



Lodestar Minerals Limited ABN 31 127 026 528

Registered office
Level 2
45 Stirling Highway
Nedlands WA 6009

Tel: +61 8 9423 3280
Fax: +61 8 9389 8327

Postal address
PO Box 985
Nedlands WA 6909

ASX: LSR
www.lodestarminerals.com.au

3 February 2010

ASX LIMITED

Dear Sirs

Lodestar Minerals Limited confirms that it has today despatched a Notice of Meeting to shareholders for a meeting to be held on 5 March 2010.

Yours faithfully

A handwritten signature in black ink that reads "D McArthur".

David McArthur
Director

LODESTAR MINERALS LIMITED

ACN 127 026 528

NOTICE OF GENERAL MEETING

TIME: 10.00am (WST)

DATE: 5 March 2010

PLACE: Level 2, 45 Stirling Highway
Nedlands Perth Western Australia

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 94233200.

CONTENTS PAGE

Notice of General Meeting (setting out the proposed resolutions)	3
Explanatory Statement (explaining the proposed resolutions)	4
Glossary	15
Annexure A – Independent Expert's Report	16
Proxy Form	

TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00am (WST) on Friday 5 March 2010 at:

Level 2, 45 Stirling Highway
Nedlands Perth Western Australia

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post to Lodestar Minerals Limited, PO Box 985, Nedlands WA 6909; or
- (b) facsimile to the Company on facsimile number (+61 8) 9389 8327,

so that it is received not later than 10.00am (WST) on Wednesday 3 March 2010.

Proxy Forms received later than this time will be invalid.

NOTICE OF GENERAL MEETING

Notice is given that the General Meeting of Shareholders will be held at 10.00am (WST) on Friday 5 March 2010 at Level 2, 45 Stirling Highway, Nedlands, Perth, Western Australia.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 5.00pm (WST) on 3 March 2010.

AGENDA

1. RESOLUTION 1 – ACQUISITION OF THE PEAK HILL – DOOLGUNNA PROJECT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose Item 6 of Section 611 of the Corporations Act and for all other purposes, approval is given for:

- (a) *the Directors to allot and issue 15,000,000 Shares; and*
- (b) *the acquisition of a relevant interest in the issued voting shares of the Company by the Vendors and the Relevant Interest Parties in excess of the threshold prescribed by section 606(1) of the Corporations Act by virtue of the issue of the Shares,*

on the terms and conditions set out in the Explanatory Statement.”

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared by KPMG Corporate Finance (Aust) Pty Ltd for the purposes of the Shareholder approval required under Item 7 of Section 611 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders. The Independent Expert has determined the issue of Shares to the Vendors is **fair and reasonable** to the non-associated Shareholders

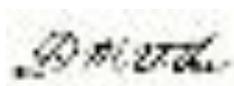
Voting Exclusion: Under Item 7 of Section 611 of the Corporations Act, no votes may be cast in favour of the resolution by:

- (a) the person proposing to make the acquisition and their associates; or
- (b) the persons (if any) from whom the acquisition is to be made and their associates.

Accordingly, the Company will disregard any votes cast on this Resolution by the Vendors and the Relevant Interest Parties and any of their associates.

DATED: 25JANUARY 2010

BY ORDER OF THE BOARD



**DAVID MCARTHUR
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 10.00am (WST) on Friday 5 March 2010 at Level 2, 45 Stirling Highway, Nedlands, Perth, Western Australia.

This purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

1. BACKGROUND TO THE ACQUISITION

1.1 Details of the Agreement

On 10 December 2009, the Company announced it had entered into a conditional agreement (**Agreement**) with the Vendors to acquire 13 exploration licences, both granted and applications, in the Doolgunna district in the north eastern goldfields of Western Australia (**Project**) (the **Acquisition**).

The Acquisition is conditional upon all necessary shareholder and regulatory approvals.

The consideration for the Acquisition is a total of 15,000,000 Shares and \$120,000 by way of reimbursement of expenditure incurred on the Project.

The Shares are to be issued to the Vendors as follows:

Vendor	Shares
Glenn Griffin Venn Money	5,400,000
Robert John McArthur Anderson	5,400,000
Drew Griffin Money	2,700,000
Calm Holdings Pty Ltd ATF The Clifton Superannuation Fund	1,500,000

The Agreement contains standard warranties and representations on behalf of the Vendors and otherwise contains terms and conditions typical for an agreement of this nature.

1.2 Details of the Project

The Project being acquired from the Vendors is comprises of 4 granted exploration licences and 9 applications for exploration licences forming 3 project areas (the Western Block, the Ned's Creek Block and the Marymia Block) and is located in the Doolgunna district of the southern Capricorn Orogen, an emerging copper gold province in the north eastern goldfields of Western Australia. The province has not seen modern systematic exploration and recent successes by Sandfire, Montezuma and Alchemy have highlighted the potential of this poorly understood and under explored region.

The region is well endowed with the 8Moz Au Plutonic/Marymia Archaean Inlier, the 1Moz Au Peak Hill/Harmony deposits, the Horseshoe Lights Cu-Au VMS deposit and numerous gold and copper workings along major structural and lithological margins, including the Narracoota Volcanics Formation.

The tenements cover 2,057 square kilometres of under explored terrain in the southern Capricorn Orogen, and are prospective for copper, gold, lead, zinc and uranium. The tenements have seen limited exploration with evidence of near-surface copper, gold and uranium mineralisation. There has been limited use of geophysics and no evidence of electromagnetic ("EM") surveys that have proved recently successful in the region.

Historic exploration anomalies and untested targets have been identified including

- An untested uranium radiometric anomaly
- multiple incompletely tested or untested gold in soil or stream anomalies of 10ppb Au or greater
- multiple incompletely tested Cu occurrences with Cu values ranging from 800ppm to 4100ppm in rock chip samples
- heavy mineral sulphide concentrate reported in diamond exploration drilling – not assayed for base or precious metals

Lodestar will undertake a review of all regional datasets to prioritise targets and determine an appropriate exploration program and budget which is likely to include detailed geophysics with follow-up drilling.

The acquisition of the Peak Hill – Doolgunna project represents the initial stage of Lodestar's stated diversification strategy, combining a large tenement holding with multi-commodity exploration potential.

The Peak Hill – Doolgunna project covers a large area of the Marymia Inlier; Proterozoic age sediments of the lower Yerrida Group and Earraheedy Group and the Bangemall Group (Figure 1).

At the regional scale, the Capricorn Orogen hosts major gold deposits associated with the greenstone sequences within the Marymia Inlier (Plutonic, Archaean lode style, 8Moz Au) and the Peak Hill Schist (Peak Hill, Jubilee and Mt Pleasant shear hosted Au), Au and Cu – Au associated with the Bryah Group (Fortnum and Harmony gold deposits and Degruusa, Horseshoe Lights VMS copper-gold deposits) and base metals in the Earraheedy Group (Magellan lead deposit (8.5Mt at 7.12% Pb)) in which associated carbonate sequences are prospective for Mississippi Valley type Zn and Pb deposits.

The tenements span a distance of approximately 140 kilometres in an east north easterly direction, parallel to major regional aeromagnetic lineaments, such as the Jenkin Fault, thought to represent deep crustal thrust faults at basin margins.

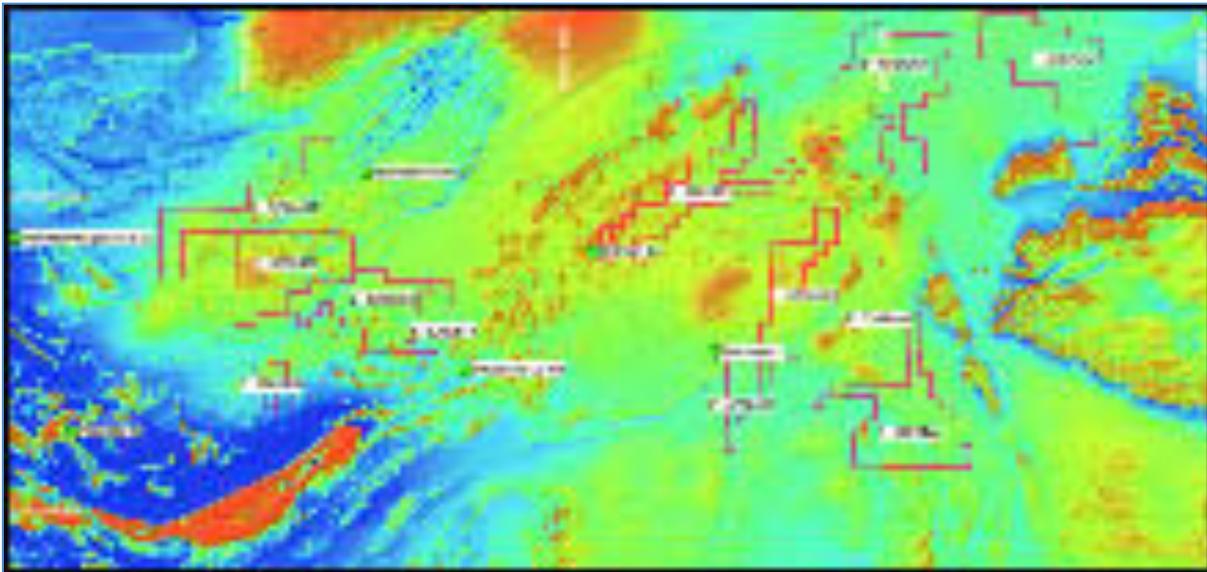


Figure 1 Regional aeromagnetic (TMI) image showing Iodestar's Peak Hill- Nabbaru tenements and mineral deposits (AGD94 Zone 50) Magnetic data (c) Commonwealth of Australia (Geoscience Australia) 2003

The project is divided into three geographic zones in which specific exploration potential has been recognised

- The Western Block comprising E 52/2403, E52/2418, E52/2430, E52/2431 and E52/2512
- The Ned's Creek Block comprising E52/2440, E52/2444, E52/2456, E52/2468, E52/2492 and E52/2493 and
- The Marymia block comprising E69/2662

WESTERN BLOCK

Within the Western Block tenement E52/2403 contains two zones of incompletely tested Au in soil anomalies and unrelated historic rock chip samples that reported up to 876ppm Cu (Figure 2).

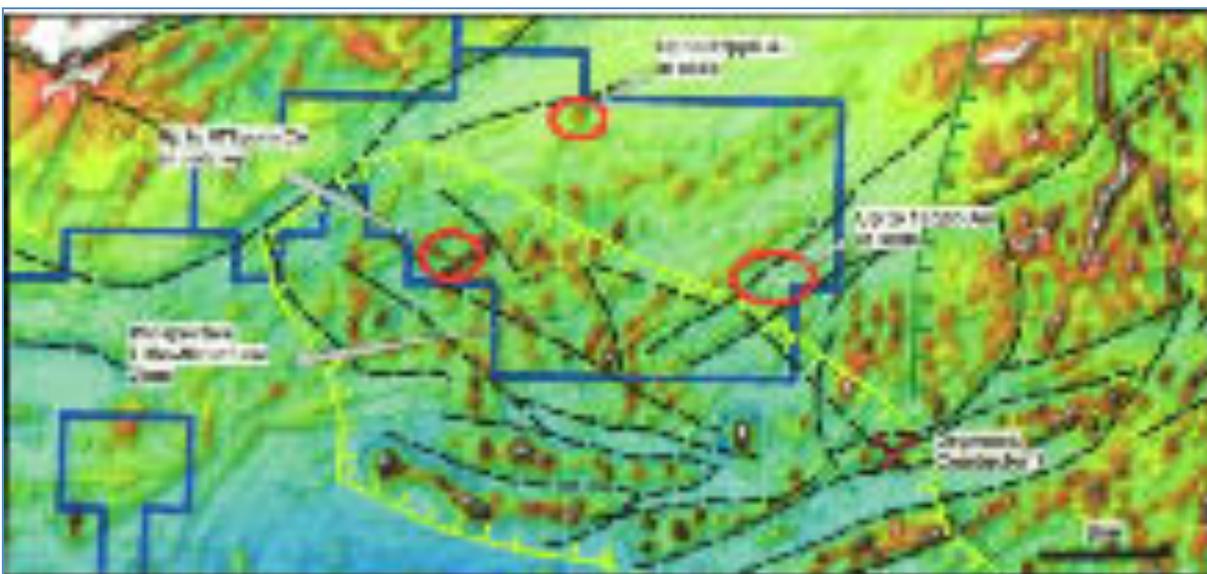


Figure 2 E52/2403 showing historic gold in soil anomalies and elevated Cu in rock chip samples of gossanous material

An untested uranium anomaly measuring 3 kilometres by 500 metres is evident in uranium radiometric imagery and the “uranium squared over thorium” (U²/Th) data produced by Geoscience Australia (Figure 3). The uranium anomaly lies 25 kilometres south of the Three Rivers uranium occurrence, where uranium assays of up to 360ppm have been reported in historic drilling.

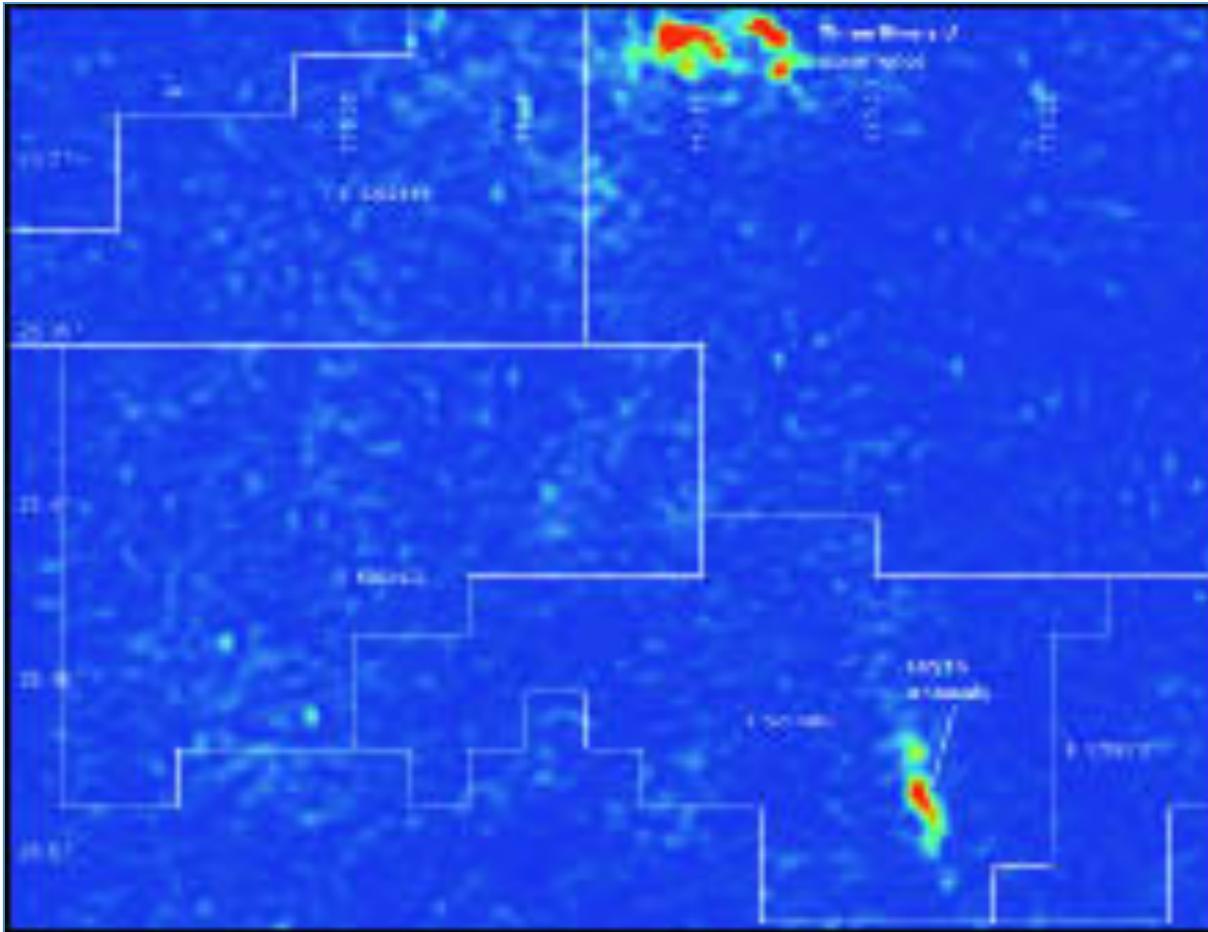


Figure 3 Radiometric image U²/Th showing U anomaly in relation to the Three Rivers U occurrence. Radiometric data (c) Commonwealth of Australia (Geoscience Australia) 2003

NED'S CREEK BLOCK

A number of incompletely tested historic exploration targets associated with outcropping ironstone and magnetic zones have been identified (Figure 4).

McDonald Well base metal prospect reported rock chip assays of up to 4100ppm Cu and 1200ppm Zn. Follow up shallow drilling in the 1970's intersected up to 5ft (1.5m) at 835ppm Cu and 1150ppm Zn from <10m depth. No electrical or electromagnetic geophysical techniques have been used in exploration targeting.

The K42 magnetic anomaly extends over a strike length of 6 kilometres; historic interface geochemical sampling (at the base of transported overburden) has reported coincident Au, As, Cu, and Zn anomalies. Follow up drilling failed to identify the source of the anomalism, however approximately 5 kilometres of strike still remains to be tested by geochemical survey.

Bill's Prospect – a magnetic anomaly and regional lineament tested by interface sampling and shallow drilling. A later phase of follow up RC drilling (12 holes) reported up to 12m at 2g/tonne Au.

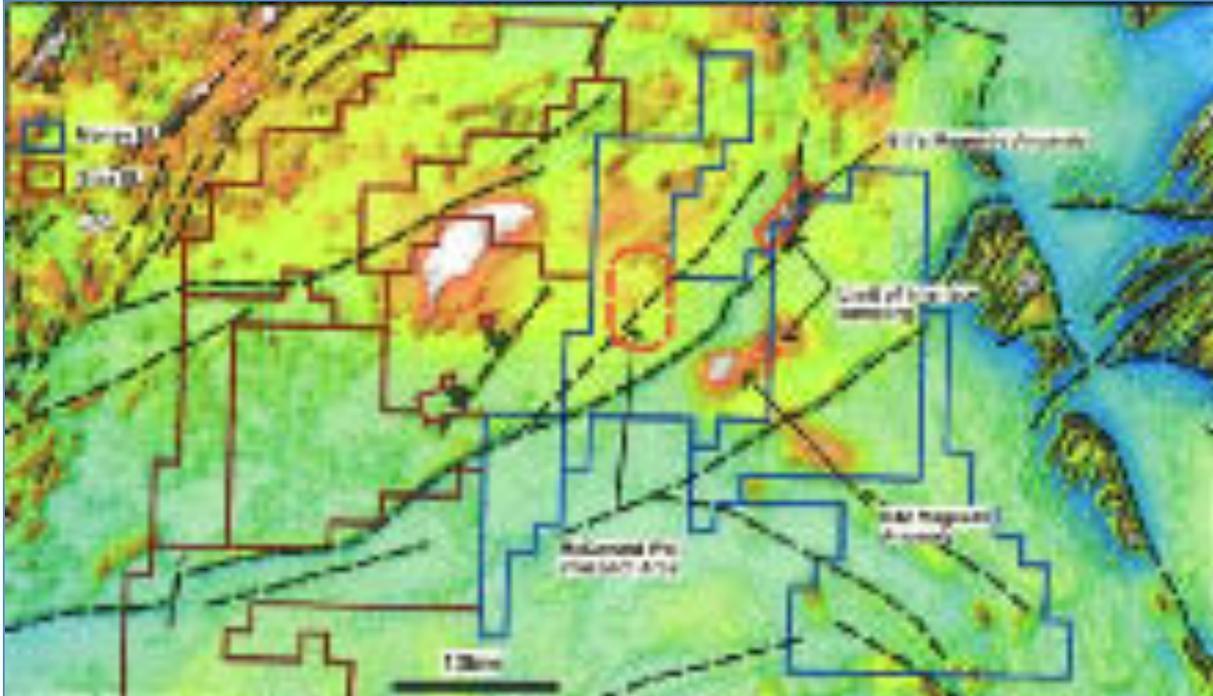


Figure 4 Ned's Creek Block magnetic image (TMI) showing identified prospects

MARYMIA BLOCK

A gold anomaly in regional stream sediment sampling (up to 164ppb Au) remains unresolved. Diamond exploration tested numerous magnetic anomalies for kimberlite intrusives and intersected pyritic mineralisation in a bottom of hole sample (96-100m). Sulphide concentrates from this hole were not assayed for base and precious metals.

Diamond exploration drilling testing similar targets on an adjacent tenement, intersected massive sulphides in a bottom of hole sample that assayed 4 metres at 2.43% Cu (Figure 5). This tenement is subject to a recently announced joint venture between PacMag Metals Limited and Dominion Mining Limited.

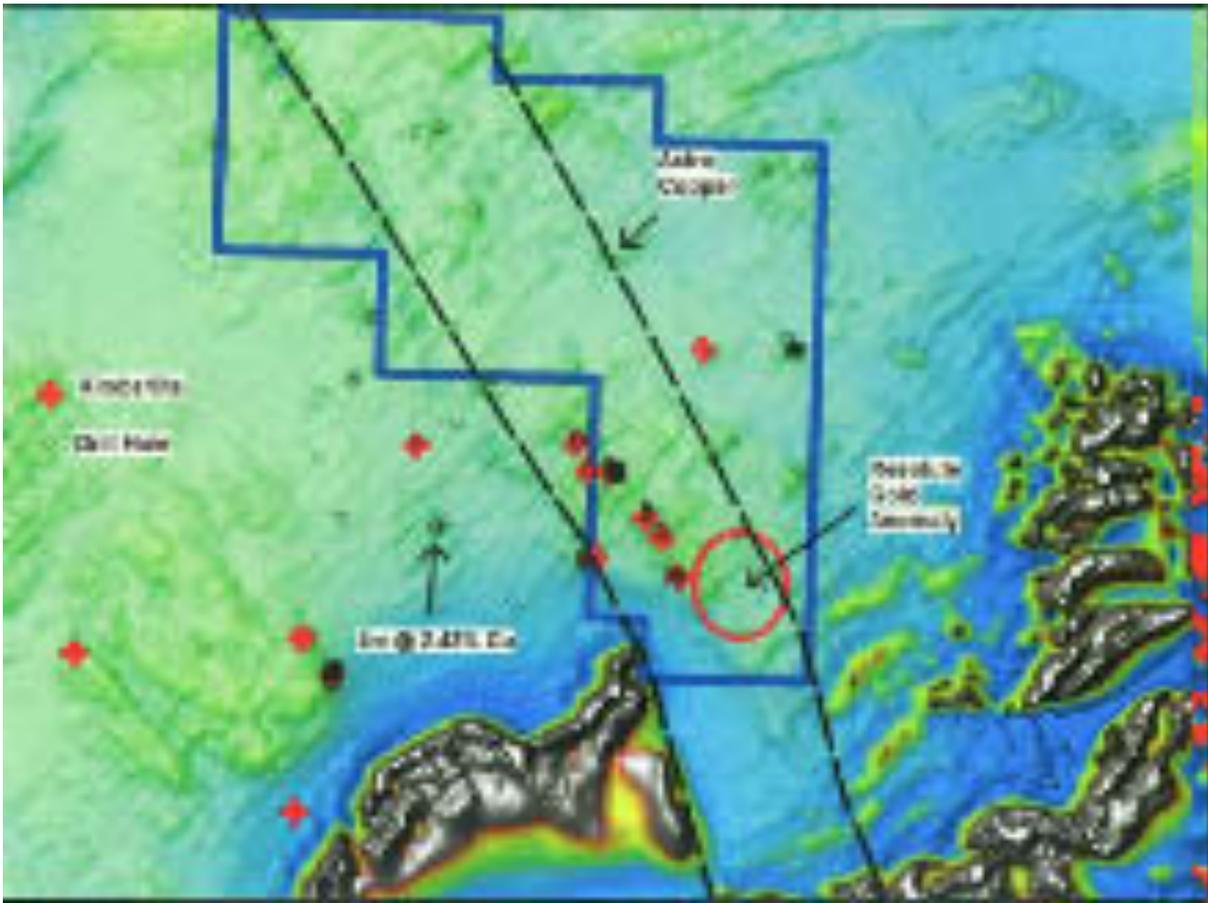


Figure 5 Marymia Block (E69/2662) magnetic image (TMI) showing interpreted structural corridor and exploration targets.

Competent Persons Statement

The information in this notice of meeting that relates to Exploration Results and Mineral Resources is based on information reviewed by Mr Bill Clayton and compiled by Mr. David Richards. Mr Richards is an independent consulting geologist and Mr Clayton is Managing Director and a full-time employee of Lodestar Minerals Limited. Mr. Clayton and Mr Richards are members of the Australian Institute of Geoscientists. Mr Richards and Mr Clayton have sufficient experience of relevance to the styles of mineralisation and the types of deposits under consideration, and to the activities undertaken, to qualify as Competent Persons as defined in the 2004 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Richards and Mr. Clayton consent to the inclusion in this report of the matters based on information in the form and context in which it appears.

2. RESOLUTION 1 – ACQUISITION OF THE PEAK HILL – DOOLGUNNA PROJECT

2.1 General

As outlined in Section 1.1, the Company has entered into the Agreement pursuant to which the Company will, subject to Shareholder approval, allot and issue 15,000,000 Shares to the Vendors in consideration for the Acquisition.

Resolution 1 seeks Shareholder approval for the allotment and issue of the Shares to the Vendors as well as the acquisition of a relevant interest in the issued voting shares of the Company by the Vendors and the Relevant Interest Parties (identified in Section 2.2) in excess of the threshold prescribed by Section 606(1) of the Corporations Act by virtue of the issue of the Shares.

Approval pursuant to ASX Listing Rule 7.1 is not required for the issue of Shares proposed by Resolution 9 as approval is being obtained under Item 7 of Section 611 of the Corporations Act. Accordingly, the issue of Shares to the Vendors will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

The Corporations Act and ASIC Regulatory Guide 74 set out a number of regulatory requirements which must be satisfied. These are summarised below.

2.2 Item 7 of Section 611 of the Corporations Act

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person (**second person**) will be an "associate" of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposed to enter in a relevant agreement with the first person for the purpose of controlling or influencing the composition of the Company's board or the conduct of the Company's affairs; and

- (c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the Company's affairs.

Pursuant to Section 608(1) of the Corporations Act, a person has a "relevant interest" in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Pursuant to Section 608(3) of the Corporations Act, a person is deemed to have a "relevant interest" in securities that a company has if their voting power in the company is above 20% or they control the company.

For the purpose of preparing this Explanatory Statement, an assumption has been made that the Vendors are associates of each other as defined in the Corporations Act at the time of completion of the Acquisition. This does not mean that the Vendors will remain associates in the future. Accordingly, the Vendors will each hold a relevant interest in all of the Shares to be issued pursuant to the Acquisition.

The following parties are deemed to have a relevant interest in the Shares to be issued to the Vendors:

- (a) Mr Timothy Maxwell Clifton (**Clifton**) because his voting power in Clifton Nominees Pty Ltd is above 20% and an assumption has been made that the Vendors are associates of each other as defined in the Corporations Act at the time of completion of the Acquisition; and
- (b) the Company because it will control the exercise of a power to dispose of the securities by virtue of the voluntary escrow;

(Relevant Interest Parties).

At completion of the Acquisition, the Vendors will be issued with 15,000,000 Shares which will result in the Vendors, who are each deemed to have a relevant interest in the securities of each other, acquiring a relevant interest in the issued voting shares of the Company of greater than 20% (assuming only the Shares contemplated by this Notice are issued and no Options exercised). In addition, the Relevant Interest Parties, who are each deemed to have a relevant interest in the securities of the Vendors, will also acquire a relevant interest in the issued voting shares of the Company of greater than 20%. Each of these acquisitions is in excess of the threshold prescribed by Section 606(1) of the Corporations Act.

Item 7 of Section 611 of the Corporations Act provides an exception to the prohibition in Section 606(1) of the Corporations Act, whereby a person may acquire a relevant interest in a company's voting shares with the approval of the shareholders of that company.

Accordingly, the Company seeks Shareholder approval under Item 7 of Section 611 of the Corporations Act for the issue of the Shares to the Vendors as well as the

acquisition of a relevant interest in the issued voting shares of the Company by The Vendors and the Relevant Interest Parties in excess of the threshold prescribed by Section 606(1) of the Corporations Act by virtue of the issue of the Shares.

2.3 Specific information required by Item 7 of Section 611 of the Corporations Act & ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under ASIC Regulatory Guide 74 and the Corporations Act in respect of obtaining approval pursuant to Item 7 of Section 611 of the Corporations Act.

The identity of the acquirer and their associates and any person who will have a relevant interest in the Shares to be acquired

The acquirers are the Vendors.

For the purpose of preparing this Explanatory Statement, an assumption has been made that the Vendors are associates of each other as defined in the Corporations Act at the time of completion of the Acquisition. This does not mean that the Vendors will remain associates in the future. Accordingly, the Vendors will each hold a relevant interest in all of the Shares to be issued pursuant to the Acquisition.

Details of the parties that are deemed to have a relevant interest in the Shares to be issued to the Vendors (the Relevant Interest Parties) are set out in Section 2.2.

Full particulars (including the number and percentage) of the Shares to which the Vendors are or will be entitled immediately before and after the Acquisition AND the maximum extent of the increase in the Vendors' and the Relevant Interest Parties' voting power in the Company (including their associates) as a result of the Acquisition.

As at the date of this Notice, none of the Vendors have a relevant interest in any Shares or Options.

Event	Glenn Money (and his associates)	Robert Anderson (and his associates)	Drew Money (and his associates)	Calm Holdings (and its associates)
No. of Shares (% of voting power) held as at the date of this Notice (Total Shares = 50,000,003)	0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)
No. of Shares (% of voting power) held after Acquisition (assuming only the Shares contemplated by this Notice are issued and no Options exercised) (Total Shares = 65,000,003)	15,000,000 (23.1%)	15,000,000 (23.1%)	15,000,000 (23.1%)	15,000,000 (23.1%)
No. of Shares (% of voting power) held on a fully diluted basis (Total Shares = 71,000,003)	15,000,000 (21.1%)	15,000,000 (21.1%)	15,000,000 (21.1%)	15,000,000 (21.1%)

Note

¹ Each of Clifton and the Company holds an equivalent relevant interest in the Shares to be issued to the Vendors.

The identity, associations (with the Vendors and any of their associates) and qualifications of any person who it is intended will become a Director if Shareholders approve the Acquisition.

The Vendors will not be seeking to appoint a representative to the Board following completion of the Acquisition.

A statement of the Vendors' intentions regarding the future of the Company if Shareholders agree to the Acquisition.

Other than as disclosed elsewhere in this Explanatory Statement, at the date of this Notice of Meeting the Company understands that the Vendors do not intend to:

- (a) make any significant changes to the business of the Company;
- (b) inject further capital into the Company;
- (c) make any changes to the future employment of the present employees of the Company;
- (d) any property will be transferred between the Company and the Vendors or any person associated with any of them;
- (e) otherwise redeploy the fixed assets of the Company; and
- (f) change significantly the financial or dividend policies of the Company.

Further details of the Acquisition are set out throughout this Explanatory Statement. Shareholders are also referred to the Independent Expert's Report set out in Annexure A.

2.4 Reasons for the Acquisition

Advantages

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on Resolution 1:

- (a) the Acquisition provides an opportunity for the Company to diversify its current business operations; and
- (b) the Acquisition gives the Company an exposure to a largely underexplored geological area that has experienced recent geological success..

Disadvantages

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on Resolution 1:

- (a) current Shareholders will have their interests in the Company diluted; and
- (b) there is no guarantee that exploration by Iodestar will result in the discovery of a mineral resource..

2.5 Recommendations of Directors

The Directors do not have any personal interests in the outcome of Resolution 1 and recommend that Shareholders vote in favour of the Resolution as they consider the

proposed issue of Shares to the Vendors to be in the best interests of Shareholders for the following reasons:

- (a) after assessment of the advantages and disadvantages referred to in Section 2.4; and
- (b) the Independent Expert has determined the issue of Shares to the Vendors to be **fair and reasonable** to the non-associated Shareholders.

2.6 Independent Expert's Report

The Independent Expert's Report prepared by KPMG Corporate Finance (Aust) Pty Ltd sets out a detailed examination of the proposed Acquisition to enable non-associated Shareholders to assess the merits and decide whether to approve the issue of Shares to the Vendors.

To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the Acquisition and concludes that the issue of Shares to the Vendors is **fair and reasonable** to the non-associated Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report set out in Annexure A to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

3. ENQUIRIES

Shareholders are required to contact David McArthur on (+ 61 8) 94233200 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

Acquisition means the acquisition of the Project by the Company from the Vendors pursuant to the Agreement.

Agreement means the agreement between the Company and the Vendors in relation to the Acquisition and as further described in Section 1.1.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Company means Lodestar Minerals Limited (ACN 127 026 528).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

General Meeting means the meeting convened by the Notice of Meeting.

Independent Expert means KPMG Corporate Finance (Aust) Pty Ltd (ABN 43 007 363 215)

Independent Expert's Report means the report prepared by the Independent Expert and annexed to this Notice of Meeting as Annexure A.

Notice or **Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement.

Relevant Interest Parties means the parties deemed to have a relevant interest in the securities that the Vendors have as further described in Section 2.2.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

Project or **Peak Hill – Doolgunna Project** means the 13 exploration licences, both granted and applications, in the Doolgunna district in the north eastern goldfields of Western Australia to be acquired by the Company from the Vendors.

Vendors means Glenn Griffin Venn Money, Robert John McArthur Anderson, Drew Griffin Money and Calm Holdings Pty Ltd (ACN 009 236 551) ATF The Clifton Superannuation Fund.

WST means Western Standard Time as observed in Perth, Western Australia.



KPMG Corporate Finance (Aust) Pty Ltd
Australian Financial Services Licence No. 246901
235 St Georges Terrace
Perth WA 6000

GPO Box A29
Perth WA 6837
Australia

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 8021
DX: 1056 Sydney
www.kpmg.com.au

The Directors
Lodestar Minerals Limited
Level 2, 45 Stirling Highway
Nedlands WA 6009

20 January 2010

Dear Sirs

Independent Expert Report and Financial Services Guide

1 Introduction

Lodestar Minerals Limited (Lodestar or the Company) is an Australian public company listed on the Official List of ASX Limited (ASX). Lodestar's principal business is the exploration for nickel sulphide mineralisation at the Penfold Nickel Project (the Penfold Project), which is located between Kalgoorlie and Kambalda in Western Australia. As at 19 January 2010, Lodestar had a closing market capitalisation of approximately \$4.25 million.

On 10 December 2009, Lodestar announced that it had entered into agreements (the Agreements) to acquire the Peak Hill – Doolgunna Project, comprising 13 exploration licences, both granted and applications (together the Tenements), in the Doolgunna district in the north eastern goldfields of Western Australia. The Company's acquisition of the Peak Hill – Doolgunna Project is to be effected by the direct purchase of two tenements and the acquisition of all of the issued share capital of Audacious Pty Ltd (Audacious), a company which holds the beneficial interest to the other 11 tenements (the Proposed Transaction).

The consideration payable by Lodestar under the Proposed Transaction comprises:

- a non-refundable payment of \$105,000 on execution of the Agreements (paid on 10 December 2009)
- a payment of \$15,000 on settlement by way of reimbursement of expenditure incurred in respect of the Peak Hill – Doolgunna Project
- the issue of 15.0 million new fully paid ordinary shares (Shares) in the capital of Lodestar to the following vendors (the Proposed Placement):
 - Mr Glenn Griffin Venn Money (5.4 million Shares)
 - Mr Robert John McArthur Anderson (5.4 million Shares)
 - Mr Drew Griffin Money (2.7 million Shares)
 - Calm Holdings Pty Ltd as trustee for (ATF) The Clifton Superannuation Fund (1.5 million Shares) (collectively the Vendors).

The Proposed Transaction is subject to the satisfaction of several conditions precedent, including:

- Lodestar being satisfied that the Vendors are entitled to the whole of the rights and benefits arising from the applications for the tenements in the Peak Hill – Doolgunna Project and is the beneficial owner of the granted tenements in the Peak Hill – Doolgunna Project
- Lodestar obtaining all necessary regulatory and shareholder approvals in relation to the Proposed Transaction.

Lodestar will use its best endeavours to ensure that the conditions precedent are satisfied as soon as possible but no later than 28 February 2010 or such later date as agreed to in writing between the parties (the End Date).

If the conditions precedent are not satisfied by the End Date the Agreements will terminate.

The Lodestar shares allotted to the Vendors under the Proposed Transaction will be escrowed for six months from the date of allotment or for such longer period as may be required by ASX.

Following completion of the Proposed Transaction, the Vendors will hold an approximate 23.1 percent interest in the expanded issued capital of Lodestar.

Lodestar is now seeking approval from its shareholders not associated with the Vendors (the non-associated shareholders) to proceed with the Proposed Transaction. The specific terms of the resolution to be approved by the non-associated shareholders are set out in the Notice of General Meeting and Explanatory Statement to which this report is attached.

2 Scope of Report

Section 606 of the Corporations Act 2001, as amended (the Act) provides a general prohibition against any person holding 20 percent or less in the voting shares of a public company increasing their relevant interest to greater than 20 percent. The voting power of a person in a body corporate is determined in accordance with section 610 of the Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

We have been advised by the Company's legal advisers that, for the purpose of preparing the Notice of General Meeting and Explanatory Statement for the Proposed Transaction, an assumption has been made that the Vendors will be considered to be associates of each other, as defined in the Act, at the time of completion of the Proposed Transaction. Accordingly, the Vendors will each hold a relevant interest in all of the Shares to be issued pursuant to the Proposed Transaction.

Following the successful completion of the Proposed Transaction, the Vendors will collectively increase their relevant interest in the Company from nil to approximately 23.1 percent. However, item 7 of section 611 of the Act provides an exemption to this general prohibition where the increase is approved in general meeting by shareholders of the Company. Accordingly, the directors of Lodestar are seeking the approval of the non-associated shareholders pursuant to item 7 of section 611 of the Act for the Proposed Transaction to proceed.

Furthermore, ASX Listing Rule 7.1 provides that subject to certain exceptions, a company must not, without the prior approval of its shareholders, issue equity securities during any 12 month period if the number of those securities exceeds 15 percent of the total ordinary securities on issue at the commencement of that 12 month period. Although the Proposed Transaction exceeds the limits prescribed by ASX Listing Rule 7.1, we have been advised that, in the event approval is given by the non-associated shareholders for the purpose of item 7 of section 611 of the Act, the Proposed Transaction will fall within Exception 16 in ASX Listing Rule 7.2, such that separate approval under ASX Listing Rule 7.1 is not required.

In the case of a resolution pursuant to section 611 of the Act, the Australian Securities and Investments Commission (ASIC) requires that shareholders be supplied with sufficient information to enable them to assess the merits of the proposal. In such circumstances, the Directors of Lodestar are required to provide shareholders a detailed analysis of whether the Proposed Transaction is fair and reasonable. The Directors may undertake such an analysis themselves or, as is more commonly the case, the Directors may engage an independent expert to report on the proposal. In order to ensure that the non-associated shareholders are provided sufficient information upon which to assess the merits or otherwise of the Proposed Transaction, the directors of Lodestar have commissioned KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare an independent expert report (IER) assessing the fairness and reasonableness of the Proposed Transaction.

The Act does not define the term 'fair and reasonable' however, Regulatory Guide 111 'Content of expert reports' (RG 111) issued by the ASIC provides that each of these criteria be assessed individually and not as a compound phrase.

In this regard, RG 111 provides that:

- an offer is 'fair' if the value of the consideration being offered is equal to or greater than the value of the securities the subject of the offer. This comparison is required to be made assuming an acquisition of 100 percent of the 'target' and irrespective of whether the consideration is scrip or cash (paragraph 10)
- an offer is 'reasonable' if it is 'fair' (paragraph 11)
- an offer may be reasonable if, despite not being fair, but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer (paragraph 11).

This report has been prepared by KPMG for inclusion with Lodestar's Notice of General Meeting and Explanatory Statement to convene a meeting of the non-associated shareholders on or around 28 February 2010. The purpose of the meeting will be to seek the approval of the non-associated shareholders for the Proposed Transaction to proceed.

The sole purpose of this report and its attached appendices is to express the opinion of KPMG as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders. This report should not be used for any other purposes or by any other party.

2.1 *Factors considered in forming our opinion*

In forming our opinion as to whether the Proposed Transaction is fair and reasonable, we have considered, amongst others, the following matters:

- the assessed value of the consideration payable by Lodestar, with the Company's shares to be valued on a 100 percent control basis, compared to the value of the Peak Hill – Doolgunna Project and the other net assets of Audacious to be received by Lodestar under the Proposed Transaction (Acquired Assets)
- the fact that the Vendors will not receive a 100 percent control interest but rather a 23 percent interest in Lodestar, other control related issues and any conditions associated with the Proposed Transaction
- historical trading prices and liquidity in trading of Lodestar's shares on ASX
- the likelihood of an alternative offer for Lodestar
- the consequences if the Proposed Transaction is not successful
- other advantages and disadvantages that may impact the non-associated shareholders.

3 **Summary and conclusion**

In our opinion, the Proposed Transaction is fair and reasonable to the non-associated shareholders of Lodestar

The primary matter considered by KPMG in forming this opinion is whether the consideration to be provided by Lodestar to the Vendors under the Proposed Transaction reflects a fair consideration in relation to the fair market value of the assets to be acquired.

Furthermore, in addition to assessing the fairness of the Proposed Transaction and whether or not the non-associated shareholders are likely to be better off if the Proposed Transaction proceeds than if it does not, we have also considered the various advantages, disadvantages and other issues which are set out below.

The Proposed Transaction is fair

We have set out below a comparison of the assessed fair market value of the Acquired Assets to the assessed fair market value of the consideration to be provided by Lodestar to the Vendors, based primarily on the assessed fair market values determined by SRK Consulting (Australasia) Pty Ltd (SRK).

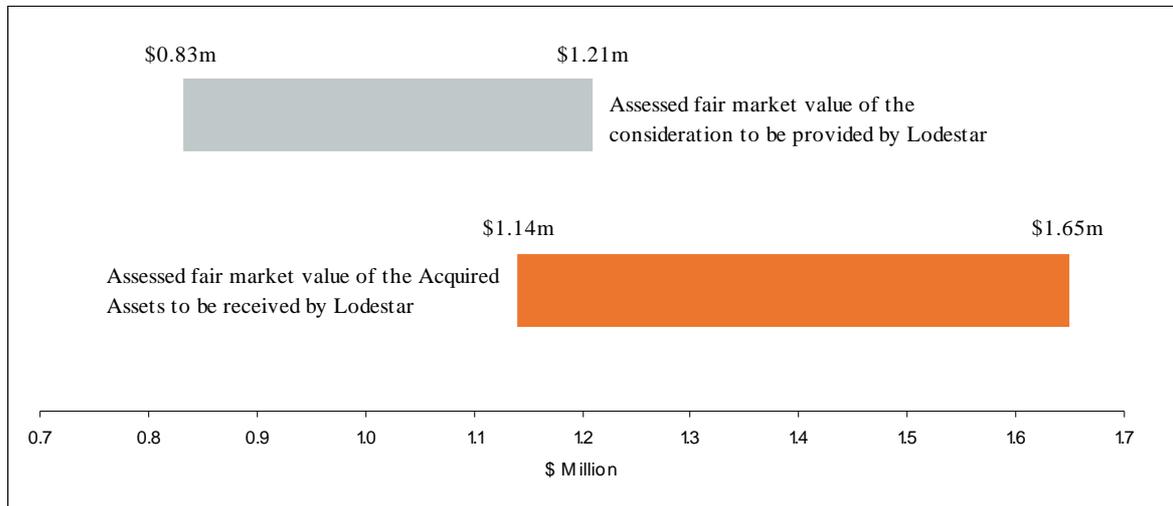
Table 1: Assessed fair market value of the Acquired Assets and the consideration to be provided by Lodestar to the Vendors

	Low \$000	High \$000
Assessed fair market value of the Acquired Assets, being the consideration to be received by Lodestar	1,140	1,650
Assessed fair market value of 100% of Lodestar	2,723	3,985
Number of Lodestar shares currently in issue – 000s	50,000	50,000
Assessed fair market value of a share in Lodestar - \$	0.054	0.080
Number of Lodestar shares to be issued to the Vendors – 000s	15,000	15,000
Assessed fair market value of the Share consideration to be provided by Lodestar	817	1,196
Payment on settlement by Lodestar to the Vendors	15	15
Assessed fair market value of consideration to be provided by Lodestar in order that the Proposed Transaction is fair	832	1,211
Premium of consideration received over consideration paid	308	439
Premium over consideration - %	37%	36%

Note 1 – May not calculate exactly due to rounding.

Source: KPMG analysis

Figure 1: Assessed fair market value of the Acquired Assets and the consideration to be provided by Lodestar to the Vendors



Source: KPMG analysis

As shown above, the assessed value of the Acquired Assets to be received by the non-associated shareholders lies within and above our range of assessed fair values of the consideration payable by Lodestar, inclusive of a full premium for control for the Lodestar Shares, and therefore, the Proposed Transaction is considered to be fair. On this basis, it is our opinion that the Proposed Transaction is fair and therefore reasonable to the non-associated shareholders of Lodestar.

3.1 Advantages

The Proposed Transaction provides an opportunity for the Company to diversify its exposure beyond nickel and increase its current asset portfolio

Lodestar's present focus is on nickel exploration at the Penfold Project. The Proposed Transaction provides the Company with the opportunity to diversify its exposure beyond nickel and increase its asset portfolio to include other commodities, given the Peak Hill – Doolgunna Project covers a range of geological settings. At the Peak Hill – Doolgunna Project, there are two identified uranium targets and there has been some targeting for gold on structural trends interpreted from geophysical data. The area is also believed to be prospective for copper, lead and zinc.

The Proposed Transaction gives Lodestar an exposure to a largely under explored geological area located in close proximity to other geological areas where other companies have experienced recent geological success. However, given the Tenements to be acquired are all at an early stage of exploration, with no known resources or major exploration targets outlined, the purchaser of these Tenements is likely to incur significant expenditure in grass-roots exploration before identifying further drilling targets.

3.2 Disadvantages

Completion of the Proposed Transaction will result in a dilution of the existing shareholders' interests in Lodestar

Approval of the Proposed Transaction will result in a dilution of existing Lodestar shareholders interests in the existing business and net assets of the Company from 100.0 percent to 76.9 percent. However, shareholders will also obtain a 76.9 percent interest in the Acquired Assets.

The Proposed Transaction will increase Lodestar's cash, and therefore capital, needs

The acquisition of the Peak Hill – Doolgunna Project under the Proposed Transaction will increase Lodestar's cash needs due to estimated annual commitments (excluding shire rates) of \$248,000 on the granted exploration licenses and estimated annual minimum requirements (excluding shire rates) of \$524,600 on the exploration licences subject to application.

On this basis, it is possible that if the Proposed Transaction is completed, Lodestar may need at an earlier stage to seek additional funding in order to continue to exploit its exploration assets.

3.3 Other considerations

The risk profile of Lodestar will change to include earlier stage exploration tenements and exposure beyond nickel

The Peak Hill – Doolgunna Project is at a very early stage of exploration. The value of a company exploring for and developing mineral resources may change as it moves through each stage of the exploration and development phase. Under the Proposed Transaction, Lodestar will acquire a 100 percent interest in the Peak Hill – Doolgunna Project and, whilst the assessed fair market value provided by SRK of the Tenements is considered reasonable as at the date of this report, the values attributed to them may increase significantly, or conversely decline in value, depending upon exploration and development success.

Additionally, as set out above, the Proposed Transaction will diversify the Company's exposure beyond nickel, which, all other things being equal, will reduce the risk profile of the Company.

The Shares issued to the Vendors under the Proposed Transaction will be escrowed

Under the terms of the Agreements, the 15.0 million Lodestar Shares allotted to the Vendors under the Proposed Transaction will be escrowed for six months from the date of allotment, or for such longer period as may be required by ASX. This will delay the emergence of any potential overhang on shares resulting from the Proposed Transaction.

The Vendors may not continue as associated parties after completion of the Proposed Transaction

We have been advised by the Company's legal advisers that, for the purpose of preparing the Notice of General Meeting and Explanatory Statement for the Proposed Transaction, an assumption has been made that the Vendors will be considered to be associates of each other, as defined in the Act, at the time of completion of the Proposed Transaction. However, this does not mean that the Vendors will remain associates nor vote as a bloc in the future.

We note that if the Proposed Transaction proceeds and the Vendors obtain a significant equity interest in Lodestar, there is uncertainty as to whether the likelihood of an alternative third party making a takeover offer for the Company is increased or reduced as a result of the emergence of the Vendors as major shareholders.

Nine of the 13 tenements comprising the Peak Hill – Doolgunna Project are at application stage

The Peak Hill – Doolgunna Project includes nine exploration licenses that are under application and, as such, there is a small risk that these applications may not be granted. We note SRK's comments, however, that in Western Australia, by far the majority of applications are granted, and in this case the tenements under application are all the first applications lodged.

The Directors have indicated they intend to recommend Lodestar's non-associated shareholders vote in favour of the Proposed Transaction

The Directors have indicated that they will unanimously recommend that Lodestar's non-associated shareholders vote in favour of the Proposed Transaction.

There is a potential risk that the share price of Lodestar will fall

We note that the volume weighted average price of a Lodestar share for the three months up to the date of the announcement of the Proposed Transaction was \$0.06 per share. On the last trading day prior to the announcement of the Proposed Transaction, Lodestar shares closed at \$0.084. Lodestar's shares have subsequently closed in the range of \$0.062 to a high of \$0.10, before closing at \$0.085 on the day prior to the date of this report.

However, we note that Lodestar's shares on ASX have exhibited limited liquidity in recent times and this reduces the value of this measure as an indicator of fair market value.

Although there has been no significant increase from recent pre-announcement levels, in the event the Proposed Transaction is not approved there is a possibility that Lodestar shares will fall from current trading levels.

4 Other matters

In forming our opinion, we have considered the interests of the non-associated shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Lodestar shareholders. It is not practical or possible to assess the implications of the Proposed Transaction on individual Lodestar shareholders as their financial circumstances are not known to us. The decision of non-associated shareholders as to whether or not to support the Proposed Transaction is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Lodestar shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Lodestar shareholders, including residents of foreign jurisdictions, seek their own independent professional advice.

Our report has been prepared solely for the purpose of assisting the non-associated shareholders in considering the Proposed Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose. Our opinion should not be construed to represent a recommendation by KPMG as to whether or not the non-associated shareholders should elect to vote in favour of the Proposed Transaction.

Our report has been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. We recommend residents of foreign jurisdictions who are entitled to receive this report and who are uncertain as to the consequences of this seek their own independent professional advice.

This report has been prepared solely for the purpose of assisting the non-associated shareholders in considering the Proposed Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of General Meeting and Explanatory Statement to be sent to the non-associated shareholders in relation to the Proposed Transaction, without the prior written consent of KPMG as to the form and context in which it appears. KPMG consents to the inclusion of this report in the form and context in which it appears in the Notice of General Meeting and Explanatory Statement.

The foregoing is a summary of KPMG's opinion as to the merits or otherwise of the Proposed Transaction and should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully



Duncan Calder
Executive Director



Ian Jedlin
Executive Director



Contents

Financial services guide

5	Scope of the report	12
6	Profile of Lodestar	13
7	Profile of Audacious	20
8	Valuation of Lodestar	24
9	Valuation of the Acquired Assets	27
10	Impact of the Proposed Transaction	28
	Appendix 1 - KPMG disclosures	33
	Appendix 2 - Sources of information	35
	Appendix 3 - Independent Technical Specialist report	36

Financial services guide

Dated 20 January 2010

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215, Australian Financial Services Licence Number 246901 (**KPMG** or **we** or **us** or **our** as appropriate) has been engaged to provide an Independent Experts Report (**Report**) in relation to the Proposed Transaction (**Transaction**) for inclusion in the Notice of General Meeting and Explanatory Statement (**Document**) prepared by Lodestar Minerals Limited (**Company**).

Purpose of this Guide

This Guide is designed to help retail clients to decide how to use our Report. It includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our licence
- how we and our staff are paid
- any relevant associations or relationships we have
- how complaints are dealt with; and
- the compensation arrangements we have in place.

The Document contains information about significant benefits, risks, fees and other charges and other information about the Transaction.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- Interests in managed investments schemes (excluding investor directed portfolio services)
- Securities (such as shares and debentures).

Our responsibility to you

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. You have not engaged us directly but have received a copy of the Report because of your connection to the Transaction.

We are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in our Report.

General Advice

Our report only contains general advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in our Report having regard to your circumstances before you act on our Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees we may receive

We charge fees for preparing reports. These fees will usually be agreed with, and paid by, the financial product issuer. Fees are agreed on either a fixed fee or a time cost basis. In this instance, Lodestar has agreed to pay us \$35,000 for preparing the Report.

KPMG and its officers, employees, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the **KPMG Partnership**). Our directors may be partners in the KPMG Partnership.

From time to time KPMG, the KPMG Partnership and related entities (**KPMG entities**) may provide professional

services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit and tax services to the Company for which professional fees are received. Over the past two years professional fees in the order of \$102,000 have been received from the Company. None of those services have related to the Transaction or alternatives to the Transaction.

No KPMG entity, and no individual involved in the preparation of the Report, has any interest in the Company or Audacious or any other interested party to the Transaction.

Remuneration or other benefits received by our representatives

KPMG officers, employees and representatives receive a salary or a partnership distribution from the KPMG Partnership. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let us know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 5 days and investigate the issues raised. As soon as

practical, and not more than **45 days** after receiving the written complaint, we will advise you in writing of our response to your complaint.

External complaints resolution process

If we cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (**FOS**) of which we are a member. FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited,
GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investment Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG has professional indemnity insurance cover as required by the Corporations Act.

Contact Details

You may contact us using the contact details set out at the top of the letterhead on page 1.

5 Scope of the report

This report has been prepared by KPMG for inclusion in the Notice of General Meeting and Explanatory Statement to be sent to the non-associated shareholders convening a meeting on or around 28 February 2010. The purpose of the meeting will be to seek approval for the Proposed Transaction by the non-associated shareholders.

5.1 *Limitations and reliance on information*

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Lodestar for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had separate discussions with Lodestar's management in relation to the nature of the Company's operations, specific risks and opportunities, historical results and prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation. However, it is our view that all material information that we have relied upon in forming our opinion is reasonable for that purpose.

We have no reason to believe that any material facts have been withheld from us, but we do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. The Directors of Lodestar, together with the Company's legal advisers, are responsible for conducting due diligence in relation to Audacious and the Peak Hill – Doolgunna Project. KPMG provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been conducted in an adequate and appropriate manner.

The opinion of KPMG is based on prevailing market, economic and other conditions at or near the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

5.2 *Disclosure of information*

In preparing this report, KPMG has had access to all financial information considered necessary in order to provide the required opinion.

5.3 *Reliance on Technical Expert*

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of the Penfold Project and the Peak Hill – Doolgunna Project, SRK

was engaged to prepare an independent technical report providing a valuation of these mineral assets. A copy of SRK's report, dated 20 January 2010, is attached to this report as Appendix 3.

SRK's report was prepared in accordance with the requirements of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the VALMIN Code).

ASIC Regulatory Guides recommend the fees payable to the technical specialists be paid in the first instance by the independent expert and claimed back from the party commissioning the independent expert. KPMG's preferred basis for appointment of independent technical specialists is that, whilst KPMG engages the technical specialist, the client pays the fees directly to the technical specialist. We do not consider that the independence of the technical specialist is impaired by this arrangement.

We have satisfied ourselves as to SRK's qualifications and independence from Lodestar, Audacious and the Vendors and we have placed reliance on its report.

The valuation methodologies adopted by SRK are outlined in the Independent Technical Specialist report attached as Appendix 3 and include a combination of:

- the comparative market transactions method
- analysis of joint venture terms method
- geological method
- exploration expenditure method.

Due to the various uncertainties inherent in the valuation process, SRK has determined a range of values within which it considers the value of each of the Penfold Project and the Peak Hill – Doolgunna Project to lie. The valuations ascribed by SRK to these mineral assets have been adopted in our report.

6 Profile of Lodestar

6.1 Corporate background

Lodestar was incorporated in August 2007 as a wholly owned subsidiary of Dioro Exploration NL (Dioro), a company listed on the Official List of ASX. Following an in specie distribution of shares in consideration for Dioro granting Lodestar sole and exclusive nickel rights over the Penfold Project's tenements, Lodestar ceased to be a wholly owned subsidiary of Dioro and was separately listed on the Official List of ASX in December 2007.

Today, Lodestar continues to explore for nickel at the Penfold Project. The Penfold Project is discussed further below and in detail in SRK's report that is attached as Appendix 3 to this report.

6.2 Operations

Lodestar has conducted a reduced nickel exploration programme on the Penfold Project over the past twelve months, balancing a restricted access to capital for exploration activities imposed by the global financial

crisis and the need to fulfil the obligations of its sale agreement with Dioro, which requires minimum expenditure of approximately \$450,000 of allowable expenditure.

Lodestar has advised that it remains committed to achieving growth through adding value to its mineral assets. The Company believes that opportunities for achieving growth may also arise through acquisition and farm-in arrangements on more advanced projects. Lodestar is currently actively seeking to diversify its project portfolio.

The Penfold Project

The Penfold Project is located approximately 540 kilometres (km) east of Perth, approximately 30km south of Kalgoorlie and approximately 12km north of Kambalda in Western Australia. Lodestar's interest in the Penfold Project includes 100 percent of the nickel rights of three exploration licences, nineteen mining leases, thirteen prospecting licences and two exempted east locations, which have a total area of approximately 332 square km (km²).

The Penfold Project contains approximately 48 strike km of ultramafic sequences within the Kambalda and Coolgardie geological domains. The Company believes the area presents an opportunity for the discovery of nickel sulphide mineralisation, with the benefits of high tenor – high margin ore and proximity to infrastructure.

The strategy that Lodestar has applied to the Penfold Project is to maximise discovery opportunities by the systematic evaluation of an area identified in historical data as having the greatest potential to host mineralisation, using ground electromagnetic (EM) geophysical surveys followed by drilling. EM geophysics is a key exploration tool in nickel sulphide exploration and has been responsible for most of the major discoveries in Western Australia over the past ten years.

Lodestar commenced EM surveys over priority areas in March 2008 and regional drilling is being completed in areas of no outcrop and no previous exploration to identify the stratigraphy along aeromagnetic/ultramafic corridors and to establish the priorities for future exploration.

The three principal prospects within the Penfold Project are discussed further below.

Abattoir Prospect

The Abattoir Prospect, located within the Kambalda domain, has historical data reported from the interior of the ultramafic sequence including 26 metres at 1.65 percent nickel, 16 metres at 0.98 percent nickel and 7,700 parts per million (ppm) copper from 44 metres. Nickel sulphide mineralisation has been confirmed at the Abattoir Prospect.

Saddle Hills – Mt Marion

Drilling of the EM conductor and other targets at Saddle Hills – Mt Marion was completed in two phases between October 2008 and March 2009.

Wildcatters North

Wildcatters North has a conductor located approximately 5.2 km north of the Wildcatters nickel deposit (as the Wildcatters nickel deposit is not located on the Penfold Project nor owned by Lodestar). Historical

drilling, principally for gold, has been sporadic and has not effectively tested the conductor or the contact of the ultramafic sequence. An EM survey was completed in October 2008 and has identified a moderate conductor located on the eastern margin of the ultramafic sequence.

6.3 *Financial performance*

Lodestar's historical audited financial performance for each of the two years ended 30 June 2008 and 2009 and unaudited financial performance for the five months ended 30 November 2009 is set out below.

Table 2: Lodestar's historical financial performance

	Audited Year ended 30 Jun 2008 \$000	Audited Year ended 30 Jun 2009 \$000	Unaudited 5 mths ended 30 Nov 2009 \$000
Administrative expenses	(966)	(333)	(109)
Exploration expenditure written off	(135)	(230)	-
Other expenses	(223)	(142)	(34)
Results from operating activities	(1,324)	(705)	(143)
Finance income	154	132	26
Loss before income tax	(1,170)	(573)	(117)
Income tax expense	-	-	-
Loss from continuing operations	(1,170)	(573)	(117)
<i>Basic loss per share – cents</i>	<i>(2.94)</i>	<i>(1.15)</i>	<i>(0.23)</i>
<i>Diluted loss per share – cents</i>	<i>(2.94)</i>	<i>(1.15)</i>	<i>(0.23)</i>

Source: Lodestar's 2009 Annual Report and November 2009 Management Accounts

In response to the global financial crisis, the Company reduced administrative salaries and charges to conserve funds and has reduced its exploration activity on the Penfold Project to the minimum needed to satisfy the sale agreement with Dioro.

6.4 *Financial position*

Lodestar's historical audited financial position as at 30 June 2008 and 2009 and unaudited financial position as at 30 November 2009 is set out below.

Table 3: Lodestar's historical financial position

	Audited 30 Jun 2008 \$000	Audited 30 Jun 2009 \$000	Unaudited 30 Nov 2009 \$000
Cash or cash equivalents	3,117	2,544	2,194
Other receivables	534	13	7
Prepayment for current assets	2	8	17
Total current assets	3,653	2,565	2,218
Property, plant and equipment	4	9	8
Exploration and evaluation expenditure	5,327	5,827	5,995
Total non current assets	5,331	5,836	6,003
TOTAL ASSETS	8,984	8,401	8,221
Trade and other payables	112	90	27

	Audited 30 Jun 2008 \$000	Audited 30 Jun 2009 \$000	Unaudited 30 Nov 2009 \$000
Employee benefits	8	9	9
Total current liabilities	120	99	36
TOTAL LIABILITIES	120	99	36
NET ASSETS	8,864	8,302	8,185
Shares on issue - 000s	50,000	50,000	50,000
Net asset backing per share – \$	0.18	0.17	0.16
Net tangible asset backing per share – \$ ¹	0.07	0.05	0.04
Current ratio – times ²	30.4	25.9	61.6
<i>Notes:</i>			
1 Net tangible assets are net assets less capitalised exploration and evaluation expenditure.			
2 Current ratio represents current assets divided by current liabilities.			

Source: Lodestar's 2009 Annual Report and November 2009 Management Accounts

We make the following observations in relation to Lodestar's financial position:

- As at 30 November 2009, Lodestar's cash balance represented approximately 99 percent of the Company's total tangible assets.
- The reduction in trade and other payables over the period was predominantly attributable to the Company reducing its activities in response to the global financial crisis.

6.5 Cash flow

Lodestar's historical audited cash flows for the two years ended 30 June 2008 and 2009 and unaudited cash flow for the five months ended 30 November 2009 are set out below.

Table 4: Lodestar's historical cash flows

	Audited Year ended 30 Jun 2008 \$000	Audited Year ended 30 Jun 2009 \$000	Unaudited 5 mths ended 30 Nov 2009 \$000
Cash paid to suppliers and employees	(793)	(484)	(208)
Net cash used in operating activities	(793)	(484)	(208)
Interest received	137	143	26
Acquisition of property, plant and equipment	(4)	(7)	-
Payments for exploration, evaluation and development	(436)	(725)	(168)
Repayment/(payment) of deposit for investment	(500)	500	-
Net cash used in investing activities	(803)	(89)	(142)
Proceeds from issue of shares	4,988	-	-
Capital raising costs	(275)	-	-
Net cash from financing activities	4,713	-	-
Net increase/(decrease) in cash and cash equivalents	3,117	(573)	(350)
Cash and cash equivalents at period beginning	-	3,117	2,544
Cash and cash equivalents at period end	3,117	2,544	2,194

Source: Lodestar's 2009 Annual Report and November 2009 Management Accounts

6.6 *Taxation*

Lodestar does not currently recognise deferred tax assets, as it does not consider there to be the level of probability required by accounting standards that sufficient taxable amounts will be available in future periods in which to offset the tax losses. On this basis, the Company has not brought to account potential future Australian income tax benefits of approximately \$2.2 million attributable to available tax losses of approximately \$7.2 million as at 30 June 2009, comprising entirely of revenue tax losses.

6.7 *Dividends and franking credits*

Lodestar has not paid dividends in the past and currently has no franking credits available to it.

6.8 *Contingent liabilities, contractual obligations and commitments*

Lodestar has advised us that it does not currently have any material contingent liabilities outstanding.

In relation to material contractual obligations and commitments, Lodestar has a contractual obligation for minimum expenditure of \$450,000 per year on the Penfold Project as a result of the sale agreement with Dioro, which is payable for the life of the Tenements.

6.9 *Share capital and ownership*

As at 16 December 2009, Lodestar had on issue 50.0 million fully paid ordinary shares. Lodestar's top ten shareholders as at 16 December 2009 are set out below.

Table 5: Lodestar's top ten shareholders

Shareholder	Number of shares held 000s	% of issued capital
KSLCorp Pty Ltd (KSLCorp)	3,521	7.0
PIAT Corp Pty Ltd (PIAT Corp)	3,400	6.8
Dasmac (WA) Pty Ltd	1,444	2.9
Lando Pty Ltd	1,389	2.8
La Mancha Resources Australia Pty Ltd	1,324	2.7
Cadogan Grove Pty Ltd	896	1.8
ANZ Nominees Limited	515	1.0
Ematilda Pty Ltd	500	1.0
Mr Jeremy Jon Nyman & Mrs Jill Patricia Nyman	500	1.0
Paso Holdings Pty Ltd	474	0.9
Total number of shares held by the top 10 shareholders	13,963	27.9
Other shareholders	36,037	72.1
Total number of shares on issue	50,000	100.0

Source: Lodestar's Top Holders Snapshot

Substantial shareholder notices have been received by the Company from the parties set out below.

Table 6: Substantial shareholders

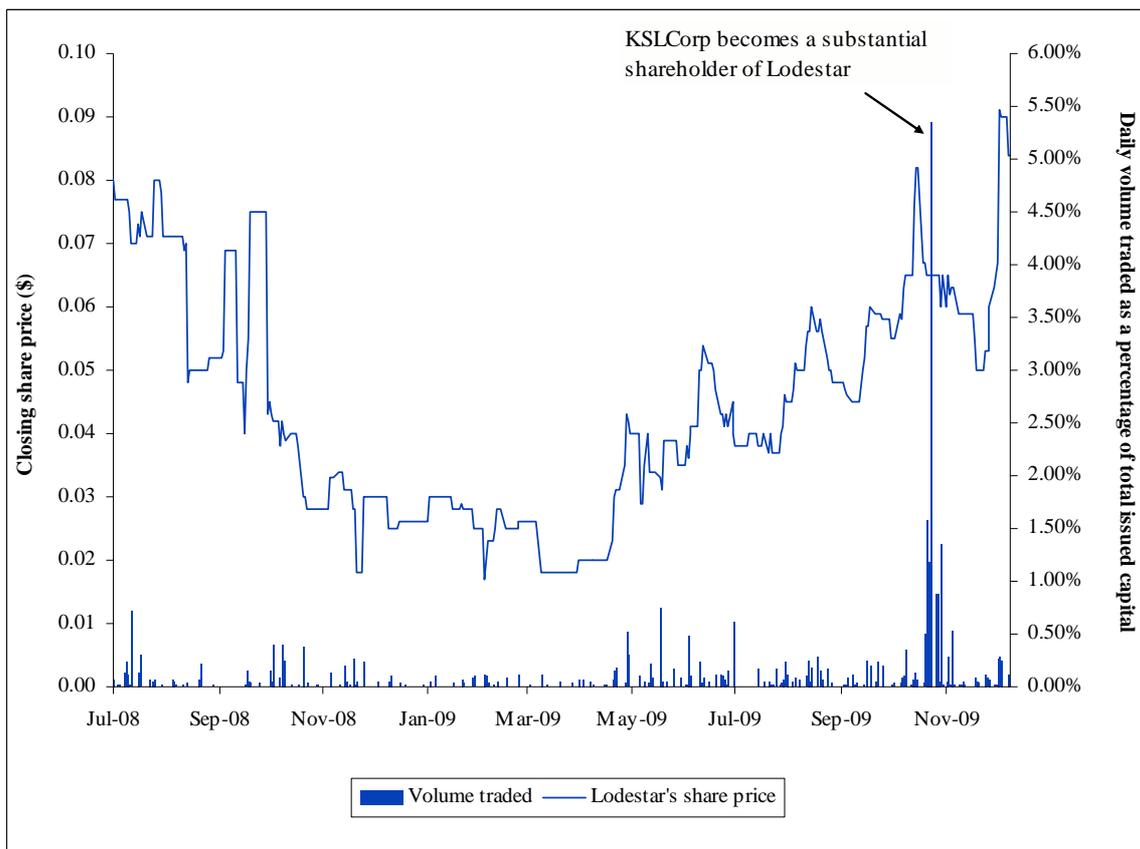
Shareholder	Number of shares held 000s	% of issued capital
KSLCorp	3,513	7.0
PIAT Corp	3,200	6.4
Mr David McArthur ¹	2,616	5.2
<i>Notes:</i>		
<i>1 The registered holders of these securities are Dasmac (WA) Pty Ltd, David McArthur and Susan Jane McArthur.</i>		

Source: ASX announcements

6.10 Share price and volume history

The chart below depicts Lodestar’s daily closing share price on ASX in the period since 1 July 2008 to 9 December 2009, being the last trading day prior to the announcement of the Proposed Transaction, along with the daily volume of shares traded on ASX as a percentage of total issued capital.

Figure 2: Lodestar's daily closing share price and volume of shares traded on ASX



Source: Bloomberg

Over the period from July 2008 to April 2009, Lodestar’s share price was relatively volatile and exhibited a general downward trend, falling from \$0.080 on 1 July 2008 to \$0.017 on 4 February 2009. Subsequent to this, Lodestar’s share price has exhibited an upward trend.

Between 4 February 2009 and 9 December 2009, being the last trading day prior to the announcement of the Proposed Transaction, Lodestar's shares traded within a range of \$0.018 and \$0.091, before closing at \$0.084 on 9 December 2009. Since the announcement of the Proposed Transaction, Lodestar's shares have closed between \$0.062 on 18 December 2009 and \$0.10 on 15 January 2010. The closing price of a Lodestar share on the last trading day prior to the date of this report was \$0.085.

Besides normal quarterly, half yearly and annual announcements on activities and results, the only material announcement made by Lodestar over the period 1 July 2008 to 9 December 2009 was on 15 October 2009, when Lodestar announced that an EM anomaly had been identified at the Wildcatters North nickel deposit.

6.11 Trading liquidity on ASX

An analysis of the volume of trading in Lodestar's shares on ASX in the 12-month period prior to the announcement of the Proposed Transaction on 10 December 2009 is set out below.

Table 7: Trading liquidity in Lodestar shares on ASX pre-announcement

Period up to and including 9 December 2009	Closing share price (low) \$	Closing share price (high) \$	VWAP \$	Cumulative volume 000s	As a % of total issued capital
1 week	0.08	0.09	0.08	326	0.7%
1 month	0.05	0.09	0.07	737	1.5%
3 months	0.05	0.09	0.06	8,075	16.2%
6 months	0.04	0.09	0.06	10,240	20.5%
12 months	0.02	0.09	0.06	12,969	25.9%

Source: IRESS

Lodestar's shares have exhibited low liquidity in recent times, with only approximately 25.9 percent of total shares on issue being traded on ASX over the 12 months prior to the announcement of the Proposed Transaction. If the approximate 3.5 million shares acquired by KSLCorp Pty Ltd during the 12 month period are excluded, only approximately 18.9 percent of total shares on issue were traded.

An analysis of the volume of trading in Lodestar's shares on ASX in the period since 10 December 2009 (inclusive) to the close of business on the last trading day prior to the date of this report is set out below.

Table 8: Trading liquidity in Lodestar's shares on ASX post-announcement

Period from 10 Dec 2009 to 19 Jan 2010	Closing share price (low) \$	Closing share price (high) \$	VWAP \$	Cumulative volume 000s	As a % of total issued capital
29 trading days	0.062	0.100	0.081	1,669	3.34%

Source: IRESS

There have been no significant announcements made by Lodestar from 10 December 2009 to 19 January 2010 which may have had an impact on its recent share price.

6.12 *Options over unissued shares*

Lodestar currently has 6.0 million options on issue over unissued shares of the Company. The expiry dates and exercise prices of these options are set out in the table below and all options are currently well 'out of the money'.

Table 9: Lodestar's options on issue

Number of options 000s	Exercise price \$	Expiry date
4,500	0.40	31-Aug-12
500	0.20	26-Nov-13
500	0.30	26-Nov-13
500 ¹	0.40	26-Nov-13
6,000		

Note 1: These options do not vest until 26 November 2010.

Source: Lodestar's 2009 Annual Report

7 **Profile of Audacious**

7.1 *Corporate background*

Audacious was incorporated in August 2009 in order to hold a number of exploration licenses and applications for exploration licenses comprising the Peak Hill – Doolgunna Project located in the Doolgunna district of southern Capricorn Orogen, a copper gold province in the north eastern goldfields of Western Australia. The Peak Hill - Doolgunna Project is discussed further below and in detail in SRK's report that is attached as Appendix 3 to this report.

7.2 *Operations*

The Peak Hill –Doolgunna Project comprises four granted exploration licences and nine applications for exploration licences forming three project areas (the Western Block, the Ned's Creek Block and the Marymia Block). We note that two exploration licenses for the Peak Hill – Doolgunna Project are not beneficially held by Audacious, but rather by two of the Vendors, being Mr Robert Anderson and Mr Glenn Money. The project represents land holdings that are early stage grass roots exploration plays.

Peak Hill – Doolgunna Project

The Peak Hill - Doolgunna Project has not seen modern systematic exploration but recent successes by Sandfire Resources NL, Montezuma Mining Company Ltd and Alchemy Resources Ltd have highlighted the potential of this region.

The Peak Hill – Doolgunna Project covers 2,057 km² in the southern Capricorn Orogen, and is believed to be prospective for copper, gold, lead, zinc and uranium. The Tenements have seen limited exploration, although there is some evidence of near-surface copper, gold and uranium mineralisation. There has been limited use of geophysics and no evidence of EM surveys that have recently proved successful in the region.

Historical exploration anomalies and untested targets have been identified including:

- an untested uranium radiometric anomaly
- multiple partially tested or untested gold in soil or stream anomalies of 10 parts per billion (ppb) gold or greater
- multiple partially tested copper occurrences with copper values ranging from 800ppm to 4100ppm in rock chip samples
- heavy mineral sulphide concentrate reported in diamond exploration drilling (not assayed for base or precious metals).

The Peak Hill – Doolgunna Project’s tenements span a distance of approximately 140km in an east-north-easterly direction, parallel to major regional aeromagnetic lineaments.

The project is divided into three geographic zones in which specific exploration potential has been recognised.

Western Block

The Western Block tenement E52/2403 contains two zones of partially tested gold in soil anomalies and unrelated historic rock chip samples that reported up to 876ppm copper.

An untested uranium anomaly has been identified measuring 3km by 500m, lying 25km south of the Three Rivers uranium occurrence, where uranium assays of up to 360ppm have been reported in historical drilling.

Ned’s Creek Block

A number of partially tested exploration targets associated with outcropping ironstone and magnetic zones have been identified at Ned’s Creek Block.

The McDonald Well base metal prospect reported rock chip assays of up to 4100ppm copper and 1200ppm zinc. No electrical or EM geophysical techniques have been used in exploration targeting.

The K42 magnetic anomaly extends over a strike length of 6km and has reported coincident silver, arsenic, copper, and zinc anomalies. Follow up drilling failed to identify the source of the anomalism, however, approximately 5km of strike still remains to be tested by geochemical survey.

Marymia Block

At Marymia Block, a gold anomaly in regional stream sediment sampling (up to 164ppb gold) remains unresolved. Diamond exploration tested numerous magnetic anomalies for kimberlite intrusives and intersected pyritic mineralisation in a bottom of hole sample (96-100m). Sulphide concentrates from this hole were not assayed for base and precious metals.

7.3 *Financial performance*

Historical unaudited financial performance for Audacious for the period from incorporation on 5 August 2009 to 31 December 2009 is set out below.

Table 10: Historical financial performance for Audacious

	Unaudited Period ended 31 Dec 2009 \$000
Accountancy expenses	(6)
Legal fees	(2)
Loss before income tax	(8)
Income tax expense	-
Loss from continuing operations	(-)
<i>Basic loss per share – cents</i>	<i>(0.04)</i>
<i>Diluted loss per share – cents</i>	<i>(0.04)</i>

Source: Audacious' December 2009 unaudited financial statements

7.4 *Financial position*

Historical unaudited financial position for Audacious as at 31 December 2009 is set out below.

Table 11: Historical financial position for Audacious

	Unaudited 31 Dec 2009 \$000
Cash	11
Other assets	5
Total current assets	16
Mineral tenements	76
Prepaid expenses	1
Consultant's fee capitalised	18
Total non current assets	95
TOTAL ASSETS	111
Shareholder loans	119
Total current liabilities	119
TOTAL LIABILITIES	119
NET LIABILITIES	(8)

Source: Audacious' December 2009 unaudited financial statements

We note that the non-refundable payment of \$105,000 made by Lodestar to Audacious on execution of the Agreements was utilised by Audacious to repay all its shareholder loans. We have been advised that as at the date of this report, Audacious has now repaid all shareholder loans.

7.5 *Share capital and ownership*

As at 31 December 2009, Audacious had on issue 200 fully paid ordinary shares. Audacious' shareholders (being the Vendors) as at 31 December 2009 are set out below.

Table 12: Shareholders of Audacious as at 31 December 2009

Shareholder	Number of shares held	% of issued capital
Mr Glenn Money	72	36.0
Mr Robert Anderson	72	36.0
Mr Drew Money	36	18.0
Calm Holdings Pty Ltd ATF The Clifton Superannuation Fund	20	10.0
Total number of shares on issue	200	100.0

Source: Lodestar's Explanatory Statement and the Agreements

Profile of Audacious' shareholders

Mr Glenn Money

Mr Money is 60 years old and is a farmer and holder of a commercial fishing license. Mr Money is also a part-time prospector in the Eastern Goldfields, and the Kimberley and Gascoyne regions in Western Australia. In 1986, Mr Glenn Money formed Glennbuff Prospecting Syndicate for this purpose, and more recently Audacious.

Mr Robert Anderson QC

Mr Anderson is 50 years old and graduated from the University of Western Australia in 1962. Mr Anderson has had a successful legal career including being a partner in a national law firm, a barrister and also a judge in the Supreme Court of Western Australia. In addition, he has served as Chairman of Abra Mining Limited, where he is currently a non-executive director.

Mr Drew Money

Mr Money is 43 years old and has had 25 years involvement in the pastoral, drilling, construction, mining, horse breeding and racing industries. Mr Money also spends time prospecting through his involvement with Glennbuff Prospecting Syndicate and Audacious.

Calm Holdings Pty Ltd ATF The Clifton Superannuation Fund (The Clifton Superannuation Fund)

We have been advised that Mr Tim Clifton is an associate of The Clifton Superannuation Fund (as defined by the Act) by virtue of his interest in the entity.

Mr Clifton has over 40 years experience in mining as a geologist and director of companies. He was previously the managing director of Perilya Limited and is currently non-executive chairman Uranium Equities Limited. Mr Clifton is also a non-executive director of Strike Energy Limited.

8 Valuation of Lodestar

8.1 Valuation methodology

The principal assets of Lodestar comprise its 100 percent interest in the nickel rights over the Penfold Project's tenements, which are located between Kalgoorlie and Kambalda in Western Australia. The future profitability and operational life of such assets depend on the outcome of, inter alia, exploration and evaluation programmes that are not predictable.

In our experience, the most appropriate method for determining the value of companies similar to Lodestar is on the basis of the fair value of their underlying net assets. We have used the unaudited net assets of Lodestar as at 30 November 2009 as set out in Section 6 of this report as the basis for our valuation, adjusted for any material transactions since that date prior to the date of this report. Whilst we have adopted the fair value of the underlying net assets as our primary valuation methodology, we have also considered the implied value of a Lodestar share with reference to recent trading prices for portfolio shareholding parcels of Lodestar shares on ASX.

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of Lodestar's nickel exploration assets, SRK was engaged to prepare an independent technical specialist's report providing a valuation of Lodestar's mineral exploration assets. A copy of SRK's report, dated 20 January 2010, is attached to this report as Appendix 3.

SRK's report was prepared in accordance with the VALMIN Code.

The valuation methodology adopted by SRK is outlined in section 3 of its report attached as Appendix 3 and includes a consideration primarily of:

- analysis of joint venture terms method
- geological method
- multiple of exploration expenditure method.

We note that the valuation methodology of mineral properties, particularly early stage projects, is extremely subjective. Accordingly, due to the various uncertainties inherent in the valuation process, SRK has determined a range of values within which it considers the value of each of the mineral exploration assets of Lodestar to lie. The valuations ascribed by SRK to the mineral interests of Lodestar have been adopted in our report.

Net assets not valued as part of Lodestar's exploration targets and other mineral assets comprise cash, various receivables, prepayments, head office items of property, plant and equipment, payables and provisions for employee benefits. Except as specifically noted below, having regard to their nature and quantum, these assets and liabilities have been incorporated in our valuation at their net book values as disclosed in Lodestar's unaudited 30 November 2009 Management Accounts.

8.2 Valuation summary

We have assessed the fair value of a 100 percent interest in Lodestar to lie in the range of \$2.7 million to \$4.0 million, which equates to an assessed fair value per Lodestar share of between approximately \$0.054 and \$0.080. Our range of assessed fair values represents the value of a 100 percent interest in the Company and includes a premium for control.

We have assessed the value of Lodestar by aggregating the estimated market value of Lodestar’s mineral interests, adding the assessed value of other assets considered to be surplus to the current mineral interests of the Company and, if appropriate, deducting any relevant liabilities. The value of Lodestar has been assessed on the basis of fair market value; that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm’s length transaction, where both buyer and seller are fully informed.

Our range of assessed fair values reflects that Lodestar’s asset base predominantly comprises cash and mineral exploration assets. Exploration assets by their nature are uncertain and their valuation includes a greater degree of subjectivity than is usually the case with producing assets. This typically gives rise to a greater range of values.

In forming our view as to value, we have relied upon the valuation of Lodestar’s mineral asset portfolio prepared by SRK. An overview of SRK’s valuation results, adopted methodologies and assumptions is set out below and discussed further in SRK’s report.

Set out below is a summary of the range of fair market values at which Lodestar’s shares have been assessed.

Table 13: Summary of assessed fair market value of Lodestar

	Low \$000	High \$000
Mineral assets	638	1,900
Add: Cash and cash equivalents	2,089	2,089
Other receivables	7	7
Prepayments	17	17
Property, plant and equipment	8	8
Less: Payables	(27)	(27)
Provisions	(9)	(9)
Total equity value	2,723	3,985
Number of ordinary shares - 000s	50,000	50,000
Value per share	0.054	0.080
<i>Note 1: Based on our range of assessed fair values for an undiluted Lodestar share, no options over unissued shares are currently ‘in the money’ and therefore no adjustment to cash or shares on issue has been made as it has been assumed these options will not be exercised. Additionally, we have not included any value in respect of carry forward tax losses as Lodestar does not expect to be in a position to utilise these losses in the short to medium term.</i>		

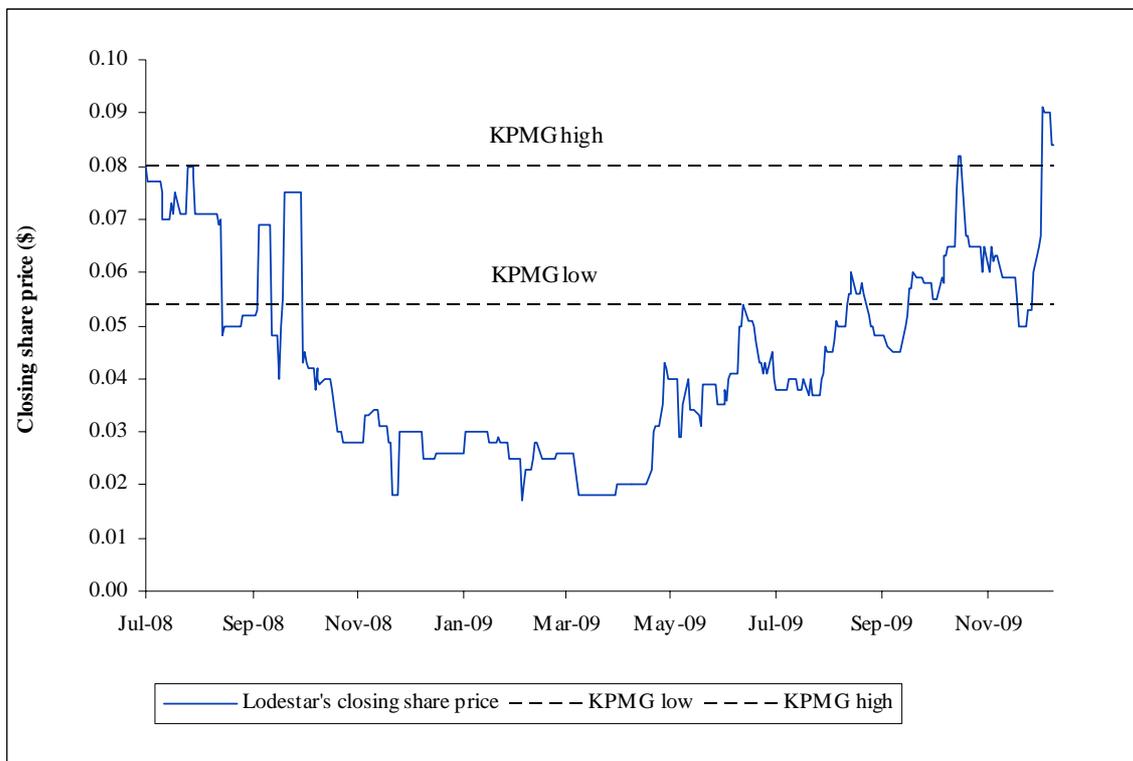
Source: KPMG analysis

Our range of assessed fair values for a Lodestar share of between \$0.054 and \$0.080 compares to a closing price for a Lodestar share on the last trading day prior to the announcement of the Proposed Transaction of \$0.084, and the closing price for a Lodestar share on the last trading day prior to the date of this report of \$0.085. As noted below, however, there is low liquidity in the trading of Lodestar shares and therefore is not considered to necessarily be a reliable indicator as to the fair market value for a share in Lodestar.

The market capitalisation of Lodestar implied by recent trading in Lodestar shares on ASX is currently in the order of \$4.3 million and, immediately prior to the announcement of the Proposed Transaction, was \$4.2 million, which compares to the net asset backing of Lodestar at 30 November 2009 of approximately \$8.2 million. This implies that the market is currently assessing Lodestar’s mineral assets as having lesser value to the Company than is recorded in its books of account. Based on SRK’s report we have ascribed a value of between \$0.64 million and \$1.90 million to the mineral assets of Lodestar. We discuss this in further detail below.

As provided for under RG 111, we have also considered as a cross check the implied value for a Lodestar share by reference to recent trading prices for Lodestar shares on ASX. Set out below is a graph showing the recent share price trading for Lodestar (excluding a premium for control) as well as the assessed fair value range determined by KPMG (inclusive of a premium for control).

Figure 3: Recent closing prices for Lodestar versus the assessed fair value range determined by KPMG



Source: Bloomberg and KPMG analysis

The limited liquidity in trading in Lodestar shares means the market may not be fully efficient and makes any comparison to our range of assessed values of limited relevance. Nonetheless, we note that the values are broadly consistent.

Our range of assessed fair values also lies below the amounts recorded in the unaudited books of Lodestar as at 30 November 2009, with this differential being attributable to:

- the amount recognised by Lodestar for its mineral assets in its books of approximately \$6.0 million, being below the range of assessed fair values of \$0.6 million to \$1.9 million
 - this difference has arisen due to the fact that amounts recognised in the books of Lodestar represent capitalised historical costs, whereas our range of assessed fair values is based on current fair market values
 - we also note the comment in SRK's report that, "the value of the Penfold nickel rights has been reduced by the general downturn in the price of nickel, and current lack of market interest in exploration for nickel"
- an adjustment made to the Company's cash balance since 30 November 2009 to reflect the non-refundable payment of \$105,000 made on 10 December 2009 to Audacious on execution of the Agreements.

Our valuation provides a valuation of 100 percent of Lodestar and accordingly already incorporates a premium for control in respect of the benefits of accessing in full the net asset backing attributable to the Company. Accordingly, no additional premium for control is required.

8.3 *Other assets*

Cash

We have adjusted Lodestar's cash holdings of approximately \$2,194,000 as at 30 November 2009 to reflect the non-refundable payment of \$105,000 made on 10 December 2009 to Audacious on execution of the Agreements.

8.4 *Off-balance sheet items*

Tax losses

We have not included any value in respect of carry forward tax losses as Lodestar does not expect to be in a position to utilise these losses in the short to medium term.

9 *Valuation of the Acquired Assets*

9.1 *Valuation methodology*

The principal assets to be acquired by Lodestar from Audacious and the Vendors comprise an interest in the Peak Hill –Doolgunna Project. Such assets have limited lives and future profitability and mine life depending on the outcome of, inter alia, exploration and evaluation programmes that are not predictable.

In our experience, the most appropriate method for determining the value of companies similar to Audacious is on the basis of the fair value of their underlying net assets. As set out in Table 11, Audacious had a small, immaterial amount of other assets as at 31 December 2009. We have been advised that there will be no assets or liabilities in Audacious at settlement except the beneficial interest in the tenements comprising the Peak Hill – Doolgunna Project.

ASIC Regulatory Guides envisage the use by an independent expert of technical specialists when valuing specific assets. To assist KPMG in the valuation of the Peak Hill – Doolgunna Project, SRK was engaged to prepare an independent technical specialist's report providing a valuation of these mineral exploration assets. A copy of SRK's report, dated 20 January 2010, is attached to this report as Appendix 3.

The valuation methodology adopted by SRK in respect of the Peak Hill – Doolgunna Project is outlined in section 3 of its report attached as Appendix 3 and includes a consideration of:

- the comparative market transactions method
- analysis of joint venture terms method.

We note that the valuation methodology of mineral properties, particularly early stage projects, is extremely subjective. Accordingly, due to the various uncertainties inherent in the valuation process, SRK has determined a range of values within which it considers the value of the Peak Hill – Doolgunna Project to lie. The valuations ascribed by SRK to the Peak Hill – Doolgunna Project have been adopted in our report.

Valuation summary

SRK has assessed the current fair value of the Peak Hill – Doolgunna Project to lie in the range of \$1.14 million to \$1.65 million.

The value of the Peak Hill – Doolgunna Project has been assessed on the basis of fair market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

10 Impact of the Proposed Transaction

10.1 Dilutionary impact

Lodestar currently has 50.0 million fully paid ordinary shares on issue. The Vendors and Audacious do not currently hold any shares in Lodestar and accordingly do not have any voting power in the Company as at the date of this report.

As set out in the table below, based on the terms of the Proposed Transaction, non-associated shareholders will hold approximately 76.9 percent of the issued capital in the Company, assuming the Proposed Transaction is successfully completed.

Table 14: Pro-forma capital structure

	Number of shares currently on issue	Issue of shares under Proposed Transaction	Total diluted capital
	000s	000s	000s
Non-associated shareholders	50,000	-	50,000
The Vendors	-	15,000	15,000
	50,000	15,000	65,000
Relevant interest post Proposed Transaction	76.9%	23.1%	100.0%

Source: The Agreements

10.2 *Financial implications*

Financial position

Set out below is the unaudited pro-forma financial position for the Company prepared by Lodestar based on its unaudited balance sheet as at 30 November 2009 assuming the Proposed Transaction is successful and assuming a Lodestar share price of \$0.084, being Lodestar's closing share price on 9 December 2009 when the Agreements were executed.

Table 15: Pro-forma balance sheet assuming the Proposed Transaction is successful

	Unaudited 30 Nov 2009	Proposed Transaction	Unaudited Pro-forma 30 Nov 2009
	\$000	\$000	\$000
Cash or cash equivalents	2,194	(220)	1,974
Other receivables	7	-	7
Prepayment for current assets	17	-	17
Total current assets	2,218	-	1,998
Property, plant and equipment	8	-	8
Exploration and evaluation expenditure	5,995	1,260	7,255
Total non current assets	6,003	-	7,263
TOTAL ASSETS	8,221	-	9,261
Trade and other payables	27	-	27
Employee benefits	9	-	9
Total current liabilities	36	-	36
TOTAL LIABILITIES	36	-	36
NET ASSETS	8,185	-	9,225
<i>Shares on issue - 000s</i>	<i>50,000</i>	<i>15,000</i>	<i>65,000</i>
<i>Net asset backing per share – \$</i>	<i>0.16</i>		<i>0.14</i>
<i>Net tangible asset backing per share – \$¹</i>	<i>0.04</i>		<i>0.03</i>

Source: Lodestar Management

The pro-forma balance sheet was prepared taking into account adjustments for:

- transaction costs Lodestar will incur in relation to the Proposed Transaction of approximately \$100,000

- the non-refundable payment of \$105,000 made to Audacious on execution of the Agreements
- the payment of \$15,000 to be made on settlement by way of reimbursement of expenditure incurred in respect of the Peak Hill – Doolgunna Project.

We make the following observations in relation to Lodestar’s pro-forma financial position:

- the pro-forma balance sheet does not take into account adjustments for any reduction that the directors may consider to be appropriate in the future to the carrying value of the Penfold Project. Any adjustment would reduce the net assets of the expanded entity
- Lodestar’s net asset position for accounting purposes is assumed to increase by approximately 12.5 percent to approximately \$9.2 million as a result of successful completion of the Proposed Transaction
- Lodestar’s current net asset backing per share is expected to decrease from \$0.16 per share to \$0.14 per share, reflecting that the current net assets per share recorded in the books of Lodestar are higher than the assumed issue price of the share to the Vendors.
- KPMG was not involved in the preparation of the Lodestar’s expanded pro-forma balance sheet.

10.3 *Impact on market value per share*

As required by RG 111, in order to provide an indication of the value of the Company after the Proposed Transaction, assuming it is successful, we have set out below for illustrative purposes only, indicative calculations as to the theoretical full underlying value of a Lodestar share assuming our assessed fair values for a share in Lodestar, as set out in Section 8 of this report.

Table 16: Summary of theoretical full underlying value of expanded Lodestar

	Theoretical values	
	Low \$000	High \$000
Total equity value (pre Proposed Transaction, based on a 100 percent controlling interest)	2,723	3,985
Add: Value of the Acquired Assets	1,140	1,650
Less: Balance of cash to be paid	(15)	(15)
Total equity value (post Proposed Transaction, based on a 100 percent controlling interest)	3,848	5,620
Number of ordinary shares pre Proposed Transaction - 000s	50,000	50,000
Add: Shares issued to The Vendors pursuant to the Proposed Transaction - 000s	15,000	15,000
Number of ordinary shares post Proposed Transaction - 000s	65,000	65,000
Full underlying value per expanded Lodestar share (based on a 100 percent controlling interest) - \$	0.059	0.086

Source: KPMG analysis

The indicative calculations above have been based on:

- a simple assumption that the fair value of 100 percent of the equity in Lodestar will increase by approximately \$1.14 million to 1.65 million, being the value attributable to the Acquired Assets under the Proposed Transaction. We note that such an assumption is simplistic, as Lodestar's earnings, risk and growth profile will change as it continues to explore the Company's existing tenements and the early stage Peak Hill – Doolgunna Project acquired as a result of the Proposed Transaction. To the extent Lodestar's exploration activities reveal positive results, we would expect the Company to be positively re-rated
- the issued capital of Lodestar increasing by the 15 million fully paid ordinary shares to be issued to the Vendors.

We note also that subsequent to the Proposed Transaction, trading in Lodestar shares will be in portfolio shareholdings and not include a premium for control.

10.4 *Board of Directors*

The Vendors have stated that they do not intend to seek the appointment of a representative to Lodestar's Board on successful completion of the Proposed Transaction.

10.5 *Lodestar's management*

In accordance with discussions held between Lodestar and the Vendors, the existing management team of Lodestar will continue to be responsible for and manage the day to day operations of the Company, under the direction of Lodestar's Board.

10.6 *The Vendors intentions regarding Lodestar*

Lodestar understands that the Vendors do not intend to:

- make any significant changes to the business of the Company
- inject further capital into the Company
- make any changes to the future employment of the present employees of the Company
- transfer any property between the Company and the Vendors or any person associated with any of them
- otherwise redeploy the fixed assets of the Company
- change significantly the financial or dividend policies of the Company.

10.7 *Voting rights and control*

As noted previously, the Vendors will acquire a 23.1 percent interest in the expanded issued capital of Lodestar, which will entitle the Vendors, as a group, to a similar relevant interest in the voting rights of the Company. However, whilst for the purposes of the Proposed Transaction the Vendors are considered to be

associates of each other, as defined in the Act, this does not mean that the Vendors will remain associates nor vote as a bloc in the future.

10.8 *Synergies unique to Lodestar*

Having regard to the operational profile, location and composition of Lodestar's exploration assets relative to the Peak Hill – Doolgunna Project, Lodestar does not consider there to be any significant synergies between the two projects from which Lodestar would be able to realise material direct cost savings in excess of those available to a general pool of purchasers. We concur with this view.

Appendix 1 – KPMG Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG are Mr Duncan Calder and Mr Ian Jedlin.

Mr Duncan Calder is a Partner in the KPMG Partnership, an Executive Director in KPMG and Chairman of the Energy and Natural Resources Group of the KPMG Partnership's Perth practice. Duncan is an Associate of the Institute of Chartered Accountants in Australia and of the Institute of Chartered Accountants in England and Wales as well as an Associate of the Financial Services Institute of Australasia. Duncan has over 20 years experience in the preparation of independent expert reports and has been personally involved in a wide range of valuation assignments conducted by KPMG.

Mr Ian Jedlin is a Partner in the KPMG Partnership, an Executive Director in KPMG and Partner in Charge of KPMG's National Valuations Group. Ian is an Associate of the Institute of Chartered Accountants in Australia, a Fellow of the Financial Services Institute of Australasia and holds a Master of Commerce from the University of New South Wales. Ian has 20 years experience in the preparation of independent expert reports.

Messrs Calder and Jedlin were assisted in the preparation of this report by other staff of KPMG as required.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG's opinion as to whether the Proposed Transaction is fair and reasonable. KPMG expressly disclaims any liability to any Lodestar shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG nor the KPMG Partnership has been involved in the preparation of the Notice of General Meeting and Explanatory Statement or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement as a whole or other documents prepared in respect of the Proposed Transaction.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG provided draft copies of this report to management of Lodestar for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG as stated in this report.

Consent

KPMG consents to the inclusion of this report in the form and context in which it is included with the Notice of General Meeting and Explanatory Statement to be issued to the shareholders of Lodestar. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG as to the form and context in which it appears.

Indemnity

Lodestar has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by you of your obligations.

Lodestar has also agreed that KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by you or any of your representatives, which is false, misleading or incomplete. The Company has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership from any such liabilities we may have to it or any third party as a result of reliance by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership on any information provided by the Company or any of its representatives, which is false, misleading or incomplete.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Lodestar

- audited annual financial statements for the years ended 30 June 2008 and 2009
- independently reviewed financial statements for the six months ended 31 December 2008
- various ASX announcements including, inter alia, quarterly activity reports
- the Agreements entered into by Lodestar, Audacious and the Vendors
- Draft Notice of General Meeting and Explanatory Statement
- Lodestar's November 2009 Management Accounts
- Lodestar's 30 June 2009 tax return and supporting documentation
- Lodestar's register of top 20 shareholders
- Lodestar's website
- discussions with Lodestar's directors and management
- discussions with and reports prepared by independent mineral specialist, SRK
- other non-public company information as requested

Audacious and the Vendors

- unaudited financial statements for the period ended 31 December 2009
- curriculum vitae for each of the Vendors
- discussions with and reports prepared by independent mineral specialist, SRK
- other non-public company information as requested

General information:

- financial information from IRESS Market Technology, Bloomberg LLP, Thompson Financial Securities, Merger Market (as part of The Mergermarket Group) and Aspect Huntley
- various databases including DatAnalysis, FinAnalysis and Connect 4
- websites for ASX and ASIC.



Appendix 3 – Independent Technical Specialist report



Lodestar Independent Expert Report



20 January 2010

Report Number: LOD001

Lodestar Independent Expert Report LOD001

Document Reference: LOD001_Lodestar Independent Expert
Report_Rev3.docx

Lodestar Minerals Limited
Level 2 45 Stirling Highway, Nedlands, WA 6009

SRK Consulting (Australasia) Pty Ltd
Level 1 10 Richardson St, West Perth, WA 6005

Compiled by:



Peter Williams
Corporate Consultant, Geology

Email: pwilliams@srk.com.au

Authors:

Peter Williams; Deborah Lord; Kate Bassano

Peer Reviewed by:



Paul Hodkiewicz
Principal Consultant, Geology

SRK Report Distribution Record

Project Number: LOD001

Date Issued: 20 January 2010

Name/Title	Company
Bill Clayton	Lodestar Minerals Limited

This document is protected by copyright vested in SRK. It may not be reproduced or transmitted in any form or by any means whatsoever to any person without the written permission of the copyright holder, SRK.

Rev No.	Date	Revised By	Revision Details
0	13 Jan 2010	Peter Williams	Draft Report Issued to KPMG Corporate Finance
1	14 Jan 2010	Peter Williams	Draft Report Issued to KPMG Corporate Finance
2	19 Jan 2010	Peter Williams	Draft Report Issued to KPMG Corporate Finance
3	20 Jan 2010	Peter Williams	Final Report Issued to KPMG Corporate Finance

Executive Summary

Lodestar Minerals Limited (Lodestar) has entered into a purchase agreement with Audacious Limited (Audacious) and certain vendors to acquire a large tenement package in the Peak Hill - Marymia district of the southern Capricorn Orogen, Western Australia. The recent discovery of potentially high-grade base metal (Cu, Zn and Pb) mineralisation by Sandfire Resources has stimulated renewed exploration interest in the area. The Audacious tenements cover approximately 2,057 square kilometres, and have only historical exploration documented in the WA open file exploration system. Lodestar currently holds nickel rights over the Penfolds tenement package, located northwest of Kambalda in the Eastern Goldfields district of Western Australia.

The purchase agreement provides for transfer of the tenements and applications to Lodestar for a consideration primarily in the form of shares in Lodestar. As a result, to evaluate the transaction, it is necessary to review the value of the exploration rights currently held by Lodestar, and the value of the tenements and applications being offered by Audacious and the vendors.

This report is a valuation report providing an independent opinion as to the value of these exploration properties. This valuation is current at 20 January 2010.

Results

The Peak Hill – Marymia tenements that are considered in this valuation are located north of the Yilgarn Craton centred on approximately 119.5°E and 25.4°S. They extend over a wide area of 150 km E-W and 75 km N-S, and cover a range of geological settings. They therefore do not form a coherent tenement package targeting specific mineralisation styles or commodities.

For the purpose of valuation, SRK has divided these tenements into three groups, each of which could potentially form the subject of separate exploration programs or could potentially be subject to different joint ventures. Each group is in excess of 650 km² in area. There is a total of 13 tenements in the package, of which only four (4) are granted.

The Audacious tenements are all at an early stage of exploration, with no known resources or major exploration targets outlined. There are two identified uranium targets, and there has been some targeting for gold on structural trends interpreted from geophysical data. Previous exploration identified some anomalism. Despite this, the purchaser of these tenements will incur an initial expenditure in grass-roots exploration before identifying drilling targets.

The Lodestar properties considered in this valuation form the Penfolds Project area located in the Kalgoorlie – Kambalda region of the Eastern Goldfields Province within the Yilgarn Craton. The tenements extend over an area of almost 30 km E-W and 30 km N-S centred on approximately 121.5°E and 31.0°S. Lodestar has an agreement with Dioro Exploration NL (Dioro) which gives Lodestar the nickel (Ni) rights on the tenements that make up the Penfolds Project. The leases comprise a semi contiguous package covering a number of prospective mineralised belts of ultramafic rocks, which host nickel deposits in the Kambalda and Widgiemooltha districts, located to the south of the Penfolds tenements.

Nickel exploration on the Penfolds tenements by previous explorers, mainly in the late 1960's and early 1970's, resulted in discovery of some anomalies, but no deposits. There are no known nickel resources in the area, but there are several nickel exploration targets and the area has undergone early stage exploration including drilling and geophysics. Prospects identified to date include the Abattoir Prospect in the Abattoir ultramafic sequence, the Mt Marion Prospect in the Saddle Hills ultramafic belt and potential extensions to Wildcatters mineralisation in the Wildcatters' ultramafic unit. The immediate targets identified by Lodestar and described in their prospectus (Lodestar, 2007), have undergone initial testing so that ongoing exploration will require a program of target generation prior to drilling, and these new targets are likely to be deep and therefore relatively expensive to test.

Valuation

In valuing the Audacious tenements, SRK has utilised two main methods – the comparative market transactions (that is, information on purchases of tenements), and analysis of joint venture terms on properties at a similar stage of exploration. As there has been no recent exploration, exploration expenditure methods are not appropriate, and as there are no resources identified on these tenements, neither the “rule-of-thumb” methods nor the exploration risk method can be applied.

The VALMIN code, paragraph 70 states that “*the attribution of value to tenements in excess of any value separately assessed on the basis of existing operations, future developments and/or their associated resources/reserves should be justified in detail. This especially applies to exploration tenements under application at the time of preparing the Valuation*”. The proposed transaction does include a substantial package of tenements under application. The granted tenements are all in the Peak Hill Group, so the reader should be aware that until the remaining tenements are granted, the value of the currently granted tenements is only that of the Peak Hill Group. However, in Western Australia, by far the majority of applications are granted, and in this case the tenements under application are all the first application lodged. As a consequence, no discount to the valuation has been applied as a result of the tenement status. However there is a small risk that the applications may not be granted.

The value of the Penfolds nickel rights is affected by the general downturn in the price of nickel, and current lack of market interest in exploration for nickel. To obtain a market value for these assets, SRK reviewed all recent transactions of nickel exploration properties (comparative market transactions). All of those reviewed were related to the formation of joint ventures, and so the analysis of the terms of the joint ventures provided the basis for estimating a value of these properties. The use of geological methods for valuation is also appropriate for nickel targets, because the mineralisation model is well known, and there is a direct relationship between the length of ultramafic units and prospectivity. Lodestar has also undertaken recent relevant exploration on these tenements, so the use of exploration expenditure methods is also appropriate. In reaching an opinion on the value of the nickel rights, all three methods have been applied.

Recommendations

Audacious

In reviewing the joint venture transactions that took place since the beginning of 2007, there was very little relationship shown between the joint venture terms and the area of the tenements. Accordingly, SRK has given all three groups of the Audacious tenements the same value. The three groups are prospective for different commodities, but the transaction data also did not suggest any relationship between the commodity and the implied tenement value based on the joint venture terms. SRK’s valuation of the tenements is set out in the table below:

	Low value (joint venture)	Preferred value (joint venture)	High value (joint venture)
Peak Hill Group	\$1,060,000	\$1,290,000	\$1,520,000
Marymia Group	\$1,060,000	\$1,290,000	\$1,520,000
Ned’s Creek Group	\$1,060,000	\$1,290,000	\$1,520,000
Total	\$3,180,000	\$3,870,000	\$4,560,000

SRK notes that the value of a tenement has two components: the capital, which is the sale or purchase price of the tenement, and the commitment to exploration expenditure on the tenement. As this commitment is not binding and a purchaser may cease exploration after the first year, this commitment is limited to the first year’s exploration expenditure after purchase. Through analysis of tenement purchases and exploration commitments on similar properties over the same period, SRK estimates that the purchase price component may vary between 28% and 43% of full tenement value, but averages approximately 36% of the full tenement value. Accordingly, because Lodestar is effectively purchasing these tenements through a consideration of shares, SRK estimates that the purchase price payable by Lodestar should be:

	Low value JV (purchase – 36%)	Preferred value (purchase – 36%)	High value JV (purchase – 36%)
Peak Hill Group	\$380,000	\$460,000	\$550,000
Marymia Group	\$380,000	\$460,000	\$550,000
Ned’s Creek Group	\$380,000	\$460,000	\$550,000
Total	\$1,140,000	\$1,380,000	\$1,650,000

Note that only the Peak Hill Group is comprised substantially of granted tenements.

Penfolds Nickel Rights

The Penfolds nickel rights have been valued as a single package of tenements, using three different methods. SRK’s estimate of the current market value of these tenements using these methods is:

	Low value (joint venture)	Intermediate value (joint venture – strike length of ultramafic)	High value (MEE method)
Penfolds Project	\$638,000	\$809,000	\$1,900,000

SRK does not see that either of these methods is greatly superior to any other, and so SRK’s final valuation takes the average of the three methods as the preferred value, as set out in the table below:

	Low value (joint venture)	Preferred (average of three methods)	High value (MEE method)
Penfolds Project	\$638,000	\$1,120,000	\$1,900,000

Table of Contents

Results	iii
Valuation	iv
Recommendations	iv
1. Introduction and Scope of Report	1
1.1 Background of the Project	1
1.2 Nature of the Brief	1
2. Programme Objectives and Work Programme	3
2.1 Programme Objectives	3
2.2 Purpose of the Report and Client Contributions	3
2.3 Reporting Standard	3
2.4 Project Team	3
2.5 Statement of SRK Independence	4
2.6 Warranties	4
2.7 Indemnities	4
2.8 Consents	4
3. Programme Results	5
3.1 Peak Hill – Marymia Tenements	5
3.1.1 Licensing	5
3.1.2 Location and Geological Setting	6
3.1.3 Mineralisation in the region	8
3.1.4 Prospect Geology – Peak Hill	10
3.1.5 Prospect Geology – Ned’s Creek Group	12
3.1.6 Prospect Geology – Marymia Group	13
3.2 Valuation	14
3.2.1 Methodology	14
3.2.2 Transaction data	15
3.2.3 Comparative transactions valuation – Peak Hill-Marymia	18
3.3 Penfolds Tenements	20
3.3.1 Licensing	20
3.3.2 Location and Geological Setting	22
3.3.3 Nickel Mineralisation in the Region	23
3.3.4 Project Scale Geology	26
3.3.5 Previous Exploration	28
4. Valuation	35
4.1 Valuation Methodology and Results	35
5. Conclusions and Recommendations	39
5.1 Valuation	39
5.2 Recommendations	40
6. References	42

List of Tables

Table 3-1: Audacious tenement details (*estimated by valuer)	5
Table 3-2: Comparable transaction, range of commodities	15
Table 3-3: Generic probabilities used in assessing the value of JV agreements.....	16
Table 3-4: Average tenement values determined from transactional data, JV and purchase basis.....	16
Table 3-5: Joint Venture and Purchase transactions, WA, since January 2007	17
Table 3-6: Joint Venture Terms - implied tenement valuations	18
Table 3-7: Purchase transaction valuation and ranges	19
Table 3-8: Summary Statistics, JV data	19
Table 3-9: Ranges for purchase price transactions using ranges from the JV terms.....	19
Table 3-10: Penfolds tenement details (with total annual rent and minimum expenditure commitments)	21
Table 3-11: Summary of Spargoville Resource (Marston, 1984)	25
Table 3-12: Summary of the Mount Edwards Resource (Marston, 1984).	25
Table 3-13: Summary of Nepean Resource (Marston, 1984).	26
Table 3-14: Assay results for petrographic samples LMP007- Mt Marion.....	32
Table 4-1: Comparable transactions, Western Australia, nickel.....	35
Table 4-2: Average tenement values for nickel determined from joint venture transactional data	35
Table 4-3: Joint Venture nickel transactions, WA, since January 2007	36
Table 4-4: Penfolds Valuation	38

List of Figures

Figure 3-1: Geology of the Peak Hill – Marymia area (GSWA, 1:500,000, GDA zone 50)	7
Figure 3-2: Reference for geological maps (Figure 3-1 and Figure 3-3)	8
Figure 3-3: Mineral Occurrences, project areas, (MINDEX, 22 December 2009, GDA Zone 50).....	9
Figure 3-4: Identified uranium anomalies over digital terrain model - Peak Hill Tenement Group (Richards, 2009)	10
Figure 3-5: E52/2403 -Historic drill coverage over an image of the total magnetic field magnetic (Richards, 2009).....	11
Figure 3-6: Historic soil coverage on TMI image showing anomalous gold samples (Richards, 2009)	11
Figure 3-7: Distribution of previous drilling, Ned's Creek tenements (Richards, 2009)	12
Figure 3-8: Ned's Creek group - historical geochemical survey locations (from Richards, 2009)	13
Figure 3-9: Distribution of diamond drilling in application E69/2662 (Richards, 2009)	14
Figure 3-10: Plan of the Penfolds Tenements.....	22
Figure 3-11: Location of tenements in relation to major regional geological domains.....	23
Figure 3-12: Model of komatiite-hosted nickel sulphide deposit (from Robinson, 2007)	24
Figure 3-13: Penfolds Nickel Project ultramafic sequences (Robinson, 2007)	27
Figure 3-14: Abattoir interpreted geology and drill hole location plan (in prep) (from Lodestar, 2009).	28
Figure 3-15: Abattoir EMC & C4 conductors on aeromagnetic image (from Lodestar, 2009).	30
Figure 3-16: Mt Marion C6 & C8 conductors on aeromagnetic image (from Lodestar, 2009).	32
Figure 3-17: Location 51Wildcatters north EM survey location plan (from Lodestar, 2009)	34
Figure 3-18: Penfolds regional aeromagnetic data set reprocessed to highlight the ultramafic sequences (from Lodestar, 2009).....	34

Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Lodestar Minerals Limited (Lodestar). The opinions in this Report are provided in response to a specific request from Lodestar to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1. Introduction and Scope of Report

Lodestar Minerals Limited (Lodestar) has entered into a purchase agreement with Audacious Limited (Audacious) and certain vendors to acquire a large tenement package in the Peak Hill - Marymia district of the southern Capricorn Orogen, Western Australia. Recent discovery of mineralisation in this area, by Sandfire Resources has generated interest in exploring this district. The Audacious and vendor tenements cover approximately 2,057 square kilometres, and have only historical exploration documented in the WA open file exploration system.

The consideration for the acquisition is a non-refundable payment of \$105,000 on execution of the agreement, a payment of \$15,000 on settlement and the issue of 15 million fully paid ordinary shares in the capital of the company. As this share consideration exceeds certain thresholds, the acquisition will be subject to shareholder approval pursuant to Section 611 (item 7) of the Corporations Act.

In these circumstances, there is a need for an Independent Technical Report and VALMIN compliant Valuation of the assets that are the subject of the transaction. Lodestar engaged KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to act as Independent Expert in relation to the proposed transaction with Audacious. KPMG approached SRK Consulting (Australasia) Pty Ltd (SRK) to assist in the geological assessment and valuation of the tenements related to the transaction as follows:

- Provide a valuation of the Peak Hill - Marymia tenements of Audacious and vendors.
- Provide a valuation of the Penfolds nickel rights tenements of Lodestar.

SRK is to undertake a valuation of the exploration assets for KPMG to include in their independent report for inclusion in the material to be considered at the relevant shareholders meeting.

The project commenced on 17 December 2009 with delivery of the first draft of the report to KPMG by 15 January 2010. The valuation is current at 20 January 2010. All prices are given in Australian Dollars (A\$).

1.1 Background of the Project

The project was initiated because the proposed transaction between Lodestar and Audacious involves a share consideration exceeding certain thresholds that require shareholder approval, pursuant to Section 611 (item 7) of the Corporations Act.

In these circumstances, there is a need for an Independent Technical Report and VALMIN compliant Valuation of the Peak Hill - Marymia and Penfolds assets that are the subject of the transaction. Lodestar engaged KPMG to act as the Independent Expert in relation to a proposed transaction and KPMG approached SRK to assist in the geological assessment and valuation of the tenements.

1.2 Nature of the Brief

Bill Clayton of Lodestar forwarded geological summary information on the Company assets to SRK.

SRK understands that the exploration assets fall into two parts:

- The Peak Hill – Marymia project areas referred to above and the subject of the purchase agreement.
- The Penfolds tenements nickel assets in the Kalgoorlie – Kambalda region of the Eastern Goldfields province in Western Australia.

SRK selected the most appropriate valuation technique for each of the assets based on the development stage of the project and the amount of available information. SRK expected that a market-based valuation method, based on comparable transactions and discounted for the developmental stage of the project will be most appropriate for many of the assets.

SRK understands that none of these projects contained a reported Resource or Reserve.

SRK notes that the VALMIN Code in Clause 65 recommends that a site inspection be completed should it be 'likely to reveal information or data that is material to the Report'. No site inspection was undertaken as part of this Project as Peter Williams of SRK has previously visited the Penfolds tenements in 2007 as part of the Dioro listing on the Toronto Stock Exchange (TSX). No recent exploration work has been completed on the Peak Hill – Marymia tenements, and in Western Australia, tenement boundaries are defined by geographic coordinates. As a result, SRK considers that there is no additional information to be gained on those tenements through a site visit, as no new data are available to be verified. Peter Williams has had previous field experience in the Marymia greenstone belt.

SRK bases its assessment on information provided by Lodestar supplemented by information available in the public domain and within SRK's own databases concerning the geology of the tenement areas. In addition, SRK undertook research on comparative market transactions.

2. Programme Objectives and Work Programme

2.1 Programme Objectives

SRK has provided a report detailing the estimated technical value of the assets held by Lodestar and the vendors over the named projects. This report complies with the VALMIN Code standard and SRK grants permission for this document to be released publicly.

Specific objectives and deliverables of the Project include:

- A final VALMIN-compliant report
- A letter of consent for KPMG to use SRK's Report in a public document

2.2 Purpose of the Report and Client Contributions

The purpose of this Report is to provide an Independent Technical Assessment and Valuation for inclusion in material to be provided to shareholders by Lodestar in relation to the proposed transaction as required by the Corporations Act.

- As per the VALMIN Code, SRK has been provided with full access to all relevant information relating to the tenements under review.
- SRK has had access to relevant staff from Lodestar and the vendors as required for purpose of discussion of geological and exploration criteria and mineralisation models.
- Currently held technical reports and auxiliary datasets, to assist in the valuation of the assets held by Lodestar and the vendor, for the specified purpose, were provided.
- A formal letter to release SRK from any liability associated with the public release of the data was provided.

2.3 Reporting Standard

This Report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment and Valuation Report under the guidelines of the VALMIN Code. The VALMIN Code is the code adopted by the Australasian Institute of Mining and Metallurgy and the standard is binding upon all AusIMM members. The VALMIN Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

This Report is an Independent Technical Assessment and Valuation Report and provides an opinion as to the value of mineral assets, but does not comment on the 'fairness and reasonableness' of any transactions.

2.4 Project Team

The SRK Project Team comprised a number of exploration and valuation research staff. The Project Manager was Peter Williams, who also worked on the Peak Hill - Marymia assets, supported by research undertaken by Kate Bassano.

The Penfolds assets were documented and valued by Deborah Lord, supported by research undertaken by Kate Bassano. Peer Review was carried out by Paul Hodkiewicz.

Peter Williams is a Member of the Australian Institute of Geoscientists and takes overall responsibility for the Report and is the Competent Person for the Project.

2.5 Statement of SRK Independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Lodestar, Audacious and the vendors in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

2.6 Warranties

Lodestar has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

2.7 Indemnities

As recommended by the VALMIN Code, Lodestar has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by Lodestar or to Lodestar not providing material information; or
- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

2.8 Consents

SRK consents to this Report being included, in full, in the Lodestar shareholder information, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

3. Programme Results

3.1 Peak Hill – Marymia Tenements

3.1.1 Licensing

The tenements that are considered in this valuation are located north of the Yilgarn Craton centred on approximately 119.5°E and 25.4°S. They extend over a wide area of 150 km E-W and 75 km N-S, and cover a range of geological settings. They therefore do not form a coherent tenement package targeting specific mineralisation styles or commodities. The tenements are listed in Table 3-1.

Table 3-1: Audacious tenement details (*estimated by valuer)

Grouping	Tenement ID	Status	Holder	Area (blocks)	Area (km ²)	Grant date	Expiry date	Rent*	Min. Expenditure*
Peak Hill Group	E 5202403	LIVE	MONEY, GLENN G V	54	167.5	11/12/2009	10/12/2014	\$8,300.60	\$70,000
	E 5202418	LIVE	MONEY, GLENN G V	8	24.79	28/08/2009	27/08/2014	\$948.64	\$20,000
	E 5202430	LIVE	MONEY, GLENN G V	63	195.5	11/09/2009	10/09/2014	\$7,470.54	\$63,000
	E 5202431	LIVE	MONEY, GLENN G V	70	217.3	11/09/2009	10/09/2014	\$8,300.60	\$70,000
	E 5202512	PENDING	MONEY, GLENN G V	16	49.61			\$8,300.60	\$70,000
Ned's Creek Group	E 5202440	PENDING	MONEY, GLENN G V	70	217.0			\$8,300.60	\$70,000
	E 5202444	PENDING	MONEY, GLENN G V	70	216.8			\$7,826.28	\$66,000
	E 5202456	PENDING	MONEY, GLENN G V	66	204.7			\$2,015.86	\$20,000
	E 5202468	PENDING	MONEY, GLENN G V	17	52.67			\$8,300.60	\$70,000
Marymia Group	E 5202492	PENDING	MONEY, GLENN G V	70	217.7			\$8,300.60	\$70,000
	E 5202493	PENDING	MONEY, GLENN G V	70	217.4			\$355.74	\$15,000
	E 5202505	PENDING	MONEY, GLENN G V	3	9.311			\$1,897.28	\$20,000
	E 6902662	PENDING	MONEY, GLENN G V	70	217.7			\$8,300.60	\$70,000

Four of the tenements are granted, and the others are in application. E52/2492 overlaps an application by Ausquest E52/2496. The Ausquest application started on 07/10/2009, whereas the Glenn Money application start date is 05/10/2009. E52/2468 (application date 25/08/2009) largely is overlapped by an application (dated 30/11/2009) by Sandfire Resources for a Miscellaneous Licence (L52/0120). Small parts of E52/2505 and E52/2493 overlap granted mining leases in the Marymia greenstone belt area. The area of each package is 655 km² (Peak Hill Group), 691 km² (Ned's Creek Group) and 662 km² (Marymia Group).

3.1.2 Location and Geological Setting

The location of the tenements in relation to the major geological units in the region is shown in Figure 3-1. The area forms a complex structural corridor at the northern margin of the Archean Yilgarn Craton of Western Australia. Two Archean Inliers in this area, the Goodin Dome in the south and Marymia Dome in the north, comprise granite with, in the case of the Marymia Inlier, remnant greenstone belts. The Marymia Inlier is contiguous with the Peak Hill schist unit that forms the Peak Hill Inlier. These Archean rocks are overlain by strongly deformed sedimentary sequences in four major sedimentary packages, the Yerrida Basin, Bryah Group, Earraheedy Basin and Bangemall Basin.

1. The older sequences were deposited in the Yerrida Basin, and flank the Goodin Dome. These basin sequences are exposed south of the Marymia Inlier.
2. The Bryah Group overlies the Yerrida Basin rocks in the southwest of the area. The newly discovered Doolgunna prospect (Sandfire Resources) is within the Narracoota Volcanics of the Bryah Group. Volcanic rocks are shown in green on the map in Figure 3-1.
3. The Bryah Group is folded into a regional syncline, the core of which is an outlier of Padbury Group rocks, which overlie the Bryah Group.
4. The Earraheedy Basin overlies the Yerrida Group rocks unconformably, shown in olive and blue on the map, and crops out primarily on the eastern margin of the area. A large proportion of the area of tenements overlies the basal formation of the Earraheedy Group.
5. The northwestern third of the map area is underlain by rocks deposited in the Bangemall Basin, which is the youngest of the major Basins exposed in this area.

Deformation of these rocks is attributed to the Capricorn Orogeny, and the deformation zone between the Marymia Inlier and the Yilgarn Craton was described by Pirajno and others (1998) as occurring at about 1830 Ma.

The tenements fall into three major groupings:

- Peak Hill or western group, located north-northeast of Peak Hill is almost exclusively located over sedimentary rocks of the Bangemall Basin.
- The Ned's Creek tenement group is located mostly in Yelma Formation, the lowermost unit of the Earraheedy basin sequence. The northwestern part of E52/2456 covers the Juderina and Johnston Cairn Formations of the Yerrida Basin sequence.
- Marymia Inlier tenements are primarily over granite of the Marymia Inlier.

For valuation purposes, based on the distinctive geology of the three tenement groupings, these are treated as three project areas. The basis of this grouping is that if these tenements were to be offered for joint venture, it is likely that there would be a company interested in each of these areas as separate agreements as they target different geology and therefore different exploration models. The area of each package is substantial and very similar, with the Peak Hill grouping at ca. 654.7 km², the Marymia group at 662.1 km² and the Ned's Creek grouping at 691.2 km².



geology_500k_SRK by Geolcc

- A-b-YKA (1)
- A-bs-YMA (7)
- A-cib-YMA (2)
- A-g-Y (1)
- A-g-YMA (6)
- A-gm-YGD (2)
- A-nw-a-YMA (35)
- A-c-YMA (4)
- A-s-YKA (1)
- A-s-YMA (13)
- A-sc-YMA (3)
- A-u-YMA (5)
- AP_-ngs-YMA (1)
- AP_-ph-msqm (1)
- P-BYk-st (4)
- P-BYn-bbtr (3)
- P-BYn-rtbb (3)
- P-BYn-od (2)
- P-EAc-ss (1)
- P-EAc-sl (1)
- P-EAf-ci (5)
- P-EAT-s (1)
- P-EAY-s (18)
- P-EAYS-kds (8)
- P-MCPs-s (1)
- P-MCPs-s (2)
- P-od (4)
- P-PAm-ss (1)
- P-PAR-clb (3)
- P-PAR-olg (2)
- P-PAR-shi (2)
- P-PAW-h-ss (1)
- P-WKku-od (2)
- P-YMl-scp (1)
- P-YMl-sta (1)
- P-YMl-bb (7)
- P-YMl-bbvz (5)
- P-YMl-bbx (1)
- P-YMl-od (13)
- P-YMl-og (2)
- P-YMl-si (3)
- P-YMl-ss (5)
- P-YWc-sl (4)
- P-YWf-s (11)
- P-YWf-sa (7)
- P-_mk-st (4)

Figure 3-1: Geology of the Peak Hill – Marymia area (GSWA, 1:500,000, GDA zone 50)

Shows major tectonic units and location of the tenements.

Reference for geological maps		
■ Mt Leake Fmn	■ Padbury Group, Robinson Range Fmn	■ Peak Hill Schist
■ Windplain Group, Juderina Fmn	■ Padbury Group, Robinson Range Fmn	■ Peak Hill mylonite
■ Windplain Group, Juderina Fmn	■ Padbury Group, Millidie Creek Fmn	■ Archean, ultramafic
■ Windplain Group, Johnson Cairn Fmn	■ Dolerite	■ Archean, sediment
■ Mooloogul Group, Thaduna Fmn	■ Collier Group	■ Archean, sediment
■ Mooloogul Group, Maralooou Fmn	■ Collier Group	■ Archean, sediment
■ Mooloogul Group, Killara Fmn gabbro	■ Earraheedy Group, Yelma Fmn	■ Archean, gabbro
■ Mooloogul Group, Killara Fmn dolerite	■ Earraheedy Group, Yelma Fmn	■ Archean, amphibolite
■ Mooloogul Group, Killara Fmn breccia	■ Earraheedy Group, Tooloo Subgroup	■ Archean, monzogranite
■ Mooloogul Group, Killara Fmn chert	■ Earraheedy Group, Frere Fmn	■ Archean, granitic rocks
■ Mooloogul Group, Killara Fmn basalt	■ Earraheedy Group, Chiall Fmn	■ Archean, granitic rocks
■ Mooloogul Group, Doolgunna Fmn sandstone	■ Earraheedy Group, Chiall Fmn	■ Archean, banded iron fmn
■ Mooloogul Group, Doolgunna Fmn diamictite	■ Bryah Group, Narracoota Fmn, dolerite	■ Archean, komatiitic basalt
■ Kulkatharra Dolerite	■ Bryah Group, Narracoota Fmn, basalt	■ Archean, basalt
■ Padbury Group, Wilthorpe Fmn	■ Bryah Group, Narracoota Fmn, hyaloclastite	
■ Padbury Group, Robinson Range Fmn	■ Bryah Group, Karalundi Fmn	

Figure 3-2: Reference for geological maps (Figure 3-1 and Figure 3-3)

3.1.3 Mineralisation in the region

Proterozoic sequences in Australia host a large number of mineral deposits, including world-class examples. In Western Australia, the largest deposits are intrusion-related Au-Cu (Telfer), uranium deposits (Kintyre) and stratiform copper (Nifty). In the Bangemall Basin, the large Abra (Pb-Ag-(Zn)-Cu) deposit in the Jillawarra Formation is developed in the core of a strong alteration system, comprising upper stratabound alteration/mineralisation overlying a complex hydrothermal breccia/stockwork (Abra Mining Ltd, 2009).

The main mineralisation in the area immediately surrounding the tenements is shown in Figure 3-3. Most of the mineralisation is in the Peak Hill District and the Archean Plutonic Greenstone Belt, including the Plutonic Gold Mine. The Peak Hill District includes both the Peak Hill Gold and the Horseshoe Lights group of deposits, which includes gold, silver, copper and manganese mineralisation (GSWA MINDEX mineral deposits database).

Gold mineralisation is also present in the Baumgarten greenstone belt remnants on the southern margin of the Marymia Inlier (GSWA MINDEX mineral deposits database).

In the Proterozoic sequences, there are a number of prospects identified, for gold and base metals, as well as diamonds. Gold mineralisation is located predominantly in the Bryah Group sequences, whereas the base metal mineralisation appears more widespread in the Yerrida Basin. Mineralisation appears to be spatially associated with the deformation zone along the southern margin of the Marymia Inlier, with the exception of stratigraphically controlled iron mineralisation in the Frere Formation of the Earraheedy Basin. Zinc mineralisation has also been identified in the basal units of the Earraheedy Basin. To date, the only mined mineralisation is the Thaduna and Green Dragon group of deposits, in the Thaduna Formation of the Yerrida Group. These are base metal deposits, primarily copper-lead-zinc mineralisation. At Ilgarari, copper mineralisation occurs in areas adjacent to the Ned's Creek tenement grouping. A scoping study by Western Australian Minerals in 1996 on an Inferred Resource of 255,000 tonnes at 3.3% Cu did not lead to further development. Zinc, uranium and manganese are also of interest in the Ilgarari tenements.

Copper-gold mineralisation in the Naracoota Volcanics (of the Bryah Basin) occurs at deGrussa, Conductor 1 and Conductor 4, and Sandfire Resources is currently evaluating these for their economic potential. Sandfire has reported some exceptionally high grade intersections in their prospects. An example includes 53.2 m with 17.3% Cu and 2.5g/t Au from 146.1 m and 25.1 m with 3.4%Cu, 1.6g/t Au and 1.5% Zn from 319.0 m. Sandfire has likened these to volcanic-hosted massive sulphide deposits (Sandfire, 2009).

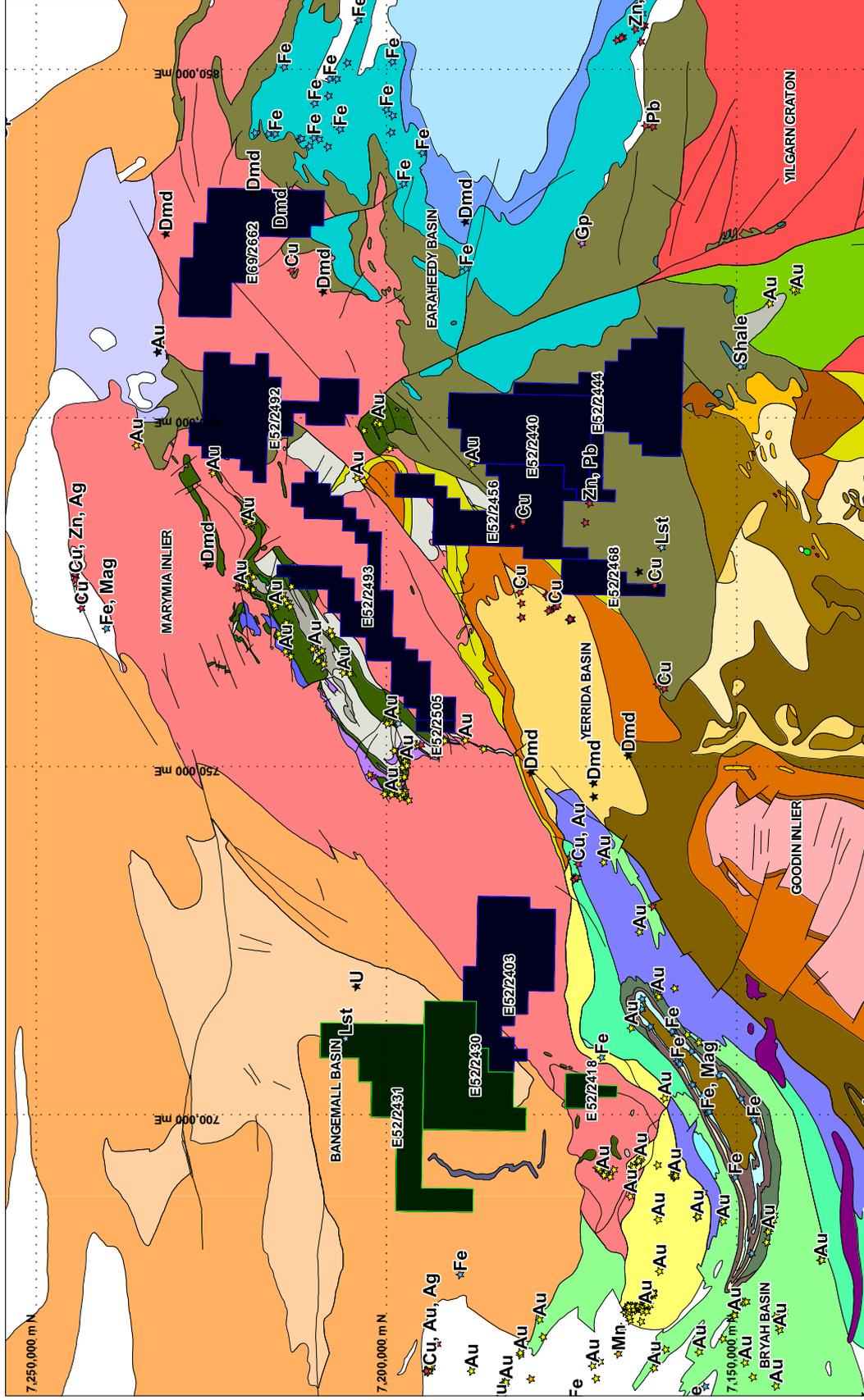


Figure 3-3: Mineral Occurrences, project areas, (MINDEX, 22 December 2009, GDA Zone 50)

geology_500k_SRK by Geolcc

- A-b-YKA (1)
- A-bs-YMA (7)
- A-clb-YMA (2)
- A-g-Y (1)
- A-g-YMA (6)
- A-gm-YGD (2)
- A-mw-a-YMA (35)
- A-o-YMA (4)
- A-s-YKA (1)
- A-s-YMA (13)
- A-sc-YMA (3)
- A-u-YMA (5)
- AP_mgs-YMA (1)
- AP_ph-msqm (1)
- P_BYk-st (4)
- P_BYn-bbxx (3)
- P_BYn-mbb (3)
- P_BYn-od (2)
- P_EAc-ss (1)
- P_EAc-kl (1)
- P_EAc-cl (5)
- P_EAT-s (1)
- P_EAY-s (18)
- P_EAYS-kds (8)
- P_MCP5-s (1)
- P_MCP6-s (2)
- P-od (4)
- P-PA-mss (1)
- P-PA-rcb (3)
- P-PA-rcg (2)
- P-PA-r-shi (2)
- P-PA-w-h-ss (1)
- P-WKku-od (2)
- P-YM4-scp (1)
- P-YM4-sta (1)
- P-YMk-bb (7)
- P-YMk-bbvx (5)
- P-YMk-bbx (1)
- P-YMk-od (13)
- P-YMk-og (2)
- P-YMm-sl (3)
- P-YMm-ss (5)
- P-YWc-sl (4)
- P-YWf-s (7)
- P-YWf-sa (11)
- P_mnk-st (4)

3.1.4 Prospect Geology – Peak Hill

The Peak Hill Group covers two geological domains:

- E52/2403, E52/2512 and E52/2418 cover the south-western extension of the Marymia Inlier. The southern tenement, E52/2418 has the potential to host remnant greenstone stratigraphy. Gold prospects are present in the area, with Winchester, Trapper, Hawkeye, Radar, Hot Lips and Troy Trend located approximately 12 km southeast of the tenement. A uranium anomaly identified in E52/2403 forms a linear zone, located south of a known Uranium prospect (Three Rivers Uranium). Money Mining, in an unpublished review of previous data provided to Lodestar, has identified three other possible targets in E52/2403. These are two gold targets identified by previous explorers, mainly WMC, as soil anomalies, and a zone of potential copper mineralisation related to outcropping gossanous material with copper in rock chip samples.
- E52/2431 and E52/2430 cover Bangemall Group sediments. The units cropping out in this area belong to the Collier Group, which overlies the Edmund Group. The Edmund Group is the host for the Abra deposit, so a direct comparison with that deposit style may not be appropriate. A report by Elliott (2009) discusses a uranium anomaly identified in E52/2431 from radiometric data. The anomaly lies 20 km west of a U anomaly previously drilled by Rio Tinto Mining. It is within a drainage channel that appears to connect back to the Rio Tinto anomaly.

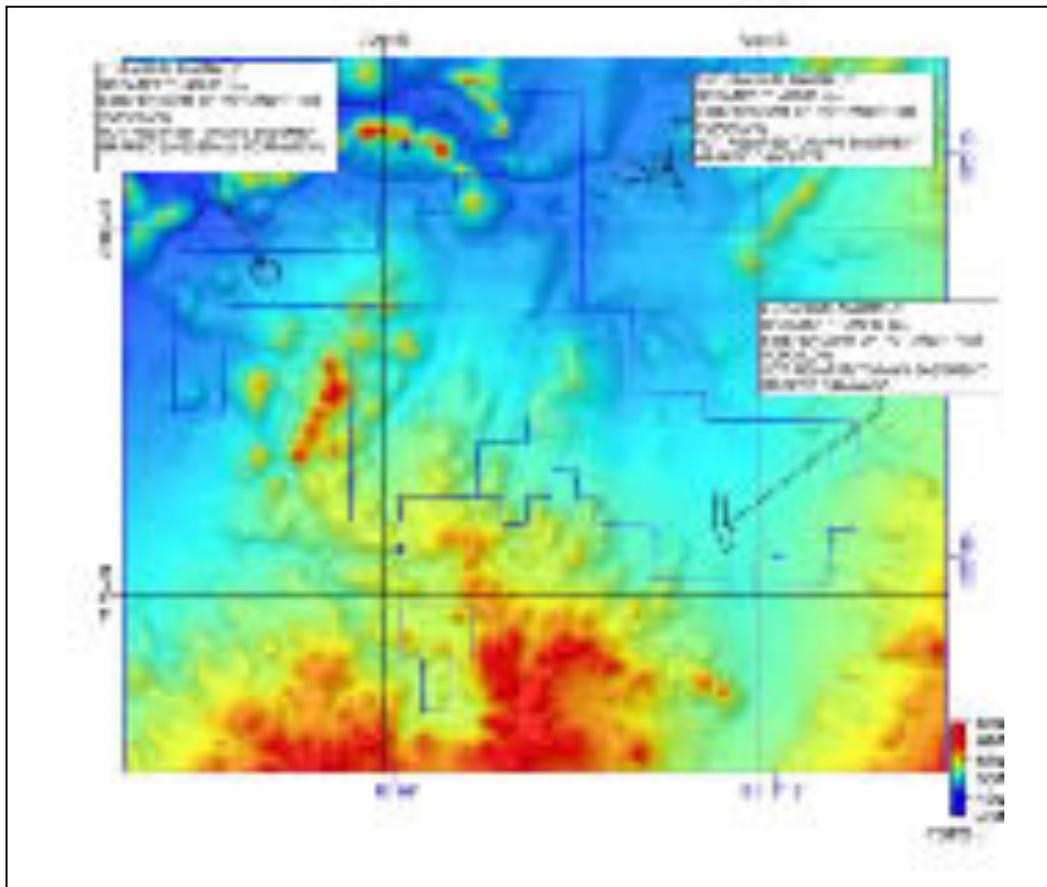


Figure 3-4: Identified uranium anomalies over digital terrain model - Peak Hill Tenement Group (Richards, 2009)

The location of previous drilling (Figure 3-5) and geochemical surveys (Figure 3-6) is shown.

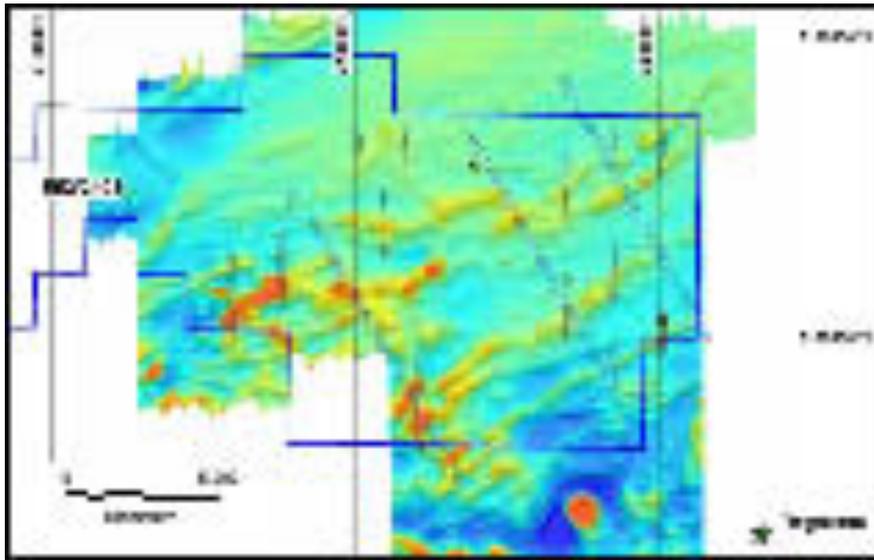


Figure 3-5: E52/2403 -Historic drill coverage over an image of the total magnetic field magnetic (Richards, 2009)

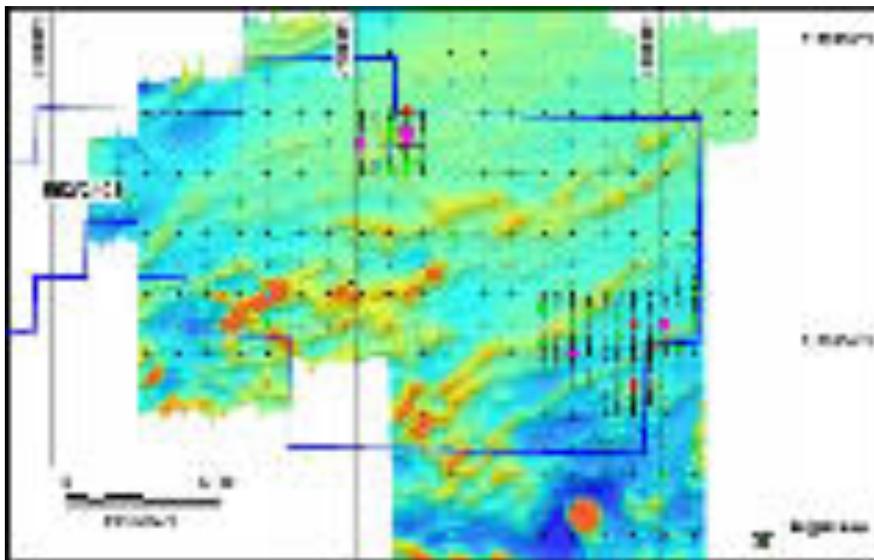


Figure 3-6: Historic soil coverage on TMI image showing anomalous gold samples (Richards, 2009)
 (blue>1ppb, green>2ppb, red>5ppb, purple>10ppb)

3.1.5 Prospect Geology – Ned’s Creek Group

The Ned’s Creek tenement group is located over both Yerrida Group sediments in the west (E52/2456 and E52/2468) and Earraheedy Group sediments in the central and eastern parts (E52/2440 and E52/24444). The only prospects located on the tenements are the McDonald Well prospects in the Juderina Formation of the Yerrida Group 12 km east of Thaduna. The McDonald Well prospect has anomalous copper and zinc in rock chip samples, with limited drill testing. A CRA lag sampling program generated a multi-element anomaly over the McDonald Well prospect. This was tested by auger sampling which produced a low-level anomaly that was not followed up (WAMEX, A32330).

A magnetic anomaly (K42) has not been sufficiently tested, but to date work done includes some sampling which recorded weak anomalism for gold, arsenic, copper and zinc. Shallow drill testing recorded no mineralisation considered worthy of additional drilling. A single RC hole has been drilled but the anomaly was not explained (WAMEX A51137).

A gold anomaly located by aircore drilling at the northern margin of E52/2440 is coincident with a magnetic anomaly. At Yowerreena Hill, called the Bill’s and Bill’s North prospects, Cyprus Gold Australia (1997) drilled 83 RC holes for 7447 m and 12 rotary holes for 886 m. Cyprus intersected gold mineralisation in quartz veined and sulfide bearing dolerite and mafic rocks (Staples, 1997). Best intersection were of 1 m @ 13.5 g/t (hole GARC 5). Other good intersections at close by drillholes include: 2 m @ 6.22 g/t (hole NCRC 4); 2 m @ 3.60 g/t (hole NCRC 3); 2 m @ 2.85 g/t (hole GARC 9). Cyprus (1997) concluded that the mineralisation did not demonstrate continuity or indicate potential for an economic resource. The magnetic anomaly is due to a differentiated dolerite sill with zones up to 3-4% magnetite, which provide a suitable iron-rich host rock for gold mineralisation. These results are included in WAMEX items A48841 and A53324.

The location of previous exploration drilling is shown in Figure 3-7, and the geochemical surveys in Figure 3-8.

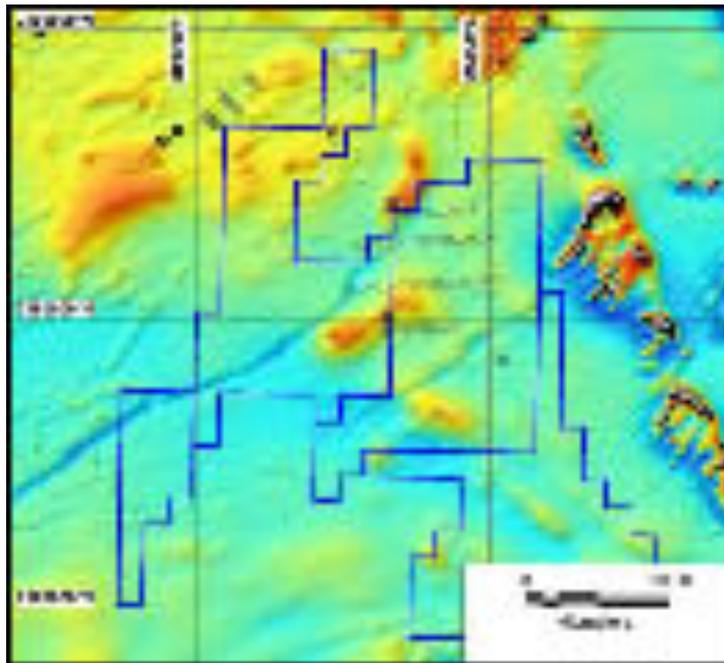


Figure 3-7: Distribution of previous drilling, Ned's Creek tenements (Richards, 2009)
(Image is the regional magnetic data from Geoscience Australia)

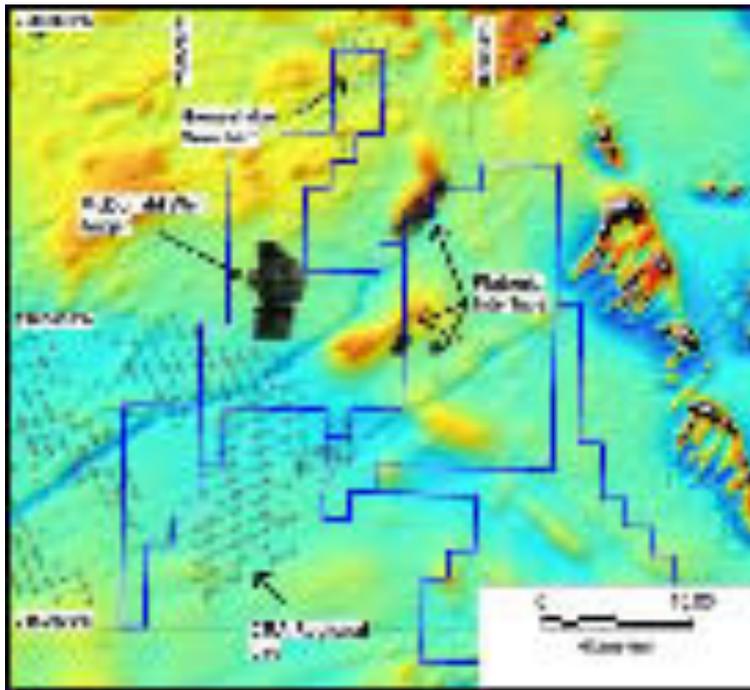


Figure 3-8: Ned's Creek group - historical geochemical survey locations (from Richards, 2009)

(Image is the regional magnetic data from Geoscience Australia)

3.1.6 Prospect Geology – Marymia Group

These form three tenement areas. Applications E52/2505 and E52/2493 in the southwest lie almost completely over granitoids of the Marymia Inlier, south of the Plutonic Greenstone Belt. As the tenements, partly overlap granted leases over the Plutonic Belt, these will likely be excised on granting of the applications. The tenements may contain small outliers of Archean greenstones, which are potentially prospective for gold. The northern part of application E52/2492 covers an outlier of the Yelma Formation of the Earahedy Group, and the southern part covers Archean granite. E69/2662 is the easternmost tenement application, and it is primarily over Archean granite. There has been drilling for diamonds on this latter tenement, otherwise these tenement areas contain no known mineralisation. Copper carbonate identified in the heavy mineral assemblage from one diamond core in the diamond exploration project is potentially anomalous. The location of the diamond drilling is shown in Figure 3-9.

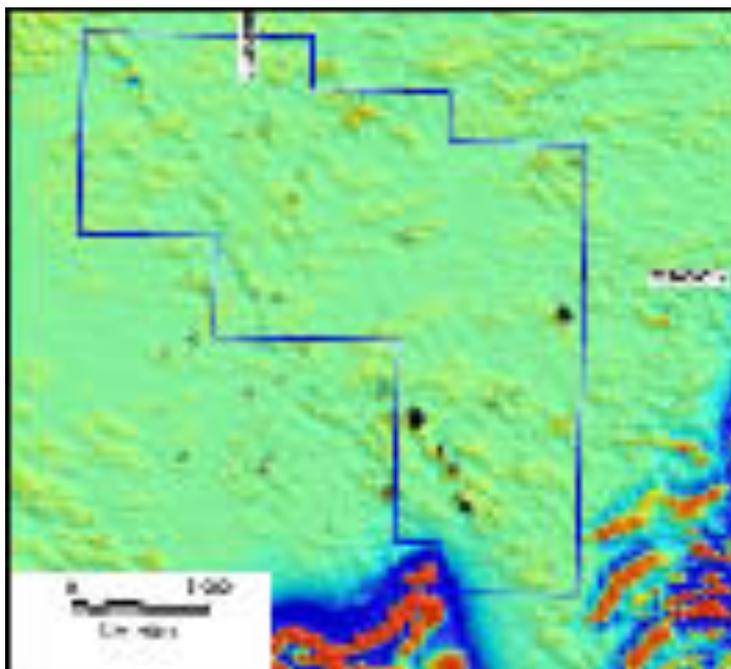


Figure 3-9: Distribution of diamond drilling in application E69/2662 (Richards, 2009)
(Image – first vertical derivative of total magnetic field regional data from Geoscience Australia)

3.2 Valuation

3.2.1 Methodology

The Audacious tenements are all at an early stage of exploration, with no known resources or major exploration targets outlined. There are two identified uranium targets, and there has been some targeting for gold on structural trends interpreted from geophysical data. Previous exploration identified some anomalism. Despite this, the purchaser of these tenements will incur initial expenditure in grass-roots exploration before identifying drilling targets.

Most transactions relating to tenements at this stage of exploration are of a “farm-in” or “earn-in” nature, where a certain percentage of ownership is achieved through the exploration expenditure. In this type of transaction, there is a shared risk, in that if early expenditure does not generate useful information, the “optionee” can opt out of further expenditure, thus limiting risk. Typically, these agreements run over several years (3-5), and expenditure commitments usually exceed the minimum statutory expenditure.

Purchases are less common, and typically take place at a lower price than the tenement valuation. The purchase price represents the capital component of the tenement value and also reflects both the increased risk of ownership. A purchaser has to meet the minimum expenditure on the property, pay the purchase price, and pay any exploration expenditure above the basic commitment. This total expenditure should be equivalent to the tenement value. In a joint venture, all expenditure is for exploration, resulting in a better leverage of the funding. Therefore, an indicative purchase price risk equation can be established, to compare to JV’s:

JV term value * % ownership = Y1 Exploration expenditure commitment + Reasonable Purchase Price

Or: Reasonable Purchase Price = JV term value * % ownership – Y1 Exploration expenditure commitment

In valuing the Audacious tenements, SRK has utilised two main methods – the comparative market transactions (that is information on purchases of tenements), and analysis of joint venture terms on properties at a similar stage of exploration. As there has been no recent exploration, exploration expenditure methods is not appropriate, and as there are no resources, neither the “rule-of-thumb” method nor the exploration risk method can be applied.

3.2.2 Transaction data

Table 3-2 shows a range of transactions that have taken place at the early exploration stage since 1 January 2007. The main commodities of interest in the Audacious tenements are copper, gold, uranium and zinc-lead deposits. All these classes are represented in the transaction data. Tenement area of the Audacious tenement groups are ~660 km² each, which is well within the range of tenement package sizes recently transacted. All projects are Western Australian, again representing a similar business and legal framework to the Audacious tenements.

Table 3-2: Comparable transaction, range of commodities

(Input data © Copyright by Metals Economics Group 2010. All rights reserved)

Project Name, Joint Ventures	Commodity	Transaction date	Earn-in party or operator	Area (km ²)
Warburton	Copper, Nickel, Platinum, Palladium	3/2009	Vale SA	522
Yeneen	Copper, Uranium	11/2009	Encounter Resources Ltd	1500
Gnaweeda	Gold	6/2009	Kent Exploration Inc	190
Golden Mile South	Gold	6/2009	Mawson West Ltd	112
Wilga	Gold	9/2008	AngloGold Ashanti Ltd	12
Woodline	Gold	7/2009	Sipa Resources Ltd	1785
Mortlock	Gold, Copper	7/2007	Quasar Resources Pty Ltd (Heathgate)	1000
Musgrave	Gold, Copper, Nickel, Platinum, Palladium	12/2008	Traka Resources Ltd	
Birrindudu	Uranium	9/2009	Toro Energy Ltd	
Gunbarrel Basin	Uranium	11/2009	Aura Energy Ltd	2760
Kunderong and Kennedy	Uranium	11/2008	Dioro Exploration NL	741
Robinson Range	Uranium	8/2008	Montezuma Mining Co Ltd	3000
Uaroo	Uranium, Gold, Copper	9/2008	Scimatar Resources	
Erayinia	Zinc, Lead, Copper, Silver	6/2008	ABM Resources NL	275
Bonaparte	Zinc, Lead, Silver, Copper	8/2009	JOGMEC	

Project Name, Purchases	Commodity	Transaction date	Earn-in party or operator	Area (km ²)
Holleton	Gold	1/2007	Independence Group NL	
Lake Way	Uranium	11/2009	Toro Energy Ltd	
Mundong Well	Uranium	10/2009	Artemis Resources Ltd	2367
Narnoo	Uranium	11/2009	Unnamed Company	
Uaroo	Uranium	6/2007	Atomic Resources Ltd	

Table 3-5 shows the values for joint venture and purchase transactions in Western Australia since January 2007. The determination of a value for the joint ventures is based on the following calculations:

1. Generic probabilities of the success of joint ventures at different years (Y1-Y5) were set as shown in Table 3-3. The basis for these probabilities is the transactional data. A large number of joint ventures do not proceed to the second year, but after two years of expenditure, an increasing number proceed to their full term, as this indicates some exploration success. The overall success of joint ventures is low, and SRK considers the cumulative probability of about 5% to be a reasonable measure of successful completion industry-wide. Where JV's operate for less than 5 years, the probabilities are multiplied over the number of years of the JV. This probability is then used to factor the monetary terms of the JV.

Table 3-3: Generic probabilities used in assessing the value of JV agreements

Y1	Y2	Y3	Y4	Y5	Cumulative %
85%	30%	50%	60%	70%	5.35500%

2. Future expenditure is discounted at an interest rate of 5%, representing current cash interest rates
3. Cash considerations and binding expenditure commitments are added to the JV value and are not discounted for probability.

After applying these factors, there are two possible ways to value JV's. The total implied value at the time of setting up the agreement can be determined by multiplying the probability of completion of the JV by the discounted value of the JV terms, plus any immediate cash consideration. Alternatively, the committed or Year 1 value can be determined, on the basis that the "optionee" will commit to a certain minimum expenditure. Where the commitment is not binding, this value is discounted by the Year 1 probability.

Both of these methods are shown in Table 3-4. The two values are reasonably close, probably reflecting that the probabilities used (Table 3-3) are close to industry expectations. Note that the individual joint ventures vary more than the average, the biggest difference being the impact of cash payments and binding commitments in the first year.

The value of the JV assuming that all terms are met and the JV runs to completion are included in the table for comparison.

In terms of the purchase price, there are fewer transactions (5) than those for joint ventures, of which four are reasonably similar to the Audacious tenements, but heavily weighted towards properties prospective for uranium. SRK excluded the Uaroo transaction from this analysis as the purchase of the uranium rights occurred at the peak of uranium activity. That property has since been joint-ventured at a much lower valuation, although the details in the public domain are not sufficient to place a value on the joint venture.

From this analysis, SRK infers a value for direct purchases of \$466K, compared to an implied full tenement value of \$1,290K for joint ventures (also with outliers removed). Therefore, for the transactions reviewed, the percentage of the direct purchase price compared to an implied tenement value from a joint venture shared investment is 36%. The weighted average "optionee" ownership percentage is 60.5% for this set of transactions. The purchase value agrees well with the comparison between for joint ventures versus purchases.

Table 3-4: Average tenement values determined from transactional data, JV and purchase basis

	Value of JV on a full term risk-adjusted	Value at transaction date, Y1 or commitment
Average	\$1,170,000	\$1,210,000
Average less outliers	\$1,260,000	\$1,290,000
	Implied value at Purchase	
Average	\$733,000	
Average less high	\$466,000	

Table 3-5: Joint Venture and Purchase transactions, WA, since January 2007.

(Input data © Copyright by Metals Economics Group 2010. All rights reserved)

Project Name	Transaction type	Period (yrs)	Commitment (AUD)	% purchased	Cumulative probability	Cash at Purchase	Minimum expenditure	Tenement value – full term	Implied tenement value at transaction date		Tenement area (km ²)
									Full term risk-adjusted	Y1 spend commitment (adjusted)	
Birindudu	Earn in	2	\$1,000,000	50.10%	25.50%			Successful JV	\$473,000	\$848,000	
Bonaparte	Earn in	3	\$2,000,000	40%	13%		\$430,000	\$4,500,000	\$1,610,000	\$1,075,000	
Erayinia	Earn in			51%			\$910,714			\$1,520,000	275
Gnaweeda	Earn in	4	\$3,000,000	70%	8%	\$50,000		\$3,870,000	\$362,000	\$982,000	190
Golden Mile South	Earn in	5	\$5,000,000	70%	5%		\$1,000,000	\$6,180,000	\$1,690,000	\$1,210,000	112
Gunbarrel Basin	Earn in	3	\$3,000,000	50%	13%			\$5,450,000	\$694,000	\$1,700,000	2760
Kunderong and Kennedy	Farm-in	4	\$4,000,000	60%	8%		\$800,000	\$5,910,000	\$1,700,000	\$1,130,000	741
Mortlock	Farm-in	4	\$3,500,000	70%	8%		\$450,000	\$4,430,000	\$990,000	\$643,000	1000
Musgrave	Farm-in	3	\$3,000,000	51%	13%	\$350,000		\$6,030,000	\$1,370,000	\$2,353,000	
Warburton	Farm-in	3	\$3,000,000	51%	13%		\$1,000,000	\$5,340,000	\$2,410,000	\$1,670,000	3200
Wilga	Earn-in	4	\$4,000,000	75%	8%			\$4,730,000	\$362,000	\$1,130,000	12
Woodline	Earn-in	2.5	\$4,500,000	70%	26%	\$450,000	\$1,000,000	\$6,550,000	\$2,150,000	\$1,860,000	1785
Yeneena	Earn-in	5	\$3,000,000	75%	5%			\$3,460,000	\$185,000	\$680,000	1500
Holleton	Purchase			95%		\$250,000				\$263,000	
Lake Way	Purchase		\$900,000	100%						\$900,000	
Mundong Well	Purchase					\$400,000				\$400,000	169
Narnoo	Purchase		\$300,000							\$300,000	
Uaroo	Purchase uranium rights		\$1,800,000	100%						\$1,800,000	

3.2.3 Comparative transactions valuation – Peak Hill-Marymia

The Audacious tenements fall into a natural grouping of three tenement packages with an approximate area of 650 km² each. Based on joint ventures and purchases in the market since January 2007, each of these three tenement groupings could be expected to be the subject of similar joint ventures to those discussed in the previous section. The preferred value for joint ventures in WA of similar type can be rounded to \$1.29M based on values in Table 3-4 with the extreme low value removed (there is no extreme high value in the data). The Year 1 term calculations are likely to be more reliable than the full term estimations, due to uncertainties in the longer term probabilities.

The range of values can be estimated from the confidence level at 85% in the data. Because the transaction values are reasonably well clustered, the range of valuations is moderate. A rounded 85% confidence level of \$230,000 applied to the preferred values, gives the range of values shown in Table 3-6.

Table 3-6: Joint Venture Terms - implied tenement valuations

	Low value (joint venture)	Preferred value (joint venture)	High value (joint venture)
Peak Hill Group	\$1,060,000	\$1,290,000	\$1,520,000
Marymia Group	\$1,060,000	\$1,290,000	\$1,520,000
Ned's Creek Group	\$1,060,000	\$1,290,000	\$1,520,000
Total	\$3,180,000	\$3,870,000	\$4,560,000

There are fewer purchase transactions on which to define a preferred value, and of these, four are for uranium and one for a gold project where there has been some past production. By using the proposed equivalence relationship between a JV transaction, and a Reasonable Purchase Price (RPP), it is possible to use the JV data to assess what would be an equivalent RPP.

In the case of the JV transactions reviewed, eight had an assessed full term (risk adjusted) value in excess of the Y1 commitment, which represented an average RPP of \$363,000. Using the average values from all transactions, (\$1.29M) and the average exploration Y1 statutory commitment at Peak Hill – Marymia of \$231K for 60.5% ownership (weighted average of all transactions) in an equivalent JV, a RPP is \$550K is inferred.

Therefore, SRK considers that the preferred purchase price for each of these tenement groupings is close to the average from the actual data, which is 36% of the joint venture implied tenement value. As there is a range of potential joint venture arrangements, this ratio may vary considerably, as implied by the risk equation. Using the calculations above, \$363K is equivalent to a 28% ratio, and \$550K is equivalent to 43% ratio. Using these percentages the low and high ratios gives the ranges indicated in Table 3-7.

The alternative approach to estimating the range is to use the ranges estimated from the joint venture implied values, and apply the single preferred value for the ratio between purchase price and implied terms. This gives a valuation according to Table 3-9, which is similar to the alternative method, but with a slightly lower range of values.

Table 3-7: Purchase transaction valuation and ranges

	Low value (purchase – 28%)	Preferred value (purchase – 36%)	High value (purchase – 43%)
Peak Hill Group	\$360,000	\$460,000	\$550,000
Marymia Group	\$360,000	\$460,000	\$550,000
Ned’s Creek Group	\$360,000	\$460,000	\$550,000
Total	\$1,080,000	\$1,380,000	\$1,650,000

Table 3-8: Summary Statistics, JV data

Summary Statistics, JV transactions	
Mean	\$1,210,000
Standard Error	\$150,000
Median	\$1,130,000
Standard Deviation	\$562,000
Minimum	\$202,000
Maximum	\$2,350,000
Confidence level (85%)	\$230,000
Count	14

Table 3-9: Ranges for purchase price transactions using ranges from the JV terms

	Low value JV (purchase – 36%)	Preferred value (purchase – 36%)	High value JV (purchase – 36%)
Peak Hill Group	\$380,000	\$460,000	\$550,000
Marymia Group	\$380,000	\$460,000	\$550,000
Ned’s Creek Group	\$380,000	\$460,000	\$550,000
Total	\$1,140,000	\$1,380,000	\$1,650,000

There is proportionately more market data for the JV terms, and the ratio of the purchase price to the JV terms calculated from the data and calculated theoretically are very similar. Therefore, SRK prefers to use the joint venture terms as the basis for our valuation method for the Audacious tenements, with ranges calculated from the 85% confidence level of the joint venture data statistics (Table 3-9).

3.3 Penfolds Tenements

3.3.1 Licensing

The tenements considered in this valuation, which form the Penfolds Project area, are located in the Kalgoorlie – Kambalda region of the Eastern Goldfields Province within the Yilgarn Craton. The tenements extend over an area of almost 30 km E-W and 30 km N-S centred on approximately 121.5°E and 31.0°S. Lodestar has an agreement to the nickel (Ni) rights on the tenements that make up with Penfolds Project with Dioro Exploration NL (Dioro). The leases comprise a semi contiguous package covering a number of highly prospective mineralised belts and the Project is divided into five different categories according to the ownership, geological potential for nickel and gold, the agreement structure with Dioro and the leasing type.

Tenement groupings include the following categories:

- 'Ni priority' leases where Lodestar is responsible for meeting annual Mines Department commitments, total tenement area is 3,765 ha with minimum annual expenditure commitment of \$86,438 and annual rent of \$8,205.
- 'Equal Priority' where Lodestar and Dioro are equally responsible for annual Mines Department commitments, total tenement area is 3,871 ha with minimum annual expenditure commitment of \$387,300 for which Lodestar is responsible to meet 50% i.e. \$193,650. Annual rent on these leases is \$57,940 for which Lodestar is 50% responsible i.e. \$28,970.
- 'Au Priority' where Dioro are responsible for annual Mines Department commitments and rents, and total tenement area is 11,534 ha.
- Location areas (Location 51 and 53) covering 16,755 ha and Lodestar have an agreement to spend \$50,000 per annum on each Location area. The Location areas attract no minimum annual expenditure commitment or rent.
- Lodestar 100% tenements covering 512 ha which are currently under application.

Considering the above categories Lodestar are required to meet minimum annual expenditure commitments of \$380,088, with rent of \$37,175. The total lease area to which Lodestar has the Ni rights is 36,437 ha (or 364 km²). Lodestar's prospectus (2007) describes that the lease covers some 48 km strike length of prospective ultramafic-mafic stratigraphy.

The tenements are listed in Table 3-10, with full annual rent and minimum expenditure commitments included. A plan of the tenements is shown in Figure 3-10.

Table 3-10: Penfolds tenement details (with total annual rent and minimum expenditure commitments)

Grouping	Tenement ID	Area (ha)	Grant date	Expiry date	Annual Rent	Minimum Expenditure
Nickel Priority	P26/3500	44.98	2/07/09	01/07/13	104	2,000
	P26/3529	156.25	2/07/09	01/07/13	363	6,280
	P26/3530	174.45	2/07/09	01/07/13	404	7,000
	P26/3531	196.23	2/07/09	01/07/13	455	7,880
	P26/3533	197.82	2/07/09	01/07/13	457	7,920
	M26/441	237.54	21/09/94	20/09/15	3,717	23,750
	P26/3532	112.01	2/07/09	01/07/13	261	4,520
	P15/5051	106	28/10/08	27/10/12	233	4,240
	P26/3499	196	28/10/08	27/10/12	431	7,840
	E15/985	2344	2/07/09	01/07/14	1780	15,008
Equal Priority	M26/245	240	29/03/89	28/03/10	3,590	24,000
	M26/204	956.6	22/04/88	21/04/09	14,317	95,700
	M26/567	491.65	7/05/03	06/05/24	7,360	49,200
	M15/456	435.13	3/08/90	02/08/11	6,523	43,600
	M26/458	560.45	21/08/96	20/08/17	8,393	56,100
	M26/482	783	21/08/96	20/08/17	11,714	78,300
	M26/452	404	14/12/94	13/12/15	6,044	40,400
Gold Priority	M15/753	850	31/01/95	03/01/16	12,716	85,000
	M15/724	212.7	10/02/95	09/02/16	3,186	21,300
	E15/985	6148	2/07/09	01/07/14	4,625	39,000
	M15/937	835.65	7/05/03	06/05/24	12,507	83,600
	M15/938	996.5	8/05/03	07/05/24	14,915	99,700
	E15/216	750	6/09/90	05/09/95	1,177	100,000
	M15/726	840.25	21/09/94	20/09/15	12,581	84,100
	M15/469	900.8	28/11/89	27/11/10	13,479	90,100
Lodestar 100%	P15/5271	123.5	Pending			4,960
	P26/3714	195.45	Pending			7,840
	P26/3715	193.19	Pending			7,760
Locations	Location 51	2595				50,000
	Location 53	14160				50,000

The tenements are all granted, apart from the 100% Lodestar tenements. With the exception of the Lodestar applications, it should be noted that while the tenements are variously prospective for nickel and gold, Lodestar only have the nickel rights and not the underlying tenure. SRK are only considering the nickel potential in this valuation exercise.

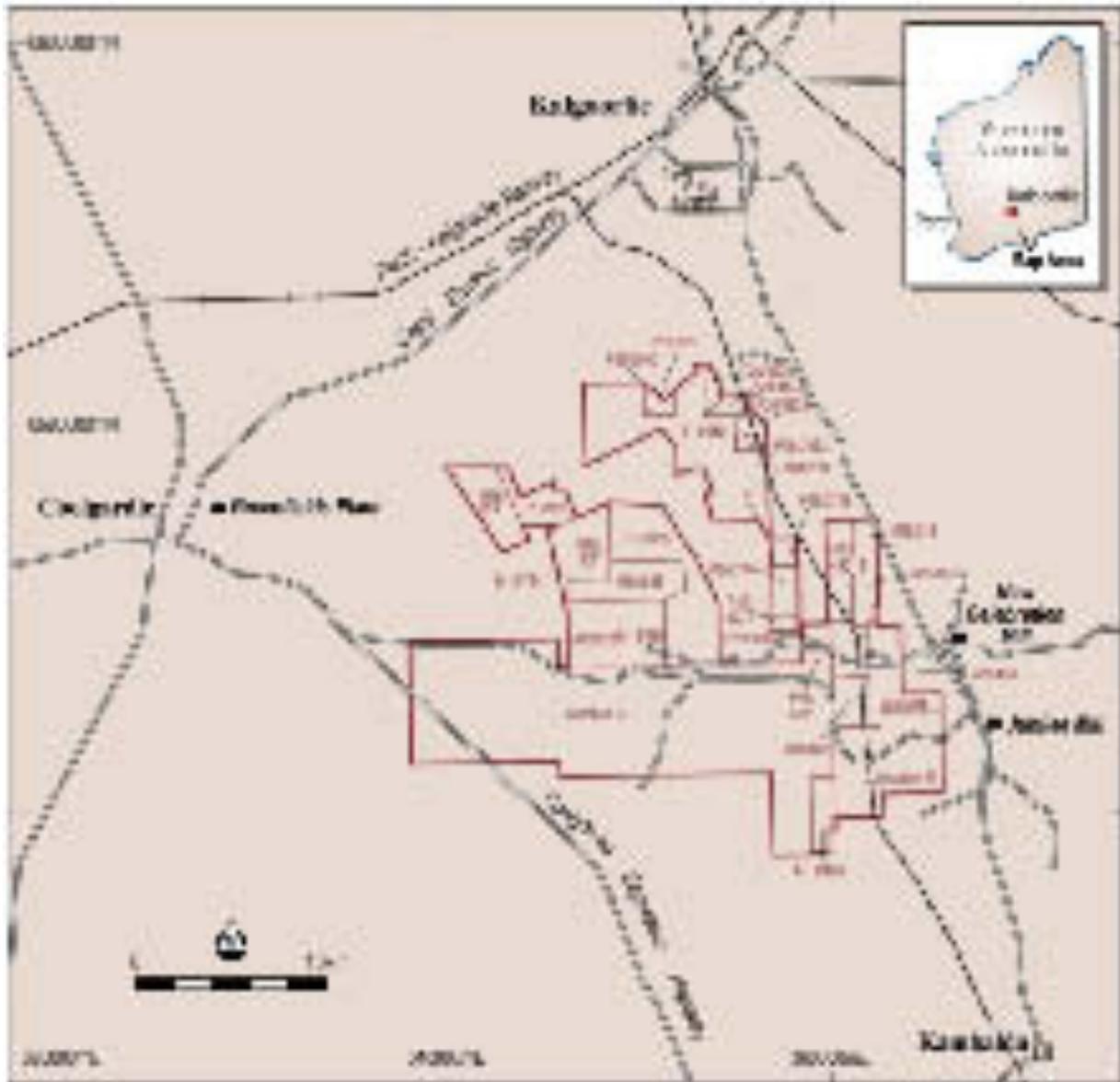


Figure 3-10: Plan of the Penfolds Tenements

3.3.2 Location and Geological Setting

The Penfolds tenements are located in the Yilgarn Craton, which hosts a large number of gold and nickel sulphide deposits. Penfolds is situated in the ca. 2.7Ga Norseman-Wiluna belt of the Kalgoorlie Terrane, which is further subdivided into the Coolgardie, Ora Banda, Kambalda and Boorara Domains (Figure 3-11). These Domains are separated by shear zones and are defined by small variations in the regional stratigraphy and deformation history.

Stratigraphy for the Ora Banda and Kambalda Domains is relatively well-known and contains oldest to youngest: 1) a lower basalt unit, 2) an unit of komatiitic and high-Mg basaltic rocks, 3) an upper basalt unit, and 4) felsic volcanic-sedimentary rocks. Conglomerate and sandstone unconformably overlie the upper felsic volcanic-sedimentary rocks adjacent to major shear zones. Layered mafic and ultramafic sills occur at various stratigraphic levels. The Coolgardie and Boorara Domains have similar successions to the Ora Banda and Kambalda Domains but lack, or have a poorly developed, upper basalt unit, so that the komatiite unit is directly overlain by the felsic volcanic-sedimentary rocks. Metamorphic grade is upper greenschist to lower amphibolite facies around Kambalda, increasing to lower to upper amphibolite facies east of the Zuleika Shear around Coolgardie.

The deformation history of the area is generally divided into four main phases of shortening. North-directed thrusting with recumbent folding and large-scale stratigraphic repetition occurred during D_1 . The second phase of deformation, D_2 , gave rise to the dominant north-northwest trending fabric in the belt and north-northwest trending folds. Continued shortening during D_3 resulted in strike-slip movement along ductile shear zones. Sinistral movement occurred along northwest and north-northwest trending shear zones and dextral movement along north and north-northeast-trending shear zones. Brittle strike-slip faulting occurred during D_4 with north-northeast trending dextral and east-southeast trending sinistral fault sets.



Figure 3-11: Location of tenements in relation to major regional geological domains

3.3.3 Nickel Mineralisation in the Region

The Kambalda district forms one of the world's major komatiite - hosted nickel sulphide camps with 12 mined deposits having a total production exceeding 1 million tonnes of nickel metal. Komatiite-hosted nickel sulphide deposits most commonly occur at or near the basal contact of komatiitic dunite "troughs" and form narrow, elongate zones of disseminated/matrix/massive Fe-Ni sulphides that occupy linear embayments within the underlying substrate (Robinson, 2007; Figure 3-12).

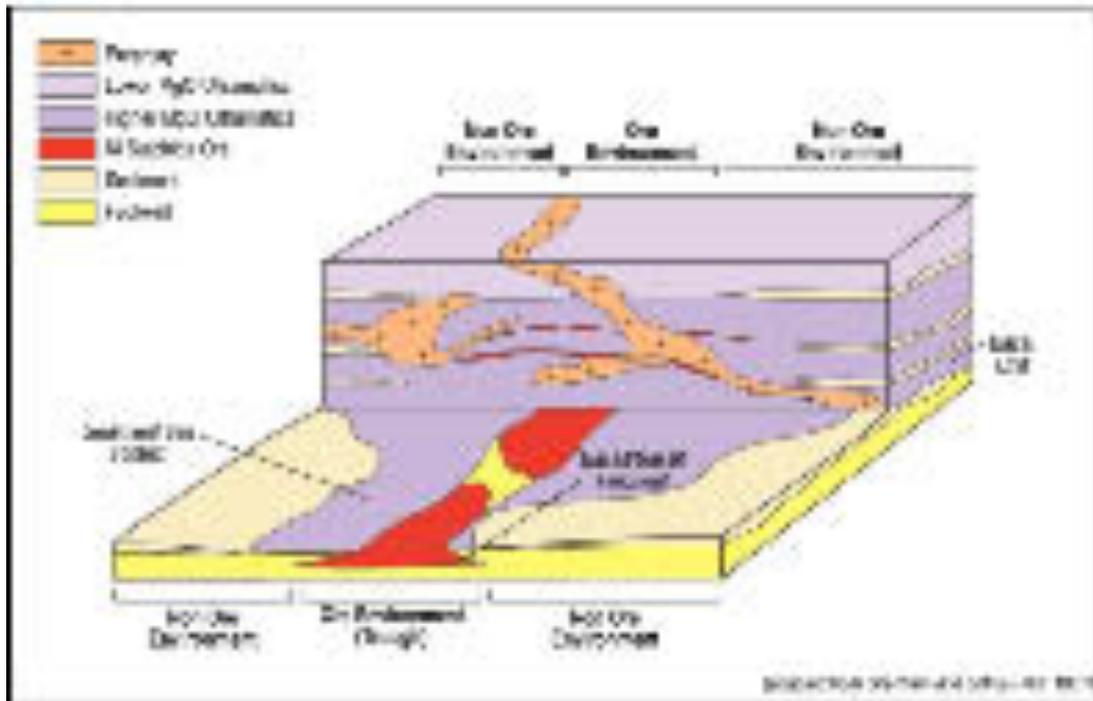


Figure 3-12: Model of komatiite-hosted nickel sulphide deposit (from Robinson, 2007)

During the “nickel boom” from 1966 to 1976, the Penfolds project area was explored by a number of mining companies. Several discoveries, in addition to the Kambalda nickel camp, resulted from exploration during this era. These are listed below to provide an indication of the size and geological characteristics of deposits in proximity to the Penfolds project tenements. The following is from Clayton (2006).

3.3.3.1 Spargoville

The Spargoville group of four deposits occur 25 km south of the Saddle Hills – Yilmia ultramafic sequence. The Spargoville deposits are located along the limbs of a north-trending mafic-ultramafic sequence that has been folded into a doubly-plunging anticline. Generally the host ultramafic flow unit does not exceed 50 m in thickness and mineralisation, consisting of massive to disseminated sulphides, is confined to the lower 30 m of the ultramafic. The main deposit occupies a shallow embayment structure that plunges steeply to the south for at least 350 m and has a strike length of 300 m. Within the embayment, mineralisation is distributed as three sub-parallel shoots with massive sulphides developed intermittently. The footwall is deformed by sub-horizontally plunging flexural folds and is locally overturned. The historic resource estimates for these deposits are shown below (Table 3-1) as an indication of the potential size and grade of exploration targets within the Penfolds Nickel Project.

Table 3-11: Summary of Spargoville Resource (Marston, 1984)

Deposit Name	Tonnage (Mt)	Grade Ni (%)	Geological Domain
Location 3	0.65	2.47	Coolgardie
Location 1A	0.365	2.53	Coolgardie
Production (1A underground)	0.064	2.1	
Location 2	0.119	2.32	Coolgardie
Location 5A	0.043	4.74	Coolgardie
Production (5A-open-cut)	0.02	2.5	

3.3.3.2 Mt Edwards

The Mount Edwards group of deposits occurs approximately 36 km south along strike from the Saddle Hills - Yilmia ultramafic sequence and 12 km south of the Spargoville deposits. The geological setting of the Mount Edwards deposits is similar to that of the Spargoville group, with individual deposits occurring along the basal contact of an ultramafic sequence folded about an anticline (the Mount Edwards anticline). Marston (1984) describes the deposits as irregular, multiple lenses - shaped concentrations of mainly disseminated sulphides. The largest deposit (26N, or Mt Edwards) also recorded development of massive ore above the footwall contact, remobilised ore within the footwall basalt and breccia ore where massive ore overlaps sulphidic metasedimentary horizons. Mineralisation occurs within the lower 100 m of the ultramafic sequence in flow units varying from 10 m to 60 m thick.

Table 3-12: Summary of the Mount Edwards Resource (Marston, 1984).

Deposit Name	Tonnage (Mt)	Grade Ni (%)	Geological Domain
26N (Mt Edwards)	1.7	2.5	Coolgardie
Production (26N underground)	0.954	2.72	
132N	0.396	1.54	Coolgardie
Production (132N open-cut)	0.032	3.54	

3.3.3.3 Nepean

The Nepean deposit was discovered in 1968 during drill testing of an electrical conductor associated with an ultramafic sequence. The hole was continued below the sulphidic metasediments that represented the target conductor and intersected a second ultramafic unit which was mineralised on its eastern contact. Nepean represents one of the few "blind" discoveries of this era. The deposit is located 26 km south of Coolgardie, and lies within a remnant mafic-ultramafic sequence largely stoped out by granite. Contacts and foliations are steeply dipping and the sequence may be isoclinally folded. The mine sequence consists of four recognised ultramafic units. The two central units appear to be more magnesian and host matrix ore, predominantly on their eastern contacts. Ore surfaces are gently folded about sub-horizontal flexures in the footwall contact and are intruded by pegmatite dykes. The deposit has a strike length of 730 m and plunges subvertically (Marston, 1984).

Table 3-13: Summary of Nepean Resource (Marston, 1984).

Deposit Name	Tonnage (Mt)	Grade Ni (%)	Geological Domain
Nepean	0.45	4	Coolgardie
Production (underground)	1.1	3	

3.3.3.4 Wildcatters Prospect

The Wildcatters Prospect occurs 1.2 km south of Location 51 within the Kambalda domain. The Wildcatters Prospect occurs within an elongate fragment of mafic-ultramafic stratigraphy bounded by major shear zones (the Wildcatters Shear). The ultramafic sequence, which is rarely more than 50 m thick, is folded into an anticline and intruded by a biotite-feldspar porphyry, which forms the core of the fold. Massive to disseminated nickel sulphides occur within the eastern ultramafic, forming a steeply south-plunging shoot extending over a strike length of 100 m (Harmony, 2006). An ultramafic sequence outcrops within the Penfolds Nickel Project some 1.2 km along strike to the north of the Wildcatters Prospect. The aeromagnetic data indicate continuity between the ultramafics within the Penfolds Project and those hosting the Wildcatters mineralisation.

3.3.4 Project Scale Geology

The following is from Robinson (2007). The Penfolds Project includes segments of the Coolgardie, Ora Banda and Kalgoorlie domains, with the Yillara - Horseshoe and Saddle Hills - Yilmia sequences falling into the Coolgardie Domain and the Abattoir - Moorebar East sequence falling into the Kambalda Domain (Figure 3-13). The Project extends over a reported 48 strike kilometres of mafic-ultramafic stratigraphy within the Coolgardie and Kambalda Domains (Lodestar, 2007)

Archibald (1985) describes the structural style within the Kambalda domain as thrust dominated with generally shallow dips whereas the adjacent Coolgardie domain is dominated by tight to isoclinal upright folds and steep dips. Metamorphism reached mid – to upper greenschist facies in both domains. Within the Coolgardie domain the mafic-ultramafic sequences form north to north northwest - trending anticlinal folds.

The greenstone stratigraphy is intruded by east northeast trending Proterozoic dolerite dykes of the Binneringie-Jimberlana dyke swarm and repeatedly off-set by late north northeast trending dextral faults. Individual mafic-ultramafic belts are frequently separated by corresponding synclinal folds of overlying felsic volcanic and volcanoclastic rocks or granitoid intrusions. Ultramafic contacts are sheared by strike-parallel or slightly transgressive faults that strongly attenuate the folded western and eastern limbs of the mafic-ultramafic sequences. The high magnesian Yillara - Horseshoe ultramafic sequence outcrops inside Exempted East Location 53. The Saddle Hills - Yilmia ultramafic sequence outcrops intermittently within the project area and Lodestar recognise tight upright folding and repetition of the stratigraphy.

The Abattoir - Moorebar East ultramafic sequence is relatively poorly exposed and occurs as two elongate and attenuated belts east of the Abattoir Fault. The structural relationships within this area are poorly understood due to extensive Cainozoic transported sedimentary cover. Swager et al., (1995) have indicated that the Abattoir succession may represent another repetition of the Kambalda stratigraphy. The project includes more than 20 strike kilometres of ultramafic which is adjacent to and directly along strike from the Wildcatters Prospect.

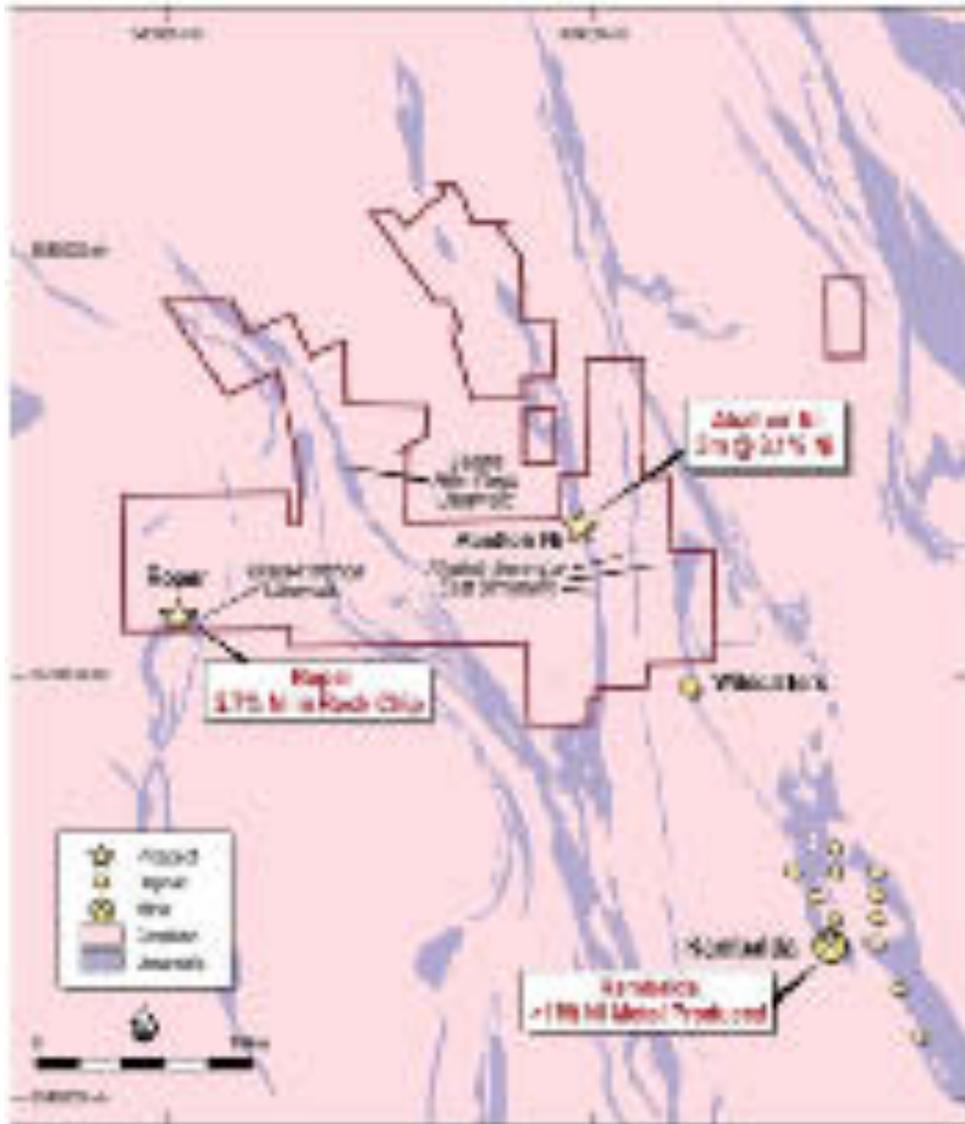


Figure 3-13: Penfolds Nickel Project ultramafic sequences (Robinson, 2007)

3.3.4.1 Abattoir Ultramafic (Abattoir Prospect)

The Abattoir ultramafics include the Abattoir nickel sulphide occurrence and a parallel ultramafic sequence that hosts the Wildcatters Prospect located immediately south of the Penfolds Nickel Project southern boundary.

Recent work by Lodestar determined that the Abattoir ultramafic – dolerite contact is intrusive (Figure 3-14), as the dolerite forms the upper part of a differentiated gabbro-dolerite sill intruded along the eastern margin of the ultramafic. The Abattoir ultramafic (and other ultramafic sequences within the Kambalda domain within the Penfolds area) represents remnant stratigraphy within early geological structures, the footwall and most of the hangingwall stratigraphy has been removed by early deformation, followed by intrusion of the gabbro-dolerites into zones of major shearing. Structurally remobilised mineralisation is most likely within this environment (Lodestar, 2008).

3.3.5.1 Abattoirs Ultramafic (Abattoir Prospect)

The Abattoirs prospect nickel mineralisation was discovered by Placer Prospecting Pty Ltd in 1970. Placer drilled nine inclined and vertical diamond drill holes into the eastern contact of the ultramafic over a strike distance of 180m, intersecting a zone of sulphide mineralisation of variable thickness adjacent to the eastern ultramafic contact.

Exploration was carried out over a limited area (Moorebar East) by Inco during 1970 -1972. Inco completed soil geochemistry, magnetic surveys, induced polarisation (IP) surveys and 20 percussion drill holes. Additional work was completed over the northern extension of the Abattoir ultramafic sequence by Sons of Gwalia/MPI and Newcrest between 1989 and 1999. Although the focus of this work was gold exploration, regional soil geochemistry and drillhole assays revealed low level Pt and Pd anomalism (0.19-0.29g/t Pt+Pd) within fresh differentiated mafic intrusives in this area.

A regional electromagnetic (EM) geophysical survey was completed by Lodestar in 2008. The survey covered over nine kilometres of strike length, including the Abattoir prospect area. The survey was carried out on 200 m spaced lines with a 200 m loop and 100 m station spacing and a Smartem receiver and fluxgate three-component sensor.

Three lines over the immediate area of the Abattoir prospect were surveyed using a 50 m station spacing to improve resolution. A total of 15 low amplitude EM anomalies were identified by the survey. Of the 15 conductors, five show a close spatial relationship with the Abattoir ultramafic, four are located within a felsic sedimentary sequence east of the ultramafic and the remainder occur in felsic sediments and shales on the western margin of the ultramafic, coincident with the Abattoir shear zone. The low amplitude of the anomalies associated with the ultramafic indicated that the targets are relatively deep (Lodestar, 2008).

In an attempt to substantiate reported historic intercepts in Placer drill hole DDH-7 (6.1m at 1.88% Ni), minor drilling was completed at the Abattoir prospect by Lodestar in 2009. A single, shallow vertical diamond drill hole was sited as close as possible to the reported collar position of DDH-7 (the DDH-7 collar was not located) and completed to a depth of 120.6 m to test the eastern gabbro – ultramafic contact. The hole intersected low – grade disseminated mineralisation on the contact over a width of 10 m, the maximum nickel value was 2 m at 0.59% Ni from 52 m (Lodestar, 2009).

In 2009, the Company's geophysical consultants completed a review of the Abattoir moving loop EM survey, confirming the presence of two moderate to strong conductors flanking the western margin of the Abattoir ultramafic. At present, the two conductors of interest require infill EM surveys to model depth and orientation. They are located adjacent to the ultramafic sequence and within the interpreted position of the Abattoir Shear (Figure 3-15). There is no outcrop in the vicinity of the conductors and they have not been tested by historic drilling. A sampling traverse across the western margin of the ultramafic sequence has indicated that the sequence consists of thin flow komatiites with minor development of former olivine cumulate basal flows, now expressed as talc-carbonate schists. Future work will consist of traverses of shallow drilling across the conductors to determine the local geology and structure (Lodestar, 2009).

The geochemical data obtained from Lodestar's Abattoir drilling (LAPC001 – LAPC004) was re-examined following the review of geophysical data. It was found that the cumulate ultramafic and the interlayered dolerite/gabbro sequence, intersected along the eastern contact, are part of a continuous geochemical fractionation trend. The important implication of this finding is that the eastern ultramafic contact, the main focus of exploration drilling below the depth of weathering, is in fact the hangingwall of the ultramafic sequence. The prospective footwall to the Abattoir ultramafic has not been defined or tested by drilling. Historic data reported from the interior of the ultramafic sequence includes 26m at 1.65% Ni in PDH8 (Placer, 1970, unconfirmed) and 16 m at 0.98% Ni, 770 ppm Cu from 44 m in DDHAU1 (Poseidon Exploration, 1991) (Figure 3-14). Both intersections occur within the zone of weathering. DDHAU1 was drilled towards grid south, parallel to stratigraphy, to test the ultramafic/Proterozoic dolerite contact and therefore did not test the ultramafic effectively (Lodestar, 2009).

The revised interpretation of the Abattoir ultramafic sequence indicates that additional drilling is required to establish the internal stratigraphy of the sequence and test near-surface geochemical anomalies (Lodestar, 2009).

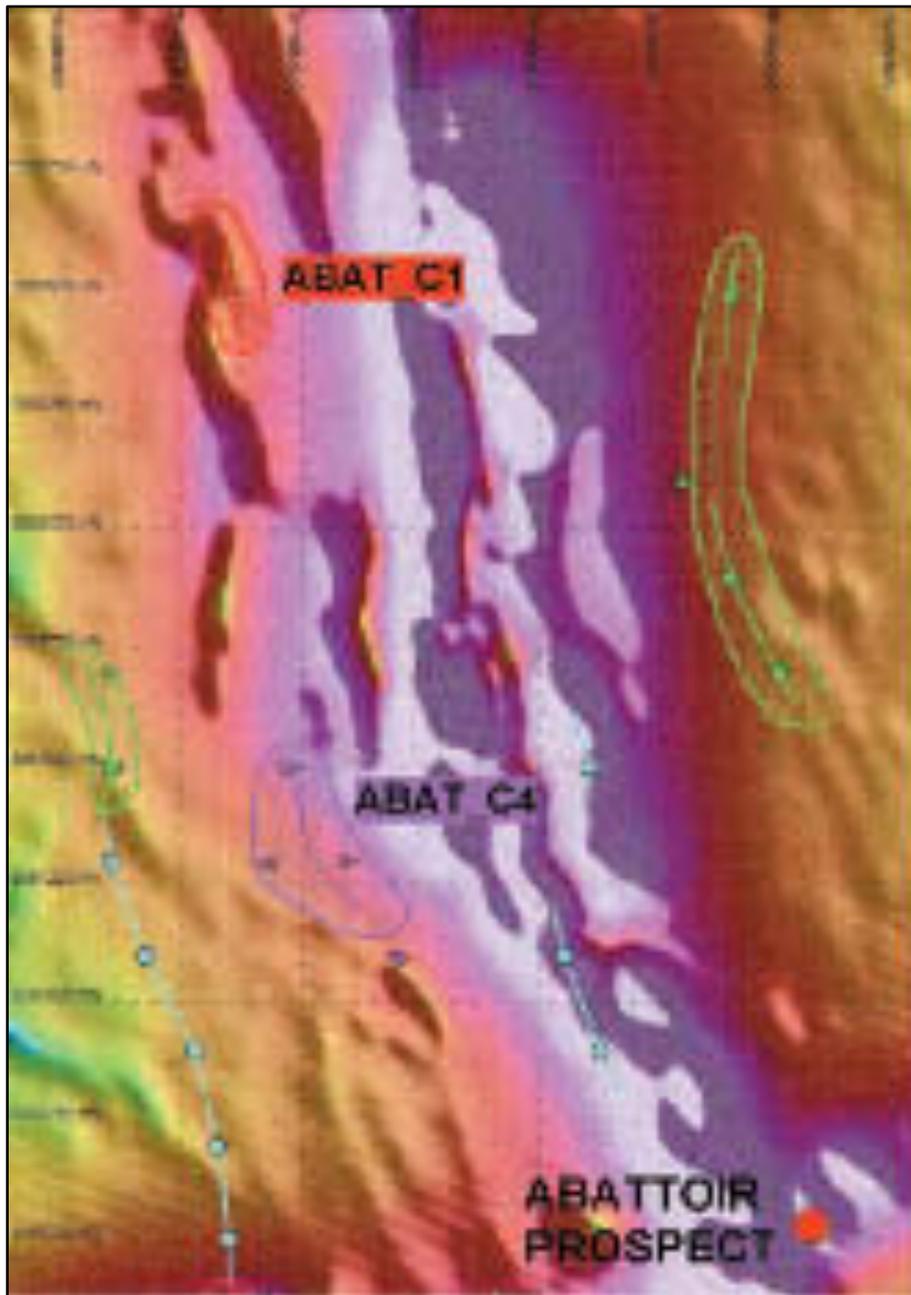


Figure 3-15: Abattoir EMC & C4 conductors on aeromagnetic image (from Lodestar, 2009).

3.3.5.2 Saddle Hills Ultramafic (Mt Marion Prospect)

Regional exploration was carried out between 1966 and 1973 by Selcast/Australian Selection, Inco and Carpentaria Exploration Company Pty Ltd.

Selcast completed a program of geological mapping, costeaning, soil geochemistry, auger, percussion and diamond drilling and geophysical surveys. Inco completed geological mapping, magnetic surveys, soil geochemistry, IP surveys, rotary percussion and diamond drilling. A diamond drillhole from the Smith and Ellen Dam area, north of Saddle Hills, intersected ultramafic lithologies bearing minor amounts of disseminated sulphides (Laing, 1972). The intersections returned low nickel assays (around 0.1%) however the geology log records positive reaction to DMG, (dimethylglyoxime) indicating that these results should be reviewed.

Carpentaria Exploration Company Pty Ltd completed geological mapping, costeaning and auger drilling together with 227 percussion drill holes drilled across prospective contact positions.

In 2008, Lodestar completed EM geophysical surveys over a five kilometre strike length of the eastern limb of the Saddle Hills ultramafic sequence. The survey area coincides with the area of strong Copper anomalism in auger sampling delineated in the historical drilling program. The Copper anomaly is open to the south.

Deep RC drilling of EM conductor and other targets was completed in two phases between October 2008 and March 2009. Two holes (LMPC005 and LMPC006) tested a geochemical anomaly in historic drilling and intersected elevated Cu – As values on the sheared contact between felsic volcanics and ultramafics. Dispersion and enrichment of Cu in the weathered zone of the ultramafic unit is responsible for the anomaly. The remaining six holes tested EM conductor targets and the ultramafic sequence. The Mt Marion ultramafic sequence was found to consist of highly metamorphosed, thin flow sequences including interlayered talc - carbonate altered units after olivine cumulate basal zones. No nickel sulphide mineralisation was observed in any of the holes that intersected the ultramafic sequence (Lodestar, 2009).

LMPC008 tested the C8 conductor (Figure 3-16) and intersected a thick sequence of siliceous sediments and sulphidic black shales beneath the ultramafic sequence. The depth of the conductive shales corresponds to the depth of the modelled target and no further work is planned. LMPC007 was drilled to a depth of 252 m on the western margin of the Mt Marion ultramafic sequence, to test a moving loop EM anomaly (C6A) that represents the southernmost of a complex series of north – plunging anomalies extending over a strike length of 500 m. The hole targeted a moderately conductive, west – dipping body at a depth of 150 m to 200 m and intersected variably sheared tholeiitic dolerite/gabbro and melagabbro bearing disseminated sulphides. No massive or stringer sulphides were identified in the drill cuttings, however a DHEM survey completed to 90 m (restricted in depth due to casing failure) has confirmed the moving loop EM model target and that the drill hole intersected the conductor.

Composite 5 m samples were collected from the hole and were analysed for a comprehensive suite of base metal elements together with Pt and Pd. The 5 m composite samples failed to conclusively identify a sulphide conductor and the interval from 145 m to 232 m was re-submitted for Ni, Cu, Cr, S, Pt and Pd assays as 1 m split samples. The results from the 1m sampling confirmed a general increase in sulphide abundance below 150 m and again below 190 m. Maximum sulphide abundance occurs at 224 m (1.14% S), 233 m (1.23% S) and 235 m (3.01% S). There is a lithology change below 190 m from tholeiitic dolerite/gabbro to melagabbro, indicated by increase in Mg, Ni, and Cr and decreasing Ti. The interval from 224 m to 228 m contains anomalous Pt and Pd (to 101 ppb Pt and 71ppb Pd, 224 m – 225 m) and locally elevated Cu values occur throughout the melagabbro unit (Lodestar, 2009).

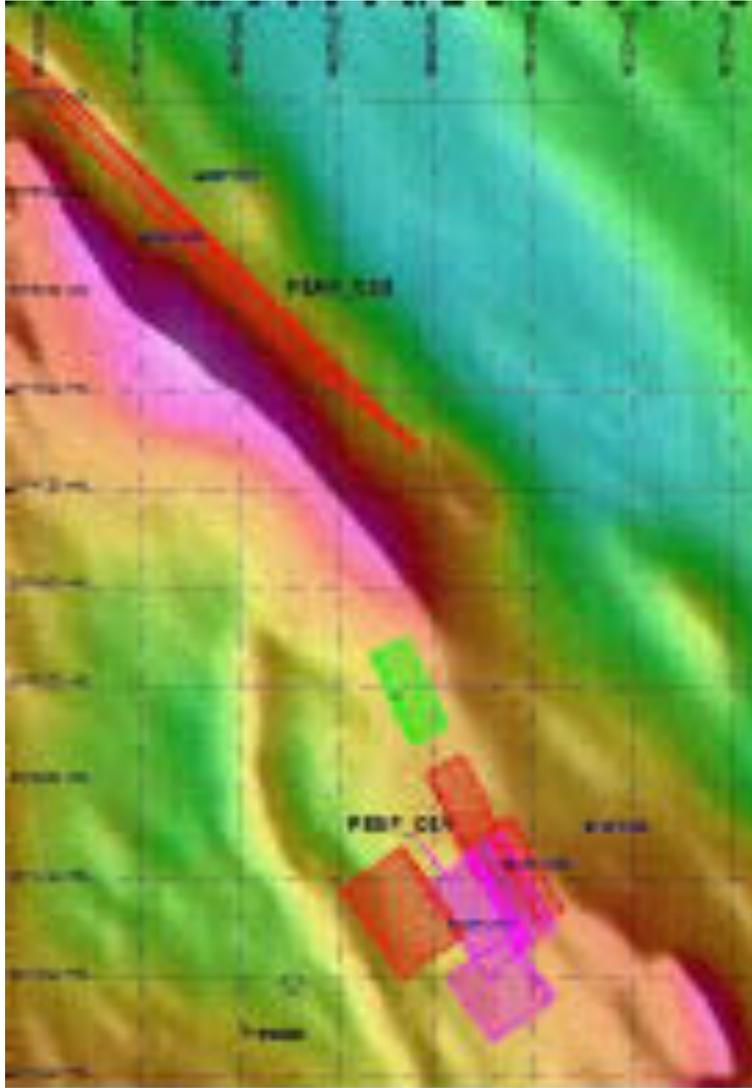


Figure 3-16: Mt Marion C6 & C8 conductors on aeromagnetic image (from Lodestar, 2009).

Four samples from LMPC007 were submitted for microscopic examination to determine the texture and composition of the sulphide minerals. One sample was selected from a biotite-altered shear zone intersected at 150 m – 154 m; the remaining samples were collected from the melagabbro unit containing elevated S, Cu and/or Pt and Pd. Assay results are listed below (Lodestar, 2009).

Table 3-14: Assay results for petrographic samples LMP007- Mt Marion.

Sample Depth	Pt (ppb)	Pd (ppb)	Ni (ppm)	Cu (ppm)	Cr (ppm)	S (ppm)
152-153	8	7	230	52	340	950
200-201	2	1	186	396	140	8850
208-209	3	1	380	790	180	5950
224-225	101	71	246	216	560	7300

In summary, the target EM conductor has been intersected by LMPC007, but due to the widespread development of disseminated mineralisation within the gabbroic sequence it has not been possible to visually identify the target in drill cuttings. LMPC007 failed to intersect mineralisation of economic significance, although pyrrhotite and traces of pentlandite and chalcopyrite have been confirmed. The gabbroic sequence intersected by LMPC007 is not a typical host for komatiite – associated nickel sulphide mineralisation. However, the geological setting of the C6 conductor, within a major structural zone with potential to host remobilised mineralisation, proximity to the Mt Marion ultramafic sequence and indications of complex, stronger conductors situated down-plunge to the north of LMPC007 suggest that this target has untested potential (Lodestar, 2009).

3.3.5.3 Wildcatters Ultramafic (Wildcatters Extension)

A moving loop EM survey was commenced in June 2009 on the northern boundary of Location 51. The survey comprised 26 line kilometres on 200 m line spacing, 200 m loops and 100 m stations and utilises a HT SQUID sensor. The survey will provide complete coverage of the northern extension of the Wildcatters' ultramafic sequence on Location 51 (Figure 3-17; Lodestar, 2009).

3.3.5.4 Regional Exploration

Further recent work undertaken by Lodestar includes the reprocessing of the regional aeromagnetic data set to highlight zones within the ultramafic stratigraphy that retain a higher magnetic response due to local thickening or preservation of magnetite (lower strain domains) (Figure 3-18). These areas represent targets for further evaluation. Several of the magnetic features identified were modelled to determine the possible orientation, depth and thickness of the magnetic source rocks. The models have illustrated complexity in the ultramafic sequence at depth and provide a useful guide to targeted exploration (Lodestar, 2009).



Figure 3-17: Location 51 Wildcatters north EM survey location plan (from Lodestar, 2009)

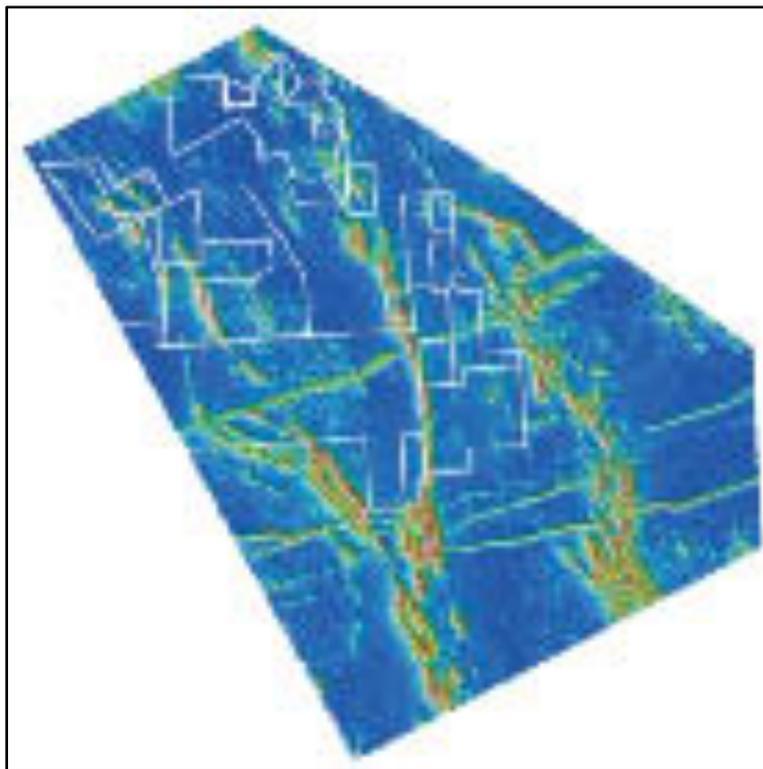


Figure 3-18: Penfolds regional aeromagnetic data set reprocessed to highlight the ultramafic sequences (from Lodestar, 2009)

4. Valuation

4.1 Valuation Methodology and Results

The Penfolds tenements are all at an early stage of exploration, with no known resources. There are several nickel exploration targets and the area has undergone early stage exploration including drilling and geophysics. Prospects identified to date include the Abattoir Prospect in the Abattoir ultramafic sequence, the Mt Marion Prospect in the Saddle Hills ultramafic belt and potential extensions to Wildcatters mineralisation in the Wildcatters' ultramafic unit. The immediate targets identified by Lodestar and described in their prospectus (Lodestar, 2007), have undergone initial testing so that ongoing exploration will require significant expenditure.

Most transactions relating to tenements at this stage of exploration are of a "farm-in" or "earn-in" nature, where a certain percentage of ownership is achieved through the exploration expenditure. In this type of transaction, there is a shared risk, in that if early expenditure does not generate useful information, the "optionee" can opt out of further expenditure, thus limiting risk. Typically, these agreements run over several (~3-5) years, and expenditure commitments typically exceed the minimum statutory expenditure.

Table 4-1: Comparable transactions, Western Australia, nickel

(Input data © Copyright by Metals Economics Group 2010. All rights reserved)

Project Name, Joint Ventures	Commodity	Transaction date	Earn-in party or operator	Area (km ²)	Length of ultramafic (km)
Bell Rock Range	Nickel	9/2009	Anglo American plc	471	30
Lawlers Nickel	Nickel	8/2009	Sirius Resources NL	Not given	40
Queen Victoria Rocks	Nickel	10/2008	Vale Inco Ltd (CVRD)	463	Not given
Skimish Hill	Nickel	7/2009	Anglo American plc	560	Not given

Table 4-3 shows the values for nickel joint venture transactions in Western Australia since January 2007. As described previously the determination of a value for the joint ventures is based on the following calculations:

1. Generic probabilities of the success of joint ventures at different stages are shown in Table 3-3. The appropriate probability is then used to factor the monetary terms of the JV.
2. The expenditure on a time basis is discounted at an interest rate of 5%, representing current cash interest rates.
3. Cash considerations and binding expenditure commitments are added to the JV value and not discounted for probability.

After applying these factors, there are two possible ways to value JV's. The total implied value at the time of setting up the agreement can be determined by multiplying the probability of completion of the JV by the discounted value of the JV terms, plus any immediate cash consideration. Alternatively, the committed or Year 1 value can be determined, on the basis that the "optionee" will commit to a certain minimum expenditure. Where the commitment is not binding, this value is discounted by the Year 1 probability. Both of these methods are shown in Table 4-2.

Table 4-2: Average tenement values for nickel determined from joint venture transactional data

	Value at transaction date of JV on a full term risk-adjusted	Value at transaction date, Y1 or commitment
Average	\$433,000	\$638,000

Table 4-3: Joint Venture nickel transactions, WA, since January 2007.

(Input data © Copyright by Metals Economics Group 2010. All rights reserved)

Project Name	Transaction type	Period (yrs)	Commitment (AUD)	% purchased	Cumulative probability	Cash at Purchase	Minimum expenditure	Implied tenement value (full term)	Implied tenement value at transaction date	Implied value per tenement area (\$/km ²)	Implied value per length of ultramafic (\$/km)
Bell Rock Range	Earn in	3	\$1,000,000	51%	13%			\$230,000	\$556,000	\$1,180	\$18,500
Lawlers Nickel	Earn in	3	\$1,500,000	70%	13%			\$250,000	\$607,000		\$15,200
Queen Victoria Rocks	Earn in	5	\$2,500,000	60%	6%		\$500,000	\$1,020,000	\$833,000	\$1,800	
Skirmish Hill	Earn in	3	\$3,000,000	51%	13%			\$230,000	\$556,000	\$990	

From this analysis, SRK infers an average implied full tenement value of \$638,000 for joint ventures (at transaction date).

This transactional data was also applied to determine a value per square kilometre tenement area, where sufficient data were available. For three of the four transactions total tenement area was available and an average value of \$1,320 per square kilometre of tenement to derive a value of \$482,000 for the Penfolds lease area of 364 km².

It is important to note that the area of tenement is a somewhat arbitrary means of determining a value as the main value within an exploration project is the quality (not necessarily the size) of the individual prospects. Because the transactions have taken place at arm's length, it is assumed that the buyer has not needlessly valued excessive areas of non-prospective tenements in the purchase consideration.

The same transactional data also considered strike length of ultramafic units where this information was provided. Two transactions supported a value of \$809,000 for the 48 km strike length of ultramafic reported for Penfolds.

While the VALMIN Code states that decisions as to which valuation methodology is used are the responsibility of the Expert or Specialist, where possible SRK considers a number of methods. The aim of this approach is to compare the results achieved using different methods to select a preferred value within a valuation range. This reflects the uncertainty in the data and interaction of the various assumptions inherent in the valuation.

Lawrance (1994) provides an overview of a number of methods traditionally used to value exploration properties including:

- Multiples of Exploration Expenditure (MEE);
- Joint Venture Terms Method (expenditure based);
- Geoscience Ratings Methods (e.g. Kilburn – area based);
- Comparable Market Value Method (real-estate based); and
- Rule of Thumb Method (e.g. \$/Resource or production unit, % of an in-situ value).

In order to apply the MEE method, SRK approached Lodestar to obtain information on total tenement exploration expenditure relating to Penfolds. Lodestar supplied data to support exploration expenditure of \$2,925,000 on the tenements since the company acquired the leases to end of November 2007.

SRK then considered the value of this exploration programme in order to determine whether this value added value or destroyed value in order to apply an appropriate modifying factor.

- Drilling at the Abattoir prospect in the Abattoir ultramafic belt tested a previously drilled, anomalous ultramafic contact. While the results of this drilling failed to replicate previous mineralised intercepts, it added to the geological understanding of the prospect in that it now appears that the hangingwall contact may have been drilled rather than the more prospective footwall contact.
- This new geological interpretation highlights a new target in this area, but existing geophysical surveys do not show anomalous results in the footwall position suggesting the potential here may be limited. Nonetheless, the area has not been drill tested and may warrant further exploration.
- Geophysical surveys in the Mt Marion area in the Saddle Hills ultramafic sequence generated a number of targets. Subsequent drilling indicated that a number of these related to black shale units and not potential zones of nickel mineralisation. Lodestar appears to have tested the main targets in this belt, but SRK notes that the region is highly tectonised and remobilisation of nickel sulphides is common, especially near sedimentary units.
- Mapping in the northern extent of these western magnetic anomalies suggest that the units may be intrusive dominantly magnetic pyroxenite, which are not prospective for Kambalda-style of nickel mineralisation

- Lodestar has also undertaken geophysical surveys in the Wildcatters' ultramafic unit and has identified the ultramafic unit that hosts mineralisation at Wildcatters' as possibly extending into the Penfolds tenements. Further exploration is required to determine if this area is anomalous in nickel via surface geochemistry or shallow rotary air blast drilling.

As a result of the review of this exploration SRK has determined that the exploration expenditure of \$2,925,000 has increased value in identifying some new targets, by eliminating certain areas through geophysical investigation and improving the understanding of the geology. However, there has been an overall reduction in value, because the known priority targets are effectively tested, and any new drilling targets will need added expenditure to generate and then drill-test. On this basis SRK has chosen to apply a 65% modifying factor to this previous exploration spend.

On this basis SRK has selected the Joint Venture terms method to offer a low value and a preferred value and the MEE method to provide a high value, as included in Table 4-4.

Table 4-4: Penfolds Valuation

	Low value (joint venture)	Intermediate value (joint venture – strike length of ultramafic)	High value (MEE method)
Penfolds Project	\$638,000	\$809,000	\$1,900,000

SRK does not see that either of these methods is greatly superior to any other, and so SRK's final valuation takes the average of the three methods as the preferred value

	Low value (joint venture)	Preferred (average of three methods)	High value (MEE method)
Penfolds Project	\$638,000	\$1,120,000	\$1,900,000

5. Conclusions and Recommendations

The Peak Hill – Marymia tenements that are considered in this valuation are located north of the Yilgarn Craton centred on approximately 119.5°E and 25.4°S. They extend over a wide area of 150 km E-W and 75 km N-S, and cover a range of geological settings. They therefore do not form a coherent tenement package targeting specific mineralisation styles or commodities.

For the purpose of valuation, SRK has divided these tenements into three groups, each of which could potentially form the subject of separate exploration programs or could potentially be subject to different joint ventures. Each group is in excess of 650 km² in area. There is a total of 13 tenements in the package, of which only four (4) are granted.

The Audacious tenements are all at an early stage of exploration, with no known resources or major exploration targets outlined. There are two identified uranium targets, and there has been some targeting for gold on structural trends interpreted from geophysical data. Previous exploration identified some anomalism. Despite this, the purchaser of these tenements will incur a initial expenditure in grass-roots exploration before identifying drilling targets.

The Lodestar properties considered in this valuation are in the Penfolds Project area located in the Kalgoorlie – Kambalda region of the Eastern Goldfields Province within the Yilgarn Craton. The tenements extend over an area of almost 30 km E-W and 30km N-S centred on approximately 121.5°E and 31.0°S. Lodestar has an agreement with Dioro, which gives Lodestar the nickel (Ni) rights on the tenements that make up with Penfolds Project. The leases comprise a semi contiguous package covering a number of prospective mineralised belts of ultramafic rocks, which are the host to nickel deposits in the Kambalda and Widgiemooltha districts, located to the south of the Penfolds tenements.

Nickel exploration on the Penfolds tenements by previous explorers, mainly in the late 1960's and early 1970's, resulted in discovery of some anomalies, but no deposits. There are no known nickel resources in the area, but there are several nickel exploration targets and the area has undergone early stage exploration including drilling and geophysics. Prospects identified to date include the Abattoir Prospect in the Abattoir ultramafic sequence, the Mt Marion Prospect in the Saddle Hills ultramafic belt and potential extensions to Wildcatters mineralisation in the Wildcatters' ultramafic unit. The immediate targets identified by Lodestar and described in their prospectus (Lodestar, 2007), have undergone initial testing so that ongoing exploration will require a programme of target generation prior to drilling, and these new targets are likely to be deep and therefore relatively expensive to test.

5.1 Valuation

In valuing the Audacious tenements, SRK has utilised two main methods – the comparative market transactions (that is, information on purchases of tenements), and analysis of joint venture terms on properties at a similar stage of exploration. As there has been no recent exploration, exploration expenditure methods are not appropriate, and as there are no resources identified on these tenements, neither the “rule-of-thumb” methods nor the exploration risk method can be applied.

The VALMIN code, paragraph 70 states that “*the attribution of value to tenements in excess of any value separately assessed on the basis of existing operations, future developments and/or their associated resources/reserves should be justified in detail. This especially applies to exploration tenements under application at the time of preparing the Valuation*”. The proposed transaction does include a substantial package of tenements under application. The granted tenements are all in the Peak Hill Group, so the reader should be aware that until the remaining tenements are granted, the value of the currently granted tenements is only that of the Peak Hill Group. However, in Western Australia, by far the majority of applications are granted, and in this case the tenements under application are all the first application lodged. As a consequence, no discount to the valuation has been applied as a result of the tenement status. However there is a small risk that the applications may not be granted.

The value of the Penfolds nickel rights has been reduced by the general downturn in the price of nickel, and current lack of market interest in exploration for nickel. To obtain a market value for these assets, SRK reviewed all recent transactions of nickel exploration properties (comparative market transactions). All of those reviewed were related to the formation of joint ventures, and so the analysis of the terms of the joint ventures provided the basis for estimating a value of these properties. The use of geological methods for valuation is also appropriate for nickel targets, because the mineralisation model is well known, and there is a direct relationship between the length of ultramafic units and prospectivity. Lodestar has also undertaken recent relevant exploration on these tenements, so the use of exploration expenditure methods is also appropriate. In reaching an opinion on the value of the nickel rights, all three methods have been applied.

5.2 Recommendations

Audacious

In reviewing the joint venture transactions that took place since the beginning of 2007, there was very little relationship shown between the joint venture terms and the area of the tenements. Accordingly, SRK has given all three groups of the Audacious tenements the same value. The three groups are prospective for different commodities, but the transaction data also did not suggest any relationship between the commodity and the implied tenement value based on the joint venture terms. SRK's valuation of the tenements is set out in the table below:

	Low value (joint venture)	Preferred value (joint venture)	High value (joint venture)
Peak Hill Group	\$1,060,000	\$1,290,000	\$1,520,000
Marymia Group	\$1,060,000	\$1,290,000	\$1,520,000
Ned's Creek Group	\$1,060,000	\$1,290,000	\$1,520,000
Total	\$3,180,000	\$3,870,000	\$4,560,000

SRK notes that the value of a tenement has two components: the capital, which is the sale or purchase price of the tenement, and the commitment to exploration expenditure on the tenement. As this commitment is not binding and a purchaser may cease exploration after the first year, this commitment is limited to the first year's exploration expenditure after purchase. Through analysis of tenement purchases and exploration commitments on similar properties over the same period, SRK estimates that the purchase price component may vary between 28% and 43% of full tenement value, but averages approximately 36% of the full tenement value. Accordingly, because Lodestar is effectively purchasing these tenements through a consideration of shares, SRK estimates that the purchase price payable by Lodestar should be:

	Low value JV (purchase – 36%)	Preferred value (purchase – 36%)	High value JV (purchase – 36%)
Peak Hill Group	\$380,000	\$460,000	\$550,000
Marymia Group	\$380,000	\$460,000	\$550,000
Ned's Creek Group	\$380,000	\$460,000	\$550,000
Total	\$1,140,000	\$1,380,000	\$1,650,000

Note that only the Peak Hill Group is comprised substantially of granted tenements.

Penfolds Nickel Rights

The Penfolds nickel rights have been valued as a single package of tenements, using three different methods. SRK’s estimate of the current market value of these tenements using these methods is:

	Low value (joint venture)	Intermediate value (joint venture – strike length of ultramafic)	High value (MEE method)
Penfolds Project	\$638,000	\$809,000	\$1,900,000

SRK does not see that either of these methods is greatly superior to any other, and so SRK’s final valuation takes the average of the three methods as the preferred value

	Low value (joint venture)	Preferred (average of three methods)	High value (MEE method)
Penfolds Project	\$638,000	\$1,120,000	\$1,900,000

6. References

- Abra Mining Limited, 2009. <http://www.abramining.com.au/project/?project=22>, 29 December, 2009.
- Archibald, N J, 1985. The Stratigraphy and Tectonic-Metamorphic History of the Kambalda-Tramways area, Western Australia, Western Mining Corporation Ltd., unpublished report.
- Cawood, P A and Korsch, R J, 2008. Assembling Australia: Proterozoic building of a continent, *Precambrian Research* 166, 1-38.
- Clayton, W, (CSA Australia Pty Ltd), 2006. Penfold Project Coolgardie, Western Australia Evaluation of nickel sulphide potential, unpublished report for Dioro Exploration NL.
- Cyprus Gold Australia Corporation, 1997b. Ned's Creek, Combined Annual Report for the period 01/12/96 to 30/11/97. Department of Mines and Energy, WAMEX item A53324, VI 1.
- Elliott, Graham, J, 2009. Report on Radiometric responses over Leases E5202403, 5202418, 5202430 and 5202431, Internal report to Money Mining, September, 2009.
- Gresham J J and Loftus-Hills, G D, 1981. The Geology of the Kambalda Nickel Field, Western Australia. *Economic Geology*, 76, 1373-1416.
- Harmony Gold Operations Pty Ltd., 2006. Hampton Nickel Project Sale Process Information Memorandum 29.
- Laing, E M, 1972. Final Report Mineral Claims 374-386, 832-845, Smiths Dam and Ellen Dam Groups, Coolgardie Goldfield Western Australia, unpublished report for International Nickel Australia Limited.
- Lawrance, M J, 1994. An overview of Valuation Methods for Exploration Properties in Mineral Valuation Methodologies, Publication Series No 5/95, pp 205-224, Australasian Institute of Mining and Metallurgy Melbourne: Australia.
- Lodestar, 2007. Lodestar Minerals Limited Prospectus for offer of 25,000,000 Shares at an issue price of \$0.20 each to raise \$5,000,000.
- Lodestar, 2008. Lodestar Annual Report, 40 p.
- Lodestar, 2009. Lodestar Annual Report, 44 p.
- Lord, D, Etheridge, M, Willson, M, Hall, G and Uttley, P, 2001. Measuring Exploration Success: An alternative to the Discovery-cost-per-ounce Method of quantifying exploration effectiveness, *SEG Newsletter*, 45.
- Marston, R J, 1984. Nickel Mineralisation in Western Australia, *Mineral Resources Bulletin* 14, Western Australia Geological Survey.
- Pirajno, F, Occhipinti, S A and Swager, C P, 1998. Geology and tectonic evolution of the Palaeoproterozoic Bryah, Padbury and Yerrida basins, Western Australia: implications for the history of the south-central Capricorn orogen, *Precambrian Research* 90, 119-140.
- Richards, D, 2009. Digital Data Capture. Memo from David Richards to Drew Money, 24 September 2009.

- Robinson, P, 2007. Independent Geologist's Report for Lodestar Minerals Limited, Technical Report, Penfold Nickel Projects Western Australia, 22 p.
- Sandfire Resources NL, 2009. The Doolgunna Copper-Gold Discovery, September 2009. <http://www.sandfire.com.au/go/investor/presentations>, 30 December, 2009.
- Staples, P, 1997. Interpretation Report on Magnetometer Surveys Neds Creek Project, WA: Cyprus Gold Australia Pty Ltd.
- Swager, C P, 1997. Tectono-stratigraphy of late Archaean greenstone terranes in the southern Eastern Goldfields, Western Australia, *Precambrian Research*, 83, pp 11-42.

This page has been left blank intentionally

This page has been left blank intentionally

PROXY FORM

**APPOINTMENT OF PROXY
LODESTAR MINERALS LIMITED
ACN 127 026 528**

GENERAL MEETING

I/We

of

being a member of Lodestar Minerals Limited entitled to attend and vote at the General Meeting, hereby

Appoint

Name of proxy

OR the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held at 10.00am (WST), on 5 March 2010 at Level 2, 45 Stirling Highway, Nedlands, Perth, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

Voting on Business of the General Meeting

Resolution 1 – Acquisition of the Peak Hill – Doolgunna Project **FOR** **AGAINST** **ABSTAIN**

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____%

Signature of Member(s):

Date: _____

Individual or Member 1

Member 2

Member 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

LODESTAR MINERALS LIMITED
ACN 127 026 528

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at a General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

(c) post to Lodestar Minerals Limited, PO Box 985, Nedlands WA 6909; or

(d) facsimile to the Company on facsimile number +61 8 9389 8327,

so that it is received not later than 10.00am (WST) on 3 March 2010.

Proxy forms received later than this time will be invalid.