

15 January 2010

The Manager  
Companies Announcements Office  
Australian Stock Exchange Limited  
10<sup>th</sup> Floor, 20 Bond Street  
SYDNEY NSW 2000

Dear Sir

### **ACTIVITIES REPORT FOR QUARTER ENDED 31 DECEMBER 2009**

Lodestone's activities in the December Quarter of 2009 mainly consisted of work related to the company's energy projects.

#### **ACTIVITIES RELATED TO ENERGY PROJECTS:**

##### **Tambo Coal & Gas Project (Lodestone Earning up to 50%)**

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

##### *Tambo Coal Seam Gas Exploration Campaign*

The initial drilling contract for three CSG wells within ATP1020 was awarded to Major Drilling Pty Ltd (Major). The location of ATP1020 is shown in Figure 1.

Mobilisation of resources for the planned wells commenced in the week beginning 30 November, with the site camp being established, followed by the arrival of Major's initial equipment and team. The first CSG well was spudded on 10 December. By the time drilling ceased prior to the Christmas break, this well was cased off at 200m depth with coring to commence on resumption of drilling during January.

##### *Tambo Coal Exploration Campaign*

Under a separate tender process, Major was also awarded the contract for the initial coal exploration program in Lodestone's Exploration Permits for Coal (EPCs). Mobilisation to site occurred in the week beginning 14 December, with EPC 1623 being the initial area targeted. Drilling commenced at the end of that week, however, due to rain, the first hole remained incomplete by the commencement of the Christmas break.

Heavy rainfall and flooding over the Christmas period and in the first week in January has delayed the recommencement of both CSG and coal drilling programs which are now expected to occur mid to late next week.

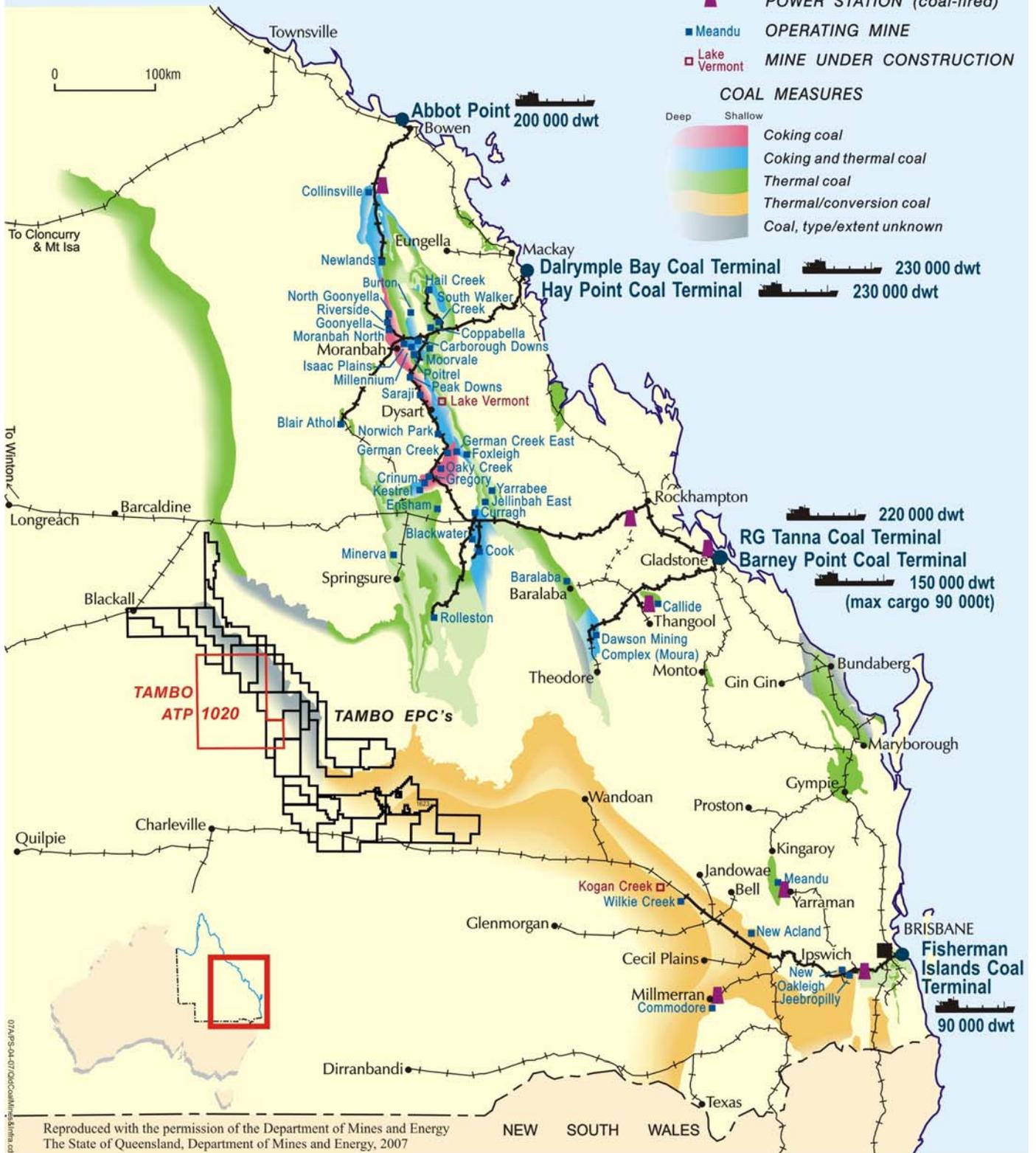
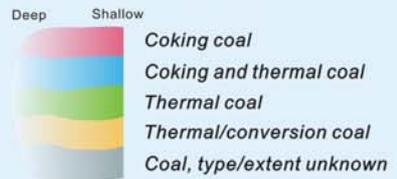
Figure 1  
Tambo Tenure

# Queensland Coal Mines and Infrastructure



- RAIL NETWORK
- COAL HAULAGE NETWORK
- Abbot Point COAL EXPORT TERMINAL (maximum vessel size) 200 000 dwt
- POWER STATION (coal-fired)
- Meandu OPERATING MINE
- Lake Vermont MINE UNDER CONSTRUCTION

**COAL MEASURES**



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NEW SOUTH WALES

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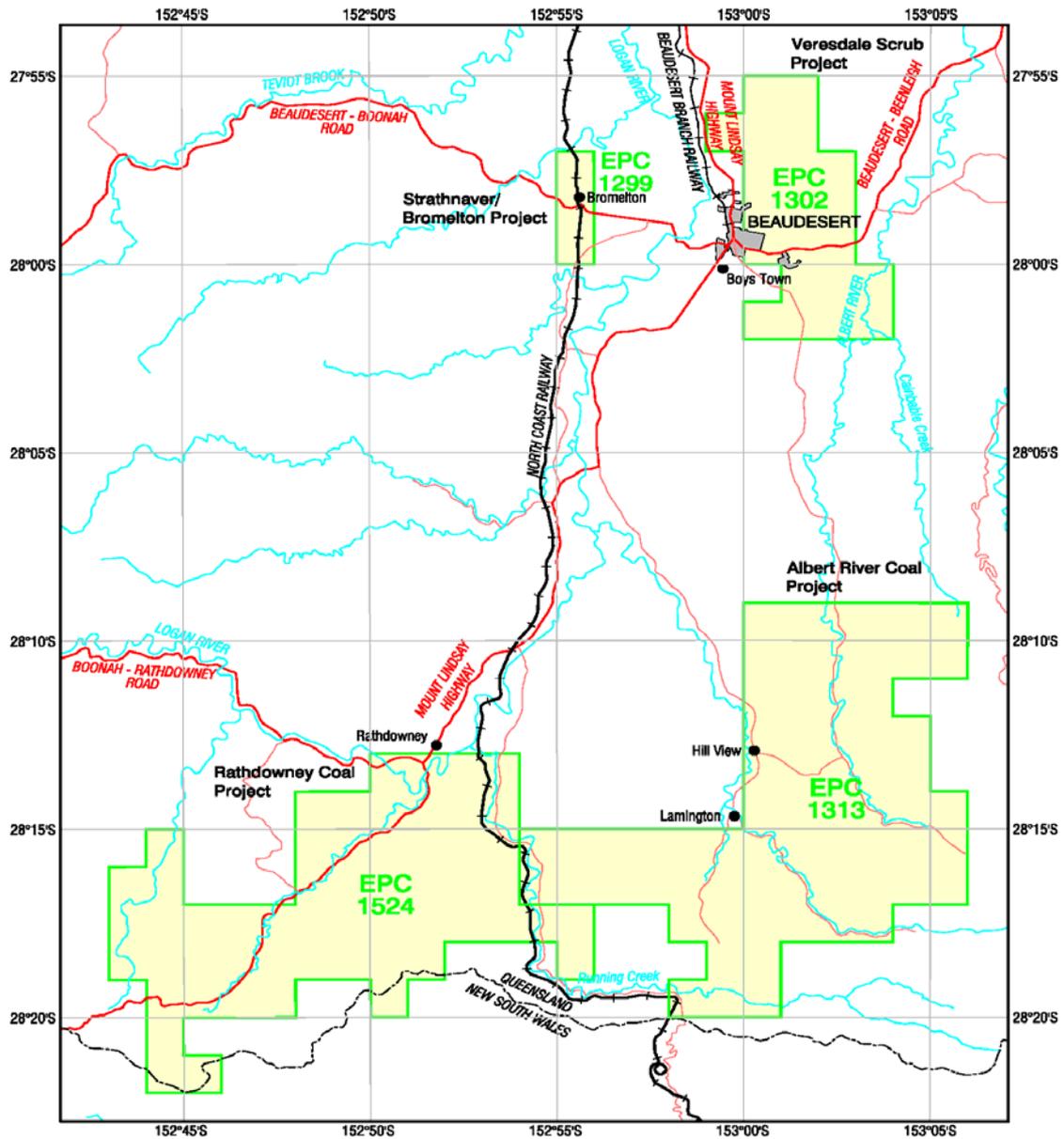
### Moreton Energy Project (Lodestone Earning 50%)

Lodestone's Moreton Project consists of four EPC's located near Beaudesert in South Queensland. A drilling program was undertaken during the quarter involving exploration drilling on all the EPC's.

The objective of the program was to explore for coal resources suitable for opencut mining. The broad outcomes from this initial drilling program are shown in Table 1 and the EPC locations on the map shown below.

**Table 1  
Moreton Project Drilling Results to Date**

EPC No.	Drilling Outcome Remarks
EPC 1299 Bromelton	In the southeast corner of the EPC shallow coal was intersected near the base of the Walloon sequence in two holes. Coring of the coal and the geophysics has shown that the coal is predominantly carbonaceous material and steeply dipping.
EPC 1302 Veresdale Scrub	<p>This EPC is named after the Veresdale Scrub coal deposit, which is located across the northern boundary of the EPC. Previous explorers categorized the Veresdale Scrub deposit (now partly covered by Moreton Energy's EPC 1302) as a typical Walloon Coal with a high volatile content, high raw ash and low total sulphur.</p> <p>Drilling by Lodestone during the December 2009 quarter has determined that the Veresdale Deposit's southward extent is curtailed by a 100m thick intrusive sill which was intersected in numerous holes east-northeast of Beaudesert and has thus sterilised much of the central portion of the EPC. Coal seams of the Walloon sequence were intersected and geophysically logged. Sufficient drilling has been undertaken to estimate the eastern crop zone of the Logan Syncline. Although frequent coal bands exist in the log, no obvious economic seam thicknesses were encountered. The cleanest pair of coal seams occur in the upper section, these were cored and sampled.</p>
EPC 1313 Albert River	In the southeast of the EPC, drilling has confirmed the presence of the (tuffaceous) lower section of Walloon Coal Measures in an erosional window contained in a small valley. Only thin and dirty coals are exhibited on the geophysical log. This erosional window is almost entirely surrounded by the Scenic Rim. Drilling has confirmed that the western and northern sections of the EPC are sterilised by basalts (>140m thick in valleys) and hence un-prospective for opencut Walloon coal.
EPC 1524 Rathdowney	Drilling has confirmed that the upper sandstone unit of the Marburg Formation outcrops throughout the EPC and that Walloon coal is unlikely to be present.



**LEGEND**

- Principal road
- - - Secondary road
- +— Rail line
- Major drainage line



**MORETON ENERGY COAL PROJECT FARM-IN**

**EPC1299, EPC1302, EPC1313 and EPC1524  
COAL EXPLORATION PERMITS**

**LOCATION MAP**

## **ACTIVITIES RELATED TO MINERAL PROJECTS:**

### **Mount Morgan District Project (100% Lodestone)**

This project is centred on the historic gold mining town of the same name, and is situated 50km southwest of Rockhampton, Queensland. Lodestone is exploring for gold and copper – molybdenum orebodies. Detailed discussions with a farm-in candidate took place in December and are expected to resume in February.

### **Chillagoe District Project (100% Lodestone)**

This project is situated 130km north of the Chillagoe township in North Queensland. The structural and lithological setting of this project is similar to the Mungana and Red Dome gold-copper deposits near Chillagoe. Geochemical sampling and mapping south and west of Leane's copper-gold prospect was completed in November. Integration and assessment of data from that fieldwork is underway.

## **CORPORATE ACTIVITY:**

During the quarter Lodestone announced that it has completed negotiations to acquire 100% of the Tambo and Moreton Projects.

To this end Lodestone has entered into a share sale and purchase agreement to acquire Tambo Coal and Gas Pty Limited and Moreton Energy Pty Limited from entities associated with Greg Baynton, a Lodestone Director. Under the Agreement 407,288,211 new shares represent the consideration for the transaction. The acquisition is conditional on the approval of shareholders at an Extraordinary General Meeting planned for March 2010.

## **FORWARD PROGRAMS:**

Under its existing farm-in agreements, Lodestone will continue to develop and manage exploration programs for the Tambo Coal & Gas Project and the Moreton Project during the coming months.

Lodestone will also continue discussions with potential partners and encourage farm-ins at its Mount Morgan and Limestone Creek Projects.

Yours faithfully,



**Martin Ackland**  
**Chairman**

Jeff Jamieson  
Chief Executive Officer  
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### **Competent Persons Statement**

Moreton Project drilling results included in Table 1 were compiled by Mr Jeff Jamieson, ARMIT (Min.Eng), FAusIMM, CP(Min). Mr Jeff Jamieson is a coal consultant with over thirty years experience and is CEO of Lodestone Energy Limited. Mr Jeff Jamieson has sufficient coal experience to qualify as a Competent Person as defined by the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, and consents to the inclusion in the presentation of the matters based on his information in the form and context in which it appears.'