

LODESTONE ENERGY LIMITED
ABN 20 075 877 075

HALF-YEAR REPORT – 31 DECEMBER 2009

Contents

Half-year financial report	
Directors' report	1
Auditor's Independence Declaration	2
Statement of Comprehensive Income	3
Statement of Financial Position	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7
Directors' Declaration	11
Independent Auditor's Review Report	12

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Lodestone Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

LODESTONE ENERGY LIMITED

DIRECTORS' REPORT

Your directors present their report on the company for the half-year ended 31 December 2009.

Directors

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

M Ackland - Chairman
G A J Baynton
J L McCawley
W R Stubbs
L R Grimstone
G Baker

Review of Operations

The operating loss after income tax of the company for the half-year was \$707,061 (2008: loss \$730,156). The loss reflects the nature of the company's principal activity, being coal, coal seam gas (CSG) and mineral exploration.

During FY 2009, Lodestone Energy Limited entered into two farm-in agreements that provide the company with the right to earn up to 50% of the Tambo Coal & Gas Project in the Upper-Surat Basin in Queensland in return for funding and managing exploration activities. The Tambo Coal & Gas Project is an integrated energy project that includes both coal seam gas (CSG) and conventional coal exploration that extends over a large area of Western Central and Southern Queensland, believed by Lodestone Energy Limited to host Walloon Coal Measures.

Lodestone Energy Limited has an agreement to earn 50% equity in the Moreton Energy Project, which consists of four thermal coal tenements in the Beaudesert District, near Brisbane. A drilling program was undertaken during the period involving exploration drilling on all four EPC's.

Expenditure on mineral tenure was minimal.

Auditor's Independence Declaration

The auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 2 of for the half year ended 31 December 2009.

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



M C Ackland
Chairman

16 March 2010



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

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

DECLARATION OF INDEPENDENCE BY CHRIS SKELTON TO THE DIRECTORS OF LODESTONE ENERGY LIMITED

As lead auditor for the review of Lodestone Energy Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

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

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

BDO Audit (QLD) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Chris Skelton', with a long horizontal flourish extending to the right.

CJ Skelton

Director

Brisbane: 16 March 2010

LODESTONE ENERGY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Half-year	
	2009	2008
	\$	\$
Revenue from continuing operations	-	-
Other income	36,344	35,830
Professional services expenses	(163,072)	(92,936)
Tenement expenditure written off	(19,207)	(237,957)
Corporate overhead expenses	(294,296)	(150,612)
Depreciation expenses	(5,719)	(6,576)
Directors' remuneration	(128,982)	(277,905)
Share based payments expense	(132,129)	-
	_____	_____
Loss before income tax	(707,061)	(730,156)
Income tax expense	-	-
	_____	_____
Net loss after income tax	(707,061)	(730,156)
<i>Other comprehensive income</i>		
Other comprehensive income for the period, net of tax	-	-
	_____	_____
Total comprehensive income attributable to the ordinary equity holders of the company	(707,061)	(730,156)
	=====	=====
	Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:		
Basic earnings per share	(0.4)	(0.4)
Diluted earnings per share	(0.4)	(0.4)

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

LODESTONE ENERGY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Note	31 December 2009 \$	30 June 2009 \$
ASSETS			
Current assets			
Cash and cash equivalents		4,990,938	3,355,688
Receivables		252,547	50,818
		<hr/>	<hr/>
Total current assets		5,243,485	3,406,506
		<hr/>	<hr/>
Non-current assets			
Plant and equipment		25,382	11,217
Tenement expenditure		3,123,146	856,878
Other		90,900	66,180
		<hr/>	<hr/>
Total non-current assets		3,239,428	934,275
		<hr/>	<hr/>
Total assets		8,482,913 =====	4,340,781 =====
LIABILITIES			
Current liabilities			
Payables		670,687	897,068
		<hr/>	<hr/>
Total current liabilities		670,687	897,068
		<hr/>	<hr/>
Non-current liabilities			
Unearned income	5	3,000,000	-
		<hr/>	<hr/>
Total non-current liabilities		3,000,000	-
		<hr/>	<hr/>
Total liabilities		3,670,687 =====	897,068 =====
Net assets		4,812,226 =====	3,443,713 =====
EQUITY			
Contributed equity	4	12,369,406	10,425,961
Reserves		681,684	549,555
Accumulated losses		(8,238,864)	(7,531,803)
		<hr/>	<hr/>
Total equity		4,812,226 =====	3,443,713 =====

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

LODESTONE ENERGY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Ordinary shares \$	Retained earnings \$	Share based payments reserve \$	Total \$
Balance at 1 July 2008	6,769,825	(5,972,062)	60,063	857,826
Loss for the period	-	(730,156)	-	(730,156)
Total other comprehensive income	-	-	-	-
Total comprehensive income	-	(730,156)	-	(730,156)
Transactions with owners in their capacity as owners				
Shares issued during the period	1,489,262	-	-	1,489,262
Dividends paid or provided for	-	-	-	-
Non-cash share based payments	-	-	138,874	138,874
Sub total	1,489,262	-	138,874	1,628,136
Balance at 31 December 2008	8,259,087	(6,702,218)	198,937	1,755,806
Balance at 1 July 2009	10,425,961	(7,531,803)	549,555	3,443,713
Loss for the period	-	(707,061)	-	(707,061)
Total other comprehensive income	-	-	-	-
Total comprehensive income	-	(707,061)	-	(707,061)
Transactions with owners in their capacity as owners				
Shares issued during the period	1,943,445	-	-	1,943,445
Dividends paid or provided for	-	-	-	-
Non-cash share based payments	-	-	132,129	132,129
Sub total	1,943,445	-	132,129	2,075,574
Balance at 31 December 2009	12,369,406	(8,238,864)	681,684	4,812,226

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

LODESTONE ENERGY LIMITED

STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	2009	Half-year	2008
	\$		\$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)	95,288		1,890
Payments to suppliers (inclusive of goods and services tax)	(821,423)		(475,205)
Interest received	30,997		32,997
	<hr/>		<hr/>
Net cash outflow from operating activities	(695,138)		(440,318)
	<hr/>		<hr/>
Cash flows from investing activities			
Payments for tenement expenditure	(1,817,472)		(159,659)
Payments for fixed assets	(19,884)		(6,152)
Payment for security deposit	(24,720)		(14,500)
Refund of security deposit	-		-
	<hr/>		<hr/>
Net cash outflow from investing activities	(1,862,076)		(180,311)
	<hr/>		<hr/>
Cash flows from financing activities			
Proceeds from share issue	1,957,000		1,429,262
Payment of share issue costs	(13,555)		-
Proceeds from sale of royalty	2,249,019		-
	<hr/>		<hr/>
Net cash inflow from financing activities	4,192,464		1,429,262
	<hr/>		<hr/>
Net increase (decrease) in cash and cash equivalents	1,635,250		808,633
Cash and cash equivalents at the beginning of the half-year	3,355,688		586,204
	<hr/>		<hr/>
Cash and cash equivalents at the end of the half-year	4,990,938		1,394,837
	<hr/> <hr/>		<hr/> <hr/>

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

LODESTONE ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Lodestone Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Critical judgements in applying accounting policies

These accounting policies include the capitalisation of tenement expenditure which as at 31 December 2009 amounts to \$3,123,146 (30 June 2009: \$856,878). Expenditure on tenements represents a significant asset of the company. Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of tenement expenditure there is uncertainty as to the carrying value of tenement expenditure. The ultimate recovery of the carrying value of tenement expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interest in the tenements. The Directors are of the opinion that the tenement expenditure is recoverable for the amount stated in the financial report.

Accounting Standards not previously applied

The company has adopted the following new and revised Australian Accounting Standards issued by the Australian Accounting Standards Board ("AASB") which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in the information from the previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognized in profit of loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and
- presentation of a third Statement of Financial Position as at the beginning of a comparative financial year where relevant amounts have been affected by a retrospective change in accounting policy or material reclassification of items.

Basis of Preparation and Going Concern Basis

The financial statements have been prepared on the going concern basis. The financial report has also been prepared on a historical cost basis. As at 31 December 2009 the company had net assets of \$4,812,226 and continues to incur expenditure on its exploration tenements drawing on its cash balances. As at 31 December 2009 the Company had \$4,990,938 in cash and cash equivalents. The ultimate recoupment of costs carried forward for exploration and evaluation is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. Ultimate exploitation through the development of mines will depend on raising necessary funding. The directors are of the opinion that they will be able to raise capital as and when required. At this time the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2009. Accordingly,

LODESTONE ENERGY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

Note 1 Summary of significant accounting policies (continued)

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

Segment information

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the company's chief operating decision maker which is considered to be the Board of Directors. The Directors consider that whilst exploration activities are monitored by tenement that the segments in which the company operates is Coal, CSG and Mineral exploration.

Note 2 Segment information

(a) Description of segments

The consolidated entity is organized into the following segments:

Coal

Exploration for Coal – This activity commenced in September 2008

Oil & Gas ("CSG")

Exploration for Oil & Gas – This activity commenced in June 2009

Base Metals ("Minerals")

Exploration for base metals.

Half-year ended 31 December 2009	Coal \$	CSG \$	Minerals \$	Unallocated \$	Consolidated \$
EBITDA	-	-	(19,207)	(550,006)	(569,213)
Half-year ended 31 December 2008	Coal \$	CSG \$	Minerals \$	Unallocated \$	Consolidated \$
EBITDA	-	-	(237,957)	(485,623)	(723,580)
	Coal \$	CSG \$	Minerals \$	Unallocated \$	Consolidated \$
Total segment assets					
31 December 2009	2,171,654	751,083	200,409	5,359,767	8,482,913
30 June 2009	722,765	48,394	112,719	3,456,903	4,340,781

LODESTONE ENERGY LIMITED

Note 2 Segment information (continued)

Reconciliation of EBITDA to loss before income tax is as follows:

	31 December 2009 \$	31 December 2008 \$
EBITDA	(569,213)	(723,580)
Depreciation	(5,719)	(6,576)
Share-based payments	(132,129)	-
	<hr/>	<hr/>
Loss before income tax from continuing operations	(707,061)	(730,156)

Note 3 Loss for the half-year

	2009 \$	Half-year	2008 \$
--	------------	-----------	------------

Loss for the half-year includes the following items that are unusual because of their nature, size or incidence:

Expenses

Loss before income tax includes the following specific expenses:

Tenement expenditure written off	19,207	237,957
Depreciation	5,719	6,576

Note 4 Equity securities issued

	Half-year		Half-year	
	2009 Shares	2008 Shares	2009 \$	2008 \$
Issues of ordinary shares during the half-year				
Shares issued	10,100,000	48,085,314	1,957,000	1,489,262
Share issue expenses			(13,555)	-
			<hr/>	<hr/>
Net increase in contributed equity	10,100,000	48,085,314	1,943,445	1,489,262

	Half-year	
	2009 Shares	2008 Shares
Movement in options during the half-year		
Options issued	-	10,000,000
Options exercised	(100,000)	(3,835,239)
Options expired	-	(27,098,395)
	<hr/>	<hr/>
	(100,000)	(20,933,634)

LODESTONE ENERGY LIMITED

Note 5 Non-current liabilities – Unearned income

	31 December 2009 \$	30 June 2008 \$
Unearned Income from sale of royalty	3,000,000	-

During the period the company sold a 2% royalty interest under Royalty Agreements for a total price of \$3 million. This entitles the holder to receive a future royalty in respect of Lodestone's share of sales of coal and gas produced from all tenements currently held or obtained prior to 31 December 2009 by Lodestone, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal & Gas Project in the Upper Surat Basin. This amount does not represent an amount payable by the Company, but will be recognised as income over the future period that the 2% royalty obligation becomes due and payable and is recognised as expense.

Note 6 Commitments for expenditure

	31 December 2009 \$	30 June 2008 \$
Exploration commitments		
Commitments as at 31 December 2009 for payments under exploration permits for minerals in existence at the reporting date but not recognised as liabilities payable are as follows:		
Within one year	3,258,000	2,914,702
Later than one year but not later than 5 years	12,192,500	9,309,650
Later than 5 years	-	-
Commitments as at 31 December 2009 not recognised in the financial statements	15,450,500	12,224,352

So as to maintain current rights to tenure of various exploration tenements, the company will be required to outlay amounts in respect of tenement exploration expenditure commitments. These outlays, which arise in relation to granted tenements are noted above. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished, work program deferred or Joint Venture Agreement concluded.

Exploration commitments total \$15,450,500. They are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, and new capital raisings.

Note 7 Events occurring after the balance sheet date

There have been no matters or circumstances that have arisen since the end of the half-year, that have significantly affected, or may affect, the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

LODESTONE ENERGY LIMITED

DIRECTORS' DECLARATION

The directors declare that:

- (a) The financial statements and notes set out on pages 1 to 10 are in accordance with the Corporations Act 2001 and:
 - (i) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date.

- (b) In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



M C Ackland
Chairman

Brisbane
16 March 2010



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

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

INDEPENDENT AUDITOR'S REVIEW REPORT TO MEMBERS OF LODESTONE ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lodestone Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Lodestone Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lodestone Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

Emphasis of Matters

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

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

The ultimate recoupment of costs carried forward for exploration and evaluation is dependent upon the successful development and commercial exploitation or sale of the respective areas of interest. Ultimate exploitation through the development of mines will depend on raising necessary funding.

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

BDO Audit (QLD) Pty Ltd

BDO

CJ Skelton

Director

Brisbane: 16 March 2010