LONE STAR ENERGY LIMITED

(formerly Sugar Dragon Limited)

ACN 157 789 761

Annual Financial Report

30 June 2017

Contents

CORPORATE INFORMATION

ACN 157 789 761

Directors
Mr Matthew Sheldrick
Mr James Robinson
Mr Christopher Mews

Company secretary
Mr Sonu Cheema

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Subiaco WA 6008
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Principal place of business
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Solicitors
Eaton Hall
Suite 3, 43 Oxford Close
West Leederville
Perth WA 6007

Bankers
National Australia Bank
1st Floor, 1238 Hay Street
West Perth WA 6005

Auditors
HLB Mann Judd
Level 4, 130 Stirling Street
Perth WA 6000

Website
http://lonestarenergy.com.au/

DIRECTORS' REPORT

Your directors submit the annual financial report of Lone Star Energy Limited ("Lone Star" or the "Company") (formerly Sugar Dragon Limited) and the entities it controlled for the financial period ended 30 June 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Matthew Sheldrick	Non-executive Chairman (appointed 18 May 2012)
James Robinson	Non-executive Director (appointed 13 April 2012)
Christopher Mews	Non-executive Director (appointed 7 July 2017)
Robert Clifford	Executive Director (resigned 7 July 2017)

Names, qualifications, experience and special responsibilities

Mr Matthew Sheldrick
Non-executive Chairman

Mr Sheldrick holds a Bachelor of Commerce Degree from the University of Western Australia and is a qualified Chartered Accountant. He has over 25 years' experience in the securities, finance and corporate advisory industries, with particular emphasis in the resources and energy sectors. He has founded a number of ASX listed companies, and has been involved in the growth of these companies by way of mergers and acquisitions. He has also previously acted for a number of public and ASX listed companies in a variety of executive and non-executive roles.

Mr James Robinson
Non-executive Director

Mr Robinson gained extensive capital markets experience during 10 years with one of Western Australia's leading corporate advisory and stockbroking firms. He currently serves as a Director of Jacka Resources Limited (ASX: JKA) and Wangle Technologies Limited (ASX: WGL). He is also a Director of corporate advisory firm Cicero Advisory Services and is a member of the Australian Institute of Company Directors. Mr Robinson holds a Bachelor of Economics from the University of Western Australia.

Mr Christopher Mews (Appointed 7 July 2017)
Non-executive Director

Chris is a CPA and holds a Bachelor of Business degree (Accounting) and is a Chartered Company Secretary. He has been in financial services for over 19 years and is experienced in the financial operation, governance and compliance of Managed Investment Schemes, ASX listed companies and unlisted companies. Chris has held senior positions in Finance, Corporate Secretarial and Compliance. In these roles he has been a member of senior management and participated in the due diligence and acquisition of Managed Investment Schemes, and participated in various capital raisings for Managed Investment Schemes, ASX listed Companies and unlisted Companies. Chris is responsible for financial and compliance responsibilities.

Mr Robert Clifford (resigned 7 July 2017)
Executive Director

Mr Clifford is the founder and principal of Alto Cibum, which provides consultancy services to the food beverage and hospitality industries in the Asia Pacific Region. Mr Clifford has expertise in sales and marketing, and began his career in hospitality with Hyatt International Hotels and Resorts, where he held management positions in Perth, Canberra and Macau.

Mr Sonu Cheema
Company Secretary

Interests in the shares and options of the Company and related bodies corporate

The following relevant interests in shares and options of the Company or a related body corporate were held by the directors as at 30 June 2017:

DIRECTORS' REPORT (continued)

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Matthew Sheldrick	-	-
James Robinson	-	-
Robert Clifford[i]	-	-
Christopher Mews[ii]	-	-
Totals	-	-

i. Resigned 7 July 2017

ii. Appointed 7 July 2017

Dividends

No dividends have been paid or declared since the start of the financial period and the directors do not recommend the payment of a dividend in respect of the financial period.

Principal Activities

The principal activity of the Company during the period involved conducting operations through its majority owned subsidiary company, Okmno Asia Limited for the manufacture, branding and distribution of Candy Crush Candies in Greater China (China, Hong Kong, Taiwan and Macau) and South Korea.

Please refer to the review of operations for further details.

Following the year ended 30 June 2017, the Company's principle activities have transitioned into the oil and gas industry. Please refer to the review of operations and subsequent events for further information.

Review of Operations

Lone Star Energy Limited, via its wholly-owned subsidiary LS Operating Pty Ltd, has entered into a Letter Agreement with BRK Oklahoma Holdings, LLC by which it will be referred opportunities to assess and undertake potential future conventional well bore drilling and/or acreage acquisition opportunities. Based on discussions with BRK Oklahoma, Lone Star anticipates receiving many such referrals of opportunities.

When the Company's proposed 2016 IPO was disallowed by the ASX (refer 2016 Annual Report for further details), the resulting lack of funding severely limited the ability of Okmno Asia Limited ("Okmno") to market its products and seek to expand its product range. Okmno was not able to secure alternative funding to pursue and implement its business model.

This coupled with repeated delays by King to launch the proposed large marketing campaigns for the Candy Crush brand in Okmno's target markets, made operating conditions extremely difficult as Okmno sought to establish a presence.

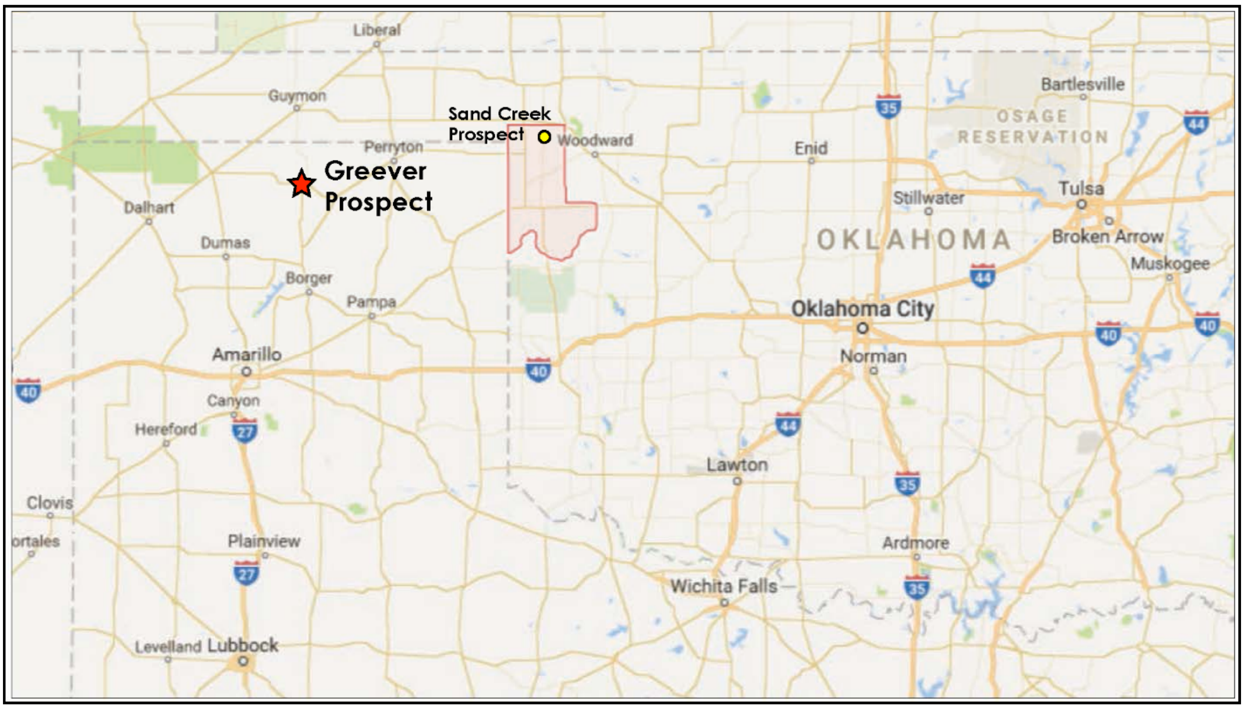
Recently, Okmno representatives have been attempting to renegotiate its agreements with King to enable Okmno to better pursue this. To date these attempts have been unsuccessful. As a result, the Company made the decision to pursue other opportunities.

GREEVER PROSPECT

The first opportunity presented was the Texas Panhandle Greever Prospect. The Greever Prospect is a conventional horizontal drilling opportunity in the Marmaton Formation in the Hansford Oil and Gas Field in Hansford County, Texas, USA, approximately 96 miles north of Amarillio. The Hansford Field is described as a significant field (>1,000 Billion cubic feet (Bcf) of gas) with over 50 years of exploitation. An initial horizontal well bore was spud in July 2017. The well is offsetting a recent successfully drilled (producing) horizontal well and is adjacent to an analogous field with five recently drilled horizontal Marmaton Formation producing wells.

The Greever Prospect has now been drilled, successfully completed and is currently flowing back to sales.

BURGESS PROSPECT



BURGESS PROSPECT (Sand Creek)

The second opportunity presented to Company is the Burgess Prospect (Sand Creek), located in Ellis County, Oklahoma, USA. The Burgess Prospect, NE/4 28-24N-23W Ellis County, Oklahoma, proposes to target Morrow sands at an approximate depth of 7,850 ft. These Morrow sands are known to produce commercial quantities of natural gas from vertical wells within section 28 and adjacent sections. LS Operating has agreed to participate for up to a 100% working interest (with a 75% net revenue interest) in the drilling of the Burgess well. The well is set to spud in late November 2017 and is expected to take approximately 4 weeks to drill.

Significant events after end of period

On 7 July 2017, the Company acknowledged and accepted the resignation of Director, Robert Clifford from the Company.

On 7 July 2017, Chris Mews was appointed as a director of the Company.

On 17 July 2017, the Company's newly incorporated wholly-owned subsidiary, LS Operating, entered into a Letter Agreement dated 17 July 2017 with BRK Oklahoma Holdings, LLC (BRK Oklahoma) by which it will be referred opportunities to assess and undertake potential future conventional well bore drilling and/or acreage acquisition opportunities.

The Letter Agreement provided (inter alia) that BRK Oklahoma, LLC may refer potential future conventional well bore drilling and/or acreage acquisition opportunities to LS Operating. Where such opportunities are referred to LS Operating, it may exercise its rights to 'step-in' to the relevant contract in the place of BRK Oklahoma. In addition, LS Operating may require BRK Oklahoma to formally assign all agreements relevant to an opportunity to LS Operating or alternatively require replacement agreements to be entered into.

Based on discussions with BRK Oklahoma, the Company anticipates receiving many such referrals of opportunities. Pursuant to the Letter Agreement, LS Operating proposes to acquire a 25% interest in the Texas Panhandle Greever Prospect (Project), being the first such referral opportunity.

In addition, the Company has undertaken the following:

DIRECTORS' REPORT (continued)

Significant events after the end of the period (continued)

(a) placement of up to 55,000,000 Shares to various investors at A$0.025 per Share, to raise up to A$1,375,000 (before costs of the Offer); and

(b) an entitlement issue on the basis of 2 new Shares for every 1 Share held on the Record Date of 17 July 2017, at an issue price of A$0.025 per new Share, for the purpose of raising up to approximately A$625,000 (before costs of the Offer).

On 8 August 2017, the Company conducted the following issue of securities and execution of key loan agreements:

- Issue and allotment of 6,650,000 ordinary shares (Entitlement Offer) in Lone Star Energy Limited at an issue price of A$0.025 cents per new Share, to raise approximately $166,250. This was conducted in accordance with the Entitlement Issue Offer document dated 17 July 2017; and

- Approval of the Converting Loan Agreement for $131,250, maturing nine (9) months from date of execution and converting at $0.025 cents per Share or as otherwise adjusted in accordance with the terms of the Agreement.

On 9 August 2017, the Company held an extraordinary general meeting of shareholders to resolve a change of Company name from Sugar Dragon Limited to Lone Star Energy Limited. The purpose of this name change was to more accurately reflect the proposed changed nature and future operations on the Company.

On 11 August 2017, the Company entered into a Convertible Note Agreement for a loan of $131,250.

On 3 November 2017, the Company entered into a further Convertible Loan Agreement for a loan of $300,000. The monies raised through Converting Loan Agreements would fund dry hole costs associated with the Burgess Well.

Operating results for the period
The comprehensive loss of the Company for the financial period, after providing for income tax amounted to $355,261.

Review of financial conditions
At balance date, the Company had $14,738 in cash assets. The Directors are of the opinion that the Company is a going concern, and recognizes that additional funds may be required, as occurred post year end.

Likely developments and expected results
Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Therefore, this information has not been presented in this report.

Environmental legislation
The Company was not subject to any environmental legislation requirements for year ended 30 June 2017.

DIRECTORS' REPORT (continued)

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the period and the number of meetings attended by each director was as follows:

Director	Board Meetings Attended	Board Meetings Eligible to Attend
James Robinson	-	-
Matthew Sheldrick	-	-
Robert Clifford	-	-
Andrew Chapman	-	-
Christopher Mews	-	-

In addition, there was 1 circulating resolution executed by the Board

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and senior management of Lone Star Energy Limited for the financial period ended 30 June 2017.

Key Management Personnel

The KMP of the Company during or since the end of the financial year were as follows:

Directors

Matthew Sheldrick	Non-executive Chairman
James Robinson	Non-executive Director
Robert Clifford	Executive Director (Resigned 7 July 2017)
Christopher Mews	Non-executive Director (Appointed 7 July 2017)

Remuneration philosophy

The remuneration policy of the Company has been designed to align Director's objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of the Company believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the Company, as well as create aligned goals between directors and shareholders.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The Company's constitution states that an aggregate remuneration of $250,000 per period can be paid to the non-executive directors. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Senior manager and executive director remuneration

Remuneration consists of fixed remuneration and Company options (as determined from time to time). In addition to the Company employees and directors, the Company has contracted key consultants on contractual basis. These contracts stipulate the remuneration to be paid to the consultants.

Fixed Remuneration

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary. Key management personnel received remuneration during the period ending 30 June 2017. This remuneration was deemed variable as it factors in additional directorship services conducted by the board members.

DIRECTORS’ REPORT (continued)

Remuneration Report (continued)

Variable Remuneration
The board collectively agreed to pay variable remuneration during the period for directorship services. The level of variable remuneration paid was accordance with the company constitution. The variable remuneration component of the key management personnel is detailed in Table 1.

Options
No options were granted by the Company as remuneration during the year ended 30 June 2017.

Performance-based Remuneration
The Company currently has no performance-based remuneration component built into director and executive remuneration packages.

Remuneration of key management personnel

Table 1: Key management personnel remuneration for the period ended 30 June 2017

		Short-term employee benefits			Post-employment benefits	Equity		
		Salary & Fees $	Bonuses $	Non-Monetary Benefits $	Super-annuation $	Options Granted $	Total $	Performance Related %
Directors								
Matthew Sheldrick	2017	-	-	-	-	-	-	-
James Robinson	2017	-	-	-	-	-	-	-
Robert Clifford	2017	-	-	-	-	-	-	-
Christopher Mews	2017	-	-	-	-	-	-	-
Total		**-**	**-**	**-**	**-**	**-**	**-**	**-**

Remuneration of key management personnel

Table 1: Key management personnel remuneration for the period ended 30 June 2016

		Short-term employee benefits			Post-employment benefits	Equity		
		Salary & Fees $	Bonuses $	Non-Monetary Benefits $	Super-annuation $	Options Granted $	Total $	Performance Related %
Directors								
Matthew Sheldrick	2016	-	-	-	-	-	-	-
James Robinson	2016	3,000	-	-	-	-	3,000	-
Robert Clifford	2016	2,000	-	-	-	-	2,000	-
Andrew Chapman	2016	-	-	-	-	-	-	-
Total		**5,000**	**-**	**-**	**-**	**-**	**5,000**	**-**

DIRECTORS' REPORT (continued)

Remuneration Report (continued)

Option holdings of KMP

30 June 2017	Balance at Beginning	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of Period
Directors					
Mathew Sheldrick	-	-	-	-	-
James Robinson	-	-	-	-	-
Robert Clifford[1]	-	-	-	-	-
Christopher Mews[2]	-	-	-	-	-
Total	-	-	-	-	-

[1]Resigned 7 July 2017
[2]Appointed 7 July 2017

30 June 2016	Balance at Beginning	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of Period
Directors					
Mathew Sheldrick	1,000,000	-	-	(1,000,000)	-
James Robinson	-	-	-	-	-
Robert Clifford[1]	-	-	-	-	-
Andrew Chapman[2]	-	-	-	-	-
Total	1,000,000	-	-	(1,000,000)	-

[1]Appointed 20 January 2016
[2]Resigned 20 January 2016

Shareholdings of KMP

No KMP held shares in the Company as at 30 June 2017 or 30 June 2016.

DIRECTORS' REPORT (continued)

Remuneration Report (continued

Transactions with KMP

	Consolidated 2017 $	Consolidated 2016 $
The Director, James Robinson, paid costs in relation to travel for business purposes in relation to the Company. These costs were reimbursed to Mr. Robinson during the year. Amount payable at balance date $Nil (2016: $Nil)	-	9,477
The Director, Robert Clifford, paid costs in relation to travel for business purposes in relation to the Company. These costs were reimbursed to Mr. Clifford during the year. Amount payable at balance date $Nil (2016: $Nil)	-	9,544
	-	19,021

End of Remuneration Report

Proceedings on behalf of the Company
There are no proceedings on behalf of the Company.

Auditor Independence
Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 11 and forms part of this directors' report for the period ended 30 June 2017.

Non-Audit Services
Details of amounts paid or payable to the auditors for non-audit services provided during the year by the auditor are outlined in Note 15 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.

Matthew Sheldrick

Mr Matthew Sheldrick
Chairman
Dated this 11 December 2017

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Lone Star Energy Limited (formerly Sugar Dragon Limited) for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

HLB Mann Judd	**N G Neill**
Chartered Accountants	**Partner**

Perth, Western Australia
11 December 2017

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Consolidated 2017 $	Consolidated 2016 $
Continuing Operations			
Revenue		-	122,658
Other Income		76,960	11,806
Cost of Sales		-	(92,321)
Amortisation expense		-	(182,178)
Other expenses	2	(25,379)	(466,326)
Profit/(loss) before income tax expense		51,581	(606,361)
Income tax expense	3	-	-
Profit after tax from continuing operations		51,581	(606,361)
Discontinued operation			
Loss after tax from discontinued operation	7	(406,842)	-
Net loss for the period		(355,261)	(606,361)
Other comprehensive income			
Items that may be reclassified to Profit and Loss:			
Exchange differences on translation of foreign operations		147,653	(7,215)
Total comprehensive loss for the period		(207,608)	(599,146)
Loss attributable to:			
Owners of the parent		(355,261)	(499,215)
Non-controlling interest		-	(107,146)
Total comprehensive income attributable to:			
Owners of the parent		(355,261)	(493,984)
Non-controlling interest		147,653	(105,162)
Basic loss per share (cents per share)	4	(2.84)	(4.85)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Assets			
Current Assets			
Cash and cash equivalents	9	14,738	58,433
Inventory	11	-	83,045
Other current assets		-	14,506
Total Current Assets		**14,738**	**155,984**
Non-Current Assets			
Intangible assets	6	-	296,252
Total Non-Current Assets		**-**	**296,252**
Total Assets		**14,738**	**452,236**
Liabilities			
Current Liabilities			
Trade and other payables	10	23,211	148,091
Accrued expenses	10	-	102,198
Total Current Liabilities		**23,211**	**250,289**
Total Liabilities		**23,211**	**250,289**
Net Assets		**(8,473)**	**201,947**
Equity			
Issued capital	5	2,203,786	2,206,598
Reserves	8	10,000	27,605
Accumulated losses		(2,222,259)	(1,866,998)
Total parent entity interest		**(8,473)**	**369,205**
Non-controlling interests		**-**	**(165,258)**
Total Equity		**(8,473)**	**201,947**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Consolidated				
	Issued Capital $	Accumulated Losses $	Reserves $	Non-controlling interests	**Total Equity $**
Balance at 1 July 2016	2,206,598	(1,866,998)	27,605	(165,258)	201,947
Loss for the year	-	(355,261)	-	-	(355,261)
Other comprehensive income, net of income tax	-	-	(17,605)	165,258	147,653
Exchange differences on translation of foreign operations	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	(355,261)	(17,605)	165,258	(207,608)
Shares issued during the period	-	-	-	-	-
Options issued during the period	-	-	-	-	-
Transaction costs on share issue	(2,812)	-	-	-	(2,812)
Balance at 30 June 2017	2,203,786	(2,222,259)	10,000	-	(8,473)

	Consolidated				
	Issued Capital $	Accumulated Losses $	Reserves $	Non-controlling interests $	**Total Equity $**
Balance at 1 July 2015	2,206,598	(1,367,783)	22,374	(60,096)	801,093
Loss for the year	-	(499,215)	-	(107,146)	(606,361)
Other comprehensive income, net of income tax	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	5,231	1,984	7,215
Total comprehensive income/(loss) for the period	-	(499,215)	5,231	(105,162)	(599,146)
Shares issued during the period	-	-	-	-	-
Options issued during the period	-	-	-	-	-
Transaction costs on share issue	-	-	-	-	-
Balance at 30 June 2016	2,206,598	(1,866,998)	27,605	(165,258)	201,947

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
		Inflows/ (Outflows)	***Inflows/ (Outflows)***
Cash flows from operating activities			
Receipts from customers		-	121,414
Payments to suppliers and employees		(40,883)	(375,877)
Interest paid		-	(5,190)
Net cash used in operating activities	9	(40,883)	(259,653)
Cash flows from Investing activities			
Payment under financing agreement		-	-
Net cash used in investing activities		-	-
Cash flows from financing activities			
Proceeds from issue of shares, net of share issue costs		(2,812)	2,000
Proceeds from borrowing		-	29,016
Repayment of borrowing		-	(29,016)
Net cash (used in)/provided by financing activities		(2,812)	2,000
Net (decrease)/increase in cash held		(43,695)	(257,653)
Effect of exchange rate fluctuations on cash held		-	(1,154)
Cash and cash equivalents at the beginning of the period		58,433	317,240
Cash and cash equivalents at the end of the period	9	14,738	58,433

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The Company is an unlisted public company, incorporated in Australia and during the 30 June 2017 year conducted its principal operations of the manufacture, branding and distribution of Candy Crush Candies in Greater China (China, Hong Kong, Taiwan and Macau) through its majority owned subsidiary company, Okmno Asia Limited.

(b) Adoption of new and revised standards
Changes in accounting policies on initial application of Accounting Standards

This is financial report of the Company and covers the financial year ending 30 June 2017.

The Directors have reviewed all new Standards and Interpretations that have been issued but are not yet effective for the period ended 30 June 2017. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Company and, therefore, no change necessary to Company accounting policies.

(c) Statement of compliance

The financial report was authorised for issue on – 11th December 2017.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

When the Company has less than a majority of the voting rights if an investee, it has the power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation (continued)

- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholder meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members are eliminated in full on consolidation.

Changes in the Company's ownership interest in existing subsidiaries
Changes in the Company's ownership interest in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount paid by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized. Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Sale of goods
Revenue is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(g) Cash and cash equivalents

Cash comprises cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Trade and other receivables

Trade receivables are measured on initial recognition at fair value. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:
- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(k) Impairment of assets

The Company assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(l) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(m) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(n) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted for:

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Earnings per share (continued)

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(p) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company.

(q) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

(r) Going concern

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's assets and the discharge of its liabilities in the normal course of business.

For the financial year ended 30 June 2017, the Company incurred a loss of $355,261 and a net cash outflow of $40,883 from operating activities as disclosed in the statement of comprehensive income and the statement of cash flows, respectively.

As at 30 June 2017, the Company had $14,738 in cash and cash equivalents. The Directors consider that the Company is a going concern however current cash flow forecasts indicate that the Company will require additional funding to ensure that it can continue to fund its operations during the twelve month period from the date of approval of this financial report.

Subsequent to the end of the financial year ended 30 June 2017, the following funding initiatives were initiated by the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Going concern (continued)

Placement of up to 55,000,000 Shares to various investors at A$0.025 per Share, to raise up to A$1,375,000 (before costs of the Offer) and an entitlement issue on the basis of 2 new Shares for every 1 Share held on the Record Date of 17 July 2017, at an issue price of A$0.025 per new Share, for the purpose of raising up to approximately A$625,000 (before costs of the Offer).

On 8 August 2017, the Company conducted the following issue of securities and execution of key loan agreements:

- Issue and allotment of 6,650,000 ordinary shares (Entitlement Offer) in Lone Star Energy Limited at an issue price of A$0.025 cents per new Share, to raise. Approximately $166,250. This was conducted in accordance with the Entitlement Issue Offer document dated 17 July 2017; and

- Approval of a Converting Loan Agreement for $131,250, maturing nine (9) months from the date of execution and converting at $0.025 cents per Share or as otherwise adjusted in accordance with the terms of the Agreement.

On 11 August 2017, the Company entered into a Convertible Note Agreement for a loan of $131,250.

On 3 November 2017, the Company entered into a further Convertible Loan Agreement for a loan of $300,000. The monies raised through Converting Loan Agreements would fund dry hole costs associated with the Burgess Well.

On 1 December 2017 the Company entered into a binding agreement with Nickelore Limited, for Nickelore to acquire 100% of the issued capital in the Lone Star Energy. As condition precedent of this agreement Nicklelore is required to conduct a capital raising for a minimum of $4,200,000.

Should the above plans not materialise there exists a material uncertainty that that may cast a significant doubt about the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

(s) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

NOTE 2: REVENUES AND EXPENSES

	Consolidated 2017 $	Consolidated 2016 $
(a) Expenses		
Administration expenses	22,099	336,412
ASIC fees	1,530	3,556
Legal and professional	1,750	105,859
Directors fees	-	5,000
Salary and Wages	-	15,499
	25,379	466,326

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 3: INCOME TAX

	Consolidated 2017 $	Consolidated 2016 $
(a) Income tax benefit	-	-
(b) Numerical reconciliation between tax-expense and pre-tax net loss		
Accounting profit before tax from continuing operations	51,581	(606,361)
Loss before tax form a discontinued operation	(406,842)	-
Accounting loss before income tax	(355,261)	(606,361)
Income tax using Company's domestic tax rate of 27.5% (2016: 30%)	(97,697)	(181,908)
Current period losses for which no deferred tax asset was recognised	97,697	181,908
	-	-
Attributable to:		
Continuing operations	(14,184)	181,908
Discontinued operations	111,881	-

(c) Tax losses

The tax effect of unused losses for the current year of $97,697 (2016: $181,908) has not been recognised as a deferred tax asset as the future recovery of these losses is subject to the Company satisfying the requirements imposed by the regulatory authorities. The benefit of deferred tax assets not brought to account will only be brought to account if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realized.
- The conditions for deductibility imposed by tax legislation continue to be complied with and no changes in tax legislation adversely affect the Company in realising the benefit.

(d) Unrecognised temporary differences

	Consolidated 2017 $	Consolidated 2016 $
Net deferred tax balances (calculated at 27.5%) have not been recognised in respect of the following items:		
Income tax losses not brought to account	97,697	181,908
Unrecognised deferred tax assets	97,697	181,908
Attributable to:		
Continuing operations	(14,184)	181,908
Discontinued operations	111,881	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 4: LOSS PER SHARE

	2017 Cents per share	2016 Cents per share
Basic loss per share		
Continuing operations	(2.84)	(4.85)
Discontinuing operations	0.41	-
Total basic loss per share	(2.43)	(4.85)
	$	$
Loss for the year	(355,264)	(606,361)
Profit from continuing operations	51,581	(606,361)
	Number	Number
Weighted average number of ordinary shares for the purposes of basic loss per share:	12,500,000	12,500,000

There are no potential ordinary shares that are considered dilutive, as a result no dilutive loss per share has been disclosed.

NOTE 5: SHARE CAPITAL

	Consolidated 2017 $	Consolidated 2016 $
Ordinary shares		
Balance on 1 July	2,206,598	2,206,598
Shares issued	-	-
Less share issue costs	(2,812)	-
At 30 June	2,203,786	2,206,598
Movements in ordinary shares on issue	No.	No.
Balance on 1 July	12,500,000	12,500,000
Movements during the period:		
Shares issued	-	-
At 30 June	12,500,000	12,500,000

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.
On a show of hands every holder of ordinary shares present at a meeting in person or proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 6: INTANGIBLE ASSETS

	Consolidated License $	Consolidated Total $
Cost		
Balance at 1 July 2016	652,550	652,550
Additions	-	-
Balance at 30 June 2017	652,550	652,550
Accumulated amortisation and impairment		
Balance at 1 July 2016	356,298	356,298
Amortisation expense	296,252	296,252
Balance at 30 June 2017	652,550	652,550
Carrying value		
30 June 2016	296,252	296,252
30 June 2017	-	-

The intangible asset acquired during the period is a four year exclusive licensing agreement between Okmno Asia Limited and King.com Limited to manufacture and distribute 'Candy Crush' (both Candy Crush Saga and Candy Crush Soda) branded confectionery products in China, Hong Kong, Taiwan and South Korea. Monies paid for the exclusive licensing agreement totaled $652,550 which have been amortised over a four year period.

NOTE 7: DISCONTINUED OPERATIONS

During the year ended 30 June 2017, the controlling entity announced its intention to sell its interest in Okmno and initiated an active program to locate a buyer and complete the sale. The division was discontinued with effect 30 June 2017 and the division disposed of was reported in the financial statements for the year ended 30 June 2017 as a discontinued operation.

<u>Consideration received or receivable</u>

	Consolidated 2017 $	Consolidated 2016 $
Total disposal consideration	-	-
Add: net liabilities disposed of	72,316	-
Gain on disposal before income tax	72,316	-
Income tax expense	-	-
Loss on disposal after income tax	72,316	-

The proceeds on the sale exceeded the book value of the related net assets and accordingly no impairment losses were recognised on the reclassification of these operations as held for sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 7: Discontinued Operations (continued)

Net assets at date of sale

The carrying amount of assets and liabilities as at the date of disposal were:

	Consolidated 2017 $	Consolidated 2016 $
Cash and cash equivalents	241	-
Other receivables	8,106	-
Total assets	8,347	-
Trade creditors	13,458	-
Other liabilities	67,295	-
Total liabilities	80,753	-
Net liabilities	(72,316)	-

Net cash inflow on disposal

The cash inflow on disposal is as follows:

	Consolidated 2017 $	Consolidated 2016 $
Cash and cash equivalents consideration received or receivable	-	-
Net cash and cash equivalents disposed of	241	-
Net cash inflow on disposal	241	-

Financial performance and cashflow information

The financial performance and cashflow information are presented for 12 months ended 30 June 2017.

Financial performance from discontinued operation

	Consolidated 2017 $	Consolidated 2016 $
Revenue	71,963	-
Expenses	(551,121)	-
Profit on disposal of operations	72,316	-
Gross profit/ (loss)	(406,842)	-
Income tax benefit	-	-
Loss for the year from discontinued operations	(406,842)	-
Cash flows from discontinued operations:		
Net cash flows from operating activities	(11,502)	
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Net cash flows	(11,502)	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 8: RESERVES

	Consolidated 2017 $	Consolidated 2016 $
Option Reserve		
At 1 July	10,000	10,000
Options issued	-	-
As at 30 June	10,000	10,000
Movements in Company Options on issue		
At 1 July	-	10,000,000
Movements during the period:		
Options issued	-	-
Options cancelled pursuant to deeds of option cancellation during July 2015	-	(10,000,000)
At 30 June	-	-

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated 2017 $	Consolidated 2016 $
Cash at hand and in bank	14,738	58,433
	14,738	58,433

Cash at bank earns interest at floating rates based on daily deposit rates.
The Company did not engage in any non-cash financing activities for the period ended 30 June 2017 and was not party to any borrowing facilities for the same period.

Reconciliation of loss for the period to net cash flows from operating activities

Loss for the year	(355,261)	(606,361)
Amortisation of intangible	296,252	182,178
Net foreign exchange (gain)/loss	147,653	8,368
Changes in assets and liabilities:		
(Increase)/decrease in other current assets	14,506	(10,748)
Increase/(decrease) in trade payables and accruals	(227,078)	220,704
Movement in inventories	83,045	53,794
Net cash (used in) operating activities	(40,883)	(259,653)

NOTE 10: TRADE AND OTHER PAYABLES

	Consolidated 2017 $	Consolidated 2016 $
Trade payables[(i)]	23,211	148,091
Accrued expenses[(ii)]	-	102,198
Balance at 30 June	23,211	250,289

[(i)] Trade payables are non-interest bearing and are normally settled on 60-day terms.
[(ii)] Includes accrued audit, consulting and other fees.

NOTE 11: INVENTORIES

	Consolidated 2017 $	Consolidated 2016 $
Finished goods – at net realisable value	-	83,045
	-	83,045

NOTE 12: FINANCIAL INSTRUMENTS

	Consolidated 2017 $	**Consolidated 2016 $**
Financial assets		
Other current assets	-	14,506
Cash and cash equivalents	14,438	58,433
Balance at end of period	14,438	72,939
Financial liabilities		
Trade and other payables	23,211	250,290
Balance at end of period	23,211	250,290

The following table details the expected maturity/s for the Company's non-derivative financial assets. These have been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

NOTE 12: FINANCIAL INSTRUMENTS (continued)

	Weighted average effective interest rate %	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2017						
Non-interest bearing	-	-	14,738	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		-	14,738	-	-	-

	Weighted average effective interest rate %	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2016						
Non-interest bearing	-	-	58,433	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		-	58,433	-	-	-

The following table details the Company's and the Company's expected contractual maturity for its non-derivative financial liabilities. These have been drawn up based on undiscounted contractual maturities of the financial liabilities based on the earliest date the Company can be required to repay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2017						
Non-interest bearing	-	-	23,211	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		-	23,211	-	-	-

	Weighted average effective interest rate %	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2016						
Non-interest bearing	-	-	250,290	-	-	-
Variable interest rate instruments	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-
		-	250,290	-	-	-

NOTE 12: FINANCIAL INSTRUMENTS (continued)

The carrying amount of cash and cash equivalents approximates fair value because of their short-term maturity.

Financial risk management objectives and policies:
The Company has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Interest rate risk
- Market risk
- Capital risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Company's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the Company. The Company also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the period under review, it has been the Company's policy not to trade in financial instruments.

(a) Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses publicly available financial information and its own trading record to rate its major customers and suppliers.

The Company's exposure and the credit ratings of its counter-parties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board annually.

The Company does not have any significant credit risk exposure to NAB. The credit risk on liquid funds and Term Deposits is reduced because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(b) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company did not have any undrawn facilities at its disposal as at balance date.

(c) Interest rate risk management

The Company is exposed to interest rate risk as the Company deposits the bulk of the Company's cash reserves in Short Term Deposits with NAB or other acceptable Australian banking entities. The risk is managed by the Company by maintaining an appropriate mix between short term deposits and at call

NOTE 12: FINANCIAL INSTRUMENTS (continued)

deposits. The Company's exposure to interest rate on financial assets is detailed in the interest rate risk sensitivity analysis section of this note.

Interest rate risk sensitivity analysis

The sensitivity analyses below have been determined based on the Company's cash and cash equivalent exposure to interest rates. A 100 basis point increase or decrease is used when reporting interest rate risk. The Company's sensitivity to interest rates may decrease during the current period depending on the use of the cash reserves of the Company. The effect on loss and equity as a result of change in the interest rate, with all other variable remaining constant as is considered to not be material as no interest has been earned.

(d) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The Company is exposed to movements in market interest rates on short term deposits. The Company does not have short or long term debt**,** and therefore the risk is minimal. The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have acceptable credit ratings.

(e) Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the Company's activities, being mineral exploration, it does not have ready access to credit facilities and therefore is not subject to any externally imposed capital requirements, with the primary source of Company funding being equity raisings. Accordingly, the objective of the Company's capital risk management is to balance the current working capital position against the requirements to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

(f) Foreign currency sensitivity analysis

The Company is exposed to US Dollar (USD) currency fluctuations and Hong Kong Dollars (HKD).

The following table details the Company's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency.

For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

NOTE 12: FINANCIAL INSTRUMENTS (continued)

	Consolidated USD Impact 2017 $	Consolidated USD Impact 2016 $
Profit or loss (*i*)	-	16,330

(i) This is mainly attributable to the exposure outstanding on USD receivables and payables at year end in the Company

NOTE 13: KEY MANAGEMENT PERSONNEL DISCLOSURES

KMP Compensation

	Consolidated 2017 $	Consolidated 2016 $
Short-term employee benefits	-	5,000
Post-employment benefits	-	-
Other long-term benefits	-	-
Total KMP compensation	-	5,000

Other Transactions and balances with KMP

	Consolidated 2017 $	Consolidated 2016 $
The Director, James Robinson, paid costs in relation to travel for business purposes in relation to the Company. These costs were reimbursed to Mr. Robinson during the year. Amount payable at balance date $Nil (2016: $Nil)	-	9,477
The Director, Robert Clifford, paid costs in relation to travel for business purposes in relation to the Company. These costs were reimbursed to Mr. Clifford during the year. Amount payable at balance date $Nil (2016: $Nil)	-	9,544
	-	19,021

NOTE 14: EVENTS AFTER THE BALANCE DATE

On 7 July 2017, the Company acknowledged and accepted the resignation of Director, Robert Clifford from the Company.

On 7 July 2017, Chris Mews was appointed as a director of the Company.

On 17 July 2017, the Company's newly incorporated wholly-owned subsidiary, LS Operating, entered into a Letter Agreement dated 17 July 2017 with BRK Oklahoma Holdings, LLC (BRK Oklahoma) by which it will be referred opportunities to assess and undertake potential future conventional well bore drilling and/or acreage acquisition opportunities.

The Letter Agreement provided (inter alia) that BRK Oklahoma, LLC may refer potential future conventional well bore drilling and or acreage acquisition opportunities to LS Operating. Where such opportunities are referred to LS Operating, it may exercise its rights to 'step-in' to the relevant contract in the place of BRK Oklahoma. In addition, LS Operating may require BRK Oklahoma to formally assign all

NOTE 14: EVENTS AFTER THE BALANCE DATE (continued)

agreements relevant to an opportunity to LS Operating or alternatively require replacement agreements to be entered into.

Based on discussions with BRK Oklahoma, the Company anticipates receiving many such referrals of opportunities. Pursuant to the Letter Agreement, LS Operating proposes to acquire a 25% interest in the Texas Panhandle Greever Prospect (Project), being the first such referral opportunity.

In addition, the Company has undertaken the following:

(a) placement of up to 55,000,000 Shares to various investors at A$0.025 per Share, to raise up to A$1,375,000 (before costs of the Offer); and

(b) an entitlement issue on the basis of 2 new Shares for every 1 Share held on the Record Date of 17 July 2017, at an issue price of A$0.025 per new Share, for the purpose of raising up to approximately A$625,000 (before costs of the Offer).

On 8 August 2017, the Company conducted the following issue of securities and execution of key loan agreements:

- Issue and allotment of 6,650,000 ordinary shares (Entitlement Offer) in Lone Star Energy Limited at an issue price of A$0.025 cents per new Share, to raise approximately $166,250. This was conducted in accordance with the Entitlement Issue Offer document dated 17 July 2017; and

- Approval of the Converting Loan Agreement for $131,250, maturing nine (9) months from date of execution and converting at $0.025 cents per Share or as otherwise adjusted in accordance with the terms of the Agreement.

On 9 August 2017, the Company held an extraordinary general meeting of shareholders to resolve a change of Company name from Sugar Dragon Limited to Lone Star Energy Limited. The purpose of this name change was to more accurately reflect the proposed changed nature and future operations on the Company.

On 11 August 2017, the Company entered into a Convertible Note Agreement for a loan of $131,250.

On 3 November 2017, the Company entered into a further Convertible Loan Agreement for a loan of $300,000. The monies raised through Converting Loan Agreements would fund dry hole costs associated with the Burgess Well.

NOTE 15: AUDITORS' REMUNERATION

	Consolidated 2017 $	Consolidated 2016 $
The auditor of Lone Star Energy Limited is HLB Mann Judd.		
Amounts received or due and receivable by HLB Mann Judd for:		
Audit or review of financial statements	7,500	9,500
Other services	-	7,000
	7,500	16,500

NOTE 16: DIVIDENDS

The directors of the Company have not declared any dividend for the period ended 30 June 2017.

NOTE 17: RELATED PARTY DISCLOSURES

On 1 June 2012, the Company entered into an agreement with Cicero Corporate Services Pty Ltd (an entity Mr Robinson holds a 36% equity stake) (Cicero) defining the terms of engagement for the provision of administration services by Cicero as a contractor to the Company. Cicero Corporate Services Pty Ltd was not paid any fees during the year ended 30 June 2017 (2016: $ 84,118) pursuant to the Administration Agreement. Cicero provided the registered office, bookkeeping, company secretarial and administration services to the Company for a monthly fee of $10,000 plus GST. The agreement can be terminated by 90 days written notice by either party.

DIRECTORS' DECLARATION

In the opinion of the directors of Lone Star Energy Limited ('the Company'):

1. The accompanying financial statements and notes thereto, as set out on pages 16 to 36, are in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2017 and its performance for the period then ended; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

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.

3. The financial statements and notes thereto are in accordance with International Financial Reporting Standards used by the International Accounting Standard Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295(A) of the Corporations Act 2001 and is signed in accordance with a resolution of the Board of Directors.

Matthew Sheldrick

Mr Matthew Sheldrick
Chairman
Dated this 11 December 2017

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the Members of Lone Star Energy Limited (formerly Sugar Dragon Limited)

Opinion

We have audited the financial report of Lone Star Energy Limited (formerly Sugar Dragon Limited) ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Regarding Going Concern

We draw attention to Note 1(r) to the financial report which indicates that the Company will require additional funding to ensure that it can continue to fund its operations during the twelve month period from the date of approval of this financial report.

Should additional funding not be obtained, there is a material uncertainty that may cast significant doubt as to whether the Company will be able to realise its assets and extinguish its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going

HLB Mann Judd

- concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Lone Star Resources Limited (formerly Sugar Dragon Limited) for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
11 December 2017

Norman Glad

N G Neill
Partner