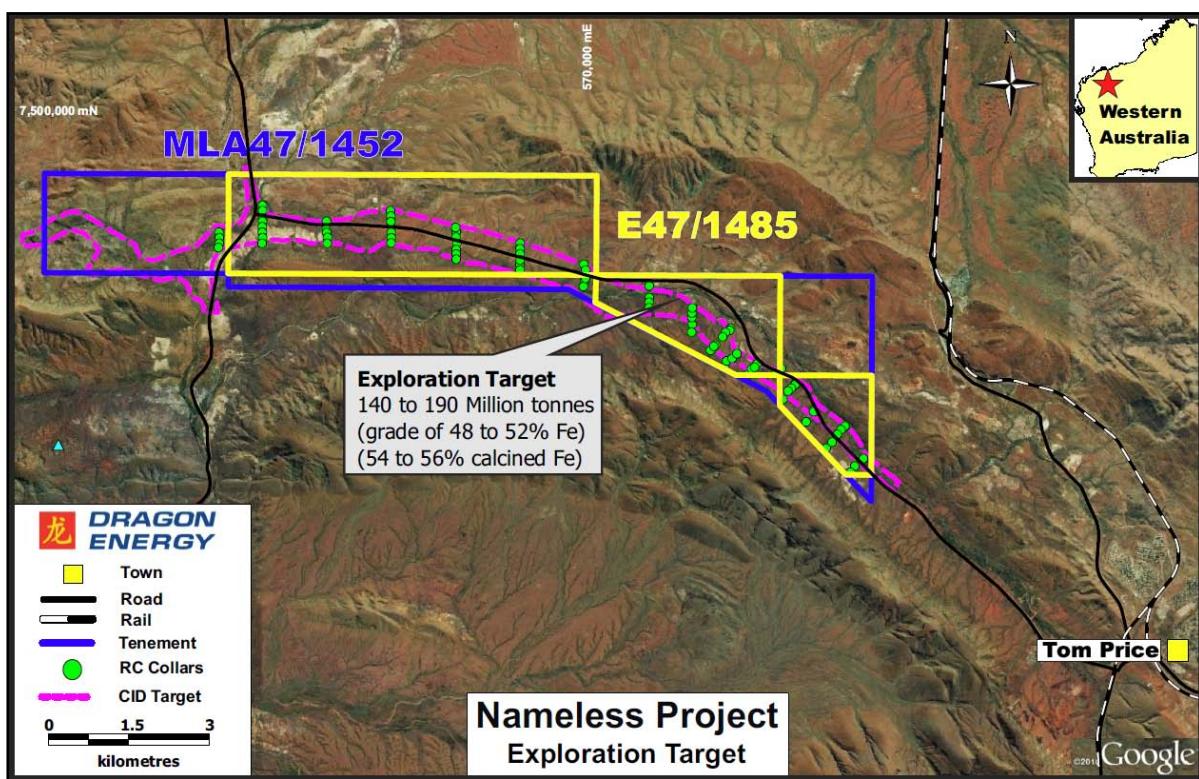
Nameless Project is located 10km NW of Tom Price in the Pilbara.

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 parallel to the southern boundary of the tenement. Cainozoic cover sequences include the Robe Pisolite Formation.

Mapping by AusQuest Limited ("AusQuest") delineated 15km strike of a prospective 200-600m wide palaeochannel, of which 12.5km was drill tested in 2006 and 2008 by AusQuest on 400m to 1200m spaced drilling traverses. CID mineralisation is up to 24m in thickness and infill drilling is required to define its continuity and calculate an inferred resource. An Exploration Target of 140 to 190Mt of grade 48-52% Fe (54-56% caFe) has been defined by Dragon of CID and Marra Mamba detrital mineralisation.

A heritage survey was undertaken during the September quarter and DMP approvals are currently being sought prior to initiating an infill drilling programme. The company expects to undertake this drilling subsequent to the Rocklea Project drilling.

Native landholder negotiations with regards to the mining lease application (M47/1452) were initiated and are ongoing.



Lee Steere Project is located some 200km NE of Wiluna, in the Earaheedy Basin of the Midwest.

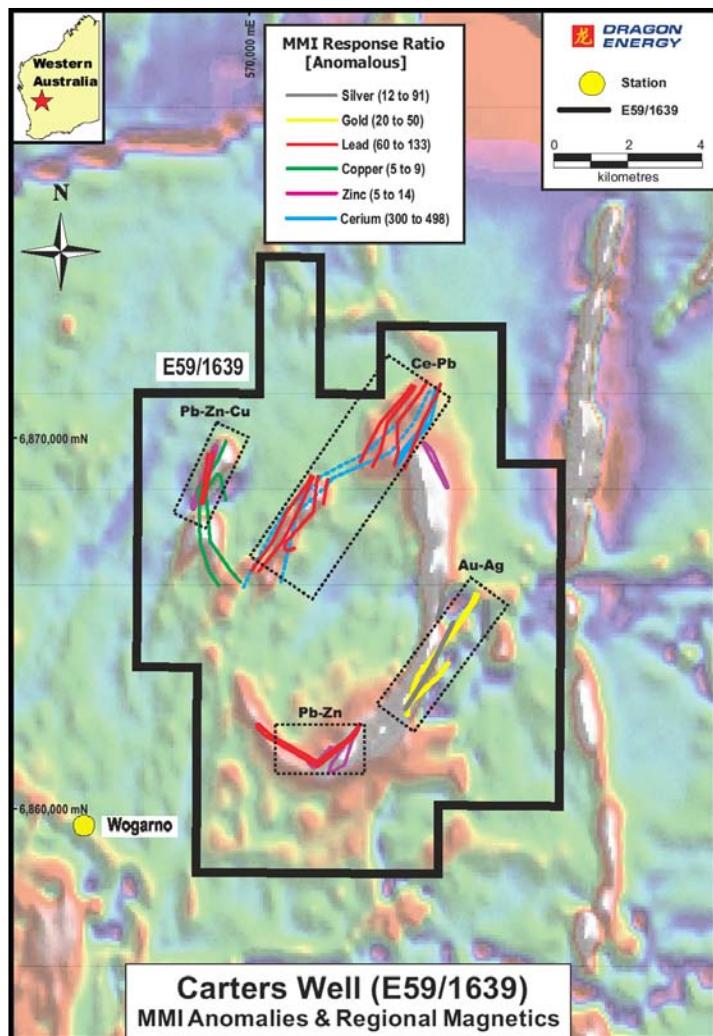
Previous exploration activities in the 1970s identified enriched hematite mineralisation of BIFs and Superior-type iron within the Frere Formation; rock chips of up to 66.1% Fe were reported. The project contains 48km strike of the prospective Frere Formation, as identified from magnetics and outcrop.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

A drilling programme has been designed primarily to test an identified stratabound manganese unit adjacent to Superior-type iron mineralisation. New native title access agreements are in the negotiation process and require a resolution before heritage surveys can be undertaken, following which the Company will apply to the DMP for approvals for drilling.

Carters Well Project is located 30km south of Mt Magnet, adjacent to the Great Northern Highway, in the Yilgarn Craton of the Midwest.

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 Mt Magnet-Wydgee Greenstone Belt on the eastern margin. The structure outcrops poorly but is well defined on aeromagnetics beneath transported overburden.

Major NE striking faults on the Boogardie Synform exhibit important control over many of the ore deposits in the Mt Magnet district. Such NE structures are exhibited on the project area. The transported overburden in the area was problematic for geochemical sampling and reconnaissance drilling in the past. Consequently a targeted MMI surface sampling programme was undertaken as first pass gold exploration.



A MMI response ratio (calculated from assay results) is a ratio between the background value of a particular element and the anomalous values for that element. The higher the ratio, the better the chance that that particular element is present in abundance at depth. Gold returned high response ratios (up to 50), along with coincident pathfinder element silver (up to 91).

A total of 4 anomalous zones were identified, most notably a 3.5km, NE striking gold and coincident silver anomaly to the southeast of the project area. The Ce-Pb anomaly may relate to felsic volcanic lithology contacts. In the Mt Magnet district potential pathfinder elements also includes Cu and Zn (Parkinson Pit) and Pb (Stellar and Quasar Deposits).

Further exploration is warranted to infill the 800m spaced MMI sampling lines, followed by targeted drilling to depth.

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

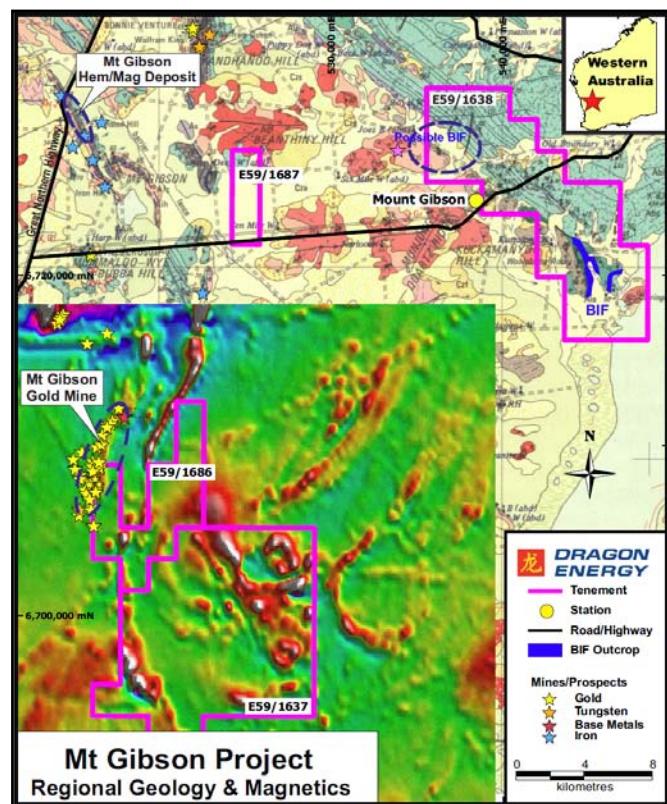
The project has the potential to host Jack Hills style, high quality magnetite iron ore deposits. BMR regional magnetic surveys indicate favourable host rocks of 42km strike within the tenement. GSWA mapping indicates 26km strike of BIF (quartz-magnetite) outcrop. Rock chip sampling returned Fe grades of up to 44% Fe. A chromite rich magnetite layer with an interpreted strike length of 1.6km provides an alternative exploration target.

No exploration undertaken as the tenement is currently progressing through the application process.

Mt Gibson Project lies 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.

E59/1638 greenstones lie within the southern Ninghan Belt. Soil and stream sediment geochemistry sampling programmes have been designed to broadly test the area. It is expected that these programmes will be undertaken in the December quarter.

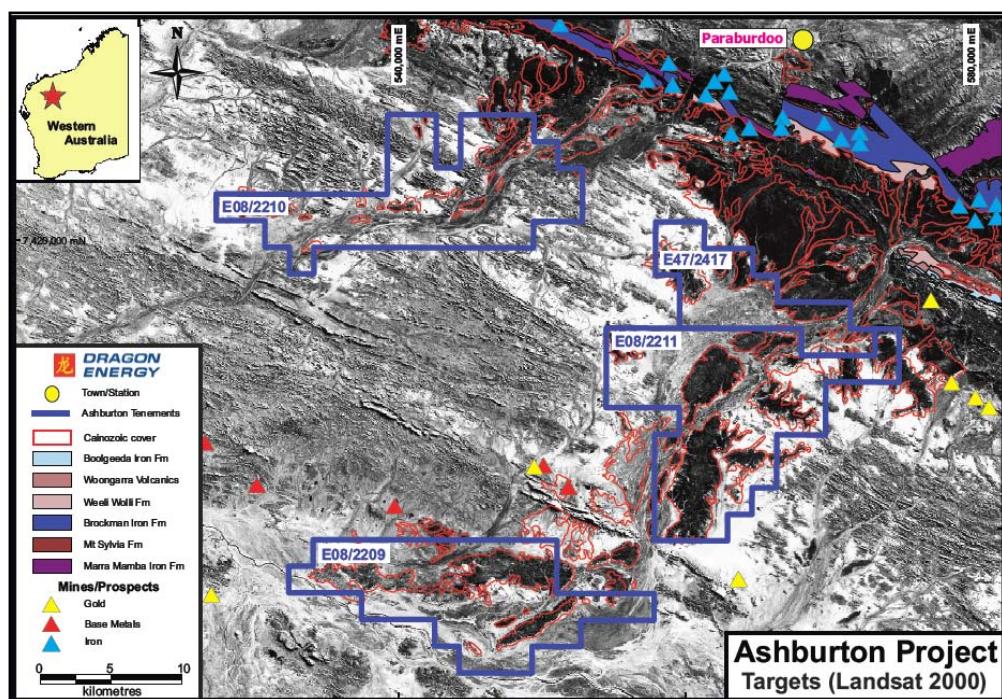
E59/1686 incorporates a couple of open pits from the Mount Gibson Gold Operation (870,000oz mined), within the southern Retaliation Belt. Regional magnetics indicates that similar geological and structural features hosting gold mineralisation extend within E59/1686 and E59/1637, together with magnetic (BIF/ultramafic) units. A low-level surface geochemistry sampling programme has been designed to test various structural and geological targets.



Ashburton Project is located in the Ashburton Basin, and is 10 to 40km from rail and other infrastructure associated with the Paraburadoo 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 Paraburadoo. Base metals and gold provide alternative exploration targets.

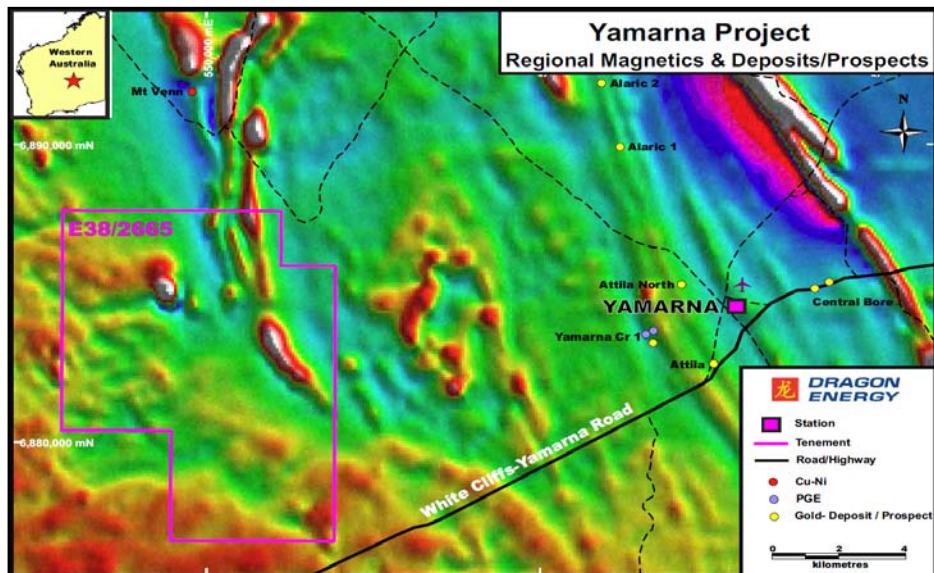
No exploration undertaken as three of four tenements are currently progressing through the application process.



Yamarna Project is located 120km NE of Laverton, within the Goldfields-Esperance Region.

The project is situated between two greenstone belts; the Cosmo-Newberry Greenstone belt to the west and the Yamarna Greenstone belt to the east. Gold mineralisation has been identified to the east, hosted by laminated quartz-mica-amphibole schist units- altered and sheared mafic volcanics and sediments.

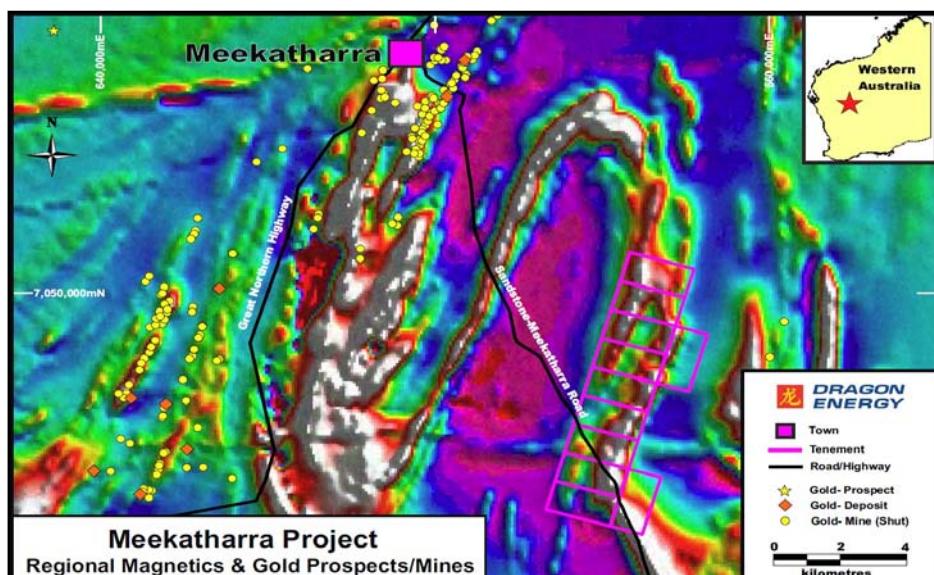
Dragon's project lies 5km to the south of Platina Resources & Global Nickel's Mt Venn Cu-Ni-PGE Prospect. Regional magnetics indicate that the greenstone succession at Mt Venn is also present on E38/2665. The licence is in application, and a review of the project is underway.



Meekatharra Project is located 13km SE of Meekatharra, within the Midwest Region of the Yilgarn Craton.

The project lies in the Archaean Meekatharra greenstone belt, a regional N-NE trending synclinal structure. Gold was discovered in the area in the 1890s, with mineralisation generally structurally hosted and associated with quartz veining. Arsenic anomalies have been found to be associated with gold mineralisation (eg. Jones Prospect).

Limited exploration activities in the project area identified linear northerly trending arsenic anomalies with coincident weakly anomalous gold mineralisation to the north, and gold anomalies on lithological contacts with strongly anomalous arsenic to the south. The licences are in application, and a review of the project is underway.



Corporate Development

During the September quarter, Dragon commenced a Scoping Study of its Pilbara Iron Project. This study is expected to be completed in the December quarter.

Dragon has entered into discussions with a number of parties regarding different modes of cooperation. These discussions are preliminary, but the interests shown by these parties are encouraging.

During the September quarter, Dragon's management team attended the 11th China Steel & Raw Materials Conference in Qingdao, Shandong Province. Dragon was represented in the Conference Exhibition and received encouraging feedback on its iron ore projects. In November, Dragon will be represented on the Speakers Panel on the Investing in Australian Resources Seminar to be held in Beijing. Dragon will also host an exhibit stand in November at the China Mining Congress to be held in Tianjin.

Authorised by:

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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. The information that relates to the Mineral Resources Estimate has been compiled by Mr Stephen Godfrey who is a Member of the Australasian Institute of Mining and Metallurgy and The Australian Institute of Geoscientists.

Mr Hafer is a full-time employee of the company. Mr Godfrey is an employee of Golder Associates Pty Ltd. Mr Godfrey and Mr Hafer have 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 and Mr Godfrey consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

EXPLORATION TARGETS

It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information in this report relating to exploration targets should not be misunderstood as an estimate of Mineral Resources or Ore Reserves, consequently the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature, since there has been insufficient work completed to define them beyond exploration targets and it is uncertain if further exploration will result in the determination of a Mineral Resource.

About Dragon Energy

Dragon Energy Limited ("Dragon") listed on the Australian Securities Exchange (ASX) in February 2009 (**ASX: DLE**).

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