LODESTONE ENERGY

Date: 20 May 2010

To: Australian Securities Exchange
Companies Announcement Office
Electronic Lodgment System

Dear Sir

NOTICE OF GENERAL MEETING

Please find attached the following documents which Lodestone Energy Limited will be mailing to its shareholders in the next week:

- Chairman's Letter to Shareholders
- the Notice of Meeting and Explanatory Memorandum prepared by the Company for the purposes of the meeting, which set out the items of business of the meeting and provide shareholders with additional information in relation to those items of business;
- an Independent Expert's Report prepared by WHK Horwarth Corporate Finance Limited;
- an Independent Mineral Specialist Report prepared by Xstract Mining Consultants Pty Ltd (which is an annexure to the Independent Expert's Report); and
- a proxy form.

Yours sincerely
Lodestone Energy Limited

Leni Stanley
Company Secretary

Level 1 101 Edward Street Brisbane Queensland 4000 • GPO Box 762 Brisbane Queensland 4001 Australia
T +61 7 3229 6606 • F +61 7 3221 6625 • info@lodestonenergy.com.au • www.lodestonenergy.com.au
ABN 20 075 877 075

LODESTONE ENERGY.

19 May 2010

Dear Shareholder,

I have pleasure in inviting you to attend an Extraordinary General Meeting of Lodestone Energy to be held at the Stamford Lounge, Stamford Plaza Brisbane Hotel, Corner of Edward and Margaret Streets, Brisbane, Queensland on **Tuesday 29 June 2010 at 10.00 am.**

Enclosed are:

- the Notice of Meeting and Explanatory Memorandum prepared by the Company for the purposes of the meeting, which set out the items of business of the meeting and provide shareholders with additional information in relation to those items of business;
- an Independent Expert's Report prepared by WHK Horwarth Corporate Finance Limited;
- an Independent Mineral Specialist Report prepared by Xstract Mining Consultants Pty Ltd (which is an annexure to the Independent Expert's Report); and
- a proxy form.

If you are unable to attend the meeting, I encourage you to complete the enclosed proxy form. Your proxy form should be completed and returned to the Company's share registry so that it is received at least 48 hours prior to the time of the meeting.

I look forward to your attendance at the meeting.

Yours sincerely
Lodestone Energy Limited

Martin Ackland
Chairman

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Lodestone Energy Limited
ACN 075 877 075

Notice of General Meeting

Explanatory Memorandum

and

Proxy Form

Date of Meeting

Tuesday, 29 June 2010

Time of Meeting

10:00AM (Brisbane time)

Place of Meeting

Stamford Lounge, Stamford Plaza Brisbane Hotel
Corner of Edward and Margaret Streets
Brisbane, Queensland

Level 1 101 Edward Street Brisbane Queensland 4000 • GPO Box 762 Brisbane Queensland 4001 Australia
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NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that an extraordinary general meeting of Lodestone Energy Limited ACN 075 877 075 (**Company**) will be held at the Stamford Lounge, Stamford Plaza Brisbane Hotel, Corner of Edward and Margaret Streets, Brisbane, Queensland on Tuesday, 29 June 2010 and will commence at 10:00am (Brisbane time) (**Meeting**).

The Explanatory Memorandum accompanying this Notice provides additional information on the matters to be considered at the Meeting to enable shareholders to make an informed decision regarding the Resolutions. The Explanatory Memorandum is intended to be read in conjunction with, and forms part of, this Notice.

Words that are defined in the Explanatory Memorandum have the same meaning when used in this Notice, unless the context requires otherwise.

Items of business

1. Approval of issue of Shares pursuant to Share Purchase Agreement

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

For the purposes of item 7 of section 611 and Chapter 2E of the Corporations Act, Listing Rules 10.1 and 10.11 and for all other purposes, the issue of 407,288,211 Shares to Allegro Capital Nominees Pty Ltd ACN 079 844 107 and Orbit Capital Pty Ltd ACN 092 586 831 pursuant to the Share Purchase Agreement, the terms of conditions of which are summarised in the Explanatory Memorandum, be approved.

Voting exclusion statement

The Company will disregard any votes cast on Resolution 1 by Greg Baynton, Allegro and Orbit and any of their associates.

2. Ratification of issue of Placement Shares

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

For the purposes of Listing Rule 7.4 and for all other purposes, the issue of 10,000,000 Shares to Square Resources at a price of $0.195 per Share, for the purposes and otherwise on the terms described in the Explanatory Memorandum, be ratified.

Voting exclusion statement

The Company will disregard any votes cast on Resolution 2 by:

(a) any person who participated in the issue; and

(b) any of their associates.

However, the Company need not disregard a vote if:

(c) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or

(d) it is cast by the person chairing the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as their proxy decides.

By order of the Board

Leni Stanley
Company Secretary
19 May 2010

NOTES TO THE NOTICE OF EXTRAORDINARY GENERAL MEETING

Eligibility to vote

A person's entitlement to vote at the Meeting will be determined by reference to the number of Shares registered in the name of that person (reflected in the register of members) as at 7:00pm (Sydney time) on Sunday, 27 June 2010.

Proxy votes and corporate representatives

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

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

All Proxy Forms will need to be lodged with the Company no later than 10:00am (Brisbane time) on Sunday, 27 June 2010, being 48 hours before commencement of the Meeting. Any Proxy Form received after that time will not be valid for the Meeting.

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

- by using the enclosed **reply paid envelope;**
- by **post or fax** to the Company's share registry as follows:

  Lodestone Exploration Limited
  C/- Link Market Services Limited
  Locked Bag A14
  Sydney South NSW 1235
  Facsimile: (02) 9287 0309;

- by **delivery** to Link Market Services Limited at Level 12, 680 George Street, Sydney NSW 2000; or
- **online**, at www.linkmarketservices.com.au by following the directions on the reverse of the Proxy Form.

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

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

LODESTONE ENERGY.

ABN 20 075 877 075

LODGE YOUR VOTE

ONLINE www.linkmarketservices.com.au

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

By fax: (02) 9287 0309

All enquiries to: Telephone: (02) 8280 7454

X99999999999

SHAREHOLDER VOTING FORM

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

STEP 1 APPOINT A PROXY

the **Chairman of the Meeting (mark box)** ☐

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

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at 10:00am on Tuesday, 29 June 2010, at Stamford Lounge, Stamford Plaza Brisbane Hotel, Corner of Edward and Margaret Streets, Brisbane, Queensland 4000 and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting.

Please read the voting instructions overleaf before marking any boxes with an X

STEP 2 VOTING DIRECTIONS

	For	Against	Abstain*
Resolution 1 Approval of issue of Shares pursuant to Share Purchase Agreement	☐	☐	☐
Resolution 2 Ratification of issue of Placement Shares	☐	☐	☐

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

STEP 3 SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

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

LOD PRX001

HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

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

Appointment of a Proxy

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

Votes on Items of Business – Proxy Appointment

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

Appointment of a Second Proxy

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

To appoint a second proxy you must:

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

(b) return both forms together.

Signing Instructions

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

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

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

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

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

Corporate Representatives

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

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 10:00am on **Sunday, 27 June 2010**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

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

ONLINE **www.linkmarketservices.com.au**

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

by mail:

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

by fax:

(02) 9287 0309

by hand:

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

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

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of shareholders in relation to the business to be conducted at the extraordinary general meeting of Lodestone to be held at the Stamford Lounge, Stamford Plaza Brisbane Hotel, Corner of Edward and Margaret Streets, Brisbane, Queensland on Tuesday, 29 June 2010 at 10:00am (Brisbane time). This Explanatory Memorandum should be read in conjunction with the Notice.

A number of words and terms that are used in this Explanatory Memorandum have defined meanings, which are set out in the glossary.

Resolution 1 – Approval of issue of Shares pursuant to Share Purchase Agreement

Introduction

On 22 December 2009 Lodestone entered into the Share Purchase Agreement. The parties to the Share Purchase Agreement are the Company, Allegro and Orbit. Orbit is wholly owned by Allegro. Greg Baynton, a Director, and his wife are directors of both Allegro and Orbit. Mr Baynton and his family own Allegro.

Under the Share Purchase Agreement, Lodestone (or a subsidiary of Lodestone) is entitled, subject to shareholder approval, to acquire all of the issued shares in Tambo and Moreton (**Transaction**). Upon completion of the Transaction, Lodestone will, directly and through its subsidiaries, own 100% of the coal, coal seam gas and underground coal gasification projects of Tambo and Moreton. In consideration for the acquisition of Tambo and Moreton, Lodestone will issue 407,288,211 Shares to Allegro and Orbit (**Consideration Shares**).

Pursuant to Resolution 1 shareholder approval is sought for the purposes of Chapter 2E and item 7 of section 611 of the Corporations Act, and Listing Rules 10.1 and 10.11, and for all other purposes, for the issue of the Consideration Shares to Allegro and Orbit.

Set out in this Explanatory Memorandum is an analysis of the Transaction, including the potential advantages and disadvantages of it proceeding, an explanation of why shareholder approval is required, the recommendations of the Directors and certain other information that the Company is required to disclose for the purposes of the Corporations Act and the Listing Rules.

In accordance with the requirements of the Listing Rules, the Company engaged WHK Horwath Corporate Finance Limited as an independent expert to report whether in its opinion the Transaction is fair and reasonable to those shareholders not associated with the Transaction. **The Independent Expert has concluded that the Transaction is fair and reasonable to non associated shareholders of Lodestone**.

The Independent Expert's Report, which includes an Independent Mineral Specialist's Report by Xstract Mining Consultants Pty Ltd, accompanies this Explanatory Memorandum.

Why is shareholder approval required?

Chapter 6 of the Corporations Act

Chapter 6 of the Corporations Act generally prohibits a person from acquiring a relevant interest in shares in an entity if, as a result of the acquisition, that person's, or someone else's, voting power in the company increases from below 20% to more than 20%. An exception to this prohibition is where the acquisition is approved by shareholders in accordance with item 7 of section 611 of the Corporations Act.

The issue of the Consideration Shares to Allegro and Orbit will result in Allegro acquiring a relevant interest in more than 20% of the Company's Shares. In particular, Allegro will

acquire a relevant interest in the Consideration Shares to be issued to it and, because it owns all of the issued shares in Orbit, Allegro will also acquire a relevant interest in the Shares issued to Orbit.

As Greg Baynton controls both Allegro and Orbit, under the Corporations Act he will have a relevant interest in any Shares in the Company in which they have a relevant interest. This means that, as a result of the issue of the Consideration Shares, Greg Baynton will also acquire a relevant interest in more than 20% of the Company's Shares.

As a result, the issue of the Consideration Shares to Allegro and Orbit will require the approval of shareholders under item 7 of section 611 of the Corporations Act.

Chapter 2E Corporations Act

Chapter 2E of the Corporations Act prohibits a company (subject to certain exceptions) from giving a financial benefit to a related party of the Company, except with the approval of shareholders. Issuing securities to a related party is an example of giving a financial benefit under Chapter 2E.

An approval under Chapter 2E is required in the circumstances because, pursuant to the Share Purchase Agreement, the Company will be issuing securities (in the form of the Consideration Shares) to Allegro and Orbit who are related parties of the Company because they are controlled by Greg Baynton, a Director.

Listing Rule 10.1

Listing Rule 10.1 provides that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from a related party of the entity, except with shareholder approval. A substantial asset is defined in Listing Rule 10.2 as an asset whose value, or the value of the consideration for it is, 5% or more of the equity interests of the entity in its last accounts given to ASX.

Both Allegro and Orbit are entities controlled by Greg Baynton, a Director, and are related parties of the Company for the purposes of Listing Rule 10.1. As noted above, if the Transaction is approved, Allegro and Orbit will be issued a total of 407,288,211 Shares which, based on the closing price of Shares on Tuesday, 18 May 2010 of $0.099 (being the trading day prior to the date of the Notice), will have a market value of $40,321,533. As the equity interests of the Company for the purposes of Listing Rule 10.1 as at 31 December 2009 were approximately $4.8 million, the Transaction will result in the 5% limit being exceeded and shareholder approval is therefore required in order for the Company to be able to proceed with the Transaction.

Listing Rule 10.11

Listing Rule 10.11 provides that an entity must not issue, or agree to issue, securities to a related party of the entity without first obtaining shareholder approval. As both Allegro and Orbit are related parties of the Company, shareholder approval is required under Listing Rule 10.11 before the Consideration Shares can be issued to them.

Summary of the Share Purchase Agreement

Under the Share Purchase Agreement, Lodestone (or a subsidiary of Lodestone) is entitled to acquire all of the issued shares in Tambo and Moreton from Allegro and Orbit. A description of Tambo and Moreton and their key assets is set out in the summaries of Moreton and Tambo below. Shareholders should refer to the Independent Expert's Report and Independent Mining Specialist's Report for further information regarding each company and its assets.

Completion of the Share Purchase Agreement, and the Company's obligation to issue the Consideration Shares, is subject to Resolution 1 being passed. If shareholder approval is not

obtained prior to 1 April 2010, then either party may terminate the Share Purchase Agreement.

If issued, the Consideration Shares will rank equally with those Shares currently on issue. Under the Listing Rules, all of the Consideration Shares will be subject to mandatory escrow for a period of 12 months commencing on the date of issue. This means that neither Allegro nor Orbit will be able to dispose of or otherwise deal with the Consideration Shares issued to them for the restriction period. Lodestone will apply for quotation of the Consideration Shares promptly after the restriction period ends.

The Company has agreed that until completion of the Share Purchase Agreement it will not issue, or agree to issue, any further Shares without the prior written approval of Allegro and Orbit.

Following the completion of the Transaction, Allegro and Orbit, and any of their related entities, are prohibited from applying for any coal or petroleum tenements within any area that is within 100 kilometres of the boundaries of the areas covered by the tenements the subject of the Tambo Coal Farmin and Tambo Gas Farmin agreements, details of which are discussed in more detail below and in the Independent Expert's Report and Independent Mining Specialist's Report.

Until completion of the Transaction Allegro and Orbit must ensure that Moreton and Tambo continue to conduct their business in the ordinary course and must procure that neither company takes certain action such as issuing securities, incurring material obligations, terminating existing arrangements or otherwise altering their capital structure without the prior written consent of Lodestone.

Each party to the Share Purchase Agreement has made representations and given warranties, customary for an agreement of this type.

Overview of Tambo

Tambo is a proprietary company whose shareholders are Orbit and Allegro. Greg Baynton is the sole director and secretary of Tambo. Tambo was incorporated on 13 June 2008.

Tambo is the registered holder of Authority to Prospect (**ATP**) 1020, a granted tenement prospective for gas that covers an area of approximately 7,000 square kilometres that straddles the Eromanga and Surat basins in Queensland. Tambo has applied in its own name for seven Exploration Permits for Coal (**EPC**), some of which partially overlap ATP 1020. Two of these EPCs, EPC 1482 and EPC 1484, have been granted. In addition, Tambo and Lodestone Coal have jointly applied for a further 20 EPCs located in the Surat and Eromanga basins. Details of the permits registered, or under application by Tambo (alone and jointly with Lodestone Coal), are set out in the Independent Expert's Report.

Tambo has entered into two farmin agreements with the Company and its subsidiaries – the Tambo Coal Farmin and the Tambo Gas Farmin – both of which were approved by shareholders at the extraordinary general meeting held on 26 June 2009.

Under the Tambo Gas Farmin, Lodestone CSG, a wholly owned subsidiary of the Company, may earn up to a 50% interest in ATP 1020 by undertaking exploration activities and incurring exploration expenditure to the value of $5 million over a four year earning period. Lodestone CSG is entitled to be transferred a 10% interest in ATP 1020 for each $1 million that it spends in satisfying this obligation. Lodestone CSG must satisfy the minimum expenditure obligations for ATP 1020 until such time as it withdraws from the Tambo Gas Farmin. These obligations currently total approximately $8.25 million over a four year period. A more detailed summary of the terms of Tambo Gas Farmin is contained in the May 2009 EGM Notice, which can be found at www.asx.com.au.

Tambo has also entered into the Tambo Coal Farmin pursuant to which Lodestone Coal has a right to earn up to a 50% interest in the coal tenements applied for by Tambo alone by

undertaking exploration and incurring exploration expenditure to the value of $5 million over a four year earning period. Lodestone Coal is entitled to earn a 10% interest in the tenements for each $1 million that it spends in satisfying its earning obligation. Under the Tambo Coal Farmin exploration expenditure incurred on those tenements jointly held by Tambo and Lodestone Coal will be counted towards Lodestone Coal's earning obligation. A more detailed summary of the terms of the Tambo Coal Farmin is also set out in the 2009 EGM Notice (lodged with ASX on 26 May 2009), which can be found at www.asx.com.au.

Other than its interests in ATP 1020, the EPCs held in its own name and jointly with Lodestone Coal and its interests under the Tambo Gas Farmin and the Tambo Coal Farmin, Tambo has not otherwise traded.

Overview of Moreton

Moreton is a proprietary company whose sole shareholder is Orbit. Greg Baynton is the sole director and secretary of the company. Moreton was incorporated on 20 May 2008.

Moreton has been granted three exploration permits for areas prospective for coal (EPC 1299, EPC 1302 and EPC 1313), which are located in the Moreton Basin in South East Queensland. Moreton and Lodestone also jointly hold an exploration permit for coal (EPC 1524). Details of these permits are set out in the Independent Expert's Report and Independent Mining Specialist's Report.

Under the Moreton Farmin between Lodestone, Moreton and Orbit, which was approved by shareholders on 8 September 2008, Lodestone has a right to earn a 50% interest in those EPCs registered in the name of Moreton by undertaking exploration, and incurring exploration expenditure, to the value of $2 million over a period of three years. In consideration for entering into the Moreton Farmin, Lodestone has issued six million Shares to Orbit and has an obligation to issue up to a further three million Shares once it has carried out exploration and incurred exploration expenditure to the value of $1 million. In particular, once this expenditure threshold has been reached, Lodestone must issue one million Shares for each EPC that it elects to have an interest in. Further details of the Moreton Farmin are set out in the notice of meeting and explanatory memorandum lodged by the Company with ASX on 5 August 2008, which is available at www.asx.com.au.

Other than its interest in the EPCs the subject of the Moreton Farmin and those held jointly with the Company, and its interests under the Moreton Farmin, Moreton has not otherwise traded.

Reasons for and advantages of the Transaction

If the Transaction proceeds Moreton and Tambo will become wholly owned subsidiaries of the Company. It is intended that the Moreton Farmin, Tambo Coal Farmin and Tambo Gas Farmin will then be terminated, which will:

- mean that Lodestone and its subsidiaries will wholly own the entire portfolio of coal, coal seam gas, underground coal gasification (UCG) and conventional petroleum tenement rights in which they currently have an interest, or a right to acquire an interest under the Farmin Agreements. This means that, aside from the royalty interest payable to a third party (which is discussed further below), any economic benefits arising from the exploration and development of these tenements will accrue to the Company alone.

- mean that the Company will be able to deal with and manage its energy portfolio without ongoing contractual obligations to project partners, other than those imposed under the royalty arrangements discussed further below. For example, the Company will not be required to enter into formal joint venture arrangements with Tambo or Moreton in relation to the tenements and will have the option of selling, de-merging or joint-venturing each of its energy projects (subject to limitations contained in its royalty agreements); and

- eliminate Lodestone's ongoing obligations under these agreements (including its obligation to issue further Shares to Orbit under the Moreton Farmin).

In addition, the Directors believe that upon the Company gaining full control of the Tenements and its market capitalisation increasing, there is greater potential for the Company to improve its profile, gain coverage by analysts and attract greater investor interest, which may assist the Company to enhance shareholder value and raise required capital in the future.

On 27 August 2009 Lodestone and Lodestone Coal entered into a royalty agreement with Oliver Lennox-King pursuant to which the Company granted a royalty of 2% of the gross value of Lodestone and Lodestone Coal's share of the coal sold, used or produced from the tenements the subject of the Moreton Farmin and Tambo Coal Farmin, tenements acquired by either entity that are within the areas of influence set out in these farmin agreements and any other exploration permit, mineral development license, mining lease or coal mining tenement in which the Company or its related bodies corporate acquires an interest prior to 31 December 2009.

On the same date Lodestone and Lodestone CSG entered into a similar royalty agreement with Oliver Lennox-King under which Lodestone granted a royalty of 2% of the well head value Lodestone and Lodestone CSG's share of petroleum produced from the areas the subject of the Tambo Gas Farmin, any petroleum tenure or tenement acquired by either entity that are within the area of influence set out in the Tambo Gas Farmin and any other tenement, tenure or other authority in which the Company or its related bodies corporate acquires an interest prior to 31 December 2009.

If the Transaction proceeds, the percentage royalty payable by the Company under the royalty agreements will be reduced from 2% to 1%. However, although the percentage royalty rate will be halved, it will be payable on 100% of the revenue derived from the relevant tenements (rather than a maximum of 50% of the revenue). Accordingly the total dollar amount of the royalty payable by Lodestone is not expected to change with the increase in the Company's interests in the relevant projects to 100%.

Disadvantages of the Transaction

The issue of the Consideration Shares will result in the dilution of existing shareholders. Based on the current issued capital of the Company of 211,509,529 Shares, and assuming that other than the Consideration Shares, no other Shares are issued (e.g., on the exercise of options or performance rights), the percentage of the Company controlled by shareholders not associated with Greg Baynton will be reduced from 95.7% to 32.7% on completion of the Transaction.

If the Transaction proceeds, Orbit and Tambo will control 67.3% of Lodestone's issued share capital and will have the capacity to appoint a majority of Directors of the Company and to determine the outcome of ordinary resolutions, and to reject special resolutions, at general meetings of the Company. In addition, by virtue of their large shareholding, a change in the control of Lodestone will not be able to occur without the support of Allegro and Orbit. This means that Allegro and Orbit could block a hostile or other takeover of Lodestone if the terms of the takeover are not acceptable to them.

The Company has issued a total of 18.5 million performance rights, which entitle the holder to be issued Shares for no consideration if the applicable performance hurdles are satisfied. One half of the performance rights issued (**Tranche 1 Performance Rights**) vest and are exercisable if the market capitalisation of the Company exceeds $50 million for five or more consecutive trading days. The remaining half of the performance rights issued vest and are exercisable if the volume weighted average price of Shares is at least $0.25 for a continuous period of five trading days. If the Consideration Shares are issued, the Company will have a total of 618,797,740 Shares on issue (assuming that no other Shares are issued, including pursuant to the exercise of options or performance rights). Based on the closing price of Shares of $0.099 on Tuesday, 18 May 2010, being the last day on which Shares were traded on ASX before the Notice and Explanatory Memorandum were finalised, the capitalisation of

the Company would therefore be $61,260,976 and the Tranche 1 Performance Rights will vest and be exercisable.

If the Transaction proceeds Lodestone and its subsidiaries (which will include Tambo and Morton) will, as the full owners of the tenements registered (or to be registered) in the name of Moreton and Tambo, be solely responsible for maintaining their good standing, including paying all rent, applicable security bonds and satisfying minimum expenditure obligations. The Company estimates that these amounts will total approximately $2 million in the full financial year ended 30 June 2010. In contrast, under the existing farmin arrangements, generally speaking Lodestone is only required to pay such amounts in respect of those tenements that it has elected to retain an interest in (i.e., which it has not excluded from the relevant farmin).

Information regarding Allegro and Orbit

Allegro and Orbit are private companies controlled by Greg Baynton, a Director. Orbit is a wholly owned subsidiary of Allegro.

Under the Share Purchase Agreement the Company has agreed to issue the Consideration Shares to Allegro and Orbit as follows:

- Allegro – 399,142,447 Shares; and
- Orbit – 8,145,764 Shares.

Orbit and Greg Baynton are associates of Allegro in relation to its proposed investment in the Company. Allegro and Greg Baynton are associates of Orbit in relation to its existing and proposed investment in the Company.

Currently Orbit is the registered holder of 6,338,589 Shares, Allegro is the registered holder of 2,854,846 Shares and Greg Baynton (as trustee) is the registered holder of 53,333 Shares. Allegro and Greg Baynton have a relevant interest in the Shares held by Orbit, and Allegro and Greg Baynton each has a relevant interest in the Shares held by the other. The current collective voting power of Orbit, Allegro, Greg Baynton and each of their associates in the Company is 4.4% based on the total number of 211,509,529 Shares on issue.

Upon completion of the Transaction:

- Orbit will be the registered holder of, and will have a relevant interest in, 14,484,353 Shares (being the aggregate of its current holding of 6,338,589 Shares and the 8,145,764 Consideration Shares to be issued to it);
- Allegro will be the registered holder of 401,997,293 Shares (being the aggregate of its current holding of 2,854,846 Shares and the 399,142,447 Consideration Shares to be issued to it) and will have a relevant interest in 416,534,979 Shares;
- Greg Baynton will be the registered holder of 53,333 Shares and will have a relevant interest in 416,534,979 Shares; and
- the collective voting power of Orbit, Allegro, Greg Baynton and each of their associates will increase to 67.3% based on the total number of 618,797,740 Shares on issue.

Assuming no further issues of Shares by Lodestone, the maximum extent of the increase in the voting power of Allegro, Orbit, Greg Baynton and their associates that results from the issue of the Consideration Shares pursuant to Resolution 1 is 62.9% (being from an existing voting power of 4.4% to 67.3%).

The effect of the issue of the Consideration Shares if Resolution 1 is approved is summarised in the following table, which outlines the shareholdings of Allegro, Orbit and Greg Baynton in the Company and their respective relevant interests pre and post Transaction:

	Current (as at 18 May 2010)[4]				**If Transaction proceeds (assumes no further Share issues)**			
	Registered holding		**Relevant interest**		**Registered holding**		**Relevant interest**	
	Shares	**%**	**Shares**	**%**	**Shares**	**%**	**Shares**	**%**
Allegro[2]	2,854,846	1.4	9,246,768	4.4	401,997,293	65.0	416,534,979	67.3
Orbit	6,338,589	3.0	6,338,589	3.0	14,484,353	2.3	14,484,353[5]	2.3
Greg Baynton[3]	53,333[1]	<0.03	9,246,768[1]	4.4	53,333[1]	<0.01	416,534,979	67.3
Orbit, Allegro, Greg Baynton and their associates[2,3]	9,246,768	4.4	9,246,768	4.4	416,534,979	67.3	416,534,979	67.3
Other shareholders	202,262,761	95.6	202,262,761	95.6	202,262,761	32.7	202,262,761	32.7
TOTAL	**211,509,529[4]**	**100**	**211,509,529[4]**	**100**	**618,797,740**	**100**	**618,797,740**	**100**

Notes:

1. These Shares are held on trust for Karen Joncour (3,333 Shares) and Gordon and Glenis Baynton (50,000 Shares), the sister and father and mother of Greg Baynton respectively.

2. Allegro is the registered holder of 2 million options to subscribe for Shares at an exercise price of $0.07. These options expire 10 September 2010 unless exercised beforehand. The closing price of the Company's Share on ASX on Tuesday, 18 May 2010, being the trading day prior to the Notice being finalised, was $0.099. As these options have not yet been exercised, Allegro, Orbit and Greg Baynton do not have a relevant interest in the shares to which they relate. If these options are exercised, the current relevant interest of Allegro, Orbit and Greg Baynton, and their collective relevant interests if the Transaction proceeds, will be 5.3% and 67.4% respectively.

3. Greg Baynton is the registered holder of 2 million performance rights, which entitle him to be issued Shares for no consideration if the applicable performance conditions are satisfied. If these performance rights vest, and ordinary Shares are issued to Mr Baynton in respect of them, Mr Baynton will be the registered holder of 2,053,333 Shares. Assuming all other performance rights on issue also vest and are exercised (see the discussion in relation to the interests of Directors in the Transaction below for further details), a total of 12,500,000 Shares will be issued and the total issued capital of the Company (assuming no other Share issues) will be 631,297,740 Shares if the Transaction proceeds. In these circumstances, the relevant interest in Shares of Greg Baynton and Allegro and their associates will be 66.3% and Orbit will be 2.3%.

4. This is the issued capital of the Company on Tuesday, 18 May 2010, being the trading day prior to the Notice being finalised. The Company has options and performance rights on issue some of which are presently exercisable, or will be exercisable, if the Transaction proceeds. See the discussion in relation to the interests of Directors in the Transaction below for further details.

5. Orbit has agreed, upon the Consideration Shares being released from escrow, to transfer half of the Consideration Shares issued to it (i.e., 4,072,882 Shares) to Lance Grimstone Investments Pty Ltd, an entity controlled by Lance Grimstone, a Director. See the discussion in relation to the interests of Directors in the Transaction below for further details.

Intentions of Allegro and Orbit

As Greg Baynton is currently a Director of the Company, no change to the composition of the Board is currently intended as a result of the issue of the Consideration Shares to Allegro and Orbit.

Greg Baynton, Allegro and Orbit have indicated that they are supportive of the Company's current direction. In particular, they have indicated that:

- they do not have any current intention to change the business of the Company;
- they have no current intention to inject further capital into the Company;
- they do not currently intend that any property be transferred between the Company and any of them or their associates;
- they have no current intention to redeploy the fixed assets of the Company;
- they have no current intention to change the Company's existing financial or dividend policies; and
- they intend to work with the Company's Board to review the human resource requirements and skills base of the Company. However, no decisions have been made in this regard.

The current intentions of Greg Baynton, Allegro and Orbit set out above are based on the facts and information regarding the Company and the general business environment that are known to them as at the date of this Explanatory Memorandum. If circumstances change, or new information or opportunities become available, the intentions of Greg Baynton, Allegro and Orbit could also change.

Other information

Under the Share Purchase Agreement, Greg Baynton is entitled to require the Company to appoint him as a part-time executive Director of the Company on ordinary commercial terms. However, Mr Baynton has not yet decided whether he will exercise this right.

Timing of the Transaction

If Resolution 1 is passed by shareholders, the Company, Orbit and Allegro are bound to complete the Transaction within 21 days of the date of the Meeting, i.e., by Tuesday, 20 July 2010. Lodestone anticipates that the Transaction will complete shortly after the date of the meeting, at which point the Company will issue the Consideration Shares to Allegro and Orbit, and the Company will become the sole shareholder of Moreton and Tambo.

Independent Expert's Report

The Company commissioned the Independent Expert to express an opinion as to whether the Transaction is fair and reasonable to the non-associated shareholders of the Company. In preparing its report, the Independent Expert engaged Xstract Mining Consultants Pty Ltd to prepare the Independent Mining Specialist's Report. The Independent Expert's Report (including the Independent Mining Specialist's Report) accompanies this Explanatory Memorandum.

The Independent Expert has concluded that the transaction is fair and reasonable to the non-associated shareholders of the Company.

Shareholders are urged to read the Independent Expert's Report carefully.

Consequences if Resolution 1 is not passed

If Resolution 1 is not passed, the Company will not be bound to complete the Share Purchase Agreement and will not acquire Tambo and Moreton and will not issue the Consideration Shares to Allegro and Orbit. The Farmin Agreements will remain on foot. This means the Company, and its subsidiaries Lodestone Coal and Lodestone CSG, will

retain their existing interests in those tenements held jointly with Moreton and Tambo as well as their right to acquire an interest in those tenements held by Moreton and Tambo under the Farmin Agreements if they fulfil their farmin obligations. The Directors consider that there will be no major adverse affect on the Company if the Transaction does not proceed, although the Company will not realise the benefits of the Transaction, as outlined above.

Directors' interests in the Transaction

The current directors of the Company are Mr Martin Ackland (Chairman), Mr Graham Baker, Mr Greg Baynton, Mr Lance Grimstone and Mr Bill Stubbs.

Each of the Directors holds performance rights, as detailed in the table below. As noted in the summary of the disadvantages of the Transaction earlier in this Explanatory Memorandum, one half of the performance rights issued by the Company (**Tranche 1 Performance Rights**) vest and are exercisable if the market capitalisation of the Company exceeds $50 million for five or more consecutive trading days. If the Consideration Shares are issued, the Company will have a total of 618,797,740 Shares on issue (assuming that no other Shares are issued, including pursuant to the exercise of options or performance rights). At the closing price of Shares of $0.099 on Tuesday, 18 May 2010 (being the last day on which Shares were traded on ASX before the Notice and Explanatory Memorandum were finalised), the capitalisation of the Company would be $61,260,976 and the Tranche 1 Performance Rights issued to Directors would vest and be exercisable.

Based on 618,797,740 Shares on issue, the market price of Shares would need to fall below $0.081, and must not exceed $0.081 for five or more trading days, in order for the performance condition for the Tranche 1 Performance Rights not to be satisfied.

Name	**No. of Tranche 1 Performance Rights**	**No. of Shares to be issued if performance condition is satisfied**
Martin Ackland	1,000,000	1,000,000
Grahame Baker	1,000,000	1,000,000
Greg Baynton	1,000,000	1,000,000
Lance Grimstone	2,000,000	2,000,000
Bill Stubbs	1,000,000	1,000,000
Total	**6,000,000**	**6,000,000**

On 3 September 2009, Tambo, Orbit, Allegro and Lance Grimstone Investments Pty Ltd (a company controlled by Lance Grimstone, a Director) entered into an agreement pursuant to which Orbit and Allegro agreed that, in consideration of the considerable work undertaken by Lance Grimstone in validating the geology and prospectivity of the tenements held by Tambo and identifying other prospective areas for application by Tambo and the Company, Allegro and Orbit would pay to Lance Grimstone Investments Pty Ltd 1% of the proceeds of any sale by Orbit and Allegro of their shares in Tambo (plus any applicable GST). The agreement provides that where the consideration received by Orbit and Allegro is shares in the purchaser, the consideration payable to Lance Grimstone Investments Pty Ltd will also be shares in the purchaser. In satisfaction of this obligation Orbit has agreed, upon the Consideration Shares being released from escrow, to transfer 4,072,882 of the Consideration Shares issued to it to Lance Grimstone Investments Pty Ltd. Allegro will not transfer any of the Consideration Shares issued to it. Upon the transfer of these Shares, and assuming that no performance rights or options issued to Mr Grimstone (or any other person) are exercised,

Mr Grimstone will have a relevant interest in 8,704,407 Shares, representing approximately 1.4% of the total number of Shares on issue assuming the Transaction proceeds.

Other information

For the purposes of Chapter 2E of the Corporations Act and the Listing Rules, the following additional information is provided:

- The related parties of the Company to whom a financial benefit will be given if Resolution 1 is passed are Orbit and Allegro. Orbit and Allegro are related parties of the Company because they are companies controlled by Greg Baynton, a Director.

- The financial benefit to be provided to each of Orbit and Allegro if Resolution 1 is approved is the issue of the Consideration Shares.

- The Consideration Shares will be ordinary fully paid shares in the capital of the Company, which will rank equally with the existing Shares on issue. As the Consideration Shares are being issued in consideration of the acquisition by the Company of Moreton and Tambo, no money will be raised from the issue of the Consideration Shares.

Directors' recommendations

Each Director has considered and approved the convening of the meeting and the issue of the Notice.

Greg Baynton has an interest in Resolution 1 as he controls Allegro and Orbit, and will acquire a relevant interest in the Consideration Shares if they are issued**.** Accordingly, **Mr Baynton makes no recommendation in relation to Resolution 1.**

Lance Grimstone has an interest in Resolution 1 as he controls Lance Grimstone Investments Pty Ltd, which will, if Resolution 1 is approved, be entitled to be transferred 4,072,882 of the Consideration Shares issued to Orbit. Lance Grimstone will have a relevant interest in these Shares. By virtue of this interest, **Mr Grimstone makes no recommendation in relation to Resolution 1**.

Each Director (including Greg Baynton and Lance Grimstone) has an interest in the Share Purchase Agreement on the basis that, if the Transaction proceeds and the Consideration Shares are issued, it is likely that the market capitalisation of the Company will exceed $50 million and, as a consequence, the Tranche 1 Performance Rights will be eligible to vest, which will entitle each Director to be issued Shares for no consideration. Notwithstanding this interest each Director (other than Greg Baynton and Lance Grimstone) considers that they should give guidance to shareholders on how they should vote.

For the reasons set out in this Explanatory Memorandum, **each Director (other than Greg Baynton and Lance Grimstone) considers that the Transaction is in the best interests of the Company and recommends that shareholders vote in favour of Resolution 1.**

Resolution 2 – Ratification of issue of Placement Shares

Purpose of Resolution 2

In December 2009, the Company agreed to issue 10 million shares to Square Resources at an issue price of $0.195 to raise $1.95 million (**Placement Shares**). Square Resources is an Australian company associated with Moss Capital Pty Ltd, which invests globally in early-stage natural resources projects and companies.

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

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

The Placement Shares were issued on 15 December 2009. The issue of the Placement Shares was within the Company's 15% limit under Listing Rule 7.1. Under Resolution 2, the Company seeks shareholder ratification of the issue of the Placement Shares for the purposes of Listing Rule 7.4.

Other information

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

Prior to the issue of the Placement Shares Square Resources did not have a relevant interest in any Shares. As a result of the issue of the Placement Shares, Square Resources has a relevant interest in 10 million Shares, representing approximately 4.7% of the Company's current issued share capital.

The proceeds from the issue of the Placement Shares will be predominantly used to help accelerate the exploration program for the Tambo Coal & Gas Project during 2010. In addition, Square Resources is a strategic energy and resources investor and has expertise in accelerating coal project developments and experience in exploration management, coal mine planning and development, project funding and coal marketing. The Company hopes to benefit from the expertise and connections of Square Resources to develop its energy assets.

Director's interests and recommendation

None of the Directors has an interest in Resolution 2. The Directors **unanimously recommend that shareholders vote in favour of Resolution 2** as this will allow the Company to retain the flexibility to issue the maximum number of equity securities permitted under Listing Rule 7.1 without requiring further shareholder approval. In particular, if Resolution 2 is not approved, the Company's capacity to issue additional securities will be significantly constrained until 15 December 2010, at an important time in the Company's development.

Glossary of terms

In the Notice and Explanatory Memorandum the following words and expressions have the following meanings:

2009 EGM Notice means the notice of meeting and explanatory memorandum convening the extraordinary general meeting of shareholders of the Company held on 26 June 2009, lodged by the Company with ASX on 26 May 2009.

Allegro means Allegro Capital Nominees Pty Ltd ACN 079 844 107.

General Meeting or **Meeting** means general meeting of the Company to be held on Tuesday, 29 June 2010.

ASIC means the Australian Securities and Investments Commission.

ASX means the ASX Limited ACN 008 624 691 or the market that it operates, as the context requires.

Board means the board of Directors of the Company.

Company or **Lodestone** means Lodestone Energy Limited ACN 075 877 075.

Consideration Shares means 407,208,211 Shares.

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

Directors means the directors of the Company from time to time, and **Director** means any one of them.

Explanatory Memorandum means the explanatory memorandum to the notice of meeting contained in this booklet.

Farmin Agreements means the Moreton Farmin, Tambo Coal Farmin and the Tambo Gas Farmin.

Independent Expert means WHK Horwath Corporate Finance Limited ACN 001 508 363.

Independent Expert's Report means the report of the Independent Expert, in Annexure A.

Independent Mineral Specialist's Report means the valuation report prepared by Xstract Mining Consultants Pty Ltd, which is Annexure S of the Independent Expert's Report.

Listing Rules means the official listing rules of ASX.

Lodestone Coal means Lodestone Coal Pty Ltd ACN 134 427 919.

Lodestone CSG means Lodestone CSG Pty Limited ACN 134 448 258.

Meeting means the extraordinary general meeting of shareholders of the Company to be held at the Stamford Lounge, Stamford Plaza Brisbane Hotel, Corner of Edward and Margaret Streets, Brisbane, Queensland on Tuesday, 29 June 2010 at 10:00am (Brisbane time).

Moreton means Moreton Energy Pty Ltd ACN 131 181 434.

Moreton Farmin means the farmin agreement dated 18 June 2008 between the Company, Moreton and Orbit.

Notice means the notice of meeting convening the Meeting.

Orbit means Orbit Capital Pty Ltd ACN 092 586 831.

Proxy Form means a proxy form accompanying the Notice.

Resolution means a resolution set out in the Notice.

Share means a fully paid ordinary share in the capital of the Company, the terms of which are contained in the Company's constitution.

Share Purchase Agreement means the agreement dated 22 December 2009 between the Company, Allegro and Orbit pursuant to which the Company has agreed, subject to Shareholder approval, to acquire all of the issued shares in Moreton and Tambo.

Square Resources means Square Resources Pty Ltd ACN 139 275 157.

Tambo Coal Farmin means the Tambo Coal Project Farmin Agreement dated 10 December 2008 between the Company, Lodestone Coal and Tambo.

Tambo Gas Farmin means the Tambo Gas Project Farmin Agreement dated 10 December 2008 between the Company, Lodestone CSG and Tambo.

Tambo means Tambo Coal & Gas Pty Ltd ACN 131 603 766.

Transaction means the proposed transaction between Lodestone, Allegro and Orbit pursuant to which, subject to Resolution 1 being passed, Lodestone will acquire all of the issued shares in Tambo and Moreton in consideration for the issue of the Consideration Shares.

WHK Horwath Corporate Finance

Lodestone Energy Limited

Independent Expert's Report

For the purposes of ASX Listing Rule 10.10 and Section 611(7) of the Corporations Act (2001)

May 2010

For further information please contact:

Harley Mitchell or Ross Patane

HM:JM
19 May 2010

The Independent Directors
Lodestone Energy Limited
C/- Mr Jeff Jamieson
Chief Executive Officer
GPO Box 762
BRISBANE QLD 4001

Dear Sirs

INDEPENDENT EXPERT'S REPORT - LODESTONE ENERGY LIMITED

WHK Horwath Corporate Finance Limited (WHKCF) has been appointed by the Directors of Lodestone Energy Limited (LOD / the Company) to prepare an Independent Expert's Report (IER / the Report) to express an opinion as to whether a transaction proposed by LOD to purchase, subject to shareholder approval, 100% of the ordinary equity in Tambo Coal & Gas Pty Ltd (Tambo) and Moreton Energy Pty Ltd (Moreton), in exchange for 407,288,211 ordinary shares in LOD (the Proposed Transaction) is fair and reasonable to those LOD shareholders not associated with the Proposed Transaction. The Report is required for inclusion in the Notice of Meeting and accompanying Explanatory Memorandum (the Transaction Documents) to be forwarded to LOD shareholders for their consideration in determining whether to approve the Proposed Transaction. LOD shareholders will be required to vote on the Proposed Transaction at a general meeting convened for the purposes of the Corporations Act 2001 (Cth) (the Act) and the listing rules of the Australian Securities Exchange (the Listing Rules).

This letter (the Letter) is a summary of our analysis and opinion and does not constitute a substitute for the reading of our entire Report. In the case that a party is to rely on our opinion in any manner, we recommend that our Report be considered in its entirety. LOD shareholders should read the Transaction Documents issued by LOD together with our Report prior to deciding whether to approve the Proposed Transaction.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. We have considered the Proposed Transaction generally. We have not considered the effect of the Proposed Transaction on the particular circumstances of individual LOD shareholders nor have we considered their individual objectives, financial situation or needs. Due to particular circumstances, individual LOD shareholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions as to whether to approve the Proposed Transaction.

Except for the Report, WHKCF had no involvement in the preparation of the Transaction Documents, and as such, WHKCF, its officers, representatives, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from the information contained in the Transaction Documents other than this Report or any loss or damage suffered by any person directly or indirectly through relying on this information.

The Proposed Transaction

On 22 December 2009, LOD entered into an agreement with Allegro Capital Nominees Pty Ltd (Allegro) and Orbit Capital Pty Ltd (Orbit) to acquire, subject to shareholder approval, all of the shares in Tambo and Moreton. Orbit is wholly owned by Allegro and both Orbit and Allegro are controlled by Greg Baynton, a director of LOD.

In consideration for the acquisition of the shares in Tambo and Moreton, LOD has agreed to issue 407,288,211 ordinary shares to Allegro and Orbit[1]. The consideration provided by LOD will result in the relevant interests of Mr Baynton and Allegro increasing from 5.0% to approximately 62.7% on a fully diluted basis, and 4.4% to approximately 67.3% on an undiluted basis, and should the Proposed Transaction be approved, Mr Baynton, through Allegro and Orbit, will control LOD.

Tambo and Moreton are the counter-parties of both farm-in agreements and joint venture agreements with LOD, for the exploration and development of Exploration Permits for Coal (EPCs) and an Authority to Prospect[2] (ATP) (collectively the Tenements) in relation to the Moreton Coal Project and Tambo Coal and Gas Projects, as follows:

Table 1: Current ownership structure of the Tenements

Structure	Description	Tambo Coal and Gas Projects (EPCs)		Moreton Coal Project (EPCs)
Farm-in Agreements	Under farm-in agreements LOD has the right to earn up to a 50% interest in the following EPCs, subject to the fulfilment of exploration expenditure obligations. These tenements are currently held or are under application by Tambo (Tambo Coal and Gas Projects) and Moreton (Moreton Coal Project).	1414[2] 1415[2] 1417[2] 1418[2]	1481[2] 1482 1484 1020[1]	1299 1302 1313
Joint Venture Agreements	The following tenements are held in 50:50 joint venture agreements between LOD and Tambo (Tambo Coal and Gas Projects) or Moreton (Moreton Coal Project).	1621, 1632[2] 1622[2], 1633[2] 1623, 1644 1624[2], 1697[2] 1625[2], 1719	1776[2], 1789 1777[2], 1794[2] 1784[2], 1795 1786, 1800[2] 1788[2], 1993	1524

Source: LOD
Note 1: Petroleum ATP
Note 2: These EPCs have been applied for but have not yet been granted

If the Proposed Transaction is approved, the farm-in and joint venture agreements will be terminated and LOD will directly control the Tenements.

A summary of the terms of the Proposed Transaction is set out in the Explanatory Memorandum, which should be read in full by LOD shareholders.

Purpose of the Report

The Directors of LOD have requested that WHKCF prepare an IER, indicating whether in our opinion the Proposed Transaction is fair and reasonable to the shareholders of LOD who are entitled to vote on the Proposed Transaction, pursuant to the requirements of Listing Rule 10.10 and Section 611 of the Act. Further details of the regulatory requirements for which our IER has been prepared are contained within Section 2.2 of the Report.

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[1] *Orbit has entered into an agreement to transfer 4,072,882 shares to Lance Grimstone Investments Pty Ltd, following the Proposed Transaction. We have not factored this transfer into our analysis.*
[2] *For petroleum, coal seam gas and natural gas.*

Evaluation Criteria

In determining whether the Proposed Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in Regulatory Guide 111: 'Content of Expert Reports' (RG 111). This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions. Based on RG 111, the Proposed Transaction will be considered fair if the value of the assets acquired by LOD is equal to or greater than the fair value of the consideration provided and specifically, whether the Proposed Transaction includes a Control Premium. As the consideration for the Proposed Transaction is LOD scrip, we have examined LOD, post transaction, on a notionally consolidated basis. Accordingly in determining the fairness of the Proposed Transaction, we have compared the value of LOD prior to the Proposed Transaction on a stand-alone basis (with an assumption of control) to the value of a LOD share post the Proposed Transaction (on a minority basis).

Our primary consideration in providing our opinion on the reasonableness of the Proposed Transaction is fairness, in accordance with RG 111.11. Furthermore, we have considered other advantages and disadvantages to the non-associated shareholders of approving the Proposed Transaction.

Summary of Opinion

WHKCF are of the opinion that the Proposed Transaction is fair and reasonable to the non-associated LOD shareholders.

Our opinion should be read in conjunction with the remainder of this letter and our attached detailed IER which sets out our scope and findings.

Fairness

When considering if a proposed transaction is fair, RG 111 considers such assessments are required to assess value. In the case of the Proposed Transaction, we have compared the value of a LOD share on a stand-alone basis (with an assumption of control) with the value of a LOD share post the Proposed Transaction (on a minority basis). Our assessment of LOD's value has been made using the Net Assets approach on a going concern basis[3]. As the primary assets of Tambo, Moreton and LOD are the Tenements, we have engaged an independent specialist, being Xstract Mining Consultants Pty Ltd (Xstract) in accordance with RG 111.99, to prepare a valuation of these assets (the Xstract Report). Xstract's Report has been included at Appendix 7 of the Report. An explanation of the methodology we have applied in our assessment of the Proposed Transaction is detailed in Section 6.1 of the Report.

Valuation Summary

In our opinion, the Proposed Transaction is fair to the non-associated shareholders as the range of our valuation assessments of LOD on a post Proposed Transaction basis are greater than or equal to our valuation assessments on a pre Proposed Transaction basis, with the exception of our high value on an undiluted basis, as follows:

Table 2: Assessed LOD value (pre & post the Proposed Transaction)

	Low		Mid		High	
	Pre	Post	Pre	Post	Pre	Post
Undiluted Share Price ($)	0.03	0.05	0.09	0.09	0.14	0.13
Fully Diluted Share Price ($)	0.03	0.05	0.07	0.08	0.11	0.12

Source: WHKCH Analysis

The detailed valuations of LOD on a pre and post Proposed Transaction basis have been provided at Sections 6.3 and 6.4 of the Report, respectively.

[3] *Refer to Appendix 5 for our consideration of applicable valuation methodologies for LOD in the context of the Proposed Transaction.*

Assessments of Reasonableness

When considering whether a transaction is reasonable, RG 111 considers that if a transaction is considered to be fair, it will also be considered to be reasonable. Furthermore, in determining whether the terms of a transaction are reasonable, consideration is given to the qualitative characteristics of a transaction and whether the advantages of a transaction to the non-associated shareholders outweigh the disadvantages of the transaction to the non-associated shareholders.

We have identified the following primary advantages and disadvantages to non-associated LOD shareholders of approving the Proposed Transaction.

Table 3: Summary of Advantages and Disadvantages of the Proposed Transaction

Advantages	Disadvantages
• The Proposed Transaction is fair, therefore it is reasonable • The Proposed Transaction involves scrip, not cash • LOD will obtain direct control over the Tenements • Removal of the farm-in agreements • LOD will have an improved ability to raise capital • The board view of the Proposed Transaction is favourable • The non-associated LOD shareholders will retain the ability to participate in a further control transaction	• Mr Greg Baynton will have a controlling interest in LOD • Existing non-associated shareholder interests will be diluted

We note that the abovementioned advantages and disadvantages of the Proposed Transaction have been considered in more detail at Section 7.2 of the Report.

Conclusion on the Proposed Transaction

On the basis of the factors set out above, in our view, the Proposed Transaction is, in the absence of a superior proposal, considered to be fair and reasonable to the non-associated LOD shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. We have considered the Proposed Transaction generally. We have not considered the effect of the Proposed Transaction on the particular circumstances of individual LOD Shareholders nor have we considered their individual objectives, financial situation or needs. Due to particular circumstances, individual LOD shareholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions as to whether to approve the Proposed Transaction.

Other

WHKCF holds Australian Financial Services Licence No. 239170, pursuant to Section 913B of the Corporations Act 2001, and its representatives are qualified to provide this Report. This license authorises WHKCF to carry on a financial services business to provide financial product advice for various classes of financial products including interests in managed investment schemes and securities. WHKCF and its representatives have not provided advice to LOD.

In accordance with s648(2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with either, LOD's related parties or associates, that would compromise our impartiality.

WHKCF provided a draft copy of the Report to the Directors of LOD for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of WHKCF alone. Changes made, if any, to the Report as a result of review by the Directors of LOD have not changed the methodology, conclusions reached by, or opinion of WHKCF.

It is not intended that the Report be used or relied upon for any purpose other than for our opinion on whether the Proposed Transaction is fair and reasonable to the non-associated LOD shareholders. WHKCF expressly disclaims any liability to any person who relies or purports to rely on this Report for any other purpose, and to any other party who relies or purports to rely on this Report for any purpose.

WHKCF consents to the issuing of the Report in the form and context in which it is to be included in the Transaction Documents. Neither the whole nor any part of the Report nor any reference thereto may be included in any other document without the prior written consent of WHKCF to the form and context in which it appears.

Yours sincerely
WHK Horwath Corporate Finance Limited
ABN 95 001 508 363
AFSL 239170

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1. THE PROPOSED TRANSACTION

1.1. Summary

On 22 December 2009, Lodestone Energy Limited (LOD) entered into an agreement with Allegro Capital Nominees Pty Ltd (Allegro) and Orbit Capital Pty Ltd (Orbit) to acquire, subject to shareholder approval, all of the shares in Tambo Coal & Gas Pty Ltd (Tambo) and Moreton Energy Pty Ltd (Moreton). Orbit is wholly owned by Allegro and both Orbit and Allegro are controlled by Mr Greg Baynton, a director of LOD.

In consideration for the acquisition of the shares in Tambo and Moreton, LOD has agreed to issue 407,288,211 ordinary shares to Allegro and Orbit. The consideration provided by LOD will result in the relevant interests of Mr Greg Baynton and Allegro increasing from 5.0% to approximately 62.7% on a fully diluted basis, and 4.4% to approximately 67.3% on an undiluted basis, and should the Proposed Transaction be approved, Mr Greg Baynton, through Allegro and Orbit, will control LOD.

Table 4: Shareholdings in LOD pre and post the Proposed Transaction

	LOD interest prior to the Proposed Transaction	Issued under the Proposed Transaction	LOD interest following the Proposed Transaction
Ordinary Shares			
Allegro	2,854,846	399,142,447	401,997,293
	1.3%	98.0%	65.0%
Orbit	6,338,589	8,145,764	14,484,353
	3.0%	2.0%	2.3%
Mr Greg Baynton	53,333[1]	-	53,333
	< 0.1%	-	< 0.1%
Total relevant interest of Mr Greg Baynton and Allegro	9,246,768	407,288,211	416,534,979
	4.4%	100.0%	67.3%
Total non-associated shareholder interest	202,262,761	-	202,262,761
	95.6%	-	32.7%
Total Ordinary Equity	211,509,529	407,288,211	618,797,740
	100.0%	100.0%	100.0%
Add: Options and Performance Rights			
Mr Greg Baynton	4,000,000	-	4,000,000
	1.5%	-	0.6%
Total relevant interest of Mr Greg Baynton and Allegro	13,246,768	-	420,534,979
	5.0%	-	62.7%
Other performance rights and options	48,401,000[2]	-	48,401,000
	18.3%	-	7.2%
Total non-associated shareholder interest	250,663,761	-	250,663,761
	95.0%	-	37.3%
Total Diluted Equity	263,910,529	-	671,198,740
	100.0%		100.0%

Source: WHKCF analysis
Note 1: These shares are held on trust for Karen Joncour (3,333 shares) and Gordon and Glenis Baynton (50,000 shares), the sister and father and mother of Greg Baynton respectively.
Note 2: We have not included a further 500,000 performance rights which were granted to Mr Bruce Patrick on 3 March 2010. We note the inclusion of these performance rights does not alter the dilution calculation percentages.

Tambo and Moreton are the counter-parties of both farm-in agreements[4] and joint venture agreements with LOD, for the exploration and development of Exploration Permits for Coal (EPCs) and an Authority to Prospect[5] (ATP) (collectively the Tenements) in relation to the Moreton Coal Project and Tambo Coal and Gas Projects, as follows:

Table 5: Current ownership structure of the Tenements

Structure	Description	Tambo Coal and Gas Projects (EPCs)		Moreton Coal Project (EPCs)
Farm-in Agreements	Under farm-in agreements LOD has the right to earn up to a 50% interest in the following EPCs, subject to the fulfilment of exploration expenditure obligations. These tenements are currently held or are under application by Tambo (Tambo Coal and Gas Projects) and Moreton (Moreton Coal Project).	1414[2] 1415[2] 1417[2] 1418[2]	1481[2] 1482 1484 1020[1]	1299 1302 1313
Joint Venture Agreements	The following tenements are held in 50:50 joint venture agreements between LOD and Tambo (Tambo Coal and Gas Projects) or Moreton (Moreton Coal Project).	1621, 1632[2] 1622[2], 1633[2] 1623, 1644 1624[2], 1697[2] 1625[2], 1719	1776[2], 1789 1777[2], 1794[2] 1784[2], 1795 1786, 1800[2] 1788[2], 1993	1524

Source: LOD
Note 1: Petroleum ATP
Note 2: These EPCs have been applied for but have not yet been granted

1.2. Terms and Conditions

A summary of the terms of the Proposed Transaction are set out in the accompanying Explanatory Memorandum (EM) which should be read in full by LOD shareholders.

1.3. Rationale for the Proposed Transaction

The primary rationale for the Proposed Transaction, as set out in the EM, includes but is not limited to the elimination of LOD's ongoing farm-in obligations, allowing direct ownership and management of the relevant coal and petroleum tenements and increasing the market capitalisation of LOD, which it is hoped will assist in attracting future investment and research coverage.

[4] *A farm-in is an agreement under which a party is entitled to acquire from one or more of the existing tenement holders an interest in a tenement, and to become a party to the operating agreement(if any) relating to it, for a consideration which will normally consist of the carrying out of a specified work obligation, known as the earning in obligation.*
[5] *For petroleum, coal seam gas and natural gas.*

2. SCOPE OF OUR REPORT

2.1. Purpose of the Report

WHK Horwath Corporate Finance Limited (WHKCF) has been engaged to prepare an IER to express an opinion as to whether the Proposed Transaction is fair and reasonable to the non-associated LOD shareholders.

The IER is provided to LOD shareholders to assist them in making an informed decision on whether to approve the Proposed Transaction.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. We have considered the Proposed Transaction generally. We have not considered the effect of the Proposed Transaction on the particular circumstances of individual LOD shareholders nor have we considered their individual objectives, financial situation or needs. Due to particular circumstances, individual LOD shareholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions as to whether to approve the Proposed Transaction.

The IER will be included with the Transaction Documents to be forwarded to the non-associated LOD shareholders for their consideration in determining whether to approve the Proposed Transaction. The IER should be read in full together with the Transaction Documents and any other information provided to the non-associated LOD shareholders to assist them in their decision.

2.2. Regulatory Requirements

In evaluating whether the Proposed Transaction is fair and reasonable to the non-associated LOD shareholders, we have considered the requirements of the Australian Securities Exchange (ASX) Listing Rules (the Listing Rules), the Corporations Act 2001 (Cth) (the Act) and relevant Regulatory Guides issued by the Australian Securities and Investment Commission (ASIC), which provide guidance on interpretation.

Specifically, this Report is required under ASX Listing Rule 10.10, the details of which are considered below.

Listing Rule 10 deals with transactions between an entity and persons in a position to influence the entity, including the acquisition of substantial assets by the listed entity and acquiring securities in the listed entity. Listing Rule 10.1 requires shareholder approval where an entity acquires a "substantial asset" from a "related party".

A substantial asset is defined as an asset for which the value or the consideration for it is 5% or more of the equity interests of the entity as set out in the latest set of accounts lodged with the ASX. As LOD will be issuing approximately 60.7% of its outstanding ordinary equity on a fully diluted basis as consideration for the Proposed Transaction, it will be acquiring a substantial asset. For the purposes of Listing Rule 10.1, as Allegro and Orbit are controlled by Mr Greg Baynton, a director of LOD, the Proposed Transaction involves an acquisition from a related party.

Listing Rule 10.10.2 states that a notice of meeting prepared for the purposes of obtaining an approval under Listing Rule 10.10 must include an independent expert's report stating whether the acquisition is fair and reasonable to the non-associated shareholders of the entity.

In addition to the requirement to prepare an IER under ASX Listing Rule 10, Section 606 of the Act, states that a person must not acquire a relevant interest in the issued shares of a company, if the transaction causes their voting power, or someone else's to increase from 20% or below to more than 20%. Item 7 of Section 611 of the Act, permits an acquisition that would otherwise be prohibited (unless another exception applies), provided the purchase is approved by shareholders in a meeting, at which the vendor, the proposed purchaser and any associates do not vote. Should the Proposed Transaction be approved, Mr Greg Baynton's interest will increase from 4.4% to 67.3% of the enlarged share capital on an undiluted basis and from 5.0% to approximately 62.7% of the enlarged share capital on a fully diluted basis.

In reference to Section 611 of the Act, ASIC Regulatory Guide 74 states that the shareholders of a company should be provided with an analysis of whether the proposal is fair and reasonable to the non-associated shareholders. This report is provided to the non-associated shareholders of LOD pursuant to that requirement.

2.3. Evaluation Criteria

The Corporations Act 2001 (Act) does not define the meaning of "fair and reasonable". In determining whether the Proposed Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in Regulatory Guide 111: 'Content of Expert Reports' (RG 111). This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions. This regulatory guide suggests that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Proposed Transaction is a control transaction as defined by RG 111 and as such the Proposed Transaction will be considered fair if the value of the assets acquired by LOD is equal to or greater than the fair value of the consideration provided and specifically, whether the Proposed Transaction includes a Control Premium. As the consideration for the Proposed Transaction consists of LOD scrip, we have examined LOD, post transaction, on a notionally consolidated basis. Accordingly to determine whether the Proposed Transaction includes a Control Premium, we have compared the value of LOD prior to the Proposed Transaction on a stand-alone basis (with an assumption of control) to the value of a LOD share post the Proposed Transaction (on a minority basis).

A Control Premium represents the amount that a purchaser of a controlling interest in an entity would be willing to pay in excess of the implied 100% valuation of an entity, calculated from the entity's traded (minority) shares. A Minority Interest Discount is the inverse of a Control Premium. It represents the discount to a control value that would be attributed to a minority interest to account for the lack of control.

Our primary consideration in providing our opinion on the reasonableness of the Proposed Transaction is fairness, in accordance with RG 111.11. Furthermore, we have considered other advantages and disadvantages to the non-associated shareholders of approving the Proposed Transaction.

2.4. Valuation Methodology

Set out in Appendix 5 is a summary of the various valuation methodologies considered by WHKCF in determining the most appropriate valuation methodology to value LOD.

Our assessment of LOD's value has been made using the Net Assets approach on a going concern basis. As the primary assets of Tambo, Moreton and LOD are the Tenements, we have engaged an independent specialist, being Xstract Mining Consultants Pty Ltd (Xstract) in accordance with RG 111.99[6], to prepare a valuation of these assets (the Xstract Report), which has been included at Appendix 7 of the IER.

[6] *RG 111.99 states "for technical matters beyond the expert's expertise, an expert should retain a specialist to advise them (e.g. a geologist to provide an opinion on recoverable ore the subject of mining tenements).*

A number of LOD mineral interests, being the Mount Morgan and Limestone Creek assets, are not currently being actively explored and have accordingly been valued on a cost basis. This approach has been used, primarily due to a lack of geological data and/or evidence to support other valuation methods (i.e. drilling) and exploration programmes are not expected to be conducted in relation to these assets, in the near future.

2.5. Disclosure of Information

No financial data has been provided to WHKCF for Tambo and Moreton as these entities are private companies, with limited activity other than the holding of the Tenements and accordingly are not required to prepare financial statements (audited or otherwise). Mr Greg Baynton has provided either through warranties in the contract to the Proposed Transaction or through signed declarations, confirmation of the following:

- Tambo and Moreton do not have liabilities.
- Tambo and Moreton have not conducted any activities other than holding tenement applications.
- Tambo and Moreton are duly incorporated and validly exist under the law of their place of incorporation.
- Tambo and Moreton have full corporate power and authority to own their assets and business and to carry on their businesses as now conducted.
- Tambo and Moreton are not insolvent and no receiver has been appointed over any part of their assets and no such appointment has been threatened.
- Tambo and Moreton are not in liquidation or official management and no proceedings have been brought or threatened for the purpose of winding up the Companies or placing them under official management.
- Whilst Orbit and Allegro have provided the funds for both Tambo and Moreton's tenement applications and background work to date, the associated liabilities have been waived.

2.6. Limitation of Usage

This report has been prepared for the express purpose detailed in Section 2.1. No reference to, or statement of reliance upon, our opinion can be released other than for the purpose disclosed above without the prior written consent of WHKCF as to the form and context of that release.

2.7. Limitations and Reliance on Information

The information provided to WHKCF has been evaluated through analysis, inquiry and review for the purposes of providing this Report. However, WHKCF does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or due diligence investigation might disclose as our procedures and enquiries did not include verification work, nor constitute an audit in accordance with Australian Auditing Standards (AUS), nor a review in accordance with Auditing Standards on Review Engagements.

This Report is based upon financial and non-financial information provided by LOD and its advisors and WHKCF has no reason to believe that any material facts (that a reasonable person would expect to have had disclosed) have been withheld. Included in this information are the assumptions and opinions of management which, in some instances, are not capable of external and independent verification or validation.

WHKCF's opinion is based on economic, share market, business and trading conditions prevailing at the date of this Report. These conditions can change significantly over relatively short periods. If they did change materially, our opinion could vary significantly. Notwithstanding this, there is no requirement for WHKCF to update its Report for material that may become available subsequent to its date.

To assist in our valuation of the Tenements, Xstract has provided an independent technical specialist report for use and reliance by WHKCF in the preparation of the Independent Exert Report. WHKCF has relied upon the work undertaken by Xstract in forming our valuation assessment. In our opinion, Xstract has appropriate qualifications, industry experience and competence to conduct its assessments, consistent with generally accepted industry practise.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, continuous disclosure rules, regulations, and policies, WHKCF:

- Assumes no responsibility and offers no legal opinion or interpretation to any issue; and
- Has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no legal proceedings, other than as publicly disclosed.

2.8. Indemnities

LOD has agreed to indemnify WHKCF, its principals, representatives and employees from any action arising as a result of the misstatement or omission of information or materials supplied by the Company, its subsidiaries, Directors or employees on which WHKCF has relied. The extent of the indemnity from the Company extends only to information or materials provided by it, its subsidiaries, officers, authorised representatives and/or employees.

This indemnity was confirmed by LOD in completing our Management Representation letter which was returned to us prior to the release of our Report.

Our report has been prepared with the materials and sources of information set out in Appendix 3.

3. INDUSTRY OVERVIEW

The following section represents a high-level overview of the Australian Minerals and Energy Exploration (AMEE) industry and more specifically the Black Coal, Coal Seam Gas (CSG) and Underground Coal Gasification (UCG) exploration industries. It is not intended to be a comprehensive review, as we have engaged an independent specialist, being Xstract, to value the Tenements and have relied on Xstract's industry experience and knowledge in this regard.

AMEE Industry

LOD operates in the minerals and energy exploration industry in Australia, as an explorer of economic resources for the extraction of thermal black coal, CSG and UCG projects. Investment in exploration is the primary driver of the industry, which is dependant on the following factors:

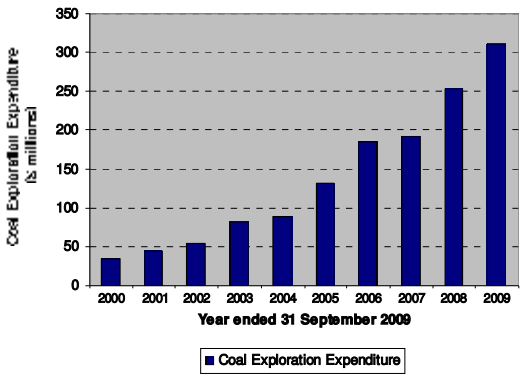
- Current and expected future prices
- Input costs (labour, fuel and other inputs)
- Mining and processing technologies
- Availability of, and access to, land
- Government policy

In the 12 months to 30 June 2009, expenditure on exploration in the AMEE industry was $6.0 billion, representing an increase of 10% on expenditure in 2007-08 and in real terms the highest level of exploration expenditure on record. Despite reaching a record in 2008-09, exploration expenditure grew at its slowest rate since 2003-04, which was attributed to a sharp decline in the prices of most commodities as a result of the global economic downturn. Although uncertainty surrounds future economic growth, and therefore demand for commodities, exploration expenditure is likely to remain high, reflecting a positive outlook for commodity prices over the medium to longer term.[7]

Black Coal Exploration

Australia's black coal[8] deposits are primarily located in Queensland and New South Wales, which account for 57.5% and 39.6% of Australia's total black coal production in 2008-09, respectively. A large proportion of industry revenue (approximately 80%) is derived from export sales. As an export industry, the performance of the black coal industry is dependent upon AUD/USD exchange rates, as black coal prices are set in US dollars, downstream demand for electricity production (thermal coal) and steel production (coking coal), particularly in the Asian region.[9] For the fiscal year ended 31 September 2009, exploration expenditure on coal rose by 27% to approximately $300 million,[10] which was consistent with a rising trend in exploration expenditure over the past decade, as depicted in Figure 1, below:

Figure 1: Coal Exploration Expenditure in Australia from September 2000 to September 2009



Source: ABS Mineral and Exploration in Australia, September 2009

[7] *ABARE – Major development projects – October 2009 listing*
[8] *Consists of coking coal and thermal coal*
[9] *IBISWorld: Black Coal Mining in Australia, 28 September 2009*
[10] *ABARE – Major development projects – October 2009 listing*

Australia's exports of thermal coal to key markets in the Asian region are expected to continue to grow over the next few years. In particular, demand from China and India is expected to increase despite these countries being the world's largest and third-largest producers of thermal coal, respectively, as production is absorbed by local demand and imports follow a rising trend.[11]

CSG Exploration

CSG is a naturally occurring gas, mainly consisting of methane, which is infused into a coal seam. It is extracted from a coal deposit by drilling wells which are connected to a pump to remove water from the coal seam, which reduces pressure and releases the gas.

Currently in an early stage of development, the CSG industry has the potential to be a major producer of energy in Australia as in-situ[12] resources of CSG in Queensland and New South Wales alone are estimated to be greater than the total known conventional gas resources in Australia.[13] Australia's coal seam gas (CSG) production reached approximately 150 petajoules (PJ) during 2008, representing an increase of approximately 39% from 2007 levels. Queensland's production represented approximately 89% of Australia's total production in 2008.

A significant boost was given to the CSG industry in 2000, when the Queensland Government announced the Cleaner Energy Strategy that required retailers and large electricity users operating in Queensland to source 13% of electricity from gas-fired generators by 2005 and 15% by 2010. This requirement may be increased to 18% in the future.

Eight projects for the development of CSG to Liquefied Natural Gas (LNG) plants have been announced in Gladstone, Queensland. A large proportion of the future LNG production of these projects will be exported, with a number of major overseas companies acquiring interests in the projects. Should all eight proposals reach full capacity, they would collectively represent a potential LNG export market for Queensland in excess of 50 million tonnes per annum and an approximate consumption of approximately 3,250 PJ of CSG per year.

UCG Exploration

UCG is a clean coal technology in which coal is burnt underground and the resultant gas (Synthetic Gas or Syngas) is piped to the surface. UCG provides access to coal, 'stranded' deep underground, eliminating the need to mine it and process it through a surface gasification plant. UCG technology has only recently achieved commercial acceptance in Western countries, despite its long history of development in the former Soviet Union.[14]

The UCG industry in Australia is in its early stages despite Linc Energy being active in the Surat Basin, near Chinchilla, for over 10 years with its pilot UCG project. The facility was the first long-term UCG pilot in the Western world and remains an important R&D centre as Linc Energy looks to establish its first commercial operation, planned for South Australia. Two other Australian companies, being Carbon Energy and Cougar Energy, have carried out successful UCG trials, as follows:

- Carbon Energy has been producing Syngas from the UCG process since November 2008 and is now in the process of building a 5 mega watt (MW) power station.
- Cougar Energy is planning a 400 MW power station. It will be developed in two stages, the first stage designed to 186 MW. The ignition of the underground gasification process and commencement of UCG gas pre-production for testing and evaluation occurred on 16 March 2010.

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[11] *IBISWorld: Black Coal Mining in Australia, 28 September 2009*

[12] *An 'in-ground value' or 'in situ value' for exploration data or commonly includes large portions of inferred resources, for which the economic viability of the project has not been considered.*

[13] *www.easternstar.com.au*

[14] *Institute of Civil Engineers –Commercial development of underground coal gasification, 31 March 2008*

4. OVERVIEW OF LODESTONE ENERGY LIMITED

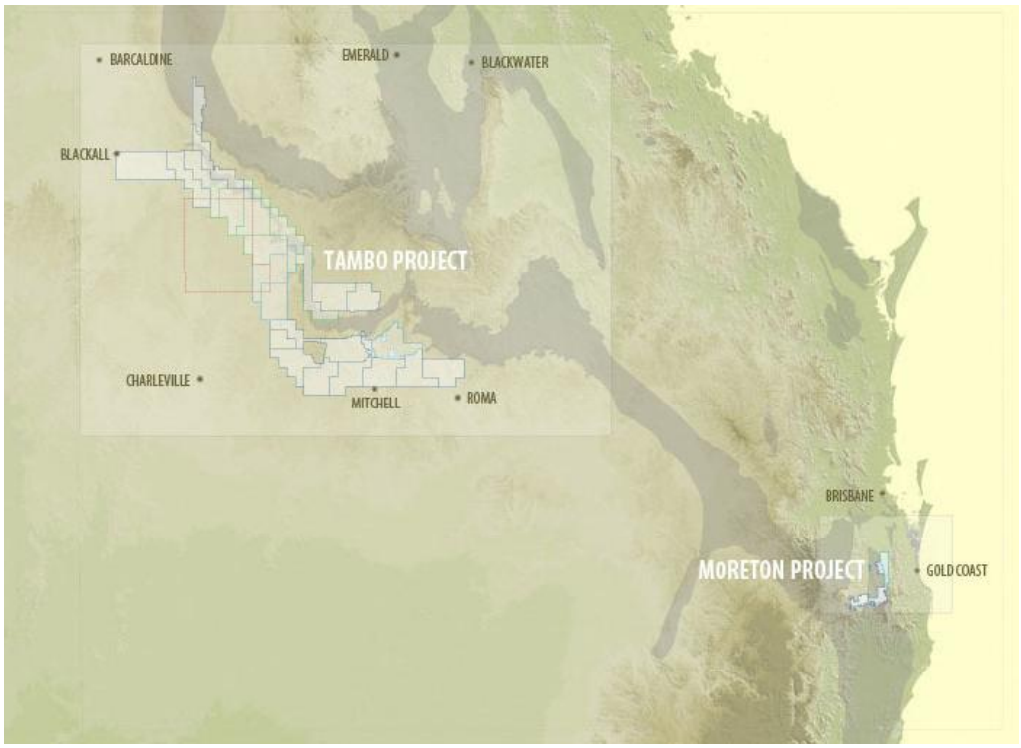
4.1. Introduction

LOD is a Brisbane based energy group, whose primary interests consist of a thermal coal, CSG and UCG project in the upper Surat/Eromanga Basin (the Tambo Coal and Gas Projects), located in Queensland and a thermal coal and UCG project in Queensland's Clarence-Moreton Basin (the Moreton Coal Project). We have provided further detail on the Moreton Coal Project and Tambo Coal and Gas Projects in Sections 4.3 and 4.4 of our Report, respectively. LOD's coal interests concern Walloon coals, which contain less carbon and more organically bound hydrogen than most thermal coals.

The nature of the LOD's activities changed significantly in mid 2008 when the Company moved its primary focus from mineral exploration to energy exploration. To reflect this change of direction, the Company changed its name from Lodestone Exploration Limited to Lodestone Energy Limited on 26 June 2009.

An aerial perspective of Moreton Coal Project and Tambo Coal and Gas Projects (collectively The Projects) is as follows:

Figure 2: The Tambo and Morton Coal and Gas Projects

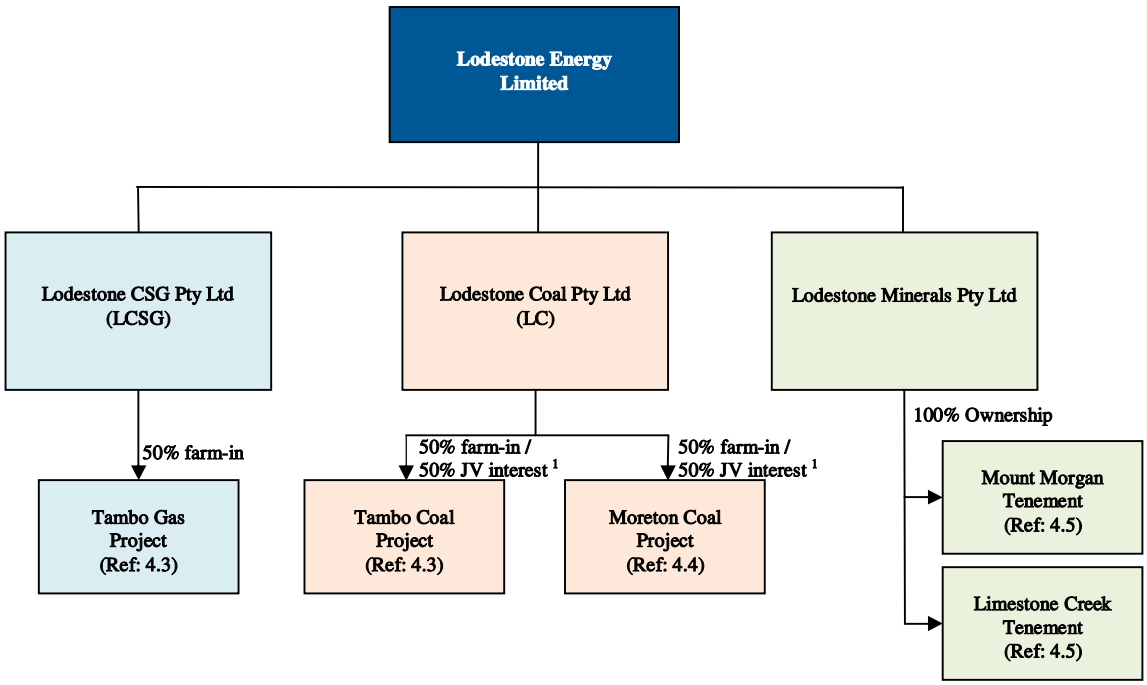


Source: LOD

4.2. Corporate Structure

LOD is a company incorporated in Australia and listed on the ASX. LOD is the parent entity within the following corporate group:

Figure 3: LOD Corporate Group



Source: LOD
Note 1: The individual tenements comprising these projects are either the subject of a farm-in agreement or a 50:50 joint venture, as detailed in Sections 4.3 and 4.4 respectively.

In respect of the above entities, we note the following:

- **Lodestone CSG Pty Limited (LCSG):** LCSG is a wholly owned subsidiary of LOD which, through a farm-in agreement with Tambo, has a right to earn up to a 50% interest in the Tambo Gas Project (ATP 1020).
- **Lodestone Coal Pty Limited (LC):** LC is a wholly owned subsidiary of LOD which is a party to joint venture agreements and farm-in agreements with Tambo Coal & Gas Pty Limited (Tambo) in relation to the Tambo Coal Project and Moreton Energy Pty Limited / Orbit Capital Pty Limited in relation to the Moreton Coal Project.
- **Lodestone Minerals Pty Limited (LM):** LM currently holds mineral tenements for copper and gold in Mount Morgan and Limestone Creek, both of which are located in Queensland.

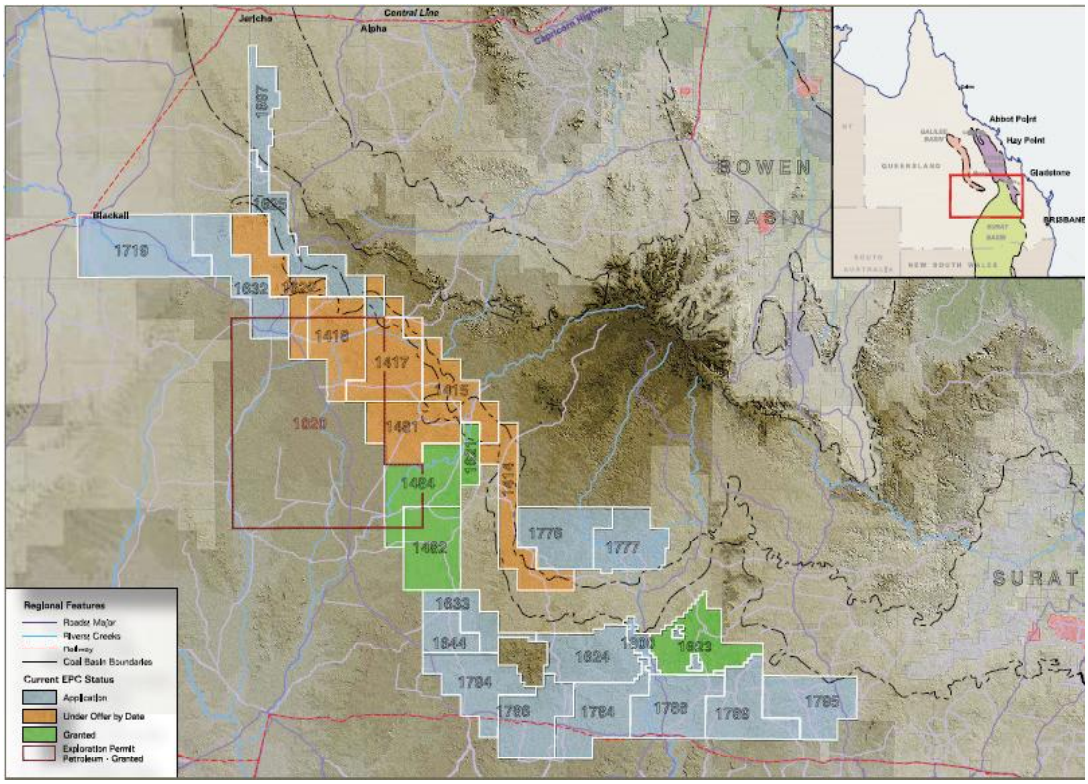
4.3. The Tambo Coal and Gas Projects

Overview

The Tambo Coal and Gas Projects cover an area of 21,481 km^2 between Alpha and Roma in south-western Queensland. Existing Queensland Government geological records tend to indicate that the area has limited coal, however geological research performed by LOD suggests the area may be a north-western extension of the known coal deposits of the Surat Basin, which has been highly productive for thermal coal and CSG. This hypothesis has been made on the basis of a review of the established stratigraphy by LOD, which LOD is seeking to confirm by compiling and evaluating relevant technical data. Should LOD's hypothesis prove correct, the Tambo Coal and Gas Projects collectively have the potential to become one of the largest integrated energy projects in Queensland.

LOD has entered two farm-in agreements with Tambo in relation to the Tambo Coal and Gas Projects. The farm-in agreements give LOD the right to earn up to 50% of ATP 1020, which is a prospect for CSG, and 50% of seven Exploration Permits for Coal (EPCs) which are prospective for coal. The tenures of the Tambo Coal and Gas Projects are as follows:

Figure 4: Aerial view of the Tambo Coal and Gas Project tenure



Source: LOD Annual Report 2009

In addition to coal and CSG, LOD lodged Underground Coal Gasification (UCG) interests for a number of the EPCs under the Tambo Coal Project, as indicated in note 2 to Table 6.

When all tenements the subject of the Tambo Coal and Gas Projects are granted, LOD will have a total expenditure commitment over the next five years in excess of approximately $28 million, with an initial yearly rental of approximately $1 million.

The Tambo Coal Project Farm-in Agreement and Tenements

LOD has a right to earn a 50% interest in EPCs that are prospective for coal by undertaking exploration activities, and incurring exploration expenditure, to the value of $5 million over a period of four years. As at 1 January 2010, LOD had incurred $0.6 million of this expenditure. The farm-in agreement provides that for each $1 million of exploration expenditure, LOD is entitled to be transferred a 10% interest in the Tambo Coal Farm-in Tenements (defined in Table 6 below). If LOD satisfies the exploration commitments over the four year period, LOD and Tambo will enter into an unincorporated joint venture.

The tenements granted and applied for under the Tambo Coal Project through the farm-in agreement and joint venture agreements are as follows:

Table 6: The Tambo Coal Project Tenements

Status	The Tambo Coal Farm-in EPCs	The Tambo Coal Joint Venture [1] EPCs		
Granted	1482 1484	1621 1623 1644	1786 1789 1795	1993
Applied	1414 1415 1417 1418 1481	1622 1624 1625 1632 1633	1697 1719 1776 1777 1784	1788 1794 1800

Source: LOD
Note 1: Held in a 50:50 joint venture arrangement with Tambo & LC
Note 2: Applications for a UCG-specific EPS have been lodged for EPCs 1414, 1415, 1417, 1418, 1481, 1482, 1484, 1622, 1624, 1632, 1633 and 1644.

The Tambo Gas Project Farm-in Agreement

LOD has a right to earn a 50% interest in ATP 1020 which is prospective for CSG by undertaking exploration activities, and incurring exploration expenditure, to the value of $5 million over a period of four years. As at 1 January LOD had incurred $1.3 million of this expenditure. The farm-in agreement provides that for each $1 million that LOD spends satisfying its total earning obligation, it is entitled to be transferred a 10% interest in ATP 1020. If LOD satisfies the exploration commitments over the four year period, LOD and Tambo will enter into an unincorporated joint venture.

4.4. The Moreton Coal Project

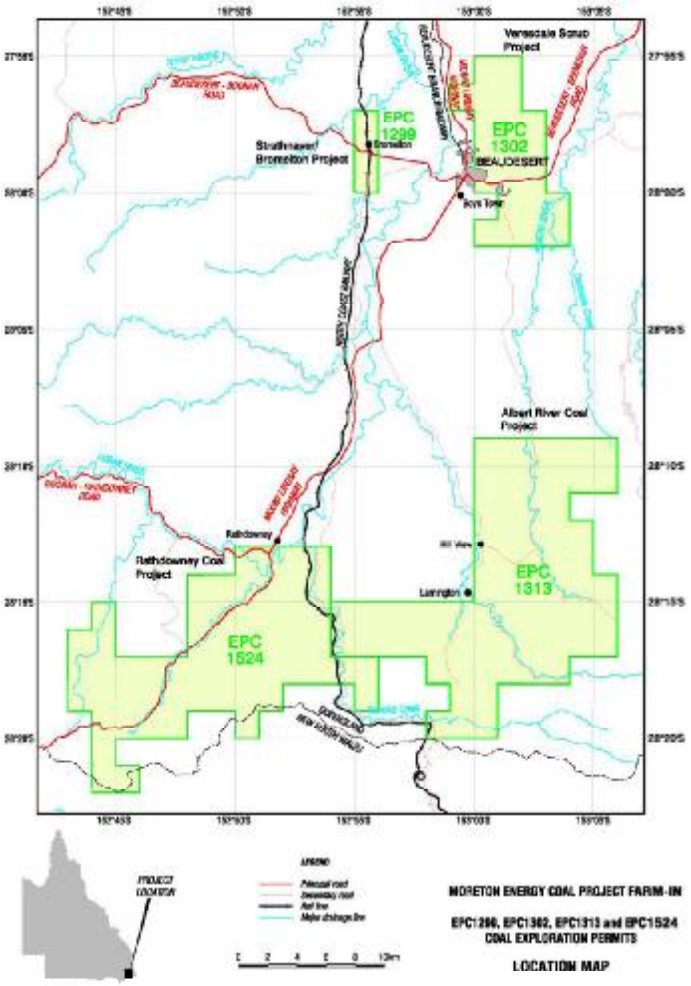
Overview

The Moreton Coal Project consists of four thermal coal prospective EPCs located in Queensland. Three of these tenements, being EPCs 1299, 1302 and 1313 are subject to the farm-in agreement (discussed below). A fourth EPC (1524) is held in a 50:50 joint venture arrangement between Moreton & LC.

LOD's objectives in respect of the Moreton Coal Project are to prove the existence of economic deposits and to supply any subsequent thermal coal extractions to export markets from the Port of Brisbane.

The tenures of the Moreton Coal Project are as follows:

Figure 5: Aerial view of the Moreton Coal Project tenure



Source: LOD

The Moreton Coal Project Farm-in Agreement

LOD has a right to earn a 50% interest in the three abovementioned farm-in tenements by issuing 9 million fully paid shares and incurring exploration expenditure to the value of $2 million over a period of three years. To date LOD has issued 6 million shares and incurred $1.2 million of expenditure.

4.5. Other Mineral Assets

In addition to its core energy interests, LOD holds a number of Authorities to Prospect for Minerals (EPM's), which relate primarily to copper and gold prospects. These EPM's are located in the Chillagoe Formation, 200 km north-west of Cairns, Queensland (the Limestone Creek Prospect), which has the potential to be explored for copper and gold and the former Mount Morgan gold and copper mine, near Rockhampton in Central Queensland (the Mount Morgan Prospect), which has the potential to be explored for gold, copper and molybdenum.

LOD's Mount Morgan Prospect tenements are available for farm-outs. Discussions with representatives of two major mining companies have taken place, however no firm proposals have been received. LOD has decided to farm-out these prospects because of the scale of the drilling program that is needed and the risks associated with deep imprecise targets.

As LOD's focus is to develop its primary energy projects, no drilling has been conducted in relation to the Limestone Creek and Mount Morgan Prospects, and the operations are dormant. The major tenements held by LOD, through these prospects, are as follows.

Table 7: Limestone Creek and Mount Morgan Prospect Tenements

Tenement	EPM Number	Area (km^2)
Mount Morgan Tenements		
Mount Battery	13794	6
Kenbula	16692	15
Mount Battery North	14078	9
Morganite East	14696	42
New Chum	14619	9
Archer	16843	15
Station	14435	9
North Queensland Tenements		
Limestone Creek	11980	15

Source: LOD 2009 Annual Report

4.6. Funding Arrangements

As a junior energy exploration company, equity funding is a key component of LOD's operations. Recent funding arrangements entered into by LOD are detailed below:

The Royalty Agreement and Share Placement

On 5 May 2009, LOD announced that a heads of agreement had been entered into by the Company with Mr Oliver Lennox-King, a Canadian-based resource investor, to raise a total of $5 million to fund the initial phase of LOD's proposed exploration program. The arrangement provided for the placement of shares to the value of $2 million (the Share Placement) and the sale of a 2% royalty interest for $3 million (the Royalty Agreement).

Under the Royalty Agreement, the royalty holder is entitled to a 2% royalty on the total gross value of coal and petroleum (gas) produced from all tenements currently held or obtained prior to 31 December 2009, in the areas of the Moreton Coal Project and the Tambo Coal and Gas Projects. The Royalty Agreement includes a clause stipulating that should LOD's interest in the tenements increase to greater than 50%, the royalty will reduce to 1% of the gross value of total production.

The Share Placement was priced at 10 cents per LOD share, with each share entitling the holder to an unlisted option in LOD, exercisable at 20 cents and expiring 24 months after the date of the issue as well as further "piggyback options" at higher exercise prices.

Strategic Placement

On 9 December 2009, LOD announced it had entered into an arrangement to raise $1.95 million through an issue of 10 million ordinary shares at a price of $0.195 per share to the resource investment group Square Resources Pty Ltd (the Strategic Placement). The funds raised from the Strategic Placement are to be used by the Company to accelerate the exploration program for the Tambo Coal and Gas Projects during 2010.

On 14 December 2009 LOD announced that in addition to the $1.95 million placement announced on 9 December 2009, a second tranche of equity ($5 million) had been negotiated with Square Resources Pty Ltd, due for settlement on 15 February 2010. In an announcement to the ASX on 1 March 2010, LOD advised that Square Resources Pty Ltd has decided not to exercise its right to invest in the second tranche.

Summary of LOD Ordinary Share Capital Issued from 1 July 2008 to 22 December 2009

Table 8: LOD Capital Raisings from 1 July 2008 to 22 December 2009

Date	Details	Number of Shares	Issue Price ($)	Total Raised ($)
22 July 2008	Placement	32,916,743	0.03	987,500
25 July 2008	Options exercised	3,835,239	0.05	191,762
22 September 2008	Placement	8,333,332	0.03	250,000
6 October 2008	Placement[1]	3,000,000	0.02	60,000
29 April 2009	Placement[1]	3,000,000	0.07	210,000
15 May 2009	Placement[2]	9,000,000	0.10	900,000
26 June 2009	Placement[2]	11,000,000	0.10	1,100,000
9 December 2009	Placement[3]	10,000,000	0.195	1,950,000
TOTAL				**5,649,262**

Source: LOD 2009 Annual Report
Note 1: Shares issued to Orbit under the Moreton Farm-in Agreement ($Nil consideration)
Note 2: Share Placement with Mr Oliver Lennox-King as defined above
Note 3: Strategic Placement with Square Resources Pty Ltd as defined above

4.7. Share Capital and Share Price

At 22 December 2009, LOD had 211,509,529 fully paid ordinary shares on issue, each of which had the same rights to the income and capital of the company and an entitlement to one vote at company meetings.

LOD also had 34,401,000 unlisted exercisable options on issue as at 22 December 2009, as follows:

- 20,501,000 with an exercise price of 20 cents (501,000 expiring in January 2011 and 20,000,000 expiring in May to June 2011).
- 13,900,000 with an exercise price of 7 cents (10,000,000 expiring in September 2010 and 3,900,000 expiring in April to June 2011).

On 26 June 2009 LOD's directors and contractors were issued a total of 18,000,000 performance rights. The performance rights granted carry no dividend or voting rights and expire on 26 June 2019, but when exercisable, each performance right is convertible into one ordinary share. The exercise conditions of the performance rights are as follows:

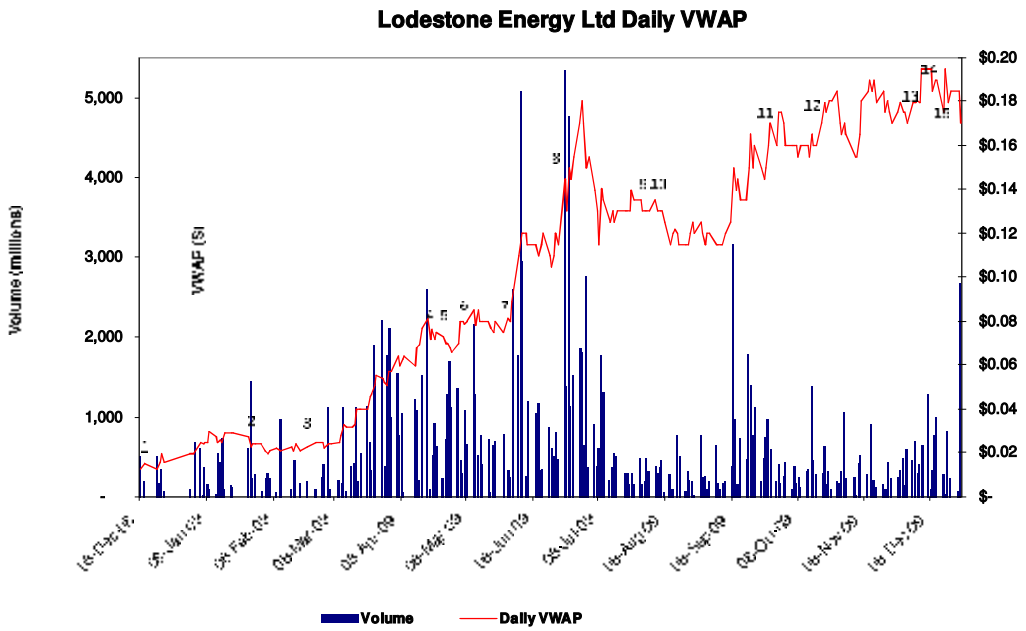
- 9,000,000 performance rights become exercisable if the company's market capitalisation is $50 million for a period of five or more trading days.
- 9,000,000 performance rights become exercisable if the volume weighted average price of the company's shares is at least $0.25 for a continuous period of five trading days.

We have considered the LOD share price and the composition of its share register below.

4.7.1. Share Price Trading History

The graph below illustrates share price trading history of LOD using the daily volume VWAP of the LOD shares trading on the ASX from 8 December 2008 to the date of the announcement of the Proposed Transaction on 22 December 2009. We have also plotted on the graph significant announcements that were made during the period prior to the announcement of the Proposed Transaction. A short summary of those announcements is provided in Table 9 followed by our comments.

Figure 6: Daily VWAP and Volume for the period 8 December 2008 to 22 December 2009



Source: Capital IQ

Table 9: Significant LOD ASX announcements

Chart Ref.	Date	Announcement
1	10-Dec-08	Farm-in to Tambo Coal & Gas Project announced
2	30-Jan-09	Quarterly Activities and Cashflow Report
3	23-Feb-09	Lodgement of LOD's Half Year Accounts
4	23-Apr-09	Market Update: The Queensland Department of Mines and Energy grants ATP 1020. The announcement also notes that an Independent Expert has been engaged to opine on the fairness and reasonableness of the Tambo Coal and Gas Project farm-in agreement.
5	30-Apr-09	Quarterly Activities and Cashflow Report
6	5-May-09	LOD signs heads of agreement for additional funding
7	26-May-09	Notice of general meeting to shareholders (includes Independent Expert report, mentioned in reference 4 above)
8	26-Jun-09	EGM slide presentation and results and general meeting
9	29-Jul-09	Investor presentation
10	30-Jul-09	Quarterly Activities and Cashflow Report
11	30-Sep-09	Annual report to shareholders
12	23-Oct-09	Quarterly Activities and Cashflow Report
13	3-Dec-09	Update on LOD Tambo Project SCG Drilling
14	9-Dec-09	Strategic Placement
15	14-Dec-09	Update on Strategic Placement – Tranche 2

Source: ASX

We note the following from the table and graph above:

- LOD's VWAP rose from 1 cent to 2 cents on the announcement of the Tambo Coal and Gas Project farm-in on 10 December 2008. In January 2009 the VWAP rose to 3 cents, in the absence of any significant announcements.
- LOD's VWAP increased from 3 cents to 18 cents during the March to June 2009 period. This increase appears to have coincided with the following announcements:
    - LOD confirming that ATP 1020 had been granted by the Queensland Department of Mines and Energy, on 23 April 2009.
    - The signing of a heads of agreement for additional funding, on 5 May 2009.
    - The notice of general meeting to shareholders, which included an Independent Expert Report, examining the fairness and reasonableness of approving the Tambo Coal and Gas Project farm-in agreement on 26 May 2009.
    - The holding of the general meeting on 26 June 2009 in which the Tambo Coal and Gas Project farm-in agreement was approved by shareholders.
- Following the announcement of the Proposed Transaction, LOD's VWAP has been in a declining trend. The decline may be attributable to the absence of results from LOD's drilling programme, since the announcement of the Proposed Transaction, which has been delayed by poor weather conditions in the area of the Tambo Coal and Gas Projects.

The table below summarises the VWAP and liquidity of LOD shares over various look back periods prior to 22 December 2009 for the purposes of this Report.

Table 10: Look Back Periods prior to 22 December 2009

Look Back Period	VWAP ($AUD)	Volume (000's)	Volume Traded as % of Current LOD Shares on Issue
5 days	0.18	1,148	0.5%
10 days	0.19	3,626	1.8%
1 Month	0.18	11,661	5.8%
6 Months	0.15	73,754	36.9%
1 Year	0.11	152,338	80.0%

Source: Capital IQ

The above table shows that the VWAP over the various look back periods selected has varied between $0.11 and $0.19. Approximately 80% of the Company's current stock was traded over the twelve months prior to 22 December 2009 indicating the LOD stock is reasonably liquid. Furthermore we note additional liquidity has been demonstrated by the Company's capital raising activities as noted in Section 4.6.

4.7.2. Composition of the LOD Share Register

The top shareholders of the Company as at 26 March 2010 were as follows:

Table 11: Top Shareholders of LOD

Shareholder	Shareholding (Ordinary Shares)	Percentage of Total (%)
Oliver Lennox-King	16,000,000	7.56%
Wealford Investments Limited	13,500,000	6.38%
Square Resources Pty Ltd	10,000,000	4.73%
Nefco Nominees Pty Ltd	7,849,958	3.71%
John Lachlan McCawley	6,854,198	3.24%
Orbit Capital Pty Ltd[1,2]	6,338,589	3.00%
Lance and Olwyn Grimstone	4,631,525	2.19%
Campbell Marine Pty Ltd	4,523,609	2.14%
Somnus Pty Ltd	3,750,000	1.77%
Springtide Capital Pty Ltd	3,533,257	1.67%
Eastern Porphyry Pty Ltd	3,000,000	1.42%
TBIC Pty Ltd	3,000,000	1.42%
Allegro Capital Nominees Pty Ltd[1]	2,854,846	1.35%
Total	**85,835,982**	**40.58%**
Other	125,673,547	59.42%
Total Shares Issued	**211,509,529**	**100%**
Mr Greg Baynton and associates[3]	9,246,768	4.37%

Source: LOD
Note 1: Entity associated with Mr Greg Baynton
Note 2: 3,000,000 shares are subject to an escrow arrangement. These shares will be released from escrow on 29 April 2010.

4.8. LOD Income Statements

Extracts from the Income Statements of LOD for the financial years ended 30 June 2008, 30 June 2009 and the six month period ended 31 December 2009, are as follows:

Table 12: LOD Income Statements

($AUD)	Financial Year Ended 30 June		Half Year Ended 31 December
	2008	2009	2009
Revenue from operations	23,986	48,731	36,344
Exploration abandoned	(711,967)	(394,532)	-
Professional services expenses	(159,997)	(222,647)	(163,072)
Corporate overhead expenses	(184,222)	(252,874)	(294,296)
Depreciation expenses	(12,340)	(13,529)	(5,719)
Directors remuneration	(136,200)	(248,967)	(128,982)
Share based payments expense	-	(475,923)	(132,129)
Loss before income tax	**(1,180,740)**	**(1,559,741)**	**(707,061)**
Income tax expense	-	-	-
Loss from operations	**(1,180,740)**	**(1,559,741)**	**(707,061)**
Loss attributable to members of LOD	**(1,180,740)**	**(1,559,741)**	**(707,061)**

Source: LOD 2009 Annual Report and Half Year Report to 31 December 2009

In the case of the Income Statements summarised above, we note the following:

- **Revenue from operations:** Consists of interest received on LOD's cash balances. This revenue is due to the significant cash reserves of the Company, which are required to fund the capital intensive exploration activities. As LOD is an early-stage explorer, it does not yet generate any revenues from its exploration operations.
- **Exploration abandoned:** This represents the write-off of unsuccessful exploration expenditure incurred by LOD. In the 2009 year, the write-off related to the Mount Morgan Prospect ($270,609), Karinya ($11,487), Botswana ($57,805), Moreton Coal Project ($4,363), Tambo Coal and Gas Projects ($50,269).
- **Professional services expenses:** The professional services expenditure includes legal, accounting and consulting fees.
- **Corporate overhead expenses:** The corporate overheads expenditure includes rent, insurance, audit fees, share registry and ASX fees.
- **Share based payments:** Represents 14,000,000 options and 18,000,000 performance rights granted to Directors and contractors for $nil consideration.

4.9. LOD Balance Sheets

Extracts from the Balance Sheets of LOD as at 30 June 2008, 2009 and 31 December 2009, are as follows:

Table 13: LOD Balance Sheets

($AUD)	As at 30 June 2008	As at 30 June 2009	As at 31 December 2009
ASSETS			
Current Assets			
Cash and cash equivalents	586,204	3,355,688	4,990,938
Receivables	20,466	50,818	252,547
Total Current Assets	**606,670**	**3,406,506**	**5,243,485**
Non-Current Assets			
Plant and equipment	18,593	11,217	25,382
Exploration expenditure	280,850	856,878	3,123,146
Other	39,180	66,180	90,900
Total Non-Current Assets	**338,623**	**934,275**	**3,239,428**
TOTAL ASSETS	**945,293**	**4,340,781**	**8,482,913**
LIABILITIES			
Trade and other payables	87,467	897,068	670,687
Unearned income			3,000,000
TOTAL LIABILITIES	**87,467**	**897,068**	**3,670,687**
NET ASSETS	**857,826**	**3,443,713**	**4,812,226**

Source: LOD 2009 Annual Report and Half Year Report to 31 December 2009

In the case of the Balance Sheets summarised above, we note the following:

- **Cash:** LOD's cash reserves are required to fund its capital intensive exploration activities.
- **Exploration expenditure:** This non-current asset account includes deferred geological, geophysical, drilling and other expenditure at cost, which has been capitalised by LOD. As at 30 June 2009, this balance was made up of the Limestone Creek Prospect ($112,719), The Moreton Coal Project ($373,873) and the Tambo Coal and Gas Projects ($370,286). The $1.9 million increase in exploration expenditure to 31 December 2009 largely related to exploration activities conducted for the Tambo Coal and Gas Projects.
- **Trade and other payables:** In June 2009 the trade and other payables balance of LOD had increased significantly due to a royalty deposit held in escrow of approximately $750,000. The increase of approximately $2.4 million from 30 June 2009 to 31 December 2009 relates to exploration activities in relation to the Tambo Coal and Gas Projects.
- **Deferred tax liability:** We note that LOD had a significant level of carried forward income tax losses as at 30 June 2009 ($7.7 million), for which no deferred tax asset has been recognised as it is not "virtually certain" that these tax losses will be recouped. Accordingly we have excluded the value of these tax losses from our valuation.
- **Unearned Income:** Under the Royalty Agreement, LOD is obligated to pay 2% of sales of coal and gas produced from the Tenements. In accordance with accounting concepts, a liability of $3 million has been booked although we note that this does not represent an amount payable by LOD, rather the amount will be recognised as income over the future period that the 2% royalty becomes due and payable and is recognised as an expense.

- **Contingent Liabilities:** As at 31 December 2009, LOD had the following contingent liabilities:

Table 14: LOD Contingent Liabilities

Contingent Liability	Description	Amount ('000s)
Farm-in Agreements	Under the Moreton Farm-In Agreement LOD is committed to issue a further 3,000,000 shares.	$480[1]
Exploration Commitments	Exploration commitments total $15,450,500 on the assumption that each of these tenements will be held for its full term.	$15,451
Total		**$15,931**

Source: LOD Half Year Report to 31 December 2009
Note 1: Calculated as 3,000,000 ordinary shares at 16 cents, being the LOD VWAP as at 31 December 2009

4.10. LOD Cash Flow Statements

The Cash Flow Statements for LOD for the financial years ended 30 June 2008 and 30 June 2009 are summarised in the table below:

Table 15: LOD Cash Flow Statements

	Financial Year Ended 30 June		Half Year Ended 31 December
($AUD)	2008	2009	2009
Cash Flows from Operating Activities			
Receipts from customers (inclusive of GST)	84,571	42,851	95,288
Payments to suppliers (inclusive of GST)	(475,947)	(832,733)	(821,423)
Interest received	27,797	49,606	30,097
Net Cash Outflows from Operating Activities	**(363,579)**	**(740,276)**	**(695,138)**
Cash Flows from Investing Activities			
Payments for exploration	(662,718)	(594,205)	(1,817,472)
Payments for plant and equipment	-	(6,152)	(19,884)
Payments/ refunds for security deposits	-	(27,000)	(24,720)
Net Cash Flows Outflows from Investing Activities	**(662,718)**	**(627,357)**	**(1,862,076)**
Cash Flows from Financing Activities			
Proceeds from share issue	510,010	3,429,262	1,957,000
Proceeds from royalty deposit	-	750,981	(13,555)
Payment of share issue costs	-	(43,126)	2,249,019
Net Cash Inflows from Financing Activities	**510,010**	**4,137,117**	**4,192,464**
Net Increase / (Decrease) in Cash and Cash Equivalents	**(516,287)**	**2,769,484**	**1,635,250**
Cash and cash equivalents at the beginning of the financial year	1,102,491	586,204	3,355,688
Cash and cash equivalents at the end of the financial year	**586,204**	**3,355,688**	**4,990,938**

Source: LOD 2009 Annual Report and Half Year Report to 31 December 2009

In respect of the above Cash Flow Statements, we note:

- The net cash outflows from operating activities primarily comprise of the overhead costs of the business, professional services and director salaries.
- The net cash outflows from investing activities are primarily the exploration costs incurred by the Company.

- The cash inflows from financing activities consist of the equity raised by LOD and the associated costs. The total cash raised by the Company in the 2009 financial year, consisted of the following transactions:

Table 16: 2009 LOD (Cash) Capital Raisings

Date	Details	Number of Shares	Issue Price (AUD)	Total Raised (AUD)
22 July 2008	Placement	32,916,743	0.03	987,500
25 July 2008	Options exercised	3,835,239	0.05	191,762
22 September 2008	Placement	8,333,332	0.03	250,000
15 May 2009	Placement	9,000,000	0.10	900,000
26 June 2009	Placement	11,000,000	0.10	1,100,000
Total		**65,085,314**	**0.05**	**3,429,262**

Source: LOD 2009 Annual Report

5. ENTITIES ACQUIRED UNDER THE PROPOSED TRANSACTION

Should the Proposed Transaction be approved, LOD will acquire 100% of the ordinary equity of Tambo and Moreton. A brief overview of the ownership structures, director(s) and primary activities of Tambo and Moreton are provided below.

5.1. Tambo Coal & Gas Pty Ltd (Tambo)

Tambo is a proprietary company whose shareholders are Orbit and Allegro. Greg Baynton is the sole director and secretary of Tambo. Tambo was incorporated on 13 June 2008.

The ordinary equity of Tambo is held as follows:

Entity	Description	Number of Ordinary Shares
Orbit Capital Pty Ltd	A private investment company (AFS Licence No. 230327). 100% of the ordinary equity of Orbit is held by Allegro Capital Nominees Pty Ltd.	1
Allegro Capital Nominees Pty Ltd	Trustee company of Mr Greg Baynton's family trust.	99
		100

Tambo is the registered holder of ATP 1020, a tenement prospective for gas that straddles the Eromanga and Surat basins in Queensland. Tambo has applied in its own name for seven EPCs, some of which partially overlap ATP 1020. Two of these EPCs, being EPC 1482 and EPC 1484, have been granted. In addition, Tambo and LC have jointly applied for a further 20 EPCs located in the Surat and Eromanga basins.

Tambo has entered into two farm-in agreements with LOD and its subsidiaries, being the Tambo Coal Project Farm-in Agreement and the Tambo Gas Project Farm-in Agreement.

Under the Tambo Gas Project Farm-in Agreement, LCSG, a wholly owned subsidiary of LOD, may earn up to a 50% interest in ATP 1020 by undertaking exploration activities and incurring exploration expenditure to the value of $5 million over a four year earning period. Similarly, under the Tambo Coal Project Farm-in Agreement, LC has a right to earn up to a 50% interest in the coal tenements applied for by Tambo alone by undertaking exploration and incurring exploration expenditure to the value of $5 million over a four year earning period.

5.2. Moreton Energy Pty Ltd (Moreton)

Moreton is a proprietary company whose sole shareholder is Orbit. Mr Greg Baynton is the sole director and secretary of the company. Moreton was incorporated on 20 May 2008.

Moreton has been granted three exploration permits for areas prospective for coal (EPC 1299, EPC 1302 and EPC 1313), which are located in the Moreton Basin in South East Queensland. Moreton and LOD also jointly hold an exploration permit for coal (EPC 1524). Under the Moreton Coal Project Farm-in Agreement between LOD, Moreton and Orbit, which was approved by shareholders on 8 September 2008, LOD has a right to earn a 50% interest in those EPCs registered in the name of Moreton by undertaking exploration, and incurring exploration expenditure, to the value of $2 million over a period of three years. In consideration for entering into the Moreton Coal Project Farm-in Agreement, LOD has issued six million shares to Orbit and has an obligation to issue up to a further three million LOD shares once it has carried out exploration and incurred exploration expenditure of approximately $1 million. Once this expenditure threshold has been reached, LOD must issue one million shares for each EPC that it elects to have an interest in. Other than its interest in the EPCs the subject of the Moreton Coal Project Farm-in Agreement and those held jointly with LOD, Moreton has not otherwise traded.

6. VALUATION OF LOD

6.1. Methodology

LOD's principal assets are its farm-in rights in the Tenements, the subject of the Tambo Coal and Gas Projects and the Moreton Coal Project (collectively "the Projects") and its 50% interest in those Tenements relating to the Projects that have been granted or are under application by the participants in each joint venture. Should the Proposed Transaction be approved, the farm-in and joint venture agreements will be terminated and LOD will hold 100% of the Tenements the subject of the Projects through an acquisition of 100% of the outstanding shares in Tambo and Moreton.

We have determined the most appropriate primary valuation method for the shares in LOD on a pre and post Proposed Transaction basis, to be an assessment of the fair market value of its underlying net assets on a going concern basis. We have made this determination as the principal assets held by LOD are the Tenements which under RG 111 require a specialist's valuation and the net asset approach enables us to incorporate a specialist's valuation of the Tenements.

We have also performed a cross check to our valuation pre the Proposed Transaction based on the share price of LOD. We have not used the share price of LOD as our primary approach due to the subjective nature of assessing a share price post the Proposed Transaction, particularly given the ownership structures of the Tenements. In addition, due to the nature of the assets LOD holds, being the Tenements, and the requirements of RG 111.99 to engage a specialist, we determined the net asset approach to be our preferred methodology.

Further valuation methodologies in the context of LOD have been detailed at Appendix 5.

6.2. Xstract's Specialist report

As the principal assets held by LOD relate to energy exploration licenses, RG 111 requires a specialist to value the assets. We have engaged Xstract to prepare a valuation of the Tenements in relation to their potential for coal, CSG and UCG projects. The Xstract Report has been prepared in accordance with the Australian Institute of Mining & Metallurgy's Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (known as the "ValMin Code"). As the Tenements are still at the exploration and evaluation stages and are yet to generate revenue, the Tenements do not reach the minimum requirement for, nor have been assessed in accordance with, the Australian Joint Ore Reserves Committee (JORC) Code. A copy of the Xstract Report is attached at Appendix 7.

We have assessed and satisfied ourselves as to the Xstract's professional competency, qualifications and objectivity regarding LOD and have placed reliance on their report. The valuations ascribed by Xstract to the Tenements have been adopted in our calculations. A summary of Xstract's valuation of the Tenements on a 100% basis is as follows (refer page 2, Table 1-1 of the Xstract Report):

Table 17: Summarised Valuations of the Tenements per Xstract's Technical Specialist Report (100% basis)

($000's)	Low Value	High Value	Preferred Value	Preferred Value (50% basis)
Tambo Coal	**28,400**	**77,400**	**51,600**	**25,800**
Represented by the following EPCs:				
Farm-ins (1414, 1415, 1417, 1418, 1481, 1482, 1484)	4,852	14,380	9,619	4,810
Joint Ventures (1621 – 1625, 1632, 1633, 1644, 1697, 1719, 1776, 1777, 1784, 1786, 1788, 1789, 1794, 1795, 1800, 1993)	10,901	40,525	25,720	12,860
UCG Farm-ins (1414, 1415, 1417, 1481, 1482, 1484)	7,350	13,125	9,508	4,754
UCG Joint Ventures (1622, 1624, 1632, 1633, 1644)	5,250	9,375	6,792	3,395
Tambo CSG (Represented by ATP 1020)	**3,900**	**5,900**	**5,300**	**2,650**
Moreton Coal	**2,200**	**10,700**	**6,400**	**3,200**
Represented by the following EPCs:				
Farm-ins (1299, 1302, 1313)	2,177	10,505	6,342	3,171
Joint Venture (1524)	30	152	92	46
Total	**34,500**	**94,000**	**63,300**	**31,650**

Note 1: Includes Rounding

The above values have been adopted in our valuation analysis of LOD pre and post the Proposed Transaction, as outlined in Table 18 and Table 21, respectively.

6.3. Valuation of LOD Prior to the Proposed Transaction

We have assessed the value of LOD prior to the Proposed Transaction using a net asset approach on a going concern basis. We note this approach results in a stand alone control value.

In applying the net assets approach to LOD on a pre transaction basis, we have added 50% of the Tenement values to the 31 December Balance Sheet of LOD. We have also made a number of adjustments to the book value of LOD's assets and liabilities, as demonstrated in Table 18, as follows:

1. Excluded the exploration expenditure line item, with the exception of the Limestone Creek Prospect, which has been valued at cost, and added back 50% of the preferred market values derived for the Tenements from Xstract's Independent Technical Expert Report to reflect the 50% interest that LOD has in the Tenements through the farm-in and joint venture agreements.
2. We have applied discounts of 35.0% to the farm-in tenement values, to reflect:
    - LOD's current interest is a right to 50% of the farm-in tenements and LOD currently has not been issued any shares under the farm-in agreement.
    - A funding risk, as LOD does not currently have sufficient liquid assets to carry out the exploration expenditure commitments stipulated in the farm-in agreements.
    - As Xstract's valuation of the Tenements is on a control basis, we have applied a further discount to reflect LOD does not fully control the assets.
    - LOD is responsible for 100% of the costs as manager of the Projects and LOD's overheads, despite only being entitled to a 50% interest in the farm-in tenements.
3. We have applied discounts of 12.5% to the JV tenement values, to reflect LOD does not fully control these assets and LOD's responsibility for 100% of the costs as manager of the Projects and LOD's overheads, despite only being entitled to a 50% interest in the joint-venture tenements.
4. A liability has been included to reflect the net present value of LOD's outstanding exploration commitments which are required under the farm-in agreements in order for LOD to obtain a 50% interest in these tenements. These commitments have been calculated for the Tambo Coal and Gas Projects, as well as the Moreton Coal Project, based on exploration expenditure incurred to date, exploration expenditure budgeted for the 2010 calendar year and any remaining exploration expenditure apportioned equally over calendar years 2011 and 2012. To obtain the present value of these commitments, we have applied the discount rate applied to the farm-in agreements, being 35%, as the exploration expenditure cash flows are inherently related to the assessed risks of the farm-in agreements.

Table 18: WHKCF Preferred Net Asset Valuation of LOD pre the Proposed Transaction

('000's)	Reference	As at 31 December 2009 Book Value	Market Value Adjustments	Less Applicable Discounts	Market Value
ASSETS					
Cash and cash equivalents		4,991	-		4,991
Receivables		253	-		253
Fixed assets		25	-		25
Other		91	-		91
Exploration expenditure	1	3,123	(2,923)		200
Tambo Coal Project (Farm in)	2		4,810	(1,683)	3,126
Tambo Coal Project (Joint Venture)	3		12,860	(1,608)	11,253
Tambo Gas Project (Farm in)	2		2,650	(928)	1,723
Tambo UCG (Farm in)	2		4,754	(1,664)	3,090
Tambo UCG (Joint Venture)	3		3,396	(424)	2,971
Moreton Coal Project (Farm in)	2		3,171	(1,110)	2,061
Moreton Coal Project (Joint Venture)	3		46	(6)	40
TOTAL ASSETS		**8,483**			**29,824**
LIABILITIES					
Trade and other payables		3,671			3,671
Farm-in Exploration Commitments	4		7,974		7,974
TOTAL LIABILITIES		**3,671**	**-**		**11,645**
NET ASSETS		**4,812**			**18,179**

Source: Half Year Report to 31 December 2009 and WHKCF analysis
NB: Includes rounding
Note 1: Represents the book value of the Limestone Creek Prospect ($200,000) and the Mount Morgan Prospect ($Nil). These prospects have been valued at cost due to the dormant nature of the assets and the absence of exploration data from which to prepare a valuation analysis

The market values adopted for the Tenements in the above table have been derived from the preferred values in Xstract's Report (refer Table 17). We have also set out in Appendix 6 our low and high values using the corresponding low and high value from the Xstract Report.

Valuation Conclusion

Based on our valuation analysis, using a net realisable asset approach on a going concern basis, the implied pre Proposed Transaction share price range on a controlling basis of LOD is as follows:

Table 19: LOD Pre Transaction Share Price Valuation at 31 December 2009

	Low Value	Mid Value	High Value
Market Value of NTA ($000's)	**6,935**	**18,179**	**30,084**
Shares Issued (000's)	211,510	211,510	211,510
Undiluted Implied Share Price (Control) ($)	**0.03**	**0.09**	**0.14**
Options and Performance Rights Issued (000's)	55,401	55,401	55,401
Fully Diluted Implied Share Price (Control) ($)	**0.03**	**0.07**	**0.11**

Source: WHKCF Calculations

Valuation Crosscheck

The announcement of the Proposed Transaction was made on 22 December 2009. Prior to the announcement date, LOD shares traded at the following volume weighted average ("VWAP") prices:

Table 20: LOD VWAP prices prior to 22 December 2009

Look Back Period	VWAP ($AUD)	Volume ('000's)	Volume Traded as % of Current LOD Shares on Issue
5 days	0.18	1,148	0.5%
10 days	0.19	3,626	1.8%
1 Month	0.18	11,661	5.8%
6 Months	0.15	73,754	36.9%
1 Year	0.11	152,338	80.0%

Source: Capital IQ
Days are scheduled ASX trading days

LOD's VWAP prices prior to the announcement of the Proposed Transaction either exceed or are towards the high value implied from our analysis, which suggests that the market has taken a different view of the value of LOD, to that which Xstract has taken in the Xstract Report. We note that it is not uncommon for different interpretations of value to be observed, for assets such as the Tenements, due to their early stage and speculative nature.

We note that following the announcement of the Proposed Transaction, LOD's share price has traded at prices which are similar to the high end of our valuation range.

6.4. Valuation of LOD post the Proposed Transaction

We have assessed the value of LOD post the Proposed Transaction using the net realisable assets on a going concern basis, which results in a control value. As control will pass to Mr Greg Baynton, following the Proposed Transaction, we are required to value LOD's value on a minority basis. Accordingly we have applied a Minority Interest Discount, to the valuation derived.

We have made the following adjustments to LOD's balance sheet as at 31 December 2009, in our post Proposed Transaction analysis:

1. The Tenement values from the Xstract Report have been included on a 100% basis, assuming the Proposed Transaction is approved, as LOD will have full control of the Tenements. Accordingly no discounts to reflect the funding risk (farm-ins) or lack of control (farm-ins and JV's) have been applied.
2. As the farm-in arrangements will be terminated post the Proposed Transaction, the exploration commitments required to obtain a 50% interest in the farm-in tenements will no longer be required and have therefore been excluded from our valuation assessment.

Table 21: WHKCF Net Asset Valuation of LOD post the Proposed Transaction

(000's)	Reference	As at 31 December 2009 Book Value	Market Value Adjustments	Market Value
ASSETS				
Cash and cash equivalents		4,991	-	4,991
Receivables		253	-	253
Fixed assets		25	-	25
Other		91	-	91
Exploration expenditure		3,123	(2,923)	200
Tambo Coal Project (Farm in)	1		9,619	9,619
Tambo Coal Project (Joint Venture)	1		25,720	25,720
Tambo Gas Project (Farm in)	1		5,300	5,300
Tambo UCG (Farm in)	1		9,508	9,508
Tambo UCG (Joint Venture)	1		6,792	6,792
Moreton Coal Project (Farm in)	1		6,342	6,342
Moreton Coal Project (Joint Venture)	1		92	92
TOTAL ASSETS		**8,483**		**68,933**
LIABILITIES				
Trade and other payables		3,671		3,671
Farm-in Exploration Commitments	2		-	-
TOTAL LIABILITIES		**3,671**	**-**	**3,671**
NET ASSETS		**4,812**		**65,262**

Source: Half Year Report to 31 December 2009 and WHKCF analysis
NB: Includes rounding
Note 1: Represents the book value of the Limestone Creek Prospect ($200,000) and the Mount Morgan Prospect ($Nil). These prospects have been valued at cost due to the dormant nature of the assets and the absence of exploration data from which to prepare a valuation analysis

These market values have been derived from the preferred values from the Xstract Report (refer Table 17). We have also set out in Appendix 6 the low and high values using the respective value range in the Xstract Report.

Valuation Conclusion

As the net asset approach results in a control value, we have applied a Minority Interest Discount to reflect the loss of control for non-associated shareholders should the Proposed Transaction be approved. We have applied a Minority Interest Discount of 15% which approaches the mid-point of ranges of 10% to 25% which are implied from empirical evidence. We have not applied a high minority discount as we consider there is potential for a re-rating of the shares given the change in the ownership of the Projects and increase in the market capitalisation of the Company, which would offset the Minority Interest Discount.

Based on our valuation analysis, using a net realisable asset approach on a going concern basis, the implied post Proposed Transaction share price of LOD is as follows:

Table 22: Valuation Conclusion of LOD Post the Transaction

	Low Value	Mid Value	High Value
Market Value of NTA ($000's)	**36,349**	**65,262**	**95,851**
Shares Issued (000's)[1]	618,798	618,798	618,798
Undiluted Implied Share Price (Control) ($)	**0.06**	**0.11**	**0.15**
Less: Minority Interest Discount	15.0%	15.0%	15.0%
Undiluted Implied Share Price (Minority) ($)	**0.05**	**0.09**	**0.13**
Options and Performance Rights Issued (000's)	52,401	52,401	52,401
Fully Diluted Implied Share Price (Control) ($)	**0.05**	**0.10**	**0.14**
Less: Minority Interest Discount	15.0%	15.0%	15.0%
Fully Diluted Implied Share Price (Minority) ($)	**0.05**	**0.08**	**0.12**

Source: WHKCF Calculations
Note 1: Includes the issue of 407,288,211 ordinary shares in accordance with the Proposed Transaction

7. EVALUATION OF THE PROPOSED TRANSACTION

7.1. Fairness

For the purpose of assessing whether the Proposed Transaction is fair to the non-associated LOD shareholders, we have compared the assessed value of LOD shares before the implementation of the Proposed Transaction with the assessed value of LOD shares post the Proposed Transaction.

If the Proposed Transaction is implemented, Mr Greg Baynton (through Allegro and Orbit) will immediately hold 62.7% and 67.3% of the enlarged share capital on a fully diluted and undiluted basis, respectively. As Mr Greg Baynton's interests will exceed 50%, he will obtain control of LOD and be able to pass general resolutions and block general and special resolutions, notwithstanding that currently Mr Greg Baynton currently has an influential position with respect to LOD, being the counterparty of the farm-in and joint venture agreements for the Tenements, holding 4.4% and 5.0% of LOD on a fully diluted and undiluted basis, respectively and being a director of LOD.

We have assessed the pre Proposed Transaction value of LOD on a control basis, and the post Proposed Transaction value of LOD on a minority basis. Our comparison is shown below:

Table 23: Comparison of LOD share value pre and post the Proposed Transaction

	Low		Mid		High	
	Pre	Post	Pre	Post	Pre	Post
Undiluted Share Price ($)	0.03	0.05	0.09	0.09	0.14	0.13
Fully Diluted Share Price ($)	0.03	0.05	0.07	0.08	0.11	0.12

Source: WHKCF Calculations

The above table shows that our assessed value range for post the Proposed Transaction (on a minority interest basis) is greater than or equal to our assessed value range for pre the Proposed Transaction (on a control basis), except for the high value range on an undiluted basis. In our opinion, this indicates that the consideration for the Proposed Transaction includes a Control Premium. We consider the comparison on a fully diluted basis to be the better comparison given:

- 14 million of the 34.4 million options are exercisable at 7 cents and the recent trading share price is around 10-11 cents.
- Should the Proposed Transaction be approved the market capitalisation is expected to exceed $50 million and therefore 9 million of the performance rights will be exercisable.
- The volatility in share price trading evidenced in recent times for LOD and exploration companies generally may enable the remaining options (20.4 million options are exercisable at 20 cents) and the other 9 million performance rights (exercisable at 25 cents) to be exercised. Further, the LOD share price has approached 20 cents in December 2009.

Accordingly as our assessed value range post the Proposed Transaction on a fully diluted basis is greater than our assessed value range pre the Proposed Transaction we consider the Proposed Transaction to be fair.

7.2. The Proposed Transaction is Reasonable

After comparing the advantages and disadvantages of the Proposed Transaction (as detailed below), we are of the opinion that the Proposed Transaction is reasonable to the non-associated LOD shareholders.

Advantages

- **The Proposed Transaction is Fair, therefore it is Reasonable**

  RG 111.11 states that "an offer is 'reasonable' if it is fair." Furthermore, our analysis indicates the Proposed Transaction includes a Control Premium.

- **The Proposed Transaction involves scrip not cash**

  The consideration for the Proposed Transaction consists of LOD scrip, rather than cash, which is an advantage for non-associated shareholders as it:

- Minimises the impact of the Proposed Transaction to LOD's balance sheet and enables the Company to retain sufficient liquid assets to fund exploration activities in the short-term.
- Aligns the objectives of Mr Greg Baynton to those of the Company.

- **LOD will have direct control over the Tenements**

  LOD and its subsidiaries will wholly own the entire portfolio of coal, CSG and UCG in which they currently have an interest, or a right to acquire an interest under the farm-in agreements. This means that, aside from the Royalty Agreement, any economic benefits arising from the exploration and development of these tenements will accrue to LOD alone. It also means that LOD will be able to deal with and manage the energy portfolio without ongoing contractual obligations to project partners, other than those imposed under the Royalty Agreement. For example, LOD will not be required to enter into formal joint venture arrangements with Tambo or Moreton and will have the option of selling, de-merging or joint-venturing the Projects (subject to limitations contained in the Royalty Agreement).

- **Removal of the farm-in agreements**

  Under the current farm-in agreements, LOD has the right to earn up to 50% of the relevant EPCs held by Tambo and Moreton, subject to outstanding exploration obligations (approximately $9 million to be expended within the next 3 years). As LOD does not currently have sufficient funds to meet these exploration commitments in full, there is a risk that should the Company be unable to raise sufficient equity in the required time-frame, ownership entitlements may lapse. If the Proposed Transaction is approved, LOD will have direct control of the EPCs and the risks that funds won't be available within the required time-frame will be removed, providing LOD with flexibility in relation to the timing of its exploration programme. Further LOD will no longer have the obligation to issue 3 million shares to Orbit under the Moreton Coal Project Farm-in Agreement.

- **Improved Ability to Raise Capital**

  If approved, the Proposed Transaction will result in LOD controlling the Moreton Coal Project and Tambo Coal and Gas Projects. The current ownership split of the Tenements between LOD and Mr Greg Baynton may deter certain investors from providing capital as there are two parties involved and Mr Greg Baynton currently controls the Moreton Coal Project and Tambo Coal and Gas Projects. Should the Proposed Transaction be approved, the ownership and control risks will be removed which together with an improved profile and wider analyst coverage should assist LOD's ability to raise capital.

- **Board View**

  WHKCF notes that the LOD board members (excluding Mr Lance Grimstone and Mr Greg Baynton who are unable to provide a recommendation due to their interests in the Proposed Transaction) have recommended the Proposed Transaction to shareholders. The support of the LOD Board should provide additional comfort to shareholders. We note however that each of the directors hold performance rights which may be exercisable on the completion of the Proposed Transaction however despite this they considered that shareholders should be provided with a recommendation.

- **Further control transaction**

  If the Proposed Transaction is successful, non-associated LOD shareholders continue to potentially benefit from participating in a control or other similar transaction if they remain a shareholder of LOD, if such a transaction ultimately transpires.

Disadvantages

- **Mr Greg Baynton will have a controlling interest in LOD**

  If the Proposed Transaction is approved, Mr Greg Baynton will effectively control the Company, with a relevant interest of approximately 62.7% of the LOD's ordinary equity on a fully diluted basis. Accordingly he will be able to pass or block general resolutions and block special resolutions in relation to the Company. Further he could block a hostile or other takeover of the Company if the terms of the takeover are not acceptable to him.

- **Dilution of current interest**

  The current non-associated shareholders will have a lower proportionate interest in LOD following an approval of the Proposed Transaction and accordingly their equity interests will be diluted. The non-associated shareholders will reduce from 95.6% to 32.7% on an undiluted basis. Further, LOD currently has 18 million performance rights on issue, the exercise conditions of which are as follows:

  - One half of the performance rights become exercisable if LOD's market capitalisation is $50 million for a period of five or more trading days.
  - One half of the performance rights become exercisable if the volume weighted average price of LOD's shares is at least $0.25 for a continuous period of five trading days.

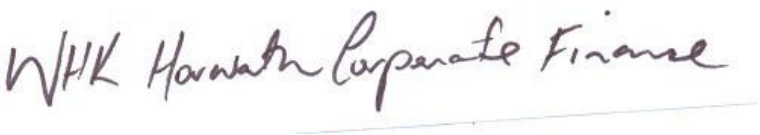
  Should the Proposed Transaction be approved, based on our assessed value of LOD post the Proposed Transaction the market capitalisation should exceed $50 million. This would result in 9 million shares being issued which will further dilute the current non-associated shareholders.

7.3. Conclusion on the Proposed Transaction

On the basis of the factors set out above, in our view, the Proposed Transaction is, in the absence of a superior proposal, considered to be fair and reasonable to the non-associated LOD shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. We have considered the Proposed Transaction generally. We have not considered the effect of the Proposed Transaction on the particular circumstances of individual LOD shareholders nor have we considered their individual objectives, financial situation or needs. Due to particular circumstances, individual LOD shareholders may place different emphasis on various aspects of the Proposed Transaction from the one adopted in this Report. Accordingly, individuals may reach different conclusions as to whether the Proposed Transaction is fair and reasonable.

Yours sincerely
WHK Horwath Corporate Finance Ltd
ABN 95 001 508 363
AFSL 239170



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APPENDIX 1 – FINANCIAL SERVICES GUIDE

This Financial Services Guide is designed to help retail clients make a decision as to their use of the relevant general financial product advice, to ensure that we comply with our obligations as a financial services licensee, and to provide you with information on:

- How we and our associates are paid;
- Any potential conflict of interest we may have; and
- Our internal and external dispute resolution procedures and how you can access them.

Introduction

WHK Horwath Corporate Finance Limited, ABN 95 001 508 363 ("we" or "us" or "ours" as appropriate) has been engaged to express an opinion as to whether the Transaction is fair and reasonable to the shareholders LOD not associated with the Proposed Transaction in the form of an Independent Expert's Report (the Report) for inclusion in a disclosure or other document in relation to the issuing of a financial product.

Who is responsible for the financial services provided to me?

WHK Horwath Corporate Finance Limited holds an Australian Financial Services Licence No. 239170 and is responsible for the financial services provided by it and its Authorised Representatives, including authorising the distribution of this Financial Services Guide.

WHK Horwath Corporate Finance Limited is wholly owned by WHK Pty Ltd and operated as part of the business advisory and professional accounting practice of WHK Horwath.

General Financial Product Advice

In the Report we provide general financial product advice, not personal financial product advice, because the advice has been prepared without taking account of your objectives, financial situation or needs.

You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs.

If the advice relates to the acquisition, or possible acquisition, of a particular financial product - you should obtain a Product Disclosure Statement (PDS) relating to the product and consider the PDS before making any decision about whether to acquire the product.

What kinds of financial services are you authorised to provide to me?

We are authorised to provide advice on, and deal in, the following classes of financial products to wholesale and retail clients:

- Provide financial product advice for the following classes of financial products:
  - Derivatives; and
  - Securities.
- Deal in a financial product by:
  - Issuing, applying for, acquiring, varying or disposing of a financial product in respect of the following classes of financial products:
    - Derivatives.
  - Applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of the following classes of products:
    - Derivatives; and
    - Securities.

Independent Expert's Reports

We provide financial product advice by issuing an Independent Expert's Report in connection with a financial product of another person or entity. The Report will include a description of the circumstances of our engagement and identify the person or entity who has engaged us. You will not have engaged us directly but will be provided with a copy of the Report due to your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the Report.

Do you have any relationships or associations with financial product issuers?

WHK Horwath Corporate Finance Limited and any of its associated entities may at any time provide professional services including financial services to financial product issuers in the ordinary course of our business.

How is WHK Horwath Corporate Finance Limited paid to produce an Independent Expert's Report?

We have been paid a fee in the vicinity of $155,000 for providing this Independent Expert's Report. This fee is paid by the person or entity which engages us to provide the Independent Expert's Report. The fee has not affected the opinion we have expressed in this Report.

Except for this fee, neither WHK Horwath Corporate Finance Limited, nor any of its principals, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

WHK Horwath Corporate Finance engaged Xstract Mining Consultants Pty Ltd (Xstract) to prepare an independent mineral specialist report, to assist in the preparation of the Independent Expert Report. The fee paid to WHK Horwath Corporate Finance Limited includes fees paid to Xstract.

Does WHK Horwath Corporate Finance Limited get paid for referring clients to invest in the products associated with Independent Expert's Reports?

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with Independent Expert's Reports that we are engaged to provide.

We do not receive commissions or any other benefits for referring clients in connection with the underlying financial product and / or financial service that is the subject of the reports we are engaged to provide.

Do I pay for the financial services provided?

You do not pay us a fee for the production of an Independent Expert's Report. It is the responsibility of the person or entity which engaged our services to produce the Report to meet this cost.

Who can I complain to if I have a complaint about the financial services provided?

If you have any complaint about the service provided to you, you should take the following steps.

3. Contact us and tell us about your complaint.

4. If your complaint is not satisfactorily resolved within three business days, please contact the Complaints Officer, on (07) 3233 3555, or put your complaint in writing and send it to us at:

   The Complaints Officer
   WHK Horwath Corporate Finance Limited
   GPO Box 736
   BRISBANE QLD 4001

5. If you still do not get a satisfactory outcome you can contact the Financial Industry Complaints Service Ltd (FICS) of which WHK Horwath Corporate Finance Limited is a member. FICS can be contacted on 1300 780 808 or you can write to them at PO Box 579, Collins Street West, Melbourne Vic 8007.

The Australian Securities & Investments Commission (ASIC) has a freecall Infoline on 1300 300 630 which you may also use to make a complaint or obtain information about your rights.

If you have any further questions about the financial services WHK Corporate Finance Limited provides, please contact our office on (07) 3233 3555.

APPENDIX 2 – QUALIFICATIONS, DECLARATIONS & CONSENTS

Qualifications

WHKCF provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert reports concerning mergers and acquisitions, takeovers and capital reconstructions.

The executive responsible for preparing this Report on behalf of WHKCF is Ross Patane. Harley Mitchell was responsible for the management of the engagement.

Ross is a Principal of WHK Horwath, and an authorised representative of WHKCF. He is an Associate of the Institute of Chartered Accountants and an Affiliate of the Financial Services Institute of Australia (FINSIA) and holds a Bachelors degree in Business (Accounting) from the Queensland University of Technology.

Harley Mitchell is a Principal of WHK Horwath. He has over 14 years experience in valuations and is a Member of the Institute of Chartered Accountants and has been a lecturer for FINSIA and holds a Bachelors degree in Commerce from the University of Wollongong.

The Brisbane practice of WHK Horwath as it is now known, was established in 1888 and is a firm of chartered accountants that provides a wide range of professional services including advice to corporations and businesses generally and including advice on valuations, company acquisitions, takeovers, and restructures.

WHKCF is retained to advise companies and organisations on financial matters including valuations of shares, goodwill and other assets. WHKCF holds Australian Financial Services Licence No.239170, pursuant to Section 913B of the Act, and its representatives are qualified to provide this Report. This licence authorises WHKCF to carry on a financial services business to provide financial product advice for various classes of financial products including interests in managed investment schemes and securities. WHKCF and its representatives have not provided advice to LOD.

Disclaimers

It is not intended that this Report be used or relied upon for any purpose other than the purpose defined in Section 2.1 of this Report. WHKCF expressly disclaims any liability to any person who relies or purports to rely on this Report for any other purpose, and to any other party who relies or purports to rely on this Report for any purpose.

This Report has been prepared by WHKCF with care and diligence and statements and opinions given by WHKCF in the Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by WHKCF or any of its officers or employees for errors or omissions however arising in the preparation of this Report, provided that this shall not absolve WHKCF from liability arising from an opinion expressed recklessly or in bad faith.

Declarations

In accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with either, its related parties or associates, that would compromise our impartiality. In return for the preparation of our report we have received a fee the receipt of which has not been contingent upon any factor, and its amount calculated with reference to time spent at normal professional fee rates for work of this type. Accordingly, WHKCF does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. WHKCF itself independent in terms of Regulatory Guide 112 issued by ASIC on 30 October 2007.

WHKCF provided a draft copy of this report to the Directors and management of LOD for their comments as to its factual accuracy only. The opinions and conclusions reached in this report are the responsibility of WHKCF alone. Changes made, if any, to this report as a result of review by the Directors and management of LOD have not changed the methodology, conclusions reached by, or opinion of WHKCF.

WHKCF does not have at the date of this Report nor, has had any shareholding in or other relationship with LOD that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion. WHKCF will receive a fee based on time costs of approximately $155,000 (plus GST). This fee includes the cost of engaging Xstract Mining Consultants Pty Ltd (Xstract) to prepare an independent mineral specialist report which has been appended to the Report at Appendix 7. This fee is not contingent upon the success or failure of the Proposed Transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. WHKCF will receive no other benefit for the preparation of this Report.

Consents

WHKCF consents to the issuing of this Report in the form and context in which it is to be included in the Notice of Meeting and Explanatory Memorandum. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of WHKCF to the form and context in which it appears.

APPENDIX 3 – SOURCES OF INFORMATION

Our Report has been prepared with the following materials and sources of information:

- LOD Annual Report for the year ended 30 June 2009
- LOD Half Year Report for the six months ended 31 December 2009
- The Xstract Report
- LOD website: **www.lodestonenergy.com.au**
- LOD share register (Link Market Services) as at 23 March 2010
- Eastern Star Gas Limited website: **www.easternstar.com.au**
- IBISWorld Industry Report: Black Coal Mining in Australia, 28 September 2009
- IBISWorld Industry Report: Petroleum Exploration in Australia, 7 July 2009
- ABARE: Major Development Projects, October 2009 Listing
- Institute of Civil Engineers: Commercial Development of Underground Coal Gasification, 31 March 2008
- Access Economics: Business Outlook September 2009
- Publicly available information including company announcements and financial information from Capital IQ and the ASX, and
- Correspondence and discussions with key management of LOD

APPENDIX 4 - GLOSSARY

Reference	Term
Allegro	Allegro Capital Nominees Pty Ltd
ASIC	Australian Securities & Investment Commission
ASX	Australian Securities Exchange
ATP	Authority to Prospect
AUD	Australian Dollars
AUS	Australian Auditing Standards
Control Premium	A Control Premium represents the amount that a purchaser of a controlling interest in an entity would be willing to pay in excess of the implied 100% valuation of an entity, calculated from the entity's traded (minority) shares.
CSG	Coal Seam Gas
DCF	Discounted cash flow
EGM	Extraordinary General Meeting
EM	Explanatory Memorandum
EPC	Energy Permits for Coal
IER	Independent Experts Report
LC	Lodestone Coal Pty Limited
LCSG	Lodestone CSG Pty Limited
Limestone Creek	LOD tenements located in Chillagoe Formation, 200 km north-west of Cairns, Queensland
LM	Lodestone Minerals Pty Limited
LNG	Liquefied Natural Gas
LOD	Lodestone Energy Limited
Minority Interest Discount	A Minority Interest Discount is the inverse of a Control Premium. It represents the discount to a control value that would be attributed to a minority interest to account for the lack of control.
Moreton	Moreton Energy Pty Ltd
Mt	Metric Tonne
MW	Mega Watt
Mount Morgan	LOD tenements located in the former Mount Morgan gold and copper mine, near Rockhampton in Central Queensland
NOM	Notice of Meeting
Orbit	Orbit Capital Pty Limited
PJ	Petajoule
RG	Regulatory Guide issued by ASIC
Tambo	Tambo Coal & Gas Pty Ltd
the Act	the Corporations Act 2001 (Cth)
the Company	Lodestone Energy Limited
the Moreton Coal Project	LOD coal project in Queensland's Clarence-Moreton Basin
the Projects	Moreton Coal and Tambo Coal and Gas Projects
the Tambo Coal and Gas Projects	Two farm-in agreements covering a large CSG and coal prospect in the upper Surat Basin
the Transaction Documents	IER, Explanatory Memorandum and Notice of Meeting
UCG	Underground Coal Gasification
ValMin Code	Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
VWAP	Volume weighted average share price
WHKCF	WHK Horwath Corporate Finance Limited
Xstract	Xstract Mining Consultants Pty Ltd

APPENDIX 5 – SUMMARY OF VALUATION METHODS

Method	Description	When is Method Used	Applied for Primary method Y/N	Explanation
Discounted Cash Flow(DCF)	The Discounted Cash Flow (DCF) method derives the value of a business on a controlling basis based on the future cash flows of the business discounted back to a present value at an appropriate discount rate (cost of capital). The discount rate used will reflect the time value of money and the risks associated with the cash flows. The DCF method requires: • forecasting cash flows over a sufficiently long period (at least 5 years and usually 10 years); • assessing an appropriate discount rate (typically derived using judgement and aids such as the Capital Asset Pricing Model (CAPM)); and • Estimation of the terminal value (value of the business into perpetuity) at the end of the period (typically derived using the capitalisation of earnings method).	• Reasonably accurate forecast cash flows (min. 5 years). • Earnings or cash flows are expected to fluctuate from year to year. • Business is in start-up or turn around phase. • Specific projects that have a finite or infinite life i.e. mining projects.	N	Cash flow forecasts were not available to apply the DCF method.
Capitalisation of Earnings	The Capitalisation of Earnings (CE) is the most commonly used valuation method. It involves the application of a capitalisation multiple to an estimate of the Future Maintainable Earnings (FME) of the business. The FME must be maintainable by the business and must not include one-off gains or losses. The capitalisation multiple will reflect the risk, time value of money and future growth prospects of the business. The appropriate capitalisation multiple is determined with reference to the observed multiples of entities whose businesses are comparable to that of the business being considered and/or comparable transactions.	• The business has a history of profits with a reasonably consistent trend and that trend is expected to continue. • The business has an indefinite life. • Cash flow forecasts are not available.	N	LOD has incurred and is expected to incur earnings losses over the next several years, as is typically the case for an early stage energy explorer. The application of this methodology requires an entity to have a history of profitability.
Capitalisation of Dividends	This method involves the capitalisation of forecast future maintainable dividends. The maintainable level of dividends is estimated by assessing the expected level of future maintainable earnings and the dividend policy of the entity. The appropriate capitalisation rate reflects the investor's required rate of return.	• Valuation is for a minority interest. • Stable business. • High payout ratios.	N	The valuation is for a controlling interest in LOD, therefore this method is not applicable. Furthermore, LOD has not paid any dividends.
Yield Based	This method is primarily used for property assets and involves capitalising forecast distributions by an estimated future maintainable yield. The yield or rate is determined based on analysis of comparable entities.	• Commercial or investment properties including retail, industrial and commercial.	N	LOD is not a property business.
Market Based	This method values a company based on the traded prices of its equity on a public market/exchange. The approach can adopt the prevailing spot rate of the company's securities at valuation date or the Volume Weighted Average Price (VWAP) over a set trading period i.e. the preceding 30, 60 or 90 trading days to the valuation date.	• Company's equity is listed on public market/ exchange i.e. ASX. • Securities in the company are actively traded on the market/ exchange.	N	We have used this method as a cross check to our primary method, being the Asset Based approach.

Asset Based	Asset based valuations involve separating the business into components that can be readily sold, such as individual business units or items of plant and equipment, and ascribing a value to each component based on the amount that could be obtained if sold. The asset value can be determined on the basis of: – **Orderly realisation:** This method estimates the fair market value of the net assets and includes an allowance to represent the reasonable costs associated with the sale or realisation of the assets in an orderly manner. Such amounts would include market commissions and tax charges. This method does not assume a forced sale, where by the assets of a business may transfer at a value materially different to their fair market value. – **Liquidation:** This method considers the value of an entity via the disposal of its asset under forced sale conditions. The values arrived at will most likely not represent market value. – **Going Concern:** This method estimates the value of the entity via the fair market value of its assets, but does not take into account any realisation costs. The method primarily considers the book value of assets and incorporates adjustments, if required, to reflect the market value of the net assets.	• The business has been incurring losses for a number of consecutive financial years. • The specific assets being considered are surplus to the business operations of the business.	Y	The primary methodology we have applied for our valuation has been a Net Asset based approach on a Going Concern basis. This method has been utilised on the basis that LOD is an early stage energy explorer that is not currently profitable, nor is expected to be in the short term. Despite this lack of profitability, the Tenements that LOD has a 50% interest in or a right to a 50% interest in have a potential value based on geological evidence, which Xstract have analysed and ascribed value to.

APPENDIX 6 – WHKCF LOW AND HIGH VALUATIONS OF LOD

Low Value – Pre Transaction

('000's)	Book Value	Market Value Adjustments	Less Applicable Discounts	Market Value
ASSETS				
Cash and cash equivalents	4,991	-		4,991
Receivables	253	-		253
Fixed assets	25	-		25
Other	91	-		91
Exploration expenditure	3,123	(2,923)		200
Tambo Coal Project (Farm in)		2,426	(849)	1,577
Tambo Coal Project (Joint Venture)		5,451	(681)	4,769
Tambo Gas Project (Farm in)		1,950	(683)	1,268
Tambo UCG (Farm in)		3,675	(1,286)	2,389
Tambo UCG (Joint Venture)		2,625	(328)	2,297
Moreton Coal Project (Farm in)		1,089	(381)	708
Moreton Coal Project (Joint Venture)		15	(2)	13
TOTAL ASSETS	**8,483**			**18,580**
LIABILITIES				
Trade and other payables	3,671			3,671
Farm-in Exploration Commitments		7,974		7,974
TOTAL LIABILITIES	**3,671**	**-**		**11,645**
NET ASSETS	**4,812**			**6,935**

Low Value – Post Transaction

('000's)	Book Value	Market Value Adjustments	Market Value
ASSETS			
Cash and cash equivalents	4,991	-	4,991
Receivables	253	-	253
Fixed assets	25	-	25
Other	91	-	91
Exploration expenditure	3,123	(2,923)	200
Tambo Coal Project (Farm in)		4,852	4,852
Tambo Coal Project (Joint Venture)		10,901	10,901
Tambo Gas Project (Farm in)		3,900	3,900
Tambo UCG (Farm in)		7,350	7,350
Tambo UCG (Joint Venture)		5,250	5,250
Moreton Coal Project (Farm in)		2,177	2,177
Moreton Coal Project (Joint Venture)		30	30
TOTAL ASSETS	**8,483**		**40,020**
LIABILITIES			
Trade and other payables	3,671		3,671
Farm-in Exploration Commitments		-	-
TOTAL LIABILITIES	**3,671**	**-**	**3,671**
NET ASSETS	**4,812**		**36,349**

High Value – Pre Transaction

('000's)	Book Value	Market Value Adjustments	Less Applicable Discounts	Market Value
ASSETS				
Cash and cash equivalents	4,991	-		4,991
Receivables	253	-		253
Fixed assets	25	-		25
Other	91	-		91
Exploration expenditure	3,123	(2,923)		200
Tambo Coal Project (Farm in)		7,190	(2,517)	4,674
Tambo Coal Project (Joint Venture)		20,263	(2,533)	17,730
Tambo Gas Project (Farm in)		2,950	(1,033)	1,918
Tambo UCG (Farm in)		6,563	(2,297)	4,266
Tambo UCG (Joint Venture)		4,688	(586)	4,102
Moreton Coal Project (Farm in)		5,253	(1,838)	3,414
Moreton Coal Project (Joint Venture)		76	(10)	67
TOTAL ASSETS	**8,483**			**41,729**
LIABILITIES				
Trade and other payables	3,671			3,671
Farm-in Exploration Commitments		7,974		7,974
TOTAL LIABILITIES	**3,671**	**-**		**11,645**
NET ASSETS	**4,812**			**30,084**

High Value – Post Transaction

('000's)	Book Value	Market Value Adjustments	Market Value
ASSETS			
Cash and cash equivalents	4,991	-	4,991
Receivables	253	-	253
Fixed assets	25	-	25
Other	91	-	91
Exploration expenditure	3,123	(2,923)	200
Tambo Coal Project (Farm in)		14,380	14,380
Tambo Coal Project (Joint Venture)		40,525	40,525
Tambo Gas Project (Farm in)		5,900	5,900
Tambo UCG (Farm in)		13,125	13,125
Tambo UCG (Joint Venture)		9,375	9,375
Moreton Coal Project (Farm in)		10,505	10,505
Moreton Coal Project (Joint Venture)		152	152
TOTAL ASSETS	**8,483**		**99,522**
LIABILITIES			
Trade and other payables	3,671		3,671
Farm-in Exploration Commitments		-	-
TOTAL LIABILITIES	**3,671**	**-**	**3,671**
NET ASSETS	**4,812**		**95,851**

APPENDIX 7 – XSTRACT REPORT

Independent Mineral Specialist Report
Lodestone Energy Limited

Prepared for:

WHK Howarth Corporate Finance Limited
Level 16, 120 Edward Street
Brisbane QLD 4000

Project No. P1109

May 2010

XstractGroup.com

Xstract - Excellence from the outset

ENVIRONMENT | GEOLOGY | MINING | PROCESSING | VALUATION | RISK | TECHNOLOGIES

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This report has been prepared by Xstract Mining Consultants Pty Ltd ("Xstract") on behalf of WHK Howarth Corporate Finance Limited ("WHK").

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1 EXECUTIVE SUMMARY

At the request of WHK Howarth Corporate Finance Limited ("WHK"), Xstract Mining Consultants Pty Ltd ("Xstract") has prepared an Independent Mineral Specialist Report relating to certain coal, underground coal gasification ("UCG") and coal seam gas ("CSG") assets held by, or subject to farm-in by Lodestone Energy Limited ("Lodestone") located in Queensland, Australia.

Lodestone's principal assets considered in this report include interests in the following projects:

- The Tambo Project ("Tambo Project") located near the township of Tambo in an interpreted western extension to the Surat Basin of central Queensland; and
- The Moreton Project ("Moreton Project") located southwest of Brisbane in the Clarence Moreton Basin of southeast Queensland.

For the purposes of this report Lodestone's Tambo Project is divided along commodity lines into the "Tambo Coal/UCG Project" (relating to the company's interests in various Exploration Permits for Coal or "EPC") and the "Tambo CSG Project" (relating to the company's interests in Authority to Prospect for Petroleum or "ATP" 1020).

In addition, Lodestone maintains an interest in two gold-copper projects in central and northern Queensland. For the purposes of this report, Xstract has been requested by Lodestone to consider the company's energy (i.e. coal, UCG and CSG) assets only.

Lodestone's broad exploration objective is to identify areas prospective for the discovery of (principally export quality) thermal coals, UCG or CSG, located in proximity to established infrastructure. All of Lodestone's Queensland tenements are at an early stage of assessment and as yet no JORC Code compliant Coal Resources have been defined or gas reserves certified.

Tambo Project

Lodestone's Tambo Project is an early stage, integrated energy exploration project lying some 110 kilometres ("km") northeast of Charleville and 680 km west-northwest of Brisbane. Lodestone considers the Tambo Project offers a unique opportunity for the discovery of a number of large scale thermal coal deposits, with UCG and/or CSG potential at greater depths, capable of supporting commercially viable mining operations. Lodestone's exploration concept is based on its recent re-interpretation of the Eromanga and Surat Basins margins, with the company contending that the coal-bearing sequences of the Surat Basin extend further west than previously mapped. With its project tenements extending over a 300 km strike length to the northwest of the Surat Basin, Lodestone has carried out photogeological mapping and compiled water bore/petroleum well and geophysical data prior to commencing targeted drill testing within its granted tenements to test this hypothesis.

At this stage, no coal or gas resources have been defined within Lodestone's tenements. However, the general absence of previous coal exploration and the occurrence of coal intercepts within water bores in the project tenements suggest there is good potential to discover and define a significant coal resource in the Tambo Project. Furthermore, the project's proximity to the established gas fields and associated infrastructure of the Surat Basin suggests that the project tenements are also prospective for either UCG or CSG technologies. Whilst the project is currently conceptual in nature, should Lodestone's hypothesis be proven correct, the potential returns from either thermal coal, UCG or CSG to the company would be considerable. Importantly, Lodestone's approach at Tambo will only be validated through ongoing exploration. Whilst there are no guarantees that future work will result in the determination of significant coal or gas deposits, Xstract considers that Lodestone's Tambo Project is of merit and that further exploration is warranted.

Moreton Project

Lodestone's Moreton Project is located in close proximity to Beaudesert some 80 km to the south of Brisbane. The project is supported by its proximity to major population centres, access to existing road and railway infrastructure, Swanbank power station and potential domestic users in the proposed Bromelton Development Area.

The former Strathnaver and Stansfield collieries and the Versdale Scrub prospect lie within or immediately adjacent to the project tenements. Historically, most of the previous exploration within the project area was focussed on assessing the Veresdale Scrub deposit, a small thermal coal deposit occurring in the northern portion of EPC 1302. *As explained in more detail in section 4.3.4, Lodestone considers that there is potential for an exploration target of between 15 and 20 Mt of in-situ raw coal within EPC 1302. It is important to note however that this target remains conceptual in nature and that there has been insufficient exploration to define a Coal Resource in accordance with the 2004 JORC Code. Furthermore, it remains uncertain if further exploration will result in the determination of a Coal Resource.*

Since farming into the project in 2008, Lodestone has set itself an objective of defining sufficient coal to support a small scale mining operation and hauling to existing coal handling facilities. Drilling of various prospective targets was undertaken in 2009 with the results largely downgrading the prospectivity of certain parts of the project, although a number of targets remain to be adequately assessed.

Summary of Valuation

In forming its opinion of the Fair Market Value of Lodestone's assets, Xstract used several different valuation methods, namely the geoscientific rating method, comparable transactions, Industry Rules of Thumb, Appraised Value method and analysis of farm-in agreements. It is important to note that due to the information available not all methods were used in every case. The results of Xstract's valuation as based on these methods are presented in Table 1-1 below.

Table 1-1: Valuation Summary – Lodestone Energy Limited

Asset	Methodology	100% Basis		Interest to be Acquired	
		Valuation Range (A$ M)	Base Value (A$ M)	Valuation Range (A$ M)	Base Value (A$ M)
Tambo Coal/UCG Project	Geoscientific rating	$15.8 to $54.9	$35.3	$10.3 to $34.6	$22.5
	Transaction Multiples^		$60.6		$40.0
	Appraised Value		$10.0		$7.0
	Farm-in Agreement*	$0.9 to $8.9	$4.9	$0.9 to $8.9	$4.9
	UCG Potential	$12.6 to $22.5	$16.3	$10.1 to $16.6	$12.1
	Tambo Coal/UCG Project Preferred Range	***$28.4 to $77.4***	***$51.6***	***$20.4 to $51.2***	***$34.6***
Tambo CSG Project	Rule of Thumb	$3.9 to $5.9	$5.3	$3.9 to $5.9	$5.3
	Appraised Value		$6.5		$6.5
	Farm-in Agreement	$0.9 to $8.9	$4.9	$0.9 to $8.9	$4.9
	Tambo CSG Project Preferred Range	***$3.9 to $5.9***	***$5.3***	***$3.9 to $5.9***	***$5.3***
Moreton Project	Geoscientific rating	$0.5 to $2.0	$1.2	$0.5 to $1.9	$1.2
	Transaction Multiples		$1.4		$1.1
	Appraised Value		$1.4		$1.4
	Farm-in Agreement#	$0.6 to $4.0	$2.3	$0.6 to $4.0	$2.3
	JJA Experts Report#		$6.0		$6.0
	In-situ Coal Target	$1.8 to $8.8	$5.3	$1.8 to $8.8	$5.3
	Moreton Project Preferred Range	***$2.3 to $10.8***	***$6.5***	***$2.3 to $10.7***	***$6.5***
Total		**$34.6 to $94.1**	**$63.4**	**$26.6 to $67.8**	**$46.4**

^ includes UCG potential
*EPCs 1414, 1415, 1417, 1418, 1481, 1482 and 1484 only.
includes in-situ coal target

In assigning its valuation range and preferred value, Xstract has relied upon the geoscientific rating method (for the coal properties) and an Industry Rule of Thumb approach (for the Tambo CSG Project), with minor adjustments to its value range as indicated by other valuation techniques.

The effective valuation date is 26 February 2010 with all values compiled in Australian dollar ("A$") terms. Xstract has been advised by Lodestone that subsequent to the effective valuation date of this report, EPCs 1414, 1415, 1417, 1418, 1481, 1622 and 1625 had passed through the Native Title notification period without objection. These EPCs may now proceed to grant pending lodgment of various financial assurances, Year 1 rentals and acceptance of certain terms and conditions.

2 INTRODUCTION

Lodestone was formed in 1996 as an Australian gold and base metals exploration company with a focus on the Mount Morgan mining district of central Queensland. The company subsequently listed on the Australian Stock Exchange (now the Australian Securities Exchange ("ASX")) in March 2003. Since that time, Lodestone has changed both its name (from Lodestone Exploration Limited) and focus towards exploring and developing coal, UCG and CSG deposits.

Lodestone's current projects include:

- The Tambo Project located near the town of Tambo in an interpreted extension to the Surat Basin of central Queensland; and
- The Moreton Project located southwest of Brisbane in the Clarence-Moreton Basin of southeast Queensland.

As noted previously, Lodestone's Tambo Project is divided along commodity lines into the "Tambo Coal/UCG Project" (relating to the company's interests in various EPCs) and the "Tambo CSG Project" (relating to the company's interests in ATP1020). The company's Tambo CSG Project partly overlies and is contiguous with the western boundary of its Tambo Coal/UCG Project.

In addition, Lodestone maintains an interest in two gold-copper projects in central and northern Queensland. For the purposes of this report, Xstract has been requested by Lodestone to consider the company's energy (i.e. coal, UCG and CSG) assets only.

2.1 Background

In 2008, Lodestone entered a series of farm-in agreements which provided the company with entry into two energy properties in southern Queensland. These agreements are summarised as:

- **The Moreton Agreement -** In June 2008, Lodestone entered into an agreement with Moreton Energy Pty Ltd ("Moreton Energy") and Orbit Capital Pty Ltd ("Orbit Capital") to earn a 50% interest in three coal permit applications in the Beaudesert region of the Moreton Basin of southeast Queensland for a staged consideration totalling 9 million fully paid shares and exploration expenditure of A$2 million over a period of three years. This transaction was approved by Lodestone shareholders in September 2008.
- **The Tambo Agreements -** In December 2008, Lodestone entered into two separate agreements with Tambo Coal & Gas Pty Ltd ("Tambo Coal & Gas") to progressively earn a 50% interest in a number of coal and CSG tenements in southern-central Queensland. The total consideration for both transactions was A$10 million (A$5 million in exploration expenditure over the coal tenements and A$5 million in exploration expenditure over the CSG tenement). These transactions were approved by Lodestone shareholders in June 2009.

Since the finalisation of these agreements, Lodestone and its respective joint venture partners have applied for a number of coal permits contiguous with the tenements outlined in the Morton and Tambo Agreements. These recent tenement applications are held equally (50:50) between Lodestone and its respective joint venture partner (i.e., Moreton Energy at the Moreton Project and Tambo Coal & Gas at the Tambo Project).

In December 2009, Lodestone announced that it had entered into an agreement to acquire a 100% interest in both the Moreton and Tambo Projects. Lodestone has commissioned WHK to provide an independent expert's report as to whether the proposed transaction is fair and reasonable to Lodestone shareholders as both Moreton Energy and Tambo Coal & Gas are entities associated with Lodestone director, Mr Greg Baynton.

WHK subsequently engaged Xstract to assist in its assessment of the technical merits and the fair market value of Lodestone's coal, UCG and CSG assets. Xstract understands that its Mineral Specialist Report will be appended in its entirety to WHK's Independent Expert Report to Lodestone shareholders.

2.2 Terms of Reference

This report has been prepared at the request of WHK, on behalf of Lodestone, to provide an independent opinion on the fair market value of the company's coal, UCG and CSG assets located in Queensland. Xstract has not been requested to provide comment on the fairness or reasonableness of any consideration in relation to Lodestone's assets and has therefore not offered any opinion in these matters.

The conclusions expressed in this report are appropriate as at 26 February 2010. The valuation is only appropriate for this date and may change in time in response to variations in economic, market, legal or political factors, in addition to ongoing exploration results. All monetary values outlined in this report are expressed in A$, unless otherwise stated.

In the execution of our mandate we have reviewed all relevant technical and corporate information made available to us by the management of Lodestone, which we have accepted in good faith as being true, accurate and complete, having made due enquiry. Lodestone directors have agreed in writing their obligation to provide Xstract all material information for this purpose.

For the specific purpose of this report, Xstract personnel engaged on this project have not undertaken site visits to Lodestone's coal and CSG projects. Visits to the Lodestone offices in Brisbane were made on the 22 December 2009, 22 January 2010 and 23 February 2010 by the principal authors of this report, namely Mr Toby Prior, Mr Alan Bayrak, Mr David Green and Mr Jeames McKibben. During these visits and associated discussions, Xstract has reviewed the latest exploration results, geological sections and estimates provided by Lodestone's technical personnel and the company's consultants, JB Mining Services Pty Ltd ("JBMS"), Colin Nash and Associates Pty Ltd ("Nash") and MBA Petroleum Consultants ("MBA").

At Lodestone's request, a JBMS consultant, Mr Toby Prior, has assisted Xstract in its technical review of the company's Tambo Coal/UCG Project. Mr Prior has not previously worked on any assignment for Lodestone and considers himself to be independent for the purposes of this report. Xstract personnel have reviewed the supporting data and underlying assumptions used by Mr Prior to assist in compiling the coal sections of this report and consider that the information provided represents a balanced account of the status of Lodestone's projects as at the valuation date.

Xstract is not qualified to express legal opinion and has not sought any independent legal opinion on the ownership rights and obligations that Lodestone may have pertaining to the respective mineral assets under licence or any other fiscal or legal agreements that the company may have with any third party. However, we have made due enquiries of the Queensland Department of Mines and Energy ("DME") in order to validate information provided by Lodestone.

2.3 Competent Person Statement

The information in this report that relates to Exploration Targets and Exploration Results within both the Tambo and Moreton Projects is based on information derived from data provided by the Queensland Department of Water and Natural Resources, open file reports obtained via the Queensland Department of Mines and Energy and recent drilling by Lodestone. This information was compiled by, or under the supervision of, Mr Jeff Jamieson (ARMIT (Min.Eng.), FAusIMM CP(Min)). Mr Jamieson is a coal consultant with over thirty years experience and is CEO of Lodestone Energy Limited. Mr Jamieson has sufficient coal experience to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Jamieson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Xstract has reviewed and carried out high level verification of the supporting data as compiled by Mr Jamieson's and considers the statements made in this report accurately reflects the status of exploration within the tenements.

2.4 Reporting Standards

This report has been prepared in accordance with the rules and guidelines issued by such bodies as the Australian Securities and Investments Commission ("ASIC") and ASX which pertain to Independent Experts Reports. Of particular importance to the preparation of publicly disclosed Independent Expert Reports in Australia are ASIC's Regulatory Guides 111 (Contents of Expert Reports) and 112 (Independence of Experts).

In addition, authors of this report are either members of the Australasian Institute of Mining and Metallurgy ("AusIMM"), Australian Institute of Geoscientists ("AIG") or the Mineral Industry Consultants Association ("MICA"). As such they are obliged to prepare mineral asset valuations in accordance with the reporting requirements as set out in the 2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ("VALMIN Code") and the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code").

As this report has been prepared in accordance with the VALMIN Code, value is defined as "fair market value" and we have therefore endeavoured to assess what a willing buyer and willing seller might use when preparing a valuation in the context of an open and arm's length transaction.

2.5 Data Sources

In developing its technical assumptions for valuation, Xstract has relied upon information provided by Lodestone and its consultants, as well as information gained from other public sources. Key sources are outlined in Section 8.

Data for this review was provided by Lodestone's technical personnel and consultants, JBMS (coal modelling) Nash (photo-geological interpretation) and MBA (CSG/UCG), along with other publicly disclosed information. The material on which this report is based consists of internal and open-file project memorandums, technical reports and location plans, which were all provided by Lodestone and its consultants.

Xstract notes that it has been provided with commercially sensitive information relating to the interpreted geological setting of the Tambo Project by Lodestone. Lodestone has informed Xstract that such information is confidential in nature and whilst a high level written overview of this information has been provided in this report, certain diagrams which outline the location, thickness and depth of the prospective horizons are not to be included. Whilst this information has been considered by Xstract in forming its valuation opinion, as being supportive of Lodestone's exploration model, it has been given little weight given that other information is considered more accurate at present (i.e. water bore and petroleum well data). Xstract understands that work will shortly commence to validate Nash's interpretation against the historic borehole data.

3 TECHNICAL SUMMARY - LODESTONE'S PROJECTS

3.1 Introduction

Following a recent restructuring of the company, its management and mineral assets, Lodestone's key focus is now directed towards the exploration and development of two energy projects in southern Queensland. Through a series of farm-in agreements, Lodestone currently holds or is earning a 50% interest in several EPCs and an ATP in the Surat and Clarence-Moreton Basins (Figure 3-1). The details of Lodestone's tenements are provided in Appendix A.

Lodestone's principal asset is its interest in the Tambo Project which is an early stage, integrated energy exploration project located in proximity to the regional township of Tambo and lying some 110 km northeast of Charleville and 680 km west-northwest of Brisbane. With the project tenements extending over a 300 km strike length along the western margin of the Surat Basin, Lodestone considers the Tambo Project offers a unique opportunity for the discovery of a large scale thermal coal deposit and a deeper UCG and/or CSG deposit at depths capable of supporting a commercially viable mining operation. To this end, Lodestone has commenced

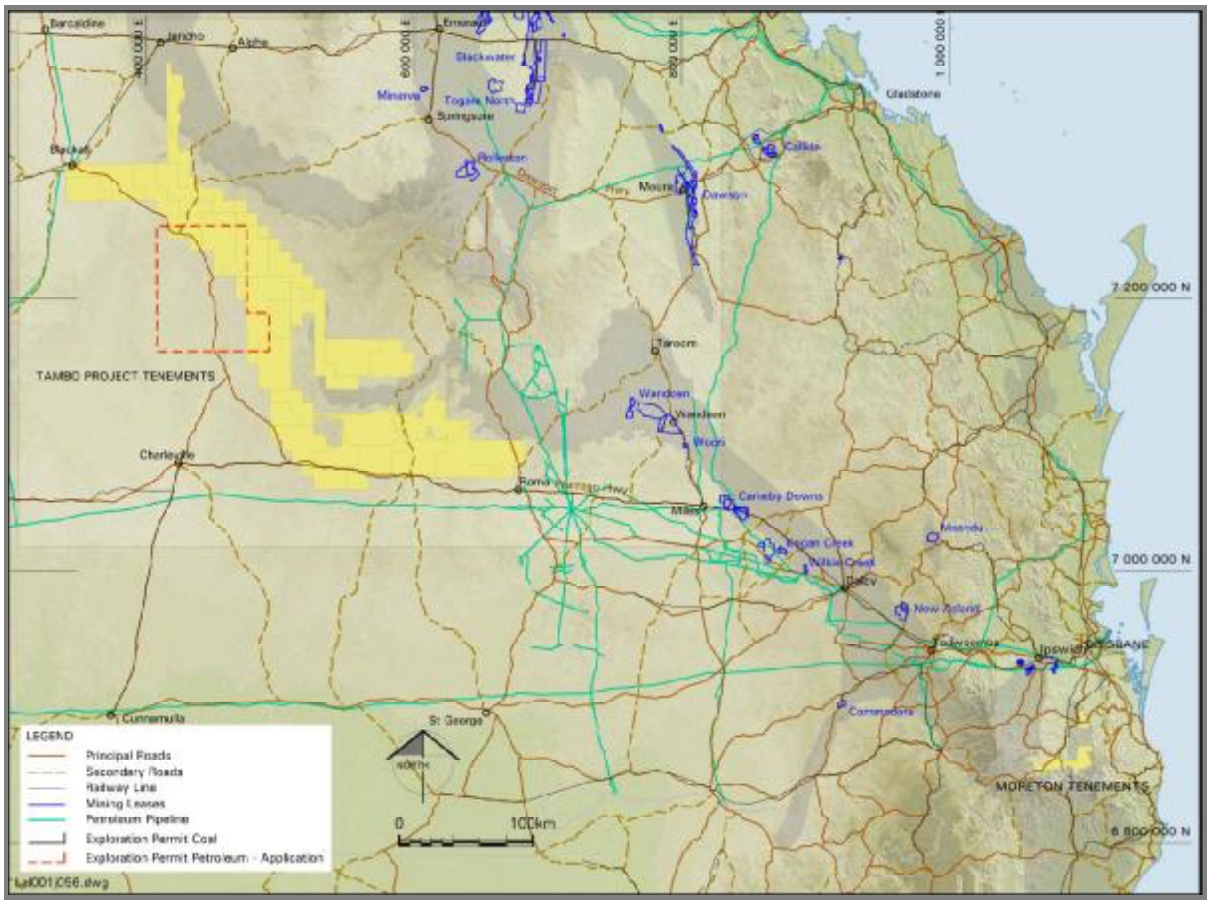
initial drilling on the Tambo Project, which follows a period of borehole and geophysical data acquisition, analysis, interpretation, conceptual targeting and reconnaissance investigation following the acquisition of the project tenements in June 2009.

The Moreton Project is located in close proximity to Beaudesert some 80 km to the south of Brisbane. The former Strathnaver and Stansfield collieries and the Versdale Scrub coal deposit lie within or immediately adjacent to the project tenements. The project is also supported by its proximity to major population centres, access to existing road and railway infrastructure, Swanbank power station and potential domestic users in the proposed Bromelton Development Area. Since farming into the project in 2008, Lodestone has set itself an objective of defining sufficient coal to support a small scale mining operation and hauling to existing coal handling facilities. Drilling of various prospective targets was undertaken in 2009.

Lodestone's broad exploration objective is to identify areas prospective for the discovery of (principally export quality) thermal coals, UCG or CSG, located in proximity to established infrastructure. The Morton and Tambo Project tenements are at an early stage of assessment and as yet no JORC Code compliant Coal Resources have been defined or gas reserves certified.

Under section D20 of the VALMIN Code, the properties held by Lodestone are classified as either "exploration areas" or "advanced exploration areas" which are inherently risky in nature.

Figure 3-1: Location of Lodestone's Interests in Southern Queensland



3.1.1 Overlapping Tenure in Queensland

Queensland legislation currently allows for the grant of coal tenements (including UCG) under the *Mineral Resources Act 1989* ("MRA") and for the grant of CSG tenements under the *Petroleum and Gas (Production and Safety) Act 2004* ("P&G") with respect to the same parcel of land. UCG is administered under the MRA.

The administration of CSG and UCG under different legislative regimes has created an issue involving overlapping tenure.

To address this issue, the Queensland Government released the Underground Coal Gasification Policy on 18 February 2009. The salient points of this policy include:

- Except for those areas covered by three pilot plant projects held by Linc Energy, Carbon Energy and Cougar Energy, where UCG and CSG tenements are currently overlapping, the policy states that preference will be given to the holder of the CSG tenure
- No further UCG pilot plants will be allowed (subject to Ministerial discretion)
- For UCG tenements without overlapping petroleum tenure (as at the date of the Policy); or areas that become free of existing petroleum tenure in future; or where the UCG tenure holder has the consent of the CSG tenure holder (if any), the UCG tenure holder will have the right to apply for the grant of a "specified mineral exploration permit" ("EPS")
- Holders of coal exploration tenure, either granted or subsequently granted in relation to applications lodged on or before the date of the Policy, and which are not subject to overlapping petroleum tenure, will be eligible to nominate an interest in future UCG activity by making an application for an EPS within 12 months of this policy. Within four years of this nomination (and depending on the outcome of the consideration of the Government report on the UCG pilot phase), apply for a Mineral Development Licence allowing for UCG activity, or relinquish the relevant EPS with respect to UCG
- An industry committee is to consider a regime for the grant of future UCG and CSG tenures. The future regime may provide for no CSG tenure to be granted where there is an existing UCG tenure and no UCG tenure where there is existing CSG tenure. It may also provide for the grant of future EPSs through a competitive process, potentially similar to the present process for the grant of CSG tenure; and
- The policy requires a report on the outcomes of the pilot projects to be prepared by the Environmental Protection Agency and a State Government appointed scientific expert panel between December 2010 and December 2011, with the findings of the report to be presented to Cabinet in 2011/2012. From that report, the State Government will evaluate the viability of the UCG industry in Queensland. UCG activities may be constrained or prohibited if adverse findings on the UCG technology are reported.

Accordingly there is no guarantee that further development of UCG will be permitted where there is presently overlapping CSG tenure. There also exists a risk under the policy that future UCG activities will be constrained or prohibited which may have a material effect on the future financial position and performance of Lodestone.

Lodestone's ATP 1020 covers an area of approximately 2,000 square kilometers ("km^{2}") over the Tambo Coal/UCG Project tenements providing for an integrated assessment of the coal, UCG and CSG prospectivity of this area. In addition, Lodestone holds EPCs covering an area of some 12,000 km^2 at Tambo which are not overlain by other third-party held petroleum licences.

At the Moreton Project, only some 50 km^2 of Lodestone's EPCs 1302 and 1524 are covered by pre-existing petroleum tenure. EPC1313 is totally unencumbered.

3.2 Tambo Coal/UCG Project

Lodestone's current interest	Earning 50% from Tambo Coal & Gas / 50:50 joint venture interest
Combined area (km^2)	21,481
Location	110 km north of Charleville and extending over a 300 km strike length from 65 km northwest of Roma to 75 km north of Tambo
Nearest Port	Gladstone / Brisbane

Target	Thermal Coal and UCG
Project status	Early stage exploration
Recent activities	Photogeological interpretation, compilation of historical data, seismic data reprocessing and drilling

The Tambo Coal/UCG Project covers an area of 21,481 km^2 between Alpha and Roma in southwestern Queensland (Figure 3-2). It adjoins EPCs held by other companies to the north and southeast. There are no coal mines or gas production areas within the project area but extensive resources of both commodities have been defined to the southeast and north.

3.2.1 Access and Infrastructure

Sealed roads provide access from Brisbane to Charleville in the south of the project area, and to Alpha in the north. A rail line extends along the southern boundary to the port of Brisbane, whilst another line to the north provides access to the port at Gladstone.

EPCs 1784 and 1786 lie approximately 10 km north of the Ballera to Wullumbilla gas pipeline, whilst EPC 1719 lies immediately east of Blackall and adjoins the Gilmore - Blackall/Barcaldine gas pipeline.

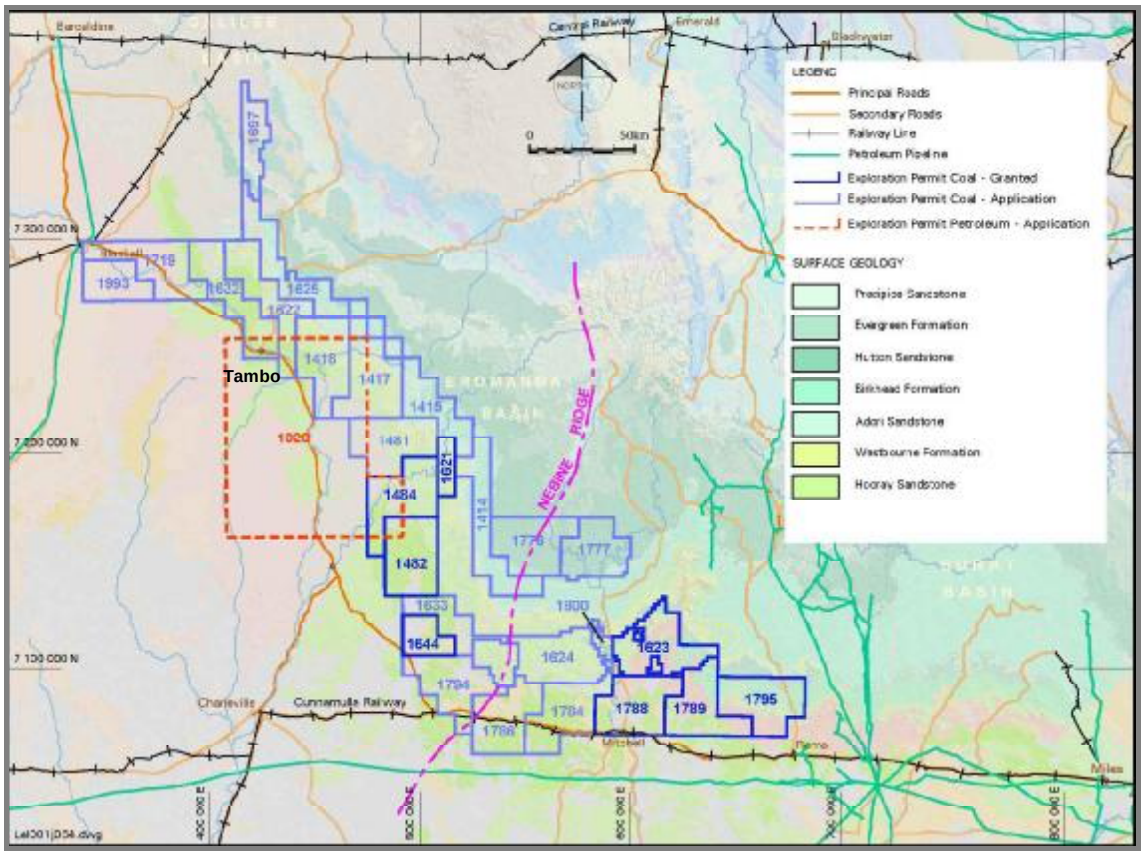
3.2.2 Tenure Considerations

The Tambo Coal/UCG Project comprises 27 EPC applications, of which 7 have been granted to date (Figure 3-2). Only EPCs 1414, 1415, 1417, 1418, 1481, 1482 and 1484 are the subject of the Tambo Coal farm-in agreement, whilst the remaining EPCs are held in a 50:50 joint venture with Tambo Coal & Gas. Details of the Tambo Coal farm-in agreement are outlined in Section 2.1.

The original farm-in portfolio of seven coal tenements, and the petroleum tenement, ATP 1020 (refer to Appendix A) were originally applied for in the name of Galilee Coal Pty Ltd ("Galilee"). Galilee has since registered a name change with ASIC and is now known as Tambo Coal & Gas Pty Ltd.

The status of the Tambo Coal/UCG Project tenements as at 26 February 2010 is provided in Appendix A. When all tenements are granted Lodestone will have a total expenditure commitment over the next five years in excess of A$28 million, with an initial yearly rental of A$1 million.

Figure 3-2: Location of Lodestone's Tambo Project



Source: Lodestone

3.2.3 Geology

Regional Geology

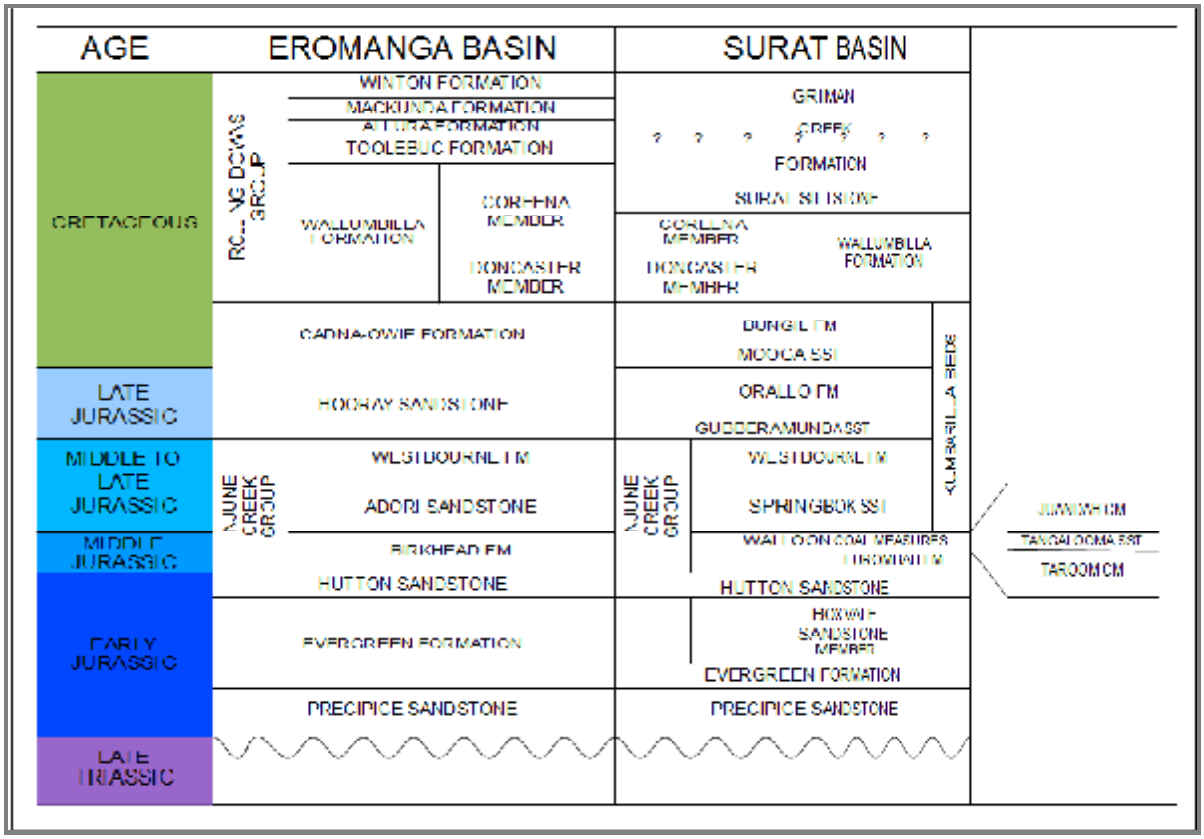
The Tambo Coal/UCG Project is located within the southeast Eromanga Basin and western Surat Basin. Both the Eromanga and Surat Basins are components of the Great Artesian Basin which is a Jurassic-Cretaceous intra-cratonic basin that covers 1.7 million km^2 of Eastern Australia. These basins unconformably overlay the Permian Bowen and Gunnedah Basins.

Stratigraphy

The regional geology of the Surat Basin has been described in detail by Exon (1976, 1979) and Zillman (1979). The Eromanga and Surat Basins contain sediments of fluvial and fluvial-lacustrine origin deposited during the late Triassic to the early Cretaceous, followed by fluvial sedimentation in the early-middle Cretaceous. A number of sedimentation cycles have been recognised in both basins which are considered to be tectonic-eustatic cycles, related to varying tectonic activity in the active volcanic arc which existed to the eastern margin of these intra-cratonic basins. The thickest sedimentation occurred in the slowly subsiding Taroom Trough with up to 2,500 metres ("m") of sedimentary rocks deposited.

The Jurassic and Cretaceous stratigraphy of the Eromanga and Surat Basins is shown in Figure 3-3. The Early Jurassic was dominated by deposition of fluvial sands and silts forming the Precipice and Hutton Sandstones with the intermediate Evergreen Formation. This was followed in the Middle Jurassic by the generally finer grained sediments from a lower fluviatile-deltaic environment of the Injune Creek Group. In the Late Jurassic to Early Cretaceous a more fluviatile environment was again established. Since the Late Jurassic the Surat and Eromanga Basins have been stable with a marine transgression in the Early Cretaceous which withdrew in the Late Cretaceous. Weathering of the land surface during the Tertiary created a deep weathering profile which was largely stripped from the northern areas of these basins by subsequent erosion.

Figure 3-3: Stratigraphy of the Eromanga and Surat Basins



The Injune Creek Group in the northeastern Surat Basin was originally subdivided into eleven lithostratigraphic units, of which six are within the Walloon Coal Measures. With regards to coal, the most significant formations are the upper Juandah Coal Measures which is separated from the lower Taroom Coal Measures by the Tangalooma Sandstone. The underlying Durabilla Formation is variously identified separately or included in the fluviatile Eurombah Formation by different authors in different parts of the Surat Basin.

The Walloon Coal Measures conformably overlie the Hutton Sandstone and are unconformably overlain by the Springbok Sandstone. They consist of a fluvial-lacustrine succession dominated by sandstone, siltstone, mudstone, limestone, ironstone, and coal in a series of fining upward cycles. Sediments were deposited in a fine-grained meander belt river system. Constant channel switching produced a complex depositional environment resulting in coal intervals of variable thickness with numerous clastic partings. In the central and eastern Surat Basin there are numerous coal deposits in the Walloon Coal Measures which form suitable accumulations for mining or gas extraction.

Above the Walloon Coal Measures there is a sedimentary succession containing sandstones, siltstones, mudstones and thin banded coal seams. Coal has been recorded in the Westbourne, Orallo, and Bungil Formations, as well as at the top of the Hooray Sandstone and in the Winton Formation.

Structure

The Surat Basin is bounded to the east by the Kumbarilla Ridge, to the southeast by the New England Fold Belt, to the southwest by the Central West Folded Belt, and to the north by the Permo-Triassic Bowen Basin. The basin is centred on the north-south trending axis of the Mimosa Syncline. The subcrop of the Surat Basin extends in a generally east-southeast to west-northwest line from east of Chinchilla to west of Mitchell where it converges with the more northerly trending Eromanga Basin. The boundary of the two basins is considered to be the north-south trending Nebine Ridge. The strata of the Surat Basin dip gently to the southwest and south whilst the Eromanga strata have a more southwesterly direction. Major faulting within the basin predominantly mirrors basinal boundary faults

of the underlying Bowen Basin. There is substantial folding across the basin, which is due to compaction and draping, as well as some rejuvenation of older pre-Jurassic structures and faults. The north-south trending Burunga Leichhardt Fault zone interrupts the eastern limb of the basin.

Coal Measures

Across the Surat Basin there have been several coal seam groups identified and correlated within the Walloon Coal Measures. The Juandah Coal Measures generally contains five groups of coal seams. In descending stratigraphic order these are the Kogan, Macalister (Upper and Lower), Wambo, Iona and Argyle seam groups. Within the Taroom Coal Measures three groups are recognised, being the Auburn, Bulwer, and Condamine.

Whilst coal seam groups can be identified over many kilometres it is not generally possible to easily correlate individual seams over significant distances. These seams are highly variable in thickness and are known to thin and split over hundreds of meters. Similarly, these seams and plies can rapidly coalesce and form relatively thick coal intervals with minimal clastic partings. At Wandoan, these concentrations of seams have formed deposits up to 15 m thick but with limited (2 to 5 km) extent. Between depocentres, the seams may still exist but are thin and separated by various thicknesses of lithic sediments.

Lenticular coal seams, up to 5 m thick, occurring within a broader (24 m) package of coal, carbonaceous shale, siltstone and minor sandstone, have also been reported at shallow depths in the early Cretaceous Winton Formation of the Eromanga Basin.

Quality

All of the known coal resources in the Surat Basin are low rank sub-bituminous to bituminous and are of thermal quality. They are generally of moderate ash, high volatile, moderate energy but provide excellent combustion and burn-out characteristics with minimal slagging and fouling problems, and low levels of trace elements and atmospheric pollutants. They are also perhydrous and are potentially suited to gasification or liquefaction to produce liquid fuels. Coals of the Walloon Coal Measures also contain (up to 30 %) more organically-bound hydrogen than most other thermal coals which results in lower combustion emissions of carbon dioxide (kg per MWh sent-out).

The coal resources in the Eromanga Basin are low rank, high ash, low volatile and poor specific energy. Both Surat and Eromanga coals show improved quality characteristics after washing.

Tambo Project

Geology

The Tambo Project covers a strike length of more than 300 km over the western extent of the Surat Basin and the southeastern Eromanga Basin. Whilst these basins are defined by the structural basement high of the Nebine Ridge they contain sediments of the same age and origin. The mid to late Jurassic Injune Creek Group is recognised in each basin but different formation names have been assigned to its components. In particular the coal bearing Walloon Coal Measures of the Surat Basin are equated with the Birkhead Formation of the Eromanga Basin.

The relationship of the lithostratigraphic cycles across the Eromanga, Surat, and more easterly Clarence-Moreton Basins was recognised and discussed by Green & McKellar (1996). They identified that the differing rates of subsidence and sediment accumulation in each basin resulted in thicker and finer-grained sequences in the Surat and Clarence-Moreton Basins. However this interpreted thinning of the coal-bearing stratigraphy may be an artefact of previous geological mapping in the region which mismatched thestratigraphic units in the Eromanga Basin with those of the Surat Basin.

The stratigraphy of each basin was defined during the 1960s by the Bureau of Mineral Resources (now Geoscience Australia) using separate geological teams to map the Eromanga and Surat Basins at 1:250,000 scale. The boundary between the areas of responsibility of two teams seems to coincide with the boundary between the Surat Basin and the Eromanga Basin. Consequently different stratigraphic units have been distinguished for each basin and the gap between these two data sets was arbitrarily divided. The published stratigraphy has generally continued to be used by oil and gas explorers in the Eromanga Basin and by coal and CSG explorers in the Surat Basin. Whilst extensive exploration for

shallow coal resources in the Walloon Coal Measures has enhanced the understanding of the stratigraphy in the Surat Basin, the Jurassic sediments of the Eromanga Basin have been largely ignored for their coal potential.

A review of the established stratigraphy by Lodestone has led to its proposition that there has been a mismatch of the stratigraphy west of Roma and across the Nebine Ridge, and that the Eromanga Basin in the Tambo area is actually a western extension of the Surat Basin. Lodestone has questioned the relationship between the mapped stratigraphic units and suggests that the Injune Creek Group may be thicker in the Eromanga Basin than previously understood. That is, the unit previously mapped as the Westbourne Formation west of Roma contains coal seams and may be a lateral equivalent of the Juandah Coal Measures, and that the Birkhead Formation represents the lower Taroom Coal Measures.

Lodestone has sought to confirm this interpretation by compiling and evaluating all available technical data and has proceeded with surface and sub-surface exploration to gain further evidence.

3.2.4 History

Xstract notes that previously much of the current Tambo Project area had Restricted Area status (as part of RA 55) and hence the area was not available for coal exploration.

A summary of previous exploration of the area by private companies was provided by Muir and Barrenger ("Muir"), 2009, which is included below. These historic and current EPCs can be located on the DME's interactive resource and tenure maps ("IRTM") database which is available online at (http://dme.qld.gov.au/mines.tenure_maps.cfm) and are shown in Figure 3-4.

EPC 259 'Merivale'

In the late 1970s, EPC 259 'Merivale' covered an area to the north and east of EPCAs 1623 and 1624. Exploration was conducted over a period of about 4 years. A total of 10 non-cored holes were drilled, with all but one geophysically logged. Some thin and banded coal seams were located, and two small historic (sic) coal resources were defined (Munya, and Ninderra resources) for an aggregate 35 Mt in-situ.

EPC 263 'Forest Vale'

The 'Forest Vale' area, EPC 263 was explored briefly in the westernmost part of the Surat Basin between 1979 and 1980/81, and coincides with an area immediately to the north of and adjacent to EPCAs 1623 and 1624. Exploration conducted within EPC 263 in the late 1970s and early 1980s included the completion of 6 drill holes, all of which intersected minor shallow coal seams between 40 and 80 m depth. These were interpreted as being within the upper Juandah Coal Measures. Seam thicknesses were typically between 0.5 and 1.5 m.

EPC 314 'Redford'

Between 1980 and 1981, CRA Exploration (Pacific Coal Pty Ltd) held title to the 'Redford' area. This is the only historical coal exploration tenement which has any overlap (partial or whole) with any of the current Tambo application areas. Pacific Coal conducted an initial 6 months of scout mapping and ground truthing in an effort to target its exploration effort and ultimately drilled 31 rotary holes, including 8 partially cored holes. Seven (7) holes intersected minor coal seams, up to a maximum thickness of 0.7 m.

In its final report, Pacific Coal states '...It was thought that some thickening of the coal horizons in the Birkhead Formation might occur to the northwest, away from the Nebine Ridge. However, the constraint imposed by the southern boundary of the Central Queensland Coal Reserve Area 55D prevented application for potentially more prospective ground in the region of the Chesterton Syncline and other synclinal axes to the northwest.' (Hewitt, 1981). Although their tenement area was very large, the drilling campaign completed by Pacific covered only a very small percentage of the tenement area.

EPC 385 'Westgrove'

The Operator of EPC 385 quoted the existence of coal known from previous work in the central-western part of the tenement (EPC 263 Merivale) as being potentially significant and greater than 1 m in thickness, at depths between 50 to 100 m. However, the Operator conducted no additional exploration and relinquished the area as non-prospective for commercial-scale coal resources at that time (Alder, 1982).

EPC 1017 'Bymount'

This tenement is currently held by Cockatoo Coal and remains current. As such no new data is available.

The area forms part of the Injune coal project mentioned below and contains cumulative coal thickness in excess of 4 m.

EPC 1018 'Injune'

This tenement held by Cockatoo Coal remains current and no new data pertaining to recent work is yet available. The area is more or less coincident with an earlier tenement EPC259 (see above) dating from the 1970s, and contains the previously-identified Munya and Ninderra inferred resources. The only company report yet submitted to the DNR for this area and now on 'open file' is for 12 sub-blocks that were relinquished, within which no additional work was completed.

EPC 1149 'Blackall'

This is a current exploration area held by East Energy Resources Limited. The area was the subject of an extensive exploration drilling program in 2008 resulting in an increase in, estimated in ground coal target of 500 to 550 Mt. "Unweathered, significant, coal seams have been discovered as close as 12.77 m below ground level " (East Energy Resources, 2008)

Xstract notes that more recent exploration and evaluation of this tenement has defined a JORC Code compliant Inferred Resource of 1.2 billion tonnes of raw thermal coal of which 776 Mt occurs within a 10:1 cumulative vertical overburden ratio. A medium ash product can be produced from an average 7 m cumulative seam thickness with average yields of 82.6 % at F1.60 density.

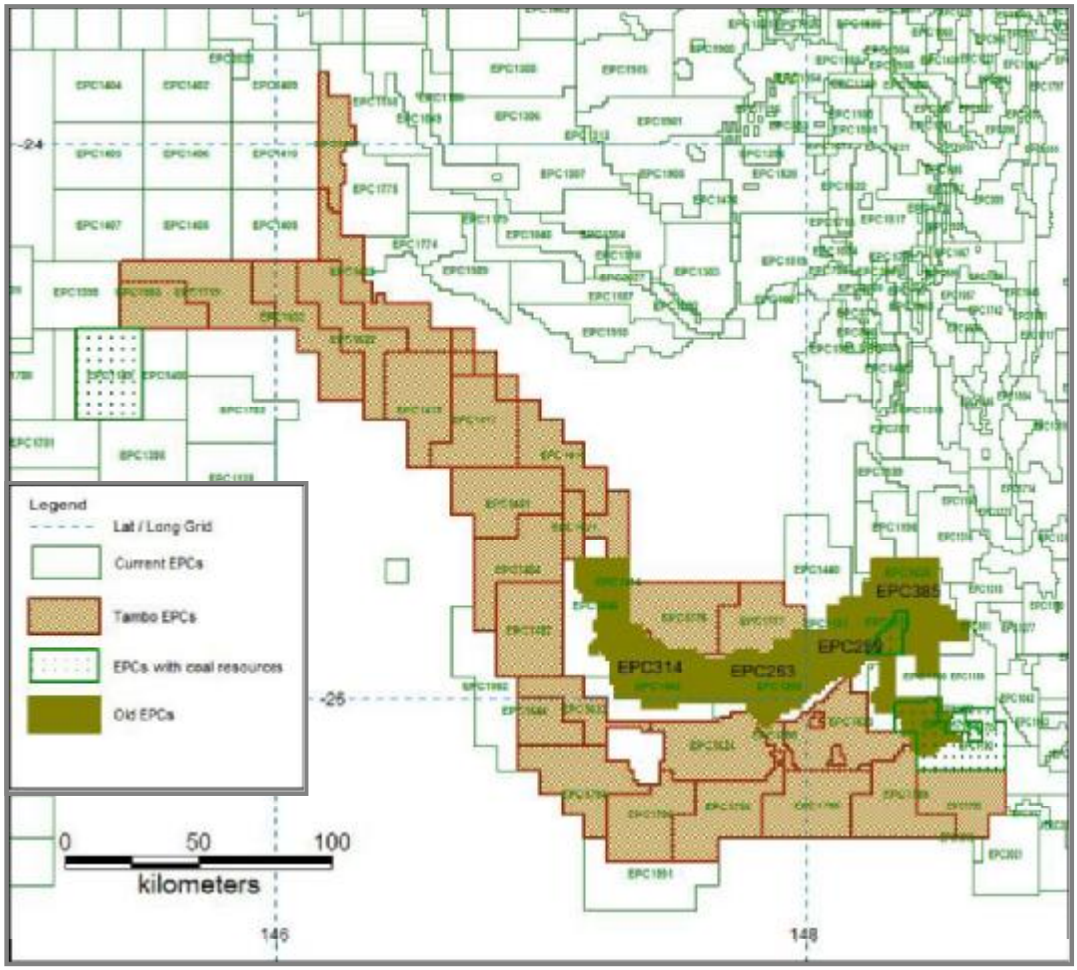
EPC 1192

This is a current exploration area held by Argos (Qld) Pty Ltd. The area was granted in January 2008. As a current tenement, there are as yet no 'open file' company reports available with which to assess exploration results, potential, or the geology of the area. The tenement coincides with the known location of the Hendon Park and Cornwall inferred coal resource areas, which lie close to the western boundary of EPC 1192 and adjacent to EPCA 1623.

In the very few GSQ-drilled stratigraphic bores in the region, some coal has been reliably recorded and it is mostly thin. These were fully-cored holes (from surface), and provide high quality, reliable and accurate descriptions of the sections penetrated, and are also geophysically logged. Coal intersections and relevant stratigraphy has also been identified by MBA (2009) for the following GSQ and petroleum boreholes:

- **GSQ Augathella 3 -** Several thin coal intercepts at about 600 m.
- **GSQ Augathella 1 -** Rare, thin coal seams up to a maximum of 0.45 m thickness are recorded within the Birkhead Formation.
- **AOP Balfour 1 -** Coal occurrences were recorded in the Birkhead Formation, with the thickest coal plies being approximately 3 m at depths between 615 and 745 m. An interval of coal 9 to 10 m thick was found at 871 to 880 m depth, supposedly within the Evergreen Formation. Lodestone has questioned the stratigraphic assignment in this hole.
- **Donnybrook 1 -** Includes about 10 m of coal in the Walloon Coal Measures section.
- **Don Juan 1 -** Includes about 15 m of coal in the Walloon Coal Measures section.
- **Valetta 1 -** Coal was recorded in the Birkhead Formation.

Figure 3-4: Historic EPCs Located within Proximity to Lodestone's Tambo Project Tenements



3.2.5 Evaluation by Lodestone

Lodestone contends that the stratigraphic units of the Eromanga and Surat Basins are the same and that the coal bearing Surat Basin units extend further to the west into the shallow section of the Eromanga Basin. The company suggests that some units of the Injune Creek Group have been incorrectly identified and may indicate a thicker sequence of the Walloon Coal Measures in this western area than previously understood. This is due to the presence of coal seams within the Westbourne Formation, as well as the Birkhead Formation, which has led to its proposal that these may represent equivalents of the Juandah and Taroom Coal Measures respectively and that significant thicknesses of coal-rich sediments may exist. Lodestone has also identified the Winton Formation in the uppermost section of the Eromanga Basin (and in the vicinity of Blackall) to be prospective for shallow coal deposits.

To investigate this hypothesis, Lodestone has acquired all available water bore data for the area, as well as any GSQ stratigraphic borehole data and open file drilling results from the area. Given the various data sources, this borehole data is of varying age, quality and reliability and has been reformatted where possible into a digital database for evaluation. All borehole collar elevations have been adjusted to a single datum assuming that the location is correct. This is based on Shuttle Radar Topography Mission ("SRTM") digital elevation model ("DEM") data with an accuracy of +/- 10 m. Stratigraphic units have been identified and labelled with both the historically defined stratigraphic unit and Lodestone's reinterpreted unit. Coal seams have been identified and labelled to enable evaluation of the depth, thickness and extent of any potential resources. This database was then provided to JBMS for further evaluation and modelling.

Photogeological Study

A 1:100,000 scale photogeological study was initially conducted over an area of 11,700 km^2 between Tambo and Augathella by Nash. The objective of the study was to investigate the local stratigraphy and structure of the Eromanga/Surat Basins with a view to providing data for Lodestone's ongoing coal and CSG exploration in the region. The study was carried out using three dimensional ("3D") stereoscopic images prepared from detailed satellite imagery and topographic data.

This study was subsequently extended to cover Tambo's tenements to the southeast and over the junction with the known Surat Basin stratigraphy (Figure 3-5). Nash's interpretation provides definition of the poorly-exposed Mesozoic strata in the study area and has clearly identified discernable stratigraphic units continuing from the Surat Basin into the Eromanga Basin. Nash has identified some significant errors in the published geology over the study area which challenges the previous understanding of the structural controls to sedimentation in the area. Nash's interpretation includes a major facies change across the Claraville lineament (a north-south trending structure between Roma and Mitchell) marked by a substantial sandstone dominated package to the west, and some significant unconformities. This transitional upper Surat Basin sequence displays strong lateral changes in thickness and continuity and is interpreted to thin to the west over the Nebine Antiform. Available borehole data suggests that coal measures do exist within this package and potentially represent an upper Juandah Coal Measure sequence. This interpretation supports Lodestone's contention that the coal bearing strata in the study area may be the lateral equivalent of the Walloon Coal Measures and may be thicker than previously understood.

Data Review

To demonstrate its concept, Lodestone's coal modelling consultant, JBMS, was asked to produce a geological model of the Tambo project area in September 2009. Data was supplied by Lodestone and consisted of borehole collar and lithology information for 2,400 boreholes. All boreholes were evaluated with some being removed from the database following validation and data modelling.

The majority of borehole information comes from water bores with the remainder being oil and gas and GSQ boreholes. The water bores date back to the early 1900s. The exact locations of the boreholes are considered unreliable and cannot be verified but should generally be in the correct property. None of these boreholes have any downhole geophysical information and the lithology was generally recorded by the driller. The oil and gas boreholes were during the 1960s while the GSQ boreholes were completed in the mid 1980s. The GSQ boreholes are almost fully cored and have been geophysically logged for gamma, spontaneous potential, resistivity and sonic. All borehole locations are shown on Figure 3-6. Xstract notes that whilst Figure 3-6 shows the presence of numerous holes throughout the Tambo area, the majority of these are water bores which are shallow in nature and of poor reliability. In general, the reliable holes are relatively few and widely spaced.

Most of the boreholes contain a simple description of the lithology for each interval in the borehole. Some boreholes have substantial intervals of interbedded sediments which cannot be reliably distinguished into their component units. In some cases the recorded coal intervals are very thick and most likely represent an interbedded sequence of coal, carbonaceous mudstone and labile partings. There are a small number of boreholes where the lithology hasn't been noted although the formations have been labelled. The origin for determination of these formation names is unknown.

The labelling of each formation and the conversion from the original Eromanga Basin formation nomenclature to the equivalent Surat Basin nomenclature within each borehole was accepted and modelled by JBMS as received from Lodestone. Both the original and alternate stratigraphic nomenclature was recorded in each borehole.

Coal horizons within the Taroom and Juandah Coal Measures were identified and labelled where recorded. These were assessed to determine the total thickness of coal for these boreholes and the depth of occurrence. This evaluation also enabled assessment of total waste thickness and strip ratios for each borehole. However there has been no assessment of the potential coal resources within the Tambo Project. All borehole locations are shown on Figures 3-7 and 3-8 with indications of the cumulative coal thicknesses within each of the Juandah and Taroom Coal Measures.

Stratigraphic formations were interpolated into each borehole and structural models created from the Hutton Sandstone through to the Springbok Sandstone, and including the potential coal-bearing Taroom and Juandah Coal Measures. Topography was modelled using borehole collars. The possible outcrop of the top of each coal measure sequence was determined and these lines are shown with 100 m and 200 m depth to roof contours on Figure 3-8. There has been no evaluation undertaken to determine the base of weathering.

From the dataset supplied, 331 boreholes were used to create the structural model. Of these, 134 boreholes intersected the Juandah Coal Measures with 32 recording intersections of coal. The Taroom Coal Measures were intersected in 117 boreholes with 20 recording intersections of coal. The details of borehole numbers and coal intersections are provided in Table 3-1. Cross sections of the modelled stratigraphy are provided as Figure 3-10 with their locations shown in Figure 3-6.

The model used data available as at 18 September 2009. New borehole information is available but was unable to be reviewed and included in the interpretation by JBMS due to time constraints. The new borehole data identifies some additional coal intersections in the northern tenements.

Additional data was provided for the Blackall tenements (EPCA 1719 and EPC 1993) which contain probable Winton Formation sediments including coal seams. These boreholes have been examined and those with coal identified on Figure 3-9.

Figure 3-5: Photogeological Interpretation of the Tambo Project Area

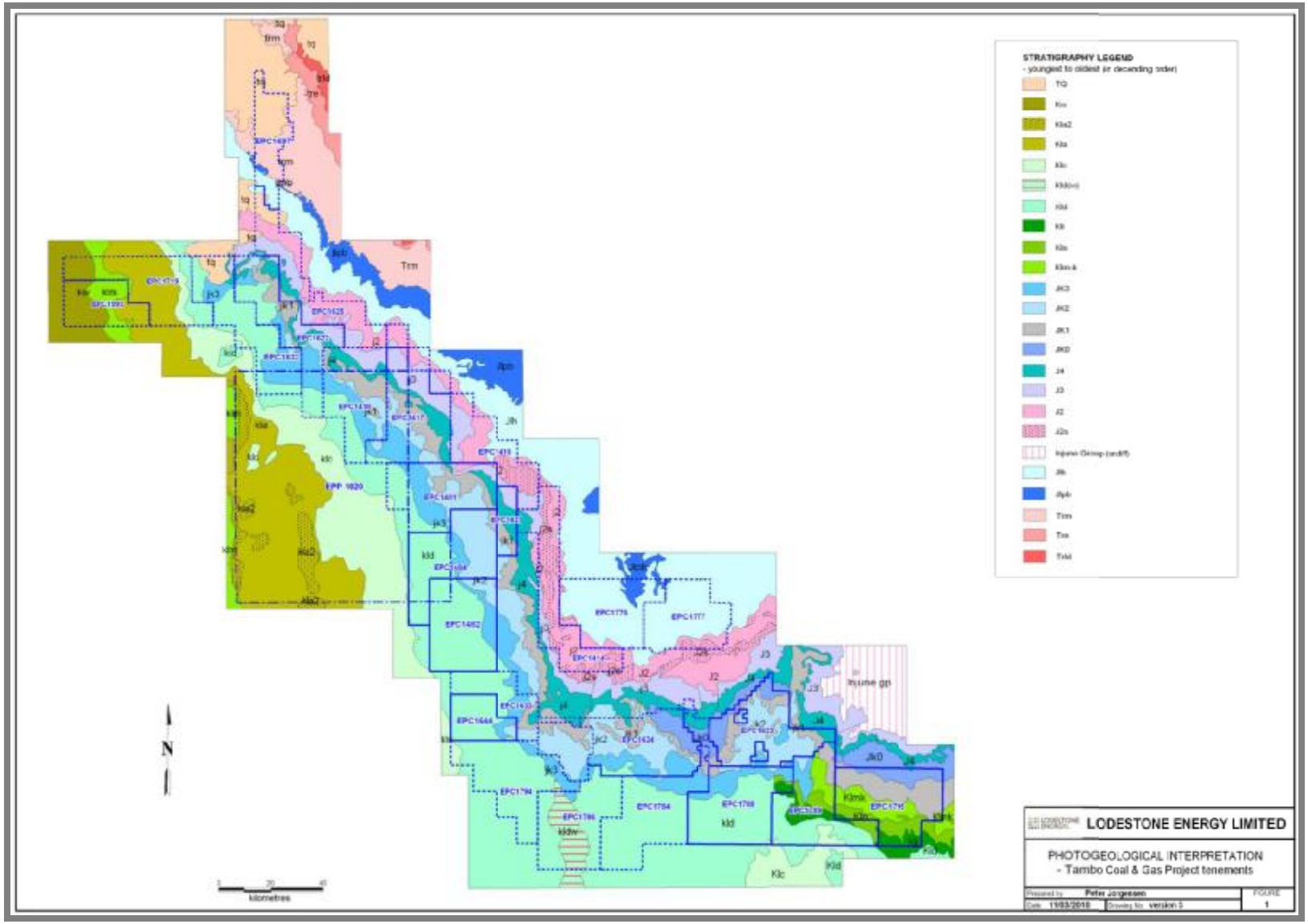


Figure 3-6: Tambo Borehole and Cross Section Locations

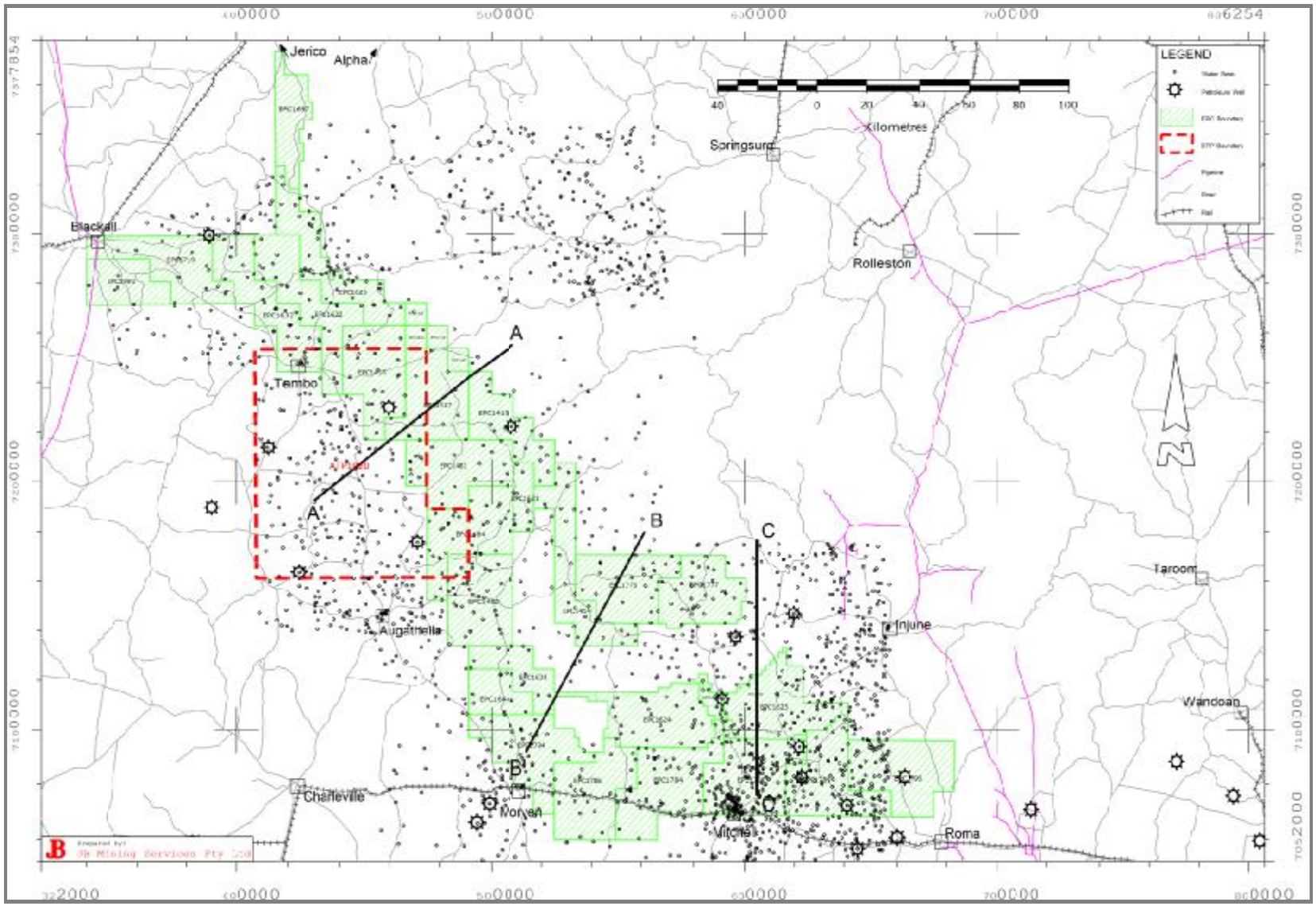


Figure 3-7: Tambo Boreholes intersecting Juandah Coal Measures

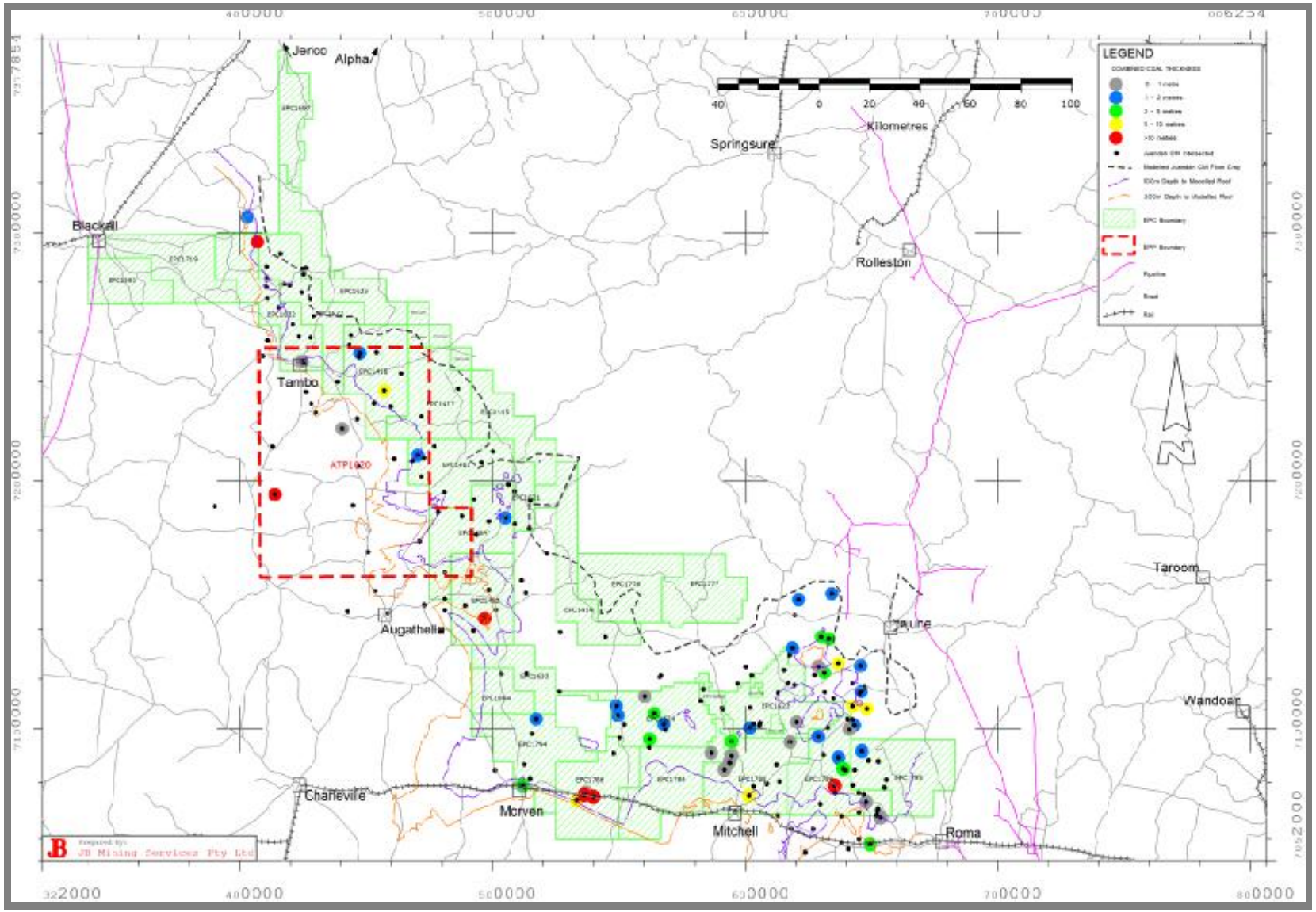


Figure 3-6: Tambo Boreholes intersecting Taroom Coal Measures

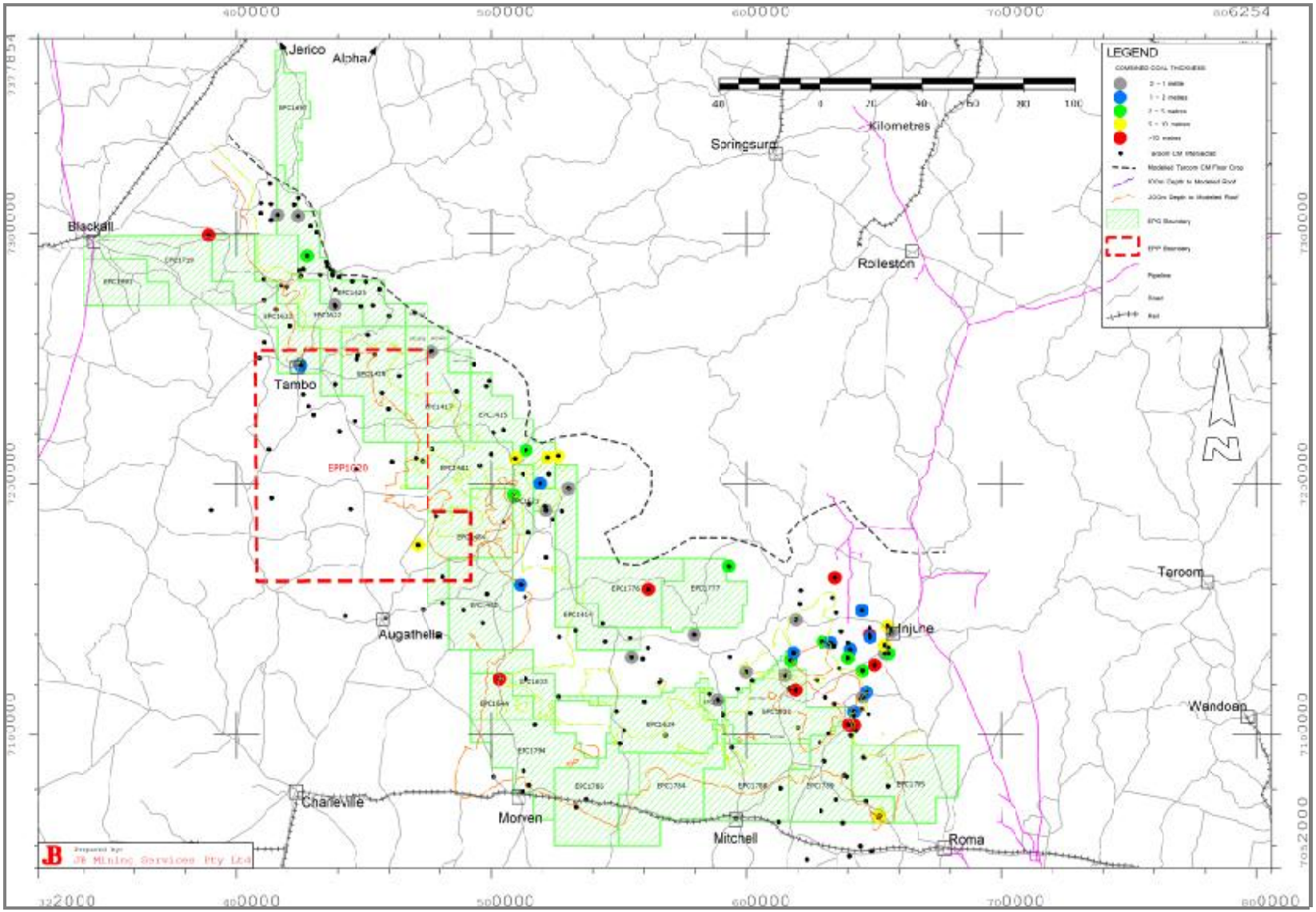


Figure 3-9: Tambo Boreholes Intersecting Winton Formation

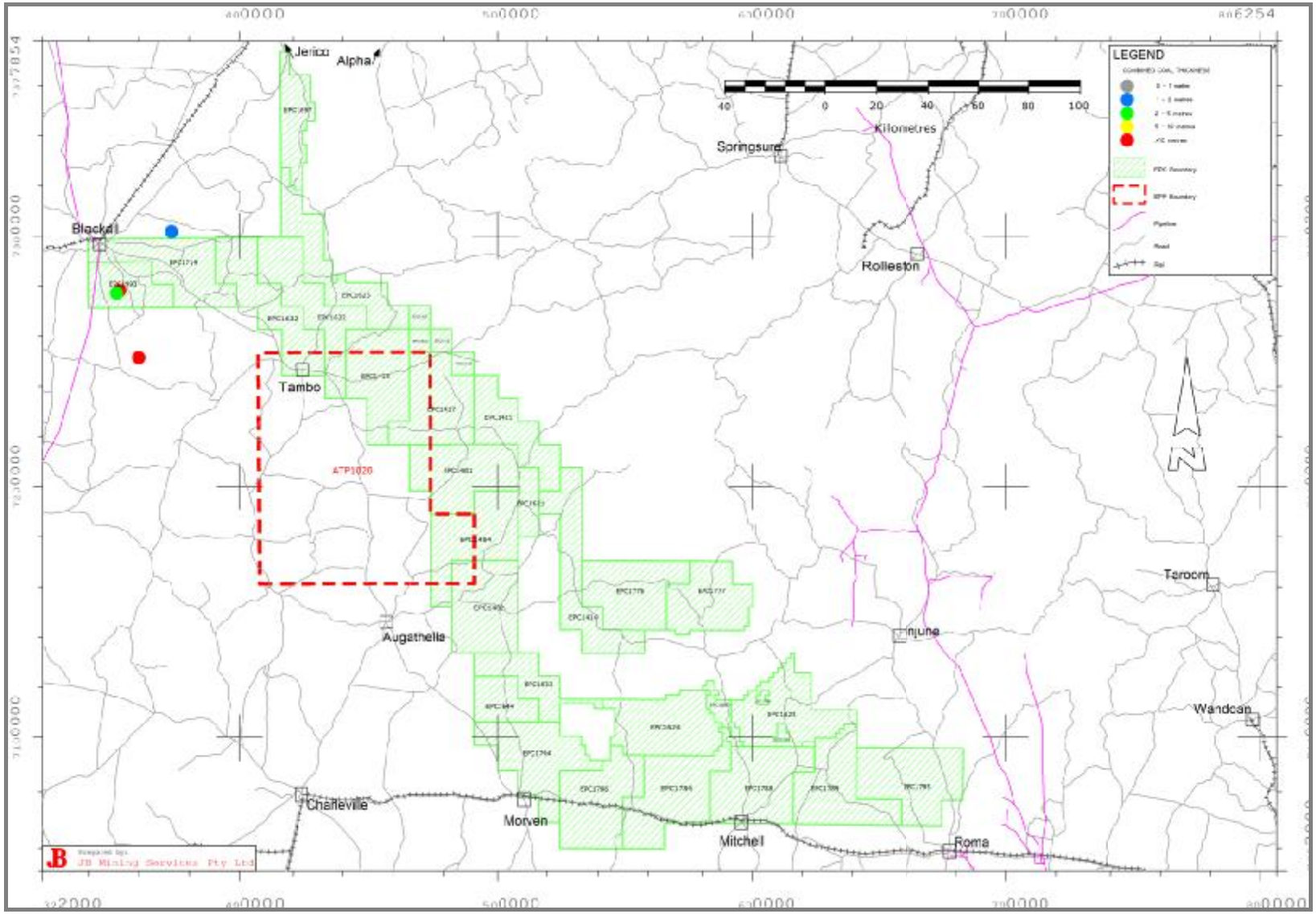


Table 3-1: Tambo Borehole Database Summary

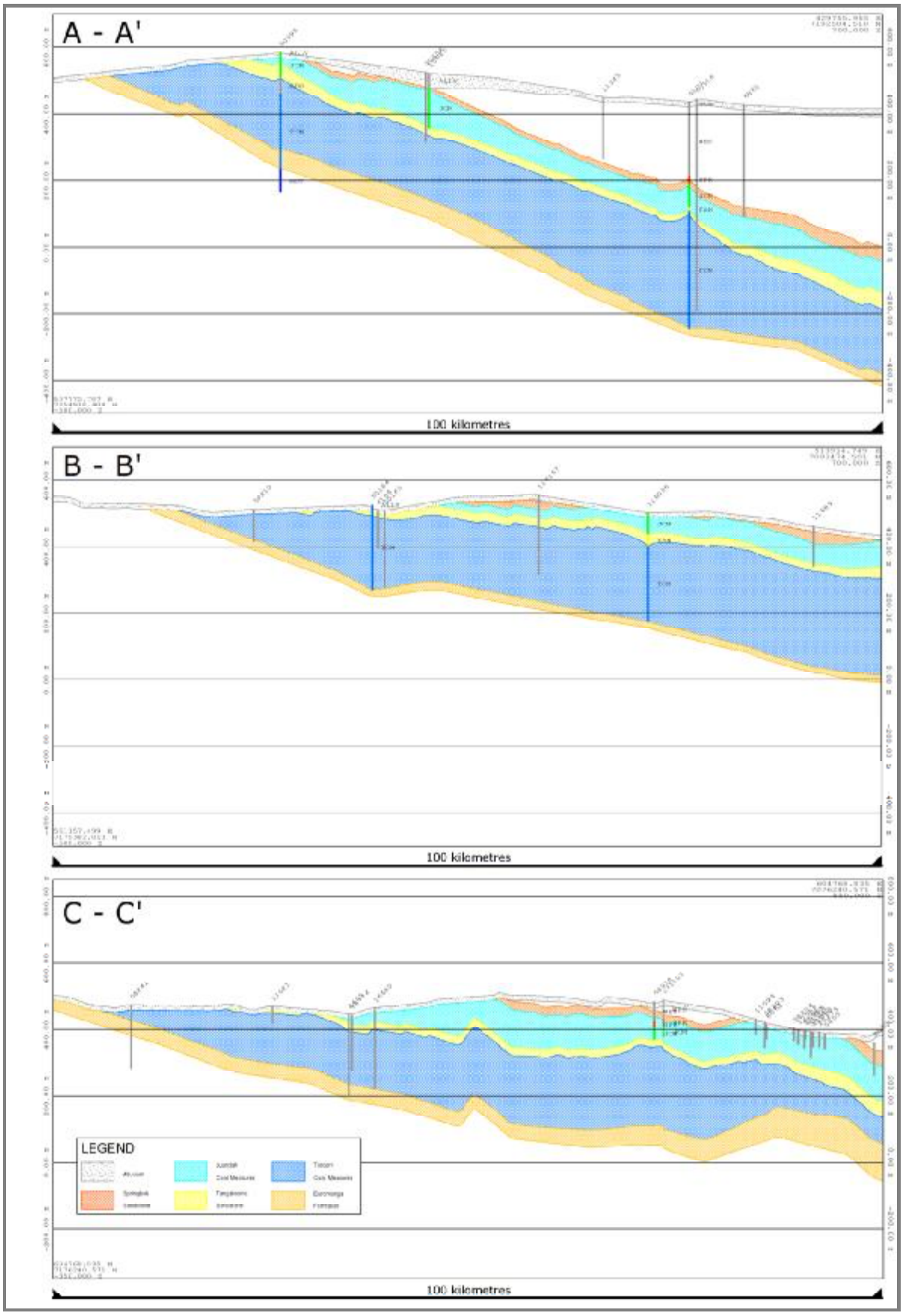
Tenement	No Holes	Intersections		Thickness			Roof		Floor	Intersections		Thickness			Roof		Floor
		JCM	JC	Avg	Min	Max	Min	Max	Max	TCM	TC	Avg	Min	Max	Min	Max	Max
EPC1414	26	1								6	2	0.4	0.3	0.5	8	82	83
EPC1415	16									10	4	5.1	2.4	7.9	30	117	120
EPC1417	14	2								2	1	0.3	0.3	0.3	15	15	15
EPC1418	23	9	2	5.3	1.2	9.4	29	184	185	6							
EPC1481	22	10	1	1.0	1.0	1.0	116	116	117	7							
EPC1482	29	5	1	15.2	15.2	15.2	201	201	216	3							
EPC1484	37	7	1	1.0	1.0	1.0	26	26	27	3							
EPC1621	14	4								4	1	4.6	4.6	4.6	98	98	102
EPC1622	22	11								8	1	0.9	0.9	0.9	93	93	94
EPC1623	59	12	2	0.8	0.5	1.0	50	107	108	7	2	5.8	0.9	10.6	226	314	385
EPC1624	30	10	6	1.3	0.3	2.4	8	77	79	6							
EPC1625	45	3								19	3	1.5	0.5	3.0	25	61	64
EPC1632	25	9	1	0.3	0.3	0.3	12	12	12	5	2	1.7	1.0	2.4	298	324	326
EPC1633	12	2								2							
EPC1644	9	1								1	1	30.5	30.5	30.5	274	274	305
EPC1697	0																
EPC1719	0																
EPC1776	27									2	1	17.5	17.5	17.5	14	14	110
EPC1777	26																
EPC1784	54	2	1	0.6	0.6	0.6	50	50	50								
EPC1786	19	5	4	8.9	0.6	17.1	38	195	457	4	1	3.4	3.4	3.4	439	439	457
EPC1788	206	11	6	1.9	0.3	6.0	33	168	174	3							
EPC1789	96	17	6	3.0	0.6	11.3	44	188	189	11	1	5.5	5.5	5.5	61	61	67
EPC1794	33	5	2	1.6	1.2	2.0	31	90	101	4							
EPC1795	42	7	1	1.8	1.8	1.8	54	54	67	2							
EPC1800	16	3								3	1	0.3	0.3	0.3	15	15	15
EPC1993*	2	2	2	-	2.7	-	22	35	84								
	902	134	32							117	20						

JCM – Juandah Coal Measures
TCM – Tartoorn Coal Measures

JC – coal interval within the JCM
TC – coal interval within the TCM

* Intersection interpreted to be from Wilton Formation or equivalents

Figure 3-10: Schematic Cross Sections



3.2.6 Exploration Potential

Coal Resource Potential

The Walloon Coal Measures of the Surat Basin contain numerous and widespread commercial coal resources, ranging in size and scale from small (i.e. less than 30 Mt at the Bymount deposit) to very large (i.e. more than 1 billion tonnes at Wandoan). Lodestone's objective is "to locate large-scale coal resources, together with accompanying CSG fields whose early revenues are sufficient to justify and support the development of an eventual 20 to 30 million tonnes per annum ("Mtpa") export mining operation".

To fulfil this objective, it would be necessary to locate Measured and Indicated Coal Resources of at least 0.5 billion tonnes. This resource would be an aggregate of multiple deposits of smaller tonnage in sufficiently close proximity to be developed together as a 'project'. Support for this concept is provided by the project's proximity to East Energy Resources Limited's Blackall Project, where the company recently reported an Inferred Resource of 1.2 billion tonnes of raw thermal coal.

According to Table 7 of Queensland's Department of Natural Resources and Mines publication "Queensland Coals 2003", the Walloon Coal Measures of the Surat Basin are estimated to host more than 4 billion tonnes of in-situ raw thermal coal at shallow depths (Mutton, 2003). In 2006, the Queensland Department of Tourism, Regional Development and Industry released a presentation titled "Creating Regional Economic Development by Value Adding in the Surat Energy Resources Province" which estimated the remaining thermal coal resources within the Surat Basin at 6.3 billion tonnes.

All of the known resources are thermal quality with the rank indicating that coking quality coal will not occur in the Surat Basin. Coal production from within the Walloon Coal Measures in the Surat Basin dates from at least as early as 1914. Current mining operations are at Wilkie Creek and Kogan Creek with operations around Wandoan planned to commence in 2011, and others planned once the Surat Basin Rail link from Wandoan to Gladstone is completed. All existing mining operations are surface, open-cut mines, and it is unlikely that underground longwall-style operations will be developed in the Surat Basin in the near future due to the abundance of shallow resources and the general lack of continuous thick seams.

The known coal deposits in the Surat Basin display highly variable seam thicknesses with areas of coalescence and splitting. Whilst most parts of the Surat Basin contain some coal seams it is only in limited areas that the seams thicken and coalesce sufficiently to form an economic resource. These 'depocentres' are generally less than 5 km in diameter and substantial exploration is required to locate and define them.

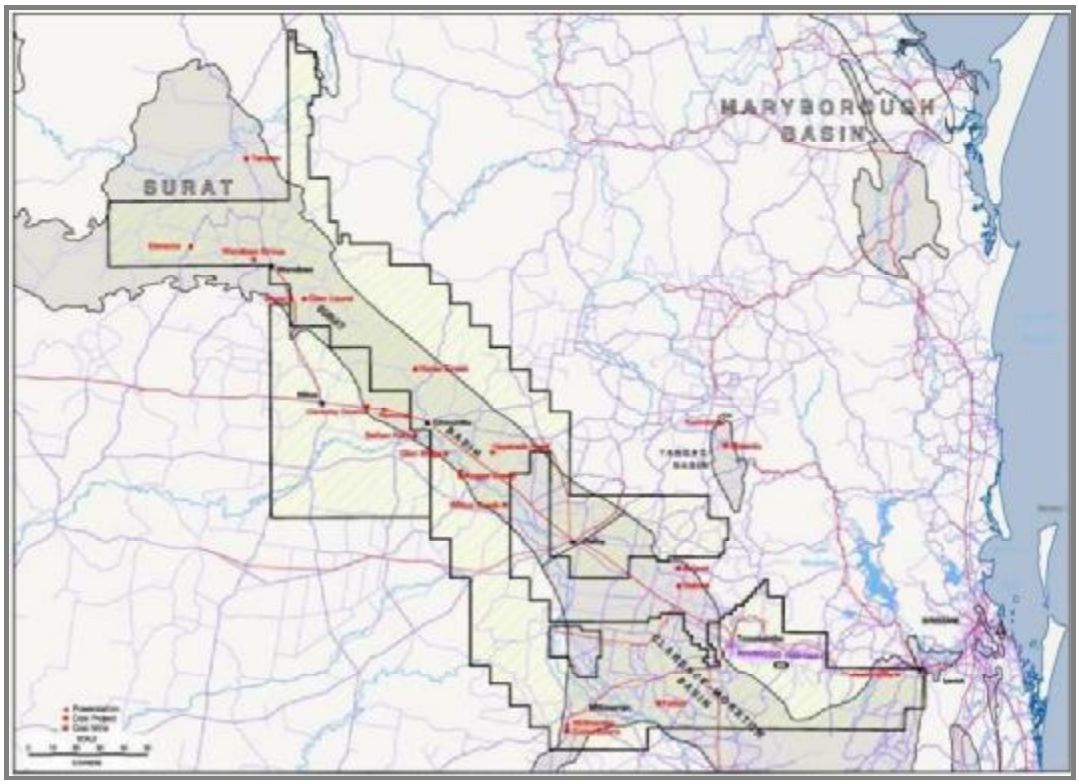
There are a number (250) of boreholes in the Tambo Project which have been interpreted to intersect either coal-bearing sequence of the Walloon Coal Measures. Additional boreholes located adjacent to Lodestone's tenements support the concept that the Walloon Coal Measures continue into the Tambo project area. Whilst previous drilling within the Tambo Project has reportedly intersected up to 30 m of coal, these intercepts are likely to comprise interbedded coal, carbonaceous sedimentary units and clastic partings. This indicates that there is some potential for identifying area of thicker coalesced coal seams within the Tambo Project area.

In general, however, most of the boreholes in the Tambo Project which have identified coal seams have composite coal thicknesses of less than 5 m and are generally more than 5 km apart. Of the 101 coal seam intersections (49 JCM, 52 TCM) there are 52 (32 JCM, 20 TCM) which occur within the tenements currently held or applied for by Lodestone. A number of these intercepts are at depths of less than 100 m and thus have the potential to be developed by open pit mining whilst deeper seams may support a CSG or UCG resource.

At this stage, no coal resource has been identified within Lodestone's tenements and the data used to formulate the conceptual coal distribution is considered by Xstract to have a low reliability. However, the general absence of previous coal exploration and the occurrence of coal intercepts within water bores, including some substantial (i.e. greater than 10 m) intervals in isolated boreholes, in the project tenements suggest there is good potential to discover and define a significant coal resource in the

Tambo Project. If any 'depocentre' is identified with a composite seam thickness of more than 5 m over a 5 km area then a resource of 150 Mt could be defined in such a 'depocentre'. If a number of such 'depocentres' were located, then a substantial coal inventory is likely to result. By comparison of the size of the Tambo Project area with the Surat Basin there is the potential to identify numerous depocentres and consequently define a resource of similar size (Figure 3-11). This will require substantial drilling and evaluation. After first verifying the presence of coal seams and the continuity of the Walloon Coal Measures into the Tambo tenements, Lodestone's focus will need to be on identifying shallow, thick or coalesced seams with potential for economic extraction in order to define a coal resource.

Figure 3-11: Comparison of the Total Area of the Tambo Project Relative to the Defined Surat Basin



Source: Lodestone

UCG Resource Potential

As noted in Section 3.2., holders of coal exploration tenure (i.e. EPCs) within Queensland must nominate an interest in future UCG activity prior to the 18 February 2010. Lodestone has advised Xstract that applications for a UCG-specific EPS have been lodged for EPCs 1414, 1415, 1417, 1418, 1481, 1482, 1484, 1622, 1624, 1632, 1633 and 1644.

Most coals can be developed for UCG, but it has particularly strong attraction for coals that are unsuitable for conventional mining, either because of quality considerations, thickness or depth of burial. Key determinants for a suitable UCG project include:

- The coal seam should ideally be between 200 and 600 m depth and preferably deeper than 300 m. Seams at depths exceeding 600 m are likely to have low permeability (<1 millidarcy) thereby reducing gas flows and productivity.
- Coal seam thickness should be greater than 5 m, although a number of operations have successfully exploited thinner seams (i.e. Linc Energy uses a 3 m thickness criteria to develop UCG). Seam thickness determines the cost and efficiency of the burn.
- Ash contents below 60% with low ash contents being the most suitable.
- Coal quality (calorific value)

- Coal continuity. Minimum structural disturbance of the coal seams and coal seams need to be continuous. Faulting or intrusions can block flow or permit gas leakage.
- The permeability of coal. Permeable zones may provide a conduit for groundwater into the gasification area. Permeability is controlled by the coal seam depth, stress regime and degree or coal fracturing (or cleating). In general, coal permeabilities increase with maturation, coal rank and vitrinite content.
- Rock units above and below the coal must not be active aquifers (to avoid potential pollution of the water supply and interference with the gasification process).

The UCG prospectivity of an area depends on a number of factors. There is no standard evaluation procedure considering all effective parameters in UCG resource assessments. The difficulty of the evaluation derives from the complexity of the coal and geological setting in which there are many unknown variables. These variables include:

Quantitative-Volumetric	Quantitative-Recovery	Qualitative-Volumetric/Recovery
• Depth of coal seam	• Permeability	• Geological structure
• Thickness	• CH_4 content	• Degree of stress
• Density	• CO_2 content	• Swelling characteristics
• Specific Energy	• Ash content	• Groundwater regime
• Continuality	• Moisture	• Steep of the coal seam
	• Degree of Coalification	
	• Maceral composition	

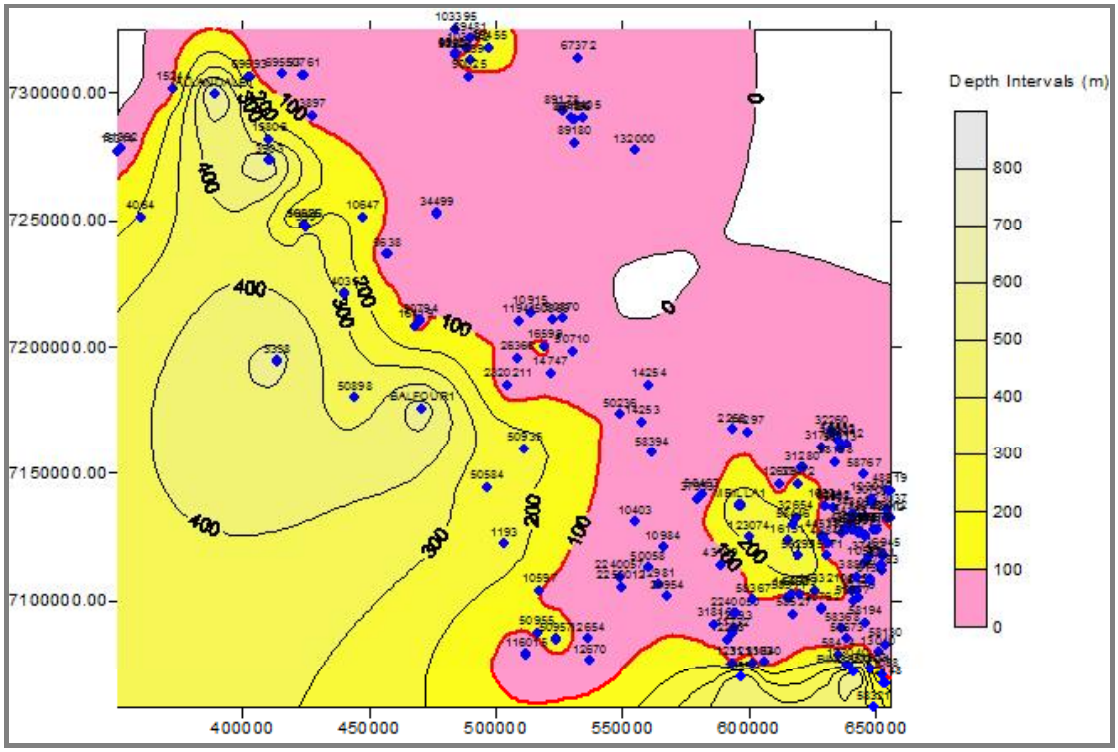
Bearing the constraints listed above in mind, Xstract reviewed Lodestone's Tambo Project tenements for their potential to host coals suitable for UCG. Waterbore and petroleum well information was used to assess the thickness and depth of the coal seams within the Tambo Project area. Whilst numerous coal intercepts are recorded within this dataset, some limitations were apparent including:

- The distribution of data across the tenements is not consistent and hence the information available was not sufficient to evaluate the coal distribution and thickness reliably.
- Coal seam thicknesses may vary over short distances. Local variations in coal thickness will not be captured due to the sparse data and its distribution.
- Deep petroleum wells typically bypassed shallow coal seams and limited detail documentation of these coals is evident within well completion reports.

Due to the limited data, Xstract has had to make a number of assumptions in order to estimate the UCG potential of Lodestone's Tambo tenements. Xstract's key assumptions are:

- Of the total area currently held by Lodestone, between 10% and 30% is available for UCG development given the depth of the coal seams, uncertainty associated with coal seam continuity, likely presence of faulting and gas contamination effects associated with any unforeseen igneous intrusions (Figure 3-12).
- Prospective coal seams are restricted to depths between 100 and 600 m below surface and are based on geological interpretation from data provided by Lodestone.
- Minimum coal thickness of 2 m.
- Based on previous studies, the Walloon Coal Measures are not considered to be hydraulically connected to water bearing aquifers. Leakage from overlying and underlying aquifers is considered negligible due to the presence of fine grained sediments.
- The coals of the Juandah and Taroom Coal Measures have ash contents of 28% and 31.3% respectively.
- The coals of the Juandah and Taroom Coal Measures have vitrinite contents higher than 70%.

Figure 3-12: Depth to the Top of the Walloon Coal Measures



Based on the available water bore and petroleum well data within a 10 km radius of ATP 1020, in-situ energy values were estimated. To decrease the level of uncertainty and include variations in coal seam characteristics, Xstract adopted a probabilistic approach for its UCG assessment.

Deep Permian coals in ATP 1020 were not assessed as they were considered by Xstract to be too deep to be prospective for UCG and except where there is overlap with EPCs the current legislation in place in Queensland, an ATP does not provide the rights to UCG. The results of Xstract's review are presented in Table 3-2.

Table 3-2: Estimated In-situ Energy within Lodestone's Nominated UCG and Other Non-overlap Tenements

UCG Nominated	EPC	Prospective seam	P90 Estimate (PJ)	P50 Estimate (PJ)	P10 Estimate (PJ)
Yes	1414	Low prospectivity	-	-	-
Yes	1415	Walloon and Permian	9,881.39	17,981.12	30,993.99
Yes	1417	Low prospectivity	-	-	-
Yes	1418	Walloon and Permian	7,817.49	21,015.22	42,753.79
Yes	1481	Low prospectivity	-	-	-
Yes	1482	Walloon and Permian	16,062.55	41,625.64	92,455.11
Yes	1484	Low prospectivity	-	-	-
Yes	1622	Low prospectivity	-	-	-
Yes	1624	Low prospectivity	-	-	-
Yes	1632	Low prospectivity	-	-	-
Yes	1633	Low prospectivity	-	-	-
Yes	1644	Walloon and Permian	8,271.00	27,708.89	58,272.58
No	1794	Walloon and Permian	13,235.62	47,576.89	97,125.81
		Total	**55,268.05**	**155,907.76**	**321,601.28**

*Xstract has only valued those tenements where Lodestone has nominated UCG.

The term "Low prospectivity" in Table 3-2 implies the UCG content is considered to be immaterial to value and therefore has not been assessed.

Proposed Exploration

Lodestone has planned a programme of drilling over the Tambo Coal/UCG Project to locate and define coal resources and assess the UCG potential. An initial plan of approximately 120 sites have been located and split into a high priority group and a secondary list. These priority sites are generally in the same location as historical water bores to confirm the presence of coal seams whilst others will seek to confirm the modelled stratigraphy and extend the understanding of coal seam distribution. It is estimated that this drilling programme will take place over the next two years and will require 20,000 m of drilling at a cost of approximately A$7 million. The total budget of A$41 million for the granted EPCs has been divided over the 5 year term of the EPC tenure and allows for concept and prefeasibility studies in Years 3 to 5.

An initial programme of 14 boreholes with a total budget of A$400,000 will be drilled to prove Lodestone's concept in the EPCs which have been granted to date. Eight of these boreholes will be in EPC 1623 with the other six split across the other EPCs. These boreholes are intended to continue to 500 to 600 m depth or to intersect the Hutton Sandstone which is considered as the 'basement' to the coal measures. Samples of both coal and adjacent strata will be collected to determine coal quality and to confirm the age of the strata. This will seek to confirm Lodestone's contention that the Jurassic strata in the Tambo area represent a western extension to the Surat Basin.

Preliminary activities to enable field work have been completed in some areas and drilling has commenced. These preliminary activities have included cultural heritage agreements and surveys, meetings with landholders and local community groups, appointment of drilling and geological contractors as well as personnel to manage safety, health, and environmental ("SHE") requirements.

Planning of future drilling programmes will be dependent on the granting of EPC applications, suitability of location of proposed sites, and availability of drilling and field service providers at the time.

Old seismic line data has been acquired and is being reprocessed to enable better interpretation of the upper 300 m which was ignored by the original explorers who were looking for deeper oil and gas resources.

3.3 Tambo CSG Project

Lodestone's current interest	Earning 50% from Tambo Coal & Gas
Combined area (km^2)	6,622
Location	Situated over the township of Tambo
Target	CSG associated with the Walloon Coal Measures
Project status	Early stage exploration
Recent activities	Data compilation

3.3.1 Access and Infrastructure

The Tambo CSG Project comprises a single granted ATP 1020 which overlaps some of the company's coal tenements along its eastern margin (Figure 3-13). The status of ATP 1020 as at 26 February 2010 is provided in Appendix A. The township of Tambo lies in the northwestern corner of the tenement.

ATP 1020 lies approximately 120 km north of the Ballera to Wullumbilla gas pipeline and 80 km to the east of the Gilmore - Blackall/Barcaldine gas pipeline. ATP 1020 lies to the west of the established CSG fields of the Surat Basin and to the east of the Adavale Basin gas fields (Figure 3-14). For details regarding other available infrastructure to the project, refer to Section 3.2.1.

3.3.2 Tenure Considerations

ATP 1020 is the subject of the Tambo Gas earn-in agreement, details of which are outlined in Section 2.1.

Exploration within ATP 1020 is excluded from a number of small reserves surrounding Tambo and along the main highway. Details of the status of ATP 1020 is presented in Appendix A. Lodestone's total expenditure commitment over the next four years for ATP 1020 is A$12.25 million.

Xstract understands that there are currently no Native Title issues associated with ATP 1020.

3.3.3 Geology

The regional geology of this area which is interpreted by Lodestone to be a western extension to the Surat Basin is discussed in Section 3.2.3.

The Middle Jurassic-aged Walloon Coal Measures are the predominant source for CSG production within the Surat Basin. Within the Walloon Coal Measures, the Juandah Coal Measures are typically the most prospective stratigraphic horizon for CSG. The Juandah Coal Measures comprise five groups of coal seams. In descending stratigraphic order these are the Kogan, Macalister, Wambo, Iona and Argyle Seams.

Elsewhere within the Surat Basin, gas contents for the Walloon Coal Measures range from 1.15 to 13.17 cubic metres per tonne ("m^3/t") (dry and ash free ("daf")) and average 5.18 m^3/t (daf). However, there is considerable variation in the gas content within individual seams and across the northern Surat Basin. In general, there is a linear increase in gas content with increasing depth. However, there are some exceptions which do not follow this trend. These exceptions are likely to reflect the associated geological structure of the host coal seams and the presence of intrusions. Typically, coals shallower than 250 m depth have an average gas content of 3.5 m^3/t, as above this depth the pressure is likely to be insufficient to constrain the escape of gas from the coal.

Within the Juandah Coal Measures, the Macalister Upper and Macalister Lower seam groups tend to have, on average, a lower saturation value (61%) than the lower coal seam groups (i.e. Nangram, Wambo, Iona and Argyle which have a have an average saturation of 92.6%).

Furthermore, the Kogan and Macalister seams have a higher gas adsorption capacity than the Wambo, Iona and Argyle seams.

Permeability of the Walloon Coal Measures across the northeastern Surat Basin ranges from less than 1 millidarcy ("mD") to greater than 500 mD. In general, the Walloon Coal Measures show a good range of permeability for commercially viable CSG developments.

The lower part of Walloon Coal Measures is known as Taroom Coal Measures. In general, the Taroom Coal Measures located elsewhere within the Surat Basin have a gas content of 6 to 7 m^3/t and an ash yield of 30 to 33%. These measures also have a higher ash content than the Juandah Coal Measures.

In addition to the coal seams of the Jurassic Walloon Coal Measures, a number of deep petroleum wells sited for conventional gas plays on anticlinal features within and adjacent to ATP 1020, reportedly intersected deep Permian coal seams at downhole depths ranging from 1,300 to 1,500 m (Balfour-1, Westbourne-1 and Barwinock-1). Furthermore, to the north of ATP 1020, Permian coals of the Bandanna (or Rangal) Formation crop out and dip to the south beneath the permit. Importantly, Permian-aged coals are the primary target for CSG exploration in the Galilee Basin (i.e. to the north of ATP 1020).

Importantly, the only gas data available is from the Barwinock-1 petroleum well, which shows that the deep Permian coals have an associated gas anomaly. Such an anomaly is less evident in the Jurassic Wallon Coal Measures. Furthermore, Barwinock-1 indicates that the Toolebuc Shales possess a gas anomaly. Elsewhere within the Surat Basin the Toolebuc Shales are being assessed for their shale gas potential.

Figure 3-13: Location of ATP 1020 Relative to Lodestone's Tambo Coal/UCG Project Tenements

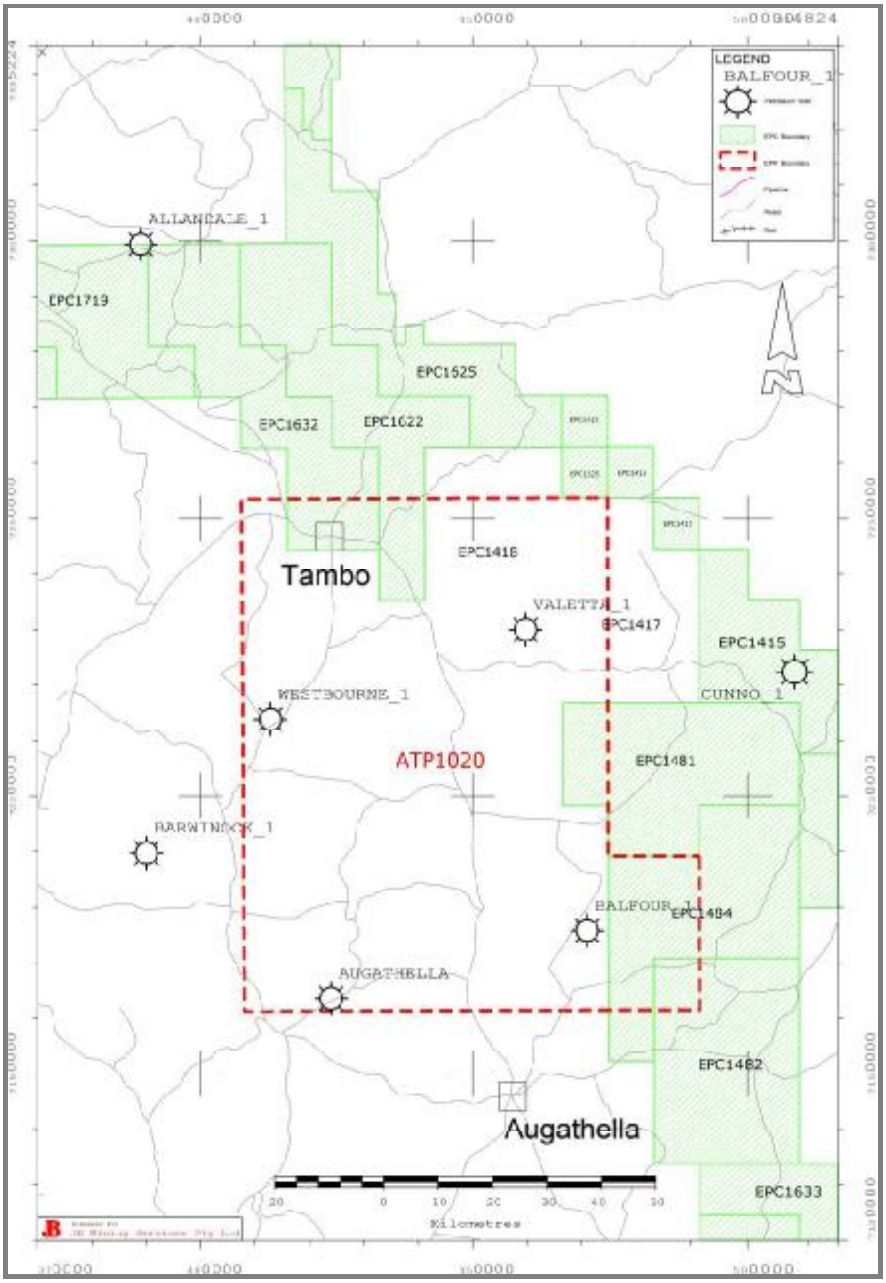
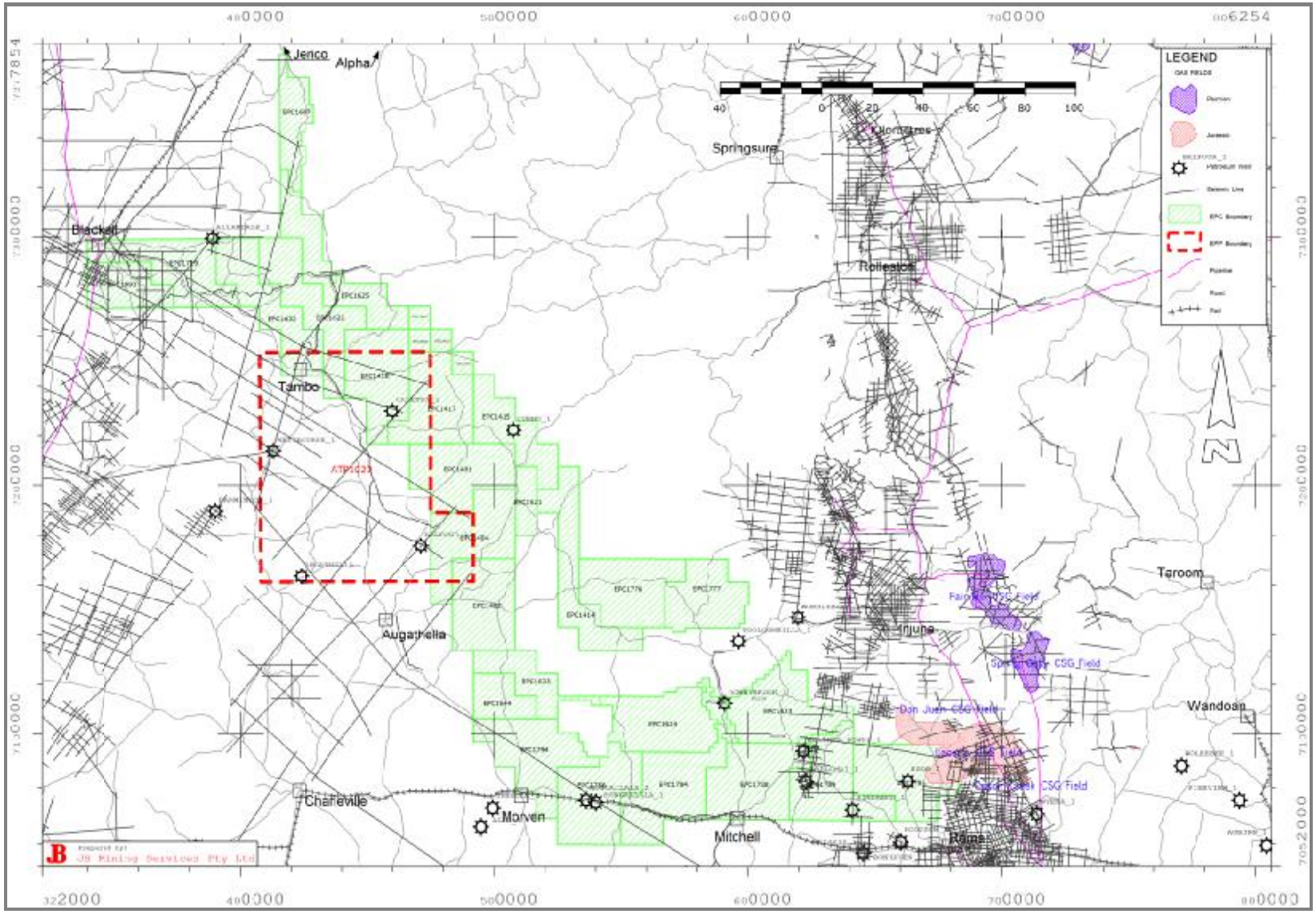


Figure 3-14: Location of ATP 1020 Relative to CSG Fields of the Surat Basin



Coals within the Permian sequence are typically strong seismic reflectors, a characteristic which is evident in the area surrounding ATP 1020. This reflector provides evidence of coal however it does not provide information relating to coal thickness or quality. The only available data relating to the gas potential of these Permian coals in proximity to ATP 1020 is from deep petroleum wells. Gas data from Barwinock-1 (located to the west of ATP 1020) indicates that there is no significant methane concentration within the Walloon Coal Measures but appreciable gas contents are evident in the Permian coals (Figures 3-15, 3-16 and 3-17).

Gas content values range from 2 to over 6 m^3/t (raw) in the Galilee Basin (located to the north of ATP 1020) but it may even be higher in thermally mature areas. Xstract notes that many of these holes within the Galilee Basin were sited for conventional gas accumulated in sedimentary traps over Permian anticlinal features, not for CSG plays within synclinal, basin structures. Petroleum exploration wells show that potential gas pay zone thicknesses in Permian zone range from 5 to 10 m in ATP 1020.

Figure 3-15: Permian Sequence in Balfour-1

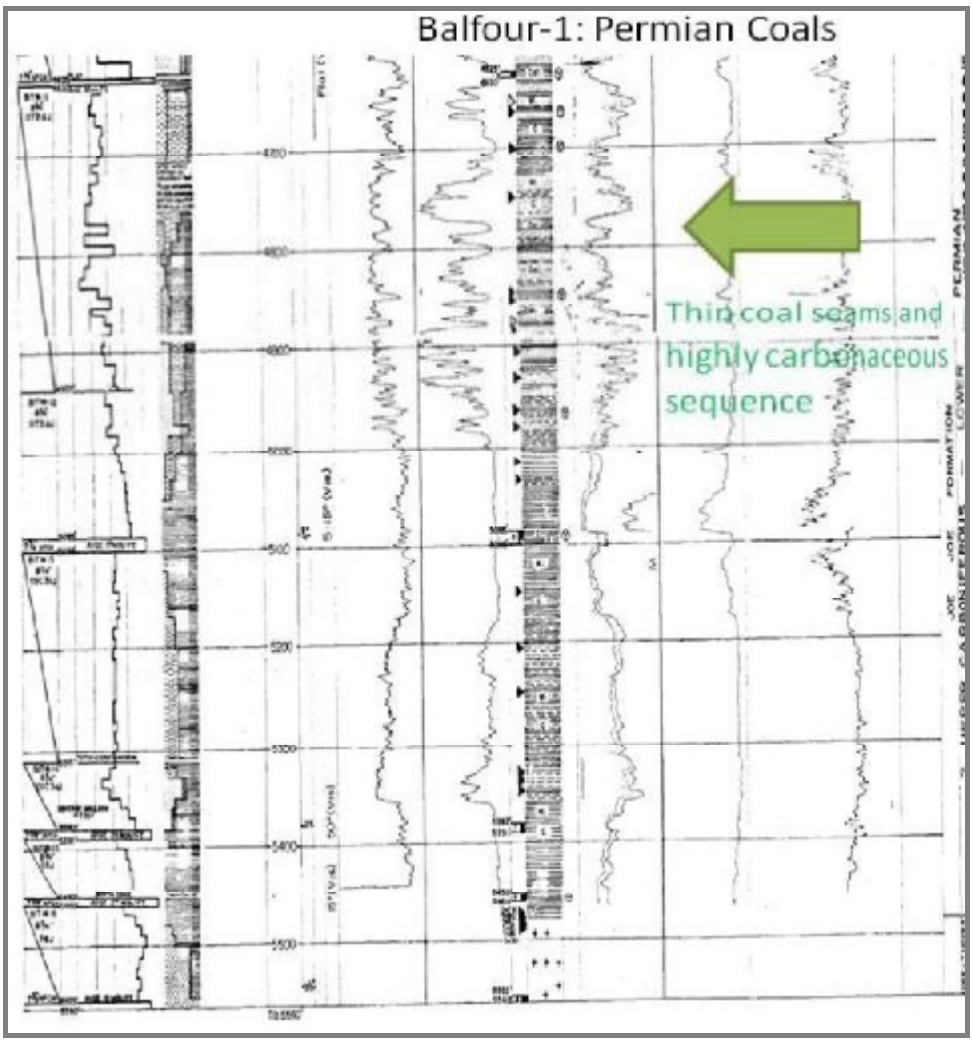


Figure 3-16: Permian Sequence in Barwinock-1 (high methane contents)

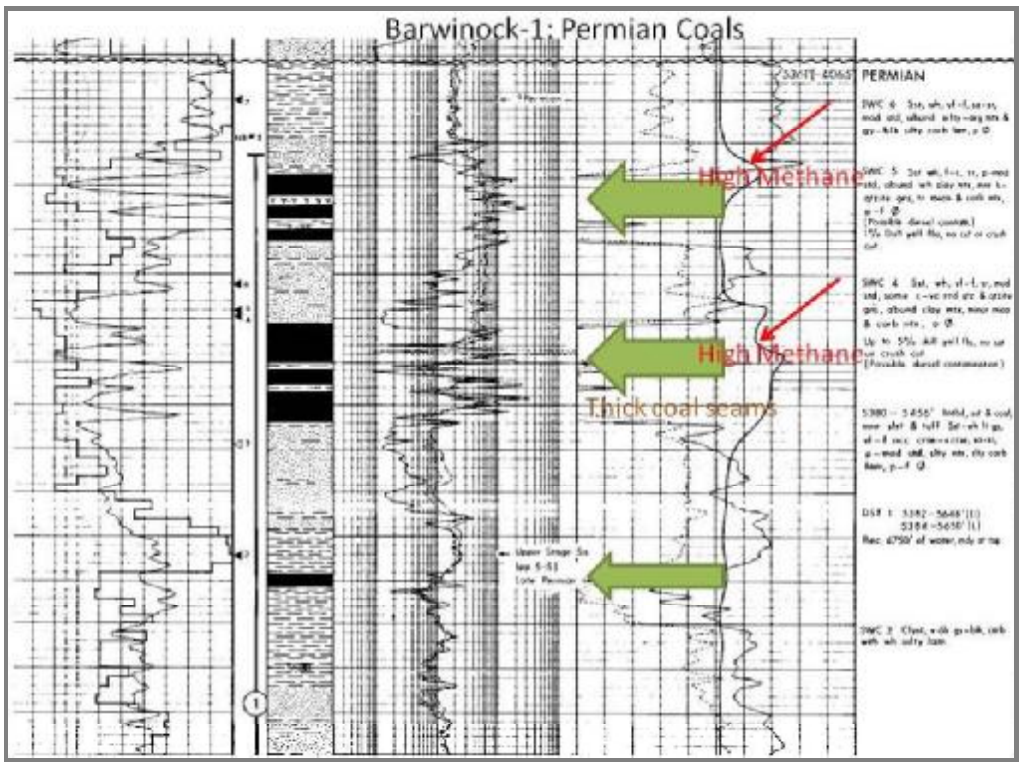
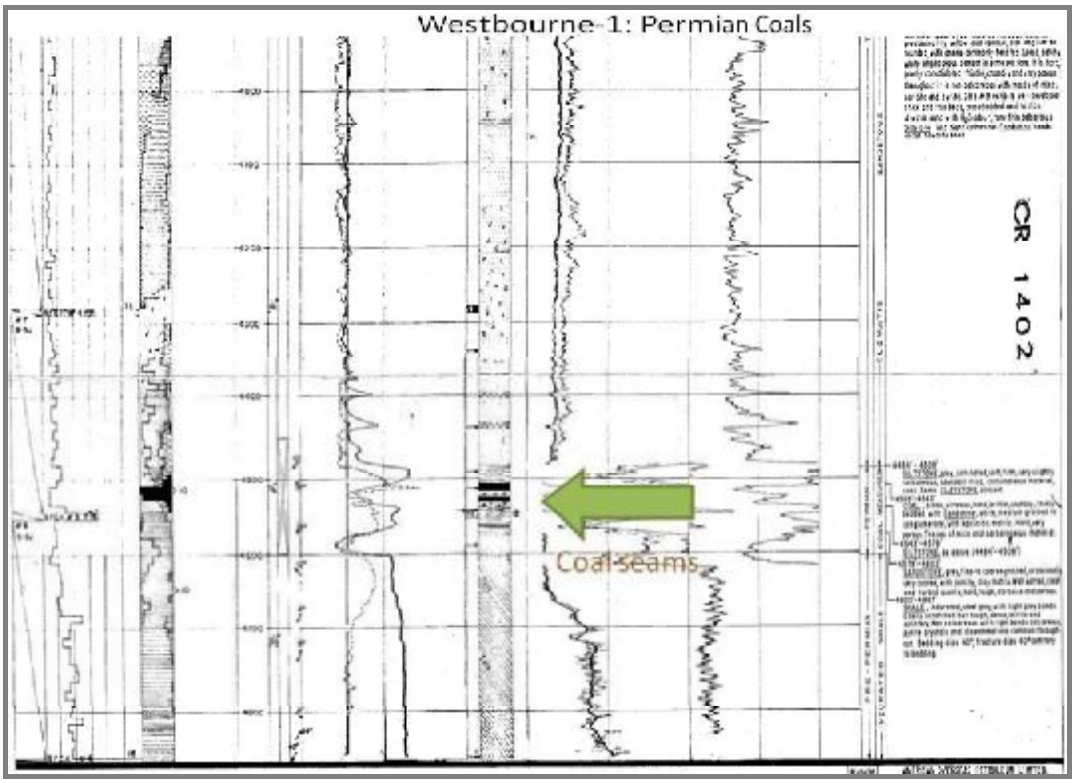


Figure 3-17: Permian Sequence in Westbourne-1



3.3.4 History

The exploration history of the Tambo Project area is discussed in Section 3.2.4.

3.3.5 Gas-In-Place Estimation

Xstract notes that CSG exploration is not sufficiently advanced within ATP 1020 to accurately estimate the likely volumes of gas contained within the tenement's coal seams. Estimates of gas and coal resources depend directly on net-coal thickness, gas content, coal density, and ash yield, and indirectly on coal rank, structure, hydrogeology, and topography. However, much of the previous water bore, petroleum and GSQ drilling conducted over and adjacent to the property did not assess these parameters.

At Lodestone's request, and for the purposes of this evaluation only, Xstract has endeavoured to estimate the potential gas-in-place ("GIP") within ATP 1020 using the available technical data whilst being mindful of constraints listed above. In order to do so, Xstract divided the project into a rough polygonal area and then applied CSG depth limits to outline prospective areas. Clean coal thickness and gas content values were then assigned to each polygon, and the coal and CSG contents within each polygon were estimated. Assumed gas content values for each grid were applied using the range of values evident elsewhere within the Surat Basin. Xstract's GIP estimates are based on polygonal resource estimation techniques using the borehole and petrophysical database provided by Lodestone.

Assumptions used by Xstract in its GIP estimate include:

- Only coal seams below 250 m depth were used to delineate prospective areas.
- Between 40% and 60% of the tenement contains coal seams below 250 m depth. Due to the lack of historic drilling data, the largest uncertainty is the extent of the coals and their distribution across ATP 1020.
- Coal thicknesses range between 2 m and 15 m.
- Coal thickness was based on a density cut-off level as evident in the Barwinoch-1 petroleum well (i.e. one well only) and other geological reports. The paucity of density logs from previous petroleum wells in the area means thickness assessments are difficult for ATP 1020.
- Gas contents range between 3 and 8 m^3/t. As noted previously, there is no direct gas measurement data for the coals within ATP 1020. Gas contents for the Walloon Coals typically range from 1.15 to 13.17 m^3/t (daf) and average 5.18 m^3/t.

The results of Xstract's deterministic and probabilistic analysis is presented in Table 3-3 and Figure 3-18.

Table 3-3: In-situ Energy Probability Table for Jurassic and Permian Coals in ATP 1020

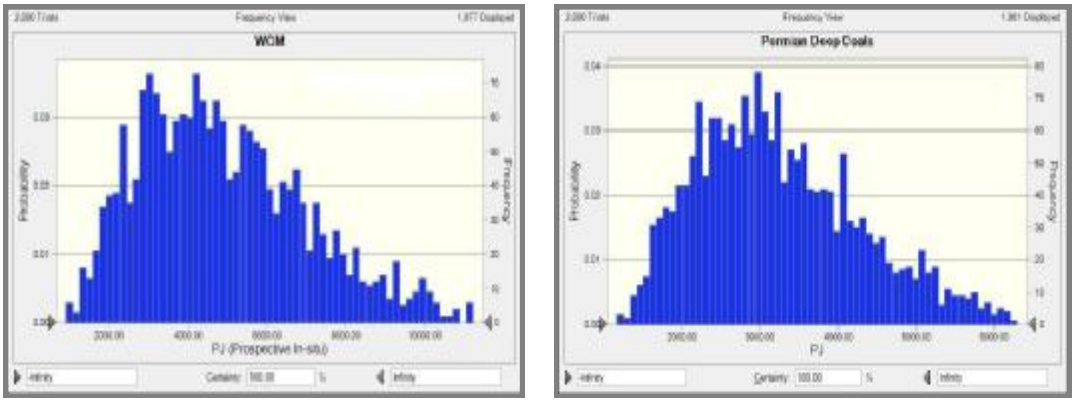
Coal Measure	P90 Estimate (PJ)	P50 Estimate (PJ)	P10 Estimate (PJ)
Walloon Coal Measures	2,345	4,636	7,944
Permian Coals	1,971	3,094	4,794
Total	**4,316**	**7,730**	**12,738**

N.B. The in-situ energy ascribed to the Walloon Coal Measures includes data from AOP Balfour 1 which intersected a thick coal interval supposedly within the Evergreen Formation

It is important to note that the term 'Prospective Resources' is used when describing potential volumes expected from early stage exploration projects such as ATP 1020, since they contain undiscovered (recoverable and unrecoverable) volumes of gas. Low (10^{th} percentile - P10), best (50^{th} percentile - P50) and high (90^{th} percentile - P90) estimates of recoverable gas were made using probabilistic methods and a recovery factor of 45% applied to indicate the range of likely Prospective Resource outcomes.

Once discovered, these Prospective Resources must progress through a project based framework to determine the likely project economics and recoverable volumes. This framework is designed to progress these Prospective Resource estimates from Low ("P10"), Best ("P50") and High ("P90") estimates to 1C, 2C and 3C Contingent Resources for potential developmental planning and sales.

Figure 3-18: In-situ Energy Frequency Distributions for Jurassic and Permian Coals in ATP 1020



Reserves are defined by Petroleum Resource Management System ("PRMS") as those quantities of petroleum anticipated to be commercially recoverable by: application of development projects to known accumulations; from a given date forward; and, under defined conditions. Reserves must satisfy four criteria in that they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. This means Reserves must be determined in conjunction with a specified commercialisation strategy (e.g., eminent contract/development, spot sales, third-party infrastructure project, etc.). From there, Reserves may be sub-classified based on project maturity and/or characterised by development and production status (PRMS).

3.3.6 Exploration Potential

In assessing the CSG potential of ATP 1020, Xstract notes the following:

- The project is located in proximity to gas distribution infrastructure and markets, as well lying approximately 200 km west-northwest of the Lacerta and Don Juan gas fields (refer Figure 3-14)
- Recent photo interpretation of the area by Lodestone's consultants suggests that the coal bearing stratigraphy of the Surat Basin continues westwards at shallow depths
- Large concession blocks of land are available for development
- Numerous companies are looking for joint venture partners
- Possible use of open hole completions with under-reaming (similar to Arrow Energy's Tipton Gas Field)
- The presence of coal has been identified in many water bores and petroleum wells throughout the area, with most coals occurring at depths capable of supporting CSG resources
- There is limited information about the extent and continuity of the coal seams present within ATP 1020 and what information is available suggests there is significant variations in coal thickness
- Anecdotal evidence suggests that gas was observed in a number of wells but the source and content of these gases remains unknown
- Based on historical deep drilling in adjacent areas, additional gassy, deep Permian aged coal seams (>1,400 m) may occur within ATP 1020
- There is currently no gas content and saturation measurement data available within ATP 1020
- Similar, due to the lack of previous drilling the gas quality and gas composition remains unknown. If impurities such as CO_2 are associated with methane, the CSG quality and market value for the gas (and hence project value) will decrease

- The paucity of technical data means there is considerable risk associated with the continuity of the coal seams
- The thickness of coal within ATP 1020 will have a material impact on project economics going forward. If the coal thickness is not uniformly distributed, this will affect the commercial prospectivity of the coal seams
- Water quality and water disposal options are unknown and will require a water management plan

Whilst Lodestone's ATP 1020 lies relatively close (approximately 200 km to the west) to the Don Juan and Lacerta gas fields, there are a number of factors which may influence the CSG potential of the area and these may change over relatively short distances. Coal geometry, development, burial history, gas generation potential and gas capture characteristics may be significantly different to the established gas fields and needs to be assessed by future exploration programmes.

Future assessments of the CSG potential of ATP 1020 are likely to require the following as a minimum:

- Detailed geology and geophysical surveys to gain a greater understanding of the coal thickness, quality and extent of coals within the tenement, as well as to establish the CSG potential of the area, coal and reservoir characteristics for production and the likely recovery of gas
- Develop a conceptual geological model and structural interpretation for the prospective area based on well data, geophysical surveying and future drilling results.
- Concerted exploration and pilot drilling programmes
- Definition of the composition and content of the CSG within the coals and evaluate the CH_4 and CO_2 distribution patterns
- Evaluation of potential for gas production.

3.4 Moreton Project

Lodestone's current interest	Earning 50% from Moreton Energy / 50:50 joint venture with Moreton Energy (EPC 1524 only)
Combined area (km^2)	453
Location	East, west and south of Beaudesert, 80 km south of Brisbane
Nearest Port	Brisbane
Target	Thermal Coal and UCG
Project status	Early to advanced stage exploration
Recent activities	Exploration drilling

3.4.1 Access and Infrastructure

Moreton Project comprises four EPCs located to the east, west and south of the town of Beaudesert, in close proximity to southeast Queensland's major population centres of Brisbane, Gold Coast and Ipswich (Figure 3-19). The southern tenements (EPCs 1313 and 1524) straddle the Queensland – New South Wales border.

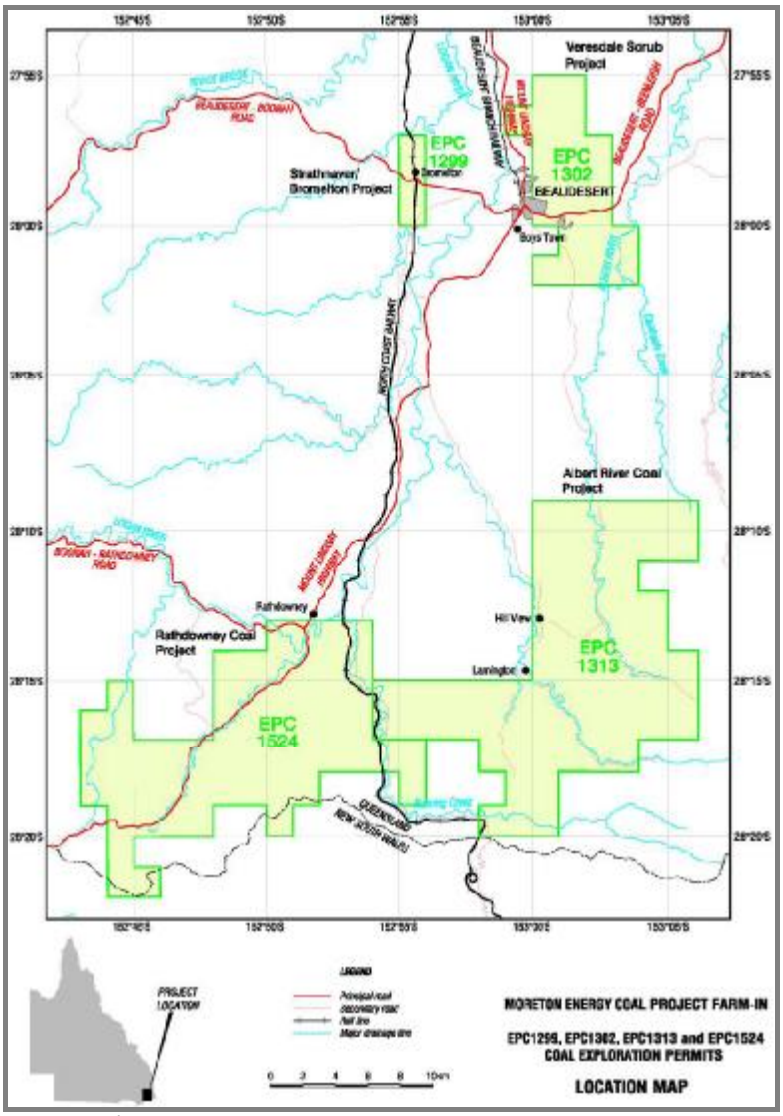
The project tenements are well serviced by existing and proposed infrastructure including:

- Major sealed roads such as the Beaudesert Beenleigh, Beaudesert-Boonah and Boonah Rathdowney Roads, as well as the Mount Lindsay Highway. Sealed and unsealed local roads and property tracks provide access within the project tenements
- the North Coast interstate and Beaudesert branch railway lines, which connects the project to the Port of Brisbane (some 80 km distant)
- the Swanbank power station
- the proposed Lions Way gas pipeline extending over 145 km from Casino (NSW) to Ipswich

- the proposed Logan River Dam site, and
- the proposed Bromelton Development Area.

Tributaries to the Logan and Albert Rivers cut across the project tenements and generally drain northwards. The northern tenements are characterised by generally flat, open grazing land adjacent to residential populations and industrial estate zones. In contrast the southern tenements contain undulating to mountainous terrain capped by basalt and sandstone surrounding the Lamington National Park.

Figure 3-19: Location of Lodestone's Moreton Coal/UCG Project Tenements



Source: Lodestone

3.4.2 Tenure Considerations

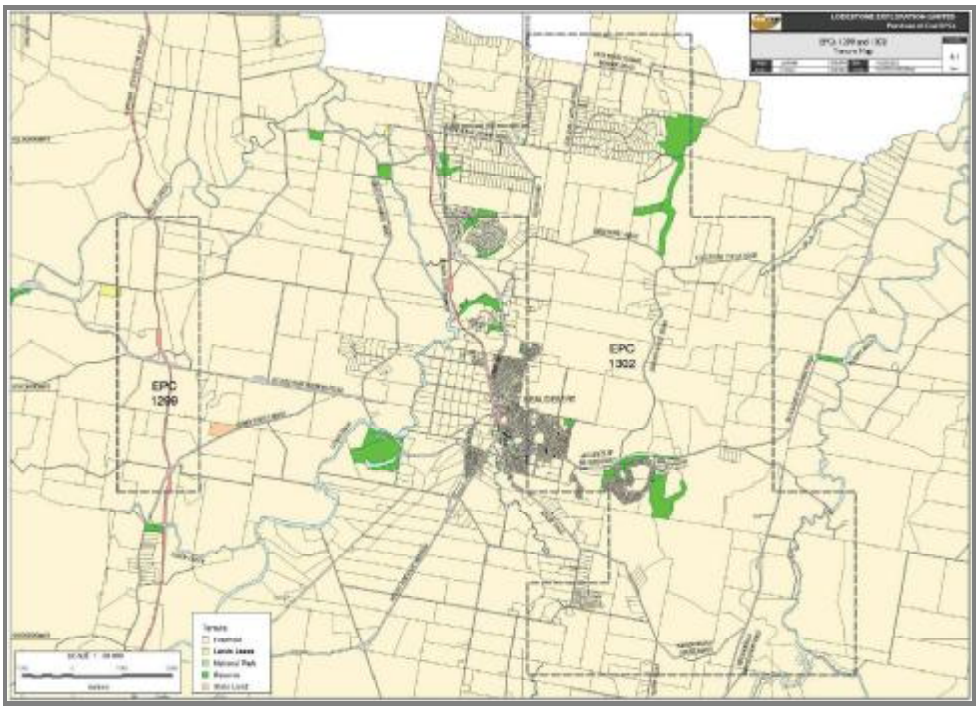
The four EPCs comprising the Moreton Project can be broadly divided into two areas; a northern area and southern area (Figure 3-19). The northern tenements (EPCs 1299 and 1302) are not contiguous and cover the townships of Bromelton and Beaudesert (in part – Figure 3-20). The southern tenements (EPC 1313 and 1524) form a coherent package along the Border and McPherson Ranges, Lamington National Park and the Queensland-New South Wales border. The status of the Moreton Project tenements is provided in Appendix A. Lodestone's total expenditure commitment for the Moreton Project tenements is A$1.82 million over three years.

Only EPCs 1299, 1302 and 1313 are the subject of the earn-in agreement with Moreton Energy, whilst EPC 1524 is held in a 50:50 joint venture with Moreton Energy. Details of the Moreton earn-in agreement are outlined in Section 2.1.

In regards to existing restrictions over the current tenure, Xstract notes the following:

- Three registered cultural heritage sites exist within the central portions of EPC 1299 and the intrastate railway cuts north-south through the project. The tenement is further restricted to the east by the proposed Logan River Dam. Given the project covers a relatively small area, there is limited space available should future development be warranted.
- Of particular importance to the future development of EPC 1302 is the location of existing and proposed residential estates on the eastern fringe and to the north of Beaudesert (Figure 3-19). On-going exploration activities are likely to be impeded by land access and landowner compensation claims. In the event that exploration outlines an economically viable coal deposit, Lodestone is likely to encounter significant opposition to mine development.
- EPC 1313 is located adjacent to environmentally sensitive areas surrounding the Lamington National Park and in the foothills to the Border and McPherson Ranges and the headwaters of the Albert River. There are a number of exclusion zones within the current tenement, particularly in the far west and far east of the tenement area in proximity to the designated national park.
- Significant portions of the western, southern and east margins of EPC 1524 are designed as exclusion zones, and would require special permits to conduct exploration.

Figure 3-20: Location of Lodestone's EPCs 1299 and 1302 Relative to the Beaudesert and Bromelton Residential Area



3.4.3 Geology

The regional geology of the Beaudesert area is dominated by sedimentary and volcanic units of the Clarence-Moreton Basin. The Clarence-Moreton Basin is an arcuate, intracratonic basin stretching over a 400 km length and up to 120 km wide within northeastern New South Wales and southern Queensland. The Clarence-Moreton Basin is depositionally contiguous with the Surat Basin to the west and overlies the Ipswich Basin. Tertiary-aged intrusive bodies of the Mt Warning Complex separate the Queensland – New South Wales portions of the Moreton Basin.

The Clarence-Moreton Basin comprises relatively undisturbed volcanic and sedimentary rocks of Triassic and Jurassic age. The Basin is divided into two north trending sub-basins by the South Moreton Anticline/Richmond horst. To the west of the anticline is the Laidley Sub-basin, whilst the Logan Sub-basin lies to the east. Table 3-4 presents the general stratigraphy of the Moreton Project comprising in descending order.

Table 3-4: Generalised Stratigraphy of the Clarence – Moreton Basin in the Beaudesert Area

Age	Stratigraphic Unit
Quaternary	Alluvium
Tertiary	Lamington Volcanics Beaudesert Beds
Jurassic	Walloon Coal Measure Bundamba Group comprising Marburg Formation Wodgaroo Sub-group
Triassic	Ipswich Coal Measures Chillingham Volcanics
Carboniferous	Mt Barney Beds
Devonian	Neranleigh Fernvale Beds

Of particular importance to Lodestone are the Middle Jurassic fluvatile Walloon Coal Measures. The Walloon Coal Measures comprise a 1,000 m thick sequence of sandstones, siltstones, shales, carbonaceous mudstones and coal seams. The seams occur as locally thick, banded intervals, in which lenticular beds of carbonaceous shale, mudstone, siltstone and sandstone of varying thickness separate the individual coal bands. The Walloon Coal Measures have been divided into two coal bearing sequences, the lower and the upper measures, which consist of abundant thinly banded coal plies separated by up to 100 m of clastic sediments. These measures have been historically mined by underground methods at various locations since the 1870s.

Characteristics of the Walloon Coal Measures in the Clarence- Moreton Basin include:

- Thin individual seams, grouped in places into thick seam intervals, of limited lateral extent.
- Composed of predominantly bright (high vitrinite content) macerals.
- Banded with tuffaceous claystone partings.
- Low in sulphur content.
- The Walloon Coals are mined for both local power station use and for export of good quality thermal coal. The coal is selectively mined, and for the export market the run of mine coal is washed to deliver a low ash product.

The sedimentary sequence of the Beaudesert area has been faulted and extensively folded about the South Moreton Anticline and the Logan River Syncline which are sub-parallel and have a general north-south orientation. The South Moreton Anticline extends southwards for approximately 60 km from Ipswich to Rathdowney.

EPC 1302 and 1299 are interpreted to lie along opposing limbs of the Logan River Syncline, as sediments dip shallowly to the south-southwest in EPC 1302 and steeply to the east in EPC 1299. The Logan River Syncline is interpreted to be an asymmetric fold with a relatively steep (+20°) western limb and a much shallower dipping eastern limb (5°). Whilst no faults have been mapped within the Logan River Syncline, the limited outcrop makes assessment difficult. Faults with displacements of up to 30 m were reportedly encountered during previous drilling campaigns from within Lodestone's project tenements.

Volcanic activity was extensive during the Tertiary and has resulted in numerous igneous intrusions along the eastern limb of the Logan River Syncline and basaltic plateaux capping the Walloon Coal

Measures within EPC 1313 and EPC 1524. These basalts thicken southwards, inhibiting exploration and potentially lowering the overall quality and cindering the coals within parts of these tenements.

Local Geology

Previous exploration and mining activities within the area have focussed on the historic Strathnaver (immediately south of EPC 1299) and Stansfield (EPC 1302) Collieries, as well as the Veresdale Scrub coal deposit (EPC 1302).

The Strathnaver Colliery comprised underground mining activities focused on a 1.4 m thick seam accessed by two tunnels.

The Stansfield Colliery reportedly worked a 1.2 m thick seam which was accessed from a 10 m long adit.

In the early 1990s, New Hope Colleries (now New Hope Coal Australia – "New Hope") completed extensive drilling at EPC 1302 including eight partially cored boreholes to assess the Veresdale Scrub coal deposit, which is located some 8 km northeast of Beaudesert. New Hope reported that the coals encountered were geologically consistent with other Walloon Coal sequences, comprising numerous thin seams of high volatile, high raw ash and low total sulphur coals. These seams continually split and dip moderately to the south-southwest within EPC 1302. New Hope interpreted a number of faults existed across the deposit as a result of some correlation difficulties between boreholes. New Hope also noted that the shallower sequences contained relatively high clay contents and that coal qualities varied over relatively short distances.

Subsequent drilling by Pacific Coal at the southern end of EPC 1302 suggests that the Walloon Coals thin and deteriorate to the south of the Veresdale Scrub deposit. Pacific Coal interpreted the coals intersected within EPC 1302 were from the lower coal-bearing unit, with the coal-bearing sequence considered to be laterally discontinuous. The coals intersected by Pacific Coal were characterised by high hydrogen content, high volatile matter, high reactive macerals content, high ash fusion temperatures, low sulphur and low Hardgrove Grindability Index.

3.4.4 Coal Quality

Based on a 15% ash product, the average quality results as provided by New Hope were:

Total Sulphur:	0.6%
Yield:	65.4%
Inherent moisture:	5.2%
Specific Energy:	6,540 kilocalories/kilogram (or 27.21 MJ/kg)

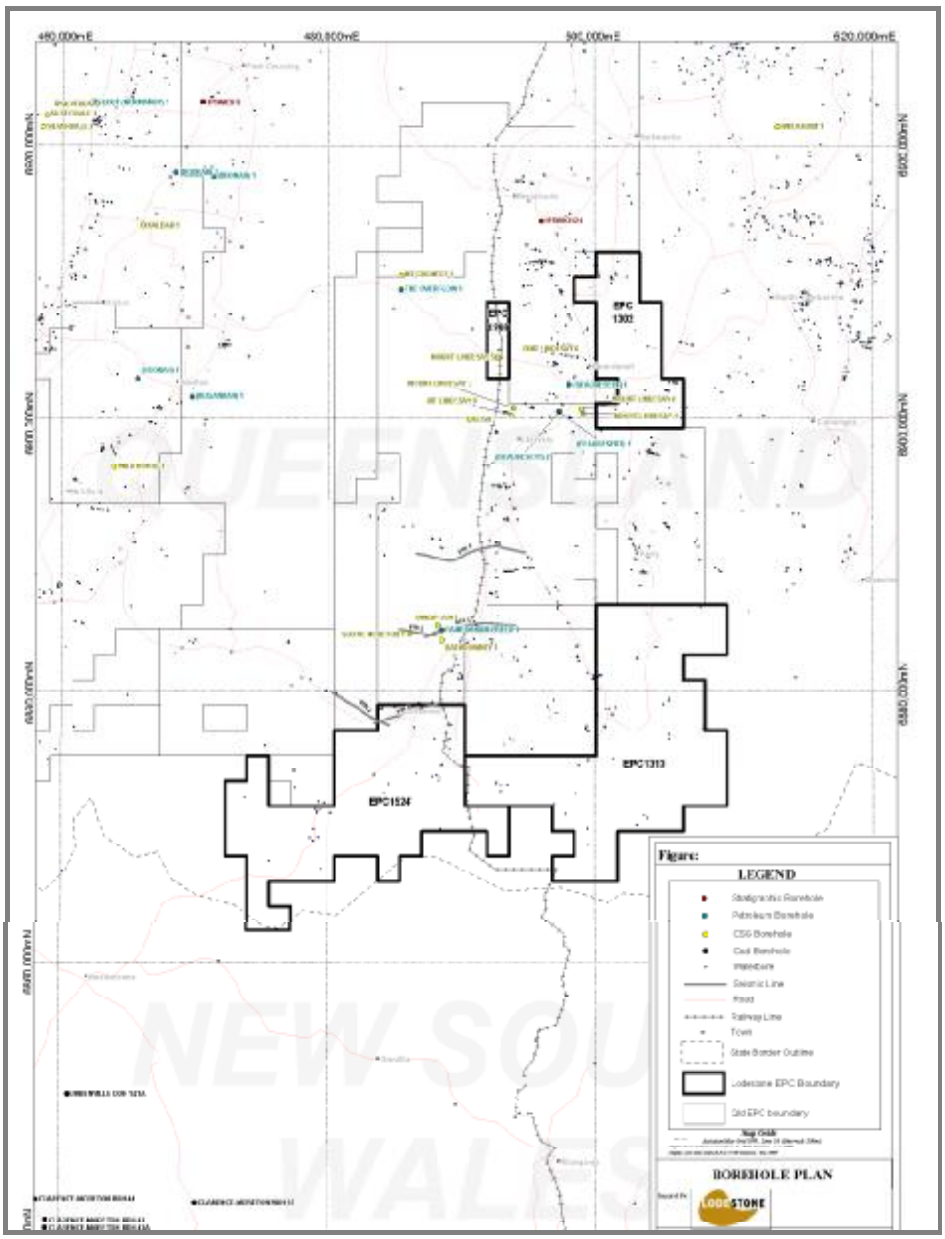
3.4.5 History

Previous mining activities within Lodestone's current project tenements appears to have been restricted to the historic Strathnaver and Stansfield Collieries, adjacent to EPC 1299 and within EPC 1302 respectively. The Stansfield Colliery operated around the turn of the 20th century until 1910 when the tunnel reportedly collapsed, whilst the Strathnaver Colliery operated between 1932 and the outbreak of the Second World War.

Drilling by the GSQ along the northern limit of EPC 1299 intersected the axis of the Logan River Syncline and recorded 705 m of Walloon Coal Measures.

Since that time, the area covered by Lodestone's current tenements have been the subject of intermittent exploration, with the major programmes being undertaken by New Hope between 1978 and 1992 and by Pacific Coal in early 1980s. Activities completed during these exploration phases included interpretation of aerial photography and Landsat imagery, reconnaissance geological mapping, grab sampling, auger, open hole and core drilling, downhole geophysical logging and coal quality testwork (Figure 3-21).

Figure 3-21: Historic Borehole Locations in the Beaudesert Area



Source: Lodestone

EPC 1299

Within EPC1299, New Hope completed a number of holes, reportedly intersecting a 3.5 m thick banded seam to the north and east of the Strathnaver Colliery. This seam dips gently to the west. Pacific Coal drilled a single hole (BD01R) to a total depth of 166 m along the southern boundary of EPC 1299. This hole intersected 2.2 m of coal and mudstone (estimated to contain 65% coal) at a downhole depth of 12.1 m and 8.8 m coal and mudstone (estimated to contain 40% coal) at a downhole depth of 52.2 m. Outside of these areas, the tenement was largely unexplored.

EPC 1302

New Hope explored the area surrounding and covered by Lodestone's EPC 1302 between 1978 and 1983 under AP221. A total of eighty six (86) holes were completed targeting two unnamed seams within the Walloon Coal Measures. Some of these holes were geophysically logged and eight (8) holes were partially cored. The 86 holes were drilled in various series – 1200, 1900, 2200, and 6000. The geological model was based entirely on 6000 series holes as these holes were logged from chips,

geophysically logged, and the hole locations surveyed. This work resulted in the definition of a small in-situ coal deposit (which remains to be reported in accordance to the 2004 JORC Code) at depths of 12 m to 100 m below surface. Approximately 60% of the reported in-situ tonnage is estimated to lie within Lodestone's EPC 1302. Subsequent quality testing was undertaken to characterise the coals present within EPC 1302.

Pacific Coal drilled two holes at the southern end of EPC1302 in 1982. One hole (BR07R) intersected a 1 m thick coaly horizon (estimated to contain 67% coal) at 98 m downhole depth; the other hole (BD08R) intersected 3.4 m of coal and mudstone (estimated to contain 47% coal) at 151 m downhole depth and 3.5 m of coal and mudstone (estimated to contain 37% coal) at 161 m downhole depth.

No drilling has been reported over the Stansfield Colliery, since its closure in 1910.

EPC 1313

Despite a number of coal occurrences being reported within EPC 1313, only cursory exploration appears to have been undertaken over the area. The most significant occurrence was reported in the Powell Duffryn report (1949) and comprises a 2 m thick outcrop of coal at the headwaters of the Albert River. Other occurrences include significant outcropping coal seams in the cliffs and banks of the Albert River, Widgee Creek and Christmas Creek.

Whilst the area was held by New Hope until 1979, no reported exploration was conducted on the current lease area. No further exploration was undertaken over EPC1313 after it was relinquished by New Hope.

EPC 1524

New Hope explored the area covered by EPC 1524 between 1978 and 1983, reportedly locating numerous coal outcrops within the rugged terrain, of which some were subsequently assessed by drilling and a resistivity survey. Whilst numerous coal horizons were encountered during the drilling programme, virtually all seams were intruded by mafic sills or heat affected.

The resistivity survey conducted indicated potential for small coal-bearing areas. No further exploration was conducted over the area until Lodestone's recent drilling programme.

3.4.6 Lodestone's Exploration Activities

Upon entering into the Moreton farm-in agreement, Lodestone commenced a review of all available regional borehole data, seismic surveys, aerial magnetic surveys, and remote sensing imagery. This review outlined several potential exploration targets and exploration strategies within the project tenements, as well as significant structural and possible igneous features.

Since that time, Lodestone has completed a total of 48 open boreholes and two core holes designed to test the coal seams within its Moreton Coal/UCG Project tenements.

EPC 1299

A total of 12 open holes (1,901.12 m) and one core hole were completed within EPC 1299 during 2009. Two holes located along the western tenement margin intersected Marburg Sandstone, a basement unit to the coal seams within the Walloon Coal Measures. Intersections in the central portion of EPC 1299 reportedly comprise thin (mostly <1 m) and interbanded coals lying at depths of greater than 100 m. A thicker coal intersection was encountered at a downhole depth of 25to 32 m in BR007, however the coal was partly oxidised and high in ash. Step out drilling intersected the coal horizon at shallow depth. The coal reportedly comprises carbonaceous material and is steeply dipping between holes suggesting a high degree of structural complexity.

EPC 1302

Lodestone completed eighteen (18) open holes for 3,209.2 m and one core hole within EPC 1302 during 2009. Drilling was conducted along existing roads to facilitate access and was designed to test three distinct areas; northern, central and southern. The northern area was known to host shallow coal associated with the Veresdale Scrub deposit. The central area was targeted to assess the lateral

continuity of the known coal seams southwards. Based on earlier exploration programmes, the southern area was also known to host the Walloon Coal Measures.

Drilling conducted at the southern end of the tenement intersected multiple, narrow (< 1 m thick) coal seams with many terminating in the Walloon Coal Measures, whilst intervals of Marburg Sandstone were recorded along the eastern margin of the EPC. Upon progressing northwards, four of the five holes completed by Lodestone encountered a substantial mafic intrusive sill which appears to have replaced and/or thermally degraded the coals of the central area. The fifth hole in the central area intersected the underlying Marburg Sandstone.

Recent drilling by Lodestone was restricted to assessing the potential for shallow coal associated with the Walloon Coal Measures and did not assess the presence, continuity or thickness of deeper coal seams as reported by other third parties to the west of EPC 1302. Drilling in the northern area and along the southern extension to the Veresdale Scrub deposit intersected two seams within the Walloon Coal Measures. Lodestone also completed an intermediate hole between the northernmost and central drill lines to test the southern limit of the Veresdale Scrub deposit. This hole intersected the Walloon Coal Measures at the top of the hole before entering a mafic sill at 100 m downhole depth. This suggests that there is limited opportunity to expand the currently defined coal tonnages in this direction.

Lodestone collected several cores to verify the accuracy of the original coal testwork undertaken by New Hope. The results of this analysis are still pending.

EPC 1313

A total of nine (9) open holes for 1,041 m were drilled by Lodestone within EPC 1313 during 2009. In the north, several holes encountered intervals of loose and fractured basalt which caused several casing collapse events, with five holes failing to penetrate the basalt. In the south, a window in the basalt afforded direct access to the outcropping Walloon Coal Measures. Hole AR8 was the only hole to intersect coal and encountered several one metre intervals at downhole depths of 55 m, 73 m, 108 m and a 20 m coal and carbonaceous siltstone interval at 143 m. This hole was carried out in proximity to exposed coal (within a road cutting) and on a topographic high ridge system.

EPC 1524

Lodestone completed a total of nine (9) open holes for 1,239 m within EPC 1524 during 2009. All holes intersected the Marburg Sandstone, without encountering the Walloon Coal Measures. Lodestone interprets that upwarping associated with the South Moreton Anticline and Tertiary intrusives linked to the Mount Warning Complex has resulted in the erosion of the Walloon Coals prior to the emplacement of thick Tertiary basalt cover.

3.4.7 Exploration Potential

Exploration to date by Lodestone has demonstrated that the project area is unlikely to contain large tonnages of coal with the targeted coal quality. Two coal seams are present within EPC 1302, however the plies tend to be thin with significant amounts of interburden material present, thus reducing the potential for an economic coal deposit.

The Veresdale Scrub deposit represents the best target going forward, however its future development is likely to be impacted by adjacent residential areas and the potential to negotiate access to the northern half of the deposit.

The tenements appear to be intruded by a number of igneous bodies and capped by Tertiary basalt cover. This has resulted in the Walloon Coal Measures being locally heat affected or replaced by intrusives. Elsewhere the continuity of the coal bearing sequence has been disrupted by structurally complex zones associated with the South Moreton Anticline and Logan River Syncline.

Based on Lodestone's 2009 exploration programme, Xstract understands that Lodestone plans to:

- Conduct a follow-up drilling programme comprising two to three holes to establish the relationship between the carbonaceous intercept encountered in the southern portion of EPC 1299 and the seams worked in the Strathnaven Colliery.

- Undertake further drilling to assess the extensions of the Veresdale Scrub deposit.
- Undertake further investigation of the coal intersection encountered within borehole AR8 and carry out targeted drilling along topographic highs in the south of EPC 1313 to test for preserved remnants of the Walloon Coal Measures sequence.

Based on its review of the Moreton Project tenements nominated for future UCG development (EPCs 1302, 1313 and 1524), Xstract notes the following:

- Lodestone's recent drilling campaign tested shallow coal seams associated with extensions to the Veresdale Scrub deposit and other regional targets. In general, this drilling programme was shallow in nature (i.e. ranging from 138 to 222 m total depth) and outlined:
  - The lateral extent of the coal seams within the Moreton tenements
  - The presence of multiple thin seams (mostly < 1m thickness)
  - The structural complexity of the area with numerous faults and igneous intrusions present
  - The Project tenements lie in proximity to the axis to the Logan Anticline
  - Tertiary basalt cover has locally cindered the coal and impedes drilling assessment.
  - Seam continuity remains untested to the west.
- Boreholes along the southern margin of EPC 1302 were mainly terminated within the Walloon Coal Measures, with all holes reportedly intersecting multiple coal occurrences of seams less than 1 m in thickness at various depths.
- The deformed nature and presence of multiple faults and igneous intrusions suggests the potential for UCG associated with shallow coal seams may be limited.
- However, the potential for deeper coal measures, as encountered in CSG wells located to the west and outside of Lodestone's EPC1302 (refer next points), remain to be assessed by future exploration programmes. The most important considerations going forward will be the presence, continuity and structural complexity of these deeper seams within EPC1302.
- Portions of the Moreton Project (including the southern part of EPC 1302) are covered by Arrow Energy's ATP 644P. Importantly, the coal potential down-dip of the Veresdale Scrub deposit in Lodestone's EPC1302 is not encumbered by Arrow's ATP 644P.
- Two CSG boreholes located approximately 1 km west of Lodestone's EPC1302 and within ATP 644P intersected multiple coal seams of variable thickness, including several thick seams (3 to 8 m) at depths ranging from 150 to 581 m below surface. The intersected seams are reportedly high ash (40 to +50%), high mineral content (55 to 75%) and comprise generally banded, dull or stony coals to carbonaceous shales and associated CSG. Several seams may have been affected by heating from igneous intrusions. Seismic data suggests these coals occur on an anticlinal structure, however the extent and impact of faulting on the coals has not been evaluated to date, albeit that a significant fault was encountered at 581 m depth.
- Under the current legislative regime in Queensland, the development of CSG within a granted ATP has priority over any UCG contained within overlapped portions of the Moreton Project.
- Carbon Energy holds an adjacent tenement to the south of EPC 1302 and is reportedly targeting multiple coal seams encountered at depth by previous drilling campaigns. The targeted seams occur at depths greater than generally tested by Lodestone in its recent drilling programmes at Moreton (i.e. >140 m total depth).
- Whilst the coal resource requirements for a small UCG power plant are not particularly onerous, within the broader Clarence-Moreton Basin, only limited (small) areas offer UCG potential and thus it is likely to necessitate considerable detailed geological and geophysical works as well as further focussed drilling to effectively delineate such areas.

Given there is a lack of meaningful data, Xstract has elected not to assign a value to the UCG potential of Lodestone's Moreton Project at this time.

4 PROJECT VALUATIONS

4.1 Valuation Considerations

The VALMIN Code classifies mineral (including coal) assets according to the maturity of the asset (Table 4-1).

Table 4-1: Mineral Asset Classification (VALMIN, 2005)

Exploration areas	Mineralisation may or may not have been defined, but where a Mineral Resource has not been identified
Advanced exploration areas	Considerable exploration has been undertaken and specific targets identified. Sufficient work has been completed on at least one prospect to provide a good geological understanding and encouragement that further work is likely to result in the determination of a Mineral Resource.
Pre-development projects	Mineral Resources and/or Ore Reserves have been identified and their extent estimated. A positive development decision has not been made. This includes properties where a development decision has been negative and properties are either on care and maintenance or held on retention titles.
Development projects	Committed to production but not yet commissioned or not initially operating at design levels.
Operating mines	Mineral properties, in particular mines and processing plants, which have been fully commissioned and are in production.

The VALMIN Code defines value as the Fair Market Value of a mineral asset. The Fair Market Value is the amount of money (or the cash equivalent of some other consideration) for which the mineral asset should change hands on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction. Each party is assumed to have acted knowledgeably, prudently and without compulsion. In essence, the fair market value of the mineral asset comprises:

- **'The underlying or 'Technical Value'** which is an assessment of a mineral asset's future economic benefit under a set of assumptions, excluding any premium or discount for market, strategic or other considerations.
- **The market component** which is a premium relating to market, strategic or other considerations which depending on circumstances at the Valuation Date, can be either positive, negative or zero.

In assessing the value of the various tenements held by Lodestone, Xstract has considered both the Technical Value and the Fair Market Value of these mineral assets. It is important to note that Xstract's valuation is based on the assets held by, or subject to farm-in by Lodestone, not the corporate entity itself. As a result any positive or negative implications arising from Lodestone's corporate structure have not been taken into account in this valuation.

4.2 Valuation Approach

Xstract's approach has been to use a sum of parts valuation which relies upon the following key assets and valuation methodologies:

- The Tambo and Moreton Coal/UCG Projects primarily using the Geoscientific Rating Method with support from transaction multiples, the Appraised Value Method and Farm-in Commitment Analysis.
- The Tambo CSG Project primarily using an Industry Rule of Thumb approach based on CSG companies and recent market transactions considered to have similarities to the project. Supporting evidence from the Appraised Value Method and Farm-in Commitment Analysis has also been considered by Xstract.

Further details regarding the valuation methods used by Xstract and the assumptions regarding these methods as applied to the valuation of Lodestone's exploration interests in presented in Appendices C and D.

4.3 Valuation of Lodestone's Assets

4.3.1 Tambo Project

Geoscientific Rating Method

Xstract has used the Geoscientific Rating approach as its primary valuation method to determine the Fair Market Value of a 100% interest in the Tambo Project (Table 4-2).

In Xstract's opinion, the market value of Lodestone's interest in the coal exploration potential of the Tambo Project tenements as outlined using the geoscientific rating method lies in the range of A$15.8 million and A$54.9 million with a preferred value of A$35.3 million.

Taking into account the current equity interests in the project tenements, the value of the interest to be acquired by Lodestone is outlined in Table 4-3.

Comparable Transactions

Xstract has also undertaken a comparison with values implied by recent market transactions involving coal and UCG exploration projects in Australia. Where possible these transactions have been restricted to Queensland, however given the paucity of UCG transactions, Xstract has also considered recent transactions in other States in forming its valuation opinion. Whilst limited, the transactions identified are outlined in Table 4-4.

Xstract notes the following in relation to the transactions outlined above:

- There have been very few recent transactions involving early stage coal exploration projects, with most transactions involving projects with defined resources/reserves or operating mines
- Similarly, there is also a paucity of recent early stage UCG transactions
- Several offers for early stage exploration properties were subsequently withdrawn. However, Xstract considers these offers to be instructive in determining the price likely to be paid by the market and hence has included these.
- The Stanmore and Gullewa transactions involved the acquisition of the corporate entity, not just the underlying asset, and therefore may include consideration of other items such as cash, equipment, inventories, etc.
- The Cougar Energy transaction with Eneabba Gas includes a supply contract and hence is likely to be at multiples higher than would be expected for the tenements on a stand-alone basis
- The Dragon Energy and Gullewa transactions in September 2009 involved tenements that predominantly remained in application.
- With the exception of the Liberty transaction, none of the other transactions involve tenement packages of comparable size to Lodestone's Tambo Project.

Xstract's analysis of these market transactions indicates that the implied value of an early stage coal and UCG exploration project generally ranges between A$1,000 to A$5,000/km^2. Tenements which remain to be granted are likely to trade at a discount to these implied values. In contrast more advanced or strategically located coal exploration projects may have considerably higher implied values.

On this basis and given the Tambo Project's remote location and lack of previous coal/UCG exploration, Xstract has elected to assign a value of A$2,500/km^2 to Lodestone's EPC applications and A$3,000/km^2 to Lodestone's granted EPCs offering potential for conventional coal deposits within the Tambo Project (Table 4-5). For tenements also offering potential for UCG (over and above the conventional coal), Xstract has elected to assign a value of A$3,500/km^2 to Lodestone's EPC applications and A$4,000/km^2 to Lodestone's granted EPCs.

Table 4-2: Tambo Project Value on 100% Basis using the Geoscientific Rating Approach

Tenement	Area	BAC A$	Equity	Off property		On property		Anomaly		Geology		Place		Quality		Low A$	High A$	Base A$
EPC 1414^	924 km2	441,672	100%	1.0	1.0	1.0	1.5	1.0	1.5	1.0	1.5	0.9	0.9	1.0	1.0	476,000	1,610,000	1,044,000
EPC 1415^	924 km2	441,672	100%	1.0	1.5	1.0	1.5	2.0	2.5	1.5	2.0	0.9	0.9	1.0	1.0	1,432,000	5,366,000	3,400,000
EPC 1417^	924 km2	441,672	100%	1.0	1.0	1.0	1.5	0.9	1.0	1.0	1.5	0.9	0.9	1.0	1.0	$473,000	$1,180,000	$826,000
EPC 1418^	924 km2	441,672	100%	1.0	1.0	1.0	1.0	1.0	1.5	1.0	1.5	0.9	0.9	1.0	1.0	$525,000	$1,180,000	$853,000
EPC 1481^	924 km2	441,672	100%	1.0	1.0	1.0	1.0	1.0	1.5	1.0	1.5	0.9	0.9	1.0	1.0	$525,000	$1,180,000	$853,000
EPC 1482	924 km2	441,672	100%	1.0	1.5	1.0	1.0	1.5	2.0	1.0	1.5	0.9	0.9	1.0	1.0	894,000	2,684,000	1,790,000
EPC 1484	924 km2	441,672	100%	1.0	1.0	1.0	1.0	1.0	1.5	1.0	1.5	0.9	0.9	1.0	1.0	$525,000	$1,180,000	$853,000
EPC 1621	231 km2	110,418	100%	1.0	1.5	1.0	1.5	1.0	1.5	1.5	2.0	0.9	0.9	1.0	1.0	$224,000	$1,007,000	$615,000
EPC 1622^	924 km2	441,672	100%	1.0	1.5	1.0	1.5	0.9	1.0	1.0	1.5	0.9	0.9	1.0	1.0	$473,000	$1,771,000	$1,122,000
EPC 1623	924 km2	441,672	100%	1.0	1.5	1.0	1.5	1.5	2.0	1.5	2.0	0.9	1.0	1.0	1.0	$1,341,000	$5,963,000	$3,653,000
EPC 1624^	924 km2	441,672	100%	1.0	1.5	1.0	1.0	2.0	2.5	1.5	2.0	0.9	1.0	1.0	1.0	$1,432,000	$3,976,000	$2,704,000
EPC 1625^	924 km2	441,672	100%	1.0	1.5	1.0	1.0	1.5	2.0	0.7	0.9	0.9	0.9	1.0	1.0	$500,000	$1,288,000	$894,000
EPC 1632^	924 km2	441,672	100%	1.0	1.5	1.0	1.5	1.0	1.5	1.0	1.5	0.9	1.0	1.0	1.0	$525,000	$2,952,000	$1,738,000
EPC 1633^	499 km2	238,522	100%	1.0	1.5	1.0	1.0	0.5	0.9	1.0	1.5	0.9	0.9	1.0	1.0	128,000	522,000	325,000
EPC 1644	385 km2	184,030	100%	1.0	1.0	1.0	1.5	1.5	2.0	1.0	1.5	0.9	0.9	1.0	1.0	372,000	1,118,000	746,000
EPC 1697^	484 km2	231,352	100%	1.0	1.5	1.0	1.5	0.1	0.5	0.5	0.7	0.9	1.0	1.0	1.0	12,000	218,000	115,000
EPC 1719^	924 km2	441,672	100%	1.0	1.5	1.0	1.5	0.9	1.0	0.9	1.5	0.9	1.0	1.0	1.0	386,000	1,789,000	1,088,000
EPC 1776^	924 km2	441,672	100%	1.0	1.5	1.0	1.5	1.5	2.0	1.0	1.5	0.9	0.9	1.0	1.0	715,000	3,220,000	1,968,000
EPC 1777^	761 km2	363,758	100%	1.0	1.5	1.0	1.0	0.9	1.0	1.0	1.5	0.9	0.9	1.0	1.0	354,000	884,000	619,000
EPC 1784^	924 km2	441,672	100%	1.0	1.0	1.0	1.0	0.5	1.0	1.0	1.5	0.9	1.0	1.0	1.0	239,000	796,000	517,000
EPC 1786	875 km2	418,250	100%	1.0	1.0	1.0	1.5	1.5	2.0	1.0	1.5	0.9	1.0	1.0	1.0	848,000	2,823,000	1,836,000
EPC 1788^	924 km2	441,672	100%	1.0	1.0	1.0	1.0	1.5	2.0	1.0	1.5	0.9	1.0	1.0	1.0	715,000	1,590,000	1,153,000
EPC 1789	924 km2	441,672	100%	1.0	1.5	1.0	1.5	1.5	2.0	1.0	1.5	0.9	1.0	1.0	1.0	894,000	4,472,000	2,684,000
EPC 1794^	921 km2	440,238	100%	1.0	1.0	1.0	1.0	1.5	2.0	1.0	1.5	0.9	1.0	1.0	1.0	713,000	1,585,000	1,150,000
EPC 1795	924 km2	441,672	100%	1.0	1.5	1.0	1.0	1.0	1.5	1.0	1.5	0.9	1.0	1.0	1.0	597,000	2,237,000	1,418,000
EPC 1800^	154 km2	73,612	100%	1.0	1.0	1.0	1.5	1.0	1.5	1.5	2.0	0.9	0.9	1.0	1.0	119,000	358,000	239,000
EPC 1993	539 km2	257,642	100%	1.0	1.5	1.0	1.5	0.9	1.5	1.0	1.5	0.9	1.0	1.0	1.0	314,000	1,956,000	1,136,000
TOTAL																**15,753,000**	**54,905,000**	**35,339,000**

^ = applications discounted by 20% to account for uncertainties in timing and conditions of grant
% = includes a market factor of 50% (refer to Appendix D)
10% premium applied to undertenements which are overlapped by ATP 1020

Table 4-3: Tambo Project Value of Interest to be Acquired by Lodestone using the Geoscientific Rating Approach

Tenement	Interest to be acquired	Low A$	High A$	Base A$
EPC 1414^	100%	478,000	1,610,000	1,044,000
EPC 1415^	100%	1,432,000	5,366,000	3,400,000
EPC 1417^	100%	$473,000	$1,180,000	$826,000
EPC 1418^	100%	$525,000	$1,180,000	$853,000
EPC 1481^	100%	$525,000	$1,180,000	$853,000
EPC 1482	100%	$894,000	$2,684,000	$1,790,000
EPC 1484	100%	$525,000	$1,180,000	$853,000
EPC 1621	50%	$113,000	$503,000	$308,000
EPC 1622^	50%	$236,000	$886,000	$561,000
EPC 1623	50%	$671,000	$2,982,000	$1,827,000
EPC 1624^	50%	$715,000	$1,987,000	$1,351,000
EPC 1625^	50%	$251,000	$644,000	$448,000
EPC 1632^	50%	$263,000	$1,476,000	$870,000
EPC 1633^	50%	65,000	260,000	163,000
EPC 1644	50%	186,000	560,000	374,000
EPC 1697^	50%	6,000	109,000	58,000
EPC 1719^	50%	193,000	894,000	544,000
EPC 1776^	50%	358,000	1,610,000	984,000
EPC 1777^	50%	176,000	442,000	310,000
EPC 1784^	50%	119,000	397,000	258,000
EPC 1786	50%	423,000	1,412,000	918,000
EPC 1788^	50%	358,000	796,000	577,000
EPC 1789	50%	447,000	2,237,000	1,343,000
EPC 1794^	50%	356,000	792,000	575,000
EPC 1795	50%	299,000	1,118,000	708,000
EPC 1800^	50%	60,000	179,000	120,000
EPC 1993	50%	156,000	978,000	567,000
Total		**$10,303,000**	**$34,642,000**	**$22,483,000**

^ applications discounted by 20% to account for uncertainties in timing and conditions of grant
*- includes a market factor of 50% (refer to Appendix D)
10% premium applied to underlined tenements which are overlapped by ATP 1020

Table 4-4: Recent Transactions Involving Coal and UCG Exploration Projects

	Date	Parties	Interest	Consideration	Project Area (km^2)	Implied Value on 100% basis (A$ M)	Implied value (A$/ km^2)
Coal Projects							
Surat/Clarence – Moreton, Bowen (QLD)	Sep 2009	Stanmore Coal Comet Coal & Coke	Acquiring 100% in Comet	A$850,00 cash and 9 M shares	697	$2.65	$3,800
Surat/Clarence – Moreton, Bowen, Laura (QLD)	Sep 2009	Gullewa Mineral & Coal Investments	Acquiring 100% in MCI	6.85 M shares	2,268	$0.50	$275
Surat, Bowen (QLD)#	May 2009	Tiaro Coal Bundaberg Coal	Acquiring 50%	A$2.2 M	954	$4.40	$4,600
Clarence Moreton (QLD)#	May 2009	Hudson Resources Bundaberg Coal	Acquiring 50%	A$1.5 M	2,706	$3.00	$1,100
Alpha, Galilee (QLD)	Sep 2008	AMCI Bandanna Energy	Earning 50%	A$25 in exploration expenditure	2,631	$50.00	$19,000
Surat, Bowen, Mulgildie, Ipswich (QLD)#	Sep 2008	Wavenet, Ansett Resources	Acquiring 50%	A$3 M cash + A$1 M in exploration	590	$8.00	$13,560
Surat (QLD)	Feb 2008	Cockatoo Coal Aquila Coal	Acquiring 100%	A$3 M cash	816	$3.00	$3,700
Bowen (QLD)	Dec 2007	Enterprise Energy Bandanna	Earning 25%	A$2.5 M in exploration expenditure and A$1.5 M in shares	642	$16.0	$24,900
UCG Projects							
Taralgon^ (VIC)	Oct 2009	Regal Resources Greenpower Energy	Earning 70%	A$1.5 M expenditure, a 10% royalty and repayment of $1 M in previous expenditure	154	$3.57 (excluding royalty)	$23,200
Yalungah and Agnes^ (VIC)	Sep 2009	Syngas	Earning initial 25%	A$110,000 in exploration expenditure.	79.2	$0.44	$5,600
Mirboo (VIC)	Sep 2009	Greenpower Energy	Sell 100%	$2.8 M	700	$2.80	$4,000
Surat/Clarence – Moreton, Bowen (QLD)	Sep 2009	Dragon Energy Altera Resources	Earning 85%	A$3.5 M in exploration expenditure over 3 years	5,626	$4.12	$730
Surat (QLD)	Aug 2009	Liberty Resources Clean Global Energy	Earning 60%	A$750,000 in expenditure over 3 years	154	$1.25	$8,100
Kingaroy (QLD)	Aug 2009	Cougar Energy Cockatoo Coal	Acquiring 49%	15 M shares	114	$2.88	$25,200
Surat/Clarence – Moreton, Denison Trough (QLD)	Apr 2009	Liberty Resources	Revised terms for 100% acquisition	9 M shares + A$300,000	64,000	$1.65	$25
Sargon (WA)*#	Apr 2009	Cougar Energy Eneabba Gas	Acquiring 100%	30 M shares	1,000	$15.0	$15,000
Kingaroy (QLD)	May 2007	Cougar Energy Metallica Minerals	Acquiring 51%	A$250,000 in exploration expenditure	114	$0.25	$4,300

- Withdrawn
^ - Underground coal to liquids (UCTL) transaction
* - includes supply contract

Table 4-5: Tambo Project Value# based on Transaction Multiples

Permit	Status	Area (km^2)	Assigned value (A$/$km^2$)	Implied Value 100% basis (A$ M)	Interest to be acquired	Value of Interest to be acquired
EPC 1414	Application	924	$2,500	2,310,000	100	2,310,000
EPC 1415	Application	924	$3,500	3,234,000	100	3,234,000
EPC 1417	Application	924	$2,500	2,310,000	100	2,310,000
EPC 1418^	Application	924	$3,000	2,772,000	100	2,772,000
EPC 1481	Application	924	$2,500	2,310,000	100	2,310,000
EPC 1482	**Granted**	924	$4,000	3,696,000	100	3,696,000
EPC 1484	**Granted**	924	$3,000	2,772,000	100	2,772,000
EPC 1621	**Granted**	231	$3,000	693,000	50	346,500
EPC 1622	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1623	**Granted**	924	$3,000	2,772,000	50	1,386,000
EPC 1624	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1625	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1632	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1633	Application	499	$2,500	1,247,500	50	623,750
EPC 1644	**Granted**	385	$4,000	1,540,000	50	770,000
EPC 1697	Application	484	$2,500	1,210,000	50	605,000
EPC 1719	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1776	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1777	Application	761	$2,500	1,902,500	50	951,250
EPC 1784	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1786	**Granted**	875	$3,000	2,625,000	50	1,312,500
EPC 1788	Application	924	$2,500	2,310,000	50	1,155,000
EPC 1789	**Granted**	924	$3,500	3,234,000	50	1,617,000
EPC 1794^	Application	921	$3,000	2,763,000	50	1,381,500
EPC 1795	**Granted**	924	$3,000	2,772,000	50	1,386,000
EPC 1800	Application	154	$2,500	385,000	50	192,500
EPC 1993	**Granted**	539	$3,000	1,617,000	50	808,500
Total		**21,481**		**$60,645,000**		**$40,024,500**

inclusive of UCG potential
^EPC considered prospective for UCG but not currently nominated by Lodestone for future UCG development and as such has been discounted in Xstract's evaluation.
Note: EPC 1789 is also considered prospective for UCG however is covered by a third party held petroleum tenure which under Queensland Government policy grants priority over the contained gas to CSG purposes (i.e. the overlying ATP). As such, the UCG potential has not been considered in Xstract's evaluation.

Appraised Value

In considering the value of the exploration potential of the Tambo Project, Xstract has also considered the previous expenditure completed on the tenements. We regard the Tambo Project as a very early stage exploration project however there is sufficient information available from petroleum exploration, GSQ stratigraphic drilling and water boring during the 1970s through 1990s, with several millions of dollars spent. Whilst these activities were not targeted at assessing the coal potential of the area, they have identified the presence of coal and aided in an understanding of the sub-surface distribution of the coal bearing sequences albeit at a very wide scale.

Lodestone has advised Xstract that it has not currently outlined a forward programme for the Tambo Project, pending the grant of numerous tenements and initial target generation work. As such, Xstract has used Lodestone's expenditure commitments for 2010 as its basis of assessment, as without meeting these requirements the tenements may have to be relinquished. Expenditure commitments for 2011 onwards were not included on the basis that these expenditures are contingent on the results of the 2010 exploration programme. Xstract considers the proposed 2010 expenditures to be realistic within the

context of the work completed to date and the targets identified. Total estimated expenditure on the Tambo Project is summarised in Table 4-6.

The future assessment of the Tambo Project includes provisions for early stage exploration and advanced studies such as open hole and core drilling to test the identified coal seams, as well as define and support the estimation of Coal Resources prepared in accordance to the JORC Code and associated test work. Based on the available information, Xstract considers that Lodestone has given adequate consideration to the conceptual nature of the targets identified in the various tenements.

Farm in Commitment Analysis

As outlined in Section 2.1, Lodestone entered into a farm-in agreement with Tambo Coal & Gas in December 2009 in relation to seven EPCs (EPCAs 1414, 1415, 1417, 1418, 1481 and EPCs 1482 and 1484) covering a combined area of 6,468 km^2 in the Tambo area. Under the terms of the Tambo Coal Agreement, Lodestone will be entitled to a 50% interest in these tenements by incurring A$5 million in staged exploration expenditure over four years (i.e. for each A$1 million in expenditure, Lodestone is entitled to a 10% interest).

The total expenditure commitment of A$5 million to earn a 50% interest in these seven tenements implies a notional value of A$100,000 per 1% as at the transaction date. Consequently the implied value of a 100% equity interest in the seven Tambo tenements is A$10 million as at the transaction date.

However, this view does not take into account:

- the time value of money; or
- the probability that Lodestone will ultimately incur the required expenditures to earn a 50% interest.

Discounting the required four year exploration expenditures at an interest rate of 5% (representing the current cash interest rate) provides an adjusted implied value of A$8.86 million on a 100% equity basis as at the transaction date, assuming the earn-in is successfully completed.

Based on an analysis of recent transaction data, Xstract has also determined the implied value of these tenements estimated using the probabilities of a generic joint venture progressing through to completion at different years (Year 1 to 4) to be 80% (Y1), 40% (Y2), 50% (Y3) and 60% (Y4), thereby providing a cumulative probability of 9.6%. These probabilities reflect that the overall success rate of joint ventures progressing to completion is low, with a large number of joint ventures being withdrawn in the first year and greater numbers progressing thereafter. On this basis, the risk adjusted implied value of the seven Tambo tenements is estimated by Xstract at A$851,000.

However, it could be argued that Lodestone's recent agreement to acquire a 100% interest in these and other tenements (which are the subject of this valuation), indicate that Lodestone was willing to incur all expenditures required to earn the 50% interest as originally set out in the Tambo agreements. As such, the maximum value of the seven Tambo tenements would then be represented by the unadjusted implied value (i.e. A$8.86 million).

On this basis, Xstract considers the value of the seven earn-in tenements at Tambo lies in the range A$0.85 to A$8.86 million with a preferred value A$4.85 million, representing the mid-point of the range.

4.3.2 UCG Potential

Introduction

UCG is a relatively new industry in Australia however similar projects have been successfully executed in the former Soviet Union, and proposed in the US and Europe. Currently only two countries have operational UCG sites (South Africa and Uzbekistan), while the remaining projects are in feasibility and development phases.

Table 4-6: Tambo Project Value Based on the Appraised Value Method

Permit	Expenditure to 1 Jan 2010 (A$)	Expenditure Commitment (A$)	Total (A$)	PEM Factor	Value on 100% basis (A$)	Acquired Interest	Implied Value of Acquired Interest (A$)*
EPC 1414^		389,273	389,273	1.5	583,910	100%	584,000
EPC 1415^		389,273	389,273	2.0	778,546	100%	779,000
EPC 1417^		364,273	364,273	1.0	364,273	100%	364,000
EPC 1418^		364,273	364,273	1.5	546,410	100%	546,000
EPC 1481^		364,273	364,273	1.5	546,410	100%	546,000
EPC 1482	67,047	364,273	431,320	1.5	646,981	100%	647,000
EPC 1484	67,047	364,273	431,320	1.5	646,981	100%	647,000
EPC 1621	18,276	73,150	91,426	1.5	137,140	50%	69,000
EPC 1622^		289,273	289,273	1.0	433,910	50%	217,000
EPC 1623	123,980	289,273	413,253	1.5	619,880	50%	310,000
EPC 1624^	4,710	289,273	293,983	2.0	587,965	50%	294,000
EPC 1625^		289,273	289,273	2.0	578,546	50%	289,000
EPC 1632^	4,710	289,273	293,983	1.5	440,974	50%	220,000
EPC 1633^	4,710	156,207	160,917	1.0	160,917	50%	80,000
EPC 1644	33,259	120,528	153,787	1.5	230,680	50%	115,000
EPC 1697^	7,636	92,515	100,151	0.5	50,075	50%	25,000
EPC 1719^		279,894	279,894	1.0	419,841	50%	210,000
EPC 1776^		139,273	139,273	1.5	208,910	50%	104,000
EPC 1777^		114,671	114,671	1.0	114,671	50%	57,000
EPC 1784^		139,273	139,273	1.0	139,273	50%	70,000
EPC 1786		131,842	131,842	2.0	263,684	50%	132,000
EPC 1788^	72,745	139,273	212,018	2.0	424,037	50%	212,000
EPC 1789	72,745	139,273	212,018	2.0	424,037	50%	212,000
EPC 1794^		139,142	139,142	1.5	208,713	50%	104,000
EPC 1795	72,745	139,273	212,018	1.5	318,028	50%	159,000
EPC 1800^		23,210	23,210	1.5	34,815	50%	17,000
EPC 1993	4,614	44,785	49,399	0.5	74,098	50%	37,000
	$554,225	**$5,918,585**	**$6,472,810**		**$9,983,700***		**$7,046,000**

*rounded

UCG is the gasification of coal in-situ, which results in a more efficient extraction of energy compared to coal mining and CSG. It is both an extraction process (like coal mining) and a conversion process (gasification) which produces a synthetic gas or syngas for use in power generation, chemical feedstock, fertilizers, diesel, jet fuels and hydrogen. The gasification of coals is not a new technology having been widely used up until the 1960s. The technique offers may benefits over traditional methods of extraction including:

- Lower capital and operating costs than conventional mining or CSG methods
- May be used to extract energy from stranded or lower quality coals
- Limited or no mining and/or transport for processing
- Minimal personnel
- Enhanced energy recovery from the coal resource
- Minimal surface footprint and associated reduction in environmental degradation of the surrounding area
- The residue (ash) remains in-situ with no disposal issues
- Providing capture and sequestration are used, the process has low CO_2 emissions

There are two different approaches to producing UCG. The first method relies on vertical wells and reverse combustion to develop internal pathways in the coal. This process has been successfully applied by Linc Energy at Chinchilla.

The second method uses horizontal in-seam boreholes with a moveable injection point known as a CRIP (controlled retraction injection point) and generally uses oxygen, oxygen and steam or enriched air for gasification. This method has been trialled by Carbon Energy at Bloodwood Creek as it provides greater control of the gasification reactions, as well as optimising syngas production.

Under the UCG extraction method up to 75% of the inherent energy with the coal seam can be extracted compared to only 5% using the CSG method which uses the free methane gas contained within the seam. Company value however, is typically driven less by the amount for resources held and more by the choice and implementation of technology to generate energy. Therefore, once a company is able to demonstrate it can economically extract the useable energy contained within its defined resources using its preferred technology, there is likely to be a significant uplift in the asset and company valuation. Additionally, value is driven by how well the company capitalises its resources through planned capital works, with electricity generation incurring the lowest capital requirements relative to other commercial applications of UCG syngas.

The Australian UCG sector is currently dominated by Linc Energy, with Carbon Energy and Cougar Energy also being significant players. Other smaller companies in the sector include Rey Resources, Liberty Resources, Clean Global Energy and Metrocoal. Until recently, Linc was considered the leader in the sector, however setbacks in its planned Chinchilla coal-to-liquids project have reflected negatively on the company and the UCG sector as a whole. Cougar Energy and Carbon Energy have both made significant progress developing the Kingaroy and Bloodwood Creek projects respectively and are competing with Linc in their timelines to first production. None of the aforementioned companies have production or earnings, so comparisons based on discounted cashflows or enterprise values/production multiples are not possible, nor relevant.

In-situ Energy

UCG is an emerging industry and the benchmarking or rule of thumb comparables have not yet been fully established. Furthermore, whilst many companies present the total tonnages outlined in resources, it is often more relevant to discuss the contained energy in petajoule ("PJ") or gigajoule ("GJ") terms when discussing UCG applications.

In order to value the UCG potential of Lodestone's nominated tenements within the Tambo Project, Xstract has firstly considered the likely in-situ energy able to be exploited within these tenements (refer

to Section 3.3.6). A peer comparison with other UCG focussed companies was then conducted with the enterprise value and amount of implied energy taken into account (refer to Table 4-7).

Table 4-7: Comparable UCG Companies

Company	Share price (25/02/10)	Enterprise Value A$ M	JORC Coal Resource (Mt)	Implied Reserves (PJ)*	A$/GJ (3P)
Linc Energy	$1.55	728	7,800	78,000	0.009
Carbon Energy	$0.55	322		1,042.8#	0.31
Cougar Energy	$0.10	97	414	4,140	0.02
Rey Resources	$0.16	43	511	5,110	0.008
Liberty Resources	$0.10	14	3,200	32,000	0.0004
Clean Global Energy	$0.14	12	300 – 500^	3,000 – 5,000	0.0024 - 0.004
Metrocoal	$0.21	13	58	580	0.02

*assuming 20PJ/tonne and 50% recoverable
certified 3P Reserves
^exploration target

It is interesting to note that as UCG companies and properties currently trade at a discount to those in the CSG industry (refer Appendix E), reflecting market sentiment to the emerging UCG technology in Australia and the government's restrictive policy on the sector. The realisation of the Tumbo Project's UCG potential is subject to the following factors:

- Successful exploration to define appropriate coal measures within the project and the associated conversion of these into certified reserves/resources
- The UCG policy of the Queensland Government, which precludes further site development at this stage
- The successful development of UCG technologies in Australia

Based on its analysis of the companies outlined in Table 4-8, Xstract does not consider any to be truly comparable to Lodestone, with all being either largely reliant upon the UCG potential alone or significantly more advanced in their evaluation and development of the UCG potential and marketability of their respective projects. However, whilst Clean Global Energy has entered into various commercial agreements and developed its UCG marketing concept, the status of its projects is the most consistent with Lodestone's as both companies need to define a JORC Code compliant Coal Resource or certified reserves capable of supporting a UCG operation.

In forming its opinion, Xstract has also considered recent market transactions involving UCG properties (Table 4-8).

Table 4-8: Selected Recent UCG Transactions

Project	Transaction Details	Coal Type	Resource / Reserve	Purchase price on 100% basis (AU$)	Implied Value
Powder River (USA)	In September 2009, Linc Energy completed its acquisition of a 100% interest in the Powder River Basin tenements for a consideration of US$5 M.	UCG	Exploration target of 7 to 8 Bt (non-JORC)	$6.055 M	$0.0008/t or $0.00008/GJ (based on 7.5 Bt target)
Emerald*	In June 2009, Linc Energy ceased negotiations with Xinwen Mining Group regarding a proposed acquisition of a 100% interest in Linc's Emerald tenement for $1.5 Billion.	UCG	Inferred Resource of 852 Mt	$1.5 Bn	$1.76/t or $0.176/GJ
SAPEX	In October 2008, Linc Energy finalised the acquisition of a 100% interest in SAPEX Limited for approximately $104 M.	UCG, oil	Historical target of 900 Mt 65,000 km^2 in Arckaringa and St Vincent Basins	$104 M	$0.115/t or $0.011/GJ of historical resource

Project	Transaction Details	Coal Type	Resource / Reserve	Purchase price on 100% basis (AU$)	Implied Value
Carbon Energy	In June 2008, Metex shareholders approved the acquisition of CSIRO's 50% interest in Carbon Energy for $2.4 M cash and 103.5 M ($0.80) shares.	UCG, CTL	Inferred Coal Resource of 100 Mt (estimated to contain 2,000 PJ with 1,000 PJ potentially recoverable)	$170.5 M	$1.70/t $85,250/PJ (or $0.085/GJ) contained $170,500/PJ (or $0.17/GJ) recoverable
Zanthus	In June 2008, Blackham Resources exercised an option to acquire a 100% interest in the Zanthus lignite project for $100,000 cash, $400,000 in shares. A further contingent payment of $200,000 is payable upon a decision to mine,	CTL	Inferred Resource of 164 Mt	$500,000 (excluding contingent payments)	$0.003/t or $0.0003/GJ

In order to undertake a valuation of the UCG potential of the nominated Tambo tenements on a $/GJ basis, Xstract has assumed approximately 42,000 to 224,500 PJ may be derived from gasification of coal seams (refer to Table 3-2). Note that only tenements which have been nominated by Lodestone for UCG have been included in Xstract's evaluation. Based on the aforementioned and given the pre-resource status of Lodestone's Tambo Project, Xstract considers the market is likely to pay in the range A$0.0001/GJ to A$0.0003/GJ for the inherent UCG potential of these tenements.

Based on these factors, Xstract's estimate of the value of the UCG potential at the Tambo Project, derived using A$/GJ is outlined in Table 4-9.

Table 4-9: Tambo UCG Project Value based on A$/GJ

		100% Basis			Interest to be acquired		
	Units	Low value	High value	Preferred value	Low value	High value	Preferred value
UCG estimate*	PJ	42,000	224,500	108,300	33,800	166,200	80,600
Selected GIP ratio range^	A$/GJ	0.0003	0.0001	0.00015	0.0003	0.0001	0.00015
Value	A$ M	12.61	22.45	16.25	10.13	16.62	12.10
Total	**A$ M**	**12.61**	**22.45**	**16.25**	**10.13**	**16.62**	**12.10**

*based on Lodestone's nominated UCG tenements only and thus excluding EPCs 1419 and 1794. Based on a conversion ratio of one PJ equals one million GJ.

^ GIP ratio applied on a resource confidence basis, hence higher confidence (P90) is given a higher value metric than lower confidence (P10)

Conclusion

In assessing the value of the Tambo Project, Xstract is of the opinion that whilst theoretical in nature, the Surat Basin concept as proposed by Lodestone has merit. Initial exploration works are underway to confirm Lodestone's hypothesis. Validation and assessment of coal intersections as reported within boreholes, petroleum wells and GSQ stratigraphic holes is of immediate priority. A medium term objective (within the next 2 to 3 years) is to focus on areas offering potential for substantial thickness of coal capable of supporting a Coal Resource. To this end, Lodestone has proposed a concerted assessment programme designed to rapidly assess the coal potential of the Tambo area.

The Tambo Project as it currently stands is a conceptual exploration play and as such is inherently high risk. Should Lodestone's Surat Basin hypothesis prove correct, the rewards likely to flow to Lodestone would be considerable. However, at this stage the hypothesis represents merely a valid exploration concept which requires further testing and validation through on-going exploration over the next 2 to 3 years. Until the concept is proven successful, the Tambo Project is likely to be discounted by the market due to the many uncertainties associated with this type of project.

In assessing the current market for the Tambo Project, Xstract has relied upon the geoscientific rating approach, with further support provided by recent transaction multiples, the appraised value method and

analysis of Lodestone's farm-in agreement. Xstract's opinion of the fair market value for the Tambo Project is outlined in Table 4-10.

Table 4-10: Summary of Tambo Coal/UCG Project Value

Asset	Methodology	100% Basis		Interest to be Acquired	
		Valuation Range (A$ M)	Base Value (A$ M)	Valuation Range (A$ M)	Base Value (A$ M)
Tambo Coal	Geoscientific rating	$15.8 to $54.9	$35.3	$10.3 to $34.6	$22.5
	Transaction Multiples^		$60.6		$40.0
	Appraised Value		$10.0		$7.0
	Farm-in Agreement*	$0.9 to $8.9	$4.9	$0.9 to $8.9	$4.9
UCG Potential		$12.6 to $22.5	$16.3	$10.1 to $16.6	$12.1
Xstract's preferred range		***$28.4 to $77.4***	***$51.6***	***$20.4 to $51.2***	***$34.6***

^ includes UCG potential
*EPCs 1414, 1415, 1417, 1418, 1481, 1482 and 1484 only.

4.3.3 Tambo CSG Project

Rule of Thumb

In assessing the value of the Tambo CSG Project, Xstract has considered the potential upside value attributable to ATP 1020 using the Industry Rule of Thumb methodology. This method ascribes a value to CSG assets on an A$/GJ derived from comparable ASX-listed CSG production and exploration companies and recent market transactions.

With regards to the comparable companies outlined in Appendix E and their relative Enterprise Value ("EV") to GIP and Reserve ratios, Xstract notes the following:

- the average GIP ratio for the comparable companies is A$0.024 per GJ. Many of these companies, however, already have certified reserves in addition to GIP estimates.
- of the comparable companies outlined in Appendix E, Blue Energy, Comet Ridge, Exoma Energy, Icon Energy and Red Sky Energy have no 3P and/or 2P certified reserves. With the exception of Icon Energy, these companies have GIP ratios of between A$0.0005 per GJ and A$0.004 per GJ. Icon Energy's GIP ratio is A$0.019/GJ. These GIP ratios are significantly lower than those of the other comparable companies that are producing CSG, which range between A$0.01 per GJ and A$0.063 per GJ
- Blue Energy, Icon Energy and Red Sky Energy have tenements in the Surat Basin area, which are close to Lodestone's ATP 1020. Red Sky Energy's size, tenement location and lack of certified 2P reserves make it, in Xstract's view, the most comparable company to Lodestone.
- Xstract considers these multiples provide, at best, a high ceiling price achievable for certified reserves, because these comparable companies also have significant certified and uncertified contingent resources not reflected in the implied multiples.

With regards to the comparable transactions outlined in Appendix E, Xstract notes the following:

- information on GIP for the transactions identified is generally not available within the public domain and accordingly only 2P and 3P Reserve ratios are detailed in Appendix E
- 2P Reserve ratios for the transactions outlined in Appendix E range from A$0.40 per GJ to A$2.85 per GJ, whilst for 3P Reserves the values range from A$0.07 per GJ to A$0.70 per GJ
- all of the above transactions involve assets substantially larger and further developed than those of Lodestone
- there is a paucity of recent, early stage CSG transactions. However Xstract notes two transactions by Red Sky Energy Limited ("Red Sky") involving early stage CSG projects in the Surat Basin:
  - In July 2009, Red Sky entered an agreement to acquire a 100% interest in Cydonia Resources Pty Ltd ("Cydonia"), a company which has the sole right to earn up to 100% in ATP 840 and

904 (total area 1,700 km^2 and potential gas-in-place resources of 8 trillion cubic feet ("TCF") or 8,400 petajoules "PJ") in the Surat Basin of Queensland. As consideration for Cydonia, Red Sky issued 150 million shares (deemed issue price A$0.0035/share) and 150 million options (deemed issue price A$0.001/option). The implied value on a 100% basis is A$675,000 or A$400/km^2 or A$0.00008/GJ.

- In October 2009, Red Sky entered into a further agreement to acquire a 100% interest in Surat Resources Pty Ltd ("Surat Resources") which holds a 100% in three permit areas covering approximately 23,000 km^2 (and potential gas-in-place resources of 25 TCF or 26,250 PJ) in the Surat Basin of northern NSW. As consideration for Surat Resources, Red Sky issued 80 million shares (deemed issue price A$0.038/share). The implied value on a 100% basis is A$3,040,000 or A$130/km^2 or A$0.00012/GJ.

In addition, a recent transaction involving large, early stage exploration acreages in Queensland's Galilee Basin provides further guidance:

- In March 2009, Exoma Energy Limited announced that it was acquiring a 100% interest in five contiguous ATPs covering a total area of 26,840 km^2 (and potential gas-in-place of 35 TCF or 36,750 PJ) in Queensland's Galilee Basin. As consideration for these tenements, Exoma issued 114 million shares (deemed issue price A$0.05/share), 114 million attached options and 114 million performance shares. The implied value on a 100% basis is A$5,700,000 (excluding options and performance shares which remain contingent on future outcomes) or A$1,350/km^2 or A$0.00015/GJ.

On this basis, Xstract considers that the transactions outlined in Appendix E do not provide comparable information as they are significantly more advanced than Lodestone's Tambo CSG Project. However the status of the projects which form part of the Red Sky and Exoma transactions are considered by Xstract to be more comparable.

To further assist in the valuation of Lodestone's Tambo CSG Project, Xstract has also considered a broad industry rule of thumb used for valuing CSG reserves and resources in the absence of project specific data (Table 4-11).

Table 4-11: Broad Industry Rule-of-Thumb Metrics

Reserve / Resource category	Certified Classification	Status	Value (A$/GJ)
Proved Reserves	1P	Developed	0.80
Proved and Probable Reserves	2P	Developed	0.45
Proved and Probable Reserves	2P	Undeveloped	0.30
Proved + Probable Reserves + Possible Resources	3P	Undeveloped	0.10
Contingent Resources		Undeveloped	0.01
Prospective Resources		Undeveloped	0.001

As at the date of this report, Lodestone has not obtained the necessary data from its drilling activities to estimate Tambo's potential GIP. In order to undertake a valuation of Tambo on a $/GJ basis, Xstract has assumed GIP for Tambo could be in the range from 2,300 to 7,900 PJ for the Jurassic aged Wallon Coal Measures and 2,000 to 4,800 PJ for the deeper Permian Coals. Accordingly, Xstract has selected GIP ratios ranging from A$0.0005 to $0.001 per A$/GJ to apply to the Jurassic Walloon Coals within ATP 1020.

We have made this selection on the basis the following:

- the fact that the Walloon Coal Measures have demonstrated CSG productive capacity elsewhere within the Surat Basin and to the east of the Tambo CSG Project
- Tambo is targeting the Jurassic aged Walloon Coal Measures within an interpreted western extension to the Surat Basin. To date, this region of the Surat Basin has not been developed for CSG

- Lodestone has indicated that it has no current plans for the development of ATP 1020 and the development of the tenement will likely not occur for some time pending the outcome of preliminary exploration activities (i.e. concerted drilling, certification)
- Limited testing of the deeper Permian coals has occurred previously in proximity to the Tambo CSG Project
- ATP 1020 lies approximately 120 km north of the Ballera to Wullumbilla pipeline and 80 km east of the Gilmore-Blackall pipeline, whilst most of the CSG assets of the observed comparable companies and transactions are located less than 30 km to existing gas pipeline infrastructure
- to account for the associated risks with Xstract's estimate of GIP, given that there is very limited data and that gas has not been encountered within ATP 1020 to date. Furthermore no gas measurements have been collected from the surrounding area to the project
- to reflect an appropriate risk factor to apply to Tambo given that it is still in the appraisal phase and contains no certified reserves.

For the Permian coals, Xstract has applied a slight discount (in the range A$0.0004 to A$0.0008/GJ) to reflect the higher exploration and production costs associated with the increased depth of these coal measures

Based on these factors, Xstract's estimate of the value of ATP 1020, derived using A$/GJ is outlined in Table 4-12.

Table 4-12: Tambo CSG Project Value based on A$/GJ

	Units	Low	High	Preferred
Walloon Coal Measures	PJ	2,300	7,900	4,600
Selected GIP ratio range^	A$/GJ	0.001	0.0005	0.00075
Value	A$ M	2.3	4.0	3.5
Deeper Permian Coal Measures	PJ	2,000	4,800	3,100
Selected GIP ratio range^	A$/GJ	0.0008	0.0004	0.0006
Value	A$ M	1.6	2.0	1.9
Total	**A$ M**	**3.9**	**5.9**	**5.3**

Based on a conversion ratio of one PJ equals 1 million GJ.

^ GIP ratio applied on a resource confidence basis, hence higher confidence (P90) is given a higher metric that lower confidence (P10)

N.B. The in-situ energy ascribed to the Walloon Coal Measures includes data from AOP Balfour 1 which intersected a thick coal interval supposedly within the Evergreen Formation

Appraised Value

Xstract regards the Tambo CSG Project as a very early stage exploration project but with some indication of potential CSG volumes associated with buried coal seams as determined by information derived from petroleum exploration, GSQ stratigraphic drilling and water boring during the 1970s through 1990s. It is estimated that several millions of dollars was spent during this period in the surrounding Tambo region. Whilst these activities were not targeted at assessing the CSG potential of the area, they have identified the presence of coal and aided in an understanding of the sub-surface distribution of the coal bearing sequences albeit at a very wide scale.

In considering the value of the exploration potential of the Tambo CSG Project, Xstract has also considered Lodestone's previous and budgeted expenditure on ATP 1020. Lodestone has advised Xstract that it has not currently budgeted a forward programme for the Tambo CSG Project, pending the results of initial target generation work and drilling. As such, Xstract has used Lodestone's expenditure commitments for 2010 as its basis of assessment, as without meeting these requirements ATP 1020 may have to be relinquished. Expenditure commitments for 2011 onwards were not included on the basis that these expenditures are likely to be contingent on the results of the 2010 exploration programme. Xstract considers the proposed 2010 expenditures to be realistic within the context of the work completed to date and the targets identified. Total expenditure on the Tambo CSG Project is summarised in Table 4-13.

Table 4-13: Tambo CSG Project Value based on the Appraised Value Method

Permit	Expenditure to 1 Jan 2010 (A$)	Expenditure Commitment (A$)	Total (A$)	PEM factor	Value on 100% Basis (A$)	Acquired Interest	Implied Value of Acquired Interest (A$)
ATP 1020	1,270,012	2,000,000	$3,270,000	2	$6,540,000	100%	$6,540,000

Farm in Commitment Analysis

Where a sale or earn-in agreement has recently occurred, it is considered by many to be a robust measure of the fair market value of the subject property.

In the case of ATP 1020, Lodestone's farm-in agreement with Tambo Coal & Gas in December 2009 (as outlined in Section 2.1) has debatably set the value. Under the terms of the December 2009 Agreement, Lodestone could earn a 50% interest in ATP 1020 by incurring A$5 million in staged exploration expenditure over four years (i.e. for each A$1 million in expenditure, Lodestone is entitled to a 10% interest). Given that Lodestone has now committed itself to acquiring a 100% interest in ATP 1020 (the transaction which is the subject of this report), it is difficult to argue that the company was unlikely to meet its expenditure commitments to earn the initial 50% interest as set out in the December 2009 Agreement.

On this basis, Lodestone's total expenditure commitment of A$5 million to earn a 50% interest in ATP 1020 as set out in the December 2009 Agreement implies a value of A$10 million on a 100% equity basis. Following the reasoning set out in Section 4.4.1 Farm in Commitment Analysis, further adjustments have been made to account for the time value of money and the probability that Lodestone were likely to successfully complete the transaction.

Following these adjustments, Xstract considers the value of ATP 1020 lies in the range A$0.85 to A$8.86 million with a preferred value A$4.85 million, representing the mid-point of the range. This preferred value is consistent with those derived using the Rule of Thumb and Appraised Value methods.

Conclusion

As with the Tambo Coal/UCG Project, the Tambo CSG Project is also a conceptual exploration play and requires further studies to assess the validity of Lodestone's hypothesis. Whilst coal seams comparable to the Walloon Coal Measures are interpreted to occur at shallow depths within the current ATP, these were not tested for their inherent gas properties. As such there is very little information available upon which to base an estimate of the likely GIP within the tenement. Based on very little supporting data, Xstract has used both probabilistic and deterministic modelling to evaluate the CSG potential of the property, however this estimate is only as good as the data upon which it relies. As such, this estimate should be treated with caution.

Should Lodestone's Surat Basin hypothesis prove correct and gas be subsequently outlined within ATP 1020, the rewards likely to flow to Lodestone would be considerable. However, at this stage the hypothesis represents merely a valid exploration concept which requires further testing and validation through on-going exploration over the next 2 to 3 years. Until the concept is proven valid, the Tambo CSG Project is likely to be discounted by the market due to the many uncertainties associated with this type of project.

In determining the current value of ATP 1020, Xstract has relied upon the an Industry Rule of Thumb approach, with further support provided by the Appraised Value method and analysis of Lodestone's farm-in agreement. Xstract's opinion of the fair market value of the Tambo CSG Project is outlined in Table 4-14.

Table 4-14: Summary – Tambo CSG Project Value

Asset	Methodology	100% basis		Interest to be acquired	
		Valuation Range (A$ M)	Base Value (A$ M)	Valuation Range (A$ M)	Base Value (A$ M)
Tambo CSG	Industry Rule of Thumb	$3.9 to $5.9	$5.3	$3.9 to $5.9	$5.3
	Appraised Value		$6.5		$6.5
	Farm-in Agreement	$0.9 to $8.9	$4.9	$0.9 to $8.9	$4.9
Xstract's preferred range		***$3.9 to $5.9***	***$5.3***	***$3.9 to $5.3***	***$5.3***

4.3.4 Moreton Project

In-situ Coal Tonnages

Lodestone considers that there is potential for an exploration target of between 15 and 20 Mt of in-situ raw coal within EPC 1302. This view is based on boreholes completed in the 1980s which occur within a 250 m by 500 m gridded radius, and used by New Hope Corporation to define their in-situ tonnage at Veresdale Scrub. However seam correlations remain uncertain due to perceived splitting and structural complexity, which is not an uncommon situation within the Walloon Coal Measures. The majority of the coal associated with this exploration target lies above 100 m depth.

It is important to note that this target remains conceptual in nature and that there has been insufficient exploration to define a Coal Resource in accordance with the 2004 JORC Code. Furthermore, it remains uncertain if further exploration will result in the determination of a Coal Resource.

Having reviewed the available technical data, including the results from Lodestone's 2009 drilling programme, Xstract is of the opinion that there is a substantial tonnage of thermal quality coal available at relatively high strip ratios and the definition of this resource, whilst not yet at a 2004 JORC Code compliant stage, is relatively well-defined and close to satisfying the requirements. Furthermore, recent drilling by Lodestone did not adequately assess the western down-dip extents to the Veresdale Scrub deposit, potentially offering some upside to the defined coal seams. As such, Xstract has considered a conceptual thermal coal inventory of 17.5 Mt (mid-point of the exploration target range) for its assessment of the likely value to be attributed by the market to this exploration target.

However, in doing so Xstract also considers there is a risk to this deposit ultimately being developed given its proximity to existing and proposed residential development, the deposit is relatively restricted to the south, the northern portion of the deposit is held by a third party, the likely costs to evaluate and convert the defined tonnages to a JORC Code compliant Coal Reserve in preparation for mining and expected restrictions/time delays associated with permitting and gaining approval for such a mining operation. As a result of these uncertainties, Xstract has elected to apply value of between A$0.10 to A$0.50/t to its conceptual in-situ coal inventory (Table 4-15).

Table 4-15: Value of the Veresdale Scrub Conceptual Target based on A$/t In-Situ Coal Multiples

Deposit	Conceptual Target Tonnage (Mt)	Value (A$ M)		
		Low	High	Base
Veresdale Scrub (EPC1302)	17.5	$1.8	$8.8	$5.3

This valuation range is based on coal prices as at February 2010. If buyers have a positive view about coal prices returning to 2008 levels, they may well place a higher value on this deposit. If however they have a view that prices will return to historical averages, then they would possibly value this deposit at a lower level.

Xstract notes that should Lodestone negotiate access to the northern portion of the Veresdale Scrub deposit, this may also result in a reasonable increase in value due to a likely improvement in the project economics, as well as providing further options for development, including those at a distance to proposed residential areas.

In 2008 and as part of the Independent Experts Report into the Moreton Energy Farm-in Agreement, Jeff Jamieson & Associates ("JJA") assigned a value of A$6 million to the in-situ coal at the Veresdale Scrub deposit based on A$0.75 per in-situ coal tonne. JJA considered approximately 8 Mt of coal was likely to be extracted from EPC 1302.

Having accounted for the Veresdale Scrub deposit, Xstract's approach is to exclude it from further consideration using the Geoscientific Rating and Comparable Transaction Multiples Approaches and notes that it has assessed only the remaining exploration potential associated with the Moreton Project using these methods. Xstract's Farm-in Agreement Analysis is inclusive of the Veresdale Scrub deposit.

Geoscientific Rating Method

For the valuation of the exploration potential of the Moreton Project, Xstract has used the Geoscientific Rating approach as its primary valuation method to determine the Fair Market Value of the interest to be acquired by Lodestone in the Moreton Project (Table 4-16).

In Xstract's opinion, the market value of a 100% interest in the exploration potential of the Moreton Project as outlined using the geoscientific rating method lies in the range of A$0.51 million and A$1.96 million with a preferred value of A$1.23 million.

Taking into account, Lodestone's current interest in the project tenements, the value of the interest to be acquired by Lodestone is outlined in Table 4-17.

Comparable Transactions

Using the multiples outlined in the Tambo Coal/UCG Project comparable transactions section (i.e. A$3,000/km^2 for granted early stage coal tenements) provides the following implied value for the Moreton Project tenements (Table 4-18).

Table 4-16: Moreton Project Value on 100% basis using the Geoscientific Rating Method

Tenement	Area		BAC	Equity	Off property		On property		Anomaly		Geology		Place		Quality		Low	High	Preferred
EPC 1299	9	km2	$4,302	100%	1.5	2	1	1.5	1.5	2	0.9	1.5	1.5	1.5	1	1	$20,000	$87,000	$54,000
EPC 1302	63	km2	$30,114	100%	1.5	2	1.5	2	2	2.5	1	1.5	1.5	1.5	1	1	$305,000	$1,017,000	$662,000
EPC 1313	201	km2	$96,078	100%	1	1.5	1	1.5	1.5	2	0.7	0.9	1	1.2	1	1	$152,000	$701,000	$426,000
EPC 1524	168	km2	$80,304	100%	1	1.5	1	1	0.5	1	0.5	0.7	1	1.2	1	1	$30,000	$152,000	$92,000
TOTAL:																	**$507,000**	**$1,957,000**	**$1,234,000**

*- includes a market factor of 50% (refer to Appendix D).

Table 4-17: Moreton Project Value to be acquired by Lodestone based on the Geoscientific Rating Method

Tenement	Interest to be acquired	Low	High	Base
EPC 1299	100%	$20,000	$87,000	$54,000
EPC 1302	100%	$305,000	$1,017,000	$662,000
EPC 1313	100%	$152,000	$701,000	$426,000
EPC 1524	50%	$15,000	$77,000	$47,000
Total		**$492,000**	**$1,882,000**	**$1,189,000**

Table 4-18: Moreton Project Value based on Transaction Multiples

Permit	Status	Area (km^2)	Assigned value (A/km^2$)	Implied Value 100% basis (A$ M)	Acquired Interest	Implied Value of Acquired Interest
EPC 1299	Granted	9	$3,000	$27,000	100%	$13,500
EPC 1302	Granted	65	$3,000	$195,000	100%	$97,500
EPC 1313	Granted	206	$3,000	$618,000	100%	$309,000
EPC 1524	Granted	172	$3,000	$516,000	50%	$258,000
	Total	**452**		**$1,356,000**		**$1,098,000**

Appraised Value

In considering the value of the exploration potential of the Moreton Project, Xstract has also considered the previous expenditure completed on the tenements principally associated with the Veresdale Scrub deposits and in proximity to the historic collieries.

In considering the value of the exploration potential of the Moreton Project, Xstract has also considered Lodestone's previous expenditure completed on the tenements, as well as the budgeted expenditure going forward. Lodestone has advised Xstract that it has not currently designed a follow-up exploration programme for the Moreton Project. Based on discussions with Lodestone's technical personnel, Xstract has estimated the likely cost to gain the appropriate permits, access, grid, survey and drill test the remaining targets. Table 4-19 summarises past and planned future exploration expenditure as discussed with Lodestone in A.

Table 4-19: Moreton Project Value based on the Appraised Value Method

Permit	Expenditure to 1 Jan 2010 (A$)	Proposed Expenditure (A$)	Total (A$)	PEM Factor	Value (A$)*	Acquired Interest	Implied Value of Acquired Interest*
EPC 1299	$250,515	$30,000	$280,515	0.50	$140,300	100%	$140,300
EPC 1302	$284,604	$80,000	$364,604	2.5	$911,500	100%	$911,500
EPC 1313	$344,711	$90,000	$434,711	0.75	$326,000	100%	$326,000
EPC 1524	$273,980	-	$273,980	0.25	$68,500	50%	$34,250
	$1,153,810	**$200,000**	**$1,353,810**		**$1,446,300**		**$1,412,050**

*- rounded

Farm in Commitment Analysis

As outlined in Section 2.1, Lodestone entered into a farm-in agreement with Moreton Energy in June 2009 in relation to three EPCs covering a combined area of 280 km^2 in the Beaudesert area. Under the terms of the Moreton Agreement, Lodestone may earn a 50% interest in these tenements by incurring A$2 million in exploration expenditure over three years and issuing nine million fully paid ordinary shares in three tranches. Based on Lodestone's share price at the time of the transaction, the Independent Exert, JJA, estimated the value of the deal at A$2.3 million.

To date, a total of six million shares have been issued in two tranches of three million shares, the first dated 6 October 2008 (escrowed until 6 October 2009) and the second dated 29 April 2009 (escrowed until 29 April 2010). All shares were issued for A$Nil consideration. The final tranche of up to three million shares will be issued after Lodestone has spent an initial A$1 million on exploration of the permits. Xstract understands that this milestone has now been reached and the shares are to be issued in the near future.

JJA's estimated consideration of A$2.3 million to earn a 50% interest in these three EPCs implies a notional value of A$4.6 million on a 100% equity basis. Following the reasoning set out in Section 4.4.1 Farm in Commitment Analysis, further adjustments have been made to account for the time value of money and the probability that Lodestone was likely to successfully earn a 50% interest.

As such, Xstract considers the value of the three Moreton tenements the subject of the Moreton Agreement lies in the range A$0.64 million to A$4.03 million with a preferred value A$2.34 million, representing the mid-point of the range. This preferred value is consistent with those derived using the Geoscientific Rating, Transaction Multiples and Appraised Value methods.

Conclusion

In assessing the value of the Moreton Project, Xstract is of the opinion that recent exploration by Lodestone has largely downgraded the potential of the project, overall. Recent work has shown that the coal seams evident within the project have poor continuity as a result of structural complexity (folding and faulting), igneous intrusion and/or erosion. Furthermore, laterally extensive thicknesses of basalt cover the prospective Walloon Coal Measures over much of the southern tenements inhibiting cost-effective exploration. The widespread presence of intrusive rocks throughout the area has locally

cindered or replaced the coal seams, thereby reducing the likely available tonnages within the tenements. Where present the coal seams of the area tend to comprise multiple narrow bands within abundant sediment (clay) partings.

The Veresdale Scrub deposit represents the most prospective target within the current project area, however despite the deposit remaining open downdip to the west, recent drilling indicates its southern extent is limited by an intrusive sill.

Lodestone recently withdrew an EPC application located immediately east of EPC1302, based on its 2009 drilling which encountered the Marburg Sandstone along EPC 1302's eastern margin.

Based on a lack of meaningful data, Xstract has elected not to assign a value to the UCG potential of Lodestone's Moreton Project at this time.

Xstract has relied upon the valuation determined under the geoscientific rating approach, with further support provided by recent transaction multiples, the appraised value method and analysis of Lodestone's farm-in agreement. Xstract's preferred value for the Moreton Project tenements is outlined in Table 4-21. As evident in Table 4-20 the majority of value associated with the Moreton Project resides with the Veresdale Scrub deposit.

Table 4-20: Summary – Moreton Project Value

Asset	Methodology	100% basis		Interest to be acquired	
		Valuation Range (A$ M)	Base Value (A$ M)	Valuation Range (A$ M)	Base Value (A$ M)
Moreton Coal	Geoscientific rating	$0.5 to $2.0	$1.2	$0.5 to $1.9	$1.2
	Transaction Multiples		$1.4		$1.1
	Appraised Value		$1.4		$1.4
	Farm-in Agreement^	$0.6 to $4.0	$2.3	$0.6 to $4.0	$2.3
	JJA Experts Report^		$6.0		$6.0
In-situ Coal target		$1.8 to $8.8	$5.3	$1.8 to $8.8	$5.3
Xstract's preferred range		***$2.3 to $10.8***	***$6.5***	***$2.3 to $10.7***	***$6.5***

^ includes in-situ coal target

5 OTHER CONSIDERATIONS

After forming its opinion on the value of the tenements based on various valuation methods, Xstract has also considered in this section other matters relevant to Lodestone's exploration assets that may influence or provide additional evidence for the value of the exploration projects. Our consideration of these items is as follows.

5.1 Royalty Agreement

In August 2009, Lodestone announced that it had finalised the sale of a 2% royalty interest in respect of Lodestone's share of sales of coal and gas produced from all tenements held or acquired prior to 31 December 2009. The total consideration for this royalty interest is A$3 million.

5.2 Other Experts Reports

The VALMIN Code requires that an Independent Valuation report should refer to other recent valuations or Expert Reports undertaken on the mineral properties being assessed. Xstract notes that both the Tambo and Moreton Projects have recently been assessed by independent experts as outlined below:

- In May 2009, MBA prepared an Independent Experts Report on the Tambo Coal and Gas Projects which was contained within Lodestone's Notice of General Meeting dated 26 May 2009. Xstract notes that

MBA's report assessed whether Lodestone's proposed transactions with Tambo Coal & Gas were "fair and reasonable" but did not place a value on the tenements under consideration.

- In July 2008, JJA prepared a "Fair and Reasonable" report relating to the Moreton Project which was contained within Lodestone's Notice of Extraordinary General Meeting announcement dated 5 August 2008. In this report, JJA assigned a value of A$6 million to the in-situ coal comprising the Veresdale Scrub deposit within EPC 1302, based on A$0.75 per in-situ coal tonne. Under the terms of the proposed agreement, half of this value (A$3 million) would accrue to Lodestone, which was more than the total consideration (estimated by JJA at A$2.3 M using Lodestone's share price at the time of the transaction) payable for the three EPCs. As a result JJA deemed the transaction "fair and reasonable". Xstract has considered JJA's valuation in Section 4.4.3.

6 SUMMARY OF VALUATION

In this report, Xstract has applied a number of valuation methods, including geoscientific rating, industry rules of thumb, market transactions, appraised values and farm-in agreement analysis in determining the base, high and low values attributable to Lodestone's coal and CSG properties. On the basis of this approach, Xstract has estimated the market value of Lodestone's coal and CSG assets as at 26 February 2010. Xstract's opinion of the fair market value of these assets is summarised in Table 6-1.

Table 6-1: Valuation Summary – Lodestone Energy Limited

		100% Basis		Interest to be Acquired	
Asset	**Methodology**	**Valuation Range (A$ M)**	**Base Value (A$ M)**	**Valuation Range (A$ M)**	**Base Value (A$ M)**
Tambo Coal/UCG Project	Geoscientific rating	$15.8 to $54.9	$35.3	$10.3 to $34.6	$22.5
	Transaction Multiples^		$60.6		$40.0
	Appraised Value		$10.0		$7.0
	Farm-in Agreement*	$0.9 to $8.9	$4.9	$0.9 to $8.9	$4.9
	UCG Potential	$12.6 to $22.5	$16.3	$10.1 to $16.6	$12.1
	Tambo Coal/UCG Project Preferred Range	***$28.4 to $77.4***	***$51.6***	***$20.4 to $51.2***	***$34.6***
Tambo CSG Project	Rule of Thumb	$3.9 to $5.9	$5.3	$3.9 to $5.9	$5.3
	Appraised Value		$6.5		$6.5
	Farm-in Agreement	$0.9 to $8.9	$4.9	$0.9 to $8.9	$4.9
	Tambo CSG Project Preferred Range	***$3.9 to $5.9***	***$5.3***	***$3.9 to $5.9***	***$5.3***
Moreton Project	Geoscientific rating	$0.5 to $2.0	$1.2	$0.5 to $1.9	$1.2
	Transaction Multiples		$1.4		$1.1
	Appraised Value		$1.4		$1.4
	Farm-in Agreement#	$0.6 to $4.0	$2.3	$0.6 to $4.0	$2.3
	JJA Experts Report#		$6.0		$6.0
	In-situ Coal Target	$1.8 to $8.8	$5.3	$1.8 to $8.8	$5.3
	Moreton Project Preferred Range	***$2.3 to $10.8***	***$6.5***	***$2.3 to $10.7***	***$6.5***
Total		**$34.6 to $94.1**	**$63.4**	**$26.6 to $67.8**	**$46.4**

^ includes UCG potential
*EPCs 1414, 1415, 1417, 1418, 1481, 1482 and 1484 only.
includes in-situ coal target

7 DECLARATIONS

7.1 Independence

Xstract is a privately owned and operated mining and resource industry consultancy providing independent, strategic and tactical advice and personalised professional services to exploration and mining companies, engineering firms, financial institutions and investors. We operate through our offices in Brisbane and Perth. Our corporate services include technical audits, project reviews, valuations, independent expert reports, project management plans and corporate advice.

Xstract personnel have extensive experience in the preparation of independent valuations for a variety of commodities including coal, CSG, gold, base metal, platinum, diamonds and iron.

This report has been prepared independently and in accordance with the VALMIN and JORC Codes. The authors do not hold any interest in Lodestone, Moreton Energy, Tambo Coal & Gas, WHK Howarth, their related parties, or in any of the mineral properties or interested parties, which are the subject of this report. Fees for the preparation of this report are being charged at Xstract's standard rates, whilst expenses are being reimbursed at cost. Xstract's total costs for the preparation of this report are A$83,500. Payment of fees and expenses is in no way contingent upon the conclusions drawn in this report.

7.2 Qualifications

Toby Prior (Senior Geologist – JB Mining Services Pty Ltd)

Toby has worked in the coal exploration and mining industry since 1995. Toby's role as Senior Geologist at JBMS involves geological, coal quality and resource modelling and reporting. Toby has had experience with numerous deposits throughout Australia and overseas and is an expert in Vulcan 3D modelling. Previous clients include Xstrata Coal QLD Pty Ltd, BMA Coal Pty Ltd and Sonoma Coal. He is a Competent Person for reporting Coal Resources. Toby has a BAppSc (Geology) and is a member of the AusIMM and the AIG (MAIG).

David Green (Associate Consultant – Coal Geology)

David has over 26 years of mining industry experience, and his career has spanned from exploration to mining geology positions in a number of senior coal geologist roles and locations throughout Australia. His role as Director and Principal Consultant Geologist of G.E.M.S (1997 - Present) involves managing a geological based team of consultants with disciplines in coal exploration management, resource evaluation and database/information technology for a variety of companies. He and his team have worked recently with Macarthur Coal, Millmerran Power Partners, Bowen Central Coal, and Xstrata Coal Qld/MIM, and in the past for JBMS, QGS, Energy Minerals, Allied Queensland Coalfields, CSIRO, and Shell Coal. He is a Competent Person for reporting Coal Resources and has assessed geological data for resource audits, feasibility studies, and due diligences. David holds a BSc Honours (Geology), and is a member of the AusIMM and the Geological Society of Australia.

Alan Bayrak (Associate Consultant – Coal Seam Gas and Basin Analysis)

Alan is a multi-disciplinary exploration geologist with over 16 years of local and international exploration experience in oil-gas and coal areas in various geographical territories, including Queensland, New South Wales, Otway Basin, Irish Midlands, Thrace Basin, Western Black Sea and Carpathians. Alan's experience includes district exploration, target development, reserve assessments and CSG acreage management, Gas-in-Place (GIP) estimations (deterministic and probabilistic) and technical evaluation of the CSG prospects, qualitative and quantitative analyses of sedimentary basins, analysis of existing geological data, generation of exploration targets and producing technical reports, technical analysis of coals and coal petrography, management of CSG exploration drilling programs, quantitative assessment of the CSG prospects, including desorption, gas composition, adsorption, saturation, coal tests, permeability and reservoir properties. Alan holds a BSc (Geological Engineering), MSc (Petroleum Geology) and a PhD (Exploration Geology).

Jeames McKibben (GM – Corporate Services and Principal Consultant)

During his more than 16 years experience in the mining and mineral industry, Jeames has served in a diverse range of roles including corporate consultant, project manager, geologist and analyst. Jeames' most recent role was as the Divisional Manager for Snowden Mining Industry Consultants Pty Ltd's Corporate Services Division. He has a strong record in project due diligence, independent technical review, valuation, deposit evaluation and the promotion of best practice strategies in the workplace. As a corporate consultant he specialises in valuations and Mineral Expert Reports for equity transactions and Independent Technical Reports in support of project finance. He has assisted numerous mineral companies, financial and legal institutions in securing regulatory approvals for IPOs and other secondary filings on the following international exchanges: ASX, Alternative Investment Market, London Stock Exchange, Johannesburg Securities Exchange and Toronto Stock Exchange. Other mandates include technical due diligence in support of information memoranda, divestments, acquisitions and mergers, Pre-Feasibility Studies and independent Competent Persons' Reports. Jeames has a MBA and a BSc (First Class Honours), and is a member of the AIG and a CP (Geo) with the AusIMM.

Mark Noppe (Managing Director and Principal Consultant)

Since graduating as a geologist in 1983, Mark worked in South Africa for Anglo American Corporation (1984-1997), and in Western Australia and Queensland for Snowden Mining Industry Consultants (1997-2008) and Mining Associates (2008-2009) in exploration, mining geology, practical geostatistics applications, resource estimation, grade control, mine reconciliation and professional training and mentoring. Mark has been in consulting since 1995 and his technical experience covers a wide range of commodities, geological and mining settings, including coal, gold, nickel laterite and sulphide, alluvial, eluvial and hard rock diamonds, base metals and industrial minerals. He has previously held positions as Chairman of the Southern Queensland branch of the AusIMM, and the Geostatistical Association of Australasia. Mark has a BSc (Geology; Chemistry), MSc (Exploration Geology), post-graduate Diploma (Terrain Evaluation), is a Member of the AusIMM and a CP (Geo) with the AusIMM.

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APPENDICES

APPENDIX A – Tenement Status

Table 1: Tenement Status for Lodestone's Projects as at 25 February 2010

Permit Number	Description	Applicant(s)	Date Lodged	Date Granted	Date Expired	Lodestone Equity	Sub-blocks	Square Kilometres	Native Title	Date
Tambo Coal/UCG Project										
EPC 1414	Maranoa	Tambo	20.06.08			Farming 50%	300	924	Y-ADV	09.06.09
EPC 1415	Warrego	Tambo	20.06.08			Farming 50%	300	924	Y-ADV	09.06.09
EPC 1417	Tambo East 1	Tambo	27.07.08			Farming 50%	300	924	Y-ADV	09.06.09
EPC 1418	Tambo East 2	Tambo	27.07.08			Farming 50%	300	924	Y-ADV	09.06.09
EPC 1481	Augathella East 1	Tambo	08.07.08			Farming 50%	300	924	Y-ADV	09.06.09
EPC 1482	Augathella East 2	Tambo		05.08.09	04.08.14	Farming 50%	300	924		23.03.09
EPC 1484	Augathella North East	Tambo		06.07.09	05.07.14	Farming 50%	300	924		01.04.09
EPC 1621	Tambo South East Gap	Tambo & Lodestone		07.07.09	06.07.09	50%	75	231		01.04.09
EPC 1622	Alpha South West 1	Tambo & Lodestone	28.10.08			50%	300	924	Y-ADV	09.06.09
EPC 1623	Aymount West	Tambo & Lodestone		27.04.09	26.04.14	50%	300	924		
EPC 1624	Morven North East	Tambo & Lodestone	28.10.08			50%	300	924	Y-ADV	30.09.09
EPC 1625	Alpha South West 2	Tambo & Lodestone	28.10.08			50%	300	924	Y-ADV	09.06.09
EPC 1632	Tambo	Tambo & Lodestone	30.10.08			50%	300	924	Y-ADV	30.09.09
EPC 1633	Augathella South East 1	Tambo & Lodestone	30.10.08			50%	162	499	Y-ADV	30.09.09
EPC 1644	Augathella South East 2	Tambo & Lodestone		25.11.09	25.11.14	50%	125	385		01.04.09
EPC 1697	Alpha Rail	Tambo & Lodestone	05.03.09			50%	157	484		
EPC 1719	Barcoo River-Blackall Rail	Tambo & Lodestone	31.03.09			50%	300	924		
EPC 1776	Upper Surat East 1	Tambo & Lodestone	15.06.09			50%	300	924		
EPC 1777	Upper Surat East 2	Tambo & Lodestone	15.06.09			50%	247	761		
EPC 1784	Wamonga	Tambo & Lodestone	19.06.09			50%	300	924		
EPC 1786	Dubydilla	Tambo & Lodestone	19.06.09	Offered and Accepted		50%	284	875		
EPC 1788	Muckadilla North	Tambo & Lodestone	19.06.09			50%	300	924		
EPC 1789	Muckadilla North East	Tambo & Lodestone		23.12.09	22.12.14	50%	300	924		01.10.09
EPC 1794	Morven North	Tambo & Lodestone	19.06.09			50%	299	921		
EPC 1795	Roma North West	Tambo & Lodestone		23.12.09	22.12.14	50%	300	924		01.10.09
EPC 1800	Maranoa River Project	Tambo & Lodestone	30.06.09			50%	50	154		
EPC 1993	Blackall South Corner	Tambo & Lodestone	5.11.09	Offered and Accepted		50%	175	539		

Permit Number	Description	Applicant(s)	Date Lodged	Date Granted	Date Expired	Lodestone Equity	Sub-blocks	Square Kilometres	Native Title	Date
Tambo CSG Project										
ATP 1020	Tambo Gas Permit	Tambo		20.04.09	30.04.13	Farming 50%	2150	6622		
Moreton Project										
EPC 1299	Bromelton/Strathmaver	Orbit – Assigned to Moreton		13.11.08	12.11.11	Farming 50%	3	9		
EPC 1302	Veresdale Scrub Deposit	Moreton		16.03.09	15.03.11	Farming 50%	21	65		
EPC 1313	Albert River	Moreton		27.04.09	26.04.11	Farming 50%	67	206		
EPC 1524	Rathdowney South/Palen Creek	Moreton & Lodestone		30.06.09	29.06.12	50%	56	172		

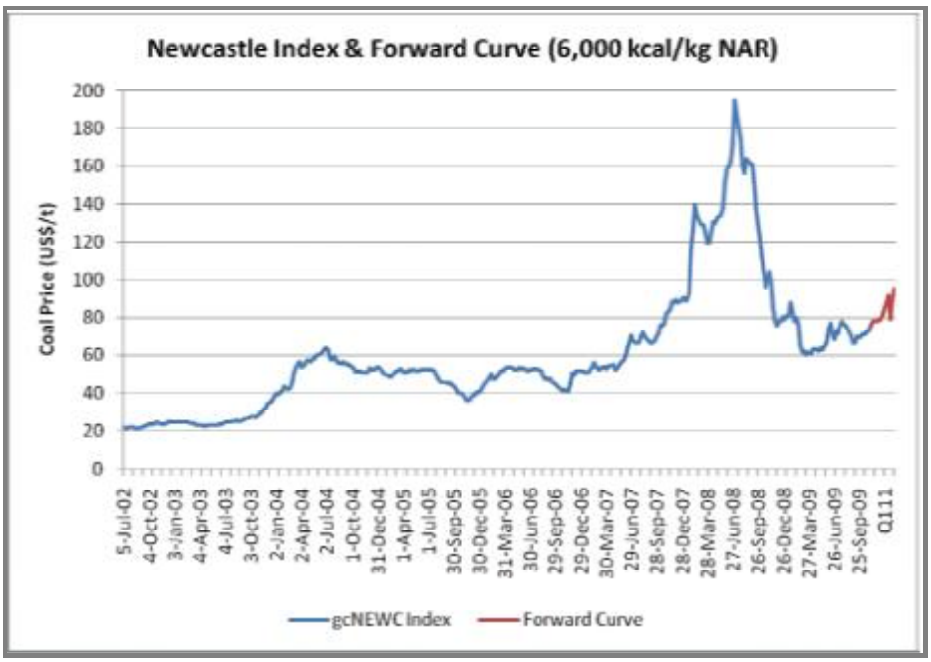
APPENDIX B – Markets and Prices

Given that Lodestone's mineral assets are all exploration projects which are unlikely to be developed in the near to medium term, the longer term price outlook is of particular relevance to this report. Xstract has reviewed the coal and CSG market outlook in a number of publications from independent industry researchers and industry analysts. Based on these reports, Xstract considers the following to be important in outlining its outlook for prices and hence property values going forward.

Thermal Coal

Historic thermal coal prices (ex Newcastle) are presented in Figure 1.

Figure 1: Newcastle Historic Thermal Coal Price July 2002 to November 2009



Source: Coal and Allied

Coal price forecasts rose in December 2009 principally in response to improving demand fundamentals in the Asia/Pacific region and continued constraints on Australian export availability. After trading in the low US$60/t range for the majority of March/April 2009, spot thermal coal prices (free-on-board ("FOB") Newcastle) rose to the low US$70/t range, broadly in line with the Australia/Japan benchmark of US$70/t for 2009/10. Spot thermal coal prices rose sharply recently, with globaCOAL reporting a spot physical deal for March 2010 delivery of US$95/t (FOB Newcastle), a US$15/t increase over the pre-Christmas price.

Most analysts are forecasting a typical contract price for 2010/11 of between US$70 and US$85/t. Wood Mackenzie's outlook for longer term thermal prices is presented in Figure 2.

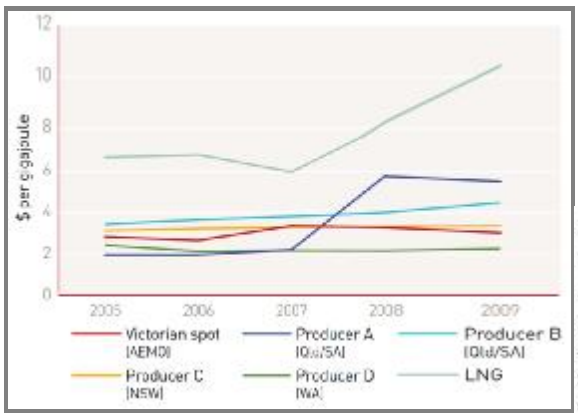
Figure 2: Newcastle Low Sulphur, High Energy Thermal Coal Price, Marginal Cost of Supply and Volume

Natural Gas

Australian natural gas prices have historically been low and relatively stable by international standards, due mainly to the country's abundant low cost coal sources and the bias towards long term supply contracts.

There is a large difference in prices in the domestic market compared to the wholesale market and to gas sold to industrial and large commercial customers. The wholesale and industrial/commercial customers are billed in gigajoule units as compared to megajoule units for the domestic customer. Wholesale and bulk tariffs charged to industrial/commercial customers in Eastern Australia ranged from around A$3.00 to A$5.50/GJ in 2009. Gas sold to large entities is mostly under confidential long-term take or pay contracts and as such there is little comprehensive price information. Indicative prices between 2005 and 2009 are presented in Figure 3. Historically, contracts have lasted for up to 30 years, but more recently contacts have been shortened to 10 to15 years.

Figure 3: Indicative Wholesale Natural Gas Prices



LNG, liquefied natural gas.

Notes:

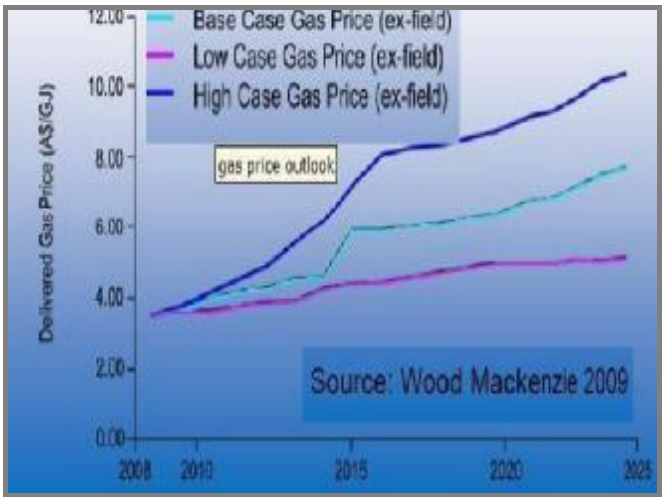
Prices for the second quarter of the year (April–June).

Data for producers A, B, C and D are average company realisations for specific Australian gas producers.

Sources: EnergyQuest, *Energy Quarterly* (various editions); LNG data are sourced from the ABS.

Going forward, rising demand for natural gas as a fuel for electricity generation combined with the proposed Carbon Pollution Reduction Scheme, suggest that Australia's gas markets are likely to grow strongly. As a result prices are expected to continue rising (Figure 4).

Figure 4: Forecast Gas Prices to 2025



The future price for CSG in Queensland will be primarily influenced by the existing domestic gas ("Domgas") market and the opportunity to supply gas to LNG plants.

In addition to the positive outlook for CSG going forward, there have been a number of mergers, takeovers and purchases of CSG companies over the recent past where these assets have transacted at historically high levels.

During 2008 and 2009 in excess of A$20 billion was invested in purchasing interests in the CSG and LNG sector in Queensland and New South Wales. It is important to note however, that the majority of these transactions involved company with projects containing defined 2P and 3P Reserves or in production. The average of all reported transactions for 2P Reserves was A$2.46/GJ while that for 3P Reserves was A$0.95/GJ.

Market Factor

In arriving at a Fair Market Value for Lodestone's coal tenements, Xstract has considered the current market for coal exploration properties in Australia. Xstract is of the opinion that it is appropriate to apply a market premium of 50% to the Technical Value of the exploration potential of Lodestone's coal exploration tenements as determined using the Geoscientific rating method given the elevated prices achieved for export thermal, PCI and coking coals throughout 2009 and therefore the market for coal exploration properties in Australia.

APPENDIX C – Valuation Methodologies

In the case of early to advanced stage exploration projects such as those held by Lodestone, the mineralised potential is contingent on future exploration success and thus is considered higher risk compared to projects where Coal Resources or Coal Reserves have been estimated. The valuation of these exploration areas therefore is dependent, to a large extent, on the informed, professional opinion of the valuer.

Xstract has considered the following methodologies in forming its opinion of the Fair Market Value of Lodestone's tenements.

Geoscientific Rating

The Geoscientific rating (or Kilburn approach) is an attempt by the valuer to quantify the various technical aspects of a property through the use of multipliers which are applied to a base (or intrinsic) value. This intrinsic value is known as the base acquisition cost ("BAC") which represents "The average cost to identify, apply for and retain a base unit of area of title".

To arrive at a value for each property, the valuer considers four key attributes which either enhance or downgrade the BAC of each property. The technical factors considered are:

- Off-property factor – nearby properties contain physical indications of favourable mining conditions such as old workings and/or mines.
- On-property factor – the property being assessed hosts favourable mining indications such as historic workings or mines. Importantly any mineralisation capable of supporting a JORC Code compliant Mineral/Coal Resource estimate will be assessed using other valuation methods.
- Anomaly factor – assesses the degree of exploration completed over the property and the number of resultant coals seams identified.
- Geological factor – assesses the area covered by and degree of exposure of favourable rock types and/or structures (if this is related to the mineralisation style being assessed) within the property.

These attributes are given incremental, fractional or integer ratings to arrive at a series of multiplier factors. These multipliers are then applied sequentially to the BAC to estimate the Technical Value of each mineral property. This is then adjusted for local market conditions to determine the Fair Market Value of the project as at the effective valuation date.

Of importance to the assessment of coal and other industrial mineral properties, the geoscientific rating approach should extend to incorporate additional multipliers for location and marketability. To account for these factors, Xstract has included two additional multipliers (and adjusted the other factors to ensure consistency with values derived using the conventional geoscientific rating method) in its assessment of Lodestone's coal properties, which are:

- Quality factor – assesses the rank and degree of impurities contained by coal seams located within the property.
- Location/infrastructure factor – assesses the location of the coal deposit relative to its target market and the presence of infrastructure supporting access to these markets. Xstract's multipliers or ratings and the criteria for coal projects are summarised in Table 2. In applying the geoscientific rating method to Lodestone's properties, Xstract has also assumed the following:
  - BAC for EPCs in Queensland: A$478/km^2
  - Market Factor for coal properties: 50% premium
  - 20% discount for tenements in application
  - 10% premium applied where Lodestone's EPCs are overlapped by ATP 1020

Xstract considers that the current market is likely to pay a 50% premium to the Technical Value given recent transactions involving coal resource projects and the positive outlook for coal prices going forward which are likely to impact on the value of coal exploration properties.

In the case of outright tenement applications (i.e. where there is no pre-existing or related title), Xstract has elected only to value these applications where it is satisfied that there is no cause to doubt their eventual granting. Furthermore, whilst tenements remain in application, the applicant is unable to conduct any exploration activities to assess the underlying potential of the area. As such, Xstract considers it appropriate to apply a 20% discount to any tenements in application due to the uncertainty in the likelihood, timing and conditions of grant.

Where Lodestone's EPCs are overlapped in part by the company's ATP 1020, Xstract has elected to apply a 10% premium to reflect the additional value of security of access to the conventional coal, UCG and CSG (and potentially conventional petroleum, should they so elect) rights.

On this basis, Xstract's estimate of the Technical Value and Fair Market Value of the exploration interests to be acquired by Lodestone is outlined in the following sections. The determination of the BACs used by Xstract is outlined in Appendix D.

Xstract is philosophically attracted to the geoscientific rating approach as it makes an attempt to implement a system that is both systematic and defendable. Whilst it does require a subjective assessment of the various multipliers, it also demands a degree of detached rigor to account for the key factors that can be reasonably considered to impact on the exploration potential of a property. There is a body of theory that can be used to support that judgement. However, it is important to note that application of the method should be undertaken by qualified valuers and supported by other valuation methods otherwise there can be a tendency for a "value by numbers" approach.

Appraised Value (Multiples of Exploration Expenditure)

The appraised value method (also known as the multiple of exploration expenditure method ("MEE")) relies on the premise that a highly prospective tenement, and hence tenements of greater value, will generally encourage a higher level of exploration expenditure. The method is based upon the following assumptions:

- a project is at least worth what the owner has previously spent and/or has committed to spending in future
- a project initially has nominal value which increases with positive exploration results from increasing exploration expenditure. Conversely, where exploration results are consistently negative, exploration expenditure will decrease along with the value.

Evaluating the results of an exploration programme and their relevance to the appraisal processes involves the assessment of the geological environment of the property and its exploration potential, the exploration procedures used and their applicability to the target style of mineralisation, the overall scope of work completed or planned, the effectiveness of the programme and the depth and experience of the management team involved in the target selection and assessment.

As a result of this evaluation process the valuer must determine whether the exploration efforts have or are likely to enhance or diminish the value of the property. The value of the property may be determined from the sum of past effective exploration expenditure plus any committed exploration going forward (collectively known as the Expenditure Base). Only those expenditures deemed relevant to the overall value of the property should be assessed during the valuation process. A premium or discount is then applied to the relevant Expenditure Base through the application of a market factor (known as the Prospectivity Enhancement Multiplier or "PEM") (Table 4-3).

Thus the Appraised Value can be expressed as:

Appraised Value = (Effective Expenditure + Warranted Expenditure) x PEM

In deriving a PEM to be applied to the historical expenditure, the valuer must be cognisant of:

- the quality of the historical exploration data
- whether the exploration costs are reported in nominal or real dollar terms
- the real inflation or deflation in information costs (e.g. the cost of geophysical surveying has decreased over the last 20 years)

Table 1: Modified Geoscientific Rating Criteria (modified by Xstract)

Rating	Off property Factor	On Property Factor	Quality Factor	Anomaly Factor	Geological Factor	Location/Infrastructure Factor
0.1				Previous exploration demonstrated there is no coal potential		
0.5				Previous coal exploration has returned mainly negative results	Unfavourable stratigraphy	Unable to access market.
0.7			Lignite		Generally favourable stratigraphy on 25% of lease or significant igneous/structural complexity	Located at distance to market but supporting infrastructure in development
0.9			Thermal coal with impurities	Few banded or thin seams (at shallow depths) encountered	Generally favourable stratigraphy (50% lease) or minor igneous/structural complexity	
1.0	No known coal in district	No known coal on lease	PCI coal with impurities or thermal coal without major impurities	No targets outlined	Generally favourable stratigraphy (70% lease)	Located at distance to market but supporting infrastructure in place
1.5	Minor workings / Indications of prospectivity	Minor workings / Indications of prospectivity	Soft coking coal with impurities or PCI coal without major impurities	Coal exposed or single consistently thick (>2 m) seam or multiple thin seams thin coal bands identified in shallow drilling.	Generally favourable stratigraphy and simple igneous/structural features	In proximity to market with appropriate infrastructure in place to access
2.0	Several old workings in district	Several old workings / historic resource estimated	Hard coking with impurities or soft coking without major impurities	Favourable aggregate seam thickness encountered but continuity to be established		
2.5	Abundant workings with significant previous production	Mine or abundant workings with significant previous production	Hard coking coal without major impurities	Two or more consistently thick (>2 m) seam(s)	Favourable stratigraphy without igneous or structural features	
3.0	Along strike from mine					
3.5	Along strike of world class mine	Major mine with significant historical production		Numerous thick seams which demonstrated good continuity		
4.0		World class mine				

- the likely cost to replace such data if the project was deprived of this information (i.e. the deprival approach).

Table 2: Typical PEMs Applied using MEE

Typical Adjustment Factors	
0.5 – 0.9	Previous exploration indicates that the area has limited potential
1.0 – 1.4	Existing data (historical and/or current) is sufficient to warrant further exploration. Further work is expected to define targets of interest.
1.5 – 1.9	Have direct evidence of one or more interesting targets. Further work is warranted.
2.0 – 2.4	The prospect has one or more targets with significant drill hole intersections
2.5 – 2.9	Exploration is well advanced and limited infill drilling is likely to define a Mineral Resource.
3.0	A Mineral Resource has been defined but a pre-feasibility study has not yet been completed.

The principal shortcomings of this method are that there is no constant base from which to commence the valuation, as there is with the base cost used in the Geoscience Rating Method (refer above), and, secondly, there is no systematic approach taken in arriving at the PEM. A judgment is required, therefore, at both the start and end of the valuation. An estimate of unit costs for various stages of exploration (e.g. acquisition, office studies, regional mapping and geochemistry, geophysics, trenching and drilling) could be used as an estimate, as a check on actual, stated expenditure.

Farm-in Commitment Analysis

In order to determine the value of a property the valuer may consider the terms of an arm's length transaction for a farm-in option or agreement by a third party to earn an equity interest in the property. The terms of such agreements typically consist of a series of optional expenditure commitments over a number of years.

The farm-in participants usually earn an equity interest in a project by paying all of the exploration expenditures during the earn-in period. Normally all expenditure commitments must be met in order to earn the equity interest. However, such farm-in commitments are not binding as there are usually rights to withdraw or in some cases there may be staged expenditure requirements earning an escalating equity interest.

A review of the terms of the agreement, as well as the geological potential of the property must be made in order to determine the value of the farm-in commitment and to assess the probability that some or all of the expenditure commitments will be met, particularly in an earn-in-situation. In these cases a discount factor reflecting the estimated probability that the expenditures will be incurred may be applied.

Industry Rule of Thumb

For its valuation of Lodestone's Tambo CSG Project (ATP 1020) Xstract has adopted an Industry Rule of Thumb approach. This approach was used due to the lack of detailed gas exploration data available for ATP 1020, which remains in a conceptual to early stage of assessment. This meant that production volumes and project cash flows could not be accurately forecast and hence a discounted cash flow approach could not be used to value this asset.

Xstract's Industry Rule of Thumb approach is designed to provide an indication of the range of values that the market attributes to comparable companies or is willing to pay for similar assets against which the subject property can be assessed. The range is typically fairly large for exploration assets, reflecting the spread of value drivers such as quality, development status, prospectivity, proximity to infrastructure, synergy with other assets and timeframes to development. For exploration projects without defined Reserves (as is the case for Lodestone), this is generally carried out on the basis of a dollar value per gigajoule ("A$/GJ").

In selecting an appropriate A$/GJ benchmark to apply to Tambo, Xstract has considered the following:

- implied A$/GJ multiples for comparable ASX listed CSG exploration and production companies and recent CSG transactions as presented in Appendix D and Appendix E.

- recent Independent Experts Reports relating to companies which hold CSG assets at a similar stage of development

Whilst Xstract recognises that the A$/GJ basis provides weak evidence of the fair market value for the reasons outlined below, there are limited alternatives to estimating the value of Tambo in this instance.

- the calculation is typically based on Proved + Probable ("2P") and Proved + Probable + Possible ("3P") reserves and therefore ignores any potential upside in contingent resources and/or GIP estimates which are not consistently disclosed. Whilst difficult, we have estimated an implied A$/GJ multiple for Lodestone on a potential GIP basis
- the Rule of Thumb assumes the tenements held by the subject company and those subject to the comparable transactions are at the same stage of development
- the Rule of Thumb assumes that the tenements held by Lodestone have the same CSG prospectivity as those outlined in the comparable transactions presented, which is often difficult to establish
- assumes the CSG assets have a similar risk profile, such as Native Title or access to land
- assumes the tenements held by the comparable company or subject to comparable transactions have identical gas pricing and similar operating and capital cost structures to that at Tambo
- transactions considered using the rule of thumb may include provisions for additional factors such as arrangement of debt financing, marketing rights, contingent payments and future royalties. Therefore the price disclosed as paid for an asset may not necessarily equate to the value of the tenement as there may be other circumstances or conditions that may have influenced the price paid.
- the Rule of Thumb ignores the size and commercial/technical capability of the company which owns or operates the tenements and its ability to develop the tenements; in particular its ability to participate in the LNG development opportunity in the current market.

In the context of the limitations of A$/GJ Rule of Thumb measures, we note that Lodestone is an emerging company in CSG with relatively limited work carried out to date on its Tambo Project.

APPENDIX D - Base Acquisition Costs

Exploration Permits in Queensland

Whilst the geoscientific method is applicable within all States of Australia, it is important to note that due to differing Application and Retention Costs ("ARC") (amongst others) between states, the BAC will change on a State by State basis.

Components of the BAC are the Identification Costs ("IC") and the ARC.

For Queensland, Xstract has used data provided by the DMEs IRTM system to determine that the average exploration permit (including both coal "EPC" and minerals "EPM") is 155 km^2 in area and average tenure is three years. The average IC costs incurred in identifying ground to be covered by a Queensland exploration permit were assessed by Xstract to be A$10,000. The average ARC costs of applying for and holding a Queensland exploration permit have been estimated as Application Fee (including lodging caveats and assigning) A$135, Rental A$132/sub-block (or A$20,500 for an average exploration licence of 155 km^2), Administration costs, minimum A$5,000, Security costs A$2,500, Heritage expenditure A$1,000; Rehabilitation A$5,000 and Expenditure commitment A$30,000 (in Queensland there is no minimum exploration expenditure per unit of area, however an explorer must submit a budgeted exploration programme against which they are assessed. Xstract considers the amount outlined to be reasonable). The BAC for a Queensland exploration permit is therefore estimated at A$478/km^2 or A$1,430/sub-block of around 3 km^2.

APPENDIX E – Comparable CSG Entitites

Table 1: Reserves Multiples for CSG companies – Market Trading (modified after Deloitte, 2009)

Company	Enterprise Value (AU$ million)[1]	2P Certified Reserves[2] (PJ)	2P Reserve Ratio ($/GJ)[3]	3P Certified Reserves[2] (PJ)	3P Reserve Ratio ($/GJ)[4]	GIP (PJ)[2]	GIP Ratio ($/GJ)[5]
Arrow Energy	2,585	6,150	0.42	11,042	0.23	39,608	0.063
Blue Energy	123	-	-	-	-	23,217	0.005
Comet Ridge	70	-	-	-	-	38,586	0.002
Eastern Star	632	1,520	0.42	2,979	0.23	12,045	0.050
Exoma Energy	34	-	-	-	-	36,750	0.001
Icon Energy	108	-	-	-	-	5,728	0.019
Metgasco	157	397	0.40	2,239	0.07	5,658	0.028
Molopo	239	84	2.85	343	0.70	42,499	0.006
Red Sky Energy	23	-	-	-	-	63,000[6]	0.0004
Westside	46	-	-	211	0.22	3,374	0.014
Average[6]	**402**	**2,038**	**1.02**	**3,326**	**0.29**	**83,747**	**0.019**
Median[6]	**116**	**958**	**1.63**	**2,239**	**0.23**	**29,984**	**0.010**

Source: Bloomberg, company annual reports, ASX announcements and company websites

Notes:

1. Calculated as at 25 February 2010
2. On a legal interest basis
3. 2P Reserve ratios are based on enterprise values divided by stated 2P reserves and presented in $/GJ
4. 3P Reserve ratios are based on enterprise values divided by stated 3P reserves and presented in $/GJ
5. GIP ratios are based on enterprise values divided by stated GIP and presented in $/GJ
6. Does not include rights to earn in Queensland Surat (100%) and Pedirka, Amadeus projects (50%)
7. The average and median 2P and 3P Reserve ratios do not include companies with nil certified 2P and 3P reserves

APPENDIX F – Comparable Transactions

Table 1: Comparable Transactions (modified after Deloitte, 2009)

Announcement Date	Acquirer	Target	Implied Value (AU$ million)	2P Certified Reserves[1] (PJ)	2P Reserve Ratio ($/GJ)[2]	3P Certified Reserves[1] (PJ)	3P Reserve Ratio ($/GJ)[2]
30 December 2009	Westside	Dawson Seamgas Project, ATP 602P, ATP 564P, PL94	55 - 80	212	0.25 - 0.38	514	0.11 – 0.16
17 December 2009	Toyota Tsusho	ATP 651	657	264	2.48	805	0.82
2 October 2009	Metgasco	PEL 13 and PEL 426	7	N/A	N/A	N/A	N/A
2 July 2009	Santos	Narrabri CSG Project, PEL 433, PEL 434	300	118	2.55	455	0.66
2 July 2009	Santos	Eastern Star	162	44	3.71	169	0.96
29 May 2009	Korea Gas Corporation	Blue Energy	126	N/A	N/A	N/A	N/A
15 May 2009	Exoma Energy Limited	Longreach Number 2 Pty Limited	N/A[3]	N/A	N/A	N/A	N/A
22 April 2009	Origin Energy Limited	Pangaea Oil & Gas Pty Limited	660	N/A	N/A	1,150	0.57
3 April 2009	Arrow Energy	Beach Petroleum (Surat) Pty Limited (cash and scrip)	330	467	0.71	1,115	0.30
9 February 2009	BG International	Pure	1,021	522	1.96	2,510	0.41
24 December 2008[4]	AGL	Sydney Gas Limited	171	41	4.17	54	3.17
19 December 2008	AGL	PEL 285	370	175	2.11	381	0.97
28 October 2008	BG International	QGC	5,073	2,632	1.93	6,780	0.75
8 September 2008	Conoco Phillips	Origin	7,150[5]	2,376	3.01	5,069	1.41
20 August 2008	QGC	Sunshine Gas (cash and scrip)	812	469	1.73	1,097	0.74
20 August 2008	QGC	Sunshine Gas (scrip)	755	469	1.61	1,097	0.69
10 June 2008	QGC	Roma Petroleum Limited	51	N/A	N/A	N/A	N/A
2 June 2008	Shell	Arrow Energy	435	237	1.83	837	0.52
29 May 2008	Petronas	Santos Limited	2,102[6]	538	3.91	1,600	1.31
1 February 2008	BG	QGC (Joint Venture)	415[7]	263	1.58	623	0.67
Average			**1,088**	**568**	**2.24**	**1,516**	**0.88**
Median			**415**	**264**	**1.96**	**967**	**0.72**

Source: Bloomberg, SDC Platinum, Mergermarket, ASX announcements and Deloitte analysis

Notes:

1. 2P and 3P certified reserves acquired on a legal interest basis, at time of transaction
2. Reserve ratios are based on consideration paid (based on up-front consideration amounts only), which implies an enterprise value, that is divided by stated 2P or 3P reserves and presented in $/GJ
3. Exoma announced the consideration to Longreach will include fully paid ordinary shares and options, therefore an implied enterprise value is not available
4. AGL completed the compulsory acquisition of the remaining shares in Sydney Gas on 1 April 2009
5. Assumed US$/$ exchange rate of US$0.83
6. Assumed US$/$ exchange rate of US$0.95
7. Consideration only includes payment for 20% interest in QGC's Surat Basin tenements
8. N/A – not available

APPENDIX G - Additional Information

17 May 2010

Attention: Mr Kyle Wright
Senior Lawyer
Emerging, Mining and Resources
Australian Securities and Investments Commission
20/240 Queen Street
Brisbane QLD 4000

Dear Mr Wright

re: Response to ASIC comments regarding Mineral Specialist Report

The purpose of this document is to provide additional information regarding the analysis undertaken by Xstract in its Mineral Specialist Report on Lodestone Energy Limited in response to comments received from the Australian Securities and Investments Commission. Please find Xstract's response outlined below.

a. Additional disclosure in relation to the status of each application at Tambo, whether there are any competing applications or objections, the likelihood of the applications being granted or refused, and the basis for the expert's view that a 20% discount is appropriate and examples of comparable valuations applying a similar discount.

Lodestone has a number of exploration tenement applications at Tambo, with all the Moreton tenements previously granted.

Lodestone's exploration concept at Tambo is based on the premise that the coal-bearing Surat Basin continues further west that previously interpreted. Whilst a number of Exploration Permits for Coal ("EPC") had been historically explored in the surrounding area to Lodestone's current tenement area, there were no pre-existing EPCs (either granted or in application) in force when Tambo Coal & Gas Pty Ltd ("Tambo Coal & Gas") made its initial application for EPCs 1414, 1415, 1417, 1418, 1481, 1482 and 1484 nor when the remaining tenements were applied for under joint venture (50% Tambo Coal & Gas / 50% Lodestone).

Having made due inquiries of the relevant authorities, Xstract understands that as at the effective valuation date there were no competing applications or registered objections to Lodestone's tenements at the company's Tambo Project. Xstract has undertaken its own independent verification of the status of the tenements including inquiries against the Queensland Department of Minerals and Energy ("DME") Interactive Resource and Tenure Maps system and discussions with representatives from the DME. Furthermore, we understand that the requisite tenements have been (or are in the process of being) advertised. Thus far, all applications have passed through the advertisement period without any objections being lodged. The current status of the tenements is outlined in the following table.

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P: (07) 3221 2366 F: (07) 3221 2235 Xstract Mining Consultants Pty Ltd ABN 62 129 791 279

Table 1: Updated Tenement Status for Lodestone's Projects as at 4 May 2010 as advised by the Queensland Department of Employment, Economic Development and Innovation ("DEEDI")

Permit Number	Description	Applicant(s)	Date Lodged	Date Granted	Date Expired	Lodestone Equity	Sub-blocks	Square Kilometres	Native Title	Date
EPC 1414	Maranoa	Tambo	20.06.08	Offered and Accepted		Farming 50%	300	924	Y-ADV	09.06.09
EPC 1415	Warrego	Tambo	20.06.08	Offered and Accepted		Farming 50%	300	924	Y-ADV	09.06.09
EPC 1417	Tambo East 1	Tambo	27.07.08	Offered and Accepted		Farming 50%	300	924	Y-ADV	09.06.09
EPC 1418	Tambo East 2	Tambo	27.07.08	Offered and Accepted		Farming 50%	300	924	Y-ADV	09.06.09
EPC 1481	Augathella East 1	Tambo	08.07.08	8.04.10	27.04.15	Farming 50%	300	924	Y-ADV	09.06.09
EPC 1482	Augathella East 2	Tambo		05.08.09	04.08.14	Farming 50%	300	924		23.03.09
EPC 1484	Augathella North East	Tambo		06.07.09	05.07.14	Farming 50%	300	924		01.04.09
EPC 1621	Tambo South East Gap	Tambo & Lodestone		07.07.09	06.07.09	50%	75	231		01.04.09
EPC 1622	Alpha South West 1	Tambo & Lodestone	28.10.08	Offered and Accepted		50%	300	924	Y-ADV	09.06.09
EPC 1623	Rymount West	Tambo & Lodestone		27.04.09	26.04.14	50%	300	924		
EPC 1624	Morven North East	Tambo & Lodestone	28.10.08	Advertising closed 09.04.10		50%	300	924	Y-ADV	30.09.09
EPC 1625	Alpha South West 2	Tambo & Lodestone	28.10.08	29.04.10	28/04/15	50%	300	924	Y-ADV	09.06.09
EPC 1632	Tambo	Tambo & Lodestone	30.10.08	Advertising closed 09.04.10		50%	300	924	Y-ADV	30.09.09
EPC 1633	Augathella South East 1	Tambo & Lodestone	30.10.08	Advertising closed 09.04.10		50%	162	499	Y-ADV	30.09.09
EPC 1644	Augathella South East 2	Tambo & Lodestone		25.11.09	25.11.14	50%	125	385		01.04.09
EPC 1697	Alpha Rail	Tambo & Lodestone	05.03.09	Advertising closes 17.06.10		50%	157	484		
EPC 1719	Barcoo River-Blackall Rail	Tambo & Lodestone	31.03.09	Ready to grant		50%	300	924		
EPC 1776	Upper Surat East 1	Tambo & Lodestone	15.06.09	Advertising closes 05.07.10		50%	300	924		

Permit Number	Description	Applicant(s)	Date Lodged	Date Granted	Date Expired	Lodestone Equity	Sub-blocks	Square Kilometres	Native Title	Date
EPC 1777	Upper Surat East 2	Tambo & Lodestone	15.06.09	Advertising closes 05.07.10		50%	247	761		
EPC 1784	Warroonga	Tambo & Lodestone	19.06.09	Awaiting feedback		50%	300	924		
EPC 1786	Dunydilla	Tambo & Lodestone	19.06.09	17.03.10	16.03.15	50%	284	875		
EPC 1788	Muckadilla North	Tambo & Lodestone	19.06.09	19.08.10	18.02.15	50%	300	924		
EPC 1789	Muckadilla North East	Tambo & Lodestone		23.12.09	22.12.14	50%	300	924		01.10.09
EPC 1794	Morven North	Tambo & Lodestone	19.06.09	Advertising closes 05.07.10		50%	299	921		
EPC 1795	Roma North West	Tambo & Lodestone		23.12.09	22.12.14	50%	300	924		01.10.09
EPC 1800	Maranoa River Project	Tambo & Lodestone	30.06.09	Awaiting feedback		50%	50	154		
EPC 1993	Blackall South Corner	Tambo & Lodestone	5.11.09	17.03.10	16.03.14	50%	175	539		

Based on the available information, Xstract fully expects that all tenements will be granted (in due course) and that it is merely administrative procedure slowing down the grant of title to Lodestone's respective tenement applications. Having sought clarification of such from Lodestone, Xstract was provided with the following from Greg Baynton (Lodestone director - conflicted party) on 30 April 2010:

> "*I also wish to confirm that there have been no objections to any Tambo Project EPCA in the past or currently and that I do not anticipate any objections to the grant of any remaining EPCs from my discussions and correspondence with the Department.*
>
> *All native title affected EPCAs have now been advertised and have completed the objection period with no objections.*
>
> *From my discussions with the Department, the granting of any remaining EPCs for the Tambo project would now be a process matter within the Department.*"

Mr Bayton has consented to the inclusion of this statement in this report.

Xstract notes that during the term of this assignment (a period of over 4 months from December 2009), several tenements have been granted to Lodestone including EPC 1481, 1788, 1789, 1795 1993, 1481 and 1625, whilst tenements EPC 1414, 1415, 1417, 1418 and 1622 have been offered by the DME and accepted by Lodestone, but as yet the Company is still to receive the final grant documentation.

Furthermore, Xstract notes that Lodestone has actively engaged in discussions with representatives of the DME in relation to its Tambo EPC applications. Specifically, Lodestone has sought the DME's view on the potential for conflict between exploration and development objectives, timelines and commercial drivers for EPC (or ATP) tenures with overlapping ATP tenure (or EPC as the case may be). Xstract has been provided with an email stating that DME representatives consider Lodestone's approach to managing ATP, EPC (conventional coal) and UCG tenures under one ownership structure to be "unique" and provides for significant advantages for the Tambo project.

As such, Xstract considered it appropriate to value the Tambo EPC applications on the understanding that there appeared to be no major impediments to grant and it was merely a processing issue within the DME until they were granted. In keeping with section 70 of the VALMIN Code, Xstract considers it appropriate to only value tenement applications where it is satisfied that there is no cause to doubt their eventual granting and where there is no pre-existing or related title. In valuing tenement applications, Xstract has applied a (subjective) discount of 20% to account for the uncertainty associated with the likely timing of grant and to reflect that exploration activities are unable to commence until these tenements are granted.

Xstract notes that many valuers have applied similar discounts (typically ranging between 10% and 40%) to tenement applications and cite previous valuations of early stage exploration properties completed by Snowden (dating back to the early 2000s), Agricola Mining Consultants (dating back to at least 2002), Al Maynard (similarly to mid-2000s,) Optiro (since 2008) and Xstract (since 2009). By comparable valuations Xstract notes that it is referring to projects at a similar stage of development. Under the D20 of the VALMIN Code these tenements would be classified as "Exploration Areas". Of note is the Bowen Energy valuation prepared last year by Xstract, which was reviewed by ASIC under instructions from the Australian Takeovers Panel. This valuation report was accepted by ASIC on behalf of the Takeovers Panel.

b. Additional information regarding the derivation of the estimates in table 3-2.

There are four key aspects to evaluate prospectivity of the underground coal gasification potential, namely:

- depth of the coal seams
- effective recoverable area of the coal seams
- thickness of the coal
- ash content / coal seam density
- coal quality (specific energy value)

The Deterministic - Volumetric Coal Resource Estimation ("CRE") is then calculated as follows:

CRE (tonne) = A * d * h (where A=area, d=coal density, h=seam height/thickness)
In-situ Energy (PJ) = CRE * Specific Energy value

A four stage process was used by Xstract to determine the UCG GIP estimate for the Tambo project tenements. This comprised:

1. determining the structural continuity of the coal seams which occur within the targeted depth zone (>250m);
2. identifing the variations in the thickness of the coal seams;
3. determining the confidence of the estimate based on both structural continuity and thickness variations; and
4. assigning geochemical and coal seam characteristics to the targeted coal seams based on published characteristics of the Wallon Coal Measures and deep Permian coals.

Assumptions

All assumptions are based on a coal seam correlation methodology and analogue coal seams evident in adjacent areas of the Surat and/or Clarence Moreton Basins (see below). Coal depth, seam thickness and coal quality data are especially important for determining the UCG potential of an area.

Due to the lack of any test results from within Lodestone's project area Xstract considered an analogue using the general characteristics of the Walloon Coal Measures within the Surat Basin (Table 2). Xstract then applied an average gas content value to the targeted coal seam dependent upon its depth below surface using the depth-gas content graph (Figure 1).

Xstract applied the same concept to assess the deep Permian coal seams based on a Galilee Basin analogue (refer Figure 2).

Table 2: Published properties of key coal seams of the Surat Basin (From Coal Petrology and coal seam gas contents of the Wallooon subgroup – Surat Basin Qld," International Journal of Coal Geology, Vol70, Issues 1-3, April 2007, p209 to 222)

	Moisture (%)	Ash (%)	Volatile Matter (%)	Fixed Carbon (%)	Relative Density
Walloon Subgroup	*4.7*	*28.5*	*36.3*	*31.9*	*1.51*
Juandah Coal Measures	4.9	28.0	36.6	32.1	1.51
Taroom Coal Measures	3.4	31.3	34.7	30.7	1.53
Kogan	6.3	27.2	33.4	34.1	1.52
Macalister Upper	5.0	27.7	36.4	33.0	1.52
Macalister Lower	5.0	28.1	34.2	31.2	1.52
Nangram	4.9	27.8	37.0	30.4	1.50
Wambo	5.0	31.8	36.9	31.4	1.55
Iona	4.1	27.2	39.2	33.0	1.48
Argyle	3.8	26.5	36.9	31.4	1.48
Tangalooma Sandstone	*3.6*	*36.6*	*31.6*	*28.3*	*1.57*
Auburn	3.8	33.8	32.8	30.6	1.56
Bulwer	3.4	30.9	35.5	30.3	1.52
Condamine	3.4	31.0	34.4	31.1	1.52

Figure 1: Gas content vs depth for coal seams of the Surat Basin (From Coal Petrology and coal seam gas contents of the Wallooon subgroup – Surat Basin Qld," International Journal of Coal Geology, Vol70, Issues 1-3, April 2007, p209 to 222

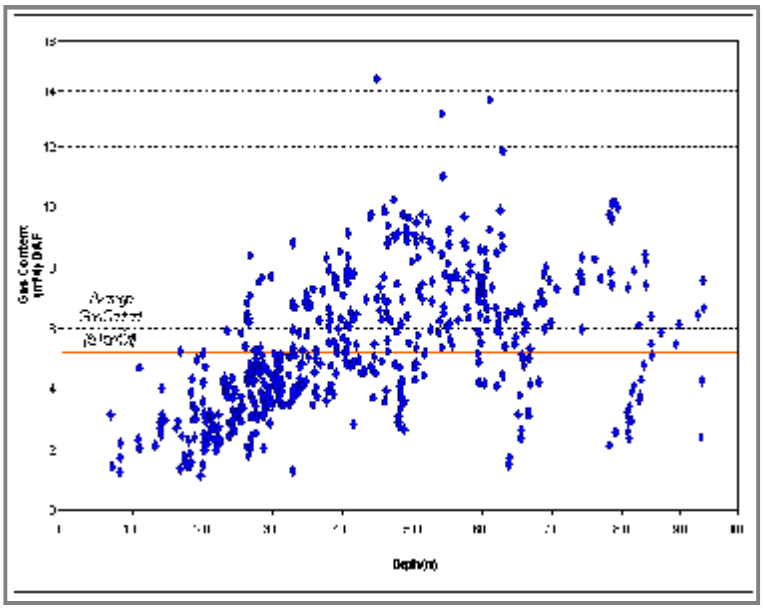
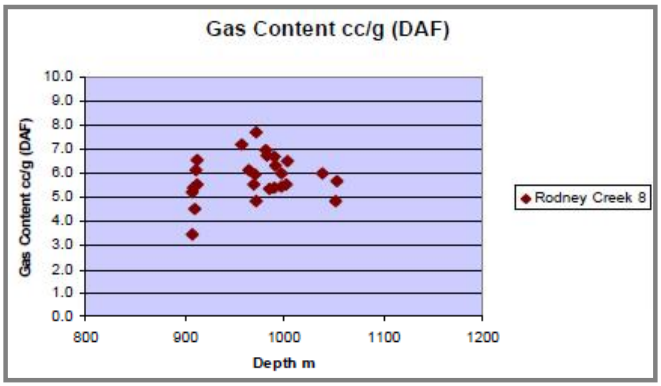


Figure 2: Gas content vs depth for coal seams of the Galilee Basin (From Galilee Energy, Rodney Creek-8 well ASX Announcement)



Area

JB Mining generated a series of maps based on all available waterbore and petroleum well data in Lodestone's database. Xstract then used these maps to estimate the depth to the top of the coal seams within Lodestone's tenements. In order to reduce potential errors regarding the likely extent and depth of the coal seams, Xstract considered as many data points as possible from Lodestone's tenement area, and in particular for ATP 1020. All data points used for estimations either lie within the tenement or a 10 km buffer zone surrounding ATP1020. Of particular importance were the petroleum wells outlined in Table 3.

Table 3: Petroleum Wells considered by Xstract in its analysis of the Tambo project's UCG potential

Inside of ATP 1020	
Valetta-1	Petroleum well-Coal was recorded in the Birkhead Formation
Balfour-1	Petroleum well-Coal was recorded in Birkhead and Evergreen Formations
Westbourne-1	Petroleum well-thin coal bands and carbonaceous mudstones for Jurassic. Coal seams were recorded for deep Permian section.
3338	Thick coal seams intercepted
4035	Thin coal seam intercepted
50898	2m coal seam was recorded
Outside of ATP 1020 but within 10 km radius	
Berwinock-1	About 10 km west of ATP 1020 (petroleum well-WCM and deep Permian coals intercepted)
Augathella-1	About 10 km south of ATP 1020 (petroleum well-thin coal seams intercepted)

Figures 3 and 4 below present the available water bore and petroleum well data (purple diamonds) present within a 10 km radius of ATP 1020. Figure 3 presents the interpreted depth to the top of the targeted coal seam, whilst Figure 4 shows the interpreted thickness of the targeted coal seam.

Figure 3: Interpreted depth to the top of the targeted coal seam – ATP 1020

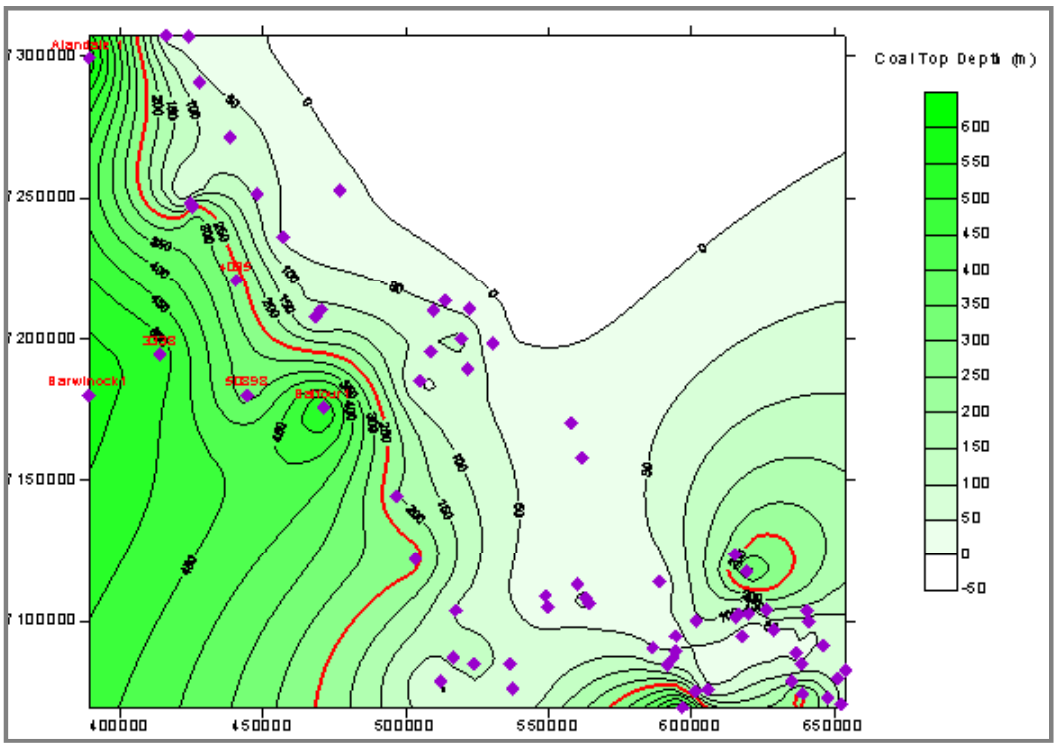
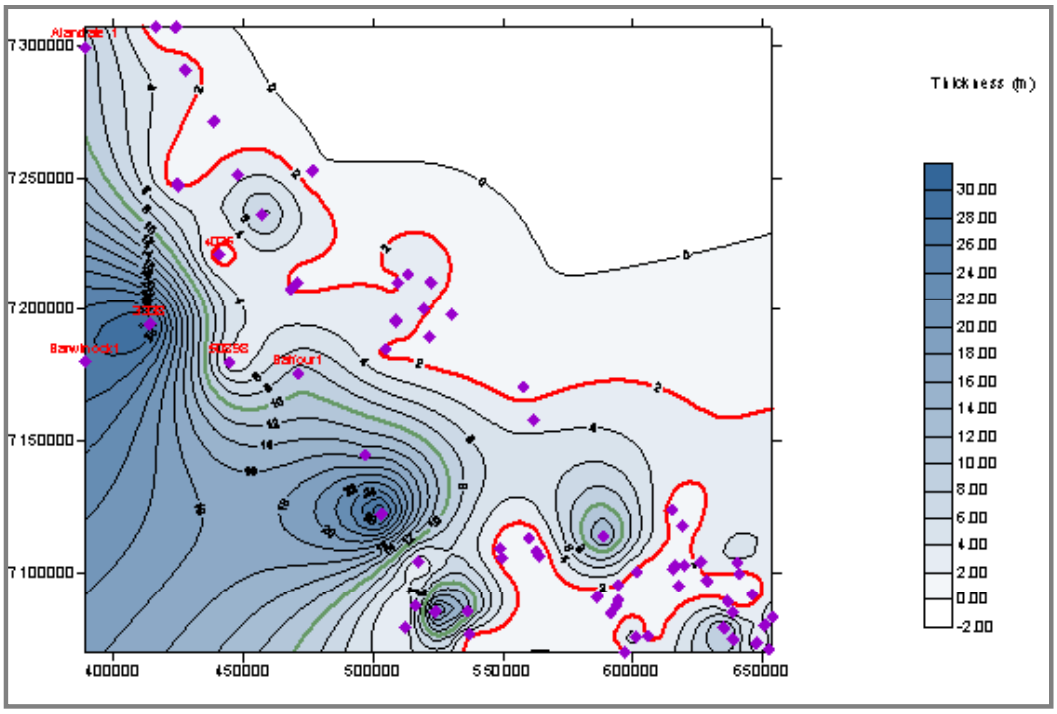


Figure 4: Interpreted thickness of the targeted coal seam – ATP 1020



The lateral extent and distribution of the coal seams throughout the project tenements remains to be adequately assessed with only limited water bore, petroleum well and airphotograph interpretation maps currently available. In particular, the large tenement size combined with low

petroleum well data distribution makes it difficult to accurately predict and rationally optimise the likely area offering potential for UCG. As such Xstract has assumed that between 10% and 30% of the total area available within Lodestone's Tambo tenements is prospective for UCG. This in part reflects the distribution from the photogeology interpretation (based on the surface expression of such seams) as well as taking into account the depth of the down-dip extents to these coal seams, as well as an assessment of likely environmental and geological factors, including permeability and coal quality.

Coal Depths

Coal seams interpreted to occur at depths of between 100 and 600 m have been targeted for UCG potential. The historic water bore and petroleum well data set provided by Lodestone has been used to assist in these interpretations.

Coal Thickness

According to the available data coal thickness varies in a broad range as demonstrated in Figure 4 above. As a general observation, coal seams with thicknesses of greater than 2 m offer the best potential for UCG. Xstract has assumed a minimum coal thickness of 2 m for prospective seams within Lodestone's tenements. This assumption remains to be assessed through ongoing exploration, but certainly is not an unreasonable assumption based on corresponding coal seams within the Surat Basin including those referred to in Table 2 above.

It was hoped that Lodestone's drilling programme which was being conducted at the time of the preparation of the valuation report would be able to assist in refining Xstract's conceptual model. However significant delays were reportedly encountered by the programme and no meaningful data was available against which to benchmark our assumptions.

Specific Energy

No specific energy values were available for the interpreted seams within Lodestone's tenements. Xstract has therefore assumed a specific energy value of between 14 and 20 MJ/kg with an average of 16 MJ/kg in its estimations based on target analogues within the surrounding area. Again it was intended that this assumption would be refined with measured data once Lodestone obtained coal quality data from its drilling program.

In addition to its deterministic-volumetric estimations, Xstract also used a probabilistic estimation to account for some of the risks associated with its technical assumptions. Using Monte Carlo simulation and including variations in coal thickness, area and specific energy, the following table of results and distributions were obtained. A uniform distribution was used for both the minimum and maximum values in Xstract's probabilistic model, as illustrated below.

Table 4: Deterministic – Volumetric Coal and GIP Target Estimation Table

Block/Poligon Name	Area (Ha)	Area (km^2)	Area (m^2)	Density (t/m^3)	Av Thickness (m)	Geologic Factor	Specific Energy (MJ/kg)	Exploration Target (tonne)	Insitu Energy (PJ)
EPC 1415 – TCM	27,600	276.00	276,000,000	1.53	4.42	1.00	16.00	1,866,477,600	29,863.64
EPC 1418 – JCM	27,600	276.00	276,000,000	1.51	5.32	1.00	16.00	2,217,163,200	35,474.61
EPC 1482 – JCM	36,900	369.00	369,000,000	1.51	10.00	1.00	16.00	5,571,900,000	89,150.40
EPC 1644 – TCM	11,550	115.50	115,500,000	1.53	15.00	1.00	16.00	2,650,725,000	42,411.60
EPC 1794 – JCM	27,720	277.20	277,200,000	1.51	11.61	1.00	16.00	4,859,620,920	77,753.93

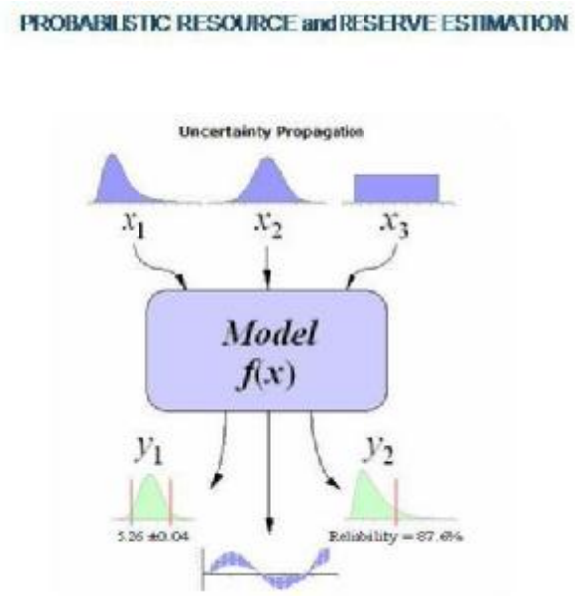
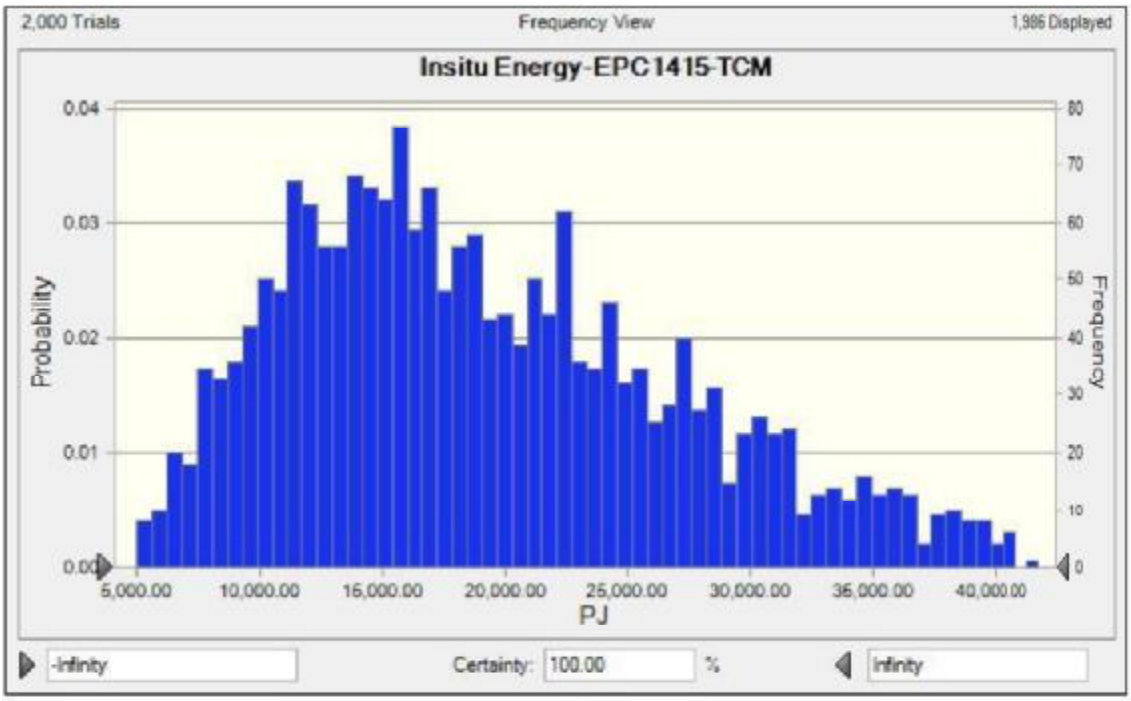
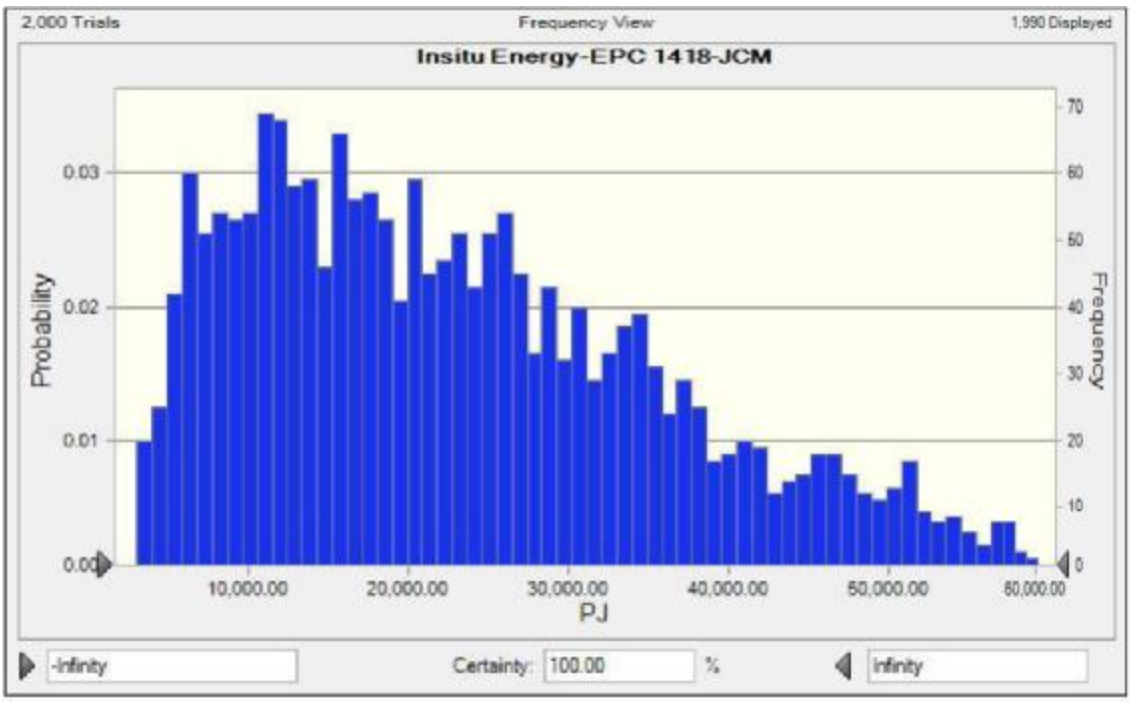
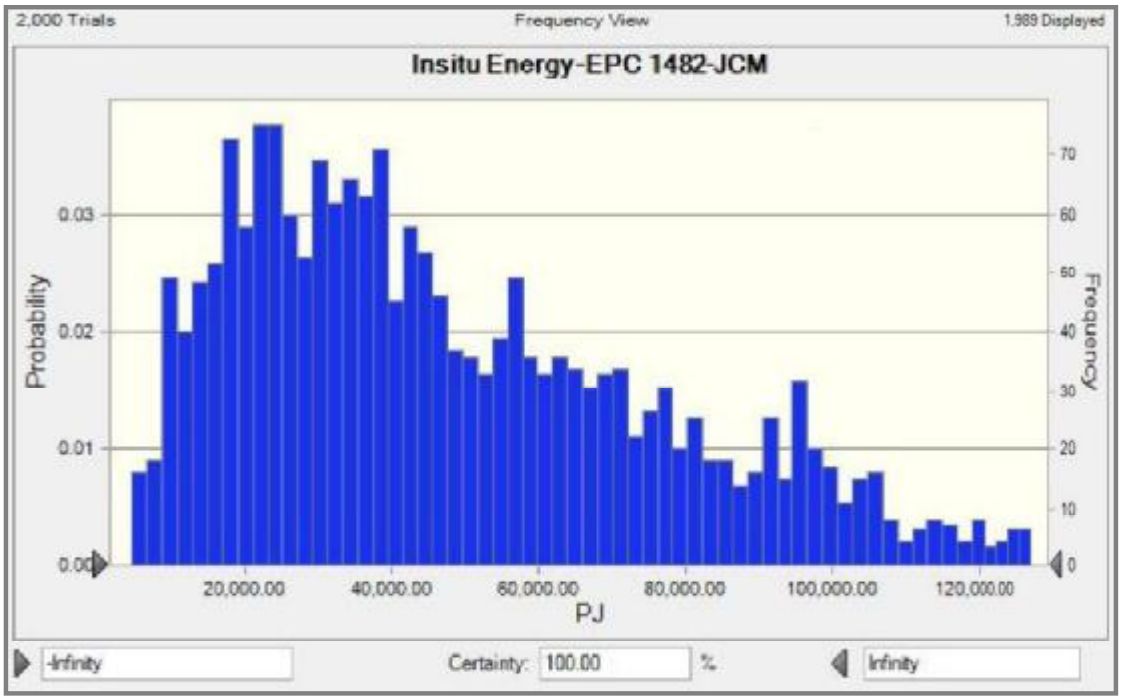


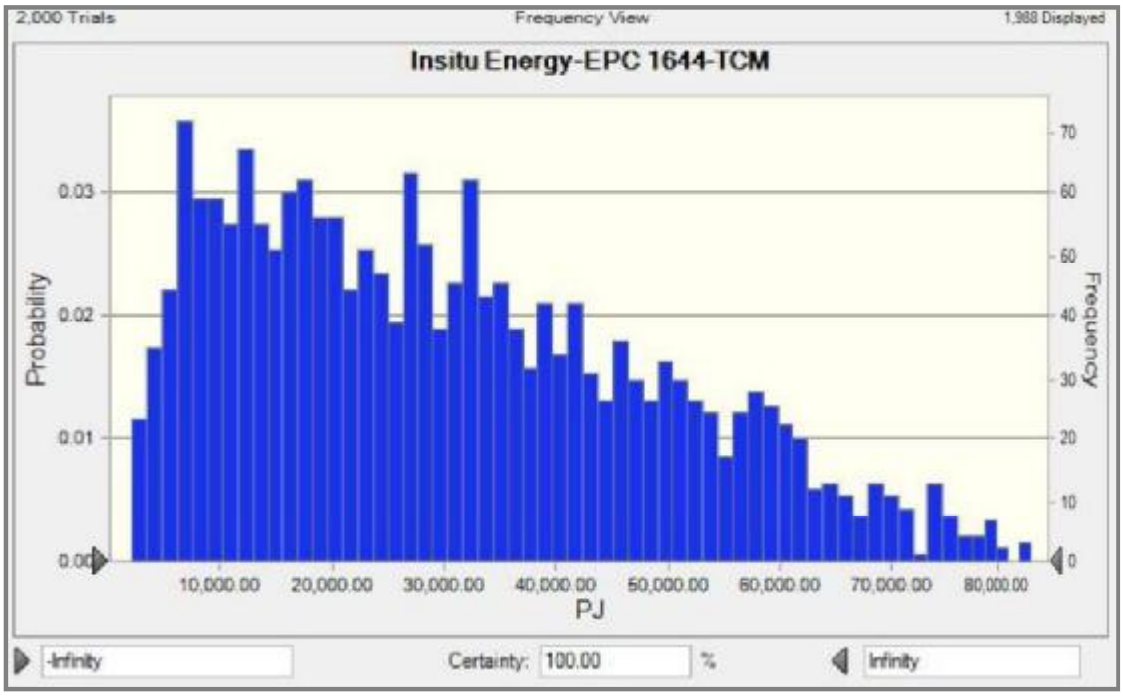
Table 5: In-situ Probabilistic GIP Target Estimation Results

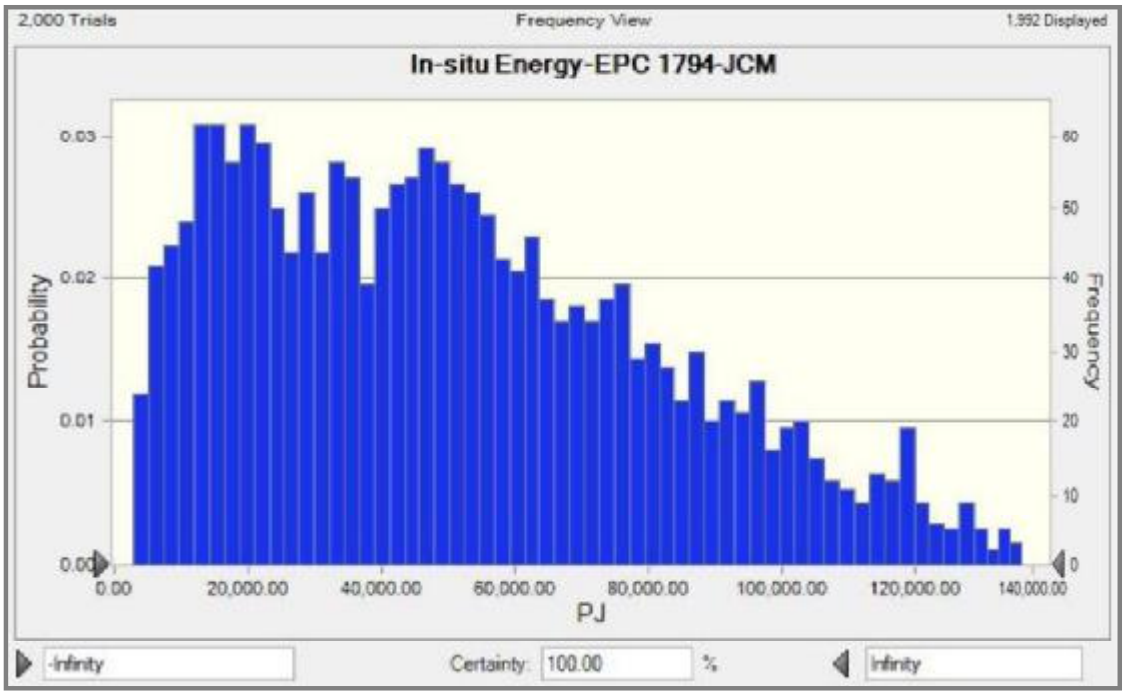
Tenement Area	P90 Estimate (PJ)	P50 Estimate (PJ)	P10 Estimate (PJ)
EPC 1415	9,881.39	17,981.12	30,993.99
EPC 1418	7,817.49	21,015.22	42,753.79
EPC 1482	16,062.55	41,625.64	92,455.11
EPC 1644	8,271.00	27,708.39	58,272.58
EPC 1794	13,235.62	47,576.89	97,125.81


2,000 Trials
Frequency View
1,986 Displayed
Insitu Energy-EPC1415-TCM
Probability
Frequency
0.04
0.03
0.02
0.01
0.00
80
70
60
50
40
30
20
10
0
5,000.00
10,000.00
15,000.00
20,000.00
25,000.00
30,000.00
35,000.00
40,000.00
PJ
-Infinity
Certainty: 100.00 %
Infinity


2,000 Trials
Frequency View
1,990 Displayed
Insitu Energy-EPC 1418-JCM
Probability
Frequency
0.03
0.02
0.01
0.00
70
60
50
40
30
20
10
0
10,000.00
20,000.00
30,000.00
40,000.00
50,000.00
60,000.00
PJ
-Infinity
Certainty: 100.00 %
Infinity


2,000 Trials
Frequency View
1,989 Displayed
Insitu Energy-EPC 1482-JCM
Probability
Frequency
0.03
0.02
0.01
0.00
70
60
50
40
30
20
10
0
20,000.00
40,000.00
60,000.00
80,000.00
100,000.00
120,000.00
PJ
-Infinity
Certainty: 100.00 %
Infinity


2,000 Trials
Frequency View
1,988 Displayed
Insitu Energy-EPC 1644-TCM
Probability
Frequency
0.03
0.02
0.01
0.00
70
60
50
40
30
20
10
0
10,000.00
20,000.00
30,000.00
40,000.00
50,000.00
60,000.00
70,000.00
80,000.00
PJ
-Infinity
Certainty: 100.00 %
Infinity



c. Summary of the key points in relation to the probabilistic approach used to estimate the Tambo UCG potential, which give a reasonable basis for the assessment of quantities of coal and gas underpinning the analyses, including examples of comparable valuations where this methodology has been used in this way.

As stated in Xstract's valuation report, UCG is at a very early stage of assessment and development in Australia and as such there are few, if any, valuations in the public domain, and none which currently use the probabilistic method as outlined by Xstract.

Having said this it is important to note that the probabilistic methodology used by Xstract is widely employed within the oil and gas industry as evident in the recent valuation of Global Iron's West African petroleum assets by IHS Global Ltd (see attachment).

In relation to the UCG prospectivity of an area, this depends on a number of factors as outlined below. There is no standard evaluation procedure considering all effective parameters in UCG resource assessments. The difficulty of the evaluation derives from the complexity of the coal and geological setting in which there are many unknown variables. These variables include:

Quantitative-Volumetric Variables

- Depth of coal seam
- Thickness
- Density
- Specific Energy
- Continuity of Seams

Quantitative-Recovery Variables

- Permeability
- CH_4 content
- CO_2 content
- Ash content
- Moisture
- Degree of Coalification
- Maceral composition

Qualitative-Volumetric/Recovery Variables

- Geological structure
- Degree of stress
- Swelling characteristics

There are five key aspects to evaluate the prospectivity for UCG within an area. These include:

- depth of the coal seams
- effective recoverable area of the coal seams
- thickness of the coal
- ash content/density
- coal quality (specific energy value)

The Deterministic-Volumetric Coal Resource Estimation is then calculated as follows:

CRE (tonne) = A * d * h (where A=area, d=coal density, h=seam height/thickness)
In-situ Energy (PJ) = CRE * Specific Energy value

This standard deterministic-volumetric estimation methodology is used widely in the oil and gas industry. This method is considered appropriate where there are little or no variations in the relevant parameters which obviously does not hold true in reality as this is a natural system. As such there are inherent variations in the parameters, which means that typically average values are used in the preparation of the target estimations.

UCG Estimation is intimately associated with risk analysis. In order to account for the uncertainty in the data and adequately capture the associated variations, a more flexible and convenient methodology is required. We consider that the probabilistic method is the preferred method for UCG assessment.

In assessing the UCG potential, Xstract has used both a deterministic-volumetric estimation in the first case and then used a probabilistic method to incorporate variations in its chosen parameters to account for the risk of various uncertainties.

There is no standard methodology for UCG assessment and target/resource estimation. UCG estimation is a new area in Australia and mostly uses a coal resource estimation methodology for volumetric assessments. Most of the valuations to date are based on in-situ coal volume and Specific Energy Value which gives in-situ energy in terms of petajoules. Xstract consider the best way to assess the UCG potential of an area is to include all uncertainties so as to account for the risk and gain a better understanding from the distributions of estimated values rather than using and reporting only single average values.

Examples of valuations in which probabilistic modelling has been used include Xstract's valuation of Bowen Energy, SRK's valuation of Lodestar Minerals Ltd, Optiro's valuation of Universal Resources and Webster's valuation of Xtreme Resources.

d. Further information regarding the derivation of the estimates set out in Table 3-3 of the Mineral Specialist's Report.

Xstract reviewed the data available from historic water bore and petroleum wells drilled in the surrounding area (see comments on page 7 under the heading "Area" and Table 3 and Figure 3 on Page 8 and Figure 4 on Page 9 of this document) to assess the seam thickness, gas content, ash content, moisture content, and density of the coal in its assessment of the CSG potential of the Tambo area. These parameters were used by Xstract to estimate the conceptual gas-in place ("GIP") range within the relevant tenements. The following equation was used to estimate the GIP within the areas defined by Lodestone Energy as the offering potential for CSG;

$$GIP = h^* A^* GC^* (1-Ash\%) * (1-Moisture\%) * d$$

h = Net Coal Thickness (m)
A = Area (km^2)
GC = Gas Content, DAF (m^3/t)
d = Coal Density (g/cm^3)

As for UCG, a four stage process was used by Xstract to determine its CSG GIP estimate. This comprised:

1. determining the structural continuity of the coal seams which occur within the targeted depth zone;
2. identifying the variations in the thickness of the coal seams;
3. determining the confidence of the estimate based on both structural continuity and thickness variations; and
4. assigning analogue geochemical and coal seam characteristics to the targeted coal seams (Walloon Coal Measures and deep Permian coals).

Importantly, the petroleum wells and water bore data used by Xstract in its assessment all lie within a 10 km radius of Lodestone's tenements. Furthermore, Xstract's analysis considered only depth and thickness data from within Lodestone's tenements, with the most distant point informing Xstract's analysis of ATP1020 lying 80 km to the east of the tenement (but within Lodestone's tenements).

In order to identify the range of uncertainty and variability of each coal seam, a Low and a High value was estimated for each parameter such as coal area, coal thickness, gas content and density based on adjacent analogues within the Surat Basin. This allowed the identification of variations in the data and improved analysis and optimisation options for probabilistic GIP estimation.

Xstract received the available data relating to water bore and petroleum wells drilled in and around the ATP1020P (as specified above) to evaluate the coal thickness, gas content, density, moisture and ash content of the coal seams. These parameters were then used to estimate the conceptual GIP. Probabilistic estimation was also used to assess the range of uncertainties and risks associated with Xstract's deterministic model. Whilst the gas content and coal distribution of the area remains to be adequately determined, Xstract considers that potential CSG accumulations may be sufficient to support future commercial production.

Coal Inventory

A coal database was provided by Lodestone and existing petroleum well data were used to assess the thickness of the coals in proximity to ATP1020P. Data for coal seams for this area are sparse and poorly recorded and logged. Previous deep petroleum exploration programmes typically bypassed shallow coal seams as they progressed towards the targeted deeper petroleum bearing strata. As such there is limited detailed documentation of the shallow coal seams in the available well completion reports. Reported coal seams vary in thicknesses and are not accurately reported within ATP1020P. However it is evident from the available documents that the coal seams are presence in significant thicknesses and with considerable lateral extent.

Assumptions

All assumptions are based on Xstract's evaluation criteria. Given that Lodestone had commenced targeted drilling in late 2009 it was intended that Xstract's models could be optimised with on-going drill results. However the onset of early rains prevented such information becoming available, namely coal thickness and gas content data which is crucial for accurate GIP estimations.

Area

Xstract's GIP estimates are based on definitive polygonal resource estimation techniques over the extensive drill core and petrophysical database. As a first stage, Xstract identified prospect areas where coal seams are present at depths of greater than 250 m (optimal CSG depth limits). The largest uncertainty in ATP1020 is the extent of the coals and their distribution across the project. Xstract therefore assumed that between 40% and 60% of the total area is prospective (worth drill testing).

Thickness

Coal thicknesses are based on a density cut-off of 1.75 g/cc. Lack of density logs from previous petroleum and coal wells makes thickness assessments difficult for ATP1020P. Coal thickness varies in a broad range according to available data. Xstract has assumed a coal thickness of between 2 and 15 m for its estimations.

Depth

Gas is absorbed in coals by physical absorption. This is only possible if there is a sufficient pressure on the coal seams. The depth limit of 250 m is used for delineation of prospective areas. It appears that most of the likely coal seams (more than 70%) are deeper than 250 m in ATP 1020.

Gas Content

There are no direct gas content measurements from the coals in ATP 1020. Gas contents for the Walloon Subgroup within the Surat Basin reportedly range from 1.15 to 13.17 m^3/t ("DAF") and averages 5.18 m^3/t. Wells shallower than 250 m have an average gas content of only 3.85m^3/t. In this assignment, Xstract has assumed a gas content range of between 3 m^3/t and 8m^3/t for its estimations.

The following tables document the derivation of the GIP estimates.

The GIP Equation was used in the following volumetric GIP estimation for the high side estimate (Walloon Coal Measures).

Application Area=	ATP 1020 High		
Notes=			
Composition as CH4=	95	Area(m2) =	3,973,000,000
Coal thickness (m)=	15.00	Acre=	981,728
Area (km2)=	3973.00		
Density (ton/m3)=	1.45		
Ash content (fraction)=	0.35		
Moisture content (fraction)=	0.06		
Avarage Gas Content (m3/t), DAF=	8.00		
GIP=	387.5 Bm3		
GIP(CH4)=	13,561.62 BCF		13.56 TCF
Total Energy (PJ)=	14239.70 PJ		
Total GIP/km2=	3.41 BCF/km2		3.58 PJ/km2

The GIP equation was used in the following volumetric GIP estimation for the low side estimate (Walloon Coal Measures).

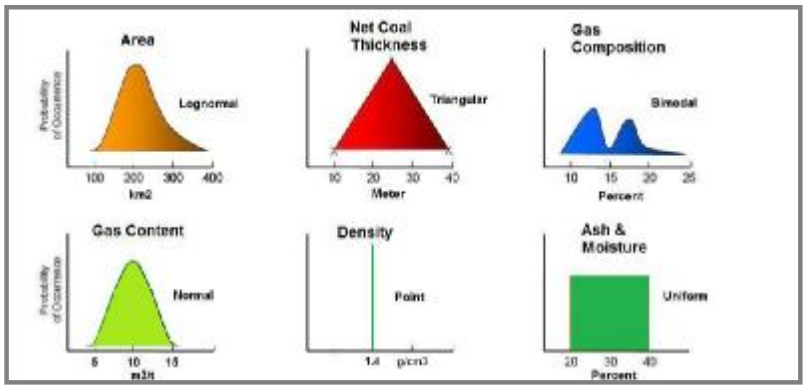
Composition as CH4=	95	Area(m2) =	2,648,000,000
Coal thickness (m)=	2.00	Acre=	654,321
Area (km2)=	2648.00		
Density (ton/m3)=	1.45		
Ash content (fraction)=	0.25		
Moisture content (fraction)=	0.03		
Avarage Gas Content (m3/t), DAF=	3.00		
GIP=	15.8 Bm3		
GIP(CH4)=	551.52 BCF		0.55 TCF
Total Energy (PJ)=	579.10 PJ		
Total GIP/km2=	0.21 BCF/km2		0.22 PJ/km2

The GIP Equation was used in the following volumetric GIP estimation for the high side estimate (Permian Coals).

Application Area=	ATP 1020 High-Permian Coals		
Notes=			
Composition as CH4=	95	Area(m2) =	3,973,000,000
Coal thickness (m)=	10.00	Acre=	981,728
Area (km2)=	3973.00		
Density (ton/m3)=	1.40		
Ash content (fraction)=	0.35		
Moisture content (fraction)=	0.06		
Avarage Gas Content (m3/t), DAF=	6.00		
GIP=	187.1 Bm3		
GIP(CH4)=	6,546.99 BCF		6.55 TCF
Total Energy (PJ)=	6874.34 PJ		
Total GIP/km2=	1.65 BCF/km2		1.73 PJ/km2

Xstract notes that there is a large difference between its High and Low Volumetric Estimations (using deterministic methods) due to the large variation in the reported thickness of the Walloon Coals in the area. To reduce the risk associated with the various input parameters, Xstract also conducted a probabilistic estimation for the Tambo CSG evaluation. Probabilistic Estimation is widely used in CSG Resource/Reserve evaluations (see attached papers).

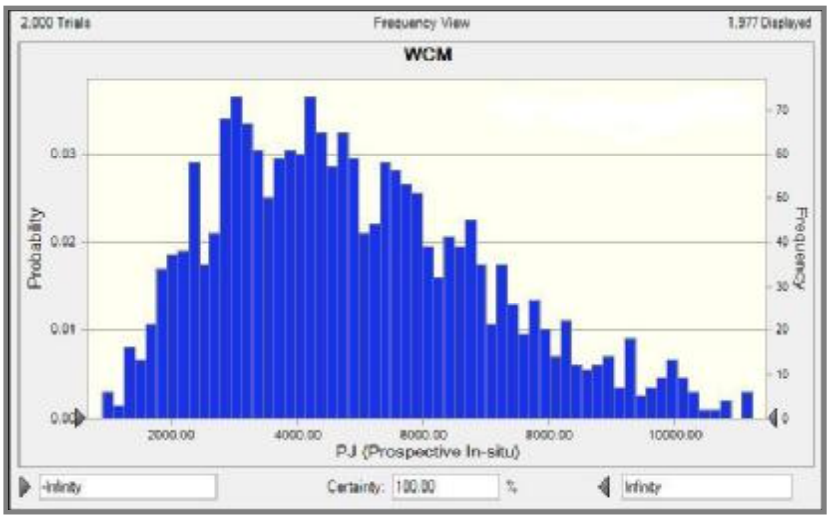
In its Probabilistic Model, Xstract assessed the following parameters individually and their variations as discussed above.



The results of Xstract's probabilistic modelling are presented in Table 6.

Table 6: In-situ Energy Probability Table for Jurassic and Permian Coals in ATP1020P

Tenement Area	P90 Estimate (PJ)	P50 Estimate (PJ)	P10 Estimate (PJ)
ATP 1020 – WCM	2,345	4,636	7,944
ATP 1020 – Permian Coals	1,971	3,094	4,794



e. Summary of the key points that give a reasonable basis for the assessment of quantities of gas underpinning the gas in place estimation in section 3.3.5. of the Mineral Specialist's Report and examples of comparable valuations where this methodology has been used in this way.

In March 2007, The Society of Petroleum Engineers ("SPE"), along with sponsoring organisations the World Petroleum Council ("WPC"), the American Association of Petroleum Geologists ("AAPG") and the Society of Petroleum Evaluation Engineers ("SPEE"), approved the new Petroleum Resources Management System ("PRMS"). The PRMS contains a set of definitions, standards and guidelines for the classification of conventional and unconventional petroleum resources.

Unconventional petroleum resources require different evaluation and development techniques and have their own uncertainty characteristics which can affect reserve estimation and reporting.

The PRMS is designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies to support petroleum project and portfolio management requirements and to improve clarity in global communications regarding all naturally occurring petroleum resources. To ensure the needs of stakeholders are met, it is of great importance that the application of the PRMS to CSG projects be consistent with its intent (Geoffrey J Barker, 2008).

Estimates of gas and coal exploration targets and resources depend directly on net-coal thickness, gas content, coal density, and ash yield, and indirectly on coal rank, structure, hydrogeology, and topography. The term "net coal thickness" refers to the cumulative thickness of strata classified as coal.

Xstract used the methodology developed by the SPE. Gas content values are estimated based on depth versus gas content type curves. Coal thickness is based on a density cut-off of 1.75 g/cc. The GIP calculations are based on definitive polygonal resource estimation techniques over the extensive drill core and petrophysical database.

Reserves are defined by PRMS as those quantities of petroleum anticipated to be commercially recoverable by: application of development projects to known accumulations; from a given date forward; and, under defined conditions. Reserves must satisfy four criteria in that they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. This means reserves must be determined in conjunction with a specified commercialisation strategy (e.g., eminent contract/development, spot sales, third-party infrastructure project, etc.). From there, reserves may be sub-classified based on project maturity and/or characterized by development and production status.

Xstract was provided with data for petroleum wells occurring within a 10 km sphere of influence around ATP1020P to evaluate the coal thickness, gas content, density, moisture and ash content of the coal seams. These parameters have been used to estimate the conceptual GIP. Due to range of uncertainty and variability of each coal target, probabilistic calculations were used to assess likely variations. Xstract notes that there is currently insufficient data for the project to estimate potential resources rationally. However, although the gas content and coal distribution remains unknown in the area, Xstract was requested to assess the potential CSG accumulations and determine whether such quantities may be sufficient for commercial production on a conceptual basis.

Our estimations for the Tambo CSG project are based on the resource potential tempered by the associated risk. In order to assess the likely variation and risk, Xstract used Probabilistic estimations. This method is commonly used for unconventional ("CSG") resource/reserve estimations (see attached documents as references), and includes the following considerations:

- Data analysis and adjacent analogue areas have been studied in detail
- Area limitations and possible recoverable areas have been identified

- Thickness distribution has been studied in and around the area
- Gas content and composition data have been studied from adjacent analogue areas within the Surat Basin
- Limitations on area, thickness, coal data, coal extent and gas content have been considered
- Standard SPE Guidelines have been used in estimations
- Data provided to us are limited for this area, assumptions have been made using correlations and experience from similar areas
- Monte Carlo Simulation-Probabilistic estimation has been used to reduce to risk of uncertainty in resource estimation
- We are confident with our estimations with available data in this stage, however this model can be optimised once more data becomes available for the prospect area.

Examples of valuations that have applied a similar methodology to Xstract in this respect include Deloitte's valuation of ATP 688P and ATP 769P in Westside's Independent Expert's Report and the Ataria appraisal asset and Paranui and Tilbrook projects in the Sunshine Gas Independent Experts Report and the GIP estimate in Sydney Gas' Independent Experts Report.

f. Summary of the key points which give a reasonable basis for the valuation of EPC 1302.

The Moreton project tenements range from an early to advanced exploration status. EPCs 1299, 1313 and 1524 are all considered early stage exploration where coal drill targets have been identified. EPC 1302 is more advanced as historical drilling has defined coal-bearing intervals at the Veresdale Scrub deposit.

Importantly, there are currently no Coal Resources delineated within Lodestone's Moreton Project which meet the minimum reporting requirements of the 2004 JORC Code. There are however, historical estimates of coal seams documented for EPC 1302. Xstract has placed considerable reliance on these historical estimates for the target seams as a guide to understanding the future exploration and mining potential of the Veresdale Scrub deposit.

Exploration by New Hope and Pacific Coal Pty Ltd in the 1980s and 1990s resulted in the definition of numerous coal seams in the Beaudesert area. Based on this work New Hope delineated target mineralisation in the order of 28.8 Mt at the Veresdale Scrub deposit.

The company has not applied for, nor been granted, a waiver under Listing Rule 5.6 by the ASX enabling it to report historical estimates of the coal contained within EPC 1302. However, Xstract considers that the contained coal within EPC 1302 is of importance for the following reasons:

- The historical estimate for the Veresdale Scrub deposit was generated by New Hope Energy, a coal production company, from drilling commenced in 1978. The estimate and means by which it was generated are documented in a New Hope Report dated September 1992 and documented as "Exploration Permit for Coal 221, Veresdale Scrub Area – Preliminary Evaluation". This document is held by the Queensland DME under Record number <CR24297>.
- Lodestone directors believe that the historical estimates continue to be relevant because the drilling pattern over the deposit is of a design and density that satisfactorily investigates the coal seams. Exploration techniques used to acquire data and generate the estimates are similar to those used today. Xstract concurs with Lodestone's views.
- The historical estimates are considered reliable by Xstract because the available drilling and log data indicates work of consistent reliable quality. The geological model is reportedly based entirely on bore holes with reasonable recoveries, which were geologically and geophysically logged to a maximum downhole depth of 120 m below surface. The coal seams

are generally continuous between holes but demonstrate considerable splitting and are typically thin.

- The resource calculation was based on New Hope's mining experience of equivalent seams evident at the Jeebropilly Mine, where coal seams and splits were commonly mined down to 10 cm in thickness. Criteria applied for evaluation comprised: inclusion of seams greater than 0.12 m in thickness, exclusion of partings greater than 0.10 m, application of 400 m maximum extrapolation distance from known data points and default density of 1.5 t/m^3 applied to all seams.
- Estimates were generated using a 250 m by 500 m drilling pattern to an average depth of 80 m. Informal calculations by Xstract from drilling data support Lodestone's stated exploration target.
- At the time, New Hope classified the historical resource as Indicated under the "Australian Code for Reporting of Indentified Coal Resources and Reserves" (using the February 1986 Code a precursor to the 2004 JORC Code). The basis of this classification is not reported. However, using guidelines effective at the time, Xstract understands that portions of the resource defined by boreholes separated by distances of greater than 500 m were classified as Inferred, whilst a borehole separations of between 250 m and 500 m were typically classified as Indicated.
- It was noted by New Hope that the so-called "Inferred Resources" were not included in the estimate above and there was considered to be good potential down-dip (to the southwest) and for upgrading of the defined "resource" between 40 and 100 m depth.
- There are no estimates, other than the historical estimates, available to the company with respect to the Veresdale Scrub deposit.
- A traverse of drilling completed by the company in 2009 to the south of the deposit confirmed, in the Company's opinion, the width of the coal seam in the single section tested.
- The northern tenement boundary of EPC 1302 cuts through the central portions of the Veresdale Scrub deposit. Xstract estimates that approximately 60% of the deposit lies within Lodestone's EPC 1302. As such, Lodestone consider that there is potential for an exploration target of between 15 and 20 Mt of in-situ raw coal within EPC 1302. Jeff Jamieson, CEO of Lodestone Energy and a coal consultant with over 30 years experience, is the Competent Person for this exploration target.
- Under section D16 of the VALMIN Code, the Veresdale Scrub deposit is a material asset whose exclusion from the valuation is likely to understate the value of the Moreton Project by more than 10%.
- In its valuation of Lodestone's initial 50% earn-in to the Moreton project, the Independent Technical Specialist, Jeff Jamieson & Associates ("JJA" - now a conflicted party as Mr Jamieson is CEO of Lodestone), attributed considerable value to the Veresdale Scrub deposit (providing the value basis for the entire transaction). Xstract considers that its report would be materially deficient if the Veresdale Scrub deposit was either excluded or no value assigned.

On this basis, Xstract considers New Hope's historic estimate provides a reasonable reflection of the quantum of coal present within EPC 1302 and has inherent value. However we note that there is no guarantee that the Veresdale Scrub deposit will be re-classified under the 2004 JORC Code in the short term or at all.

g. Examples of valuations in other projects where the expert considered there to be a low likelihood that the deposit would be ultimately developed.

Arguably, the development of any exploration property may be considered to be of low likelihood until the appropriate level of exploration activity and economic studies have been completed. Certainly the rate of exploration success and conversion of exploration projects to actual operating

mines over recent years would suggest that there are very few that are ultimately developed. Yet such properties still have intrinsic value. This value may reside either in the in-situ mineral potential of a property or alternatively in the amount a property may be on-sold to a third party.

To a large extent the amount that a third party may be willing to pay for such a property reflects its corporate strategy, risk profile and risk tolerance. If buyers have a positive view regarding the risks associated with project development and consider that they have the relevant expertise to overcome such risks, they may well place a high value on the project. If however they have a negative view of the project and that development risks are significant or are unlikely to be overcome through negotiation, then they would possibly value this deposit at a lower level.

Xstract considers that most reasonable investors taking a balanced view of the project, would consider there is a risk associated with the future development of this project given its proximity to the Beaudesert residential area. However, that is not to say that the project does not have value, as a company with a higher risk tolerance (than an average investor) may consider that it can negotiate with the relevant parties such that it is able to develop the deposit. As such and based on the methodologies outlined in our valuation report, Xstract expects that such a company would be willing to pay up to $8.8 million (but with a preferred value of $5.3 million) for the Veresdale Scrub deposit.

Importantly, under section 19 of the 2004 JORC Code, the declaration of Coal Resources requires an assessment as to whether there are "reasonable prospects for eventual economic extraction". There is no such requirement for the assessment of exploration targets largely because these tend to be at an early stage of assessment and there have been insufficient studies completed to adequately assess whether such projects are economically viable or able to overcome any social or political impediments.

As such, Xstract would refer to the valuation of any early stage to advanced stage exploration project, where further studies are required to determine the impact on the project economics of various competing economic, social and regulatory factors. Whilst not stated explicitly, all such early stage projects carry a high risk regarding future development options and assumptions. Until at least Measured and Indicated Resources are defined the likelihood of future income from the project cannot be adequately assessed and hence cannot be assessed using valuation techniques such as discounted cash flow analysis. Instead most such projects are largely assessed on the basis of geological prospectivity (including geoscientific rating and geological risk) and/or historic cost.

h. Significance of Queensland Government Policy

Strategic Cropping Land

The changes to the planning framework associated with the Queensland government's proposed strategic cropping land policy have not been finalised. In particular, detailed mapping of strategic cropping land across the state, which is proposed to be used as a trigger for assessment under the proposed framework, has not been finalised.

A discussion paper released in February included a preliminary map showing "candidate areas for strategic cropping land". The map does not include detail sufficient to identify whether the tenements are likely to be affected or otherwise. A disclaimer accompanying the map confirms that the map is likely to change during development of the strategic cropping land planning framework.

If the tenements do fall within strategic cropping land, it will be necessary to review the new planning framework (once that is finalised), to ascertain whether any proposed activities will be subject to an assessment process.

Coal Seam Water Use

The CSG model conditions are suggested conditions to form the basis of a proposed Environmental Management Plan ("EMP"). An EMP is required when applying for an environmental authority to facilitate the grant of a production tenement.

The overarching guidelines include the model conditions, a guideline on preparing an EMP for CSG activities, and a guideline on applying for beneficial use of CSG water.

The tenements are exploration tenements. If a future application is made for a producing tenement out of the current tenements, then the guidelines and model conditions will need to be complied with.

i. Additional information in relation to comments in Appendix C on premiums payable in recent transactions

In Appendix C, Xstract has expressed its view regarding the general state of the market for coal exploration and mining properties which have traded at a premium to analyst expectations over the past few years, in part reflecting the overall trend in the coal price. These asset transaction premiums are largely the result of the foreign entities entering into the Australian market to secure adequate supplies to meet their future production requirements. The Chinese, Indian, Japanese and Korean are the most active foreign acquirers in the Australian mineral industry, however, other major companies such as BHP Billiton, Peabody and Xstrata have also recently made or entered into coal acquisitions.

It is Xstract's opinion that the current market in Australia may pay a premium over the technical value for high quality mineral assets (i.e. assets that hold defined resources that are likely to be mined profitably in the short-term or projects that are believed to have the potential to develop into mining operations in the short term even though no resources have been defined). On the other hand exploration tenements that have no defined attributes apart from interesting geology or a "good address" may well trade at a discount to technical value. Deciding upon the level of discount or premium is entirely a matter of professional judgement. This judgement must of course take account of the commodity potential of the tenement. Currently in Australia for example, a tenement may have an elevated value for its coal, gold or iron potential. There are of course numerous factors that affect the value such as proximity to an established processing facility and the size of the land holding.

The current Australian market in exploration tenements is also strongly impacted by the size of the land holding. In our opinion a large consolidated tenement holding in an area with good exploration potential attracts a premium because of its appeal to large companies.
Xstract notes that other valuers have considered market premiums of between 50% and 300% based solely on spot price increases throughout 2009 (refer to Agricola's valuation of Maverick Energy and Polaris, respectively). In the context of the on-going thermal and coking coal price increases, Xstract considers a 50% premium to the technical value to be realistic and appropriate. Xstract notes that it applied a 30% market premium in its valuation Bowen Energy in late 2009 (refer to Bowen Energy valuation report). Coal prices and the market for coal properties have improved since this time.

Jeames McKibben
General Manager – Corporate Services, Principal Consultant
Xstract Mining Consultants

APPENDIX H – Glossary of Terms

Abbreviation or Term	Meaning
2P	2P (Proved + Probable) reserves
3D	three dimensional
3P	3P (Proved + Probable + Possible) reserves
A$	currency, Australian dollar
A$/GJ	Dollar value per gigajoule
AIG	Australian Institute of Geoscientists
ARC	Application and Retention Cost
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATP	Authority to Prospect for Petroleum or Gas
AusIMM	Australasian Institute of Mining and Metallurgy
BAC	base acquisition cost
CSG	coal seam gas
Cydonia	Cydonia Resources Pty Ltd
daf	dry and ash free
DEM	digital elevation model
DME	Queensland Department of Mines and Energy
Domgas	domestic gas
EPC	exploration permits for coal
EPCA	Exploration permits for coal application(s)
EPS	specified mineral exploration permit
EV	Enterprise Value
FOB	free-on-board
Galilee	Galilee Coal Pty Ltd
GIP	gas-in-place
GJ	gigajoule
IC	Identification Costs
Indicated Coal Resources	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence.
IRTM	DME's interactive resource and tenure maps
JBMS	JB Mining Services Pty Ltd
JJA	Jeff Jamieson & Associates
JORC Code	2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
km	kilometre(s)
km^2	square kilometre(s)
Lodestone	Lodestone Energy Limited
m	metre(s)
m^3/t	cubic metres per tonne
MBA	MBA Petroleum Consultants
Muir	Muir and Barrenger
mD	milliDarcy – unit of measurement of the permeability (ability of a fluid to flow through) (of) a rock.
Measured Coal Resources	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence.
MEE	multiple of exploration expenditure method
MICA	Mineral Industry Consultants Association

Abbreviation or Term	Meaning
Moreton Coal/UCG Project	The Moreton exploration project
Moreton Energy	Moreton Energy Pty Ltd
MRA	Mineral Resources Act 1989
Mt	Million tonne(s)
Mtpa	Million tonnes per annum
Nash	Colin Nash and Associates Pty Ltd
Orbit Capital	Orbit Capital Pty Ltd
P&G	Petroleum and Gas (Production and Safety) Act 2004
P10	Prospective Resource estimates from Low
P50	Prospective Resource estimates from Best
P90	Prospective Resource estimates from High
PJ	petajoule
PRMS	Petroleum Resource Management System
Red Sky	Red Sky Energy Limited
SHE	safety, health, and environmental
SRTM	Shuttle Radar Topography Mission
Surat Resources	Surat Resources Pty Ltd
Tambo Coal & Gas	Tambo Coal & Gas Pty Ltd
Tambo Project	The Tambo Coal /UCG project
Tambo CSG Project	Tambo CSG exploration project
Tambo exploration project	Tambo Coal/UCG Project
TCF	trillion cubic feet
UCG	Underground coal gasification
US$	Currency – US dollar
VALMIN Code	2005 edition of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
WHK	WHK Howarth Corporate Finance Limited
Xstract	Xstract Mining Consultants Pty Ltd