

## NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of shareholders of **Lodestone Energy Limited ACN 075 877 075** ('Company' or 'Lodestone') will be held at 11.00 am on Monday 8 November 2010 at Conference Room, RBS Morgans, Level 29, Riverside Centre, 123 Eagle Street, Brisbane, Queensland 4000.

### AGENDA

Ordinary business

#### **Financial Reports**

To receive and consider the Company's Annual Report comprising the Directors' Report, Auditors' Report, Directors' Declaration, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to and forming part of the Financial Statements for the Company for the financial year ended 30 June 2010.

#### **Resolution 1: Remuneration Report**

To consider, and if thought fit, pass the following Advisory Resolution:

*"That the Remuneration Report for the year ended 30 June 2010 (as set out in the Directors' Report) is adopted."*

NB: This resolution shall be determined as if it were an ordinary resolution, but under Section 250R(3) of the *Corporations Act 2001* (Cth), the vote does not bind the directors of the Company.

#### **Resolution 2: Re-Election of Director – Mr Bill Stubbs**

To consider, and if thought fit, pass the following Ordinary Resolution:

*"That Mr Bill Stubbs, who retires by rotation in accordance with the Company's constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company."*

**Resolution 3: Re-Election of Director – Mr Lance Grimstone**

To consider, and if thought fit, pass the following Ordinary Resolution:

*“That Mr Lance Grimstone, who retires by rotation in accordance with the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company.”*

**Resolution 4: Election of Director – Mr Roger Clarke**

To consider, and if thought fit, pass the following Ordinary Resolution:

*“That Mr Roger Clarke, who was appointed Director since the last Annual General Meeting, retires in accordance with the Company’s constitution and, being eligible, offers himself for election, be elected as a Director of the Company.”*

**Resolution 5: Ratification of issue of Placement Shares**

To consider and, if thought fit, pass the following Ordinary Resolution:

*“That for the purposes of Listing Rule 7.4 and for all other purposes, the issue of 47,750,000 fully paid ordinary shares in the capital of the Company to sophisticated and professional investors at a price of 8 cents per share, for the purpose and otherwise on the terms described in the Explanatory Notes, be ratified.*

**Voting exclusion statement**

The Company will disregard any votes cast on Resolution 5 by:

- any person who participated in the issue; and
- any of their associates

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as their proxy decides.

**Resolution 6: Issue of options to Mr Roger Clarke**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*“That for the purposes of Listing Rule 10.11 and for all other purposes, the grant of 3,000,000 options to Mr Roger Clarke, a Director, or his nominee for no consideration and otherwise on the terms and conditions described in the Explanatory Notes, be approved. “*

**Voting exclusion statement**

The Company will disregard any votes cast on Resolution 6 by:

- Mr Roger Clarke; and
- any of his associates.

However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as their proxy decides.

#### GENERAL BUSINESS

To consider any other business as may be lawfully put forward in accordance with the constitution of the Company.

#### **By Order of the Board**



Leni Stanley  
Company Secretary  
5 October 2010

## NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

### Eligibility to vote

A person's entitlement to vote at the Annual General Meeting (Meeting) will be determined by reference to the number of Shares registered in the name of that person (reflected in the register of members) as at 7:00pm (Sydney time) on 6 November 2010.

### Proxy votes and corporate representatives

A member who is entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy. A form of appointment of proxy is enclosed with this Notice.

A proxy need not be a member of the Company. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no such specification is given and two proxies are appointed, each may exercise half of the votes to which that member is entitled.

All Proxy Forms will need to be lodged with the Company no later than 11:00am (Brisbane time) on Saturday 6 November 2010, being 48 hours before commencement of the Meeting. Any Proxy Form received after that time will not be valid for the Meeting.

If you wish to appoint a proxy and are entitled to do so, then complete the enclosed Proxy Form in accordance with the instructions on it and return it to the Company's share registry by the deadline for lodgement as follows:

- by using the enclosed reply paid envelope;
- by post or fax to the Company's share registry as follows:
  - Lodestone Energy Limited
  - C/- Link Market Services Limited
  - Locked Bag A14
  - Sydney South NSW 1235
  - Facsimile: (02) 9287 0309;
- by delivery to Link Market Services Limited at Level 12, 680 George Street, Sydney NSW 2000; or
- online, at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) by following the directions on the reverse of the Proxy Form.

A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment, which must be lodged with the Company no later than 48 hours before commencement of the Meeting.

If you have any queries on how to cast your votes then please call the Company Secretary, Leni Stanley, on +61 (0)7 3221 6022 during business hours.

**EXPLANATORY NOTES**  
**LODESTONE ENERGY LIMITED**  
**A.C.N. 075 877 075**

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**Resolution 1: Remuneration Report**

The Board has submitted its Remuneration Report to Shareholders for consideration and adoption by way of a non-binding advisory resolution.

The Remuneration Report is set out in the Company's 2010 Annual Report.

A vote on this resolution is advisory only and does not bind the Directors or the Company, however the Company will take the outcome of the vote into consideration when reviewing remuneration practices and policies.

**Resolution 2: Re-Election of Director – Mr Bill (W.R.) Stubbs**

In accordance with the Company's constitution, Mr Stubbs will retire by rotation at the Annual General Meeting and being eligible, offers himself for re-election.

**2.1 Biography**

Mr Stubbs practiced as a lawyer for 30 years and is the co-founder of the legal firm, Stubbs Barbeler. He practiced in the area of commercial law including Stock Exchange listings and all areas of mining law. He has held the position of director of various public companies over the past 25 years in the mineral exploration and biotech fields. He is also the former Chairman of Alchemica Limited, Bemax Resources N.L. and Arrow Energy Limited. Mr Stubbs is also a member of the Audit Committee.

**2.2 Directors' recommendation**

All Directors (excluding Mr Stubbs) recommend that shareholders vote in favour of this resolution.

**Resolution 3: Re-Election of Director – Mr Lance Grimstone**

In accordance with the Company's constitution, Mr Grimstone will retire by rotation at the Annual General Meeting and being eligible, offers himself for re-election.

**3.1 Biography**

Mr Grimstone B.Sc.(Hons) Geol. Grad.Dipl.Mangt., F.AusIMM, CPGeo.M.MICA is a geologist with over 40 years of experience in the exploration, mining and civil engineering sectors. For the last 25 years, Mr Grimstone has operated his own consultancy practice based principally upon his expertise in Eastern Australian coal operations, including a decade directing coal exploration activities for joint ventures associated with Macarthur Coal Limited.

**3.2 Directors' recommendation**

All Directors (excluding Mr Grimstone) recommend that shareholders vote in favour of this resolution.

#### **Resolution 4: Re-Election of Director – Mr Roger Clarke**

Mr Roger Clarke was appointed a Director on 2 September 2010 and in accordance with the Company's constitution, Mr Clarke will retire at the Annual General Meeting and being eligible, offers himself for election.

##### **4.1 Biography**

Mr Clarke has over 30 years commercial experience in the investment banking industry, with responsibilities in fund management, banking and corporate finance. He has been involved in a large number of initial public offerings, capital raisings, advisory roles and corporate transactions.

Mr Clarke is Chairman of the RBS Morgans Limited Board of Advice and the former Chairman of ABN AMRO Morgans Limited. In addition, Mr Clarke is the Chairman of Tissue Therapies Limited, NextDC Limited and MTA Insurance Ltd, and Deputy Chairman of Maverick Drilling & Exploration Limited. Mr Clarke is also Director of Trojan Equity Limited.

##### **4.2 Directors' recommendation**

All Directors (excluding Mr Clarke) recommend that shareholders vote in favour of this resolution.

#### **Resolution 5: Ratification of Issue of Placement Shares**

##### **5.1 Purpose of Resolution 5**

In July 2010, the Company placed 47,750,000 fully paid ordinary shares in the capital of the Company (**Shares**) with 20 sophisticated and professional investors at an issue price of \$0.08 per share to raise \$3.8 million (**Placement Shares**).

Listing Rule 7.1 imposes a limit on the number of equity securities (e.g., Shares) that the Company can issue without shareholder approval. In general terms, the Company may not, without shareholder approval, issue equity securities representing more than 15% of its share capital in a 12 month period.

Shares that are issued with shareholder approval do not reduce the number of equity securities that may be issued by the Company under Listing Rule 7.1. Under Listing Rule 7.4, shareholder approval can be obtained after the Shares are issued if the issue did not breach the 15% limit in Listing Rule 7.1 when made and the Company's members subsequently approve it.

The Placement Shares were issued on 19 July 2010. The issue of the Placement Shares was within the Company's 15% limit under Listing Rule 7.1. Under Resolution 5, the Company seeks shareholder ratification of the issue of the Placement Shares for the purposes of Listing Rule 7.4.

##### **5.2 Other information**

The Placement Shares were issued on the same terms as those Shares on issue on the date of issue of the Placement Shares.

The proceeds from the issue of the Placement Shares will be predominantly used to fund the recommencement of the exploration program for the Tambo Coal and Gas Project along with related project expenditures and general corporate overheads.

### **5.3 Directors' interests and recommendation**

None of the Directors has an interest in Resolution 5. The Directors **unanimously recommend that shareholders vote in favour of Resolution 5** as this will allow the Company to retain the flexibility to issue the maximum number of equity securities permitted under Listing Rule 7.1 without requiring further shareholder approval. In particular, if Resolution 5 is not approved, the Company's capacity to issue additional securities will be significantly constrained until 19 July 2011, at an important time in the Company's development.

### **Resolution 6: Issue of options to Mr Roger Clarke**

#### **6.1 Introduction**

Pursuant to Resolution 6 shareholder approval is sought for the purposes of Listing Rule 10.11 and for all other purposes for the grant by the Company, for no consideration, of 3,000,000 options to Mr Roger Clarke or his nominee.

The options are to be issued on the terms summarised below. Mr Clarke is a Director of the Company.

#### **6.2 Why is shareholder approval required?**

Listing Rule 10.11 provides that a company must not issue or agree to issue securities to a related party of the company without first obtaining shareholder approval. Under Resolution 6 the Company will, if the resolution is passed, issue options to a Director (i.e., to a related party). Accordingly, the Company must obtain shareholder approval under Listing Rule 10.11 before those options are issued.

Chapter 2E of the Corporations Act prohibits a company (subject to certain exceptions) from giving a financial benefit to a related party of the Company, except with the approval of the Company's members. Issuing securities (including an option) to a related party is an example of giving a financial benefit that requires shareholder approval under Chapter 2E.

However, shareholder approval under Chapter 2E is not required if the financial benefit is remuneration provided to a related party as an officer of the company and to give the remuneration would be reasonable given the circumstances of the company and the related party's circumstances, including the responsibilities involved in the office held.

The Board has formed the view that the issue of options as contemplated by Resolution 6 represents reasonable remuneration having regard to Mr Clarke's other entitlements to director's fees of approximately \$40,000 per annum and his responsibilities as Director of the Company and therefore that approval of the issue of options to him under Chapter 2E is not required.

#### **6.3 Details of options**

The options to be issued under Resolution 6 will, if this Resolution is approved, be issued on the following terms:

- the options will be issued for no consideration;
- each option will, on exercise, will entitle the holder to acquire one Share;
- the exercise price of the options is a 20% premium to the volume weighted average price of Shares over the 14 days on which the Shares were traded on ASX Limited (ASX) from the date of the Notice of Meeting;
- each option will have an expiry date of two years from the date of issue; and

- although the options are not being issued under the Company's employee share option scheme (**ESOP**), the terms of issue of options under the ESOP will, so far as they are applicable and are not inconsistent with the above terms and conditions, apply to the options. A summary of the material terms of the options is set out in the schedule to these Explanatory Notes.

Except in relation to the exercise price, these terms are materially the same terms as the options issued to other non executive Directors of the Company pursuant to approval given at general meetings of the Company on 9 September 2008 and 26 June 2009 respectively.

#### **6.4 Value of options**

The Board has engaged Harris Black, chartered accountants, to prepare an independent valuation of the options to be granted under resolution 6. Harris Black has determined the value of the options to be issued pursuant to Resolution 6 to be \$0.048 per option. This value has been derived using both a Black Scholes Option Pricing Model and a Binomial Model Option Pricing Model, assuming the following:

- share price of \$0.10 (being the estimated price of Shares on 31 October 2010);
- an exercise price of \$0.114 per option;
- a risk free rate of 4.85% per annum;
- a volatility factor of 92.922%, which has been determined having regard to the historical trading of the Company's Shares on ASX;
- an expiry date of two years from the date of issue; and
- all other terms and conditions as outlined in these Explanatory Notes.

#### **6.4 Why are the options being issued?**

The primary purpose of the grant of the options under Resolution 6 is to better align the interests of the Company and Mr Clarke by providing an incentive to him to remain with the Company and increase shareholder value. As noted above, Mr Clarke has a depth of knowledge and experience in the investment banking industry and has actively advised and participated in numerous initial public offerings. His contribution to the Board will be particularly valuable as the Company formulates its strategic goals and executes its strategy.

#### **6.5 Other information**

For the purposes of Listing Rule 10.13, and for all other purposes, the following information is provided to shareholders for the purposes of Resolutions 6:

- under Resolution 6 approval is being sought to issue to Mr Clarke a maximum of 3,000,000 options. An issue of additional options Mr Clarke will require further prior shareholder approval;
- the options will be granted to Mr Clarke as soon as practicable after the meeting, but in any event, no later than one month after the date of the meeting;
- because the options are to be issued for no consideration, the Company will not raise any funds from the issue. If any or all of the options are exercised, the funds raised from the issue of Shares pursuant to that exercise will contribute to the Company's working capital; and



- the Company will not provide a loan in connection with the exercise of any options issued pursuant to Resolution 6;

Pursuant to Listing Rule 7.2 Exception 14, where an issue is made with the approval of the shareholders under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

#### **6.6 Directors' interests and recommendations**

None of the Directors, other than Mr Clarke, has an interest in Resolution 6. As the proposed recipient of options under Resolution 6, Mr Clarke has an interest in Resolution 6, and therefore makes no recommendation in relation to it. The Directors, other than Mr Clarke, unanimously recommend that you vote in favour of Resolution 6.

## Schedule

<b>Nature of option</b>	Each option entitles the holder to subscribe for one Share on exercise of the option.
<b>Issue price</b>	Each option is to be issued for no consideration.
<b>Expiry date</b>	Each option will expire two years from the date of its issue.
<b>Exercise price</b>	The exercise price of each option is a 20% premium to the volume weighted average price of Shares over the 14 days on which Shares were traded on ASX from the date of the notice of meeting.
<b>Transfer</b>	An option is personal to the participant and cannot be transferred or otherwise disposed of except as determined by the Board.
<b>Ranking</b>	Shares issued on the exercise of options will rank equally with all existing Shares then on issue.
<b>Conditions on exercise</b>	An option must be exercised before its expiry date. The Board may determine minimum parcels in which options may be exercised. The exercise by a participant of some options does not affect their right to exercise other options at a later time.
<b>Lapse</b>	<p>An option lapses on its expiry date, or if the Board determines that the participant has acted fraudulently, dishonestly or in breach of the participant's obligations to the Company or an associated body corporate and that their options should therefore be forfeited.</p> <p>Options will also lapse upon:</p> <ul style="list-style-type: none"> <li>• the participant ceasing to be employed or engaged by the Company (except as a consequence of a disposal or sale of the Company's undertaking);</li> <li>• 30 days after the date the participant dies, is retrenched or made redundant, retires or is permanently, physically or mentally incapacitated; or</li> <li>• 30 days following a person acquiring a relevant interest in not less than 90% of the Company's Shares or, at the discretion of the Board, ten days following the Company issuing a notice of meeting in connection with a scheme of arrangement, which, if implemented, will give a person a relevant interest in not less than 90% of the Company's Shares.</li> </ul>
<b>New issues</b>	Options to not confer on participants any rights or entitlements to participate in new issues of capital.
<b>Reorganisations of capital</b>	In the event of a reorganisation of the issued capital of the Company the rights of option holders will be changed to the extent necessary to comply with the Listing Rules.
<b>Quotation</b>	Options will not be listed for quotation on ASX.
<b>Bonus Issue</b>	If the Company makes a bonus issue, participants whose options have not expired will not be entitled to any adjustment to the number of Shares that will be issued to them upon exercise of any of those options.



By mail:  
 Lodestone Energy Limited  
 C/- Link Market Services Limited  
 Locked Bag A14  
 Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: 1300 554 474 Overseas: +61 2 8280 7454


**X99999999999**

## SHAREHOLDER VOTING FORM

I/We being a member(s) of Lodestone Energy Limited and entitled to attend and vote hereby appoint:

**STEP 1**
**APPOINT A PROXY**

the Chairman of the Meeting (mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 11:00am on Monday, 8 November 2010, at Conference Room, RBS Morgans, Level 29, Riverside Centre, 123 Eagle Street, Brisbane, Queensland 4000 and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an **X**

**STEP 2**
**VOTING DIRECTIONS**

	For	Against	Abstain*		For	Against	Abstain*
<b>Resolution 1</b> Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Resolution 4</b> Election of Director - Mr Roger Clarke	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 2</b> Re-Election of Director - Mr Bill Stubbs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Resolution 5</b> Ratification of issue of Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 3</b> Re-Election Of Director - Mr Lance Grimstone	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<b>Resolution 6</b> Issue of options to Mr Roger Clarke	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**i** \* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**STEP 3**
**SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED**

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

**LOD PRX001**


## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

## Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 11:00am on Saturday, 6 November 2010, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE**

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Select the 'Proxy Voting' option on the top right of the home page. Choose the company you wish to lodge your vote for from the drop down menu, enter your holding details as shown on this form, and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

Lodestone Energy Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Annual General Meeting, please bring this form with you.  
This will assist in registering your attendance.**