

Lodestone Energy Limited
ACN 075 877 075**Notice of General Meeting
of Shareholders****Explanatory Memorandum****and****Proxy Form****Date of Meeting**

Thursday 2 June 2011

Time of Meeting

11.00 am (Brisbane time)

Place of MeetingConference Room, RBS Morgans,
Level 29, Riverside Centre
123 Eagle Street, Brisbane, Queensland

NOTICE OF GENERAL MEETING

Notice is given that a general meeting of Lodestone Energy Limited ACN 075 877 075 (**Company**) will be held at Conference Room, RBS Morgans, Level 29, Riverside Centre, 123 Eagle Street, Brisbane, Queensland on Thursday 2 June 2011 and will commence at 11.00am (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 Options pursuant to the Share Sale and Purchase Agreement

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

For the purposes of Listing Rule 10.11, the issue of 40,000,000 Options exercisable at \$0.25 each to Allegro Capital Nominees Pty Ltd ACN 079 855 107 pursuant to the Share Sale and 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 any of their associates.

However, the Company need not disregard a vote if:

- (a) 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
- (b) 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.

2. Change of Company name

To consider, and if thought fit, to pass the following resolution as a special resolution:

That the name of the Company be changed to Coalbank Limited.

3. Issue of options to Mr Roger Clarke

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

That for the purposes of Listing Rule 10.11, the issue of 3,000,000 Options exercisable at \$0.1033 each to Mr Roger Clarke, a Director, or his nominee for no consideration and otherwise on the terms and conditions described in the Explanatory Memorandum, be approved.

Voting exclusion statement

The Company will disregard any votes cast on Resolution 3 by Mr Roger Clarke and any of his associates.

However, the Company need not disregard a vote if:

- (a) 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
- (b) 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
28 April 2011

NOTES TO THE NOTICE OF 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 Tuesday 31 May 2011.

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 11am (Brisbane time) on Tuesday 31 May 2011, being 48 hours before commencement of the Meeting. Any Proxy Form received after that time will not be valid for the Meeting.

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

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

Lodestone Energy Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Facsimile: (02) 9287 0309; or
- by **delivery** to Link Market Services Limited at Level 12, 680 George Street, Sydney NSW 2000.

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 and presented to the Company no later than 48 hours before commencement of the Meeting.

Questions

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 Limited

ACN 075 877 075

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of shareholders in relation to the business to be conducted at the general meeting of Lodestone to be held at Conference Room, RBS Morgans, Level 29, Riverside Centre, 123 Eagle Street, Brisbane, Queensland on Thursday 2 June 2011 at 11.00am (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 at the end of this document.

Resolution 1: Approval of issue of Options pursuant to Share Sale and Purchase Agreement

Introduction

On 12 April 2011 the Company entered into a Share Sale and Purchase Agreement (**Agreement**) to acquire all the issued share capital of Coalbank Qld. Pty Ltd ACN 146 810 719 (**Coalbank**), a wholly owned subsidiary of Allegro Capital Nominees Pty Ltd ACN 079 844 107 (**Allegro**).

Allegro is a major shareholder of the Company and is controlled by Greg Baynton, a Director of the Company.

Coalbank has three coal exploration projects in central and south east Queensland. The acquisition of Coalbank (**Acquisition**) by Lodestone will expand Lodestone's coal exploration footprint to about 24,000 square kilometres in Queensland, representing one of the largest in Australia.

In consideration for the Acquisition, Lodestone will issue 40,000,000 Options to Allegro. The Options are exercisable within three years of issue, at an exercise price of \$0.25 per Option. Exercise of the Options is conditional on least 100 million tonnes of coal resources being defined to JORC code reporting standards from any one or more of the Coalbank projects.

If the Options are exercised, the Shares that are issued will represent 5.566% of the then expanded share capital and will give Allegro a 61.51% interest in the Company (assuming that the Company does not issue any other Shares).

Set out in this Explanatory Memorandum is:

- a description of the Acquisition, including the potential advantages and disadvantages of it proceeding;
- an explanation of why shareholder approval is required;
- the recommendation of the Directors; and
- certain information that the Company is required to disclose for the purposes of the Listing Rules.

Why is shareholder approval required?

Listing Rule 10.11 provides that a listed company must not issue, or agree to issue, securities (including options) to a related party of the company without first obtaining shareholder approval.

The Agreement requires the Company to issue Options to Allegro as consideration for the Acquisition. As Allegro is a related party of the Company (because Allegro is controlled by Greg Baynton, a Director of the Company), shareholder approval is required under Listing Rule 10.11 before the Options can be issued.

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

However, shareholder approval under Chapter 2E is not required if the financial benefit is given on terms that would be reasonable in the circumstances if the company and the related party were dealing at arm's length or are less favourable to the related party than such terms.

The Board has formed the view that the Acquisition would be reasonable in the circumstances if Lodestone and Allegro were dealing at arm's length, for the following reasons:

- the Acquisition is consistent with the Company's business plan to develop coal projects;
- the value of the Options to be issued to Allegro is relatively low when compared to the potential benefits to Lodestone of acquiring and developing the Coalbank projects;
- the relatively modest minimum annual expenditure that Lodestone will be required to make in respect of the Coalbank projects;
- the positive impact on Lodestone if the JORC Code coal resources pre-condition to the exercise of the Options is met, when compared to the expenditure that may be required to prove up the resources;
- the limited number of Options to be issued compared to the current issued capital of Lodestone;
- the funds of \$10 million to be received by Lodestone on exercise of all of the Options; and
- Lodestone has obtained professional legal advice on the Share Sale and Purchase Agreement.

Summary of the Share Sale and Purchase Agreement

Under to the Agreement the Company will acquire all the issued share capital of Coalbank from Allegro.

Conditional on shareholder approval

Completion of the Agreement and the obligation to issue the Options is conditional on resolution 1 being passed. If shareholder approval is not obtained within 60 days after the execution of the Agreement, then either the Company or Allegro may terminate the Agreement.

Consideration for acquisition

The consideration for the Acquisition is the issue of 40,000,000 Options to Allegro. If these Options are exercised, Allegro would be issued 40,000,000 Shares in the Company. The Options may be exercised at a price of \$0.25 per Option, and may be exercised within three calendar years after they are issued.

A success-based consideration structure has been agreed to by the parties so that Allegro may only exercise the Options if at least 100 million tonnes of coal resources have been defined to the public reporting standards contained in the JORC Code from any one or more of the Coalbank tenements.

Terms of issue of the Options

If the Options are exercised, the Shares issued to Allegro will rank equally with those Shares currently on issue. The other terms of issue of the Options are set out in schedule 1 to this Explanatory Memorandum.

Value of Options

The Board engaged RBS Morgans Limited to value the Options. The resulting value was 0.21 of a cent per Option (representing a total value of approximately \$82,000).

This value has been derived using the Black Scholes Option Valuation Model assuming the following:

- a Share price of \$0.067 (being the closing price of Shares on the ASX on 10 March 2011);
- an exercise price of \$0.25, which represents a 273.13% premium to that Share price;
- an expiry date of three years from the date of issue;
- a risk free rate of 5.456% per annum;
- a volatility factor of 50%, being the average of the volatility for the ASX 300 Energy Sector and the volatility of the Company's share price;
- no dividends are paid during the term of the Options; and
- a 50% probability of meeting the coal resources target before the Options vest.

Other terms

The Agreement obliges Allegro to ensure that until completion, the business of Coalbank is conducted in the ordinary course, that Coalbank does not alter its share capital, make any changes to its constitutional documents, enter into material capital commitments, dispose of any assets or enter into or terminate any long term material contracts, without the consent of Lodestone.

The Company in turn has agreed that it will not issue or allot any Shares until completion of the Agreement without the consent of Allegro.

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

Overview of Coalbank

Coalbank is a proprietary company. All issued shares of Coalbank are held by Allegro as trustee for the Allegro Capital Trust. Greg Baynton is the sole director of Coalbank.

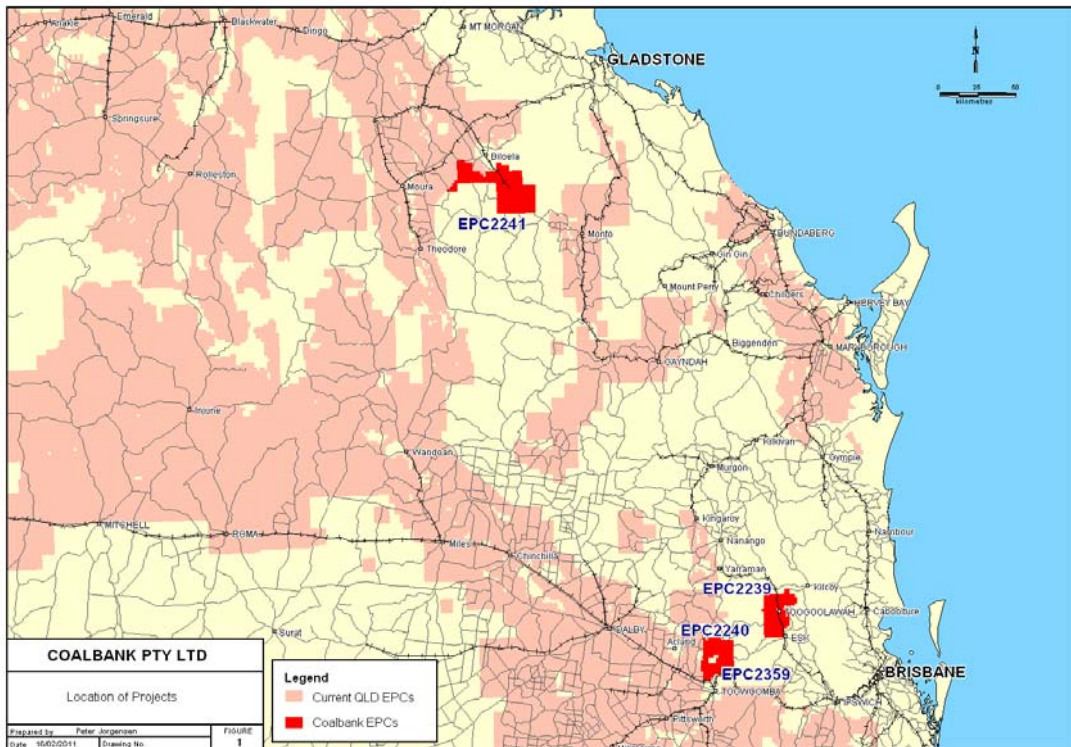
Coalbank has three coal exploration projects: Coal Creek (application for EPC 2239); Coalbank South (application for EPCs 2240 and 2349); and Biloela South (application for EPC 2241).

The projects are located in the historical coal mining regions of central and southeast Queensland and are well located in relation to rail and port infrastructure, water supplies, power stations, existing coal mines and Queensland’s east coast.

All projects contain numerous historical waterbores with coal intersections of up to 24.4 metres of coal at shallow depths.

The map below illustrates the locations of the three Coalbank projects.

Location of Coalbank projects



Coalbank has also lodged an application for EPC 2376, which is a competing application for a coal exploration area surrounding the West Moreton Coalfield and borders the Rosewood and Jeebropilly coal deposits.

Maintenance of the Coalbank projects requires relatively modest minimum annual expenditure totalling an estimated \$1.7 million over a period of three years. The yearly expenditure commitment over the next three years is set out below.

| Period | Minimum expenditure |
|--------------|---------------------|
| Year 1 | \$468,000 |
| Year 2 | \$538,200 |
| Year 3 | \$697,600 |
| TOTAL | \$1,704,200 |

Advantages of the Acquisition

If the Acquisition proceeds, Coalbank will become a wholly owned subsidiary of the Company. The Directors consider that the Acquisition offers the following advantages to Lodestone:

- as a developer of, and investor in, early stage energy projects, the Company will be well positioned to add significant value to the Coalbank projects;
- the combined exploration permits owned by the Company and Coalbank cover over 24,000 square kilometres in Queensland and represent one of Australia's largest coal exploration footprints;
- the acquisition of Coalbank is consistent with the Company's strategy of coal exploration;
- if the Acquisition proceeds the Company's coal portfolio will include the large-scale Tambo Coal Project, Chinchilla East, Moreton Energy and the three new Coalbank projects. Diversification of the coal portfolio would enhance the potential to market a range of coal qualities and exploit diverse coal markets;
- the expanded portfolio would provide new transport options due to the proximity of rail and port infrastructure to the Coalbank projects;
- increase of the geographical diversity of the Company's coal portfolio would mitigate its risk of exposure to adverse weather conditions; and
- if all of the Options are exercised, Lodestone will receive funds of \$10 million.

Disadvantages of the Acquisition

Potential disadvantages of the Acquisition are:

- if the Options are exercised, this would result in a dilution of existing shareholders. The current issued share capital of the Company is 678,597,740. If all the Options are exercised by Allegro and no other Shares are issued, the percentage of the Company controlled by shareholders not associated with Greg Baynton would be reduced from 38.62% to 36.47%;
- if the Options are exercised, the percentage of the Company controlled by shareholders associated with Greg Baynton would increase from 61.38% to 63.53%; and
- if the Acquisition proceeds the Company and its subsidiaries (which will include Coalbank) will, as owners of the tenements registered (or to be registered) in the name of Coalbank, be 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 \$1.7 million over the three year period from 2011 to 2014.

Information regarding by Greg Baynton's interests in Lodestone

Allegro is a proprietary company controlled by Greg Baynton.

Orbit Capital Pty Ltd ACN 092 586 831 (**Orbit Capital**) is proprietary company that is a wholly owned subsidiary of Allegro. Orbit Capital is also controlled by Greg Baynton.

The current collective voting power of Greg Baynton, Allegro, Orbit Capital and each of their associates in the Company is 61.38% based on the 678,597,740 Shares on issue.

If Allegro exercises all Options issued pursuant to the Agreement, it will become the registered holder of 441,997,293 Shares (being the aggregate of its current holding of 401,997,293 Shares and the 40,000,000 exercised Options).

The collective voting power of Greg Baynton, Allegro and Orbit Capital and each of their associates will increase to 63.53% based on the total number of 718,597,740 Shares then on issue.

On the assumption that the Company does not issue any Shares until exercise of the Options, the maximum extent of the increase in the collective voting power of Greg Baynton, Allegro and Orbit Capital and their associates that results from the exercise of the 40,000,000 Options is 2.15% (from an existing voting power of 61.38% to 63.53%).

The effect of the exercise of the 40,000,000 Options is summarised in the following table, which outlines the shareholdings of Greg Baynton, Allegro and Orbit Capital in the Company and their respective relevant interests before and after the exercise of the Options.

| | Current (as at 28 April 2011) ⁴ | | | | If Acquisition proceeds (assumes no further Share issues) | | | |
|--|---|------------|--------------------------------|------------|--|------------|--------------------|------------|
| | Registered holding | | Relevant interest | | Registered holding | | Relevant interest | |
| | Shares | % | Shares | % | Shares | % | Shares | % |
| Allegro | 401,997,293 | 59.24 | 416,534,979 | 61.38 | 441,997,293 | 61.51 | 456,534,979 | 63.53 |
| Orbit | 14,484,353 | 2.13 | 14,484,353 | 2.13 | 14,484,353 | 2.02 | 14,484,353 | 2.02 |
| Greg Baynton ² | 53,333 ¹ | <0.01 | 416,534,979 | 61.38 | 53,333 ¹ | <0.01 | 456,534,979 | 63.53 |
| Orbit, Allegro, Greg Baynton and their associates ² | 416,534,979 | 61.38 | 416,534,979 | 61.38 | 456,534,979 | 63.53 | 456,534,979 | 63.53 |
| Other shareholders | 262,062,761 | 38.62 | 262,062,761 | 38.62 | 262,062,761 | 36.47 | 262,062,761 | 36.47 |
| TOTAL | 678,597,740³ | 100 | 678,597,740³ | 100 | 718,597,740 | 100 | 718,597,740 | 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. Greg Baynton is the registered holder of 1 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 1,053,333 Shares. Assuming all other performance rights on issue also vest and are exercised, a total of 9,250,000 Shares will be issued and the total issued capital of the Company (assuming no other Share issues) will be 727,847,740 Shares if the Acquisition proceeds. In these circumstances, the relevant interest in Shares of Greg Baynton and Allegro and their associates will be 62.86% and Orbit will be 1.99%.

3. This is the issued capital of the Company on Thursday 27 April 2011, being the trading day prior to the Notice being finalised. The Company has options on issue which are presently exercisable. The Company has performance rights on issue which are not presently exercisable, nor will they be exercisable, if the Acquisition proceeds.

Exercise of the Options by Allegro

As noted above, Greg Baynton's voting power in respect of Lodestone will increase by 2.15% if all 40,000,000 Options are exercised.

Section 606 of the Corporations Act prohibits a person from acquiring relevant interests in the voting shares of a public listed company if that person's voting power increases from a position above 20% to a higher position that is less than 90%, other than through one of the mechanisms listed in section 611 of the Corporations Act.

Item 9 of section 611 provides that if a person increases his voting power by only 3% every six months, the acquisition of the shares would not attract the prohibition contained in section 606 of the Corporations Act.

Greg Baynton has advised Lodestone that it is the current intention of Allegro to exercise the Options in accordance with item 9 of section 611. This would mean that shareholder approval would not be required to issue the Shares on exercise of the Options.

Other regulatory information

For the purposes of Listing Rule 10.13, the following information is provided to shareholders in respect of Resolution 1:

- The Options will be issued to Allegro on completion of the Acquisition, which will occur three days after the Meeting.
- Because the Options are to be issued for no consideration, the Company will not raise any funds from the issue. If any or all of the Options are exercised, the funds raised from the issue of Shares to Allegro will contribute to the Company's working capital.
- Pursuant to Listing Rule 7.2 exception 14, where an issue of securities is made with the approval of shareholders under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Consequences if Resolution 1 is not passed

If Resolution 1 is not passed the Company will not be bound to complete the Agreement and will not acquire Coalbank. As a result it will not issue the Options to Allegro.

Directors' interests and recommendations

None of the Directors, other than Mr Greg Baynton, has an interest in the Share Sale and Purchase Agreement or in the issue of the Options to Allegro.

As noted above, Mr Baynton, a Director, controls Allegro. As Mr Baynton has, by virtue of his interests in Allegro, an interest in Resolution 1, he makes no recommendation in relation to it.

For the reasons set out in this Explanatory Memorandum, the Directors, other than Mr Baynton, **unanimously recommend that you vote in favour of Resolution 1** as they consider the Acquisition of Coalbank to be in the best interests of the Company.

Resolution 2: Change of Company name

Resolution 2 seeks shareholder approval for the Company to change its name to Coalbank Limited.

The Directors believe that the new name is in keeping with the Company's strategic direction.

Why is shareholder approval required?

Section 157 of the Corporations Act requires that the new name must be approved by a special resolution of the shareholders of the Company.

A special resolution is a resolution must be passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

Regulatory process

If the special resolution to change the Company's name to Coalbank is passed by the shareholders, an application will be lodged with the ASIC to change the Company's name.

A certificate of change of name will be issued by ASIC. A copy of this certificate will then be provided to ASX, which has advised the Company that, in general, a change of name will take effect on the ASX within two business days of the ASX receiving a copy of the certificate of change of name. The Company anticipates that the change of name will take effect on the ASX during the course of the week beginning 6 June 2011.

Once the change of name takes effect on the ASX, it is proposed that the new ASX trading code for the Company will be **CBQ**.

Directors' recommendation

The Directors **unanimously recommend that you vote in favour of Resolution 2.**

Resolution 3: Issue of options to Mr Roger Clarke

Introduction

Pursuant to Resolution 3, shareholder approval is sought for the purposes of Listing Rule 10.11 for the issue by the Company, for no consideration, of 3,000,000 Options to Mr Roger Clarke or his nominee.

Mr Clarke is a Director of the Company. The Options are to be issued to Mr Clarke in accordance with his agreement to join the Board in 2010.

The Options are to be issued on the terms summarised below.

Why is shareholder approval required?

Listing Rule 10.11 provides that a company must not issue or agree to issue securities to a related party of the company without first obtaining shareholder approval. Under Resolution 3 the Company will, if the resolution is passed, issue options to a Director (i.e., to a related party). Accordingly, the Company must obtain shareholder approval under Listing Rule 10.11 before those options are issued.

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

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

The Board has formed the view that the issue of Options, as contemplated by Resolution 3, represents reasonable remuneration having regard to Mr Clarke's other entitlements to director's fees of approximately \$40,000 per annum and his responsibilities as Director of the Company and therefore that approval of the issue of options to him under Chapter 2E is not required.

Shareholders approved the issue of the Options to Mr Clarke at a general meeting on 8 November 2010; however, due to an administrative oversight the Options were not issued to Mr Clarke within the time required by the Listing Rules, which was one month after the date of that meeting. As a result the Company is required to seek shareholder approval of the issue of the Options again.

Details of Options

The Options to be issued under Resolution 3 will, if this Resolution is approved, be issued on the following terms:

- the Options will be issued for no consideration;
- each Option will, on exercise, entitle the holder to acquire one Share;
- the exercise price of the Options is 10.33 cents, being a 20% premium to the volume weighted average price of Shares over the 14 days on which the Shares were traded on ASX from the date of the notice of meeting dated 5 October 2010 in respect of the general meeting on 8 November 2010;
- each Option will have an expiry date of two years from the date of issue; and

- although the Options are not being issued under the Company's employee share option plan (**ESOP**), the terms of issue of Options under the ESOP will, so far as they are applicable and are not inconsistent with the above terms and conditions, apply to the Options. A summary of the material terms of the Options is set out in schedule 2 to this Explanatory Memorandum.

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

Value of Options

The Board engaged RBS Morgans Limited to value the Options. The resulting value was \$0.0296 per Option (representing a total value of approximately \$88,000).

This value has been derived using the Black Scholes Option Valuation Model assuming the following:

- share price of \$0.0725 (being the closing price of Shares on the ASX on 6 April 2011);
- an exercise price of \$0.1033 per Option;
- an expiry date of two years from the date of issue;
- a risk free rate of 5.189% per annum;
- a volatility factor of 89.677%, which has been determined having regard to the historical trading of the Company's Shares on ASX; and
- no dividends are paid during the term of the Options.

Why are the Options being issued?

The primary purpose of the grant of the Options under Resolution 3 is to better align the interests of the Company and Mr Clarke by providing an incentive to him to remain with the Company and increase shareholder value. Mr Clarke has a depth of knowledge and experience in the investment banking industry and has actively advised and participated in numerous initial public offerings. His contribution to the Board will be particularly valuable as the Company formulates its strategic goals and executes its strategy.

Other regulatory information

For the purposes of Listing Rule 10.13, the following information is provided to shareholders for the purposes of Resolutions 3:

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

- the Company will not provide a loan in connection with the exercise of any Options issued pursuant to Resolution 3.

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

Directors' interests and recommendations

None of the Directors, other than Mr Clarke, has an interest in Resolution 3. As the proposed recipient of Options under Resolution 3, Mr Clarke has an interest in Resolution 3, and therefore makes no recommendation in relation to it. The Directors, other than Mr Clarke, **unanimously recommend that you vote in favour of Resolution 3.**

Glossary of terms

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

Acquisition means the sale by Allegro and purchase by the Company of all the issued shares of the Company.

Agreement or **Share Sale and Purchase Agreement** means the share sale and purchase agreement entered into between Allegro and Lodestone for the acquisition by Lodestone of all the issued share capital of Coalbank.

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

ASIC means the Australian Securities and Investments Commission.

ASX means 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.

Coalbank means Coalbank Qld. Pty Ltd ACN 146 810 719.

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

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.

EPC means an exploration permit for coal granted by the Queensland Department of Employment, Economic Development and Innovation.

Exercise Period has the meaning given in schedule 1.

Exercise Price has the meaning given in schedule 1.

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

Issue Date has the meaning given in schedule 1.

Issue Price has the meaning given in schedule 1.

JORC Code means the 2004 Australian Code for Reporting Exploration Results, Mineral Resources and Ore Resources.

Listing Rules means the official listing rules of ASX.

Meeting means the general meeting of the Company to be held on 2 June 2011.

Notice means the notice of meeting convening the Meeting.

Option means an option to subscribe for a Share.

Optionholder means the holder of an Option.

Proxy Form means a proxy form accompanying the Notice.

Resolution means a resolution set out in the Notice.

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

Schedule 1

Terms and conditions of Options to be issued to Allegro

All Options will be issued to Allegro on the following terms and conditions:

1. Each Option entitles the Optionholder to subscribe for one fully paid ordinary share (**Share**) in Lodestone Energy Limited (**Company**) upon exercise of the Option and payment of the Exercise Price.
2. Each Option may be exercised at an exercise price of 25 cents (**Exercise Price**).
3. The exercise period of the Options will commence on the date on which the Options are issued (**Issue Date**) and will end three calendar years after the Issue Date (**Exercise Period**).
4. An Option may only be exercised in the event that at least 100 million tonnes of total Coal Resources have been defined to the Public Reporting standards contained in JORC Code from any one or more of the Coalbank Tenements. The terms of Coal Resources and Public Reporting have the same meaning as the in JORC Code.
5. An Option will be exercisable by giving notice of exercise to the Company, and paying the Exercise Price for the Option.
6. The Options will not confer an entitlement to receive dividends declared and paid by the Company, nor an entitlement to vote at general meetings of the Company.
7. Subject to the Company's constitution, each Share issue pursuant to the exercise of an Option will rank equally in all respects with the issued shares.
8. The holder of the Options (**Optionholder**) cannot participate in new issues without exercising the Options.
9. The Company will not apply to ASX for official quotation of the Options.
10. The Company will apply for official quotation by ASX of the Shares issued upon exercise of Options within the time period required by the Listing Rules.
11. The Options may not be assigned or transferred.
12. Options not exercised prior to the end of the Exercise Period will lapse at the end of the Exercise Period.
13. In the event of a reorganisation of the capital of the Company, the rights of the Optionholder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
14. If the capital of the Company is reconstructed, the number of Options and/or the exercise price of the Options will be correspondingly reconstructed in a manner that will not result in any additional benefits being conferred on Optionholders that are not conferred on shareholders of the Company.

Schedule 2

Terms and conditions of Options to be issued to Mr Roger Clarke

All Options will be issued to Mr Roger Clarke or his nominee on the following terms and conditions:

1. Each Option entitles the holder (**Optionholder**) to subscribe for one Share on exercise of the Option.
2. Each Option is to be issued for no consideration.
3. Each Option will expire two years from the date of its issue.
4. The exercise price of each Option is \$0.1033.
5. An Option is personal to the participant and cannot be transferred or otherwise disposed of except as determined by the Board.
6. Shares issued on the exercise of Options will rank equally with all existing Shares then on issue.
7. An Option must be exercised before its expiry date. The Board may determine minimum parcels in which Options may be exercised. The exercise by a participant of some Options does not affect their right to exercise other Options at a later time.
8. An Option lapses on its expiry date, or if the Board determines that the participant has acted fraudulently, dishonestly or in breach of the participant's obligations to the Company or an associated body corporate and that their Options should therefore be forfeited.

Options will also lapse upon:

- the participant ceasing to be employed or engaged by the Company (except as a consequence of a disposal or sale of the Company's undertaking);
 - 30 days after the date the participant dies, is retrenched or made redundant, retires or is permanently, physically or mentally incapacitated; or
 - 30 days following a person acquiring a relevant interest in not less than 90% of the Company's Shares or, at the discretion of the Board, ten days following the Company issuing a notice of meeting in connection with a scheme of arrangement, which, if implemented, will give a person a relevant interest in not less than 90% of the Company's Shares.
9. Options to not confer on participants any rights or entitlements to participate in new issues of capital.
 10. In the event of a reorganisation of the issued capital of the Company the rights of Optionholders will be changed to the extent necessary to comply with the Listing Rules.
 11. Options will not be listed for quotation on ASX.
 12. If the Company makes a bonus issue, participants whose Options have not expired will not be entitled to any adjustment to the number of Shares that will be issued to them upon exercise of any of those Options.


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 **11:00am on Thursday, 2 June 2011, at Conference Room, RBS Morgans Level 29, Riverside Centre, 123 Eagle Street, Brisbane Qld** 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
Resolution 1

Approval of issue of Options pursuant to the Share Sale and Purchase Agreement

| For | Against | Abstain* |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Resolution 2


Change of Company Name to Coalbank Limited

| | | |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|--------------------------|

Resolution 3

Issue of options to Mr Roger Clarke

| | | |
|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------|--------------------------|--------------------------|


 * 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
IMPORTANT - VOTING EXCLUSIONS

 If the Chairman of the Meeting is appointed as your proxy, or may be appointed by default and you do **not** wish to direct your proxy how to vote as your proxy in respect of Item 3 above, please place a mark in this box. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even though he/she has an interest in the outcome of that Item and that votes cast by him/her for that Item, other than as proxyholder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Item 3 and your votes will not be counted in calculating the required majority if a poll is called on this Item.
 The Chairman of the Meeting intends to vote undirected proxies in favour of Item 3.

STEP 4
SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

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


HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

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

Appointment of a Proxy

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

Votes on Items of Business - Proxy Appointment

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

Appointment of a Second Proxy

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

To appoint a second proxy you must:

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

Signing Instructions

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

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

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

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

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

Corporate Representatives

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

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:00am on Tuesday, 31 May 2011**, 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:



by mail:

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



by fax:

+61 2 9287 0309



by hand:

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

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