

# **SUGAR DRAGON LIMITED (ACN 157 789 761)**

**(TO BE RENAMED LONE STAR ENERGY LIMITED)**

## **Entitlements Issue Offer**

**For the non-renounceable entitlements issue to Eligible Shareholders of New Shares 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 \$0.025 per New Share, for the purpose of raising up to approximately \$625,000.**

**The Offer is not underwritten.**

THE ENTITLEMENTS ISSUE CLOSES AT 5 PM WST ON 2 AUGUST 2017.

**This document is not a prospectus and does not contain all of the information that an investor would find in a prospectus or which may be required in order to make an informed investment decision or about the rights attaching to the New Shares offered.**

**This document is important and requires your immediate attention. It should be read in its entirety before deciding to participate. If you are in doubt as to whether to accept your Entitlement, you should consult your stockbroker or other professional adviser.**

**Investment in the New Shares offered pursuant to this document should be regarded as highly speculative in nature, and Shareholders should be aware that they may lose some or all of their investment. Refer to section 7 for a summary of the key risks associated with an investment in the New Shares.**

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## **1. IMPORTANT NOTICES AND STATEMENTS**

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### **1.1 General**

This Offer Document is dated 18 July 2017.

An application for the New Shares will only be accepted on the Entitlement and Acceptance Form accompanying this Offer Document.

This document is not a prospectus and does not contain all of the information that an investor would find in a prospectus or which may be required in order to make an informed investment decision or about the rights attaching to the New Shares offered.

This Offer Document does not constitute an offer or invitation in any place in which, or to any person to whom it would not be lawful to make such an offer or invitation. The distribution of this Offer Document in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Offer Document should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Offer Document. Any information or representation not so contained may not be relied upon as having been authorised by the Company in connection with the Offer.

By submitting an Entitlement and Acceptance Form, you will be providing personal information to the Company (directly or via the Share Registry). The Company collects, holds and will use that information to assess your Application. The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Share Registry.

You can access, correct and update the personal information that is held about you. If you wish to do so please contact the Share Registry at the relevant contact numbers set out in this Offer Document.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988 (Cth)* (as amended) and the Corporations Act. You should note that if the information required on the Entitlement and Acceptance Form is not provided, the Company may not be able to accept or process your Application.

### **1.2 Key Definitions**

Capitalised terms used in this Offer Document are defined in section 8.

## **2. LETTER FROM THE CHAIRMAN**

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18 July 2017

Dear Shareholder

On behalf of the Board, I am pleased to invite you to participate in this Entitlements Issue. This Entitlements Issue provides you with the opportunity to participate in a further investment in the Company and to participate in its future growth as it embarks on new opportunities.

Under the Entitlements Issue, Eligible Shareholders are invited to apply for two (2) New Shares for every one (1) Share held on the Record Date of 17 July 2017 at an issue price of \$0.025 per New Share. If the Entitlements Issue is fully subscribed, the Company will issue 25,000,000 New Shares and raise approximately \$625,000 before costs.

Concurrently with the despatch of this Offer Document, the Company is also undertaking or finalising the Placement, being an offer of up to 55,000,000 Shares at an issue price of \$0.025 per Share to raise up to \$1,375,000.

In order to encourage maximum participation, Eligible Shareholders will also be able to subscribe for Additional New Shares in excess of their full Entitlement under the Offer. Further details on applying for Additional New Shares are set out in section 5.10.

The Offer is not underwritten, however the Company will seek to place any New Shares not subscribed for to third parties.

Section 5.4 outlines the effect of the Offer on control of the Company in different scenarios.

The Company intends to use funds raised under the Entitlements Issue to:

- (a) undertake exploration activities associated with the Texas Panhandle Greever Prospect opportunity;
- (b) other as yet unidentified opportunities that may become available to the Company;
- (c) fund general working capital and administrative expenses; and
- (d) fund the expenses of the Offer.

Details of the Entitlements Issue are set out in this Offer Document and I encourage you to read the Offer Document in its entirety before making your investment decision. A summary of risk factors that you should consider in applying for New Shares is set out in section 7.

Finally, on behalf of the Board I thank you for your continued support of the Company and encourage you to take up your Entitlements under the Entitlements Issue.

Yours faithfully

A handwritten signature in black ink that reads "Matthew Sheldrick". The signature is written in a cursive style with a small dot above the 'i' in "Sheldrick".

Mr Matthew Sheldrick  
Non-Executive Chairman  
Sugar Dragon Limited

### **3. BRIEF INSTRUCTIONS FOR SHAREHOLDERS**

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#### **3.1 If you wish to accept your Entitlement in full:**

- pay the amount indicated on your Entitlement and Acceptance Form via BPAY® using the BPAY® code and personalised reference number indicated so that the funds are received before 5pm (WST) on the Closing Date. If you are paying by BPAY® you do not need to return your Entitlement and Acceptance Form;
- complete the Entitlement and Acceptance Form, filling in the details in the spaces provided and attach your cheque for the amount indicated on your Entitlement and Acceptance Form.

#### **3.2 If you only wish to accept part of your Entitlement:**

- pay the amount you wish to accept (being less than your Entitlement as specified on the Entitlement and Acceptance Form) via BPAY® using the BPAY® code and personalised reference number indicated so that the funds are received before 5pm (WST) on the Closing Date. If you are paying by BPAY® you do not need to return your Entitlement and Acceptance Form;
- complete the Entitlement and Acceptance Form, filling in the details in the spaces provided and attach your cheque for the amount indicated on your Entitlement and Acceptance Form.

#### **3.3 Applying for Additional New Shares**

Eligible Shareholders who have subscribed for their Entitlement in full may also apply for Additional New Shares in addition to their Entitlement. You may apply for Additional New Shares as follows:

- complete the relevant section of your Entitlement and Acceptance Form and return it together with a single cheque for the appropriate application monies for both your Entitlement and the Additional New Shares you wish to apply for; or
- pay the appropriate application monies for both your Entitlement and the Additional New Shares you wish to apply for via BPAY® using the BPAY® code and personalised reference number indicated so that the funds are received before 5pm (WST) on the Closing Date.

Please refer to sections 5.10 and 6 for further details on applying for Additional New Shares.

#### **3.4 If you do not wish to accept all or part of your Entitlement**

If you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

If Eligible Shareholders do not take up their Entitlement, their existing interest in the Company will be diluted. Please refer to section 5.4.

## 4. KEY INFORMATION

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### 4.1 Summary of the Offer

Entitlement	2 New Shares for every 1 Share held on the Record Date
Number of Shares on issue as at the date of this Offer Document	12,500,000
Number of New Shares to be issued under the Offer assuming full subscription	25,000,000
Number of Shares on issue on completion of the Offer assuming full subscription of the Offer and the Placement	92,500,000
Issue price per New Share	\$0.025
Maximum amount to be raised under the Placement	\$1,375,000 (before costs)
Maximum amount to be raised under the Offer	\$625,000 (before costs)

### 4.2 Indicative Timetable\*

Record Date	5pm (WST) 17 July 2017
Despatch Offer Document and Entitlement and Acceptance Form to Eligible Shareholders	18 July 2017
Offer Opening Date	21 July 2017
Offer Closing Date	2 August 2017
Issue of New Shares under Entitlements Issue	4 August 2017

**\*These dates are indicative only. The Directors reserve the right to vary the key dates without prior notice, subject to the Corporations Act.**

## 5. DETAILS OF THE ENTITLEMENTS ISSUE

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### 5.1 The Offer

This Offer Document invites Eligible Shareholders to participate in a non-renounceable Entitlements Issue of up to 25,000,000 New Shares in the Company on the basis of 2 New Shares for every 1 Share held on the Record Date, at an issue price of \$0.025 per New Share, for the purpose of raising up to approximately \$625,000 before costs. Allocations pursuant to the Offer are subject to the Board's discretion.

Any fractional Entitlements to New Shares will be rounded up to the nearest whole number in calculating each Eligible Shareholder's entitlement to New Shares.

The Company is undertaking the Placement and the Offer for the purposes of assessing and undertaking potential future conventional well bore drilling and or acreage acquisition opportunities and acquiring a working interest in the Project, as more fully described in the Notice of General Meeting sent to Shareholders and dated 18 July 2017.

The proposed use of funds raised under the Offer, assuming full subscription, is set out below:

Description	(\$)	% of proceeds
Assessing and undertaking potential future conventional well bore drilling and or acreage acquisition opportunities, general working capital and administrative expenses	300,000	48%
Exploration activities associated with the Project	300,000	48%
Fund the expenses of the Offer	25,000	4%
<b>Total</b>	<b>\$625,000</b>	<b>100%</b>

### 5.2 No underwriting

The Offer is not underwritten however the Company reserves the right to seek to place any New Shares not subscribed for to third parties in accordance with section 5.11.

Please refer to section 5.4 for a description of the potential impact of the Offer on control of the Company.



### 5.3 Effect of the Offer on the Company's Capital Structure

The capital structure of the Company following completion of the Entitlements Issue, assuming all Entitlements are accepted in full, is set out below:

Number of Shares on issue as at the date of this Offer Document	12,500,000
Number of New Shares offered under the Entitlements Issue	25,000,000
Number of Shares offered under the Placement	55,000,000
Total number of Shares on issue on completion of Entitlements Issue and the Placement assuming full subscription of both	92,500,000

### 5.4 Effect of the Offer on control of the Company

The maximum number of Shares which will be issued pursuant to the Offer is 25,000,000. This is twice the amount of all the issued Shares in the Company as at the Record Date, excluding the impact of the Placement (as to which, please see below).

The Offer is not underwritten however the Company will seek to place any New Shares not subscribed for to third parties.

In addition, the Company is undertaking the Placement.

Shareholders should note that if they do not participate in the Offer, their combined holdings are likely to be significantly diluted. Examples of how the dilution may impact Shareholders are set out in the table below.

Holding as at Record Date	% at Record Date	Entitlement under the Offer	Holding if Offer not taken up *	% post completion of the Offer *	
				Offer not taken up	Offer taken up in full
2,000,000	16%	4,000,000	2,000,000	2.16%	6.48%
1,500,000	12%	3,000,000	1,500,000	1.62%	4.86%
1,000,000	8%	2,000,000	1,000,000	1.08%	3.24%
500,000	4%	1,000,000	500,000	0.54%	1.62%
100,000	0.8%	200,000	100,000	0.11%	0.32%

\* Assuming the Placement and any Shortfall (up to the whole of the Offered Shares) are fully subscribed.

### 5.5 Entitlements and Acceptance

Participation in the Entitlements Issue is open to all Eligible Shareholders who are registered on the Company's register of members at 5.00pm (WST) on the Record Date of 17 July 2017 with a registered address in Australia and New

Zealand. The number of New Shares to which you may be entitled (Entitlement) is shown in the accompanying Entitlement and Acceptance Form. If you do not take up your Entitlement by the Closing Date of 5.00pm (WST) on 2 August 2017, the Offer to you will lapse.

Eligible Shareholders may take any of the following actions:

- (a) take up all of your Entitlement;
- (b) take up all of your Entitlement and apply for Additional New Shares;
- (c) take up some of your Entitlement and allow the balance of your Entitlement to lapse; or
- (d) do nothing and allow all of your Entitlement to lapse.

In determining Entitlements, any fractional entitlement will be rounded up to the nearest whole number.

A valid, completed and lodged Entitlement and Acceptance Form from an Eligible Shareholder, together with payment for the number of New Shares accepted, cannot be withdrawn and constitutes a binding application for, and acceptance of, the number of New Shares specified in the Entitlement and Acceptance Form on the terms set out in this Offer Document. The Entitlement and Acceptance Form does not need to be signed to be binding.

If the Entitlement and Acceptance Form is not completed correctly it may still be treated as a valid Application for New Shares. The Directors' decision as to a Shareholder's eligibility and as to whether to treat an acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

Further details regarding action required to be taken by Eligible Shareholders is contained in section 6.

## **5.6 Opening and Closing Date**

The Entitlements Issue will open for receipt of acceptances at 9.00 am WST on 21 July 2017 and will close at 5pm WST on 2 August 2017, or such later date as the Directors may determine.

## **5.7 Brokerage**

No brokerage or stamp duty will be payable by investors for New Shares offered under the Entitlements Issue.

However, the Company reserves the right to pay a commission of up to 6% (exclusive of GST) of amounts subscribed through any Australian financial services licensee in respect of any Shortfall placed by the Company. Payment will be made subject to the receipt of a proper tax invoice from the Australian financial services licensee.

## **5.8 No rights trading**

The rights to Shares under the Offer are non-renounceable. Accordingly, you may not dispose of your right to subscribe for Shares to another party.

## **5.9 Issue of New Shares**

New Shares offered by this Offer Document are expected to be issued on the date specified in the indicative timetable in section 4.2.

No Eligible Shareholder will be allotted New Shares by the Company such that they would, by virtue of the allotment of New Shares acquire a relevant interest in voting Shares exceeding 20%.

## **5.10 Applying for Additional New Shares**

Eligible Shareholders who have subscribed for their Entitlement in full may apply for Shares in addition to their Entitlement (**Additional New Shares**) in accordance with the instructions set out in section 6.

It is possible that there will be few or no Additional New Shares available, depending on the level of acceptance of Entitlements by Eligible Shareholders. There is therefore no guarantee that in the event that Additional New Shares are available for issue, they will be allocated to all or any of the Eligible Shareholders who have applied for them.

The following allocation policy will be applied by the Company in relation to applications for Additional New Shares:

- (a) If the number of Additional New Shares applied for by Eligible Shareholders is equal to or less than the number of Additional New Shares available, all Applicants for Additional New Shares will have their applications satisfied in full, subject to the Corporations Act;
- (b) If the number of Additional New Shares applied for by Eligible Shareholders is greater than the number of Additional New Shares available, Applicants for Additional New Shares will have their applications pro-rated based on Applicants' shareholdings in the Company on the Record Date; and
- (c) No Eligible Shareholder will be allotted Additional New Shares by the Company such that they would, by virtue of the allotment of Shortfall acquire a relevant interest in voting Shares exceeding 20%.

If the number of Additional New Shares is less than the number applied for, surplus application monies will be refunded without interest.

## **5.11 Entitlements Issue Shortfall**

Any New Shares (including Additional New Shares) not taken up by Eligible Shareholders will become available as Shortfall. The Company reserves the right to place any Shortfall to third parties.

No party will be allotted Shares by the Company such that they would, by virtue of the allotment of Shortfall acquire a relevant interest in voting Shares exceeding 20%.

## 5.12 Rights and restrictions attaching to New Shares

The New Shares issued will rank equally with existing Shares on issue. The rights and liabilities attaching to the New Shares are set out in the constitution of the Company and in the Corporations Act.

In addition, by accepting the Offer in whole or in part the Applicant agrees that certain transfers of New Shares may be restricted in circumstances required by the rules of a recognised securities exchange or where the Corporations Act may require disclosure in relation to or as a result of the transfer.

## 5.13 Excluded overseas investors

The Company is of the view that it is unreasonable to make an offer under this Offer Document to Shareholders outside of Australia and New Zealand (**Excluded Shareholders**) having regard to:

- (a) the number of Excluded Shareholders;
- (b) the number and value of the securities to be offered to Excluded Shareholders; and
- (c) the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

Accordingly, the Company is not required to make offers under the Offer Document to Shareholders outside of Australia or New Zealand.

The New Shares are not being offered to the public within New Zealand other than to Eligible Shareholders of the Company with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the transitional provisions of the *Financial Markets Conduct Act 2013 (New Zealand)* and the *Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand)*.

This Offer Document has been prepared in compliance with Australian law and has not been registered, filed with or approved by any New Zealand regulatory authority. This Offer Document is not a product disclosure statement under New Zealand law and is not required to, and may not, contain all the information that a product disclosure statement under New Zealand law is required to contain.

Members of the public in Australia and New Zealand who are not existing Eligible Shareholders on the Record Date are not entitled to apply for any Shares.

## 5.14 Taxation Implications

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares. The Company, its advisers and its officers do not accept any responsibility for any such taxation consequences to Shareholders. Shareholders should obtain independent advice on the taxation implications arising out of their participation in the Entitlements Issue.

## **6. ACTION REQUIRED BY SHAREHOLDERS**

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### **6.1 How to Participate in the Entitlements Issue**

The number of New Shares to which you are entitled is shown in the accompanying Entitlement and Acceptance Form. You may choose to take up all, part or none of your Entitlement (as set out below).

All applications for New Shares must be made on the Entitlement and Acceptance Form. Any Application will be treated as an offer from the applicant to acquire New Shares on the terms and conditions set out in this Offer Document. The Directors reserve the right to reject any applications for New Shares in whole or in part.

#### ***Acceptance of All of Your Entitlement***

If you wish to take up all of your Entitlement under the Entitlements Issue, please complete the Entitlement and Acceptance Form in accordance with the instructions set out on the reverse of that form.

#### ***Application for Additional New Shares***

If you wish to take up all of your Entitlement under the Entitlements Issue and apply for Additional New Shares, please complete the relevant section of the Entitlement and Acceptance Form in accordance with the instructions set out on the reverse of that form.

#### ***Acceptance of Part of Your Entitlement***

If you wish to take up part of your Entitlement under the Entitlements Issue, please complete the Entitlement and Acceptance Form in accordance with the instructions set out on the reverse of that form and insert the number of New Shares for which you wish to accept the Offer (being less than your Entitlement as specified on the Entitlement and Acceptance Form).

#### ***Non-Acceptance of Your Entitlement***

If you do not wish to take up any part of your Entitlement under the Entitlements Issue, you are not required to take any action. If you decide not to accept all or part of your Entitlement, the New Shares not accepted will form the Shortfall.

### **6.2 Payment Methods**

Payments will only be accepted in Australian currency and may be made by one of the following methods:

- BPAY®. Those who elect to pay via BPAY® must follow the instructions for BPAY® set out in the Entitlement and Acceptance Form. If you choose to pay by BPAY®, you do not need to return the Entitlement and Acceptance Form; and
- Cheque, bank draft or money order in Australian dollars payable to “Sugar Dragon Limited – Share Issue Account” and crossed “Not Negotiable”.

**For payment by BPAY®**, please follow the instructions on your personalised Entitlement and Acceptance Form. Please note that should you choose to pay by BPAY®, you do not need to submit the personalised Entitlement and Acceptance Form but are taken to have made the declarations on that Entitlement and Acceptance Form. Your BPAY® payment must be received by 3.00pm WST on the Closing Date. You should be aware that your financial institution may implement earlier cut-off times in regard to electronic payment and you should take this into account when making payment.

**If you are paying by cheque, bank draft or money order**, the completed Entitlement and Acceptance Form and your cheque must be received by the Company's Registered Office at the address below by no later than 5.00pm WST on 2 August 2017 or such later date as the Directors advise:

**By Post:**

Sugar Dragon Limited  
PO Box 866  
Subiaco WA 6904

Your cheque, bank draft or money order should be made payable to "Sugar Dragon Limited – Share Issue Account" and crossed "Not Negotiable". Entitlement and Acceptance Forms must be accompanied by payment of \$0.025 per New Share. Receipts for payments will not be issued.

You must ensure your cheque account has sufficient funds to cover your payment, as your cheque will be presented for payment on receipt. If your bank dishonours your cheque your application will be rejected. The Company will not re-present any dishonoured cheques. Your payment must be for the full amount required to pay for the New Shares applied for.

Cash payments will not be accepted but returned and the application deemed invalid.

### **6.3 Enquiries**

If you have any queries regarding your Entitlement, please contact the Company Secretary, Mr Sonu Cheema by telephone on 08 6489 1600 (within Australia) or your stockbroker or professional adviser.

## **7. RISK FACTORS**

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### **7.1 Introduction**

This section identifies the areas the Directors regard as the major risks associated with an investment in the Company. Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies. Intending investors should read the whole of this Offer Document in order to fully appreciate such matters and the manner in which the Company intends to operate before deciding whether to apply for New Shares pursuant to this Offer Document.

There are numerous widespread risks associated with investing in any form of business and with investing in the share market generally. There is also a range of specific risks associated with the Company's business. These risk factors are largely beyond the control of the Company and its Directors because of the nature of the business of the Company. The following summary, which is not exhaustive, represents some of the major risk factors which potential investors need to be aware of.

### **7.2 Risks specific to the Offer**

#### ***Significant dilution***

Upon completion of the Offer, assuming all Entitlements are accepted and the Placement is fully subscribed, the number of Shares in the Company will increase from 12,500,000 to 92,500,000.

This means that each Share will represent a significantly lower proportion of the ownership of the Company. It is not possible to predict what the value of the Company or a Share will be following the completion of the Offer and the Directors do not make any representation as to such matters.

Shareholders should note that if they do not participate in the Offer, assuming the Placement is fully subscribed their holdings could be significantly diluted (as compared to their holdings and number of Shares on issue as at the date of the Offer Document). Please refer to section 5.4 for examples of how the potential dilutionary effect of the Offer may impact Shareholders.

#### ***Limited Operating History***

As an early stage resources exploration business, the Company has a limited financial history which may make it difficult for investors to assess its past performance. There can be no assurance that the Company will achieve profitability in the future.

#### ***Manager Risk***

The success and profitability of the Company will largely depend on the ability of the Directors who are responsible for devising and implementing the Company's exploration strategy.

The Company is exposed to the risk that the Directors cease to be involved with the Company, and as a result, cease to manage the Company's operations. In

this event, the Company will need to identify and engage suitably qualified and experienced replacements to implement the Company's strategy.

### **7.3 Risks specific to the Company's projects**

#### ***Exploration and development risks***

The business of oil and gas exploration, project development and production, by its nature, contains elements of significant risk with no guarantee of success. Ultimate and continuous success of these activities is dependent on many factors such as:

- (i) the discovery and/or acquisition of economically recoverable reserves;
- (ii) access to adequate capital for project development;
- (iii) design and construction of efficient development and production infrastructure within capital expenditure budgets;
- (iv) securing and maintaining title to interests;
- (v) obtaining consents and approvals necessary for the conduct of oil and gas exploration, development and production; and
- (vi) access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

Whether or not income will result from projects undergoing exploration and development programs depends on successful exploration and establishment of production facilities. Factors including costs, actual hydrocarbons and formations, flow consistency and reliability and commodity prices affect successful project development and operations.

Drilling activities carry risk as such activities may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortages or delays in the delivery of drill rigs or other equipment. In addition, drilling and operations include reservoir risk such as the presence of shale laminations in the otherwise homogeneous sandstone porosity.

Industry operating risks include fire, explosions, unanticipated reservoir problems which may affect field production performance, industrial disputes, unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment, mechanical failure or breakdown, blow outs, pipe failures and environmental hazards such as accidental spills or leakage of liquids, gas leaks, ruptures, discharges of toxic gases or geological uncertainty (such as lack of sufficient sub-surface data from correlative well logs and/or formation core analyses). The occurrence of any of these risks could result in legal proceedings against the Company and substantial losses to the Company due to injury or loss of life, damage to or destruction of property, natural resources or equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation, and penalties or suspension of operations. Damage occurring to third parties as a result of such risks may give rise to claims against the Company.

There is no assurance that any exploration on current or future interests will result in the discovery of an economic deposit of oil or gas. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically developed.



### ***Sovereign risks***

The Company's key projects are located in Oklahoma in the United States of America. Possible sovereign risks associated with operating in the United States of America include, without limitation, changes in the terms of legislation affecting oil and gas exploration and production, changes to royalty arrangements, changes to taxation rates and concessions and changes in the ability to enforce legal rights. Any of these factors may, in the future, adversely affect the financial performance of the Company and the value of its Shares.

No assurance can be given regarding future stability in the United States of America or any other country in which the Company may, in the future, have an interest.

### ***Resource estimates may be inaccurate***

Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when made may change significantly when new information becomes available.

In addition, resource estimates are necessarily imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could adversely affect the Company's operations.

### ***Fluctuation in commodity prices***

The demand for, and price of, oil and natural gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments.

International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas may have a material adverse effect on the Company's business, financial condition and results of operations.

### ***Access to land***

The Company will experience delays and cost overruns in the event it is unable to access the land required for its operations. This may be as a result of weather, environmental restraints, native title, landholder's activities or other factors. The Company's exploration activities are also dependent upon the grant, or as the case may be, the maintenance or renewal of appropriate licences, concessions, leases, permits and regulatory consents which may be withdrawn or made subject to limitations.

The maintenance, renewal and granting of tenements often depends on the Company being successful in obtaining required statutory approvals. There is no assurance that the Company will be granted all the tenements for which it may apply or that licences, concessions, leases, permits or consents will be

renewed as and when required or that new conditions will not be imposed in connection therewith. To the extent such approvals, consents or renewals are not obtained, the Company may be curtailed or prohibited from continuing with its exploration activities or proceeding with any future exploration or development.

### ***Environmental regulation risk***

The Company's operations are subject to environmental regulations in the United States of America. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions (including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed) and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Amendments to current laws, regulations and permits governing the Company's operations and activities, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in the development of new properties.

### ***Environmental liabilities risk***

The Company's activities are subject to potential risks and liabilities associated with the potential pollution of the environment and the necessary disposal of waste products resulting from resource exploration and production. Insurance against environmental risk (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) is not generally available to the Company (or to other companies in the resources industry) at a reasonable price. To the extent that the Company becomes subject to environmental liabilities, the satisfaction of any such liabilities would reduce funds otherwise available to the Company and could have a material adverse effect on the Company. Laws and regulations intended to ensure the protection of the environment are constantly changing, and are generally becoming more restrictive.

### ***Land rehabilitation requirements***

Although variable, depending on location and the governing authority, land rehabilitation requirements are generally imposed on resource exploration companies, as well as companies with resource production operations, in order to minimise long term effects of land disturbance. Rehabilitation may include

requirements to control dispersion of potentially deleterious effluents and to reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out rehabilitation obligations imposed on the Company in connection with its resource exploration, the Company must allocate financial resources that might otherwise be spent on further exploration and/or development programs.

#### **7.4 General Risks specific to the Company**

##### ***Economic Risks***

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

Further, market conditions may affect the value of the Company's securities regardless of the Company's operating performance. Market conditions are affected by many factors such as:

- general economic outlook;
- interest rates and inflation rates;
- currency fluctuations;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

##### ***Liquidity***

Especially given that the Shares are not quoted on any recognised securities exchange, there is no guarantee that there will be a liquid market for Shares. There is a real risk that Shareholders will be unable to realise their investment in the Company.

##### ***Additional requirements for capital***

The Company may require further financing. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations. There is however, no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.

##### ***Insurance coverage risk***

Exploration and development operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, ground or slope failures, fires, floods, earthquakes and other environmental occurrences, political and social instability that could result in damage to or destruction of mineral properties or producing facilities, personal

injury or death, environmental damage, delays in mining caused by industrial accidents or labour disputes, changes in regulatory environment, monetary losses and possible legal liability.

It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and development is not generally available to the Company or to other companies in the industry on acceptable terms. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company.

### ***Unforeseen expenses***

The Company may be subject to significant unforeseen expenses or actions. This may include unplanned operating expenses, future legal actions or expenses in relation to future unforeseen events. The Directors expect that the Company will have adequate working capital to carry out its stated objectives however there is the risk that additional funds may be required to fund the Company's future objectives.

### ***Litigation risk***

The Company is subject to litigation risks. All industries, including the minerals exploration industry, are subject to legal claims, with and without merit. Defence and settlement costs of legal claims can be substantial, even with respect to claims that have no merit.

Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company is or may become subject could have a material effect on its financial position, results of operations or the Company's activities.

### ***Share price risk***

The value of the Company's Shares are affected by many variables not directly related to the Company's success and are therefore not within the Company's control, including other developments that affect the market for all resource sector shares, the breadth of any market for the Company's Shares, and the attractiveness of alternative investments.

### ***Joint venture parties, contractors and agents***

The Directors are unable to predict the risk of:

- financial failure or default by a participant in any joint venture or participation agreement to which the Company is or may become a party;
- insolvency or other managerial failure by any of the operators of joint ventures (including the Project) or contractors used by the Company or joint ventures; or
- insolvency or other managerial failure by any of the other service providers used by the Company for any activities.

## **7.5 Speculative nature of investment**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the New Shares offered under this Offer Document.

## 8. DEFINED TERMS

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In this Offer Document, unless the context otherwise requires:

**\$** means Australian dollars, unless otherwise stated;

**Additional New Shares** means Shares in addition to an Eligible Shareholder's Entitlement for which an Applicant applies for pursuant to an Entitlement and Acceptance Form;

**Applicant** means a person who submits an Entitlement and Acceptance Form;

**Board** means the board of Directors from time to time;

**Business Day** means every day other than a Saturday, Sunday, New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day and any other day that the Company determines (acting reasonably) is not a business day;

**Closing Date** means 5.00pm WST on 2 August 2017;

**Company** means Sugar Dragon Limited (ACN 157 789 761) (to be renamed Lone Star Energy Limited);

**Corporations Act** means the *Corporations Act 2001 (Cth)*;

**Directors** means the directors of the Company;

**Eligible Shareholder** means a Shareholder who is registered on the Company's register of members at 5.00pm (WST) on the Record Date of 17 July 2017 with a registered address in Australia and New Zealand and who qualifies as a 'sophisticated investor' for the purposes of section 708(8) of the Corporations Act;

**Entitlement** means the entitlement of an Eligible Shareholder to apply for New Shares pursuant to the Entitlements Issue;

**Entitlements Issue** means the non-renounceable Entitlements Issue of New Shares in the Company on the basis of 2 New Shares for every 1 Share held on the Record Date, at an issue price of \$0.025 per New Share, for the purpose of raising approximately \$625,000 before costs;

**Entitlement and Acceptance Form** means the Entitlement and Acceptance Form accompanying this Offer Document;

**Group** means the Company and each related body corporate (as defined in the Corporations Act) of the Company;

**New Shares** means the Shares in the Company being offered pursuant to this Offer Document;

**Offer** means the offer of New Shares under the Entitlements Issue;

**Offer Document** means this offer document for the Entitlements Issue;

**Opening Date** means 9.00am WST on 21 July 2017;

**Placement** means the offer of up to 55,000,000 Shares to various investors at \$0.025 per Share, to raise up to approximately \$1,375,000;

**Project** means a 25% working interest in the Texas Panhandle Greever Prospect;

**Record Date** means 5.00pm WST on 17 July 2017;

**section** means a section of this Offer Document;

**Share** means an ordinary fully paid share in the capital of the Company;

**Shareholder** means a holder of Shares;

**Shortfall** means the New Shares and Additional New Shares not applied for by Eligible Shareholders; and

**WST** means Australian Western Standard Time.

## 9. CORPORATE DIRECTORY

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<p><b>Directors</b></p> <p>Mr Matthew Sheldrick (Non-Executive Chairman) Mr James Robinson (Non-Executive Director) Mr Chris Mews (Non-Executive Director)</p> <p><b>Secretary</b></p> <p>Mr Sonu Cheema</p>	<p><b>Registered Office</b></p> <p>Suite 9, 330 Churchill Avenue Subiaco, Western Australia 6008 Telephone: +61 (8) 6489 1600 Email: <a href="mailto:reception@cicerocorporate.com.au">reception@cicerocorporate.com.au</a></p>
<p><b>Share Registry</b></p> <p>Security Transfer Registrars Pty Ltd</p> <p>PO Box 52, Collins Street West Melbourne, Victoria, 8007</p> <p>Suite 913, Exchange Tower 530 Little Collins Street Melbourne, Victoria, 3000</p> <p>Telephone: 1300 992 916</p>	<p><b>Legal Advisor</b></p> <p>Eaton Hall, Corporate &amp; Commercial Lawyers Level 25, 108 St Georges Terrace, Perth, Western Australia, 6000 Phone: +61 8 6382 0075</p>
	<p><b>Website</b></p> <p><a href="http://www.sugardragon.com.au">www.sugardragon.com.au</a></p>