

2010

LODESTONE  
ENERGY

ANNUAL REPORT

for year ended 30 June 2010

 **LODESTONE  
ENERGY.**



# Corporate Directory

**Lodestone Energy Limited ABN 20 075 877 075**

<b>Directors</b>	Martin Ackland (Chairman) Greg Baynton Lance Grimstone Bill Stubbs Grahame Baker
<b>Chief Executive</b>	Staffan Ever
<b>Secretary</b>	Leni Stanley
<b>Principal registered office in Australia</b>	Level 1, 101 Edward Street Brisbane QLD 4000 (07) 3229 6606
<b>Share register</b>	Link Market Services Limited Level 19, 324 Queen Street Brisbane QLD 4000 (02) 8280 7454
<b>Auditor</b>	BDO Audit (Qld) Pty Ltd Level 18, 300 Queen Street Brisbane QLD 4000 (07) 3237 5999
<b>Solicitors</b>	Carter Newell Level 13, 215 Adelaide Street Brisbane QLD 4000 (07) 3000 8331
<b>Bankers</b>	Westpac Banking Corporation 388 Queen Street Brisbane QLD 4000
<b>Stock exchange listing</b>	Lodestone Energy Limited shares are listed on the Australian Securities Exchange - LOD.
<b>Website address</b>	<a href="http://www.lodestonenergy.com.au">www.lodestonenergy.com.au</a>



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# Lodestone Energy Limited



*Landscape in the Tambo region on the Landsborough Highway*

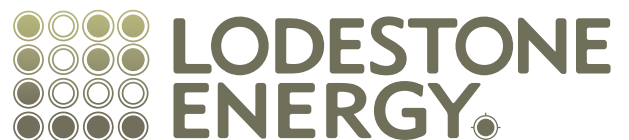
Lodestone Energy Limited (Lodestone) is an Australian company focused on the identification and appraisal of energy prospects, in particular coal and coal seam gas (CSG) in Queensland's Surat and Clarence-Moreton Basins.

Lodestone plans to build an energy business supplying coal and CSG from its project areas for domestic and export markets.

Lodestone's energy prospects are close to existing infrastructure and include:

- **The Tambo Coal and Gas Project.** The Project focuses on an area in the Upper Surat Basin, which Lodestone believes to be a new energy province in Queensland. The Project is targeting both coal and CSG resources in a very large area extending for more than 400 kilometres, centred on Tambo and Augathella in Queensland.
- **The Moreton Energy Coal Project** in the Clarence-Moreton Basin, south-west of Brisbane. Historical evidence of shallow coal exists within Lodestone's coal tenements and neighbouring areas. Deep coal seams identified in nearby petroleum wells also suggest potential for future Underground Coal Gasification (UCG) opportunities within Lodestone's UCG-nominated tenements.

Lodestone has also retained its two key mineral exploration prospects, Mount Morgan and Limestone Creek.





# Chairman's Report



During the 2009–10 year, Lodestone focused largely on developing our interests in the Tambo Coal and Gas Project in the Upper Surat Basin in Queensland, operating under two farm-in agreements that gave the company the right to earn up to 50% of the Project.

An important development during the year was Lodestone's acquisition of Tambo Coal & Gas Pty Limited and of Moreton Energy Limited, giving your company 100% ownership of these two projects. The change was ratified at an Extraordinary General Meeting in June 2010, when shareholders overwhelmingly supported and approved the acquisitions. Settlement of the transactions was completed during July. We now have greater commercial flexibility, and simplified legal and commercial arrangements for future joint ventures, farm-outs, spin-offs and capital raisings.

During the year, we also awarded the initial drilling contracts for CSG and conventional coal exploration to Major Drilling Pty Ltd. Drilling began in both coal and CSG projects in late December 2009. Progress was interrupted by heavy rainfall and flooding that continued through the first quarter of 2010 resulting in significant delays.

Lodestone's minerals projects were the focus of discussions with potential farm-in candidates for our Mount Morgan copper–gold–molybdenum project. At our Limestone Creek copper prospect, we continued exploration activities, including undertaking geochemical sampling and mapping to the south and west of the Leane's copper–gold prospect. We integrated and assessed data from the fieldwork in order to identify drilling targets.

At the close of the 2009–10 financial year, the Board appointed Mr Staffan Ever to the role of Chief Executive Officer. He brings valuable experience to the next stage of Lodestone's development. Staffan previously held

a number of senior roles in coal companies including CEO of QCoal, General Manager of AMCI Australia and founder and managing partner of Triangle Resource Fund.

As the 2010–11 financial year began, we completed a \$3.82 million equity raising and in August signed a Cultural Heritage Management Agreement with the Bidjara People – the registered native title claimants for specific areas within the Tambo Coal and Gas Project. We also executed a drilling contract with Nitro Drilling to commence a shallow coal drilling program at the Tambo Coal and Gas Project.

The additional funding, together with the cultural heritage arrangements and the progressive granting of exploration permits, has enabled Lodestone to restart a significant drilling campaign, focusing on shallow coal targets near rail and highway infrastructure corridors within the now 100%-owned Tambo Project. During the year ahead, we will also consider options for increasing our CSG acreage and maximising the value of our coal and CSG exploration portfolio.

On behalf of the Board, I welcome new director Roger Clarke, our new CEO Staffan Ever, and thank Jeff Jamieson, whose part-time CEO contract ended in May 2010. I would also like to thank John McCawley, our founding director, who retired earlier in 2010 for his involvement and commitment over the years.

Finally, we thank our long-term shareholders for their support and welcome new shareholders into our emerging energy company as it leverages the strong foundations laid over the recent years.



Martin Ackland,  
Chairman



# CEO's Report and Operational Review

## CORPORATE OVERVIEW

2009–10 was an important year for Lodestone Energy, as planning became reality and we consolidated our position as an emerging energy-focused exploration company with a significant project portfolio.

Lodestone moved into a new phase of its development, commencing field exploration at our joint venture projects, including drilling work on both CSG and coal prospects within the Tambo Coal and Gas Project.

Results from the Company's drilling, conducted in late 2009 and early 2010 in the Moreton Energy Project area, added to our knowledge of the coal measures in that area and will build on background data for possible future exploration and potential joint ventures.

To cement Lodestone's future, we acquired our joint venture partners, Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited. These major acquisitions, which were overwhelmingly approved by shareholders at an Extraordinary General Meeting on 29 June 2010, give Lodestone greater commercial flexibility and will simplify the legal and commercial arrangements for future joint ventures, farm-outs, spin-offs and capital raisings.

With our strong focus on energy projects, activities at our remaining minerals projects were reduced to a minimum. We continued to explore potential funding and farm-out arrangements for both our Mount Morgan and Chillagoe Districts minerals projects. Further fieldwork was undertaken at Leane's prospect in the Chillagoe District, resulting in the identification of drill-ready targets.

During June and July 2010, Lodestone completed private placements with key investors, led by Square Resources. This placement raised \$3.82 million and was priced at \$0.08 per share. The funds will support the continuing exploration program for the Tambo Coal and Gas Project along with related project expenditures and general corporate overheads.

**Coal drilling rig owned by Nitro Drilling**

**(Photo courtesy of Nitro Drilling)**



## ENERGY PROSPECTS

### Tambo Coal and Gas Project

The Tambo Coal and Gas Project covers a large footprint in Queensland, involving a strategic group of tenements that extend for more than 400 kilometres and represents an area of approximately 1.5 per cent of the State (refer Map 1).

Lodestone’s Tambo Coal and Gas Project represents:

- one of the largest grassroots acreages prospective for coal in Australia
- a large acreage prospective for coal seam gas in Queensland
- a logical extension of the Walloon Coal Measures of the Surat Basin which host established mines and CSG fields, and
- a project close to existing rail corridors and pipeline infrastructure, in a region largely unaffected by the Queensland Government’s proposed Strategic Cropping Land policy.

During the past two years, we have assembled strong evidence that the Tambo Coal and Gas Project tenements cover an area that is an extension of the known Surat Basin, a basin that has been highly productive for thermal coal and CSG. We expect that this region will become a significant energy province for Queensland.

### Background to exploration

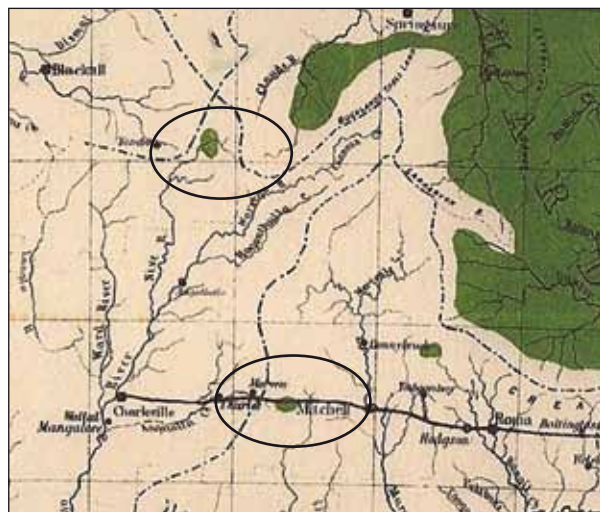
Over recent years Lodestone has reviewed the portfolio of prospects forming the Tambo Coal and Gas Project and has undertaken extensive analysis of the regional geology of the Upper Surat Basin.

Historical evidence that supports the presence of coalfields in the Tambo and Morven areas of Queensland dates back to the 1880s. In 1888, Government Geologist Robert Jack identified the presence of ‘coalfields’ in the Tambo and Morven areas (refer Map 2).

Despite early historical interest in this area, limited modern exploration had occurred during the 20th century, and Lodestone’s technical experts believed a large gap existed in the available exploration data along the Jurassic basin margins west of Mitchell. Data from the few petroleum wells in the area demonstrated that little attention had been paid to the Jurassic sequence, which included coal intersections. Lodestone was able to exploit this gap in knowledge by referring to government files on many hundreds



**Map 1:**  
**Tambo Coal and Gas Project**



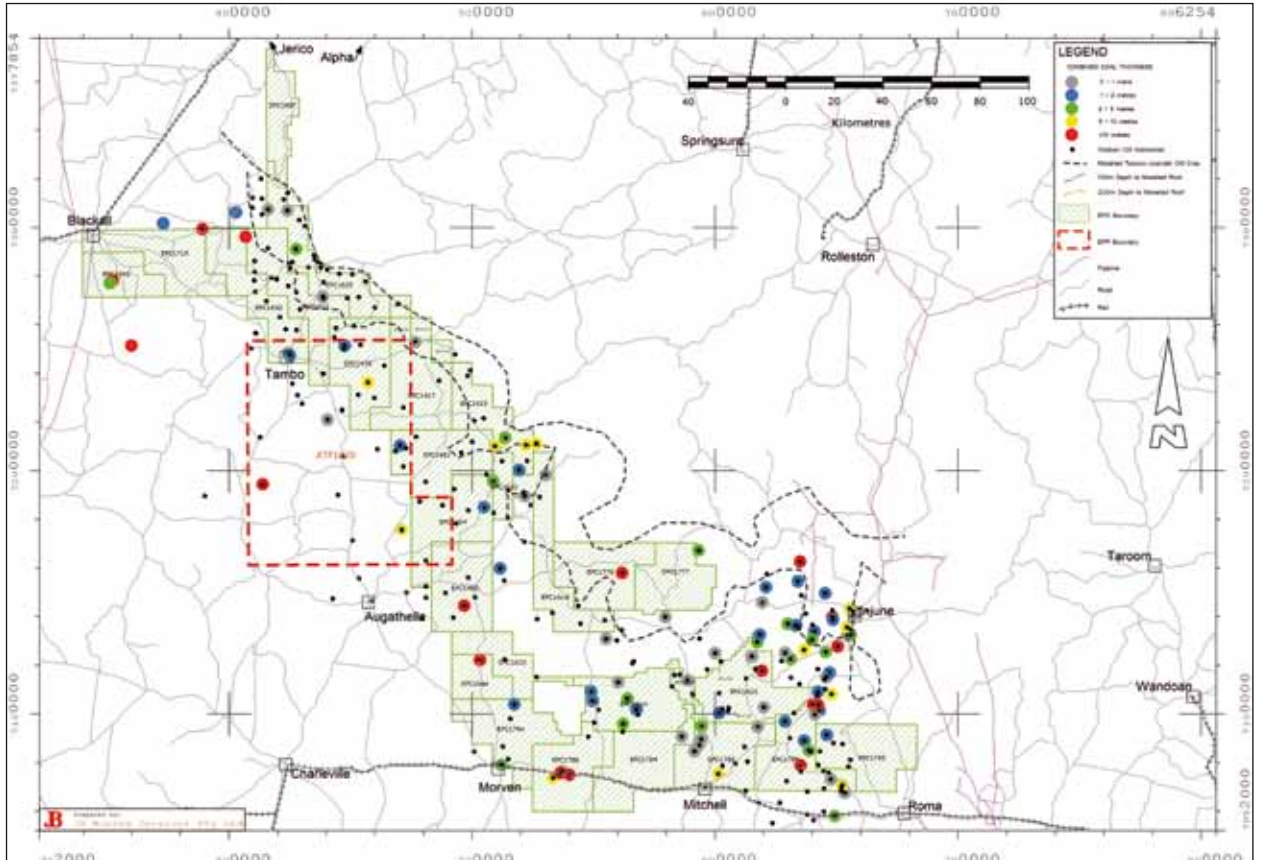
**Map 2:**  
**1888 – Coalfields identified by Government geologist**

Map Excerpt Source: “Map of Queensland showing positions of mineral fields, issued with ‘The Mineral Wealth of Queensland’, 1888”

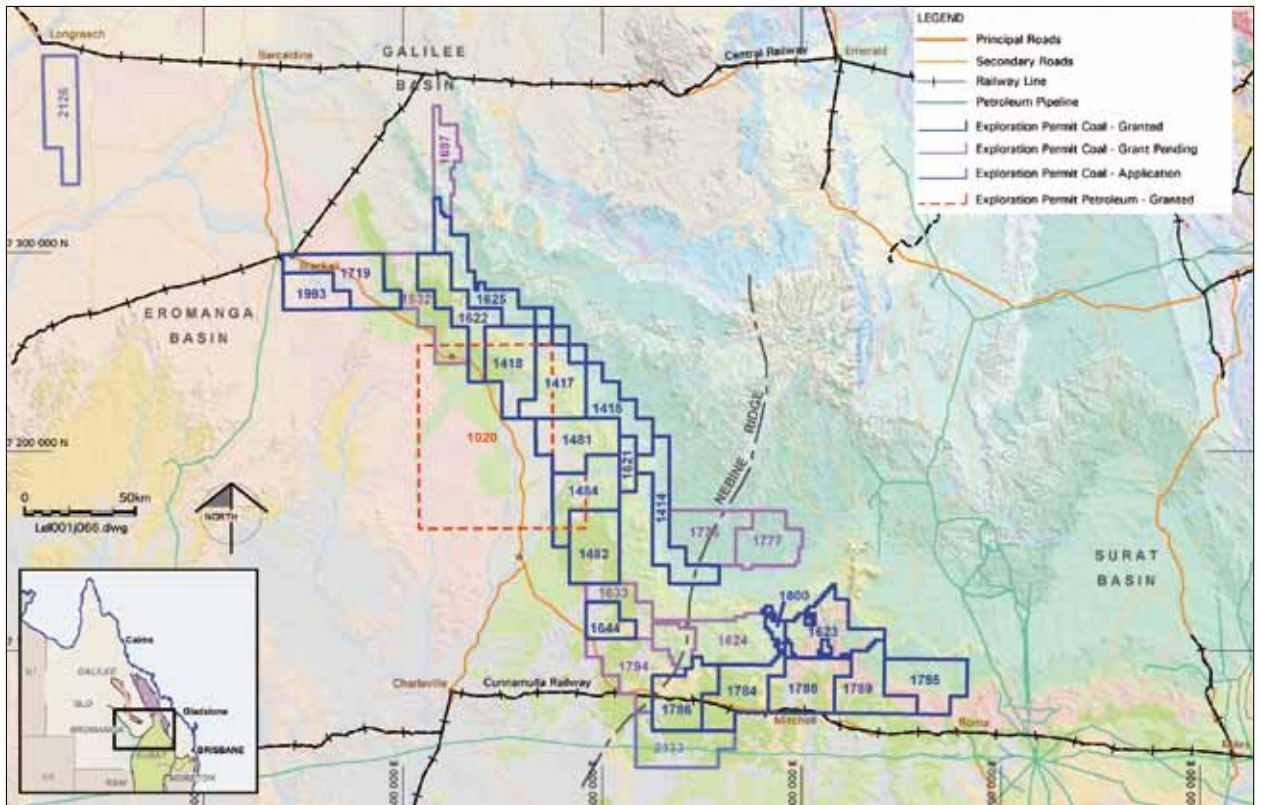
**In 1888, Queensland Government Geologist Robert Jack identified “coalfields” in the Tambo and Mungallala areas.**

- Major parts of this region were restricted from coal exploration during the second half of the 20th century (Coal Reserve Area 55D).
- Lodestone now has a unique opportunity to explore for coal, coal seam gas and conventional petroleum in a new energy province via one corporate ownership vehicle and with contiguous exploration permits.

**Map 3:**  
**2010 – Coal intersections identified in historical waterbores and petroleum wells**



**Map 4:**  
**Tambo Coal and Gas Project tenement map**





of water bores dating back to 1900. Although these bores highlighted good thicknesses of coal, they were never geophysically logged. Lodestone's detailed analysis of the available drilling data supports the probability of economically accessible coal deposits and CSG in the area.

We are aiming to achieve initial revenues from CSG production, with large-scale open-cut coal mining of low-emission Walloon coals within the Tambo Project area being developed in the future.

### Tambo Project tenements

The Tambo Project's aggregated tenure, when fully granted by the Queensland Department of Mines and Energy, will cover approximately 1.5% of Queensland.

The Exploration Permits for Coal (EPCs) which are the focus of the original farm-in agreement are now 100% owned by your company. These EPCs represent a large area, extending for more than 400 kilometres from west of Roma to Blackall in Queensland.

The Tambo CSG Project is centred on a large Authority to Prospect (ATP), ATP 1020. The ATP overlaps part of the Tambo EPC footprint, providing opportunities for selection of development opportunities internally. ATP 1020 is now 100% owned by Lodestone following the completion of the acquisition of Tambo Coal & Gas Pty Limited in July 2010.

The Tambo Coal and Gas Project's regional tenement footprint is shown in Map 4 (page 6).

### Highlights 2010

The 2009–10 year marked a major milestone for the Tambo Coal and Gas Project with the commencement of drilling for both coal and CSG. Unfortunately, drilling was suspended soon after commencement due to heavy rain and flooding in the first quarter of 2010. Despite these challenges, our activities and milestones for the Project during 2009–10 included:

- signing a contract with MBA Petroleum Consultants covering CSG exploration in ATP 1020 – MBA is providing technical support and managing the field exploration program
- awarding the initial drilling contract for three CSG wells within ATP 1020 to Major Drilling Pty Ltd, with drilling commencing in late 2009 on ATP 1020
- awarding a drilling contract to Major Drilling Pty Ltd for work in Lodestone's EPCs – drilling began in December 2009 on EPC 1623
- drilling at two well sites on the eastern side of ATP 1020 – the wells were partially cored and logged on completion

- completing two deep coal exploration holes within EPC 1623 – these chip holes confirmed the presence of coal and provided stratigraphic information
- reinterpreting key historical seismic data lines
- completing a major photo-geological mapping program across the Tambo tenements from Roma to Blackall – this information will assist in developing future CSG, coal and UCG drilling targets and has helped support the view that the Surat Basin extends westward into the Tambo Project tenements
- the granting of 16 new EPCs by the Queensland Government, bringing the Tambo Project total to 20 granted EPCs, and
- nominating a number of qualifying tenements as potential UCG targets to the government.

- *The Tambo Coal and Gas Project tenements cover a very extensive area – for more than 400 kilometres – comparable to the known Surat Basin further east.*
- *Significant coal intersections are evident in historic logs of water bores and petroleum wells.*
- *These coal deposits are likely to be of a similar age and quality to those in the known Surat Basin along strike to the east.*
- *The CSG prospect area is expected to contain gaseous coals with permeability similar to existing Surat Basin coals. The Surat Basin contains some of the most productive CSG fields in Australia.*

### Outlook for Tambo Coal and Gas Project

The outlook for the 2011 financial year appears positive with coal drilling commencing in September 2010 that will focus on confirming relatively shallow, thick, coaly intersections identified in historical waterbores and petroleum wells near the rail and highway corridor in the south-east of the Tambo Project area. Drilling will be directed towards the identification of the lateral extent of the coal pods.

In addition, we expect to recommence CSG drilling in ATP 1020 subject to available funding. Future drilling should benefit from previously unavailable seismic data, and our existing database of water bore and petroleum well coal intersections at appropriate CSG target depths.

To maximise the potential of the large coal and petroleum tenement footprint now held, Lodestone plans to canvass appropriate partnering structures with well-funded coal and gas industry participants.

Our aim is to package various commodity and geographical project areas within Lodestone's tenement portfolio with energy commodity partners.

The majority of the Tambo tenements are to the west of major Queensland cropping districts and are largely unaffected by the Queensland Government's proposed Strategic Cropping Land policy.

### Moreton Energy Project

The Moreton Basin is a late Triassic-to-Cretaceous intracratonic basin, situated in south-east Queensland. It extends from Brisbane to Dalby and south to the Queensland–New South Wales border. The Moreton Basin is contiguous in part with the Surat Basin to the west and is part of the Clarence-Moreton Basin that extends southward into New South Wales.

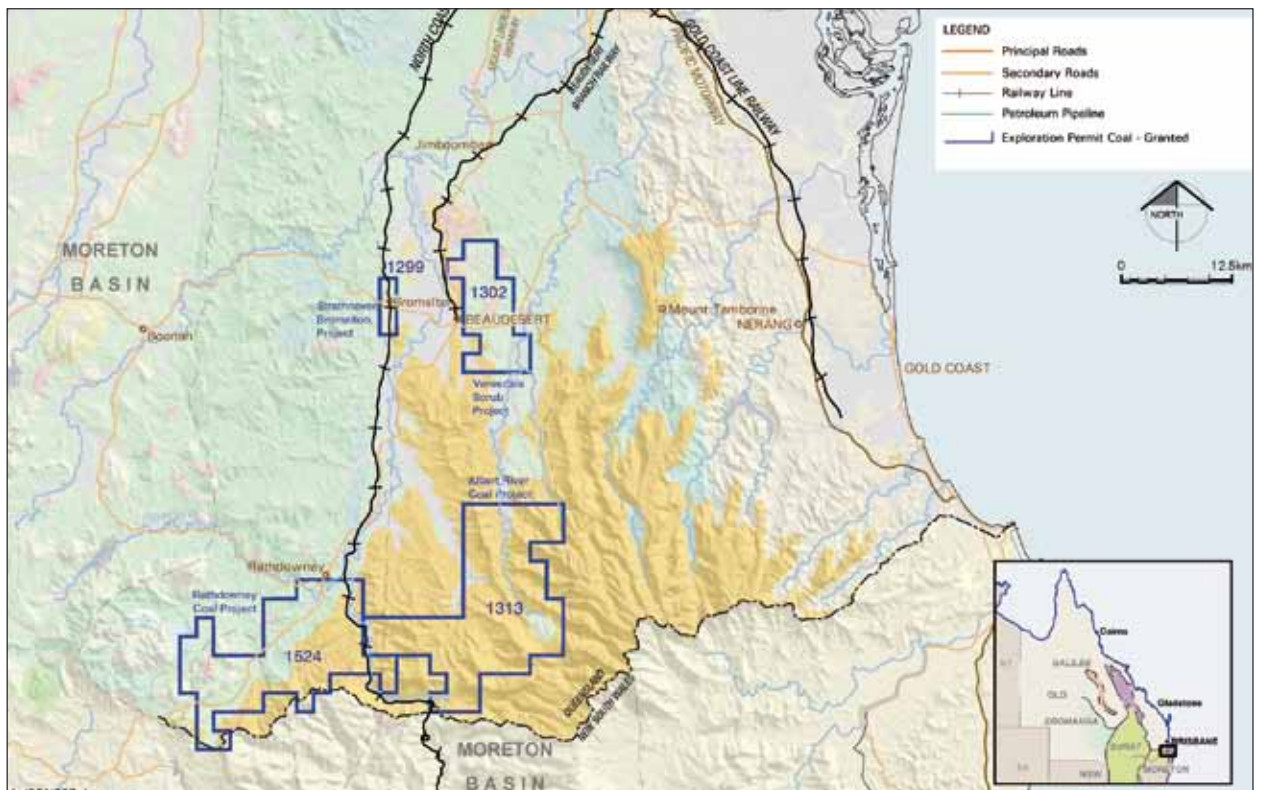
Lodestone's efforts have been aimed at identifying whether economic deposits exist in this region which is well located in relation to the Port of Brisbane and the Brisbane and Gold Coast population centres, with good rail and road connections. Where possible, the Moreton Project tenements have been nominated for future UCG uses, and we are now considering possibilities for shallow coal and UCG-oriented exploration and joint venture partnering.

### Background to exploration

The Jurassic Walloon Coal Measures contain lower and upper coal zones that consist of abundant, thin-banded coal seams. These measures have been mined at numerous sites since the 1870s. Historically, most mining has been undertaken by underground methods. Increased exploration during the 1970s and 1980s led to the delineation of very large resources and reserves of open-cut thermal coal in the Surat and Clarence-Moreton Basins on Queensland's Darling Downs.

Lodestone's initial exploration for the Moreton Energy Project was focused on thermal coal-bearing prospects near Beaudesert and Bromelton in southern Queensland. The Beaudesert-Bromelton district has a history of small-scale underground coal mining. Historic exploration has shown the presence of coal and coal resources in these areas. For example, two former small-scale collieries that operated briefly during the early part of the 20th century (the former Strathnaver and Stansfields Collieries) and approximately 60% of the un-mined Veresdale Scrub Deposit are situated within the Moreton Energy Project tenements. More recently, in 1992, New Hope Collieries categorised the Veresdale Scrub Deposit (now partly covered by EPCA 1302) as a typical Walloon coal with a high volatile content, high raw ash, and low total sulphur.

**Map 5:**  
**Moreton Energy Project location and tenement map**



## Moreton Energy Project highlights 2010

In 2009–10 we progressed our interests in the Moreton Project by:

- reviewing historical drilling data
- implementing a 47-hole drilling program in the four exploration permits comprising the Moreton Energy Project, and
- nominating the tenements as potential UCG targets to the government.

## Outlook for Moreton Energy Project

Based on activities conducted during the year in review, we now have a useful data set that will facilitate the rationalisation of our exploration footprint in the Moreton Basin and focus future efforts.

Nearby historical petroleum well drilling in the vicinity of Lodestone's tenements also indicates the presence of thick coal seams at depths that would be suitable for UCG. We have nominated our relevant EPCs for potential future UCG purposes and are considering our options for future exploration and partnering for both shallow coal and UCG opportunities.

- ***Initial drilling results from the Moreton Project have been assessed and final coal core analysis results are pending.***
- ***Opportunities for focusing the Moreton Project area will be considered.***
- ***Historical petroleum well logs indicate the presence nearby of thick coal seams at UCG-appropriate depths.***
- ***Lodestone has nominated available tenement areas for future UCG purposes and will consider options for future exploration and partnering for both shallow coal and UCG opportunities.***

## MINERAL PROSPECTS

With the rationalisation of Lodestone's mineral project portfolio over recent years, we have retained the two prospects of highest potential – the Chillagoe and Mount Morgan District projects.

Given our core focus on energy, the we are considering structuring and future funding options for these projects.

### Chillagoe District Project

In North Queensland, Lodestone is exploring for large copper-gold ore bodies within the Chillagoe Formation, 200 kilometres north-west of Cairns.

In 2007, we discovered copper and subordinate gold at the northern end of the Chillagoe Formation on Palmerville Station 125 kilometres north of Chillagoe. This demonstrated the effectiveness of applying contemporary techniques in historical mining districts and has encouraged further activity in the area.

### Background to exploration at Chillagoe

The Chillagoe Formation extends southwards from Palmerville Station, through Mungana, Chillagoe and Mount Garnet.

This belt of sedimentary and volcanic rocks hosts ore bodies at Mungana, Red Dome and Mount Garnet. There are seven significant historical prospects, and Chinese alluvial goldminers worked downstream of Lodestone's discovery in the late 1800s.

### Lodestone's progress at Chillagoe to date

In 2006, Lodestone engaged Ausmec Geoscience to interpret high-resolution IKONOS satellite imagery of Lodestone's Chillagoe tenement and the surrounding area. Specific features of interest were identified to help guide our exploration efforts.

Fieldwork resulted in our copper-gold discovery in 2007. This discovery is named the Leane Prospect. Following the discovery, a respected geological authority in the Chillagoe district engaged by Lodestone defined a linear zone of hydrothermal breccias similar in type and shape to those in the upper levels of the Red Dome and Mungana deposits. This zone has been identified as being up to 50 metres wide and extending for 700 metres along a highly sheared contact between limestone and schist. Strongly anomalous copper and modest gold were detected in soil samples along the full extent of the breccia and beyond.

### Developments at Chillagoe in 2010

The results of our 2009 fieldwork prompted Lodestone to apply for a contiguous EPM that hosts what is thought to be an extension of the target area. This area of interest has been labelled Bald Hills. Plans are currently being developed for a short, targeted drilling program to test copper-gold drill-targets identified from fieldwork and subsequent geochemical analysis.

### Mount Morgan District Project

The wholly owned Mount Morgan District Project is centred on the historic goldmining town of the same name, 50 kilometres south-west of Rockhampton, Queensland. Lodestone has been exploring for gold, copper and molybdenum in this district.

### Background to Mount Morgan exploration

The Mount Morgan orebody was Australia's premier volcanogenic massive sulfide ore (VMS) deposit. The former mine yielded 9.4 million ounces of gold and 360,000 tonnes of copper from operations spanning almost a century. Today's in-ground value of that production would exceed US\$10 billion.

VMS deposits sometimes occur in clusters, and Lodestone's search has partly been inspired by the possibility that 'another Mount Morgan' remains to be discovered in the district.

### Lodestone's Mount Morgan tenements

Lodestone now holds around 400 square kilometres as one single Exploration Permit for Minerals (EPM) – that is, EPM 17850, in the Mount Morgan district. This new tenement consolidates tenure over ground previously held under six EPMs.

The six discrete prospects within EPM 17850 are known as:

- Discoverer Two Prospect
- Moongan Prospect
- Morganite Prospect
- Midas Prospect
- Hamilton West Prospect, and
- Station Prospect.

- **Lodestone is planning exploration activities aimed at developing the potential of our 2007 copper-gold discovery at Chillagoe District Project.**
- **Opportunities for farm-out of the Mount Morgan and Chillagoe District Projects will also be considered during the 2010–11 year.**

### Mount Morgan district farm-out opportunities

We intend to pursue farm-out opportunities for our Mount Morgan district prospects because of the scale of the drilling program that is needed and the special techniques required to test the deep, imprecise targets identified to date.

## CORPORATE OUTLOOK

Lodestone moves into 2010–11 in a strong position for the next phase of exploration and growth. In the year ahead, we will continue to advance and expand our energy portfolio with a focus on the Tambo Coal and Gas Project. We will also consider options for pursuing our Chillagoe district copper–gold discovery as a secondary priority, and partnering opportunity for the Moreton and Mount Morgan Projects.

With our core focus on energy projects, Lodestone's strategic goal for the coming year will be to define a resource base in coal and to commence the process of proving-up Lodestone's CSG resource.

In the past few years, we have managed to assemble an enviable and substantial energy project portfolio, and our current exploration activities are aimed at defining the contents of that portfolio. Given the immense size of Lodestone's tenement holdings, we will use our drilling program carefully to assist our plans to strategically manage that portfolio. We are looking forward to a year when we can release concrete data to the market and all can participate in this exciting growth story as it emerges.

Lodestone has also received considerable corporate interest in helping us advance our exploration opportunities. We will continue keeping an open mind while considering how to maximise value for the Company's shareholders.

We look forward to keeping you informed about our progress during the year and thank you for your support and confidence in our project portfolio and the Lodestone team.



Staffan Ever, Chief Executive  
Lodestone Energy Limited

# Lodestone's Tenement Schedule

## ENERGY TENEMENTS

### TAMBO COAL PROJECT

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY DATE
EPC 1414	MARANOA	300	GRANTED	9/05/2015
EPC 1415	WARREGO	300	GRANTED	20/05/2015
EPC 1417	TAMBO EAST 1	300	GRANTED	23/05/2015
EPC 1418	TAMBO EAST 2	300	GRANTED	20/05/2015
EPC 1481	AUGATHELLA EAST 1	300	GRANTED	27/04/2015
EPC 1482	AUGATHELLA EAST 2	300	GRANTED	4/08/2014
EPC 1484	AUGATHELLA NORTH EAST	300	GRANTED	5/07/2014
EPC 1621	TAMBO SOUTH EAST GAP	75	GRANTED	6/07/2014
EPC 1622	ALPHA SOUTH WEST 1	300	GRANTED	24/05/2015
EPC 1623	BYMOUNT WEST	300	GRANTED	26/04/2014
EPC 1624	MORVEN NORTH EAST	300	OFFERED	
EPC 1625	ALPHA SOUTH WEST 2	300	GRANTED	28/04/2015
EPC 1632	TAMBO	300	OFFERED	
EPC 1633	AUGATHELLA SOUTH EAST 1	162	OFFERED	
EPC 1644	AUGATHELLA SOUTH EAST 2	125	GRANTED	24/11/2014
EPC 1697	ALPHA RAIL	154	OFFERED	
EPC 1719	BARCOO RIVER-BLACKALL RAIL	300	GRANTED	27/07/2015
EPC 1776	UPPER SURAT EAST 1	300	OFFERED	
EPC 1777	UPPER SURAT EAST 2	247	OFFERED	
EPC 1784	WAROONGA	300	GRANTED	19/07/2015
EPC 1786	DUBYDILLA	284	GRANTED	16/03/2015
EPC 1788	MUCKADILLA NORTH	300	GRANTED	18/02/2015
EPC 1789	MUCKADILLA NORTH EAST	300	GRANTED	22/12/2014
EPC 1794	MORVEN NORTH	299	OFFERED	
EPC 1795	ROMA NORTH WEST	300	GRANTED	22/12/2014
EPC 1800	MARANOA RIVER	47	GRANTED	19/07/2015
EPC 1993	BLACKALL SOUTH CORNER	175	GRANTED	16/03/2014
EPC 2126	ILFRACOMBE SOUTH	300	APPLICATION	
EPC 2133	MORVEN SOUTH	300	APPLICATION	

### TAMBO GAS PROJECT

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY DATE
ATP 1020	TAMBO GAS PROJECT	2150	1/05/2009	30/04/2013

### MORETON PROJECT

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY DATE
EPC 1299	BROMELTON	3	13/11/2008	12/11/2011
EPC 1302	VERESDALE SCRUB	21	16/03/2009	15/03/2011
EPC 1313	ALBERT RIVER	67	27/04/2009	26/04/2011
EPC 1524	RATHDOWNEY/PALEN CREEK	56	30/06/2009	29/06/2012

## MINERALS TENEMENTS

### MOUNT MORGAN DISTRICT PROJECT

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY DATE
EPM 17850	MOUNT MORGAN CONSOLIDATED	86	16/04/2010	15/04/2013

### CHILLAGOE DISTRICT PROJECT

TENEMENT	TENEMENT NAME	SUB-BLOCKS	GRANTED	EXPIRY DATE
EPM 11980	LIMESTONE CREEK	5	3/06/2005	RENEWAL APPLICATION
EPM 18325	BALD HILLS	30	APPLICATION	



# Directors and Management

## DIRECTORS

### **M C Ackland**

**B.App.Sc. (PrimMet), M.AusIMM, FAICD, MAIME.**

*Chairman, non-executive director. Age 64.*

Mr Ackland is a director with over 40 years' experience in the minerals and engineering industries. He has specific experience in the development and commercial exploitation of grassroots projects.

### **G L Baker**

**B.E., B.App.Sc., B.Econ., M.Sc., FIE Aust.,  
F Aus IMM., CP Eng.**

*Non-executive director. Age 73.*

Mr Baker is a chemical engineer by profession with over 40 years' experience. He is an independent consultant in the energy industry with expertise in upstream petroleum, particularly in coal seam gas.

### **G A J Baynton**

**M.Econ St., MBA, B.Bus (Accounting), Grad.Dip.  
Finance and Investment, FFINSIA.**

*Non-executive director. Age 41.*

Mr Baynton is the founder and Managing Director of Orbit Capital, an investment and advisory company and holder of Financial Services Licence 230327. He has been a board member of Australian Exploration companies since 1997 and has experience in project generation, identifying new opportunities, establishing new companies, IPOs and other capital raisings. Among other energy and resource exploration companies, he is the founder of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited. He is a former director of PIPE Networks Limited and Diversa Limited, and a current director of NextDC Limited and ASX-listed Tissue Therapies Limited.

### **Mr Roger Clarke**

**B.Com. CA.**

*Non-executive director. Age 62  
(appointed 2 September 2010)*

Mr Clarke is the Chairman of the RBS Morgans Limited Board of Advice and the former Chairman of ABN AMRO Morgans Limited. He 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 the Vice Chairman of Maverick Drilling and Exploration Limited, Chairman of Tissue Therapies Limited, MTA Insurance Limited and NextDC Limited, and is a Director of Trojan Equity Limited. He was the Chairman of PIPE Networks Limited from its IPO in 2005 until the company's takeover earlier this year. Mr Clarke's experience in capital raisings, mergers and acquisitions and corporate governance will add significant corporate and commercial expertise to Lodestone's future development.

### **L R Grimstone**

**B.Sc. (Hons) Geol. Grad.Dipl. Mangt., FAusIMM,  
CPGeo.M.MICA.**

*Non-executive director. Age 61.*

Mr Grimstone is a geologist with over 40 years' experience in the exploration, mining and civil engineering industries. For the last 25 years, he has operated his own consultancy practice based principally upon his expertise in eastern Australian coal operations.

## **W R Stubbs**

### **LLB.**

*Non-executive director. Age 69.*

Mr Stubbs practised as a lawyer for 30 years. He is the co-founder of the legal firm Stubbs Barbeler. He practised 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 Alchemia Limited, Bemax Resources N.L. and Arrow Energy Limited.

## **MANAGEMENT**

### **Staffan Ever**

#### **MBA, M.Sc, (Civil Eng).**

*Chief Executive Officer*

Mr Ever is a highly experienced executive in the energy sector, with previous roles including former CEO of QCoal, 12 years with AMCI, former General Manager of AMCI Australia, founder and former Managing Partner of Triangle Resource Fund and Founder of Square Resources.

Mr Ever has strong experience in managing and financing coal projects from greenfields to production and marketing. In his previous roles, he undertook and oversaw equity investments in Gunnedah, Glennies Creek, Coppabella and Moorvale mines.

### **Bruce Patrick**

#### **B.Sc, (Hons), Grad Dip Mgt, Cert. in Mining, MAusIMM.**

*Manager Tambo Project*

Mr Patrick started his career in 1977 as a geologist, working for Coal and Allied Industries Ltd in the Hunter Valley, for Thiess Mining Division in the Surat Basin, and at Callide Mine in Central Queensland. During this time, he assisted in further defining the stratigraphy of the Surat Basin. In 1984, Mr Patrick made the transition to mining engineering, moving to technical and mine management roles at Callide. In 2003, he became Project Manager for Anglo Coal's \$800m Lake Lindsay Project, managing the project from initial exploration, through feasibility and approvals, to construction. From September 2007, he undertook other open-cut mining project management roles in Anglo's Operations and Projects and Engineering Group.

### **Leni Stanley**

#### **B.Com, CA.**

*Company Secretary*

Ms Stanley is a partner in Stanley Yeates & Associates, Chartered Accountants. For more than 17 years, she has performed the role of Chief Financial Officer and corporate administrator for a number of listed public companies. Her experience as Chief Financial Officer of listed companies covers a variety of industries including Australian and international exploration and production, information technology, research and development, and investment entities.



## Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Lodestone Energy Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2010.

### Directors

The following persons were directors of Lodestone Energy Limited during the whole of the financial year and up to the date of this report:

M C Ackland - Chairman

G A J Baynton

W R Stubbs

L R Grimstone

G L Baker

R B Clarke was appointed a director on 2 September 2010 and continues in office at the date of this report.

J L McCawley was a director from the beginning of the financial year until his resignation on 31 March 2010.

### Principal activities

During the year, the principal continuing activity of the Group consisted of resource exploration. The Group explores for minerals, coal, coal seam gas and conventional oil and gas.

### Review of operations

The operating loss after income tax of the Group for the year was \$2,809,989 (2009: loss \$1,559,741). The loss reflects the nature of the Group's principal activity. Information on the operations of Lodestone Energy Limited and its business strategies and prospects is set out in the review of operations and activities on pages 4 to 10 of this annual report.

### Significant changes in the state of affairs

On 29 June 2010, a Share Sale and Purchase Agreement to acquire Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited became unconditional following shareholder approval at a general meeting of the company. The acquisition means Lodestone Energy Limited now holds 100% ownership and control of its energy portfolio, which will allow greater flexibility for commercialising and monetising those projects. The consideration for the acquisition is the issue of 407,288,211 ordinary shares in Lodestone Energy Limited to the vendors (entities associated with Mr Greg Baynton). The market value of these shares at the time the acquisition became unconditional was \$0.09 per share. The shares have been issued subsequent to year end.

Other significant changes in the state of affairs of the Group during the financial year were as follows:

	<b>2010</b>
	<b>\$</b>
An increase in contributed equity of \$1,943,957 (from \$10,425,961 to \$12,369,918) as a result of:	
Exercise of 100,000 options at \$0.07	7,000
Issue of 10,000,000 ordinary shares at \$0.195 for cash consideration	<u>1,950,000</u>
	1,957,000
Less: Transaction costs arising on share issues, net of current income tax	<u>(13,043)</u>
Net increase in share capital	<u>1,943,957</u>

### Dividend

The directors do not recommend the payment of a dividend. No dividend was paid during the year.

### Matters subsequent to the end of the financial year

Other than as disclosed in Note 21 in the financial report, at the date of this report there are no matters or circumstances which have arisen since 30 June 2010 that have significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

## Likely developments and expected results from operations

There are no likely developments in the operations of the Group that are expected to significantly affect the results of the Group in future years.

## Environmental regulation

The Group is subject to significant environmental regulation in respect of its exploration activities in Australia and is committed to undertaking all its operations in an environmentally responsible manner.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation and are not aware of any breach of those requirements during the financial year and up to the date of the directors' report.

## Information on directors

**M C Ackland B.App.Sc. (PrimMet), M.AusIMM, FAICD, MAIME.** *Non-executive director. Age 64.*

### Experience and expertise

Mr Ackland is a director with over 40 years' experience in the minerals and engineering industry. He has specific experience in the development and commercial exploitation of grassroots projects.

### Other current directorships

Executive director of Mineral Deposits Limited (director since 2003).

### Former directorships in last three years

Non-executive director of Sedimentary Holdings Limited from 1993 to 2006.

### Special responsibilities

Chairman; Member of the audit committee.

### Interests in shares and options

4,233,655 ordinary shares in Lodestone Energy Limited.

1,000,000 performance rights over ordinary shares in Lodestone Energy Limited.

**G L Baker B.E., B.App.Sc., B.Econ., M.Sc., FIE Aust., F Aus IMM., CP Eng.** *Non-executive director. Age 73.*

### Experience and expertise

Mr Baker is a chemical engineer by profession. He is an independent consultant in the energy industry with particular expertise in upstream petroleum, particularly in coal seam gas.

### Other current directorships

None.

### Former directorships in last three years

None.

### Special responsibilities

Member of the audit committee.

### Interests in shares and options

1,100,000 ordinary shares in Lodestone Energy Limited.

1,000,000 performance rights over ordinary shares in Lodestone Energy Limited.

1,900,000 options over ordinary shares in Lodestone Energy Limited

**G A J Baynton M.Econ St, MBA, B.Bus (Accounting), FFINSIA, FAICD.** *Non-executive director. Age 41.*

### Experience and expertise

Mr Baynton is the founder and Managing Director of Orbit Capital, a boutique investment bank and holder of a Financial Services Licence. He has been a board member of Australian exploration companies since 1997 and has experience in identifying new opportunities, establishing new companies, IPOs and other capital raisings.

### Other current directorships

Non-executive director of Tissue Therapies and Executive Director of Orbit Capital Pty Limited.

### Former directorships in last three years

Non executive director of PIPE Networks Limited and Diversa Limited.

### Special responsibilities

Member of the audit committee.

**Interests in shares and options**

417,534,979 ordinary shares in Lodestone Energy Limited.

1,000,000 performance rights over ordinary shares in Lodestone Energy Limited.

**L R Grimstone B.Sc.(Hons) Geol. Grad.Dipl.Mangt.F.AusIMM,CPGeo.M.MICA.**

*Non-executive director. Age 61.*

**Experience and expertise**

Mr Grimstone is a geologist with over 35 years of experience in the exploration, mining and civil engineering industries. For the last 25 years he has operated his own consultancy practice based principally upon his expertise in Eastern Australian coal operations.

**Other current directorships**

None.

**Former directorships in last three years**

None.

**Special responsibilities**

Member of the audit committee.

**Interests in shares and options**

7,631,525 ordinary shares in Lodestone Energy Limited

2,000,000 performance rights over ordinary shares in Lodestone Energy Limited.

**W R Stubbs LLB. Non-executive director. Age 69.****Experience and expertise**

Mr Stubbs practiced as a lawyer for 30 years. He is the co-founder of the legal firm Stubbs Barbeler. He practised in the area of commercial law including stock exchange listings and all areas of mining law.

**Other current directorships**

Non-executive Chairman of Stradbroke Ferries Limited (director since 2005).

Non-executive Chairman of D'Aguilar Gold Limited (appointed 26 November 2009).

**Former directorships in last three years**

None.

**Special responsibilities**

Chairman of the audit committee.

**Interests in shares and options**

5,116,667 ordinary shares in Lodestone Energy Limited.

1,000,000 performance rights over ordinary shares in Lodestone Energy Limited.

**R B Clarke. Non-executive director. Age 62.****Experience and expertise**

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 Clark is the Chairman of the RBS Morgans Limited Board of Advice and the former Chairman of ABN AMRO Morgans Limited.

**Other current directorships**

Non-executive Chairman of Tissue Therapies Limited (director since 2003).

Non-executive director of Trojan Equity Limited (director since 2005).

Non-executive deputy Chairman of Maverick Drilling & Exploration Limited (director since 2007).

**Former directorships in last three years**

Non-executive Chairman of PIPE Networks Limited (2005-2010).

Non-executive Chairman of Triangle Energy (Global) Ltd (formerly White Sands Petroleum Limited) (2005-2007).

**Special responsibilities**

Member of the audit committee.

**Interests in shares and options**

1,000,000 ordinary shares in Lodestone Energy Limited.

## Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full Meetings of Directors		Meetings of Audit Committee	
	A	B	A	B
M C Ackland	12	12	2	2
G L Baker	12	12	2	2
G A J Baynton	12	12	2	2
L R Grimstone	12	12	2	2
J L McCawley (resigned 31 March 2010)	8	8	2	2
W R Stubbs	10	12	2	2

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

## Company Secretary

The company secretary is Ms Leni Stanley CA, B.Com. Ms Stanley was appointed to the position of company secretary in 2002. Ms Stanley is a partner with a chartered accounting firm and holds the office of company secretary with other companies.

## Remuneration report (AUDITED)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

### A. Principles used to determine the nature and amount of remuneration

#### Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. Non-executive directors do not receive performance-based pay.

#### Directors' fees

The current base fees were last reviewed with effect from 1 September 2009.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 in aggregate plus statutory superannuation.

#### Executive pay

The combination of base pay and superannuation make up the executive director's total remuneration. Base pay for the executive director is reviewed annually to ensure the executive's pay is competitive with the market.

### B. Details of remuneration

#### Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Lodestone Energy Limited are set out in the following tables.

The key management personnel of Lodestone Energy Limited includes the directors as per pages 11–12 above, Jeff Jamieson – chief executive officer, and Leni Stanley – company secretary. Staffan Ever was appointed chief executive officer on 1 July 2010.

## Key management personnel of Lodestone Energy Limited

2010	Short-term benefits	Post-employment benefits	Share-based payment		Total	A	B
	Cash salary and fees \$	Super-annuation \$	Options \$	Performance rights \$			
<b>Non-executive directors</b>							
M C Ackland, <i>Chairman</i>	56,667	5,100	–	29,362	91,129	68%	32%
G A J Baynton	38,333	3,450	–	29,362	71,145	59%	41%
J L McCawley (resigned 31/3/10)	–	30,883	–	29,362	60,245	51%	49%
W R Stubbs	38,333	3,450	–	29,362	71,145	59%	41%
L R Grimstone	38,333	3,450	–	58,724	100,507	42%	58%
G L Baker	38,333	3,450	–	29,362	71,145	59%	41%
Sub-total non-executive directors	209,999	49,783	–	205,534	465,316	56%	44%
<b>Other key management personnel</b>							
J Jamieson – Chief Executive Officer (1/7/09 to 31/5/10) #	165,000	–	–	29,362	194,362	85%	15%
L P Stanley – Company Secretary #	15,000	–	–	14,681	29,681	51%	49%
<b>Totals</b>	<b>389,999</b>	<b>49,783</b>	<b>–</b>	<b>249,577</b>	<b>689,359</b>	<b>64%</b>	<b>36%</b>

# Included as one of the five highest paid executives of the Group and Company. There are no other executives.

A Proportion of remuneration that is fixed remuneration

B Percentage of remuneration that is share-based payment

## Key management personnel of Lodestone Energy Limited

2009	Short-term benefits	Post-employment benefits	Share-based payment		Total	A	B
	Cash salary and fees \$	Super-annuation \$	Options \$	Performance rights \$			
<b>Non-executive directors</b>							
M C Ackland, <i>Chairman</i>	40,000	3,600	25,061	402	69,063	62%	38%
G A J Baynton	30,000	2,700	25,061	402	58,163	56%	44%
J L McCawley*	50,000	48,100	25,061	402	123,563	79%	21%
W R Stubbs	30,000	2,700	25,061	402	58,163	56%	44%
L R Grimstone	30,000	2,700	25,061	804	58,565	56%	44%
G L Baker – Appointed 15 April 2009	6,346	571	248,000	402	255,319	3%	97%
Sub-total non-executive directors	186,346	60,371	373,305	2,814	622,836	40%	60%
<b>Other key management personnel</b>							
J Jamieson – Chief Executive Officer #	120,000	–	99,000	402	219,402	55%	45%
L P Stanley – Company Secretary #	15,000	–	–	201	15,201	99%	1%
<b>Totals</b>	<b>321,346</b>	<b>60,371</b>	<b>472,305</b>	<b>3,417</b>	<b>857,439</b>	<b>45%</b>	<b>55%</b>

\* J L McCawley was executive director of the Company until 31 December 2008.

# Included as one of the five highest paid executives of the Group and Company. There are no other executives.

A Proportion of remuneration that is fixed remuneration

B Percentage of remuneration that is share-based payment

L P Stanley provides accounting services in addition to her appointment as company secretary. The company secretarial and accounting services are provided through a partnership of which she is a member based on normal commercial terms and conditions.

## C. Service agreements

Remuneration and other terms of the contract with the CEO, Mr J Jamieson, were formalised in a contract of consultancy. This agreement expired on 31 May 2010. The terms of this agreement were:

- Term of contract of consultancy – 12 months
- Monthly fee – \$15,000

## D. Share-based compensation

### Options

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date	% Vested
10/09/2008	10/09/2008	10/09/2010	\$0.07	\$0.01	100%
08/04/2009	08/04/2009	08/04/2011	\$0.07	\$0.04	100%
20/04/2009	20/04/2009	08/04/2011	\$0.07	\$0.06	100%
26/06/2009	26/06/2009	26/06/2011	\$0.07	\$0.12	100%

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Details of options over ordinary shares in the company provided as remuneration to each director of Lodestone Energy Limited and each of the key management personnel are set out below. When exercisable, each option is convertible into one ordinary share of Lodestone Energy Limited. Further information on options is set out in note 27 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
<b>Directors of Lodestone Energy Limited</b>				
M C Ackland	–	2,000,000	–	2,000,000
J L McCawley	–	2,000,000	–	2,000,000
G A J Baynton	–	2,000,000	–	2,000,000
W R Stubbs	–	2,000,000	–	2,000,000
L Grimstone	–	2,000,000	–	2,000,000
G L Baker	–	2,000,000	–	2,000,000
<b>Total</b>	–	12,000,000	–	12,000,000
<b>Other key management personnel</b>				
J Jamieson	–	2,000,000	–	2,000,000
<b>Total</b>	–	2,000,000	–	2,000,000

### Performance rights

Details of performance rights over ordinary shares in the company provided as remuneration to each director of Lodestone Energy Limited and each of the key management personnel are set out below. When exercised, each performance right is convertible into one ordinary share of Lodestone Energy Limited. Further information on performance rights is set out in note 27 to the financial statements.

Name	Number of performance rights granted during the year		Number of performance rights vested during the year	
	2010	2009	2010	2009
<b>Directors of Lodestone Energy Limited</b>				
M C Ackland	–	2,000,000	–	–
J L McCawley	–	2,000,000	–	–
G A J Baynton	–	2,000,000	–	–
W R Stubbs	–	2,000,000	–	–
L Grimstone	–	4,000,000	–	–
G L Baker	–	2,000,000	–	–
<b>Total</b>	–	14,000,000	–	–
<b>Other key management personnel</b>				
J Jamieson	–	2,000,000	–	–
L P Stanley	–	1,000,000	–	–
<b>Total</b>	–	3,000,000	–	–

**This is the end of the remuneration report.**

## Shares under option

Unissued ordinary shares of Lodestone Energy Limited under option at the date of this report are as follows:

Date options granted	Vesting date	Expiry date	Issue price of shares	Number under option
27 January 2006	27 January 2007 to 27 January 2009	27 January 2011	\$0.20	501,000
10 September 2008	10 September 2008	10 September 2010	\$0.07	10,000,000
8 April 2009	8 April 2009	8 April 2011	\$0.07	1,000,000
20 April 2009	20 April 2009	8 April 2011	\$0.07	1,000,000
15 May 2009	15 May 2009	15 May 2011	\$0.20	9,000,000*
26 June 2009	26 June 2009	26 June 2011	\$0.07	1,900,000
26 June 2009	26 June 2009	26 June 2011	\$0.20	11,000,000*
				34,401,000

\* Each of these options entitles the holder to receive one share and one piggyback option which is exercisable at 50 cents each and expires 24 months from the date of issue.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Unissued ordinary shares of Lodestone Energy Limited under performance rights at the date of this report are as follows:

Date performance right granted	Expiry date	Issue price of shares	Number under performance right
26 June 2009	26 June 2019	\$0.00	18,000,000
3 March 2010	3 March 2020	\$0.00	500,000

## Shares issued on the exercise of options

The following ordinary shares of Lodestone Energy Limited were issued during the year ended 30 June 2010 on the exercise of options. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
26 June 2009	\$0.07	100,000

## Insurance of officers

During the financial year, Lodestone Energy Limited paid a premium of \$22,945 to insure the directors and secretary of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

## Agreement to indemnify officers

Lodestone Energy Limited is party to an agreement to indemnify the directors of the Company.

The indemnity relates to any liability:

- incurred in connection with or as a consequence of the directors acting in the capacity including, without limiting the foregoing, representing the Company on any body corporate, and
- for legal costs incurred in defending an action in connection with or as a consequence of the director acting in the capacity.

No liability has arisen under these indemnities as at the date of this report.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out in Note 19.

The board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out in Note 19, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

## Auditors' Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

No fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms.

## Auditor

BDO Audit (Qld) Pty Ltd was appointed auditor on 9 November 2009 and continue in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.



**M C Ackland**

Chairman

Brisbane, 22 September 2010





Tel: +61 7 3237 5999  
Fax: +61 7 3221 9227  
www.bdo.com.au

Level 18, 300 Queen St  
Brisbane QLD 4000,  
GPO Box 457 Brisbane QLD 4001  
Australia

**DECLARATION OF INDEPENDENCE BY CHRISTOPHER J SKELTON TO THE DIRECTORS OF LODESTONE ENERGY LIMITED AND ITS CONTROLLED ENTITIES**

As auditor of Lodestone Energy Limited and its controlled entities for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Lodestone Energy Limited and its controlled entities during the period.

**BDO Audit (QLD) Pty Ltd**

**Christopher J Skelton**  
Director

Brisbane, 22 September 2010

# CORPORATE GOVERNANCE STATEMENT

The directors and management of Lodestone Energy Limited (Lodestone) are committed to following the principles issued by ASX underpinning corporate governance best practice.

In responding to the principles and associated best practice recommendations, Lodestone has given due and careful regard to its particular circumstances and the best interests of its shareholders.

ASX Listing Rules require listed companies to disclose in their annual report the extent to which ASX best practice recommendations have been followed; identify which recommendations have not been followed; and provide reasons for their decisions.

As detailed in this corporate governance statement, Lodestone considers its current governance practices comply with 24 of the 27 ASX recommendations. Where arrangements differ from the recommendations, the directors and management believe this is appropriate to the Company's individual circumstances and represents good practice.

Current practices do not comply in the following areas:

R2.4 The board should establish a nomination committee.

R2.5 The board should disclose the process for evaluating the performance of its committees.

R8.1 The board should establish a remuneration committee.

The Company will keep the recommendations in continuous review, and as Company circumstances change we expect to move towards full compliance. Decisions will be based on what is in the best interest of shareholders.

The remainder of this statement sets out each principle, associated best practice recommendations, and the Company's response.

## **Principle 1: Lay solid foundations for management and oversight**

### **Principle 2: Structure the board to add value**

### **Principle 3: Promote ethical and responsible decision making**

### **Principle 4: Safeguard integrity in financial reporting**

### **Principle 5: Make timely and balanced disclosure**

### **Principle 6: Respect the rights of shareholders**

### **Principle 7: Recognise and manage risk**

### **Principle 8: Remunerate fairly and responsibly.**

## **Principle 1. Lay solid foundations for management and oversight**

Companies should establish and disclose the respective roles and responsibilities of the board and management.

Recommendations and response:

### **R1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**

The board has defined the specific functions reserved for the board and its committees and those matters delegated to management.

The board is accountable to shareholders for Lodestone's performance. It oversees and guides management in protecting and enhancing the interests of shareholders and other stakeholders. It sets the strategic direction of the Company, establishes goals for management and monitors progress towards those goals.

### **R1.2 Companies should disclose the process for evaluating the performance of senior executives.**

The board is accountable for the proper oversight of executive directors and senior management.

A process is in place for reviewing senior management performance and continuously improving the contributions executives make to the Company.

### **R1.3 Companies should provide the information indicated in the guide to reporting on Principle 1.**

Performance evaluation of senior executives has taken place in FY2010 and is in accordance with the process as set out in R1.1 and R1.2 above.

## Principle 2. Structure the board to add value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Recommendations and response:

### R2.1 A majority of the board should be independent directors.

Lodestone recognises the importance of having a board of the appropriate composition, size and commitment for it to discharge its responsibilities and duties and believes that its board has a balance of skills, experience and independent thinking appropriate to the nature and scope of the Company's operations.

A majority of the directors on the board do meet the ASX definition of independence. Four of the five board members, Mr Ackland, Mr Stubbs, Mr Grimstone and Mr Baker, meet the definition.

The board has determined the independence status of each current director as follows:

Director	Position	Independent	Reason
Martin Ackland	Chairman	Yes	The board considers that Mr Ackland is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
William Stubbs	Non-executive director and chairman of the audit committee	Yes	The board considers that Mr Stubbs is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
Greg Baynton	Non-executive director	No	The board considers that Mr Baynton is not independent due to his substantial shareholding in the company.
Lance Grimstone	Non-executive director	Yes	The board considers that Mr Grimstone is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.
Grahame Baker	Non-executive director	Yes	The board considers that Mr Baker is free of any relationship that could, or could be seen to, materially interfere with the independent exercise of judgement.

### R2.2 The chair should be an independent director.

The chair, Martin Ackland, is an independent director.

### R2.3 The roles of chair and chief executive officer should not be exercised by the same individual.

The role of chief executive officer is exercised by persons other than board members.

### R2.4 The board should establish a nomination committee.

The board itself acts as the nomination committee rather than having a separate committee constituted for that purpose.

### R2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The board has a formal process for evaluating the performance of the board, its committees and individual directors.

A review of the board's own performance and effectiveness is conducted annually. The review is prepared by the chairman with collective responses from all directors and if considered necessary with the advice of external experts. The results are evaluated by the full board to identify strengths and areas for improvement. There is no separate review undertaken for the Audit and Risk Management Committee as it is considered that the Group's size and operation does not warrant this individual review.

### R2.6 Companies should provide the information indicated in the guide to reporting on Principle 2.

Departures from Recommendations R2.4 and R2.5 are explained above.

### **Principle 3. Promote ethical and responsible decision making**

Actively promote ethical and responsible decision-making.

Recommendations and response:

**R3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:**

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The board and management are committed to establishing and maintaining a high degree of integrity among those who set or influence the Company's strategy and financial performance, together with responsible and ethical decision making that take into account legal obligations as well as significant stakeholders' interests.

Each director, senior executive and each employee is individually accountable for bringing potential matters of unethical behaviour to the attention of the organisation at an appropriate level. An individual whose attention is so drawn is accountable for using the powers of their office/role to deal appropriately with such matters.

**R3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.**

The policy for trading in the Company's securities restricts the times and circumstances in which directors and senior executives may purchase or sell shares in the Company.

Directors and senior executives are required to promptly advise the company secretary of their activities regarding trading in Lodestone shares so this can be notified to ASX (where required).

The chair may allow trading outside of these windows in appropriate cases.

**R3.3 Companies should provide the information indicated in the guide to reporting on Principle 3.**

Information related to Principle 3 is presented above.

### **Principle 4. Safeguard integrity in financial reporting**

Have a structure to independently verify and safeguard the integrity of the Company's financial reporting.

Recommendations and response:

**R4.1 The board should establish an audit committee.**

The board has established an Audit and Risk Management Committee. The ultimate responsibility for the integrity of the Company's financial reporting rests with the full board.

**R4.2 Structure the audit committee so that it consists of:**

- only non-executive directors
- a majority of independent directors
- an independent chair, who is not chair of the board
- has at least three members.

The Audit and Risk Management Committee comprises five non-executive directors, namely, Mr Bill Stubbs who is chair of the committee, Mr Martin Ackland, Mr Lance Grimstone, Mr Grahame Baker and Mr Greg Baynton. All, with the exception of Mr Greg Baynton, meet the ASX test of independence.

**R4.3 The audit committee should have a formal charter.**

The Audit and Risk Management Committee works within a formal charter.

**R4.4 Companies should provide the information indicated in the guide to reporting on Principle 4.**

Information related to Principle 4 is presented above.

## Principle 5. Make timely and balanced disclosure

Promote timely and balanced disclosure of all material matters concerning the Company.

Recommendations and response:

### **R5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.**

Lodestone has a Continuous Disclosure Policy which aims to provide a timely and balanced picture of all material matters and which requires disclosure of any information concerning Lodestone that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

### **R5.2 Provide the information indicated in Guide to reporting on Principle 5.**

Information related to Principle 5 is presented above.

## Principle 6. Respect the rights of shareholders

Respect the rights of shareholders and facilitate the effective exercise of those rights.

Recommendations and response:

### **R6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.**

Lodestone's shareholder communications strategy seeks to enable shareholders to be well informed about the performance and affairs of the Company. The chief executive officer is accountable for implementing the communications strategy approved by the board.

### **R6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.**

Information related to Principle 6 is presented above.

## Principle 7. Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

Recommendations and response:

### **R7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

Lodestone recognises the importance of risk management; it manages risk through effective oversight and internal control involving board and management systems.

This function is assisted by the Audit and Risk Management Committee.

### **R7.2 The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

Business risk is a periodic agenda item for board meetings where the effectiveness of the Company's risk management systems and activities are reported on and assessed.

### **R7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

The board requires the chief executive officer and chief financial officer to confirm in writing that declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control and that the system is operating effectively.

### **R7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.**

Information related to Principle 7 is presented above.

## **Principle 8. Remunerate fairly and responsibly**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Recommendations and response:

### **R8.1 The board should establish a remuneration committee.**

Lodestone knows that recognition and reward are key factors in attracting and retaining the skills required to achieve the performance expected by the board, management and shareholders.

The board acts as a remuneration committee and has not established a separate committee or specific charter for that purpose.

### **R8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.**

Total remuneration paid to non-executive directors may not exceed the limit set by shareholders at the annual general meeting (currently \$300,000). The remuneration of the non-executive directors is fixed rather than variable. In relation to executive remuneration, the board takes advice regarding the nature and direction for the Company's remuneration practices. The board ensures that a significant proportion of each senior manager's remuneration is linked to his or her performance and the Company's performance.

Lodestone executives participate in an option and performance rights schemes that is linked to Lodestone's share performance. Remuneration is also benchmarked against the Company's peers in the resources industry.

The remuneration structure for directors and senior executives is reported in the remuneration report on pages 18 to 20.

### **R8.3 Companies should provide the information indicated in the guide to reporting on Principle 8.**

Information related to Principle 8 is presented above.

## DECLARATION BY DIRECTORS

The directors of the Company declare that:

1. the financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.
2. the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. the directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the board of directors and is signed for and on behalf of the directors by:



M C Ackland  
Chairman

Brisbane, 22 September 2010





2010

Financial Statements  
for year ended  
30 June 2010

## Consolidated statement of comprehensive income for the year ended 30 June 2010

	Notes	Consolidated	
		2010	2009
		\$	\$
Revenue from operations	5	66,593	48,731
Exploration abandoned		(1,263,817)	(394,532)
Professional services expenses		(533,662)	(222,647)
Corporate overhead expenses		(539,404)	(252,874)
Depreciation expenses		(13,686)	(13,529)
Directors' remuneration		(259,782)	(248,967)
Share-based payments expense		(266,231)	(475,923)
Loss before income tax	6	(2,809,989)	(1,559,741)
Income tax expense	7	–	–
Loss for the year		(2,809,989)	(1,559,741)
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		–	–
Total comprehensive loss for the year attributable to owners of Lodestone Energy Limited	16	(2,809,989)	(1,559,741)
		<b>Cents</b>	<b>Cents</b>
<b>Loss per share</b>			
Basic earnings per share	26	(1.36)	(0.87)
Diluted earnings per share	26	(1.36)	(0.87)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated statement of financial position as at 30 June 2010

	Notes	Consolidated	
		2010	2009
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	774,058	3,355,688
Trade and other receivables	9	45,076	50,818
Total current assets		819,134	3,406,506
<b>Non-current assets</b>			
Plant and equipment	10	22,465	11,217
Exploration expenditure	11	41,800,748	856,878
Other assets	12	123,400	66,180
Total non-current assets		41,946,613	934,275
Total assets		42,765,747	4,340,781
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	265,896	897,068
Total current liabilities		265,896	897,068
<b>Non-current liabilities</b>			
Other financial liabilities	14	3,000,000	—
Total non-current liabilities		3,000,000	—
Total liabilities		3,265,896	897,068
<b>Net assets</b>		39,499,851	3,443,713
<b>EQUITY</b>			
Issued capital	15	49,025,857	10,425,961
Reserves	16	815,786	549,555
Accumulated losses	16	(10,341,792)	(7,531,803)
<b>Total equity</b>		39,499,851	3,443,713

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

## Consolidated statement of changes in equity for the year ended 30 June 2010

	Notes	Issued capital	Share-based payment reserve	Accumulated losses	Total
		\$	\$	\$	\$
<b>Balance at 1 July 2008</b>		6,769,825	60,063	(5,972,062)	857,826
<b>Total comprehensive income : Loss for the year</b>		—	—	(1,559,741)	(1,559,741)
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity, net of transaction costs	15	3,656,136	—	—	3,656,136
Value of performance rights	16	—	489,492	—	489,492
<b>Balance at 30 June 2009</b>		10,425,961	549,555	(7,531,803)	3,443,713
<b>Total comprehensive income : Loss for the year</b>		—	—	(2,809,989)	(2,809,989)
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity, net of transaction costs	15	1,943,957	—	—	1,943,957
Acquisition settlement of shares issuable	15	36,655,939	—	—	36,655,939
Value of performance rights	16	—	266,231	—	266,231
<b>Balance at 30 June 2010</b>		49,025,857	815,786	(10,341,792)	39,499,851

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated statement of cash flows for the year ended 30 June 2010

		Consolidated	
		2010	2009
	Notes	\$	\$
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of goods and services tax)		572,578	42,851
Payments to suppliers (inclusive of goods and services tax)		(1,871,175)	(832,733)
Interest received		64,699	49,606
<b>Net cash outflows from operating activities</b>	21	<u>(1,233,898)</u>	<u>(740,276)</u>
<b>Cash flows from investing activities</b>			
Payments for exploration		(5,458,655)	(594,205)
Payments for plant and equipment		(24,934)	(6,152)
Cash received on acquisition of subsidiary		101	–
Payments for security deposits		(57,220)	(27,000)
<b>Net cash outflows from investing activities</b>		<u>(5,540,708)</u>	<u>(627,357)</u>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		1,957,000	3,429,262
Proceeds from financial liabilities		2,249,019	750,981
Payment of share issue costs		(13,043)	(43,126)
<b>Net cash inflows from financing activities</b>		<u>4,192,976</u>	<u>4,137,117</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>(2,581,630)</u>	<u>2,769,484</u>
Cash and cash equivalents at the beginning of the financial year		<u>3,355,688</u>	<u>586,204</u>
<b>Cash and cash equivalents at the end of the financial year</b>		<u>774,058</u>	<u>3,355,688</u>

The above statement of cash flow should be read in conjunction with the accompanying notes.

# Notes to the financial statements for the year ended 30 June 2010

## Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for Lodestone Energy Limited (the Group) and the consolidated entity as required by the *Corporations Act 2001*. Separate financial statements for Lodestone Energy Limited (the Company) as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*. However, limited financial information for the Company as an individual entity is included in Note 17.

The financial statements are presented in Australian dollars, which is the Company's and consolidated entity's functional and presentation currency.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

#### *Compliance with IFRS*

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

### (b) Principles of consolidation

#### *Subsidiaries*

The consolidated financial statements incorporates the assets and liabilities of all subsidiaries of Lodestone Energy Limited ("Company" or "parent entity") at 30 June 2010. Lodestone Energy Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Income taxes

The income tax expense or revenue 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 differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**(d) Exploration expenditure**

Exploration expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest until such time as the area of interest moves into development phase, or is abandoned or sold. The realisation of the value of expenditure carried forward depends upon any commercial results that may be obtained through successful development and exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest, the accumulated exploration costs relating to the area are written off against income in the year of abandonment. When sub-blocks within an area of interest are relinquished, accumulated exploration expenditure capitalised is written off against income in the year of relinquishment on a prorata basis.

**(e) Acquisitions of assets**

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

**(f) Recoverable amount of non-current assets**

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

**(g) Property, plant and equipment**

All property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation, and any impairment.

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Plant and equipment 3–5 years

**(h) Trade and other creditors**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. These amounts are unsecured and usually have 30-day payment terms.

**(i) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(j) 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.

## Note 1. Summary of significant accounting policies continued

### (k) Revenue

#### *Interest Income*

Interest income is recognised on a time proportion basis using the effective interest method.

### (l) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cash flow.

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

### (m) Earnings per share

#### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income-tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (n) Website costs

Costs in relation to websites are charged as expenses in the period in which they are incurred. Costs in relation to the development of a website, and ongoing costs of maintenance during the operating phase are considered to be expenses.

### (o) Financial instruments

#### **Initial recognition and measurement**

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

#### *Classification and subsequent measurement*

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognized and the maturity amount calculated using the effective interest rate method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.



## Note 1. Summary of significant accounting policies continued

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

### (i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

### (ii) Financial Liabilities

Financial liabilities, after initial recognition, are measured at either amortised cost using the effective interest rate method, or at fair value. Where an investment contains an embedded derivative that component is, where possible, separately identified and measured at fair value. If the embedded derivative is not capable of being measured separately at acquisition or at the end of a reporting period, the entire instrument is measured at fair value.

## (p) Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

## (q) Adoption of new and revised accounting standards

During the current year, the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions, The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Lodestone Energy Limited.

### AASB 8: Operating segments

In February 2007, the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

#### Measurement impact

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision-maker for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision-maker.

#### Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures not previously required under AASB 114, where such information is utilised by the chief operating decision-maker. This information is now disclosed as part of the financial statements.

## Note 1. Summary of significant accounting policies continued

### **AASB 101: Presentation of financial statements**

In September 2007, the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

#### *Disclosure impact*

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The reviewed AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which is comprised of income and expenses that are not recognised in the profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

### **(r) New accounting standards and interpretations not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The entity's assessment of the impact of these new standards and interpretations is set out below.

#### **AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2]** (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's financial statements.

#### **AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9** (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its impact.

#### **AASB 124 Related Party Disclosures** (effective from 1 January 2011)

AASB 124 *Related Party Disclosures* is a disclosure standard only. There will be no impact on amounts recognised in the financial statements. This standard will help to clarify the definition of related parties.

#### **AASB 7 Financial Instruments: Disclosures** (effective from 1 January 2011)

AASB 7 *Financial Instruments: Disclosures* deletes various disclosures relating to credit risk. There will be no impact on initial adoption to amounts recognised in the financial statements as the amendments result in fewer disclosures only.

#### **AASB 101 Presentation of Financial Statements** (effective from 1 January 2011)

AASB 101 *Presentation of Financial Statements* requires a detailed reconciliation of each item of other comprehensive income to be included in the statement of changes in equity or in the notes to the financial statements.

### **(s) Going concern**

The financial statements have been prepared on the going-concern basis, which contemplates continuity of normal business activities and the realization of assets and liabilities in the normal course of business.

As disclosed in the financial statements, the Group recorded an operating loss of \$2,809,989 (2009: \$1,559,741) and had net cash outflows from operating activities of \$1,233,898 (2009: \$740,276) for the year ended 30 June 2010.

The group also has expenditure commitments of \$9,629,231 as detailed in Note 23.

## Note 1. Summary of significant accounting policies continued

The directors acknowledge that, as in the prior year, to continue the exploration and development of the Group's exploration projects, the budgeted cash flows from operating and investing activities for the future will necessitate further capital raising. In the event that the Group is unable to raise future funding requirements, they may be required to realise their assets at amounts different to those currently recognised, settle liabilities other than in the ordinary course of business and make provisions for costs which may arise as a result of cessation or curtailment of normal business operations.

Since year end Lodestone Energy Limited completed a share placement of 47,750,000 ordinary shares at \$0.08 per share raising a total of \$3,820,000.

## Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks; credit risk, liquidity risk and cash flow interest rate risk.

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	774,058	3,355,688
Trade and other receivables	45,076	50,818
	<u>819,134</u>	<u>3,406,506</u>
<b>Financial liabilities</b>		
Trade and other payables	265,896	146,087
Other financial liabilities	3,000,000	750,981
	<u>3,265,896</u>	<u>897,068</u>

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

### Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For bank and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available).

	Consolidated	
	2010	2009
	\$	\$
<b>Cash at bank and short-term bank deposits</b>		
AAA	771,164	2,102,923
A	2,793	1,252,765
	<u>773,957</u>	<u>3,355,688</u>

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations when due. At the end of the reporting period, the company held deposits at call of \$750,000 that are expected to readily generate cash inflows for managing liquidity risk.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. No finance facilities were available to the Group at the end of the reporting period.

## Note 2. Financial risk management continued

### Maturities of financial liabilities

The table below analyzes the Group's financial liabilities into relevant maturity groupings.

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
<b>At 30 June 2010</b>	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	265,896	–	–	–	–	265,896	265,896
Other financial liabilities	–	–	–	–	3,000,000	3,000,000	3,000,000
	265,896	–	–	–	3,000,000	3,265,896	3,265,896
<b>At 30 June 2009</b>							
Trade and other payables	897,068	–	–	–	–	897,068	897,068
	897,068	–	–	–	–	897,068	897,068

### Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets or borrowings, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

### Fair value

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Lodestone Energy Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The financial liability is assessed as Level 3 in the fair value hierarchy.

The carrying amount of other financial assets and liabilities are approximated fair value principally due to their short-term position.

## Note 3. Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

### Key judgements

#### (i) Carrying value of exploration and evaluation expenses

The Group has capitalised exploration expenditure of \$41,800,748 (2009: \$856,878). This amount includes costs directly associated with exploration. These costs are capitalised as an intangible asset until assessment and/or drilling of the permit is complete and the results have been evaluated. These costs include employee remuneration, materials, rig costs, delay rentals and payments to contractors. The expenditure is carried forward until such a time as the area of interest moves into the development phase, is abandoned, sold or sub-blocks relinquished.

Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of exploration expenditure, there is uncertainty as to the carrying value of exploration expenditure. The ultimate recovery of the carrying value of exploration expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interests in the tenements. The directors are of the opinion that the exploration expenditure is recoverable for the amount stated in the financial statements.

### Note 3. Critical accounting estimates and judgements continued

#### (ii) Fair value of financial liabilities

During the year, the Group has entered into agreements with Oliver Lennox-King (Lennox-King), whereby Lennox King has paid \$3 million to Lodestone and in return Lodestone has agreed to pay Lennox-King a royalty equal to 2% of the gross value of coal sold and gas produced from the tenements currently held by Lodestone, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal and Gas Project in the Upper Surat Basin. With the acquisition of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited the rate of royalty reduced to 1%.

The initial \$3 million received and recorded as a liability was initially recognised at fair value. Post initial recognition, the \$3 million received is accounted for in accordance with the Group policy for financial instruments set out in Note 1(o).

The royalty is only payable in the event of future production of coal and gas.

There has been no movement in the balance of the liability. The company has assessed that the fair value at the time of the initial transaction, which was at arm's length, remains a reasonable assessment of the fair value at 30 June 2010 as no changes in the underlying circumstances have occurred since.

#### (iii) Valuation of options

AASB 2 requires the calculation of the fair value of performance rights or options granted to staff and for that amount to be expensed to the profit or loss (with corresponding credit to the share-based payment reserve) over the estimated life from grant date to vesting date. This necessitates the estimate of vesting date where vesting is subject to vesting conditions or otherwise.

Where applicable, the assessed fair value at grant date of share-based payments is determined using a binomial option pricing model or the Monte Carlo Simulation Method that takes into account the exercise price, the term of the rights or option offer period, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share or option offer period.

## Note 4. Segment information

### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category having different risk profiles and performance assessment criteria. Operating segments are therefore determined on this basis.

### Description of segments

The consolidated entity has identified its reportable operating segments based on its internal reports that are reviewed and used by the board of directors in assessing performance and in determining the location of resources. It is reporting on an operating basis into the following segments.

#### *Tambo:*

Exploration for coal, oil and gas.

#### *Moreton:*

Exploration for coal.

#### *Minerals:*

Exploration for base metals.

### Geographical segments

The consolidated entity operates solely within one geographical segment being mineral exploration industry in Australia.

Note 4. Segment information continued

2010	Tambo	Moreton	Minerals	Consolidated
	\$	\$	\$	\$
<b>Segment result</b>				
Segment result	(33)	(1,210,519)	(53,298)	(1,263,850)
Corporate expenses				(1,546,139)
<b>Loss for the year</b>				<u>(2,809,989)</u>
Segment assets	36,535,045	5,136,817	250,341	41,922,203
Cash and cash equivalents				774,058
Trade and other receivables				45,076
Unallocated assets				24,410
<b>Total assets</b>				<u>42,765,747</u>
Segment liabilities	189,746	–	–	189,746
Other financial liabilities				3,000,000
Unallocated liabilities				76,150
<b>Total liabilities</b>				<u>3,265,896</u>

2009	Tambo	Moreton	Minerals	Consolidated
	\$	\$	\$	\$
<b>Segment result</b>				
Segment result	(90,269)	(4,363)	(339,900)	(434,532)
Corporate expenses				(1,125,209)
<b>Loss for the year</b>				<u>(1,559,741)</u>
<b>Segment assets and liabilities</b>				
Segment assets	392,286	378,873	151,219	922,378
Cash and cash equivalents				3,355,688
Trade and other receivables				50,818
Unallocated assets				11,897
<b>Total assets</b>				<u>4,340,781</u>
Segment liabilities	76,622	25,903	1,715	104,240
Other financial liabilities				750,981
Unallocated liabilities				41,847
<b>Total liabilities</b>				<u>897,068</u>

	Consolidated	
	2010	2009
	\$	\$

## Note 5. Revenue

### Other revenue

Interest	66,593	48,731
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## Note 6. Expenses

Loss before income tax includes the following specific expenses:

Defined contribution superannuation expense	49,783	62,621
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## Note 7. Income tax expense

	2010	2009
<b>(a) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Loss from operations before income tax expense	(2,809,989)	(1,559,741)
Tax at the Australian tax rate of 30% (2009: 30%)	(842,997)	(467,922)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	79,869	223,777
Entertainment	570	308
	(762,558)	(243,837)
Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	762,558	243,837
Income tax expense	–	–
<b>(b) Unrecognised net deferred tax assets</b>		
Unused tax losses for which no deferred tax asset has been recognised	11,565,972	7,737,839
Temporary differences for which no net deferred tax asset has been recognised in the statement of financial position for the following items:		
– Property, plant and equipment	30,504	24,768
– Accruals	16,000	18,000
– Prepayments	–	–
– Capital raising costs	123,762	187,126
– Exploration expenditure	(5,114,697)	(856,889)
– Interest receivable	(2,327)	(433)
– Other financial liabilities	3,000,000	–
– Business-related investment costs	302,527	–
	9,921,741	7,110,411
Potential tax effect at 30%	2,976,522	2,133,123

The above deferred tax liability has not been recognised as there are sufficient tax losses for which no deferred tax asset has been recognised to offset the potential deferred tax liability.

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test (SBT) must be passed. The majority of losses are carried forward at 30 June 2010 under COT. However, upon the significant share issue in July 2010, it is noted that COT is likely to be failed at this time. It will therefore be necessary to satisfy the SBT in order to recoup these losses carried forward. If both loss tests are failed, the losses carried forward will not be available to be claimed as a deduction in future periods.

Deferred tax assets which have not been recognised as an asset will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- (ii) the Group continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the economic entity in realizing the losses.

### (c) Tax consolidation legislation

Lodestone Energy Limited and its wholly owned Australian controlled entities became eligible to form a tax consolidated group from 1 December 2008. The Group has not consolidated for income tax purposes during the 2010 income tax year. No decision has been made as to whether the tax consolidation legislation will be implemented by the Group during the 2010 income tax year. The financial statements have been prepared on the assumption that the tax consolidation regime will not be adopted.

### (d) Franking credits

The Group has no franking credits available.

	Consolidated	
	2010	2009
	\$	\$

## Note 8. Current assets – Cash and cash equivalents

Cash at bank and in hand	24,058	756,833
Deposits at call	750,000	2,598,855
	<u>774,058</u>	<u>3,355,688</u>

### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

### (b) Deposits at call

The deposits are at call bearing an interest rate of between 2.15% and 3.60% (2009 – 1.55% to 2.15%).

## Note 9. Current assets – Trade and other receivables

Prepayments	14,806	113
Other debtors	30,270	50,705
	<u>45,076</u>	<u>50,818</u>

## Note 10. Non-current assets – Plant and equipment

Consolidated	Motor vehicles \$	Plant and equipment \$	Total \$
<b>At 1 July 2008</b>			
At Cost	77,130	4,993	82,123
Accumulated depreciation	(59,239)	(4,291)	(63,530)
Net book amount	<u>17,891</u>	<u>702</u>	<u>18,593</u>
<b>Year ended 30 June 2009</b>			
Opening net book amount	17,891	702	18,593
Additions	–	6,153	6,153
Depreciation charge	(9,387)	(4,142)	(13,529)
Closing net book amount	<u>8,504</u>	<u>2,713</u>	<u>11,217</u>
<b>At 30 June 2009</b>			
At Cost	77,130	11,146	88,276
Accumulated depreciation	(68,626)	(8,433)	(77,059)
Net book amount	<u>8,504</u>	<u>2,713</u>	<u>11,217</u>
<b>Year ended 30 June 2010</b>			
Opening net book amount	8,504	2,713	11,217
Additions	–	24,934	24,934
Depreciation charge	(5,795)	(7,891)	(13,686)
Closing net book amount	<u>2,709</u>	<u>19,756</u>	<u>22,465</u>
<b>At 30 June 2010</b>			
At Cost	77,130	36,080	113,210
Accumulated depreciation	(74,421)	(16,324)	(90,745)
Net book amount	<u>2,709</u>	<u>19,756</u>	<u>22,465</u>



Consolidated	
2010	2009
\$	\$

## Note 11. Non-current assets – Exploration expenditure

<b>Exploration phase costs – at cost</b>	41,800,748	856,878
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The capitalised exploration expenditure carried forward above has been determined as follows:

Balance at the beginning of the year	856,878	280,850
Expenditure incurred during the year	5,551,849	970,560
Acquisition of additional interest in the Tambo and Moreton projects	36,655,838	–
Exploration abandoned	(1,263,817)	(394,532)
Balance at the end of the year	41,800,748	856,878

The ultimate recoupment of costs carried forward for exploration expenditure is dependent upon the successful development and commercial exploitation or alternatively sale of the interests in the tenements.

## Note 12. Non-current assets – Other assets

Security deposit	123,400	66,180
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Security deposits represent amounts lodged with the Department of Employment, Economic Development and Innovation as security for tenements.

## Note 13. Current liabilities – Trade and other payables

Trade payables	265,896	146,087
Other financial liabilities	–	750,981
	265,896	897,068

## Note 14. Non-current liabilities – Financial liabilities

Other financial liabilities	3,000,000	–
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During the year, the Group has entered into agreements with Oliver Lennox-King (Lennox-King), whereby Lennox King has paid \$3 million to Lodestone and in return Lodestone has agreed to pay Lennox-King a royalty equal to 2% of the gross value of coal sold and gas produced from the tenements currently held by Lodestone, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal and Gas Project in the Upper Surat Basin. With the acquisition of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited the rate of royalty reduced to 1%.

The initial \$3 million received and recorded as a liability was initially recognised at fair value. Post initial recognition, the \$3 million received is accounted for in accordance with the Group policy for financial instruments set out in Note 1(a).

The royalty is only payable in the event of future production of coal and gas.

There has been no movement in the balance of the liability. The company has assessed that the fair value at the time of the initial transaction, which was at arm's length, remains a reasonable assessment of the fair value at 30 June 2010 as no changes in the underlying circumstances have occurred since.

## Note 15. Contributed equity

### (a) Share capital

	Consolidated		Consolidated	
	2010 Shares	2009 Shares	2010 \$	2009 \$
Ordinary shares				
Fully paid	211,509,529	201,409,529	12,369,918	10,425,961
Acquisition settlement of shares issuable	–	–	36,655,939	–
	<u>211,509,529</u>	<u>201,409,529</u>	<u>49,025,857</u>	<u>10,425,961</u>

### (b) Movements in ordinary share capital:

Date	Details		Number of shares	Issue price	\$
1 July 2008	Balance		130,324,215		6,769,825
22 July 2008	Placement	(e)	32,916,743	\$0.03	987,500
25 July 2008	Options exercised	(d)	3,835,239	\$0.05	191,762
22 September 2008	Placement	(e)	8,333,332	\$0.03	250,000
6 October 2008	Placement	(f)	3,000,000	\$0.02	60,000
29 April 2009	Placement	(f)	3,000,000	\$0.07	210,000
15 May 2009	Placement	(g)	9,000,000	\$0.10	900,000
26 June 2009	Placement	(g)	11,000,000	\$0.10	1,100,000
	Share issue expenses				(43,126)
30 June 2009	Balance		201,409,529		10,425,961
3 September 2009	Options exercised	(d)	100,000	\$0.07	7,000
15 December 2009	Placement		10,000,000	\$0.195	1,950,000
29 June 2010	Acquisition settlement of shares issuable	(h)	–	\$0.09	36,655,939
	Share issue expenses				(13,043)
30 June 2010	Balance		<u>211,509,529</u>		<u>49,025,857</u>

### (c) Ordinary shares

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 by 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.

### (d) Options

At balance date 34,401,000 options over ordinary shares of Lodestone Energy Limited were on issue.

Grant date	Number of options	Exercise price	Expiry date
27/01/2006	501,000	\$0.20	27/01/2011
10/09/2008	10,000,000	\$0.07	10/09/2010
08/04/2009	1,000,000	\$0.07	08/04/2011
20/04/2009	1,000,000	\$0.07	08/04/2011
15/05/2009	9,000,000*	\$0.20	15/05/2011
26/06/2009	1,900,000	\$0.07	26/06/2011
15/05/2009	<u>11,000,000*</u>	<u>\$0.20</u>	<u>26/06/2011</u>
<b>Total</b>	<u>34,401,000</u>		

\* Each of these options entitles the holder to receive one share and one piggyback option which is exercisable at 50 cents each and expires 24 months from date of issue.

During the financial year, 100,000 options that were issued on 26 June 2009 were exercised.

At the date of exercise, the weighted average share price of options exercised during the year was \$0.12.

## Note 15. Contributed equity continued

At 30 June 2009, 34,501,000 options over ordinary shares of Lodestone Energy Limited were on issue.

Grant date	Number of options	Exercise price	Expiry date
27/01/2006	501,000	\$0.20	27/01/2011
10/09/2008	10,000,000	\$0.07	10/09/2010
08/04/2009	1,000,000	\$0.07	08/04/2011
20/04/2009	1,000,000	\$0.07	08/04/2011
15/05/2009	9,000,000*	\$0.20	15/05/2011
26/06/2009	2,000,000	\$0.07	26/06/2011
15/05/2009	11,000,000*	\$0.20	26/06/2011
Total	34,501,000		

\* Each of these options entitles the holder to receive one share and one piggy-back option which is exercisable at 50 cents each and expires 12 months from date of issue.

During the prior financial year, 3,835,239 options that were issued on 21 July 2006 were exercised and 27,098,395 options issued on the same date expired on 21 July 2008.

### (e) Placements

On 22 July 2008, 32,916,743 ordinary shares were issued under a share purchase plan for \$0.03 each to raise \$987,500.

On 22 September 2008, 8,333,332 ordinary shares were issued to directors for \$0.03 each to raise \$250,000.

On 15 December 2009, 10,000,000 ordinary shares were issued to a sophisticated investor for \$0.195 each to raise \$1,950,000.

### (f) Placements

On each of 6 October 2008 and 29 April 2009 3,000,000 ordinary shares were issued to Orbit Capital Pty Ltd as consideration under the Moreton farm-in agreement.

### (g) Placements

On 15 May 2009 and 26 June 2009, 9,000,000 ordinary shares plus 9,000,000 unlisted options and 11,000,000 ordinary shares plus 11,000,000 unlisted options were issued respectively to sophisticated investors at \$0.10 per share to raise \$2,000,000. Each option is exercisable at 20 cents each and expires 24 months after issue. Each option entitles the holder to receive one share and one unlisted piggyback option which is exercisable at 50 cents each and expires 24 months after date of issue.

### (h) Acquisition settlement of shares issuable

In accordance with the Share Sale and Purchase Agreement, in consideration for 100% of the issued capital of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited, Lodestone Energy Limited is to issue 407,288,211 ordinary shares to the vendors (entities associated with Mr Greg Baynton). The market value of these shares at the time the acquisition became unconditional was \$0.09 per share.

### (i) Performance rights

At balance date, 18,500,000 performance rights over ordinary shares of Lodestone Energy Limited were on issue. 18,000,000 of these rights were issued on 26 June 2009 and 500,000 of these rights were issued on 3 March 2010. 9,250,000 of the performance rights vest if the market capitalization of Lodestone Energy Limited is \$50,000,000 for a continuous period of five or more trading days. The remaining 9,250,000 vest if the volume weighted average share price is at least \$0.25 for a continuous trading period of five trading days.

### (j) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group includes cash and cash equivalents, equity attributable to equity holders, comprising contributed equity, reserves and accumulated losses. In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the Company.

The Group monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Group's exposure to borrowings as at 30 June 2010 totals \$nil (2009 : \$nil). The Group will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

The Group's strategy to capital risk management is unchanged from prior years.

## Note 16. Reserves and accumulated losses

	Consolidated	
	2010	2009
	\$	\$
<b>(a) Reserves</b>		
Share-based payments reserve	815,786	549,555
<b>Movements:</b>		
Balance 1 July	549,555	60,063
Share and option expense	266,231	489,492
Balance 30 June	815,786	549,555
<b>(b) Accumulated losses</b>		
Balance 1 July	(7,531,803)	(5,972,062)
Loss for the year	(2,809,989)	(1,559,741)
Balance 30 June	(10,341,792)	(7,531,803)
<b>Nature and purpose of reserves</b>		
<i>Share-based payments reserve</i>		
The share-based payments reserve is used to recognise:		
a. the grant date fair value of options issued to directors / contractors but not exercised		
b. the grant date fair value of performance rights issued to directors / contractors		

## Note 17. Parent entity information

The following information relates to the parent entity, Lodestone Energy Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1.

	2010	2009
	\$	\$
Current assets	801,719	3,399,537
Non-current assets	36,956,428	954,891
<b>Total assets</b>	37,758,147	4,354,428
Current liabilities	76,150	820,446
Non-current liabilities	3,000,000	–
<b>Total liabilities</b>	3,076,150	820,446
Issued capital	49,025,857	10,425,961
Accumulated losses	(15,159,646)	(7,441,534)
Share-based payment reserve	815,786	549,555
<b>Total equity</b>	34,681,997	3,533,982
<b>Contingent liabilities</b>		

As detailed in note 29, Lodestone Energy Limited does not have any contingent liabilities at 30 June 2010.

## Note 17. Parent entity information continued

### Capital commitments

Lodestone Energy Limited has the following exploration commitments, which are included in the group's exploration commitments as detailed in Note 23:

	Consolidated	
	2010	2009
	\$	\$
<b>Exploration commitments</b>		
Commitments for payments under exploration permits for minerals in existence at the reporting date but not recognised as liabilities payable are as follows:		
Within one year	485,431	973,771
Later than one year but not later than five years	1,055,000	1,405,615
Later than five years	–	–
Commitments not recognised in the financial statements	<u>1,540,431</u>	<u>2,379,386</u>

## Note 18. Key management personnel disclosures

### (a) Key management personnel compensation

Short-term employee benefits	418,332	321,346
Post-employment benefits	21,450	60,371
Share-based payments	<u>249,577</u>	<u>475,722</u>
	<u>689,359</u>	<u>857,439</u>

### (b) Equity instrument disclosures relating to key management personnel

#### (i) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Lodestone Energy Limited and other key management personnel, including their personally related parties, are set out below.

2010 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Directors of Lodestone Energy Limited</b>						
M C Ackland	2,000,000	–	–	–	2,000,000	2,000,000
G L Baker	2,000,000	–	(100,000)	–	1,900,000	1,900,000
G A J Baynton	2,000,000	–	–	–	2,000,000	2,000,000
L R Grimstone	2,000,000	–	–	–	2,000,000	2,000,000
J L McCawley	2,000,000	–	–	(2,000,000)*	–	–
W R Stubbs	2,000,000	–	–	–	2,000,000	2,000,000
<b>Total</b>	<b>12,000,000</b>	<b>–</b>	<b>(100,000)</b>	<b>(2,000,000)</b>	<b>9,900,000</b>	<b>9,900,000</b>
<b>Other key management personnel</b>						
J Jamieson	2,000,000	–	–	–	2,000,000	2,000,000
L P Stanley	–	–	–	–	–	–
<b>Total</b>	<b>2,000,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,000,000</b>	<b>2,000,000</b>

\* J L McCawley resigned as a director on 31 March 2010

Note 18. Key management personnel disclosures continued

2009 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<b>Directors of Lodestone Energy Limited</b>						
M C Ackland	76,283	2,000,000	–	(76,283)	2,000,000	2,000,000
G L Baker	–	2,000,000	–	–	2,000,000	2,000,000
G A J Baynton	1,000,000	2,000,000	–	(1,000,000)	2,000,000	2,000,000
L R Grimstone	–	2,000,000	–	–	2,000,000	2,000,000
J L McCawley	25,000	2,000,000	(25,000)	–	2,000,000	2,000,000
W R Stubbs	–	2,000,000	–	–	2,000,000	2,000,000
<b>Total</b>	<b>1,101,283</b>	<b>12,000,000</b>	<b>(25,000)</b>	<b>(1,076,283)</b>	<b>12,000,000</b>	<b>12,000,000</b>
<b>Other key management personnel</b>						
J Jamieson	–	2,000,000	–	–	2,000,000	2,000,000
L P Stanley	46,770	–	–	(46,770)	–	–
<b>Total</b>	<b>46,770</b>	<b>2,000,000</b>	<b>–</b>	<b>(46,770)</b>	<b>2,000,000</b>	<b>2,000,000</b>

(ii) Share holdings

The number of ordinary shares in the company held during the financial year by each director of Lodestone Energy Limited and other key management personnel, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

2010 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Lodestone Energy Limited</b>				
M C Ackland	1,433,655	–	–	1,433,655
G L Baker	–	100,000	–	100,000
G A J Baynton	9,193,435	–	–	9,193,435
L R Grimstone	4,631,525	–	–	4,631,525
J L McCawley	6,854,198	–	–	6,854,198
W R Stubbs	4,166,667	–	–	4,166,667
<b>Total</b>	<b>26,279,480</b>	<b>100,000</b>	<b>–</b>	<b>26,379,480</b>

<b>Other key management personnel</b>				
J Jamieson	1,300,000	–	–	1,300,000
L P Stanley	123,617	–	–	123,617
<b>Total</b>	<b>1,423,617</b>	<b>–</b>	<b>–</b>	<b>1,423,617</b>

2009 Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Lodestone Energy Limited</b>				
M C Ackland	266,988	–	1,166,667	1,433,655
G L Baker	–	–	–	–
G A J Baynton	1,526,769	–	7,666,666	9,193,435
L R Grimstone	–	–	4,631,525	4,631,525
J L McCawley	5,162,532	25,000	1,666,666	6,854,198
W R Stubbs	1,166,667	–	3,000,000	4,166,667
<b>Total</b>	<b>8,122,956</b>	<b>25,000</b>	<b>18,131,524</b>	<b>26,279,480</b>

<b>Other key management personnel</b>				
J Jamieson	–	–	1,300,000	1,300,000
L P Stanley	123,617	–	–	123,617
<b>Total</b>	<b>123,617</b>	<b>–</b>	<b>1,300,000</b>	<b>1,423,617</b>

Note 18. Key management personnel disclosures continued

(iii) Performance rights

The number of performance rights over ordinary shares in the company held during the financial year by each director of Lodestone Energy Limited and other key management personnel, including their personally related parties, are set out below.

2010 Name	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
<b>Directors of Lodestone Energy Limited</b>				
M C Ackland	2,000,000	–	–	2,000,000
G L Baker	2,000,000	–	–	2,000,000
G A J Baynton	2,000,000	–	–	2,000,000
L R Grimstone	4,000,000	–	–	4,000,000
J L McCawley	2,000,000	–	–	2,000,000
W R Stubbs	2,000,000	–	–	2,000,000
<b>Total</b>	<b>14,000,000</b>	<b>–</b>	<b>–</b>	<b>14,000,000</b>

<b>Other key management personnel</b>				
J Jamieson	2,000,000	–	–	2,000,000
L P Stanley	1,000,000	–	–	1,000,000
<b>Total</b>	<b>3,000,000</b>	<b>–</b>	<b>–</b>	<b>3,000,000</b>

2009 Name	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
<b>Directors of Lodestone Energy Limited</b>				
M C Ackland	–	2,000,000	–	2,000,000
G L Baker	–	2,000,000	–	2,000,000
G A J Baynton	–	2,000,000	–	2,000,000
L R Grimstone	–	4,000,000	–	4,000,000
J L McCawley	–	2,000,000	–	2,000,000
W R Stubbs	–	2,000,000	–	2,000,000
<b>Total</b>	<b>–</b>	<b>14,000,000</b>	<b>–</b>	<b>14,000,000</b>

<b>Other key management personnel</b>				
J Jamieson	–	2,000,000	–	2,000,000
L P Stanley	–	1,000,000	–	1,000,000
<b>Total</b>	<b>–</b>	<b>3,000,000</b>	<b>–</b>	<b>3,000,000</b>

(c) Other transactions with key management personnel

On 29 June 2010, a Share Sale and Purchase Agreement to acquire Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited became unconditional. A director, Mr Greg Baynton, is a director and was majority shareholder of both Tambo Coal & Gas Pty Limited and Moreton Energy Pty Ltd. For further information, refer to Note 28.

During the year to 30 June 2010 the Group paid fees for accounting and administration services and rental of a serviced office provided by Stanley Yeates and Associates, a firm of chartered accountants, of which L P Stanley is a partner, on normal commercial terms and conditions.

A director, Mr Lance Grimstone, is a director and owner of Lance Grimstone and Associates (Consulting) Pty Ltd which has provided consulting services to Lodestone Energy Limited and its subsidiaries on normal commercial terms and conditions.

A director, Mr Greg Baynton, is a director and majority shareholder of Orbit Capital Pty Limited. Orbit Capital Pty Limited provided consulting services to Lodestone Energy Limited and its subsidiaries on normal commercial terms and conditions in 2009. In addition, during the prior financial year Lodestone Energy Limited entered into a Farm-In Deed with Moreton Energy Pty Limited and Orbit Capital Pty Limited to farm into three tenements that are prospective for coal. Lodestone Energy Limited had the right to earn 50% interest in these tenements by undertaking exploration activities, and incurring exploration expenditure, to the value of \$2 million over a period of three years. During the 2009 financial year, in accordance with the Farm-In Deed, Lodestone Energy Limited issued 6,000,000 (3,000,000 issued on 6 October 2008 and 3,000,000 issued on 29 April 2009) ordinary shares to Orbit Capital Pty Limited. The farm-in Deed has now been superseded by the Share Sale and Purchase Agreement detailed in Note 28.

## Note 18. Key management personnel disclosures continued

During the prior financial year, Lodestone Energy Limited and controlled entities entered into a Farm-In Agreement with Tambo Coal & Gas Pty Limited to farm in to a number of coal and coal seam gas project areas in southern central Queensland. Under the Farm-In Agreements, Lodestone Energy Limited had the right to earn up to 50% interest in all permits over a five-stage process. This Farm-In Agreement has now been superseded by the Share Sale and Purchase Agreement detailed in Note 28.

Aggregate amounts of each of the above types of other transactions with directors and their director-related entities:

	Consolidated	
	2010 \$	2009 \$
<b>Amounts recognised as expenses</b>		
Accounting and administration fee	103,625	79,767
Office rent	57,270	27,596
Consulting fees	5,540	40,000
<b>Amounts recognised as exploration expenditure</b>		
Acquisition of exploration interests (share-based payment)	36,655,838	270,000
Consulting fees	45,491	165,609

## Note 19. Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor or its related practices and non-related audit firms:

### (a) BDO Audit (Qld) Pty Ltd

<i>Audit services</i>		
Audit and review of financial reports	26,500	–
Total remuneration of BDO Audit (Qld) Pty Ltd	26,500	–

### (b) Non-BDO Audit (Qld) Pty Ltd

<i>Audit services</i>		
Audit and review of financial reports	–	33,395
<i>Other services</i>		
Taxation services	–	–
Total remuneration of non-BDO Audit (Qld) Pty Ltd audit firms	–	33,395
<b>Total auditor remuneration</b>	<b>26,500</b>	<b>33,395</b>

## Note 20. Related parties

### Directors

Disclosures relating to key management personnel are set out in Note 18.



## Note 21. Events occurring after reporting date

Subsequent to the end of the financial year, Lodestone Energy Limited has:

- (a) completed a share placement of 47,750,000 ordinary shares at \$0.08 per share raising a total of \$3,820,000. These placement proceeds will fund the recommencement of the exploration program for the Tambo Coal and Gas Project along with related project expenditures and general corporate overheads
- (b) in accordance with the Share Sale and Purchase Agreement, Lodestone Energy Limited issued 407,288,211 ordinary shares in consideration for Tambo Coal & Gas Pty Limited and Moreton Energy Limited (refer Note 28)
- (c) issued 7,250,000 ordinary shares on the taking up of performance rights issued under the performance rights scheme.

At the date of this report, there are no other matters or circumstances which have arisen since 30 June 2010 that have significantly affected or may significantly affect:

- (d) the Group's operations in future financial years, or
- (e) the results of those operations in future financial years, or
- (f) the Group's state of affairs in future financial years.

## Note 22. Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated	
	2010 \$	2009 \$
Loss after income tax	(2,809,989)	(1,559,741)
Exploration abandoned	1,263,817	394,532
Depreciation	13,686	13,529
Share-based payments	266,231	475,923
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	5,742	(23,386)
Increase/(decrease) in trade and other payables	26,615	(41,133)
Net cash outflow from operating activities	<u>(1,233,898)</u>	<u>(740,276)</u>

## Note 23. Commitments for expenditure

### Exploration commitments

Commitments for payments under exploration permits for minerals in existence at the reporting date but not recognised as liabilities payable are as follows:

Within one year	9,629,231	2,914,702
Later than one year but not later than five years	19,492,500	9,309,650
Later than five years	-	-
Commitments not recognised in the financial statements	<u>29,121,731</u>	<u>12,224,352</u>

To maintain current rights to tenure of various exploration tenements, the Group will be required to outlay amounts in respect of tenement exploration expenditure commitments. These outlays, which arise in relation to granted tenements are noted above. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished.

Exploration commitments total \$29,121,731 (2009: \$12,224,352). They are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, farm-outs, and new capital raisings.

## Note 23. Commitments for expenditure continued

	Consolidated	
	2010	2009
	\$	\$

### Remuneration commitments

Commitments for payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

Within one year	–	140,000
Later than one year and not later than five years	–	–
Later than five years	–	–
		–
		140,000

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report on pages 18 to 20 that are not recognised as liabilities and are not included in the key management personnel compensation.

## Note 24. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2010 %	2009 %
Lodestone Coal Pty Limited*	Australia	Ordinary	100	100
Lodestone CSG Pty Limited**	Australia	Ordinary	100	100
Lodestone Minerals Pty Limited*	Australia	Ordinary	100	100
Tambo Coal & Gas Pty Limited	Australia	Ordinary	100	–
Moreton Energy Pty Limited	Australia	Ordinary	100	–

\* These entities were incorporated by Lodestone Energy Limited on 1 December 2008.

\*\* This entity was incorporated by Lodestone Energy Limited on 2 December 2008.

## Note 25. Non-cash investing and financing activities

	Consolidated	
	2010	2009
	\$	\$
Acquisition of exploration tenements by means of issue of shares	–	270,000
Acquisition of subsidiaries by means of issue of shares (refer Note 28)	36,655,939	–
		–

## Note 26. Earnings per share

	2010	2009
	Cents	Cents
<b>(a) Basic earnings per share</b>		
Loss attributable to ordinary equity holders of the company	(1.36)	(0.87)
<b>(b) Diluted earnings per share</b>		
Loss attributable to ordinary equity holders of the company	(1.36)	(0.87)

## Note 26. Earnings per share continued

	2010 \$	2009 \$
<b>(c) Reconciliation of earnings used in calculating earnings per share</b>		
<i>Basic earnings per share</i>		
Loss from operations	(2,809,989)	(1,559,741)
<i>Diluted earnings per share</i>		
Loss from operations	(2,809,989)	(1,559,741)

	2010 Number	2009 Number
<b>(d) Weighted average number of shares used as the denominator</b>		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	206,867,904	178,234,683
Adjustments for calculation of diluted earnings per share:		
Options	-	-
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	206,867,904	178,234,683

### (e) Post-balance date share issues

In accordance with the Share Sale and Purchase Agreement in consideration for 100% of the issued capital of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited, on 9 July 2010 Lodestone Energy Limited issued 407,288,211 ordinary shares to the vendors (entities associated with Mr Greg Baynton).

### (f) Information concerning the classification of securities

#### Options

Options on issue are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2010. These options could potentially dilute basic earnings per share in the future. Details relating to options are set out in Note 26.

## Note 27. Share-based payments

### Options

During the 2009 financial year, Lodestone Energy Limited granted 14,000,000 options to directors and a contractor for no consideration. The options are granted for a two-year period, and vest immediately.

Options granted carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted.

Set out below are summaries of options granted:

#### 2010

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
				Number	Number	Number	Number	Number	Number
<b>A</b>	27/01/2006	27/01/2011	\$0.20 to \$0.30	501,000	-	-	-	501,000	501,000
<b>B</b>	10/09/2008	10/09/2010	\$0.07	10,000,000	-	-	-	10,000,000	10,000,000
<b>C</b>	08/04/2009	08/04/2011	\$0.07	1,000,000	-	-	-	1,000,000	1,000,000
<b>D</b>	20/04/2009	08/04/2011	\$0.07	1,000,000	-	-	-	1,000,000	1,000,000
<b>E</b>	26/06/2009	26/06/2011	\$0.07	2,000,000	-	(100,000)	-	1,900,000	1,900,000
	<b>Total</b>			14,501,000	-	(100,000)	-	14,401,000	14,401,000
	<b>Weighted average exercise price</b>			<b>\$0.08</b>	-	<b>\$0.07</b>	-	<b>\$0.08</b>	<b>\$0.08</b>

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.4 years (2009 – 1.4 years)

Note 27. Share-based payments continued

2009

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
				Number	Number	Number	Number	Number	Number
<b>A</b>	27/01/2006	27/01/2011	\$0.20 to \$0.30	501,000	–	–	–	501,000	501,000
<b>B</b>	10/09/2008	10/09/2010	\$0.07	–	10,000,000	–	–	10,000,000	10,000,000
<b>C</b>	08/04/2009	08/04/2011	\$0.07	–	1,000,000	–	–	1,000,000	1,000,000
<b>D</b>	20/04/2009	08/04/2011	\$0.07	–	1,000,000	–	–	1,000,000	1,000,000
<b>E</b>	26/06/2009	26/06/2011	\$0.07	–	2,000,000	–	–	2,000,000	2,000,000
<b>Total</b>				501,000	14,000,000	–	–	14,501,000	14,501,000
	<b>Weighted average exercise price</b>			<b>\$0.25</b>	<b>\$0.07</b>	–	–	<b>\$0.08</b>	<b>\$0.08</b>

**Fair value of options granted**

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black–Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk–free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

**Grant date 10/09/2008**

- (a) options are granted for no consideration
- (b) exercise price: \$0.07
- (c) expiry date: 10/09/2010
- (d) share price at grant date: \$0.024
- (e) expected price volatility of the Company's shares: 142.4%
- (f) expected dividend yield: 0%
- (g) risk-free interest rate: 5.57%
- (h) fair value: \$0.01.

**Grant date 08/04/2009**

- (a) options are granted for no consideration
- (b) exercise price: \$0.07
- (c) expiry date: 08/04/2011
- (d) share price at grant date: \$0.063
- (e) expected price volatility of the Company's shares: 140.127%
- (f) expected dividend yield: 0%
- (g) risk-free interest rate: 3.24%
- (h) fair value: \$0.05

**Grant date 20/04/2009**

- (a) options are granted for no consideration
- (b) exercise price: \$0.07
- (c) expiry date: 08/04/2011
- (d) share price at grant date: \$0.081
- (e) expected price volatility of the Company's shares: 140.127%
- (f) expected dividend yield: 0%
- (g) risk-free interest rate: 3.30%
- (h) fair value: \$0.05

## Note 27. Share-based payments continued

### Grant date 26/06/2009

- (a) options are granted for no consideration
- (b) exercise price: \$0.07
- (c) expiry date: 26/06/2011
- (d) share price at grant date: \$0.155
- (e) expected price volatility of the Company's shares: 140.127%
- (f) expected dividend yield: 0%
- (g) risk-free interest rate: 4.13%
- (h) fair value: \$0.12

The expected volatility was determined based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility based on publicly available information.

### Performance rights

During the financial year, Lodestone Energy Limited granted 500,000 performance rights to contractors for no consideration. The exercise conditions of the performance rights are as follows:

- (a) One half of the performance rights becomes exercisable if the Company's market capitalization is \$50 million for a period of five or more trading days.
- (b) One half of the performance rights becomes exercisable if the volume weighted average price of the Company's shares is at least \$0.25 for a continuous period of five trading days.

Performance rights granted carry no dividend or voting rights.

When exercisable, each performance right is convertible into one ordinary share.

Set out below are summaries of performance rights granted:

### 2010

	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
				Number	Number	Number	Number	Number	Number
A	26/06/2009	25/06/2019	\$0.00	18,000,000	-	-	-	18,000,000	-
B	03/03/2010	03/03/2020	\$0.00	-	500,000	-	-	500,000	-
<b>Total</b>				18,000,000	500,000	-	-	18,500,000	-

Shares issued on the taking up of performance rights are issued for no consideration and therefore do not have a weighted average exercise price.

### Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the Monte Carlo Simulation method that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

The model inputs for performance rights granted during the year ended 30 June 2009 included:

### Issue A

- (a) Grant date 26/06/2009
- (b) performance rights are granted for no consideration
- (c) exercise price: \$0.00
- (d) expiry date: 26/06/2019
- (e) share price at grant date: \$0.155
- (f) expected price volatility of the company's shares: 140.127%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 5.61%
- (i) fair value: \$0.15

## Note 27. Share-based payments continued

The model inputs for performance rights granted during the year ended 30 June 2010 included:

### Issue B

- (a) Grant date: 03/03/2010
- (b) performance rights are granted for no consideration
- (c) exercise price: \$0.00
- (d) expiry date: 03/03/2020
- (e) share price at grant date: \$0.12
- (f) expected price volatility of the company's shares: 93.939%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 5.43%
- (i) fair value: \$0.12

### 2009

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number
A 26/06/2009	25/06/2019	\$0.00	–	18,000,000	–	–	18,000,000	–

Shares issued on the taking up of performance rights are issued for no consideration and therefore do not have a weighted average exercise price.

### Expense arising from share-based payment transactions

Total expense arising from share-based payment transactions recognised during the period were as follows:

	Consolidated	
	2010	2009
	\$	\$
Performance rights issued	266,231	3,618
Options issued	–	485,874
	<u>266,231</u>	<u>489,492</u>

## Note 28. Asset acquisition

### Summary of acquisition

On 29 June 2010, a Share Sale and Purchase Agreement to acquire Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited became unconditional following shareholder approval at a general meeting of the company. The acquisition means Lodestone Energy Limited now holds 100% ownership and control of its energy portfolio, which will allow greater flexibility for commercialising and monetising those projects.

The acquired company's contributed revenue of \$nil and net loss before tax of \$nil to the group from 29 June 2010. The amounts of revenue and net profit for the full year, if they had been acquired at the start of the financial year, would also have been \$nil.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$
Purchase consideration [refer to (i) below]:	
Shares in Lodestone Energy Limited (407,288,211 shares)	<u>36,655,939</u>
Total purchase consideration	<u>36,655,939</u>
The group has taken up the cost of the underlying assets at acquisition. The assets and liabilities recognised as a result of the acquisition are as follows:	
	Fair value \$
Cash	101
Exploration expenditure	<u>36,655,838</u>
Net identifiable assets acquired	<u>36,655,939</u>

### *Note 28. Asset acquisition continued*

There were no acquisitions in the year ended 30 June 2009.

#### **Share based payment**

In accordance with the Share Sale and Purchase Agreement in consideration for 100% of the issued capital of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited, Lodestone Energy Limited is to issue 407,288,211 shares to the vendors (entities associated with Mr Greg Baynton). The market value of these shares at the time the acquisition became unconditional was \$0.09 per share.

#### **Acquisition-related costs**

Acquisition-related costs of \$198,908 are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

### **Note 29. Contingent liabilities**

Lodestone Energy Limited does not have any contingent liabilities at 30 June 2010.

### **Note 30. Entity details**

The registered office and principal place of business of the company is:

Level 1, 101 Edward Street  
Brisbane QLD 4000  
Ph (07) 3229 6606



Tel: +61 7 3237 5999  
Fax: +61 7 3221 9227  
www.bdo.com.au

Level 18, 300 Queen St  
Brisbane QLD 4000,  
GPO Box 457 Brisbane QLD 4001  
Australia

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LODESTONE ENERGY LIMITED**

### **Report on the Financial Report**

We have audited the accompanying financial report of Lodestone Energy Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

BDO Audit (QLD) Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (QLD) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

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### Auditor's Opinion

In our opinion

- (a) the financial report of Lodestone Energy Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

### Emphasis of Matters

Without qualification to the statement expressed above attention is drawn to the following matter:

As set out in Note 1(s), the financial report has been prepared on a going concern basis. The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due is dependent upon the continued ability of the consolidated entity to raise capital and or to successfully explore and subsequently exploit the consolidated entity's tenements.

As set out in Note 3(i), the ultimate recoupment of costs carried forward for exploration and evaluation is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. Ultimate exploitation through the development of mines will depend on raising necessary funding.

No adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the company be unable to raise capital as and when required and the exploitation of the areas of interest not be successful.

### Report on the Remuneration Report

We have audited the Remuneration Report included on pages 18 to 20 of the directors' report for the year ended 30 June 2010. 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.

### Auditor's Opinion

In our opinion, the Remuneration Report of Lodestone Energy Limited for the year ended 30 June 2010 complies with section 300A of the Corporations Act 2001.

**BDO Audit (QLD) Pty Ltd**

BDO

**Christopher J Skelton**  
Director

Brisbane, 22 September 2010

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## Shareholder information

The shareholder information set out below was applicable as at 13 September 2010.

### A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

1 – 1,000	43
1,001 – 5,000	59
5,001 – 10,000	173
10,001 – 100,000	509
100,001 and over	299
	1,083

There were 76 holders of less than a marketable parcel of ordinary shares.

### B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage (%) of issued shares
Allegro Capital Nominees Pty Ltd	401,997,293	58.46
Square Resources Pty Ltd	23,750,000	3.45
Oliver Lennox-King	15,000,000	2.18
Orbit Capital Pty Ltd	14,484,353	2.11
Wealford Investments Limited	13,500,000	1.96
Armada Trading Pty Ltd	12,500,000	1.82
Nefco Nominees Pty Ltd	7,847,632	1.14
Springtide Capital Pty Ltd	7,298,257	1.06
Bevan Andrew Slattery	6,250,000	0.91
Lance and Olwyn Grimstone	5,631,525	0.82
Somnus Pty Ltd	5,150,000	0.75
Campbell Marine Pty Ltd	4,523,609	0.66
John Lachlan McCawley	3,212,250	0.47
TBIC Pty Ltd	3,000,000	0.44
Eastern Porphyry Pty Ltd	2,950,000	0.43
National Nominees Limited	2,372,500	0.35
Martin Clyde Ackland	2,195,834	0.32
Leejames Nominees Pty Ltd	2,100,000	0.31
BLW (Vic) Pty Ltd	2,045,687	0.30
Lance Ronald Grimstone	2,000,000	0.29
	537,808,940	78.23

Unquoted equity securities	Number on issue	Number of holders
Unquoted options	22,401,000	5
Unquoted performance rights	9,250,000	9
Holders of greater than 20% of unquoted equity securities		
Name	Number held	Percentage of unquoted options
Oliver Lennox-King	15,000,000	66.96

### C. Substantial holders

Substantial holders in the company are set out below:

Ordinary shares	Number held	Percentage
Allegro Capital Nominees Pty Ltd	401,997,293	58.46

### D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

#### (a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### (b) Options

No voting rights.



# LODESTONE ENERGY

Level 1, 101 Edward Street, Brisbane QLD 4000  
Phone: (07) 3229 6606  
[www.lodestonenergy.com.au](http://www.lodestonenergy.com.au)