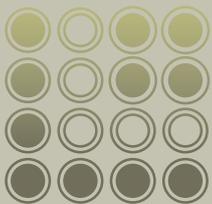


2009

**ANNUAL
REPORT**



**LODESTONE
ENERGY.**

Corporate Directory

Lodestone Energy Limited ABN 20 075 877 075

Directors	Martin Ackland (Chairman) Grahame Baker Greg Baynton Lance Grimstone John McCawley Bill Stubbs
Chief Executive Officer	Jeffrey Jamieson
Manager Tambo Prospect	Bruce Patrick
Company Secretary	Leni Stanley
Principal registered office	Level 1, 101 Edward Street Brisbane QLD 4000 (07) 3229 6606
Share register	Link Market Services Limited Level 19, 324 Queen Street Brisbane QLD 4000 (02) 8280 7454
Auditor	Hacketts DFK Level 3, 549 Queen Street Brisbane QLD 4000 (07) 3839 9733
Solicitors	Carter Newell Level 13, 215 Adelaide Street Brisbane QLD 4000 (07) 3000 8331 HopgoodGanim Level 8, Waterfront Place 1 Eagle Street Brisbane QLD 4000 (07) 3024 0000
Bankers	Westpac Banking Corporation 388 Queen Street Brisbane QLD 4000
Stock exchange listing	Lodestone Energy Limited shares are listed on the Australian Securities Exchange (stock code: LOD)
Website address	www.lodestonenergy.com.au

Contents

Corporate Directory	Inside front cover
Lodestone Energy Limited	2
Chairman's Perspective	3
CEO's Report and Operational Review	4
Corporate activity	4
Energy Prospects	4
Tambo Coal and Gas Prospect areas	4
Moreton Project	6
Operational Review: Minerals Prospects	8
Mount Morgan Prospect	8
Limestone Creek Prospect	9
Minerals tenure relinquished by Lodestone	10
The year ahead	10
Lodestone's Tenure Schedule	11
Directors and Management	13
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Directors' Report	15
Remuneration Report	17
Auditor's Independence Declaration to the Directors of Lodestone Energy Limited	23
Corporate Governance Statement	24
Financial Statements for year ended 30 June 2009	33
Income Statements	34
Balance Sheets	35
Statements of changes in equity	36
Cash flow statements	37
Notes to the Financial Statements	38
Independent Auditor's Report to the members of Lodestone Energy Limited	56
Shareholder Information	58

Lodestone Energy Limited

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

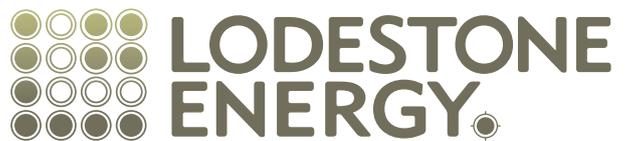
Walloon Coals generally contain more organically bound hydrogen than most other thermal coals, so when burned they produce lower emissions of carbon dioxide. Consequently, demand for these coals is expected to increase.

Lodestone plans to build an energy business supplying CSG and coal from its Walloon Coal Prospect areas to domestic and export markets.

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

- The **Tambo Coal and Gas Prospect** area in the Upper Surat Basin, which Lodestone believes to be a new energy province in Queensland. The prospect is targeting both coal and CSG resources in a very large area, centred on Tambo and Augathella. Subject to successful exploration this prospect is likely to enable Lodestone to secure a foothold in the rapidly developing CSG sector in Queensland; and
- The **Moreton Energy Coal Project** in the Clarence-Moreton Basin south-west of Brisbane. Given its proximity to rail infrastructure, and subject to exploration success, this prospect may facilitate the export of thermal coal via the Port of Brisbane.

Lodestone has also retained its two key minerals exploration prospects - Mount Morgan and Limestone Creek.



Chairman's Perspective

During the twelve months under review, the restructuring of Lodestone from a minerals to an energy focused company was largely completed. This change was endorsed by Shareholders at our extraordinary general meeting in June 2009, when shareholders voted to change the company's name to Lodestone Energy Limited.

With our energy focus now firmly established, we were pleased to secure investment funding from a number of quarters, and stimulate our share price, which rose significantly during the year in review.

We have commenced work and expenditure as part of our Farm-In agreements, with the Moreton Energy Project and the Tambo Coal and Gas Prospects well into their initial phases.

The Moreton Energy Project commenced in June 2008 when Lodestone entered into a Farm-In agreement to earn 50% of the prospect, which consisted of three thermal coal tenements in the Beaudesert/Bromelton District near Brisbane. Subsequently, two additional coal tenements have been applied for in the area. Exploration activities are now well advanced and we look forward to release of drilling results by the end of 2009.

In June 2009, Lodestone finalised two Farm-In agreements to earn 50% of the Tambo Coal and Gas Prospects in Central Queensland. These prospects are of a significant scale and have the capacity to transform the company from an explorer to a CSG and coal production company if exploration is successful in validating our concept.

While much work has to be completed before this can be realised, geological studies performed by Lodestone during the latter part of the financial year, based on the addition of water bores to the existing drilling data, indicate that the Tambo Prospect area is prospective for Surat Basin Coal and CSG.

With funding now secured for the initial phase of exploration and drilling planned for the first half of the coming year, Lodestone intends to confirm its confident assumption that this large tenement area represents a genuine extension of the Surat Energy Province, both for thermal coal and CSG.

To support the Tambo project, Lodestone appointed experienced coal geologist Bruce Patrick in June 2009 as Project Manager. He will work closely with our Chief Executive Officer Jeff Jamieson and Director Lance Grimstone to guide this prospect through its important exploration phases.

In line with our energy strategy, we further strengthened the Board with the appointment of Grahame Baker in April as an independent director. Grahame has expertise in upstream petroleum, particularly CSG.

Over the coming years, your Board intends to focus on building an energy business supplying CSG and lower carbon dioxide emitting coals from our Walloon Coal Prospects in the Surat and Clarence-Moreton basins. We are confident and excited by Lodestone's prospects and look forward to the planned drilling activities during the coming year.

Finally I would like to thank the Lodestone team for their efforts during the year, Shareholders for their continued support and acknowledge the Queensland Department of Mines and Energy.



M C Ackland
Chairman

CEO's Report and Operational Review

CORPORATE ACTIVITY

Our core focus during the year was on implementing the Board's plan to convert Lodestone into a energy-focused exploration company with significant projects and solid agreements with joint venture partners.

During the first half of the financial year, preparatory work was undertaken for the Moreton Energy Coal Project, prior to commencement of fieldwork. We also conducted negotiations with our Joint Venture partner, Tambo Coal & Gas Pty Limited, which resulted in two Farm-In agreements to earn up to 50% of the coal and CSG prospects in Central Western Queensland.

To secure ongoing funding for the Company, presentations were undertaken with potential investors and we continued to keep the Queensland Department of Mines and Energy, local brokers and shareholders informed of our progress through targeted presentations which were released to the ASX.

During the year in review, \$5.0 million was raised to fund the initial phase of Lodestone's proposed exploration programs, via placements and a royalty agreement with a Canadian-based resources investor. The sale of a 2% royalty interest achieved AUD\$3 million for Lodestone and has provided an important source of alternative funding to advance our coal and CSG interests in Queensland. This allowed Lodestone to achieve our initial funding objectives in a non-dilutionary way for shareholders and enabled Lodestone to commence exploration to fulfil our joint venture and tenure expenditure commitments on both energy projects.

Under the Agreements, Lodestone's royalty counterparty will receive a future 2% royalty on Lodestone's share of sales of coal and gas produced from all tenements currently held or obtained prior to 31 December 2009, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal and Gas Prospect in the Upper Surat Basin.

In line with our new energy strategy, Lodestone reduced its minerals tenure areas during the year. At the time of reporting, we retain only two minerals prospects at Mount Morgan and Limestone Creek.

ENERGY PROSPECTS

Tambo Coal and Gas Prospect areas

Lodestone believes its Tambo Coal and Gas Prospect is an extension of the known Surat Basin that has been highly productive for thermal coal and GSG, and as such, is expected to become a major energy project in Queensland.

Lodestone entered into two Farm-In agreements with Tambo Coal & Gas Pty Limited in relation to the Tambo Coal Prospect and the Tambo Gas Prospect respectively. The Farm-In agreements give Lodestone the right to earn up to 50% of Authority to Prospect (ATP)1020, which is believed to be a good prospect for CSG, and 50% of seven Exploration Permits for Coal (EPCs) that are prospective for coal.

Following a comprehensive review of the prospects, Lance Grimstone, a non-executive Director of Lodestone and a highly experienced coal geologist, recognised there was a large gap in the available exploration data along the Jurassic basin margins west of Mitchell. Data from the few petroleum wells demonstrates that little attention was paid to the Jurassic sequence which included coal intersections. Available Departmental drill holes are few and far between. Lodestone has been able to exploit this gap in knowledge by reference to the many hundreds of water bores throughout the district dating back to 1900 that were on file at the Department. Although these bores highlighted good thicknesses of coal, they were never geophysically logged. Mr Grimstone's detailed analysis of the available drilling data suggests that there is strong evidence to support the probability of economically accessible coal deposits and CSG in the area.

Lodestone is therefore targeting early CSG revenues and future large-scale open cut mining operations for low emission Surat Basin coals. The Tambo Prospect's aggregated tenure, when fully granted by the Queensland Department of Mines and Energy, will cover an area of approximately 1.5% of Queensland.

Highlights 2009

Work undertaken during 2009 included:

- Geological studies by Lodestone's Director Lance Grimstone on existing drilling data from water bores, and previous drilling for oil and gas, have supported the opinion that the Surat Basin extends through the Tambo tenure to the north-west and that there are good prospects for Surat Basin coal and CSG.
- Additional EPCs in the area were applied for on the basis of this review of available data.
- The Queensland Department of Mines and Energy granted ATP 1020 in April 2009 and exploration planning has initially been focused on this tenement.
- Lodestone appointed Bruce Patrick to lead the Tambo Project. Bruce is an experienced Project Manager who has made previous contributions towards understanding the stratigraphy of the Surat Basin.

- *The Tambo Coal and Gas Prospect covers a very extensive area – similar in size to the published extent of the Surat Basin.*
- *Significant coal is evident in logs of historic existing water bores and petroleum wells.*
- *These coal deposits are likely to be of similar age and quality to those in the Surat Basin along strike to the east.*
- *The prospect area is likely to contain gaseous coals, with permeability anticipated to be similar to the Surat Basin coals. The known Surat Basin contains some of the most productive CSG fields in Australia and is the cornerstone for the major LNG plants proposed for Gladstone.*
- *The next phase of exploration, expected to be under way in the December quarter, is designed to confirm Lodestone's Upper Surat exploration model.*

Tambo Prospect ownership and tenure

Tambo Coal Seam Gas (CSG) Prospect (up to 50% Lodestone)

The gas Farm-In agreement is for in-seam CSG exploration within ATP 1020. This permit overlies several Tambo EPCs, which simplifies tenure management and exploration and allows a common exploration approach and simpler relationships with property owners.

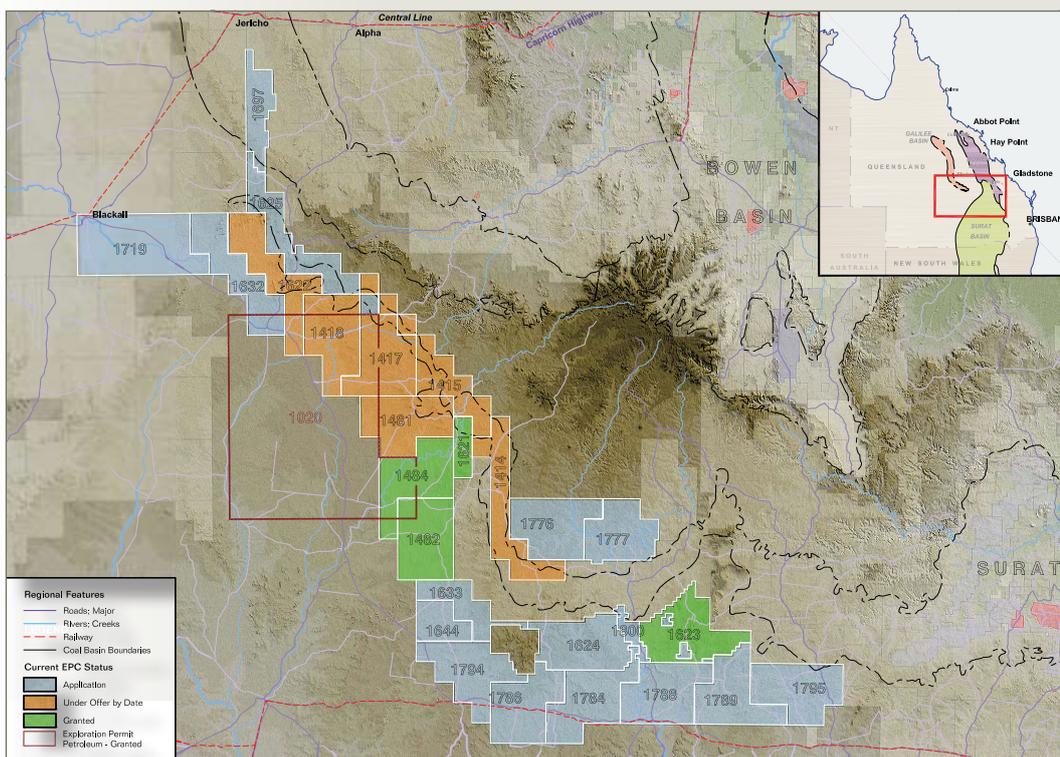


Figure 1.
Tambo Prospect tenure

Tambo Coal Prospect (up to 50% Lodestone)

The second Farm-In agreement relates to seven coal EPCAs (1414, 1415, 1417, 1418, 1481, 1482 and 1484). These are large application areas, with most being up to 300 sub-blocks in size or approximately 900km² each.

Lodestone and Tambo Coal & Gas Pty Limited also applied for an additional 19 EPCAs on a 50:50 basis. These applications create a very large prospect footprint area.

The Queensland Department of Mines and Energy has now granted EPC 1482, EPC 1484, EPC 1621 and EPC 1623, which is one of the joint EPCs. Tambo Prospect tenure is shown in Figure 1.

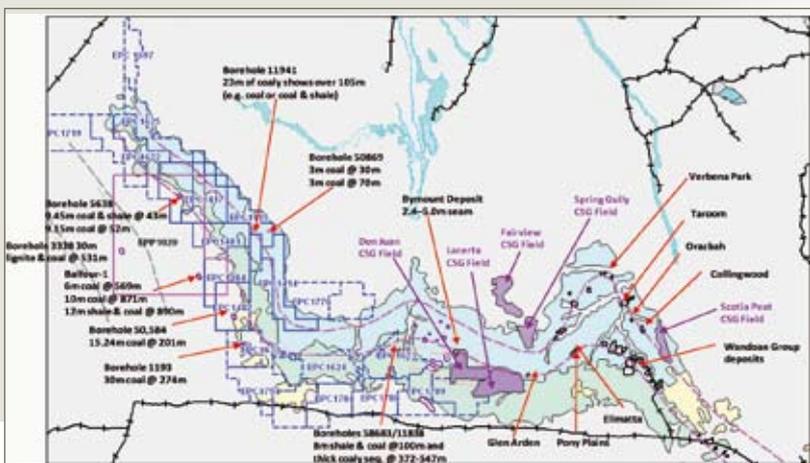
Outlook 2009-10

Lodestone is of the opinion that the current evidence supports the view that the Surat Basin extends into the Tambo Prospect tenure as shown in Figure 2.

It is believed that the Walloon Coal Measures sequence continues westward from the known occurrences at Bymount, Don Juan and Lacerta. Once we have sufficient evidence to validate the concept, the area will be systematically explored for commercially viable coal resources within the EPCs, and for coal seam gas in ATP1020.

Lodestone's initial exploration objective is to redrill those water bores where significant coal intersections were indicated in Departmental records. The targeted drilling program will commence in ATP 1020 and then throughout its EPC portfolio as they are granted. The intent during the first half of 2010 is to develop the stratigraphic knowledge throughout the district, refine targets for ongoing deposit definition, and improve the understanding of the prospectivity of the tenements.

Figure 2.
Tambo Prospect
tenure with
adjacent
projects
and coal
intersections



Moreton Project

In 2008 Lodestone entered into a Farm-In agreement to earn 50% of the Moreton Project, which consists of four thermal coal tenements and one application for a new EPC to the east in the Beaudesert/Bromelton area. All four original EPCs were granted by the DME during the year in review. Locations of the tenements are shown in Figure 3.

Exploration activities are now well advanced and drilling is currently underway. The Moreton Project areas are located strategically on or near railway infrastructure connected with Brisbane. They have good road access, close proximity to Brisbane and Gold Coast population centres, and are close to the Port of Brisbane.

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

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

Lodestone's exploration focus for the Moreton Energy Project remains the thermal coal-bearing prospects near Beaudesert and Bromelton, in southern Queensland. The Beaudesert/Bromelton District has a history of small-scale underground coal mining. Historic exploration has shown the presence of coal and coal resources.

Lodestone's objectives are to prove that economical deposits exist and to supply the thermal coal export market from the Port of Brisbane.

Moreton Energy's tenements include two former small-scale collieries that operated briefly during the early part of the Twentieth Century (the former Strathnaver Colliery and the former Stansfields Colliery) and approximately 60% of the un-mined Veresdale Scrub Deposit.

In 1992, New Hope Collieries categorised the **Veresdale Scrub Deposit** (now partly covered by Moreton Energy's EPCA 1302) as a typical Walloon coal with a high volatile content, high raw ash, and low total sulphur.

The **Strathnaver Colliery/Bromelton Prospect** within EPC 1299 appears under-explored and has potential to host coal resources at shallow depths in an area set aside for heavy industries. This prospect area has good road and rail access.

Moreton Energy's **Albert River Coal Prospect** tenement, EPC 1313 covers approximately 200 square kilometres. The interstate rail line that continues north through the Bromelton Prospect area to the Port of Brisbane traverses this tenement.

Tertiary basalts within EPC 1313 generally overlie the Walloon Coal Measures, except in a sizeable window in the south-east where there is potential for shallow, good quality coal resources.

EPC 1524 (**Rathdowney/Palen Creek**) also hosts known coal outcrops, and is situated on the interstate rail line south of Bromelton.

EPCA 1823 is expected to host extensions of the Walloon Coal measures east of the Veresdale coal deposit.

All tenements, other than EPCA 1823, were granted by the Queensland Department of Mines and Energy during the 2009 financial year.

- *Exploration activities are now well advanced and drilling is underway.*
- *Tenements are close to rail, road and port infrastructure.*
- *The project's focus is on the shallow thermal coal-bearing prospects near Beaudesert and Bromelton.*
- *All EPCAs were granted by the Queensland Department of Mines and Energy in 2009.*

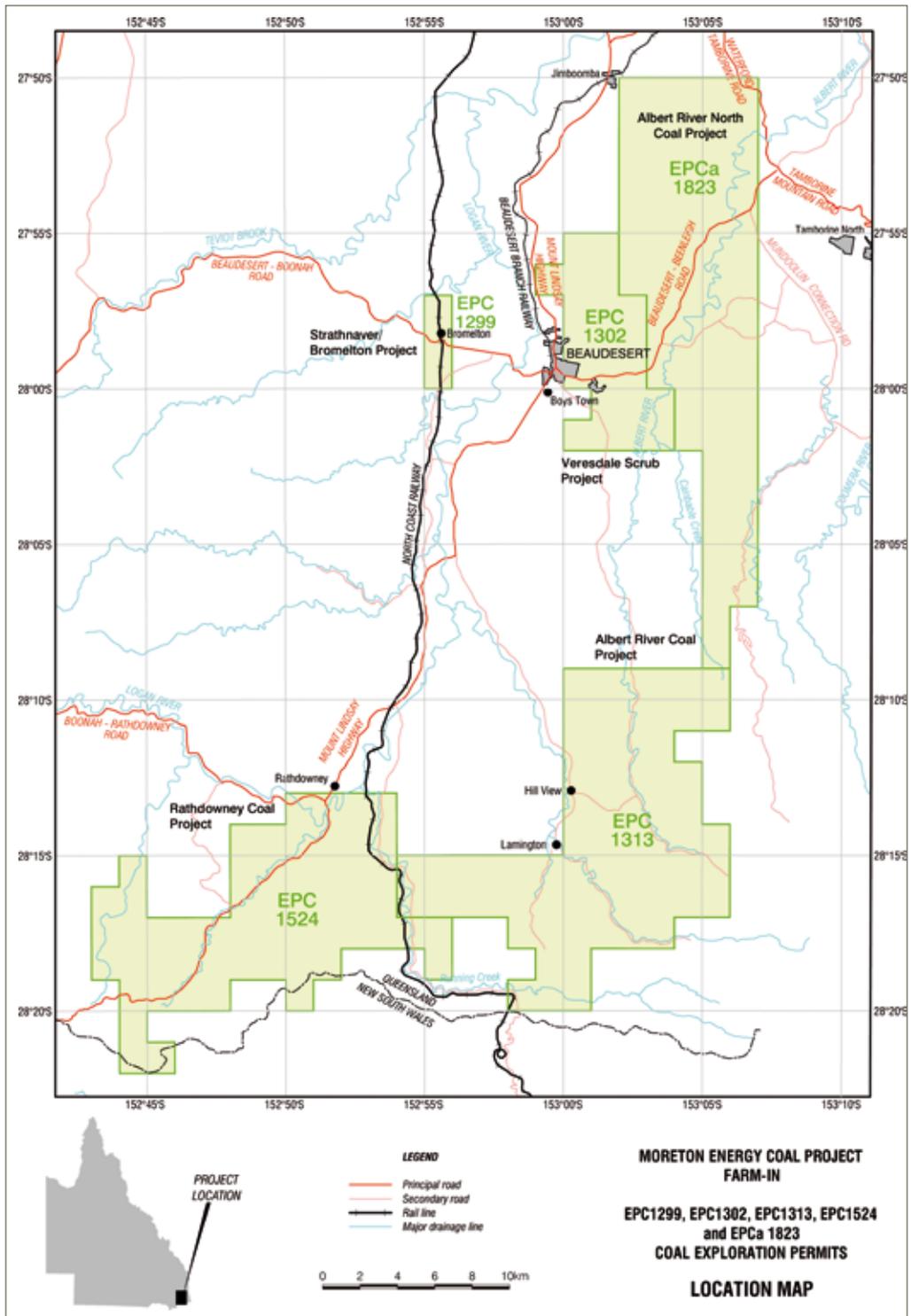


Figure 3.
Moreton Project EPCs
and EPCA

OPERATIONAL REVIEW: MINERALS PROSPECTS

During the year, and in pursuit of a focused energy strategy, Lodestone continued to exit most of its minerals prospects, but retained its interest in the Mount Morgan and Limestone Creek Prospects.

Using modern techniques, Lodestone continues its search for new copper-gold orebodies in the two richly endowed historic goldfields in Central and North Queensland.

Mount Morgan Prospect

This wholly owned prospect is centred on the historic gold mining town of the same name, 50 kilometres south-west of Rockhampton, Queensland. Lodestone is exploring for gold, copper and molybdenum. Lodestone's Mount Morgan Prospect consists of five distinct areas of interest.

Lodestone's four prospects north of Mount Morgan, and part of the Hamilton Prospect, are available for farm-out(s). These prospects are outlined below. Locations are shown in Figure 5.

Mount Morgan farm-out proposals

Discussions with representatives of two major mining companies took place in the past twelve months. Although varying degrees of interest were expressed, no firm proposals have been received. Lodestone



Figure 4.
Minerals Prospects location map

remains open to realistic proposals and, in light of improved commodities markets sentiments, especially for copper and gold, intends to offer one or more farm-outs selectively. Lodestone 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.

Prospect	Location	Targeting	Models	Thumbnail history	Needs
Discoverer Two	7 km east of Mount Morgan	Skarn copper-molybdenum	Red Dome, Fortitude	Drilled by: GeoPeko in 1970s Newcrest in 1990s. LOD flew VTEM in 2007	Deep drilling program 3+ holes for 2500m+
Moongan	5km east of Mount Morgan	VTEM conductor	Mount Morgan	Lodestone flew VTEM in 2007	2+ holes for 800+m
Morganite	3km north of Mount Morgan	VMS copper-gold	Various	Drilled by Gold Fields in 1980s, also drilled by others. High-res airmag flown by LOD in 2005. VTEM and magnetics flown by LOD in 2007.	5+ holes for 2000m+
Midas	4km north-west of Mount Morgan	VMS copper-gold	Structurally controlled copper-gold	Old, narrow, high-grade workings. LOD flew high-resolution magnetics in 2005. Drilled by LOD 2007 and LOD flew VTEM in 2007.	Detailed mapping, stratigraphic drilling. 2+ holes for 2000m+
Hamilton	7km south of Mount Morgan	VTEM conductive horizons	Sullivan	Drilled by BHP in 1980s. Drilled by LOD in 2006. LOD flew VTEM in 2007.	5+ holes for 2,500m+

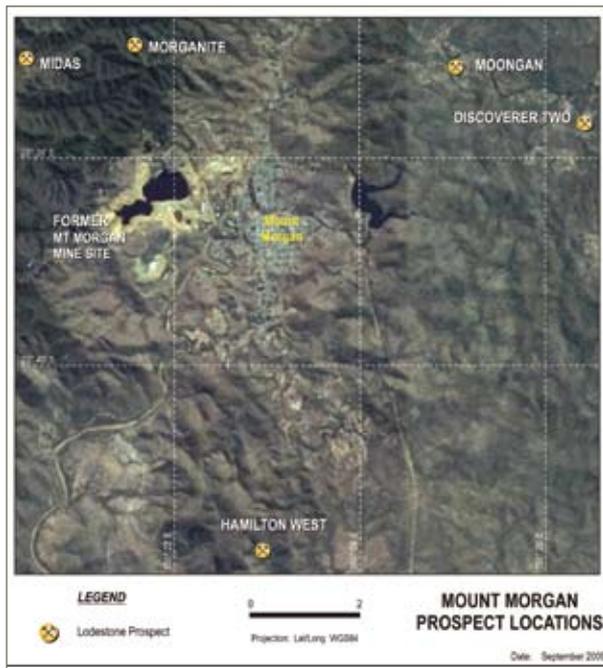


Figure 5. Mount Morgan Prospect locations

Limestone Creek Prospect

Lodestone is exploring for large copper-gold orebodies in the Chillagoe Formation, 200 kilometres north-west of Cairns, Queensland. The Chillagoe Formation extends southward from Palmerville Station, through Mungana and Chillagoe.

This narrow fault-bounded belt of sedimentary and volcanic rocks hosts orebodies at Mungana, Red Dome and Mount Garnet. It also hosts seven historic prospects that are being reassessed in light of Kagara Ltd's discoveries near Mungana, Mount Garnet and

elsewhere. This formation also hosts Lodestone's copper-gold discovery, 125 kilometres north of Chillagoe.

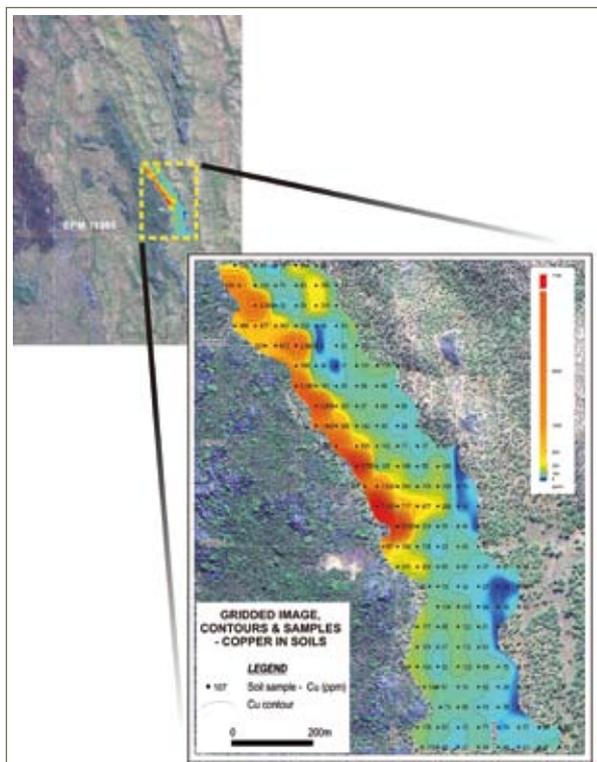


Figure 6. Leane's Prospect

Lodestone discovered copper and subordinate gold at the northern end of the Chillagoe Formation on Palmerville Station in 2007. This discovery was named Leane's Prospect. In November 2008, John Nethery, a respected authority on the Chillagoe district, defined a linear zone of hydrothermal breccias similar in type and shape to those in the upper levels of the Red

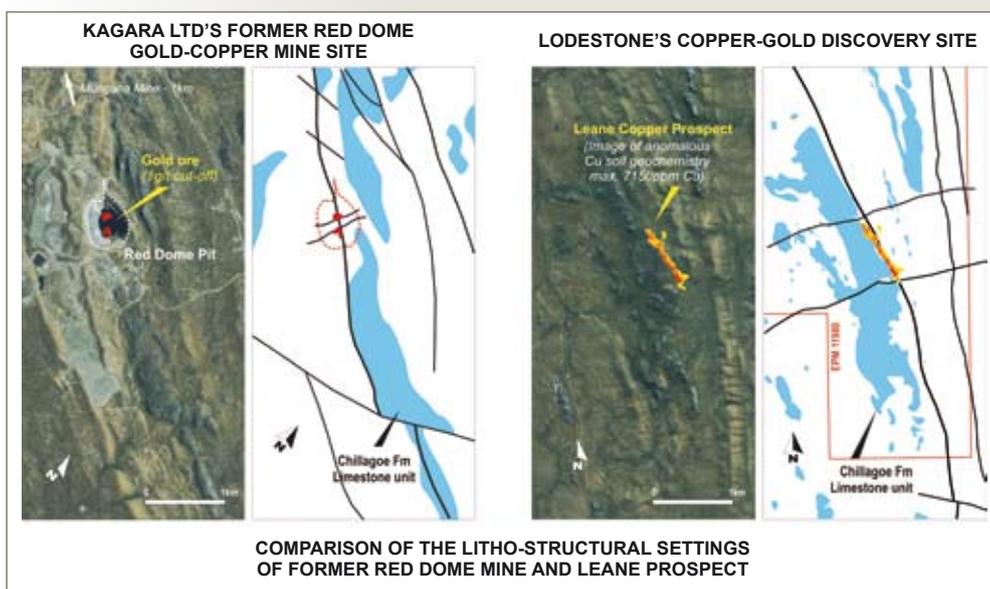


Figure 7. Red Dome and Leane's Prospect

Dome and Mungana deposits. This zone extends for 700 metres along a highly sheared contact between limestone and schist and is up to 50 metres wide. Strongly anomalous copper and modest gold were detected in soil samples along the full extent of the breccia and beyond.

Lodestone is targeting Red Dome and Mungana-style and scale orebodies.

Limestone Creek Prospect - 2009 program

Reinterpretation of data by Ausmec Geoscience in March 2009 and by Mr Nethery in August and September 2009 identified more areas of interest that warrant geological and geochemical traverses to determine if structural contacts and other features are mineralised or host breccias similar to those at Leane's Prospect.

The coming year's fieldwork will examine structural and other features for mineralisation and breccias.

Minerals tenure relinquished by Lodestone

Cracow South Prospect: Fieldwork in 2007 downgraded the potential of large areas of basement rocks that underlie Jurassic sandstone in Lodestone's former prospect. Consequently, all of Lodestone's landholding has been relinquished.

Mount Chalmers Farm-In Prospect: The Mount Chalmers Prospect in Central Queensland was a Farm-In arrangement with Quadrio, a subsidiary of Dominion Mining, under which Lodestone earned a 50% interest.

The district has become increasingly closely settled, with power lines and other culture preventing low-level heliborne electromagnetic surveys and comprehensive geochemical sampling. Consequently, Lodestone's 50% equity in the Mount Chalmers Prospect is being transferred back to Quadrio Pty Ltd.

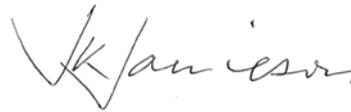
Karinya Farm-In Prospect: This zinc-lead-silver prospect, located 80 kilometres north-east of Adelaide, was optioned from Sedex Minerals Pty Ltd in 2007. Lodestone subsequently earned a 51% equity. Lodestone's equity in the Karinya Prospect has been returned to Sedex Minerals Pty Ltd.

Botswana Prospect: Ausmec Geoscience carried out fieldwork in Botswana in 2008 to assess the uranium exploration potential of five uranium Prospecting Licences that partly cover Ecca Group Sediments. Uranium occurs in the rocks elsewhere in Botswana and Southern Africa. Deposit models were calcrete and sandstone-type uranium.

The aims of the fieldwork were to check areas shown as uranium 'highs' in radiometric data sets and try to locate direct evidence of uranium mineralisation using vehicle-borne radiometric traverses and visiting historic boreholes. Ausmec found that radiometric 'highs' represented slightly elevated radioactivity, and not anomalous zones that might indicate uranium mineralisation. No anomalous radioactivity was encountered on the Prospecting Licences and no 'walk up' targets to pursue were found during the fieldwork. Consequently, Lodestone has sold the prospect for a nominal consideration to First Mining Limited.

THE YEAR AHEAD

With the Moreton and Tambo Coal and Gas Prospects progressing rapidly, and work continuing at Limestone Creek, the 2010 financial year looks to be a significant milestone year for the company.



Jeff Jamieson
Chief Executive Officer

Lodestone Energy Limited

Lodestone's Tenure Schedule

Granted

COAL AND GAS

Tenement	Applicant(s)	Permit Number	Sub-blocks	Area km ²
Moreton Project				
Bromelton/Strathnaver	Moreton ¹	EPC 1299	3	9
Veresdale Scrub Deposit	Moreton ¹	EPC 1302	21	63
Albert River	Moreton ¹	EPC 1313	67	201
Rathdowney South/Palen Creek	Moreton and Lodestone (50:50)	EPC 1524	56	168
Tambo Prospect				
Augathella East 2	Tambo ²	EPC 1482	300	900
Augathella North East	Tambo ²	EPC 1484	300	900
Tambo South East Gap	Tambo and Lodestone (50:50)	EPC 1621	75	225
Bymount West	Tambo and Lodestone (50:50)	EPC 1623	300	900
Tambo Gas Prospect				
Tambo Gas Permit	Tambo ³	ATP 1020	2150	6450

MINERALS

Tenement	EPM Number	Area (km ²)
Mount Morgan Alliance Tenements⁴		
Mount Battery	13794	6
Kenbula	16692	15
Mount Morgan Tenements⁵		
Mount Battery North	14078	9
Morganite East	14696	42
New Chum	14619	9
Archer	16843	15
Station	14435	9
North Queensland Tenements⁵		
Limestone Creek	11980	15

¹ Subject to Moreton Farm-In Agreement

² Subject to Tambo Coal Farm-In Agreement

³ Subject to Tambo Gas Farm-In Agreement

⁴ "Alliance Tenements" are included in the BHP Billiton Alliance

⁵ Lodestone Exploration Limited has a 100% interest in these tenements

Applications

COAL AND GAS

Tenement	Applicant(s)	Permit Number	Sub-blocks	Area km ²
Moreton Project				
East of Veresdale Scrub	Moreton and Lodestone (50:50)	EPCA	65	195
Tambo Prospect				
Maranoa	Tambo ¹	EPC 1414	300	900
Warrego	Tambo ¹	EPC 1415	300	900
Tambo East 1	Tambo ¹	EPC 1417	300	900
Tambo East 2	Tambo ¹	EPC 1418	300	900
Augathella East 1	Tambo ¹	EPC 1481	300	900
Alpha South West 1	Tambo and Lodestone (50:50)	EPC 1622	300	900
Morven North East	Tambo and Lodestone (50:50)	EPC 1624	300	900
Alpha South West 2	Tambo and Lodestone (50:50)	EPC 1625	300	900
Tambo	Tambo and Lodestone (50:50)	EPC 1632	300	900
Augathella South East 1	Tambo and Lodestone (50:50)	EPC 1633	162	486
Augathella South East 2	Tambo and Lodestone (50:50)	EPC 1644	125	375
Alpha Rail	Tambo and Lodestone (50:50)	EPC 1697	157	471
Barcoo River-Blackall Rail	Tambo and Lodestone (50:50)	EPC 1719	475	1425
Upper Surat East 1	Tambo and Lodestone (50:50)	EPC 1776	300	900
Upper Surat East 2	Tambo and Lodestone (50:50)	EPC 1777	247	741
Waroonga	Tambo and Lodestone (50:50)	EPC 1784	300	900
Dubydilla	Tambo and Lodestone (50:50)	EPC 1786	284	852
Muckadilla North	Tambo and Lodestone (50:50)	EPC 1788	300	900
Muckadilla North East	Tambo and Lodestone (50:50)	EPC 1789	300	900
Morven North	Tambo and Lodestone (50:50)	EPC 1794	299	897
Roma North West	Tambo and Lodestone (50:50)	EPC 1795	300	900
Maranoa River Prospect	Tambo and Lodestone (50:50)	EPC 1800	50	150

¹ Subject to Tambo Coal Farm-In Agreement

MINERALS

Tenement	EPM Number	Area (km ²)
Mount Morgan Consolidated	17850	81

Directors and Management

M C Ackland

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

Chairman, non-executive director. Age 63.

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

G L Baker

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

Non-executive director. Age 72.

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

G A J Baynton

M.Econ St, MBA, B.Bus (Accounting), FFINSIA, FAICD.

Non-executive director. Age 40.

Mr Baynton is the founder and Managing Director of Orbit Capital, an investment and advisory company and holder of Financial Services Licence 230327. He has been a board member of Australian exploration companies since 1997 and has experience in project generation, identifying new opportunities, establishing new companies, IPOs and other capital raisings. He is the founder of Tambo Coal & Gas Pty Limited and Moreton Energy Pty Limited.

L R Grimstone

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

Non-executive director. Age 60.

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

J L McCawley

B.Com (Hons).

Non-executive Director. Age 66.

Mr McCawley has extensive experience in exploration, project management, and evaluation. His experience spans more than 30 years, including 13 years sampling, surveying, drilling and managing base metals exploration prospects and programs, largely in remote regions of Australia and North America, for Carpentaria Exploration, Noranda, Placer, and Amax Exploration. These include McArthur River, Burra, Cobar and Endako respectively.

W R Stubbs

LLB.

Non-executive director. Age 68.

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

Jeff Jamieson

ARMIT (Min Eng), FAusIMM, CP (Mining).

Chief Executive Officer.

Mr Jamieson has 30 years' experience in underground and open cut mining including significant periods in management. He has been a consultant to the Australian coal industry since 1980. His experience includes working in minerals, iron ore, and coal industries. Project and development work includes managing new mine projects and tender preparation work for major domestic and export coal projects in Queensland, New South Wales, South Australia, Western Australia and Tasmania. Project management involved mining, environmental and infrastructure studies, which were undertaken on a total project basis using multi-disciplined project teams.

Bruce Patrick

BSc (Hons), Grad Dip Mgt, Cert. in Mining,

MAusIMM.

Manager Tambo Project.

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

Leni Stanley

B.Com, CA.

Company Secretary.

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

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Lodestone Energy Limited ("the company") and the entities it controlled at the end of, or during, the year ended 30 June 2009.

Directors

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

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

G L Baker was appointed as a director on 15 April 2009 and continues in office at the date of this report.

Principal Activities

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

Review of Operations

The operating loss after income tax of the Group for the year was \$1,559,741 (2008: loss \$1,180,740). The loss reflects the nature of the company's principal activity. Information on the operations of Lodestone Energy Limited and its business strategies and prospects is set out in the review of operations and activities on pages 3 to 12 of this annual report.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the company during the financial year were as follows:

	2009
	\$
An increase in contributed equity of \$3,656,136 (from \$6,769,825 to \$10,425,961) as a result of:	
Issue of 32,916,743 fully paid ordinary shares @ \$0.03 each under the share purchase plan	987,500
Issue of 3,835,239 fully paid ordinary shares @ \$0.05 each on the exercise of options	191,762
Issue of 8,333,332 fully paid ordinary shares @ \$0.03 each to directors	250,000
Issue of 3,000,000 fully paid ordinary shares @ \$0.02 each in accordance with the Moreton Farm-In agreement	60,000
Issue of 3,000,000 fully paid ordinary shares @ \$0.07 each in accordance with the Moreton Farm-In agreement	210,000
Issue of 20,000,000 fully paid ordinary shares @ \$0.10 each to sophisticated investors	<u>2,000,000</u>
	3,699,262
Less: Transaction costs arising on share issues, net of current income tax	<u>(43,126)</u>
Net increase in share capital	<u>3,656,136</u>

During the year the Group entered into a number of Joint Ventures, all of which are fully discussed in the operational review section of the annual report.

Dividend

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

Matters Subsequent to the End of the Financial Year

Other than as disclosed in Note 21 in the financial report, at the date of this report there are no matters or circumstances which have arisen since 30 June 2009 that have significantly affected, or may significantly affect:

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

Likely Developments and Expected Results from Operations

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

Environmental Regulation

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

Information on Directors

Director	Qualifications	Other current directorships	Former directorships (past 3 years)	Special responsibilities	Interests in shares and options of Lodestone Energy Limited
M C Ackland	B.App.Sc (PrimMet), M.AusIMM, FAICD, MAIME	Executive Director of Mineral Deposits Limited (since 2003)	Non-executive Director of Sedimentary Holdings Limited (1993-2006)	Chairman; Member of Audit Committee	1,433,655 shares 2,000,000 performance rights 2,000,000 options
G L Baker	B.E., B.App.Sc, B.Econ., M.Sc, FIE Aust., F Aus IMM., CP Eng.	None	None	Member of Audit Committee	100,000 shares 2,000,000 performance rights 1,900,000 options
G A J Baynton	M.Econ St, MBA, B.Bus (Accounting), FFINSIA, FAICD	Non-executive Director of three other listed companies: PIPE Networks Limited (since 2004); Tissue Therapies Limited (since 2003); and Diversa Limited (since 2008). Executive Director of Orbit Capital Pty Ltd	None	Past Chairman of Audit Committee; Member of Audit Committee	9,193,435 shares 2,000,000 performance rights 2,000,000 options
L R Grimstone	B.Sc.(Hons) Geol. Grad.Dipl. Mangt., F.AusIMM, CPGeo.M.MICA	None	None	Member of Audit Committee	4,631,525 shares 4,000,000 performance rights 2,000,000 options
J L McCawley	B.Com (Hons)	None	None	Member of Audit Committee	6,854,198 shares 2,000,000 performance rights 2,000,000 options
W R Stubbs	LLB	Non-executive Chairman of Stradbroke Ferries Limited (since 2005) and non-executive Director of Business Management Limited	Non executive Director of Arrow Energy (retired 2006)	Chairman of Audit Committee	4,166,667 shares 2,000,000 performance rights 2,000,000 options

Meetings of Directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2009, and the numbers of meetings attended by each director were:

	Full Meetings of Directors		Meetings of Audit Committee	
	A	B	A	B
M C Ackland	7	7	2	2
G L Baker	2	2	0	0
G A J Baynton	7	7	2	2
L R Grimstone	7	7	2	2
J L McCawley	7	7	1	1
W R Stubbs	5	7	2	1

A = Number of meetings attended

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

Company Secretary

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

REMUNERATION REPORT

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

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

A Principles used to determine the nature and amount of Remuneration

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

Directors' fees

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

Executive pay

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

B Details of Remuneration

Amounts of remuneration

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

The key management personnel of Lodestone Energy Limited includes the directors as per page 13, Jeff Jamieson – Chief Executive Officer and Leni Stanley – Company Secretary.

Key Management Personnel of Lodestone Energy Limited

2009	Short-term benefits	Post-employment benefits	Share-based payment		Total \$
	Cash salary and fees \$	Superannuation \$	Options \$	Performance rights \$	
Non-executive directors					
M C Ackland, <i>Chairman</i>	40,000	3,600	25,061	402	69,063
G A J Baynton	30,000	2,700	25,061	402	58,163
J L McCawley*	50,000	48,100	25,061	402	123,563
W R Stubbs	30,000	2,700	25,061	402	58,163
L R Grimstone	30,000	2,700	25,061	804	58,565
G L Baker – Appointed 15/4/09	6,346	571	248,000	402	255,319
Sub-total non-executive directors	186,346	60,371	373,305	2,814	622,836
Other key management personnel					
J Jamieson – Chief Executive Officer	120,000	–	99,000	402	219,402
L P Stanley – Company Secretary	15,000	–	–	201	15,201
Totals	321,346	60,371	472,305	3,417	857,439

* J L McCawley was Executive Director of the Company until 31 December 2008.

Key Management Personnel of Lodestone Energy Limited

2008	Short-term benefits	Post-employment benefits	Share-based payment	Total \$
	Cash salary and fees \$	Superannuation \$	Options \$	
Non-executive directors				
M C Ackland, <i>Chairman</i>	35,833	3,225	–	39,058
G A J Baynton	30,000	2,700	–	32,700
W R Stubbs	7,500	675	–	8,175
L R Grimstone – Appointed 30/06/08	–	–	–	–
J T Shaw – Resigned 30/11/07	16,667	1,500	–	18,167
Sub-total non-executive directors	90,000	8,100	–	98,100
Executive director				
J L McCawley	150,000	13,500	–	163,500
Other key management personnel				
L P Stanley – Company Secretary	15,000	–	–	15,000
Totals	255,000	21,600	–	276,600

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

C Service agreements

Remuneration and other terms of the contract with the CEO, Mr J Jamieson, are formalised in a contract of consultancy. The terms of this agreement are:

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

D Share-based Compensation

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

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

Options granted carry no dividend or voting rights.

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

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

Name	Number of options granted during the year		Number of options vested during the year	
	2009	2008	2009	2008
Directors of Lodestone Energy Limited				
M C Ackland	2,000,000	–	2,000,000	–
J L McCawley	2,000,000	–	2,000,000	–
G A J Baynton	2,000,000	–	2,000,000	–
W R Stubbs	2,000,000	–	2,000,000	–
L R Grimstone	2,000,000	–	2,000,000	–
G L Baker	2,000,000	–	2,000,000	–
Other key management personnel				
J Jamieson	2,000,000	–	2,000,000	–

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

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

Grant date 10/09/2008

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

Grant date 08/04/2009

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

Grant date 20/04/2009

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

Grant date 26/06/2009

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

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

Name	Number of performance rights granted during the year		Number of performance rights vested during the year	
	2009	2008	2009	2008
Directors of Lodestone Energy Limited				
M C Ackland	2,000,000	–	–	–
J L McCawley	2,000,000	–	–	–
G A J Baynton	2,000,000	–	–	–
W R Stubbs	2,000,000	–	–	–
L R Grimstone	4,000,000	–	–	–
G L Baker	2,000,000	–	–	–
Other key management personnel				
J Jamieson	2,000,000	–	–	–
L P Stanley	1,000,000	–	–	–

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

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

Grant date 26/06/2009

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

Shares under Option

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

Date options granted	Expiry date	Issue price of shares	Number under option
27 January 2006	27 January 2011	\$0.20	501,000
10 September 2008	10 September 2010	\$0.07	10,000,000
8 April 2009	8 April 2011	\$0.07	1,000,000
20 April 2009	8 April 2011	\$0.07	1,000,000
15 May 2009	15 May 2011	\$0.20	*9,000,000
26 June 2009	26 June 2011	\$0.07	2,000,000
26 June 2009	26 June 2011	\$0.20	*11,000,000

* Each of these options entitle the holder to receive one share and one piggy back option which is exercisable at 50 cents each and expire 24 months from the date of issue.

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

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

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

Shares Issued on the Exercise of Options

The following ordinary shares of Lodestone Energy Limited were issued during the year ended 30 June 2009 on the exercise of options. No amounts are unpaid on any of the shares

Date options granted	Issue price of shares	Number of shares issued
21 July 2006	\$0.05	3,835,239

Insurance of Officers

During the financial year Lodestone Energy Limited paid a premium of \$16,235 to insure the directors and secretary of the company.

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

Agreement to Indemnify Officers

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

The indemnity relates to any liability:

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

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

Proceedings on Behalf of Company

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

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

Auditor

Subsequent to the company's incumbent auditor's, Pitcher Partners, decision to cease to provide audit services, the Directors appointed Hacketts DFK to fill a casual vacancy resulting from the former audit partners' resignations. Hacketts DFK replaced Pitcher Partners as auditor of the company on 9 February 2009. The appointment of the company's auditor will be subject to shareholder approval at the next Annual General Meeting.

There are no former partners or directors of the company's auditor, or former auditor, who is or was at any time during the year an officer of the company.

Non-audit Services

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

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

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out opposite.

During the current year no fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms. The following fees were paid in the prior year:

	Consolidated	
	2009	2008
	\$	\$
Taxation services		
Tax compliance services		
Pitcher Partners	–	4,890
Hacketts DFK	–	–
	<u>–</u>	<u>4,890</u>

Auditor

Hacketts DFK continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



M C Ackland, Chairman

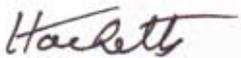
Brisbane, 30 September 2009

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LODESTONE ENERGY LIMITED**

As lead auditor for the audit of Lodestone Energy Limited for the year ended 30 June 2009,
I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Lodestone Energy Limited.



Hacketts DFK



L J Murphy
Partner

Brisbane, 30 September 2009

Corporate Governance Statement

The ASX Listing Rules require listed entities to disclose the extent to which they have followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period. This corporate governance statement summarises the corporate governance practices that have been formally reviewed and adopted by the Lodestone Energy Limited Board with a view to ensuring continued investor confidence in the operations of the Group and endorsing the corporate governance principles relevant to a group of Lodestone's nature and size. A table has been included at the end of this statement detailing the Group's compliance with the recommendations.

A full set of Lodestone's corporate governance related policies and charters are available on the company's website at www.lodestonenergy.com.au under the area of "Corporate Governance".

Board Responsibilities

The Board is responsible to shareholders for the governance of Lodestone Energy Limited, its operations and financial performance and its Board & Governance Charter sets out, among other things, the roles and responsibilities of the Board. The responsibilities of the Board include:

- Review, advance and approve Lodestone's:
 - objectives and strategies,
 - exploration and development programs, and
 - capital management
- Monitor Lodestone's businesses, financial performance, and corporate governance including risk management, audit processes and compliance with laws, policies and procedures
- Oversee the financial position of Lodestone
- Report to shareholders
- Ensure effective control systems are in place
- Appoint, appraise and oversee the Executive Director/Chief Executive Officer (as appropriate) and senior management staff
- Establish a culture of high ethical, environmental, health and safety standards, and
- Ensure the Board is effective.

Directors' responsibilities and the Group's expectations of them are set out in a formal letter provided to all Directors and provided to new Directors at the time of their appointment.

Internal control processes are designed to allow management to operate within parameters approved by the Board and the Chief Executive Officer cannot commit the Group to additional activities or obligations in excess of previously approved limits and guidelines.

Board Structure

The Board of Lodestone does not consist of a majority of independent directors as at 30 June 2009, as there are three independent and three non-independent directors. Lodestone has a very limited staffing structure and relies on the professional expertise of its directors to provide various services to the Group. Lodestone believes that at this stage of its development, having a Board of Directors of relevant expertise is of more benefit to the Group and its shareholders than to add another member to its Board purely to satisfy the recommendation of having a majority of independent directors.

The Chairman is an independent director.

The skills, experience, qualifications and special responsibilities of each director are set out in "Information on Directors" detailed earlier in this Annual Report. The term of each Director (except the Executive Directors, if any) is limited to three years, and each year one-third of the Board retire pursuant to the Constitution and may offer themselves for re-election by shareholders at the Annual General Meeting. Each Director is expected to declare any actual or potential conflict of interest, and where necessary, a Director may obtain independent advice prior to notifying the Chairman of any such conflict.

The roles of Chairman and Executive Director/Chief Executive Officer, if any, are not exercised by the same individual.

Lodestone does not have a Nominations Committee as nomination matters are considered by the Board as a whole, as set out in the Charter. The Board, as a whole, aims to ensure that it always has an appropriate diversity of qualifications, experience and expertise consistent with the objectives of Lodestone.

Director's Independence

The Board considers that a director is independent if that director complies with the following criteria:

- apart from director's fees and shareholdings, independent directors should not have any business dealings which could materially affect their independent judgment
- must not have been in an executive capacity in the Group in the last three years
- must not have been in an advisory capacity to the Group in the last three years
- must not be a significant customer or supplier for the Group
- must not be appointed through a special relationship with another Board member
- must not owe allegiance to a particular group of shareholders which gives rise to a potential conflict of interest
- must not hold conflicting cross directorships, and
- must not be a substantial shareholder or a nominee of a substantial shareholder (as defined under section 9 of the *Corporations Act*.)

The Board considers that on application of the above guidelines, of a total of six current directors, three are considered to be independent (Mr M Ackland, Mr B Stubbs and Mr G Baker) while three directors are not considered independent (Mr J McCauley, Mr Baynton and Mr L Grimstone). Mr J McCauley is a substantial shareholder and has acted in an executive capacity within the last three years. Mr L Grimstone also provides consulting services to the Group, and Mr G Baynton is the owner of entities, which are in a number of joint ventures with Lodestone.

Board Performance Review

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

Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Code of Conduct

The Group seeks to maintain high standards of integrity and is committed to ensuring that Lodestone conducts all its business in accordance with high standards of ethical behaviour.

The Group requires employees to comply with the spirit and the letter of all laws and other statutory requirements governing the conduct of Lodestone's activities. The Code of Conduct applies to all company employees, including the company's Executives and Directors.

All employees are provided with Lodestone's Code of Conduct when commencing employment. Each employee provides acknowledgement to the company that he or she will comply with the company Code of Conduct.

The Code of Conduct also provides employees with instructions about whom they should contact if they have information or questions regarding violations of the policy.

Trading in Company Securities by Directors, Officers and Employees

Trading in Lodestone's shares is covered by, amongst other things, the *Corporations Act 2001* and the ASX Listing Rules. The Board has established a Securities Trading Policy that establishes strict guidelines as to when a director, officer or employee can deal in Company shares. This policy prohibits trading in the Company's securities during designated blackout periods and whilst the director, officer or employee is in the possession of price-sensitive information.

For details of shares held by directors and officers, please refer to the Directors' Report and Note 18 to the financial statements.

A summary of the Code of Conduct and the Securities Trading Policy are both available on the company's website.

Audit Committee

The Audit Committee, which operates under a Charter approved by the Board, provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to Lodestone's financial statements, financial and market reporting processes, internal accounting and financial control systems, internal audit, external audit, risk management and such other matters as the Board may request from time to time.

The Committee is composed of all Non-Executive Directors of the Board, and as is the situation with the full Board, the Audit Committee does not have majority of Independent Directors, but consists of an equal number independent and non-independent members. The Directors do not consider it beneficial for Lodestone to appoint another independent director just to achieve a majority of independent directors nor does it wish to exclude any non-executive directors from membership of the Audit Committee.

The Committee is chaired by a non-Independent Director who is not the Chairman of the Company, Mr G Baynton. The Audit Committee consists of members who have sufficient industry, business and financial expertise to be effective members of the Committee. During the year the members of the Audit Committee were B Stubbs, M Ackland, G Baynton and L Grimstone for the whole year. Mr J McCawley became a member on 23 February 2009 after he ceased as Executive Director and Mr G Baker became a member upon his appointment as Director on 15 April 2009.

The specific responsibilities of the Committee include:

- Overseeing the adequacy and effectiveness of the company's accounting and financial policies and controls including compliance with all regulatory requirements
- Overseeing the company's financial reporting process, specifically, its annual and interim financial statements
- Reviewing the scope and plans for external audit, and all reports issued by the external auditor
- Reviewing performance, approve remuneration, and, as needed, recommend to the Board the appointment of the external auditor
- Reviewing any proposed activity or service by the providers of external audit unrelated to external audit assurance activities
- Examining the adequacy of the nature, extent and effectiveness of the internal control process of the company, and
- Overseeing the risk management framework of the company and reviewing risk management reports.

The complete Audit Committee Charter is available on the company's website.

External Auditors

Hacketts DFK were appointed as external auditors on 16 February 2009, following the Company's auditor's decision to cease to provide audit services. It is Hacketts DFK policy to rotate audit engagement partners on listed companies at least every five years. The performance of the external auditors is reviewed annually. An analysis of fees paid to the external auditors, including break-down of fees for non-audit services, is provided in the Directors' report and in the notes to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee. The external auditor is requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

Remuneration Policy

The objective of the company's executive reward framework is to provide a fair and sufficient incentive to attract, motivate and retain a high-quality management team which is focused on optimising the exploration potential of the company's current permits. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders and alignment with their interests
- transparency, and
- capital management.

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 in aggregate, effective from 28 November 2007. No retirement benefits are payable to non-executive directors.

Further information on remuneration matters is included in the Directors' Report.

The structure and disclosure of the company's remuneration arrangements are detailed in the Remuneration Report.

The company has in place an Employee Share Option Plan and a Performance Rights Plan which form part of the company's long-term incentive plan. Details of the Employee Share Option Plan and Performance Rights Plan are disclosed in the Remuneration Report.

Remuneration Committee

Lodestone does not have a Remuneration Committee as Directors consider that such a committee is not efficient for Lodestone at its current size and stage of development. All remuneration matters are considered by the Board as a whole in accordance with the policy set out above. Matters considered by the Board in relation to this include:

- Remuneration and incentives policies for Lodestone
- Implementation of equity-based incentive plans approved by shareholders
- Remuneration of Managing Director and/or Chief Executive Officer, including linkages to specific goals and objectives
- Remuneration policy guidelines for other senior executives
- Recruitment, retention and termination policies and procedures for senior management
- Contractual arrangements for senior executives
- Superannuation policies, and
- Remuneration of Non-Executive Directors

Disclosure Policy

Lodestone's Continuous Disclosure Policy sets out the company's commitment to comply with its continuous disclosure obligations. Directors, senior management and other employees of, and consultants to, Lodestone are required to adhere to the procedures set out in the Policy to ensure compliance with the legal requirements for disclosure. Underpinning the Continuous Disclosure Policy is the disclosure protocol which governs Lodestone's policy in relation to interactions with external individuals, investors, stockbroking analysts and market participants.

When Lodestone makes an announcement to the market, it is released through the Australian Securities Exchange where the company's shares are quoted.

The Company Secretary, as the designated Disclosure Officer, is responsible for Lodestone's compliance with its continuous disclosure obligations and for overseeing and co-ordinating disclosures to the ASX and other interested parties.

The company's Continuous Disclosure Policy is available on the company's website.

Investor Relations and Communications

Lodestone is committed to communicating with its investors in an effective and timely manner. The company's investor relations program includes briefings and presentations to accompany annual and half-yearly release of results, a website that displays all the company announcements and notices as soon as they have been released by the Australian Securities Exchange, as well as all major management and roadshow presentations which are also released to the Australian Securities Exchange and posted on the website. In addition, the company's external auditor is available at the Annual General Meeting to answer questions from shareholders about the conduct of the audit and the preparation and content of the audit report and the company's financial reports.

Risk Management

Lodestone views risk recognition and risk management as integral to the Group's objectives of creating and maintaining shareholder value, and the successful execution of Lodestone's strategies.

The Board as a whole is responsible for the oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Audit Committee.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed. The management of operational risk is explicitly considered in the selection and monitoring of the contractors through whom most of Lodestone's operations are conducted in accordance with the formal processes for identification and addressing all key risks as adopted by the company.

Not all aspects of risk management can be formalised, and Lodestone places considerable reliance on the skill, experience and judgment of its people to take risk-based decisions within the policy framework, and to communicate openly on all risk related matters.

Key elements of the framework for the management of risk by Lodestone are:

- Oversight of the Group's financial affairs by the Audit Committee
- The formulation of programs for exploration and development
- Regular reporting against established targets
- Approval guidelines for exploration and capital expenditure
- Regulatory compliance programs and reporting in key areas such as safety and environment
- Management of capital and financial risk
- An annual insurance program, and
- Oversight of the conduct of contractors

There are four major sources of material business risks for the organisation: strategic, operational, corporate/governance and external risks. The table below provides examples of the types of risks that the Group considers fall into these categories and how the Board provides an oversight for each.

Risk Category	Overseen by	Examples	Types of Impact
Strategic	Lodestone Board	Exploration and development Mergers and acquisitions Other major investment decisions External commercial environment (eg. Changing stakeholder expectations)	Financial Reputational
Operational	Lodestone Board and risk committee	Operated assets Non-operated assets External operating environment (eg. Natural hazard events, failure of key supplier, regulatory changes) HSE performance Emissions	Safety Environmental Financial Reputational
Corporate and Governance	Audit Committee	Corporate support (office management, IT, HR, business continuity, fraud, adequacy of financial controls, etc) Legal Financial Reporting Taxation ASX/Corporations Act requirements	Financial Reputational
External	Lodestone Board oversight but generally assumed that shareholders accept these risks	Global economic conditions Foreign exchange rates Oil and gas price Interest rates Government policies	Financial Reputational

Executive Assurance

The Chief Executive Officer and Company Secretary have provided the following assurance to the Lodestone Board in connection with Lodestone's full year financial statements and reports, to the best of their knowledge and belief:

- The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at 30 June 2009 and the performance of the Group for the year then ended and comply in all material respects with Accounting Standards
- The statements made above regarding the integrity of the financial statements is founded on a system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors, and
- The risk management and internal compliance and control systems of the Group relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects.

ASX Best Practice Recommendations

The table below identifies the ASX Best Practice Recommendations (Revised Principles) and whether or not the Company has complied with the recommendations during the reporting period:

		Complied	Note
1.1	Establish the functions reserved to the board and those delegated to senior management and disclose those functions	✓	
1.2	Disclose the process for evaluating the performance of senior executives	✓	
1.3	Provide the information indicated in guide to Reporting on Principle 1	✓	
2.1	A majority of the Board should be independent directors		Note 1
2.2	The chair should be an independent director	✓	
2.3	The role of chair and chief executive officer should not be exercised by the same individual	✓	
2.4	The Board should establish a nomination committee		Note 2
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors	✓	
2.6	Provide the information indicated in Guide to Reporting on Principle 2	✓	
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> The practices necessary to maintain confidence in the company's integrity The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders The responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	✓	
3.2	Disclose the policy concerning trading in the company's securities by directors, senior executives and employees, and disclose the policy or a summary of that policy	✓	
3.3	Provide the information indicated in Guide to Reporting on Principle 3	✓	
4.1	The Board should establish an audit committee	✓	
4.2	Structure of the audit committee so that it consists of: <ul style="list-style-type: none"> only non-executive directors a majority of independent directors an independent chair, who is not a chair of the board at least 3 members 		Note 3
4.3	The audit committee should have a formal charter	✓	
4.4	Provide the information indicated in Guide to Reporting on Principle 4	✓	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirement and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	✓	
5.2	Provide the information indicated in Guide to Reporting on Principle 5	✓	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participating at general meetings and disclose their policy or a summary of that policy	✓	
6.2	Provide the information indicated in Guide to Reporting on Principle 6	✓	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	✓	
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should also disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	✓	
7.3	The Board should disclose whether it has received assurances from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks	✓	
7.4	Provide the information indicated in Guide to Reporting on Principle 7	✓	
8.1	The Board should establish a remuneration committee		Note 4
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓	
8.3	Provide the information indicated in Guide to Reporting on Principle 8	✓	

Note 1

The Board of Lodestone does not consist of a majority of independent directors as there are an equal number of independent and non-independent directors as at 30 June 2009. Lodestone has very limited staffing structure and relies on the professional expertise of its directors to provide various services to the Group. Lodestone believes that at this stage of its development, having a Board of Directors of relevant expertise is of more benefit to the Group and its shareholders than to add another member to its Board purely to satisfy the recommendation of having a majority of independent directors.

Note 2

Due to the small size of the Lodestone Board, it does not have a Nominations Committee and nomination matters are considered by the Board as a whole, as set out in the Charter. The Board, as a whole, aims to ensure that it always has an appropriate diversity of qualifications, experience and expertise consistent with the objectives of Lodestone.

Note 3

The Committee is composed of all Non-Executive Directors of the Board, and as is the situation with the full Board, the Audit Committee does not have majority of Independent Directors, but consists of an equal number independent and non-independent members. The Directors do not consider it beneficial for Lodestone to appoint another independent director just to achieve a majority of independent directors nor does it wish to exclude any non-executive directors from membership of the Audit Committee.

Note 4

Due to the small size of the Lodestone, it does not have a Remuneration Committee as Directors consider that such a committee is not efficient for Lodestone at its current size and stage of development. All remuneration matters are considered by the Board as a whole.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 34 to 55 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2009 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) 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 has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2009.

This declaration is made in accordance with a resolution by the directors.



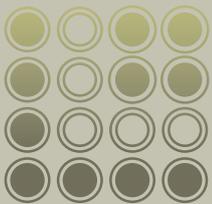
M C Ackland, Chairman

Brisbane, 30 September 2009



2009

Financial Statements
for year ended
30 June 2009



**LODESTONE
ENERGY** 

Income Statements for the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue from operations	5	48,731	23,986	48,731	23,986
Exploration abandoned		(394,532)	(711,967)	(344,263)	(711,967)
Professional services expenses		(222,647)	(159,997)	(182,647)	(159,997)
Corporate overhead expenses		(252,874)	(184,222)	(252,874)	(184,222)
Depreciation expenses		(13,529)	(12,340)	(13,529)	(12,340)
Directors remuneration		(248,967)	(136,200)	(248,967)	(136,200)
Share based payments expense		(475,923)	–	(475,923)	–
Loss before income tax	6	(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)
Income tax expense	7	–	–	–	–
Loss from operations		(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)
Loss attributable to members of Lodestone Energy Limited	17	(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	26	(0.87)	(1.04)
Diluted earnings per share	26	(0.87)	(1.04)

The above income statements should be read in conjunction with the accompanying notes.

Balance Sheets as at 30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
ASSETS					
Current assets					
Cash and cash equivalents	8	3,355,688	586,204	3,355,685	586,204
Receivables	9	50,818	20,466	43,852	20,466
Total current assets		3,406,506	606,670	3,399,537	606,670
Non-current assets					
Receivables	10	–	–	390,899	–
Plant and equipment	12	11,217	18,593	11,217	18,593
Exploration expenditure	13	856,878	280,850	486,592	280,850
Other financial assets	11	–	–	3	–
Other	14	66,180	39,180	66,180	39,180
Total non-current assets		934,275	338,623	954,891	338,623
Total assets		4,340,781	945,293	4,354,428	945,293
LIABILITIES					
Current liabilities					
Trade and other payables	15	897,068	87,467	820,446	87,467
Total current liabilities		897,068	87,467	820,446	87,467
Total liabilities		897,068	87,467	820,446	87,467
Net assets		3,443,713	857,826	3,533,982	857,826
EQUITY					
Contributed equity	16	10,425,961	6,769,825	10,425,961	6,769,825
Reserves	17	549,555	60,063	549,555	60,063
Accumulated losses	17	(7,531,803)	(5,972,062)	(7,441,534)	(5,972,062)
Total equity		3,443,713	857,826	3,533,982	857,826

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity for the year ended 30 June 2009

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Total equity at the beginning of the financial year	857,826	1,528,556	857,826	1,528,556
Loss for the year	(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)
Share based payments expense (Note 17)	489,492	–	489,492	–
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity, net of transaction costs (Note 16)	3,656,136	510,010	3,656,136	510,010
Total equity at the end of the financial year	3,443,713	857,826	3,533,982	857,826

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

Cash flow statements for the year ended 30 June 2009

Notes	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax)	42,851	84,571	42,851	84,571
Payments to suppliers (inclusive of goods and services tax)	(832,733)	(475,947)	(792,733)	(475,947)
Interest received	49,606	27,797	49,606	27,797
Net cash outflows from operating activities	(740,276)	(363,579)	(700,276)	(363,579)
Cash flows from investing activities				
Payments for exploration	(594,205)	(662,718)	(243,306)	(662,718)
Payments for plant and equipment	(6,152)	–	(6,152)	–
Payments for security deposits	(27,000)	(5,000)	(27,000)	(5,000)
Refund of security deposits	–	5,000	–	5,000
Loans to related parties	–	–	(390,899)	–
Payment for purchase of subsidiary	–	–	(3)	–
Net cash outflows from investing activities	(627,357)	(662,718)	(667,360)	(662,718)
Cash flows from financing activities				
Proceeds from share issue	3,429,262	510,010	3,429,262	510,010
Proceeds from royalty deposit	750,981	–	750,981	–
Payment of share issue costs	(43,126)	–	(43,126)	–
Net cash inflows from financing activities	4,137,117	510,010	4,137,117	510,010
Net increase / (decrease) in cash and cash equivalents				
Cash and cash equivalents at the beginning of the financial year	2,769,484	(516,287)	2,769,481	(516,287)
	586,204	1,102,491	586,204	1,102,491
Cash and cash equivalents at the end of the financial year	3,355,688	586,204	3,355,685	586,204

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

Notes to the Financial Statements for the year ended 30 June 2009

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Lodestone Energy Limited as an individual entity and the consolidated entity consisting of Lodestone Energy Limited and its subsidiaries.

The financial report is presented in Australian dollars which is the company's and consolidated entity's functional and presentation currency.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the financial statements and notes of Lodestone Energy Limited comply with International Financial Reporting Standards (IFRSs).

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Lodestone Energy Limited ("company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Lodestone Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

Investments in subsidiaries are accounting for at cost in the individual financial statements of Lodestone Energy Limited.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Taxes

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(e) Exploration expenditure

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

(f) Acquisitions of assets

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

(g) Recoverable amount of non-current assets

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

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

(h) Depreciation of property, plant and equipment

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

Plant and equipment 5 – 10 years

(i) Trade and other creditors

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(j) Cash and cash equivalents

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

(k) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

Note 1. Summary of significant accounting policies continued

(l) Interest Income

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

(m) Goods and Services Tax ("GST")

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

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

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

(n) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(o) Website costs

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

(p) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a management approach to reporting on financial performance. Information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Company has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when adopted – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Company or consolidated entity.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The company intends to apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(v) AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009)

In April 2009, the AASB published amendments to AASB 7 *Financial Instruments: Disclosure* to improve the information that entities report about their liquidity risk and the fair value of their financial instruments. The amendments require fair value measurement disclosures to be classified into a new three-level hierarchy and additional disclosures for items whose fair value is determined by valuation techniques rather than observable market values. The AASB also clarified and enhanced the existing requirements for the disclosure of liquidity risk of derivatives. The Group will apply the amendments from 1 July 2009. They will not affect any of the amounts recognised in the financial statements.

Note 2. Financial risk management

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

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	3,355,688	586,204	3,355,685	586,204
Trade and other receivables	50,818	20,466	434,751	20,466
Other financial assets	–	–	3	–
	<u>3,406,506</u>	<u>606,670</u>	<u>3,790,439</u>	<u>606,670</u>
Financial liabilities				
Trade and other payables	897,068	87,467	820,446	87,467
	<u>897,068</u>	<u>87,467</u>	<u>820,446</u>	<u>87,467</u>

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents.

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

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash at bank and short-term bank deposits				
AAA	2,102,923	586,204	2,102,920	586,204
A	1,252,765	–	1,252,765	–
	<u>3,355,688</u>	<u>586,204</u>	<u>3,355,685</u>	<u>586,204</u>

Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows.

Cash flow and fair value interest rate risk

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

Note 3. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Note 3. Critical accounting estimates and judgements continued

Critical judgements in applying the entity's accounting policies

The Group has capitalised exploration expenditure of \$856,878 (2008: \$280,849). This amount includes costs directly associated with exploration. These costs are capitalised as an intangible asset until assessment and/or drilling of the permit is complete and the results have been evaluated. These costs include employee remuneration, materials, rig costs, delay rentals and payments to contractors. The expenditure is carried forward until such a time as the area of interest moves into the development phase, is abandoned, sold or sub-blocks relinquished.

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

Note 4. Segment information

Description of segments

Business segments

The consolidated entity is organised 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.

Geographical segments

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

2009	Coal \$	CSG \$	Minerals \$	Consolidated \$
Segment result				
Segment result	(92,201)	(2,431)	(339,900)	(434,532)
Unallocated revenue less unallocated expenses				(1,125,209)
Loss for the year				(1,559,741)
Segment assets and liabilities				
Segment assets	722,765	48,394	112,719	883,878
Unallocated assets				3,456,903
Total assets				4,340,781
Segment liabilities	64,214	38,311	1,715	104,240
Unallocated liabilities				792,828
Total liabilities				897,068
Cash flow information				
Net cash outflow from operating activities	(40,000)	–	–	(40,000)
Unallocated				(700,276)
Total cash flows from operating activities				(740,276)
Net cash outflow from investing activities	(473,621)	(12,514)	(135,070)	(621,205)
Unallocated				(6,152)
Total cash flows from investing activities				(627,357)
Net cash inflow from financing activities	–	–	–	–
Unallocated				4,137,117
Total cash flows from financing activities				4,137,117

	2009 \$	Consolidated 2008 \$	2009 \$	Parent entity 2008 \$
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Note 5. Revenue

<i>Other revenue</i>				
Interest	48,731	23,986	48,731	23,986

Note 6. Expenses

Loss before income tax includes the following specific expenses:

Exploration abandoned	394,532	711,967	344,263	711,967
Depreciation	13,529	12,340	13,529	12,340
Share based payments	475,923	–	475,923	–

Note 7. Income tax expense

(a) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from operations before income tax expense	(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)
Tax at the Australian tax rate of 30% (2008: 30%)	(467,922)	(354,222)	(440,841)	(354,222)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share based payments	223,777	–	223,777	–
Entertainment	308	179	308	179
	(243,837)	(354,043)	(216,756)	(354,043)
Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	243,837	354,043	216,756	354,043
Income tax expense	–	–	–	–

(b) Unrecognised net deferred tax assets

Unused tax losses for which no deferred tax asset has been recognised	7,737,839	6,327,880	7,277,273	6,327,880
Temporary differences for which no deferred tax asset / (liability) has been recognised:				
Property, plant and equipment	24,768	16,201	24,768	16,201
Accruals	18,000	10,000	18,000	10,000
Prepayments	–	1,891	–	1,891
Capital raising costs	187,126	181,489	187,126	181,489
Exploration expenditure	(856,889)	(280,850)	(486,592)	(280,850)
Interest receivable	(433)	(1,308)	(433)	(1,308)
	7,110,411	6,255,303	7,020,142	6,255,303
Potential tax effect at 30%	2,133,123	1,876,591	2,106,043	1,876,591

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$

Note 8. Current assets – Cash and cash equivalents

Cash at bank and in hand	756,833	16,072	756,830	16,072
Deposits at call	2,598,855	570,132	2,598,855	570,132
	<u>3,355,688</u>	<u>586,204</u>	<u>3,355,685</u>	<u>586,204</u>

(a) Cash at bank and on hand

These are non-interest bearing

(b) Deposits at call

The deposits are bearing an interest rate of between 1.55% and 2.15% (2008 – 5.5% to 6.5%)

Note 9. Current assets – Receivables

Interest receivable	433	1,308	433	1,308
Other debtors	50,385	19,158	43,419	19,158
	<u>50,818</u>	<u>20,466</u>	<u>43,852</u>	<u>20,466</u>

Note 10. Non-current assets – Receivables

Loans to related parties	–	–	390,899	–
	<u>–</u>	<u>–</u>	<u>390,899</u>	<u>–</u>

Note 11. Non-current assets – Other financial assets

Shares in subsidiaries	–	–	3	–
	<u>–</u>	<u>–</u>	<u>3</u>	<u>–</u>

Note 12. Non-current assets – Plant and equipment

Consolidated and parent entity	Motor vehicles \$	Plant and equipment \$	Total \$
As at 1 July 2007			
– Cost	77,130	4,993	82,123
Accumulated depreciation	(47,837)	(3,353)	(51,190)
Net book amount	<u>29,293</u>	<u>1,640</u>	<u>30,933</u>
Year ended 30 June 2008			
Opening net book amount	29,293	1,640	30,933
Additions	–	–	–
Disposals	–	–	–
Depreciation charge	(11,402)	(938)	(12,340)
Closing net book amount	<u>17,891</u>	<u>702</u>	<u>18,593</u>
At 30 June 2008			
– Cost	77,130	4,993	82,123
Accumulated depreciation	(59,239)	(4,291)	(63,530)
Net book amount	<u>17,891</u>	<u>702</u>	<u>18,593</u>

Consolidated and parent entity	Motor vehicles \$	Plant and equipment \$	Total \$
Year ended 30 June 2009			
Opening net book amount	17,891	702	18,593
Additions	–	6,153	6,153
Disposals	–	–	–
Depreciation charge	(9,387)	(4,142)	(13,529)
Closing net book amount	8,504	2,713	11,217
At 30 June 2009			
– Cost	77,130	11,146	88,276
Accumulated depreciation	(68,626)	(8,433)	(77,059)
Net book amount	8,504	2,713	11,217

	2009 \$	Consolidated 2008 \$	2009 \$	Parent entity 2008 \$
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Note 13. Non-current assets – Exploration expenditure

Exploration phase property costs

Deferred geological, geophysical, drilling and other expenditure – at cost	856,878	280,850	486,592	280,850
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The capitalised exploration expenditure carried forward above has been determined as follows:

Opening balance	280,850	548,325	280,850	548,325
Expenditure incurred during the year	970,560	444,492	550,005	444,492
Exploration abandoned	(394,532)	(711,967)	(344,263)	(711,967)
Closing balance as shown above	856,878	280,850	486,592	280,850

Note 14. Non-current assets – Other

Security deposit	66,180	39,180	66,180	39,180
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Note 15. Current liabilities – Trade and other payables

Trade payables	146,087	87,467	69,465	87,467
Royalty deposit held in escrow	750,981	–	750,981	–
	897,068	87,467	820,446	87,467

Note 16. Contributed equity

(a) Share capital

	Consolidated and parent entity		Consolidated and parent entity	
	2009 Shares	2008 Shares	2009 \$	2008 \$
Ordinary shares				
Fully paid	201,409,529	130,324,215	10,425,961	6,769,825

(b) Movements in ordinary share capital:

Date	Details	Number of Shares	Issue Price	\$
1 July 2007	Balance	113,324,535		6,259,815
18 June 2008	Placement (e)	16,998,680	\$0.03	509,960
19 June 2008	Options exercised (d)	1,000	\$0.05	50
30 June 2008	Balance	130,324,215		6,769,825
22 July 2008	Placement (e)	32,916,743	\$0.03	987,500
25 July 2008	Options exercised (d)	3,835,239	\$0.05	191,762
22 September 2008	Placement (e)	8,333,332	\$0.03	250,000
6 October 2008	Placement (f)	3,000,000	\$0.02	60,000
29 April 2009	Placement (f)	3,000,000	\$0.07	210,000
15 May 2009	Placement (g)	9,000,000	\$0.10	900,000
26 June 2009	Placement (g)	11,000,000	\$0.10	1,100,000
	Share issue expenses			(43,126)
30 June 2009	Balance	201,409,529		10,425,961

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

At balance date 34,501,000 options over ordinary shares of Lodestone Energy Limited were on issue.

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

* Each of these options entitle the holder to receive one share and one piggy back option which is exercisable at 50 cents each and expire 24 months from the date of issue.

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

During the prior financial year 1,000 options that were issued on 21 July 2006 were exercised and 800,000 options that were issued on 30 September 2006 expired. These options were exercisable at \$0.30 and expired on 30 September 2007.

(e) Placements

On 18 June 2008 16,998,680 ordinary shares were issued in exchange for cash consideration at \$0.03 per share.

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

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

(f) Placements

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

(g) Placements

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

(h) Performance rights

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

(i) Capital risk management

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

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

The Group monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Group's exposure to borrowings as at 30 June 2009 totals \$nil (2008 : \$nil). The Group will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

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

Note 17. Reserves and accumulated losses

	2009 \$	Consolidated 2008 \$	2009 \$	Parent entity 2008 \$
(a) Reserves				
Share-based payments reserve	549,555	60,063	549,555	60,063
Movements				
Balance 1 July	60,063	60,063	60,063	60,063
Share and option expense	489,492	-	489,492	-
Balance 30 June	549,555	60,063	549,555	60,063
(b) Accumulated losses				
Balance 1 July	(5,972,062)	(4,791,322)	(5,972,062)	(4,791,322)
Loss for the year	(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)
Balance 30 June	(7,531,803)	(5,972,062)	(7,441,534)	(5,972,062)

Note 17. Reserves and accumulated losses continued

Nature and purpose of reserves

Share based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to directors / contractors but not exercised
- the grant date fair value of performance rights issued to directors / contractors

Note 18. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	321,346	255,000	321,346	255,000
Post-employment benefits	60,371	21,600	60,371	21,600
Share-based payments	475,722	–	475,722	–
	857,439	276,600	857,439	276,600

Detailed remuneration disclosures are provided in C and D of the remuneration report on pages 17 to 20.

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

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

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

2008	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Lodestone Energy Limited						
J T Shaw	517,949	–	–	*(517,949)	–	–
M C Ackland	276,283	–	–	(200,000)	76,283	76,283
G A J Baynton	1,200,000	–	–	(200,000)	1,000,000	1,000,000
W R Stubbs	–	–	–	–	–	–
L R Grimstone	–	–	–	–	–	–
J L McCawley	25,000	–	–	–	25,000	25,000
Other key management personnel						
L P Stanley	46,770	–	–	–	46,770	46,770

* J T Shaw resigned as a director on 30 November 2007

(ii) *Share holdings*

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

2009	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of Lodestone Energy Limited				
M C Ackland	266,988	–	1,166,667	1,433,655
G L Baker	–	–	–	–
G A J Baynton	1,526,769	–	7,666,666	9,193,435
L R Grimstone	–	–	4,631,525	4,631,525
J L McCawley	5,162,532	25,000	1,666,666	6,854,198
W R Stubbs	1,166,667	–	3,000,000	4,166,667
Other key management personnel				
J Jamieson	–	–	1,300,000	1,300,000
L P Stanley	123,617	–	–	123,617

2008	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Name				
Directors of Lodestone Energy Limited				
J T Shaw*	422,821	–	*(422,821)	–
M C Ackland	266,988	–	–	266,988
G A J Baynton	1,526,769	–	–	1,526,769
W R Stubbs**	–	–	**1,166,667	1,166,667
L R Grimstone	–	–	–	–
J L McCawley	5,162,532	–	–	5,162,532
Other key management personnel				
L P Stanley	123,617	–	–	123,617

* J T Shaw resigned as a director on 30 November 2007.

** W R Stubbs was appointed a director on 31 March 2008.

(iii) *Performance rights*

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

2009	Balance at the start of the year	Granted during the year as compensation	Other changes during the year	Balance at the end of the year
Name				
Directors of Lodestone Energy Limited				
M C Ackland	–	2,000,000	–	2,000,000
G L Baker	–	2,000,000	–	2,000,000
G A J Baynton	–	2,000,000	–	2,000,000
L R Grimstone	–	4,000,000	–	4,000,000
J L McCawley	–	2,000,000	–	2,000,000
W R Stubbs	–	2,000,000	–	2,000,000
Other key management personnel				
J Jamieson	–	2,000,000	–	2,000,000
L P Stanley	–	1,000,000	–	1,000,000

Note 18. Key management personnel disclosures continued

(c) Other transactions with key management personnel

During the year to 30 June 2009 the company paid fees for accounting and administration services provided by Stanley Yeates & Associates, a firm of Chartered Accountants, of which L P Stanley is a partner, on normal commercial terms and conditions.

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

A director, Mr Greg Baynton, is a director and majority shareholder of Orbit Capital Pty Ltd and Moreton Energy Pty Ltd. Orbit Capital Pty Ltd has provided consulting services to Lodestone Energy Limited and its subsidiaries on normal commercial terms and conditions. In addition, during the financial year Lodestone Energy Limited entered into a Farm-In Deed with Moreton Energy Pty Ltd and Orbit Capital Pty Ltd to farm into three tenements that are prospective for coal. Lodestone Energy Limited has a right to earn 50% interest in these tenements by undertaking exploration activities, and incurring exploration expenditure, to the value of \$2 million over a period of three years. During the financial year in accordance with the Farm-In Deed Lodestone Energy Limited issued 6,000,000 ordinary shares to Orbit Capital Pty Ltd.

Mr Greg Baynton, is also a director and majority shareholder of Tambo Coal & Gas Pty Ltd. During the financial year Lodestone Energy Limited and controlled entities entered into a Farm-In Agreement with Tambo Coal & Gas Pty Ltd to farm in to a number of coal and coal seam gas project areas in southern central Queensland. Under the Farm-In Agreements Lodestone Energy Limited has the right to earn up to 50% interest in all permits over a five stage process.

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

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Amounts recognised as expenses				
Accounting and administration fee	79,767	76,282	79,767	76,282
Office rent	27,596	–	27,596	–
Consulting fees	40,000	–	–	–
Amounts recognised as exploration expenditure				
Consulting fees	165,609	–	3,975	–
Share based payment	270,000	–	270,000	–

Note 19. Remuneration of auditors

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$

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

(a) Hacketts DFK

Audit services

Audit and review of financial reports	24,850	–	24,850	–
Total remuneration of Hacketts DFK	24,850	–	24,850	–

(b) Non-Hacketts DFK audit firms

Audit services

Audit and review of financial reports	8,545	18,615	8,545	18,615
<i>Other services</i>				
Taxation services	–	4,890	–	4,890
Total remuneration of non-Hacketts DFK audit firms	8,545	23,505	8,545	23,505
Total auditors remuneration	33,395	23,505	33,395	23,505

Note 20. Related parties

Directors

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

Note 21. Events occurring after reporting date

Since the year end Lodestone Energy Limited has executed Royalty Agreements. The sale of a 2% royalty interest under the Royalty Agreements for a total price of AUD\$3 million entitles the holder to receive a future royalty, in respect of Lodestone Energy Limited's share of sales of coal and gas produced from all tenements currently held or obtained prior to 31 December 2009, 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.

At the date of this report there are no other matters or circumstances that have arisen since 30 June 2009 that have significantly affected, or may significantly affect:

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

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

	2009 \$	Consolidated 2008 \$	2009 \$	Parent entity 2008 \$
Loss from ordinary activities after income tax	(1,559,741)	(1,180,740)	(1,469,472)	(1,180,740)
Exploration abandoned	394,532	711,967	344,263	711,967
Depreciation	13,529	12,339	13,529	12,339
Share based payments	475,923	-	475,923	-
Change in operating assets and liabilities:				
(Increase)/decrease in other debtors	(24,261)	50,537	(24,261)	50,537
(Increase)/decrease in interest receivable	875	3,811	875	3,811
Increase/(decrease) in trade creditors	(41,133)	38,507	(41,133)	38,507
Net cash outflow from operating activities	(740,276)	(363,579)	(700,276)	(363,579)

Note 23. Commitments for expenditure

	2009 \$	Consolidated 2008 \$	2009 \$	Parent entity 2008 \$
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Exploration commitments

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

Within one year	2,914,702	2,422,100	973,771	2,422,100
Later than one year but not later than 5 years	9,309,650	2,588,000	1,405,615	2,588,000
Later than 5 years	-	-	-	-
Commitments not recognised in the financial statements	12,224,352	5,010,100	2,379,386	5,010,100

Note 23. Commitments for expenditure continued

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.

Exploration commitments total \$12,224,352 (2008: \$5,010,100). They are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, farm-outs, and new capital raisings.

	2009 \$	Consolidated	2008 \$	2009 \$	Parent entity	2008 \$
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Remuneration commitments

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

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

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

Note 24. Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2009 %	2008 %
Lodestone Coal Pty Limited*	Australia	Ordinary	100	–
Lodestone CSG Pty Limited**	Australia	Ordinary	100	–
Lodestone Minerals Pty Limited*	Australia	Ordinary	100	–

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

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

Note 25. Non-cash investing and financing activities

	2009 \$	Consolidated	2008 \$	2009 \$	Parent entity	2008 \$
Acquisition of exploration tenements by means of issue of shares	270,000	–	270,000	–		

Note 26. Earnings per share

	Consolidated 2009 Cents	Consolidated 2008 Cents
(a) Basic earnings per share		
Profit attributable to ordinary equity holders of the company	(0.87)	(1.04)
(b) Diluted earnings per share		
Profit attributable to ordinary equity holders of the company	(0.87)	(1.04)
(c) Reconciliation of earnings used in calculating earnings per share		
<i>Basic earnings per share</i>		
Profit from operations	(1,559,741)	(1,180,740)
<i>Diluted earnings per share</i>		
Profit from operations	(1,559,741)	(1,180,740)
(d) Weighted average number of shares used as the denominator		
	Number	Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	178,234,683	113,928,342
Adjustments for calculation of diluted earnings per share:		
Options	–	–
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	178,234,683	113,928,342

Note 27. Share-based payments

Options

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

Options granted carry no dividend or voting rights.

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

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

Set out below are summaries of options granted:

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

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.4 years (2008 – 2.6 years)

Fair value of options granted

The assessed fair value at grant date of options granted was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Note 27. Share-based payments continued

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

Issue B

- (a) options are granted for no consideration. Options vest immediately.
- (b) exercise price \$0.07
- (c) grant date: 10 September 2008
- (d) expiry date: 10 September 2010
- (e) share price at grant date: \$0.024
- (f) expected price volatility of the shares: 142.4%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 5.57%

Issue C

- (a) options are granted for no consideration. Options vest immediately.
- (b) exercise price \$0.07
- (c) grant date: 8 April 2009
- (d) expiry date: 8 April 2011
- (e) share price at grant date: \$0.063
- (f) expected price volatility of the shares: 140.127%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 3.24%

Issue D

- (a) options are granted for no consideration. Options vest immediately.
- (b) exercise price \$0.07
- (c) grant date: 20 April 2009
- (d) expiry date: 8 April 2011
- (e) share price at grant date: \$0.081
- (f) expected price volatility of the shares: 140.127%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 3.30%

Issue E

- (a) options are granted for no consideration. Options vest immediately.
- (b) exercise price \$0.07
- (c) grant date: 26 June 2009
- (d) expiry date: 26 June 2011
- (e) share price at grant date: \$0.155
- (f) expected price volatility of the shares: 140.127%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 4.13%

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

Performance Rights

During the financial year Lodestone Energy Limited granted 18,000,000 performance rights to directors and contractors for no consideration. The exercise conditions of the performance rights are as follows:

- One half of the performance rights become exercisable if the company'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 the company's shares is at least \$0.25 for a continuous period of five trading days

Performance rights granted carry no dividend or voting rights.

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

Set out below are summaries of performance rights granted:

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

Fair value of performance rights granted

The assessed fair value at grant date of performance rights granted was independently determined using the Monte Carlo Simulation Method that takes into account the exercise price, the expected life of the performance rights, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

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

Issue A

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

Fair value arising from share-based payment transactions

Fair value arising from share-based payment transactions recognised during the period were as follows:

	2009	Consolidated	2009	Parent
	\$	2008	\$	2008
		\$		\$
Performance rights issued	3,618	–	3,618	–
Options issued	485,874	–	485,874	–
	489,492	–	489,492	–

Note 28. Contingent liabilities

Under the Moreton Farm-In Agreement Lodestone Energy Limited is committed to issue a further 3,000,000 shares once Lodestone Energy Limited has spent a total of \$1m on exploration on the Moreton project.

Note 29. Entity details

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

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

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

We have audited the accompanying financial report of Lodestone Energy Limited ("the company") and its controlled entities ("the consolidated entity"). The financial report comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration disclosures contained in the Directors' Report

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

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
OF LODESTONE ENERGY LIMITED
(continued)**

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

- a) the financial report of Lodestone Energy Limited is in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2009 and of their performance for the year ended on that date; and
 - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) the consolidated financial report also complies with International financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty regarding capitalised Exploration and Evaluation

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

As a result of the matter described in Note 3 to the financial statements, there is inherent uncertainty as to whether the company and consolidated entity will be able to recover the carrying value of capitalised exploration and evaluation expenditure for the amounts recorded in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report (Sections A to D included in the Directors' Report for the year ended 30 June 2009. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report (Sections A to D) of Lodestone Energy Limited for the year ended 30 June 2009 complies with section 300A of the Corporations Act 2001.



Hacketts DFK

Brisbane, 30 September 2009



**L J Murphy
Partner**

Shareholder Information

The shareholder information set out below was applicable at 22 September 2009.

A. Distribution of equity securities

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

Class of equity security Ordinary shares		Number of holders
	Number held	
	1 – 1,000	40
	1,001 – 5,000	48
	5,001 – 10,000	166
	10,001 – 100,000	481
	100,001 and over	265
		1,000

There were 58 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares Number Held	Percentage of issued shares
Oliver Lennox-King	16,000,000	7.94%
Wealford Investments Limited	13,500,000	6.70%
Nefco Nominees Pty Ltd	7,849,958	3.90%
John Lachlan McCawley	6,854,198	3.40%
Orbit Capital	6,338,589	3.15%
Lance and Olwyn Grimstone	4,631,525	2.30%
Campbell Marine Pty Ltd	4,523,609	2.24%
National Nominees Limited	3,100,000	1.54%
Eastern Porphyry Pty Ltd	3,000,000	1.49%
TBIC Pty Ltd	3,000,000	1.49%
Allegro Capital Nominees	2,854,846	1.42%
Yaratan Pty Ltd	2,500,000	1.24%
UBS Wealth Management	2,106,667	1.05%
Raul Used	2,000,001	0.99%
Leejames Nominees Pty Ltd	2,000,000	0.99%
Somnus Pty Ltd	2,000,000	0.99%
Taycol Nominees	2,000,000	0.99%
BT Portfolio Services Limited	1,731,557	0.86%
David Oakley	1,546,923	0.77%
Mirrup Investments Pty Ltd	1,500,000	0.74%
Springtide Capital Pty Ltd	1,500,000	0.74%
Mr Rowan Fergus Bell & Mrs Heather Dawn Bell	1,500,000	0.74%
	92,037,873	45.67

Unquoted equity securities

	Number of issue	Number of holders
Unquoted options	34,301,000	11

Holders of greater than 20% of unquoted equity Securities

Name	Number held	Percentage of unquoted options
Oliver Lennox King	15,000,000	43.6%

C. Substantial holders

Substantial holders in the company are set out below:

Ordinary shares	Number held	Percentage
Oliver Lennox King	16,000,000	7.94%
Wealford Investments Limited	13,500,000	6.70%

D. Voting rights

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

(a) Ordinary shares

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

(b) Options

No voting rights.



LODESTONE ENERGY

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