

ANNUAL REPORT
2005



LODESTONE EXPLORATION LIMITED

ABN 20 075 877 075

Exploring the Mount Morgan metals
district with advanced technologies



CORPORATE DIRECTORY

DIRECTORS	John Shaw (Chairman) Martin Ackland Greg Daylton John McCawley
SECRETARY	Levi Stanley
PRINCIPAL REGISTERED OFFICE IN AUSTRALIA	Level 1, 101 Edward Street Brisbane, QLD 4000 (07) 3239 6600
SHARE REGISTER	ASX Perpetual Registrars Limited Level 22, 300 Queen Street Brisbane, QLD 4000 (02) 8 80 7454
AUDITOR	Pitcher Partners Level 21, 300 Queen Street Brisbane, QLD 4000 (07) 3228 4000
SOLICITORS	Carr Chambers Westgarth 1 Eagle Street Brisbane, QLD 4000 (07) 3228 9424
BANKERS	Westpac Banking Corporation Cnr Queen and Eagle Streets Brisbane, QLD 4000
STOCK EXCHANGE LISTING	Lodestone Exploration Limited shares are listed on the Australian Stock Exchange.
WEBSITE ADDRESS	www.lodestonex.com



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OPERATIONAL REVIEW

The Chairman's perspective

On behalf of the Board of Lodestone Exploration Limited ('Lodestone' or 'the Company'), I am pleased to present the Company's ninth Annual Report, and its third as an ASX-listed company.

Since its incorporation in 1996, the Company has pursued a focused exploration strategy, with a low-cost approach, targeting richly endowed mining districts in Central Queensland.

The Company listed on the ASX in March 2003, raising \$2.28 million after costs of the Initial Public Offering (IPO), and raised a further \$0.4 million in November 2004. Our stated strategy over this period has been to pursue a conservative expenditure approach, raising minimal funds as required to advance our highest priority exploration targets, while maintaining a consistently tight capital structure.

With this low-cost and focused strategy, the Company is pursuing the discovery of significant new gold/copper deposits around historically successful mines in Queensland using modern exploration techniques and industry-leading technical experts.

Lodestone is an exploration company, and exploration is seldom an "instant gratification" pursuit. Rather, it is rewarded by a persistent, thorough, systematic approach which requires patience. The Company has now drilled eleven targets in the Mount Morgan district, with the August-September 2005 program drilling including an additional three targets in this area and nearby Mount Chalmers.

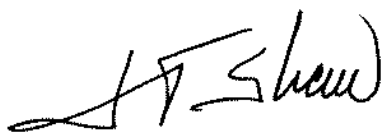
With recent strategic additions to the project portfolio, the Company's core projects are well located in highly-prospective areas in the historic Mount Morgan, Mount Chalmers, and Cracow gold/copper districts. In addition, following a lengthy application period beginning in 1996, the Company was granted an exploration permit in late June this year for its Limestone Creek gold project, 20 kms west of the historic Maytown goldfield in North Queensland. A recent review of historical data conducted by Lodestone revealed surface gold grades of up to 7.2g/t in rockchip samples and coarse gold in adjacent stream sediments at this project. Field exploration at Limestone Creek will begin as soon as possible.

During September this year, the Company also strengthened its financial resources and offered all shareholders the opportunity to participate in a Share Purchase Plan to increase their shareholdings. With the proceeds from this capital raising, the Company plans to conduct further drilling and field exploration during the remainder of 2005, including possible additional drilling at Mount Morgan and Mount Chalmers depending on results, and advancing our new projects at the South Cracow gold/copper project and Limestone Creek gold project as soon as possible.

In terms of the overall market environment, metal prices continue to remain strong, driven by the China factor and a volatile US dollar. Major industry players are predicting this situation to persist, which bodes well for our industry.

The Company's key milestones for the remainder of 2005 include the drilling of highest-priority targets at Lodestone's Cracow South gold/copper project, initial field exploration at the Company's Limestone Creek project, followed by possible drilling at Limestone Creek, subject to funding and rig availability. We look forward to updating you on our exploration activities and outcomes, and any emerging corporate developments as they occur over the next twelve months.

I also take this opportunity to acknowledge those shareholders who have remained with us over the long-term and welcome any new shareholders joining us in the past year.



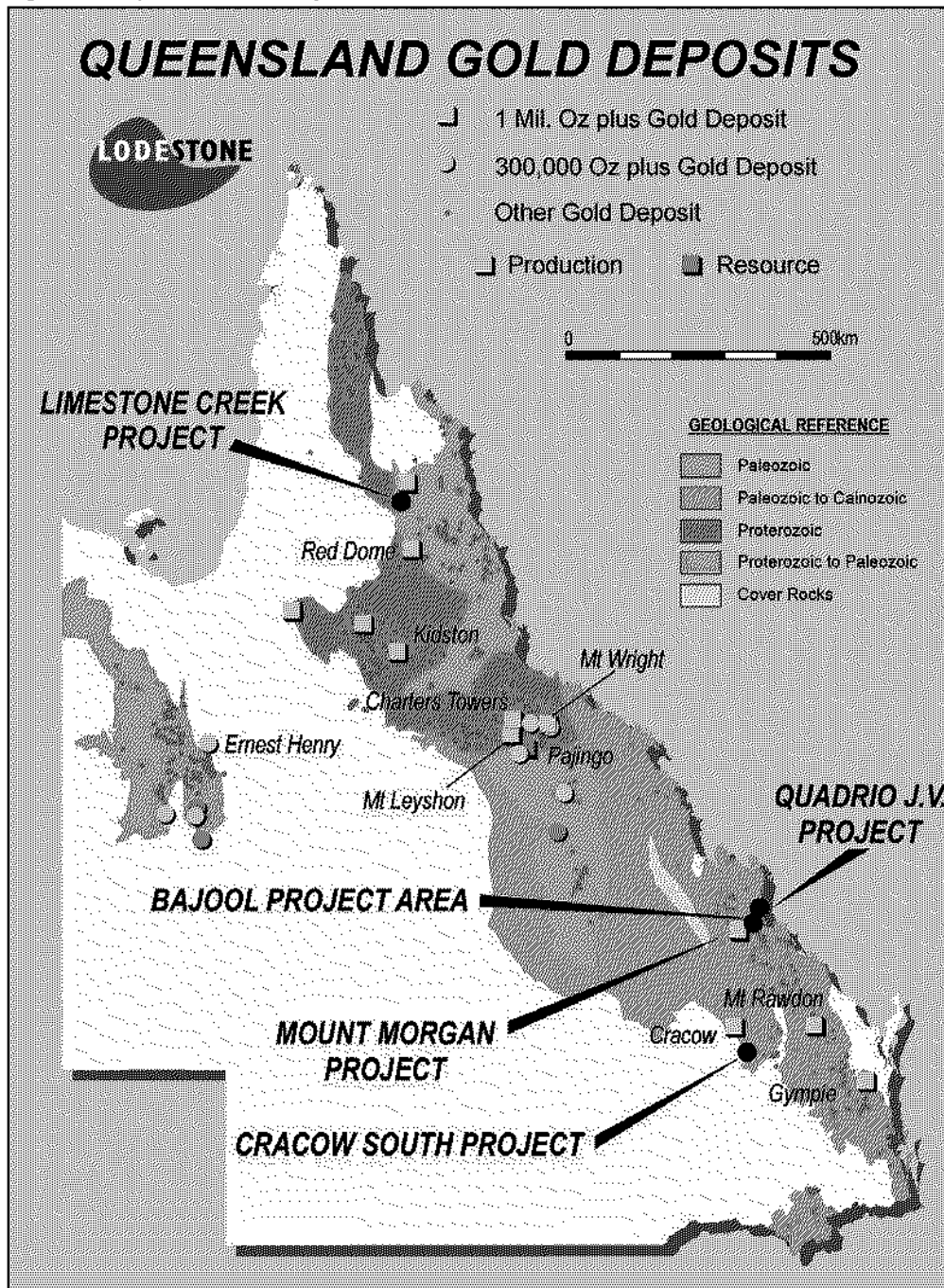
John T Shaw
Chairman

OPERATIONAL REVIEW

Introduction and Overview

Lodestone Exploration (LOD) is an Australian listed junior explorer, with a tenement area of more than 1400 square kilometers within richly endowed historic goldfields in Central and Northern Queensland.

Figure 1. Project Location Map



The company was established in 1996 and listed on the ASX in March 2003 to search for blind ore bodies in a prospective gold-copper region south of Mount Morgan in Central Queensland. Lodestone has deployed modern airborne electromagnetic survey equipment, specifically GEOTEMDEEP, HOISTEM and TEMPEST systems, high resolution aeromagnetics and advanced ground gravity tools in the Mount Morgan district's most extensive exploration program since the early nineteen eighties.

Twelve targets have been drilled since June 2003 and the company has moved progressively closer to Mount Morgan as additional target areas were recognised, and land became available.

Assessment of additional opportunities within Central Queensland goldfields led the company to acquire tenements south of Cracow in 2004, and to option ground east of Mount Chalmers. Both townships were founded on historic gold fields.

Lodestone's fourth and long standing area of interest is Limestone Creek, some 20 kms west of the historic Maytown gold field in North Queensland. The Limestone Creek tenement was granted in June this year, after a seven year application process.

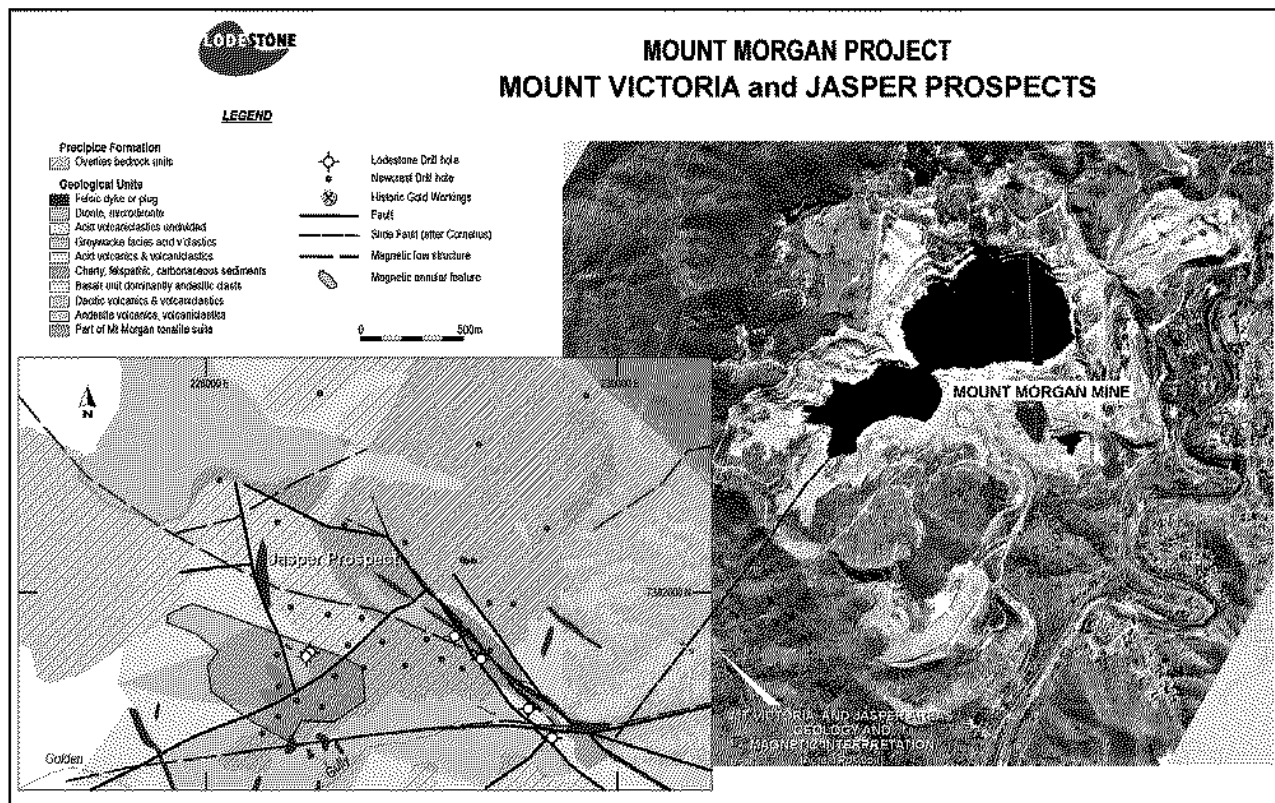
Mount Morgan Area Project

The Mount Morgan ore deposit was Australia's premier volcanic-hosted massive sulphide deposit. The former mine yielded 9.4 million ounces of gold, and 360,000 tonnes of copper and was described as one of the "largest mountains of gold ever discovered". In other countries, satellite deposits have been discovered around similar ore bodies.

Extensive geophysical programs followed by detailed geological mapping and geochemical surveys, plus other rigorous studies during the past three years, have led Lodestone to recognise seven target areas within five kilometers of the historic mine site. These include Midas, Morganite, Jasper and Mount Victoria.

Lodestone has drilled six holes at the optioned Mount Victoria Prospect, 2km south west of the historic Mount Morgan gold/copper mine. A gold-bearing mineralised halo confirmed in the Company's November 2004 drilling program was further tested in an August 2005 program.

Figure 2. Lodestone's Mount Victoria and Jasper Prospects – with overlay of nearby historic Mount Morgan mine site



Initial drilling was completed in mid August 2005 at the Jasper prospect, 1.2km west of Mount Victoria to determine whether this prospect provided a source of nearby placer gold in the old Mount Victoria workings and alluvial gold found in adjacent 'Golden Gully'.

Consulting geologists have also highlighted additional prospects east of Lodestone's Mount Morgan project area for further evaluation and probable drilling. These priority areas include Station, Twelve Mile and Eight Mile.

Mount Chalmers Joint-Venture Project

The Company's Mount Chalmers project in Central Queensland is being pursued under a farm-in arrangement with Quadrio, a subsidiary of Dominion Mining, under which Lodestone may earn a 50% interest in the project by completing a minimum of 1,200m of drilling.

The historic Mount Chalmers mine was a gold-rich VMS-style orebody, which yielded 250,000 ounces of gold equivalent with a current value exceeding A\$125 million. As a VMS-style orebody, it is possible that similar orebodies, not yet identified, cluster around the historic mine site. Lodestone concludes that drilling programs by previous explorers have effectively tested only approximately 10% of the prospective area.

Earlier drilling by Peko at Tungamull (2,500 metres to the east of the Mount Chalmers deposit) had intersected substantial zones of alteration, with gold, copper, lead and zinc anomalism (eg. 19.4m @ 0.33g/t gold, 21.7m @ 0.58% Zinc and 0.28% lead). These encouraging intersections were all within a single coherent zone, and are regarded as identical to peripheral zones around the original Mount Chalmers orebody. This zone of anomalism and alteration is only very partially tested, is open to the south, and is currently being drilled by Lodestone.

Recent Projects Added to the Portfolio

The Company has also been granted highly-prospective new exploration tenements at Cracow South in Central Queensland, and Limestone Creek in North Queensland.

Cracow South Project

At Lodestone's Cracow South project, five high-grade epithermal Cracow-style gold/copper targets have been identified and will be drilled as soon as possible when funds become available.

Historical gold production within the entire Cracow goldfield stands at 850,000 oz between 1932 and 1993. At the new Cracow gold mine, owned by Newcrest Mining (70%) and Sedimentary Holdings (30%), development plans envisage initial production of at least 680,000 ounces of gold over a seven year life for the joint venture.

Limestone Creek Project

The Limestone Creek tenement, located 20km west of the historic Maytown goldfield in North Queensland, was granted in June 2005 after an application period of more than seven years. A recent review of the previous work conducted within the Limestone Creek project area has revealed significant rockchip sample results occurring over a strike length of over 1,700 metres in the northern part of the tenement.

The area covered by Lodestone's tenement has had no on-ground exploration since the late 1980s and includes surface gold grades of up to 7.2g/t in previous rockchip samples and coarse gold in adjacent stream sediments. Noteworthy accompanying values of silver (including 28, 17 and 10ppm) and lead (including 3.25%) are also evident from previous reports. Anomalous values exceeding 0.1g/t gold in rockchip samples are also noted over an area almost 5km long.

Lodestone has received interest from mid-tier resource companies regarding the possibility of a farm-in arrangement for the Limestone Creek project.

Lodestone will commence field exploration in September 2005, with drilling of probable targets as soon as possible.

Drilling Programs

The Company has drilled 11 holes totaling 2042 metres on 4 targets since 1 July 2004 and, subject to available funding, will continue drilling during 2005 with follow-up drilling of Mount Morgan and Mount Chalmers targets and new programs of drilling at the Company's Cracow South and Limestone Creek projects as soon as possible.

Mount Morgan Project (optioned ground)

Mount Victoria Prospect

As mentioned previously, two holes totaling 381 metres were drilled during August 2005 at the optioned Mount Victoria Prospect, 3km south west of the historic Mount Morgan gold/copper mine. These holes pursued higher-grade extensions of the gold-bearing mineralised halo confirmed in the Company's November 2004 drilling program at Mount Victoria.

The size of the halo of low-level gold surrounding intersections in previous drilling at Mount Victoria appears to increase in a north-westerly direction. The intersection of 2m @ 8.78g/t gold at the base of the Precipice Sandstone in previous drilling by Newcrest Mining is likely to be paleo-placer gold shed from a nearby source. This observation provides further encouragement for additional drilling at Mount Victoria.

The August program provided further in-fill and extension drilling on the structure intersected by recent Lodestone drilling and Newcrest's earlier gold intersections.

Jasper Prospect

Drilling at the optioned Jasper prospect in August determined the requirement for follow-up drilling at this target. The Jasper prospect is located favourably with respect to magnetic features and is inferred to be the likely source of placer gold in the old Mount Victoria workings and alluvial gold found in adjacent 'Golden Gully'.

Quadrio Project/Tungamull Prospect (optioned ground) – Current Drilling Program

800 metres of drilling commenced during September at Tungamull, located 50km north east of Mount Morgan. Drilling at Tungamull is targeted from sites located 2.5km south east of the historic Mount Chalmers open pit gold/copper mine.

Cracow South Project (100% LOD) – Future Drilling in 2005

Five high-grade epithermal Cracow-style gold/copper targets will be drilled as soon as possible, when funding becomes available.

Limestone Creek Gold Project (100% LOD) – Future Drilling in 2005

The Limestone Creek project, 20km west of the Maytown goldfield in North Queensland, includes surface gold grades of up to 7.2g/t and coarse gold in adjacent stream sediments. The Limestone Creek tenement was granted in June 2005, and the project area has had no on-ground exploration since the late 1980s. Field exploration will commence in September 2005, with drilling of identified priority targets as soon as possible with or without a farm-in partner, subject to available funding.

UPCOMING SHORT-TERM MILESTONES

The Company's key milestones for the remainder of 2005 include the following:

- Completion of this year's drilling program at Mount Morgan (Jasper and Mount Victoria) and Mount Chalmers (Tungamull)
- Drilling of highest-priority targets at Lodestone's Cracow South gold/copper project during October 2005, subject to funding requirements.
- Initial field exploration at the Company's Limestone Creek project in September 2005.
- Further exploration and possible drilling of highest priority targets at Lodestone's Limestone Creek project by end-2005, subject to availability of a rig and funding requirements.
- Consideration of farm-in offers for Lodestone's Limestone Creek project during late 2005.

SUMMARY

Lodestone has drilled the '1105', Jasper, and Mount Victoria prospects since 1 July 2004 and is currently drilling the nearby Mount Chalmers project in Central Queensland.

Subject to available funding, the Company plans to conduct further drilling and field exploration during the remainder of 2005, including follow-up drilling at Mount Morgan and Mount Chalmers, and to advance new projects at Cracow South and Limestone Creek as soon as possible.

Funds raised in September's SPP and placement will provide funding to continue and accelerate the Company's drilling and related exploration programs at Mount Morgan, Mount Chalmers, Cracow South and Limestone Creek and provide for additional working capital requirements.

TENEMENT SCHEDULE

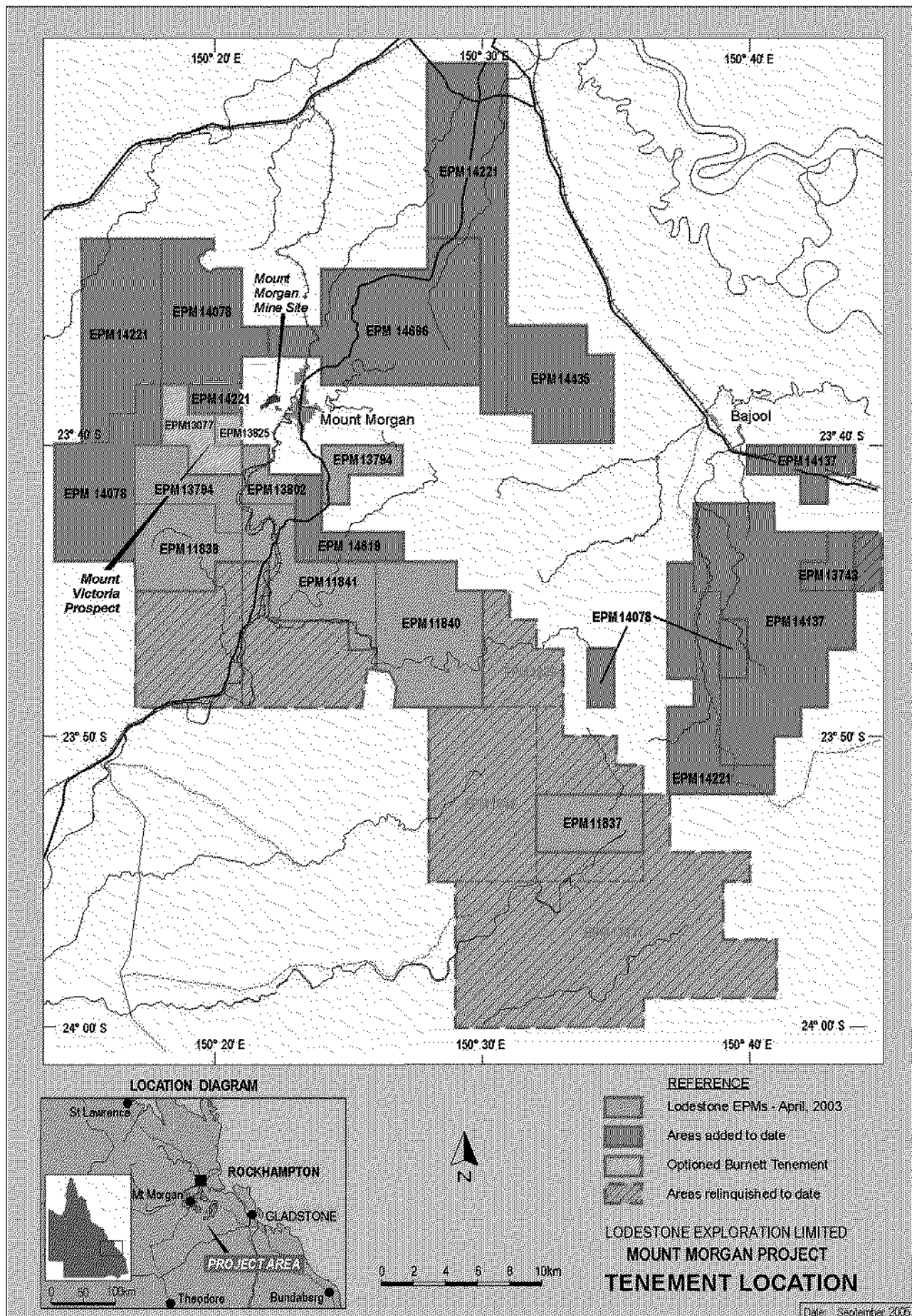
Tenement	EPM Number	Area (sub-blocks) ³
MOUNT MORGAN ALLIANCE TENEMENTS¹		
Mount Gelobera	11837	8
Walmul West	11838	10
Mount Hoopbound	11840	19
Walmul	11841	13
Mount Battery	13794	11
Mount Battery East	13802	3
MOUNT MORGAN TENEMENTS²		
Mount Battery North	14078	34
Morganite East	14696	28
New Chum	14619	6
BAJOOL TENEMENTS²		
Mount Kelly	14221	60
Station	14435	14
Alphadale	14137	38
Queenslander	13743	3
NORTH QUEENSLAND TENEMENTS²		
Limestone Creek	11980	18
CRACOW SOUTH TENEMENTS²		
Dawsonvale	14495	99
Bungaban	14636	98
Shearing Creek **	14936	15

** EPMA = Application for an exploration permit for minerals

Notes:

- 1 "Alliance Tenements" are included in the BHP Billiton Alliance.
- 2 Lodestone Exploration Limited has a 100% interest in these tenements.
- 3 Each sub-block approximates 3 sq. kms.

Figure 3. Mount Morgan Project



DIRECTORS' REPORT

Your directors present their report on the company for the year ended 30 June 2005.

Directors

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

J T Shaw – Chairman
M Ackland
G A J Baynton
J L McCawley – Executive Director

Principal Activities

During the year the principal continuing activity of the company was mineral exploration. No changes are expected in the principal activity of the company in future years.

Review of Operations

The operating loss after income tax of the company for the year was \$910,476 (2004: loss \$720,295). The loss reflects the nature of the company's principal activity.

Earnings per Share	2005 Cents	2004 Cents
Basic earnings per share	(2.72)	(2.33)
Diluted earnings per share	(2.72)	(2.33)

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the company during the financial year.

Dividend

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

Matters Subsequent to the End of the Financial Year

Other than as disclosed in note 18 in the financial report, at the date of this report there are no matters or circumstances which have arisen since 30 June 2005 that have significantly affected, or may significantly affect:

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

Likely Developments and Expected Results from Operations

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

Environmental Regulation

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

Information on Directors

J T Shaw B.Sc (Geological Engineering) FAusIMM, FAICD, MCIM, SME. *Chairman – non-executive. Age 65.*

Experience and expertise

Independent non-executive Chairman for 3 years. More than 40 years experience in gold, copper, silver and tungsten in exploration, development and operations.

Other current directorships

Non-executive Chairman of two other public companies: Gallery Gold Limited (director since 2003), TriOrigin Minerals Limited (director since 2003).

Former directorships in last 3 years

Non-executive director of Kingsgate Consolidated Limited from 2000 to 2005.

Non-executive director of Aurion Gold Limited from 2001 to 2003.

Special responsibilities

Chairman of the Board.

Interests in shares and options

110,000 ordinary shares in Lodestone Exploration Limited.

400,000 options over ordinary shares in Lodestone Exploration Limited.

J L McCawley B.Com (Hons). *Executive Director. Age 62.*

Experience and expertise

Non-executive director for 7 years and executive director for 2 years.

Other current directorships

None.

Former directorships in last 3 years

Non-executive director of AtCor Medical Limited from 2001 to 2004.

Special responsibilities

Executive Director.

Interests in shares and options

5,147,147 ordinary shares in Lodestone Exploration Limited.

M C Ackland B.App.Sc. (PrimMet), M.AusIMM, FAICD, MAIME. *Non-executive director.* Age 59.

Experience and expertise

Non-executive director for 3 years.

Other current directorships

Non-executive director of two other public companies: Mineral Deposits Limited (director since 2003), Sedimentary Holdings Limited (director since 1993).

Former directorships in last 3 years

Non-executive director of Ausenco Limited from 1995 to 2003.

Non-executive director of McConnell Dowell Corporation Limited from 1999 to 2003.

Special responsibilities

Chairman of the audit committee.

Interests in shares and options

37,500 ordinary shares in Lodestone Exploration Limited.

200,000 options over ordinary shares in Lodestone Exploration Limited.

G A J Baynton M.Econ St, MBA, B.Bus (Accounting), ASIA, FAICD. *Non-executive director.* Age 36.

Experience and expertise

Non-executive director for 4 years.

Other current directorships

Non-executive director of two other public companies: PIPE Networks Limited (director since 2004), Tissue Therapies Limited (director since 2003). Director of Genera Biosystems Pty Limited, Farmacule BioIndustries Pty Limited and executive Director of Orbit Capital Pty Limited.

Former directorship in last 3 years.

None

Special responsibilities

Member of the audit committee.

Interests in shares and options

1,604,333 ordinary shares in Lodestone Exploration Limited.

200,000 options over ordinary shares in Lodestone Exploration Limited.

Meetings of Directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each director were:

	Full Meetings of Directors	Meetings of Audit Committee
Number of meetings held	8	2
Number of meetings attended by:		
J T Shaw	8	N/A
J L McCawley	8	N/A
M C Ackland	7	2
G A J Baynton	8	2

Retirement, Election and Continuation in Office of Directors

Mr G Baynton is the director retiring by rotation who, being eligible, offers himself for re-election.

Company Secretary

The company secretary is Ms Leni Stanley CA, B.Com. Ms Stanley was appointed to the position of company secretary in 2002. Before joining Lodestone Exploration Limited she held a similar position with another company. She currently is a partner with a Chartered Accounting firm.

Remuneration Report

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration

A Principles used to determine the nature and amount of remuneration

Non-executive directors

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

Directors' fees

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$160,000 in aggregate plus statutory superannuation.

Executive pay

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

B Details of remuneration

Details of the nature and amount of each element of the emoluments of each director of Lodestone Exploration Limited for the year ended 30 June 2005 are set out in the following table.

Directors of Lodestone Exploration Limited

Name	Primary	Post-employment	Equity	Total
	Cash salary and fees \$	Superannuation \$	Options \$	
J T Shaw, Chairman	40,000	3,600	–	43,600
J L McCawley, Executive Director	68,750	6,188	–	74,938
M C Ackland	30,000	2,700	–	32,700
G A J Baynton	30,000	2,700	–	32,700
Total	168,750	15,188	–	183,938

Specified executive of Lodestone Exploration Limited

Name	Primary	Post-employment	Equity	Total
	Cash salary and fees \$	Superannuation \$	Options \$	
L P Stanley, Company Secretary	15,000	–	–	15,000

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

Share Options granted to Directors

No options over unissued ordinary shares of Lodestone Exploration Limited have been granted during or since the end of the financial year to any of the directors of the company as part of their remuneration.

Shares under Option

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

Date options granted	Expiry date	Issue price of shares	Number under option
1 October 2002	30 September 2005	\$0.30	100,000
1 October 2002	30 September 2007	\$0.30	800,000

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

Shares Issued on the Exercise of Options

The following ordinary shares of Lodestone Exploration Limited were issued during the year ended 30 June 2005 on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
10 March 2003	\$0.20	51,250

Insurance of Officers

The company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the company or a related body corporate paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

Agreement to Indemnify Officers

Lodestone Exploration Limited is party to an agreement to indemnify the directors and the general manager of the company.

The indemnity relates to any liability:

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

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

Proceedings on Behalf of Company

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

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

Non-audit services

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

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

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

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

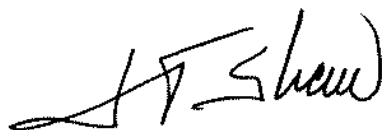
Section 307C of the Corporations Act 2001 requires the company's auditors to provide the directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 30 June 2005. The Auditor's Independence Declaration is set out on page 15 and forms part of this Directors' Report.

	2005 \$	2004 \$
During the year the following fees were paid or payable for services provided by the auditor of the company:		
Assurance services		
1. Audit services		
Fees paid to Pitcher Partners for audit and review of financial reports and other audit work under the Corporations Act 2001	17,000	18,750
Total remuneration for assurance services	<u>17,000</u>	<u>18,750</u>
Taxation services		
Fees paid to Pitcher Partners for tax compliance services, including review of company income tax returns	3,000	2,760

Auditor

Pitcher Partners, Accountants Auditors & Advisors, continues in office in accordance with section 327 of the Corporations Act 2001.

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



J T Shaw

Chairman

20 September 2005



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF LODESTONE EXPLORATION LIMITED

In relation to our audit of the financial report of Lodestone Exploration Limited for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Pitcher Partners

PITCHER PARTNERS

S A Green

Partner

Brisbane, 20 September 2005

CORPORATE GOVERNANCE STATEMENT

Lodestone Exploration Limited (Lodestone) and the Board of Directors (“the Board”) are committed to achieving and demonstrating the highest standards of corporate governance.

A description of the company’s main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

A full set of Lodestone’s corporate governance policies and charters is available on the company’s website at www.lodestonex.com under the area of “Corporate Governance”.

Board Responsibilities

The Board is responsible to shareholders for the governance of Lodestone, its operations and its financial performance. The Board has adopted a Board and Governance Charter which set out, among other things, the roles and responsibilities of the Board. These include:

- Review, advance and approve Lodestone’s:
 - objectives and strategies,
 - exploration and development programs, and
 - capital management.
- Monitor Lodestone’s business, financial performance, and corporate governance including risk management, audit processes and compliance with laws, policies and procedures.
- Oversee the financial position of Lodestone.
- Report to shareholders.
- Ensure effective control systems are in place.
- Appoint and appraise the Executive Director.
- Oversee the senior management team in terms of performance evaluation, succession planning and remuneration.
- Establish and maintain a culture of high ethical, environmental, health and safety standards.
- Ensure the Board is effective.

Board Structure

The structure of Lodestone’s Board is consistent with Principle 2.1, 2.2 and 2.3 of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003 (“the Recommendations”). It has a majority of Non-Executive Directors being comprised of three Non-Executive Directors and one Executive Director and it does have a majority of independent Directors in accordance with the definition of ‘independence’ as set out in the Recommendations. Mr J McCawley does not satisfy the definition of ‘independence’ due to his position of Executive Director and also due to his substantial shareholding in the company.

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

Consistent with the recognition in Principle 2.4 of the Recommendations that a Nomination Committee may not be efficient for smaller boards, Lodestone’s nomination matters are considered by the Board as a whole, as set out in the Charter. The Board, as a whole, aims to ensure that it always has an appropriate depth and diversity of qualifications, experience and expertise consistent with Lodestone’s objectives.

Performance Review

In accordance with the Board & Governance Charter, the Chairman will conduct a performance review of the Board focusing on its overall effectiveness and competencies, and the availability and contribution of each Director. This performance review will be undertaken by the Chairman prior to Lodestone’s Annual General Meeting in a manner consistent with Principle 8.1 of the Recommendations.

The Board as a whole is responsible for appraising the Executive Director and this will be carried out prior to the Annual General Meeting in a manner consistent with Principle 8.1 of the Recommendations.

Audit Committee

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

The Audit Committee processes are consistent with Principles 4.2 through 4.4 of the Recommendations except that the Committee has only two members. The Directors consider this appropriate given the size of the Board.

The Committee is composed of all Non-Executive Directors of the Board, a majority of Independent Directors and is chaired by an Independent Director who is not the Chairman of the Company, Mr M Ackland. The Audit Committee consists of members who have sufficient industry, business and financial expertise to be effective members of the Committee. During the year the members of the Audit Committee were Mr M Ackland and Mr G Baynton.

The specific responsibilities of the Committee include:

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

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

Remuneration Policy

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$160,000 in aggregate plus statutory superannuation.

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

Further information on remuneration matters is included in Note 15 of the Financial Statements.

The structure and disclosure of the company's remuneration arrangements is consistent with Principles 9.1, 9.3 and 9.4 of the Recommendations. Currently the company has no equity based remuneration plans.

Remuneration Committee

Consistent with the recognition in Principle 9.2 of the Recommendations that a Remuneration Committee might not be efficient for smaller boards, Lodestone's remuneration matters are considered by the Board as a whole, as set out in the Charter. The Board, as a whole, aims to ensure that it always has an appropriate depth and diversity of qualifications, experience and expertise consistent with Lodestone's objectives.

Executive Assurance

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

- The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at 30 June 2005 and the performance of the company for the year then ended and comply in all material respects with Accounting Standards;
- The statements made above regarding the integrity of the financial statements is founded on a system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors; and
- The risk management and internal compliance and control systems of the company relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects.

The executive assurance is consistent with Principles 4.1 and 7.2 of the Recommendations.

Code of Conduct

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

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

The Company has developed a Securities Trading Policy which provides guidance to Directors, employees, consultants and contractors on the purchase and sale of securities of Lodestone in order to ensure:

- that breaches of the Australian Corporations Act 2001 do not occur; and
- dealings by Directors, employees, consultants and contractors in Lodestone's securities are fair, and are seen to be fair.

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

The company's actions, outlined above, to promote ethical and responsible decision making are consistent with principles 3.1, 3.2 and 10.1 of the Recommendations.

Risk Management

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

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

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed. The management of operational risk is explicitly considered in the selection and monitoring of the contractors through whom most of Lodestone's operations are conducted.

The formal processes for identification and addressing all key risks is ongoing and is reviewed on an ongoing basis.

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

The company's risk management procedures are consistent with Principle 7.1 of the Recommendations and the Risk Management Policy of Lodestone is available on the company's website.

Disclosure Policy

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

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

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

The company's Continuous Disclosure Policy is consistent with Principle 5.1 of the Recommendations and is available on the company's website.

Investor Relations and Communications

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

The Investor Relations and Communications Policy is consistent with Principles 6.1 and 6.2 of the Recommendations, and all of the specified information requirements of Principles 2.5, 3.3, 4.5, 5.2 and 9.5 are met.

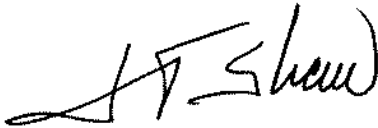
DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 36 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2005.

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



J T Shaw

Chairman

Brisbane, 20 September 2005

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 \$	2004 \$
Revenue from ordinary activities	3	27,739	61,752
Exploration abandoned		(650,919)	(477,987)
Professional services expenses		(80,161)	(89,543)
Corporate overhead expenses		(54,936)	(54,713)
Depreciation expenses		(7,011)	(3,571)
Directors remuneration		(145,188)	(156,233)
		<hr/>	<hr/>
Loss from ordinary activities before income tax	4	(910,476)	(720,295)
Income tax expense	5	-	-
		<hr/>	<hr/>
Net loss		(910,476)	(720,295)
		<hr/>	<hr/>
Total changes in equity other than those resulting from transactions with owners as owners	12	(910,476)	(720,295)
		<hr/> <hr/>	<hr/> <hr/>
		Cents	Cents
Basic earnings per share	21	(2.72)	(2.33)
Diluted earnings per share	21	(2.72)	(2.33)

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Notes	2005 \$	2004 \$
Current assets			
Cash		294,431	894,166
Receivables	6	21,270	27,567
Total current assets		315,701	921,733
Non-current assets			
Plant and equipment	7	25,026	32,037
Exploration expenditure	8	1,030,814	959,898
Other	9	48,180	28,260
Total non-current assets		1,104,020	1,020,195
Total assets		1,419,721	1,941,928
Current liabilities			
Payables	10	43,055	45,036
Total current liabilities		43,055	45,036
Total liabilities		43,055	45,036
Net assets		1,376,666	1,896,892
Equity			
Contributed equity	11	3,216,409	2,826,159
Accumulated losses	12	(1,839,743)	(929,267)
Total equity	13	1,376,666	1,896,892

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 \$	2004 \$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		74,822	85,948
Payments to suppliers (inclusive of goods and services tax)		(349,532)	(397,613)
Interest received		29,897	65,218
Net cash outflows from operating activities	19	(244,813)	(246,447)
Cash flows from investing activities			
Payments for exploration		(725,252)	(773,955)
Payments for property, plant and equipment		-	(28,475)
Payment for security deposit		(19,920)	(15,000)
Net cash outflows from investing activities		(745,172)	(817,430)
Cash flows from financing activities			
Proceeds from share issue		410,250	1,000
Payment of share issue costs		(20,000)	-
Net cash inflows from financing activities		390,250	1,000
Net increase/(decrease) in cash held		(599,735)	(1,062,877)
Cash at the beginning of the financial year		894,166	1,957,043
Cash at the end of the financial year		294,431	894,166

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Note 1 Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(b) Exploration expenditure

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

(c) Acquisitions of assets

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

(d) Recoverable amount of non-current assets

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

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

(e) Depreciation of property, plant and equipment

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

Plant and equipment	5 – 10 years
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Note 1 Summary of significant accounting policies (continued)

(f) Trade and other creditors

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

(g) Cash

For the purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(h) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(i) Website costs

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

Note 2 Segment information

The company operates solely within one business segment, being the mineral exploration industry in Australia.

	2005	2004
	\$	\$

Note 3 Revenue

Revenue from outside the operating activities
Interest

	27,739	61,752
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Note 4 Loss from ordinary activities

Loss from ordinary activities before income tax expense includes the following specific expenses:

Exploration abandoned	650,919	477,987
Depreciation	7,011	3,571

Note 5 Income tax

The income tax benefit for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:

Loss from ordinary activities before income tax expense	(910,476)	(720,295)
Income tax calculated at 30% (2004: 30%)	(273,143)	(216,089)
Tax effect of permanent differences:		
Business related capital costs	(21,557)	(21,557)
Income tax expense / (benefit) adjusted for permanent differences	(294,700)	(237,646)
Future income tax benefits not brought to account	294,700	237,646
Income tax expense attributable to the loss	-	-

The directors estimate that the potential net future income tax benefit at 30 June 2005 amounts to \$649,060 (2004: \$355,810). The future income tax benefit, which has not been recognised as an asset, will only be obtained if:

- (i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the company in realising the benefit.

No franking credits are available for the subsequent financial year.

	2005 \$	2004 \$
Note 6 Current assets – Receivables		
Interest receivable	1,240	3,398
Other debtors	20,030	24,169
	21,270	27,567

Note 7 Non-current assets – Plant and equipment

Motor vehicles – at cost	49,319	49,319
Less: Accumulated depreciation	(26,568)	(20,283)
	22,751	29,036
Plant and equipment – at cost	3,630	3,630
Less: Accumulated depreciation	(1,355)	(629)
	2,275	3,001
	25,026	32,037

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below:

	Motor vehicles \$	Plant and equipment \$	Total \$
Carrying amount at 1 July 2004	29,036	3,001	32,037
Additions	–	–	–
Depreciation expense	(6,285)	(726)	(7,011)
Carrying amount at 30 June 2005	22,751	2,275	25,026

	2005 \$	2004 \$
Note 8 Non-current assets – Exploration expenditure		

Exploration phase property costs

Deferred geological, geophysical, drilling and other expenditure – at cost	1,030,814	959,898
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The capitalised exploration expenditure carried forward above has been determined as follows:

Opening balance	959,898	692,538
Expenditure incurred during the year	721,835	745,347
Exploration abandoned	(650,919)	(477,987)
Closing balance as shown above	1,030,814	959,898

Note 9 Non-current assets – Other

Security deposit	48,180	28,260
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	2005 \$	2004 \$
Note 10 Current liabilities – Payables		
Trade creditors	43,055	45,036

Note 11 Contributed equity

	2005 Shares	2004 Shares	2005 \$	2004 \$
(a) Share capital				
Ordinary shares				
Fully paid	34,967,404	30,916,154	3,216,409	2,826,159

(b) Movements in ordinary share capital:

Date	Details		Number of Shares	Issue Price	\$
1 July 2003	Opening balance		30,911,154		2,825,159
25 November 2003	Exercise of options issued under prospectus	(d)	5,000	\$0.20	1,000
30 June 2004	Balance		30,916,154		2,826,159
13 November 2004	Placement	(e)	4,000,000	\$0.10	400,000
9 December 2004	Exercise of options issued under prospectus	(d)	51,250	\$0.20	10,250
	Share issue expenses		–		(20,000)
30 June 2005	Closing balance		34,967,404		3,216,409

(c) Ordinary shares

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

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

(d) Options

At balance date 900,000 options over ordinary shares of Lodestone Exploration Limited were on issue. These options were issued on 1 October 2002 with an exercise price of \$0.30. 800,000 of these options expire on 30 September 2007 and the remaining 100,000 expire on 30 September 2005.

During the financial year 51,250 options that were issued under the Prospectus were exercised and 6,193,750 options that were issued under the Prospectus expired. These options were exercisable at \$0.20 and expired on 7 December 2004.

(e) Placement

On 13 November 2004 a placement of 4,000,000 ordinary shares was made to institutional and sophisticated investors at \$0.10 per share to raise \$400,000.

	2005 \$	2004 \$
Note 12 Accumulated losses		
Accumulated losses at the beginning of the financial year	(929,267)	(208,972)
Net loss attributable to members of Lodestone Exploration Limited	(910,476)	(720,295)
Accumulated losses at the end of the financial year	<u>(1,839,743)</u>	<u>(929,267)</u>

Note 13 Equity

Total equity at the beginning of the financial year	1,896,892	2,616,187
Total changes in equity recognised in the statement of financial performance	(910,476)	(720,295)
Transactions with owners as owners:		
Contributions of equity net of transaction costs	390,250	1,000
Total equity at the end of the financial year	<u>1,376,666</u>	<u>1,896,892</u>

Note 14 Financial instruments

(a) Interest rate risk exposure

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

	Floating Interest Rate \$	Non-Interest Bearing \$	Total \$
2005			
Financial assets:			
Cash	275,000	19,431	294,431
Receivables	-	21,270	21,270
Other	-	48,180	48,180
	<u>275,000</u>	<u>88,881</u>	<u>363,881</u>
Weighted average interest rate	4.75 %		
Financial liabilities:			
Payables	-	43,055	43,055
	-	43,055	43,055
Weighted average interest rate	-		
Net financial assets/(liabilities)	<u>275,000</u>	<u>45,826</u>	<u>320,826</u>

Note 14 Financial instruments (continued)

	Floating Interest Rate	Non-Interest Bearing	Total
2004	\$	\$	\$
Financial assets:			
Cash	885,000	9,166	894,166
Receivables	–	27,567	27,567
Other	–	28,260	28,260
	885,000	64,993	949,993
Weighted average interest rate	4.50 %		
Financial liabilities:			
Payables	–	45,036	45,036
	–	45,036	45,036
Weighted average interest rate	–		
Net financial assets/(liabilities)	885,000	19,957	904,957

(b) Fair net values

The company's financial assets and liabilities included in current assets and liabilities in the statement of financial position are carried at amounts that approximate net fair value.

(c) Credit risk exposures

The company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

Note 15 Director and executive disclosures

Directors

The following persons were directors of Lodestone Exploration Limited during the financial year:

Chairman – non-executive

J T Shaw

Executive director

J L McCawley

Non-executive directors

M C Ackland

G A J Baynton

Executives (other than directors) with authority for strategic direction and management

L P Stanley, as a result of her position of company secretary, is considered a specified executive. Due to the small size of the entity there are no other specified executives.

Remuneration of directors

Principles used to determine the nature and amount of remuneration

Non-executive directors

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

Note 15 Director and executive disclosures (continued)

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$160,000 in aggregate.

Executive director

The executive directors' pay and reward framework has two components: base pay and superannuation. The combination of these comprises the executives total remuneration. The base pay for the executive director is reviewed annually.

Details of remuneration

Details of the remuneration of each director of Lodestone Exploration Limited are set out in the following table.

2005	Primary	Post-employment	Equity	
	Cash salary and fees \$	Superannuation \$	Options \$	Total \$
Directors				
J T Shaw	40,000	3,600	–	43,600
J L McCawley	68,750	6,188	–	74,938
M C Ackland	30,000	2,700	–	32,700
G A J Baynton	30,000	2,700	–	32,700
Total	168,750	15,188	–	183,938
Specified executive				
L P Stanley	15,000	–	–	15,000

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

Total remuneration of directors of Lodestone Exploration Limited for the year ended 30 June 2004 is set out below.

2005	Primary	Post-employment	Equity	
	Cash salary and fees \$	Superannuation \$	Options \$	Total \$
J T Shaw	40,000	3,600	–	43,600
J L McCawley	43,333	3,900	–	47,233
M C Ackland	30,000	2,700	–	32,700
G A J Baynton	30,000	2,700	–	32,700
Total	143,333	12,900	–	156,233

Equity instrument disclosures relating to directors and executives

Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Lodestone Exploration Limited is set out below.

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
J T Shaw	405,000	–	–	(5,000)	400,000	400,000
M C Ackland	218,750	–	–	(18,750)	200,000	200,000
G A J Baynton	427,500	–	–	(227,500)	200,000	200,000
J L McCawley	–	–	–	–	–	–
Total	1,051,250	–	–	(251,250)	800,000	800,000

Note 15 Director and executive disclosures (continued)

Shareholdings

The number of ordinary shares in the company held during the financial year by each director and specified executive of Lodestone Exploration Limited is set out below.

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors				
J T Shaw	110,000	-	-	110,000
M C Ackland	37,500	-	-	37,500
G A J Baynton	1,604,333	-	-	1,604,333
J L McCawley	5,147,147	-	-	5,147,147
Total	6,898,980	-	-	6,898,980
Specified executive				
L P Stanley	7,000	-	-	7,000

Other Transactions with Directors and Specified Executives

G Baynton is a director of Orbit Capital Pty Limited, which received a management fee in respect of equity raised during the financial year, such service being provided in the ordinary course of business to the company.

LP Stanley is a partner of the firm Stanley Yeates & Associates, which received professional fees in respect of accounting and administrative services provided to the company on normal commercial terms and conditions in the ordinary course of business.

The wife of a director, Mr G Baynton, is a director of Nous Corporate Pty Ltd and has the capacity to significantly influence decision making of that company. Nous Corporate Pty Ltd provided professional services to Lodestone Exploration Limited during the prior financial year.

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

	2005	2004
	\$	\$
Management fee	7,500	-
Consulting fees	-	4,074
Professional fees	45,000	-

Note 16 Remuneration of auditors

	2005 \$	2004 \$
During the year the following services were paid to the auditor, its related practices and non-related audit firms:		
Assurance services		
1. Audit services		
Fees paid to Pitcher Partners for audit and review of financial reports and other audit work under the Corporations Act 2001	17,000	18,750
Total remuneration for assurance services	<u>17,000</u>	<u>18,750</u>
Taxation services		
Fees paid to Pitcher Partners for tax compliance services, including review of company income tax returns	3,000	2,760
Share registry services		
Fees paid to Pitcher Partners for maintaining the company's share register	–	6,320

It is the company's policy to employ Pitcher Partners on assignments additional to their statutory audit duties where Pitcher Partners' expertise and experience with the company are important. These assignments are mainly tax advice.

Note 17 Related parties

Directors

Disclosures relating to directors are set out in note 15.

Note 18 Events occurring after reporting date

Since 30 June 2005 shareholders have been invited to participate in a Share Purchase Plan which closes on 30 September 2004. The issue price is 6.5 cents per ordinary share and the maximum number of shares to be issued under the plan will be 10,490,221 for a maximum raising of \$681,846.

In addition the company has announced a conditional placement of 4,864,618 ordinary shares at 6.5 cents each for total gross proceeds of \$316,200. This placement is conditional upon shareholder approval at the 2005 Annual General Meeting.

Note 19 Reconciliation of loss from ordinary activities after income tax to net cash outflow from operating activities

	2005 \$	2004 \$
Loss from ordinary activities after income tax	(910,476)	(720,295)
Exploration abandoned	650,919	477,987
Depreciation	7,011	3,571
Change in operating assets and liabilities:		
(Increase)/decrease in other debtors	4,962	11,236
(Increase)/decrease in interest receivable	2,158	3,466
Increase/(decrease) in trade creditors	613	(22,412)
Net cash outflow from operating activities	<u>(244,813)</u>	<u>(246,447)</u>

Note 20 Commitments for expenditure

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2005 \$	2004 \$
Within one year	–	2,890

Exploration commitments

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

Within one year	942,200	900,790
Later than one year but not later than 5 years	1,456,400	1,803,000
Later than 5 years	–	–
Commitments not recognised in the financial statements	2,398,600	2,703,790

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

Exploration commitments total \$2,398,600. They extend over 17 exploration tenements and are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, and new capital raisings.

Note 21 Earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	(2.72)	(2.33)
Diluted earnings per share	(2.72)	(2.33)

Weighted average number of shares used as the denominator

	2005 Number	2004 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	33,455,798	30,914,132
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	33,455,798	30,914,132

Note 22 Impacts of adopting Australian equivalents to IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against retained earnings as at 1 July 2004.

The entity has established a project team to manage the transition to AIFRS. The project team is chaired by the Company Secretary. The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the entity.

The expected financial effects of adopting AIFRS are not expected to be material. This is based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that additional disclosures may have to be made.

Impact on the statement of financial performance and the statement of financial position

	2005 \$	2004 \$
Total equity reported under existing GAAP	1,376,666	1,896,892
Effect of change on:		
Income taxes	-	-
Exploration and evaluation costs	-	-
Total equity reported under AIFRS	<u>1,376,666</u>	<u>1,896,892</u>
Net profit reported under existing GAAP	(910,476)	
Tax effect of adjustment relating to share issue costs	-	
Impairment of assets	-	
Net profit under AIFRS	<u>(910,476)</u>	

Note 22 Impacts of adopting Australian equivalents to IFRS (continued)

Notes explaining the impacts on the statement of financial performance and statement of financial position

Income taxes

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If AASB 112 had been applied during the year ended 30 June 2005 there would have been no effect on either the statement of financial performance or statement of financial position as a result of Lodestone's accounting policy of not booking deferred tax assets or deferred tax liabilities in the exploration phase.

Exploration and Evaluation Costs

The IASB has decided to fully grandfather national GAAP such as Australia's existing area of interest method of accounting for exploration costs until such time as the IASB produces a comprehensive extractive industry IFRS. Accordingly, at this time it is expected that the current policy will continue under the grandfathering in the transition to Australian equivalents of IFRS. The policy will, however, be subject to possible future change under a more comprehensive extractive industry IFRS post 2005.



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LODESTONE EXPLORATION LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for Lodestone Exploration Limited (the company) for the year ended 30 June 2005.

The Directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
LODESTONE EXPLORATION LIMITED (continued)**

Audit opinion

In our opinion, the financial report of Lodestone Exploration Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.



PITCHER PARTNERS
Brisbane, 20 September 2005



S A Green
Partner

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2005.

A. Distribution of equity securities

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

	Class of equity security
	Ordinary Shares
1 – 1,000	19
1,001 – 5,000	37
5,001 – 10,000	267
10,001 – 100,000	251
100,001 and over	52
	626

There were 131 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
John Lachlan McCawley	5,097,147	14.58
Maria Julienne Barron	2,492,748	7.13
Foxxcorp Holdings Limited	2,000,000	5.72
Allegro Capital Nominees Pty Limited	1,201,000	3.43
Raul Used	1,000,011	2.86
Noel Clarence White	1,000,000	2.86
TBIC Pty Limited	900,000	2.57
Talmetal Pty Limited	885,000	2.53
Damplin Investments Pty Ltd	750,000	2.14
Nicola Maree Mullins	500,000	1.43
Closemarket Pty Limited	387,500	1.11
Donald Julien Channer	375,000	1.07
William J Daffron	360,000	1.03
Carl Adolph Morawitz & Gail Josephine Morawitz	356,275	1.02
William May	336,000	0.96
Badge Nominees Pty Limited	300,000	0.86
Bedel & Sowa Corp Pty Limited	300,000	0.86
Ross Morris Beames & Sally Jane Munro	250,000	0.71
Deslie Dawn Brampton	250,000	0.71
Scott William Power	250,000	0.71
	18,990,681	54.29

Unquoted equity securities

	Number of issue	Number of holders
Unquoted options	900,000	4

Holders of greater than 20% of unquoted equity securities

Name	Unlisted options	
	Number held	Percentage of unquoted options
John Shaw	200,000	22.22%
Martin Ackland	200,000	22.22%
Greg Baynton	200,000	22.22%

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
John Lachlan McCawley	5,097,147	14.58
Maria Julienne Barron	2,492,748	7.13
Foxxcorp Holdings Limited	2,000,000	5.72

D. Voting rights

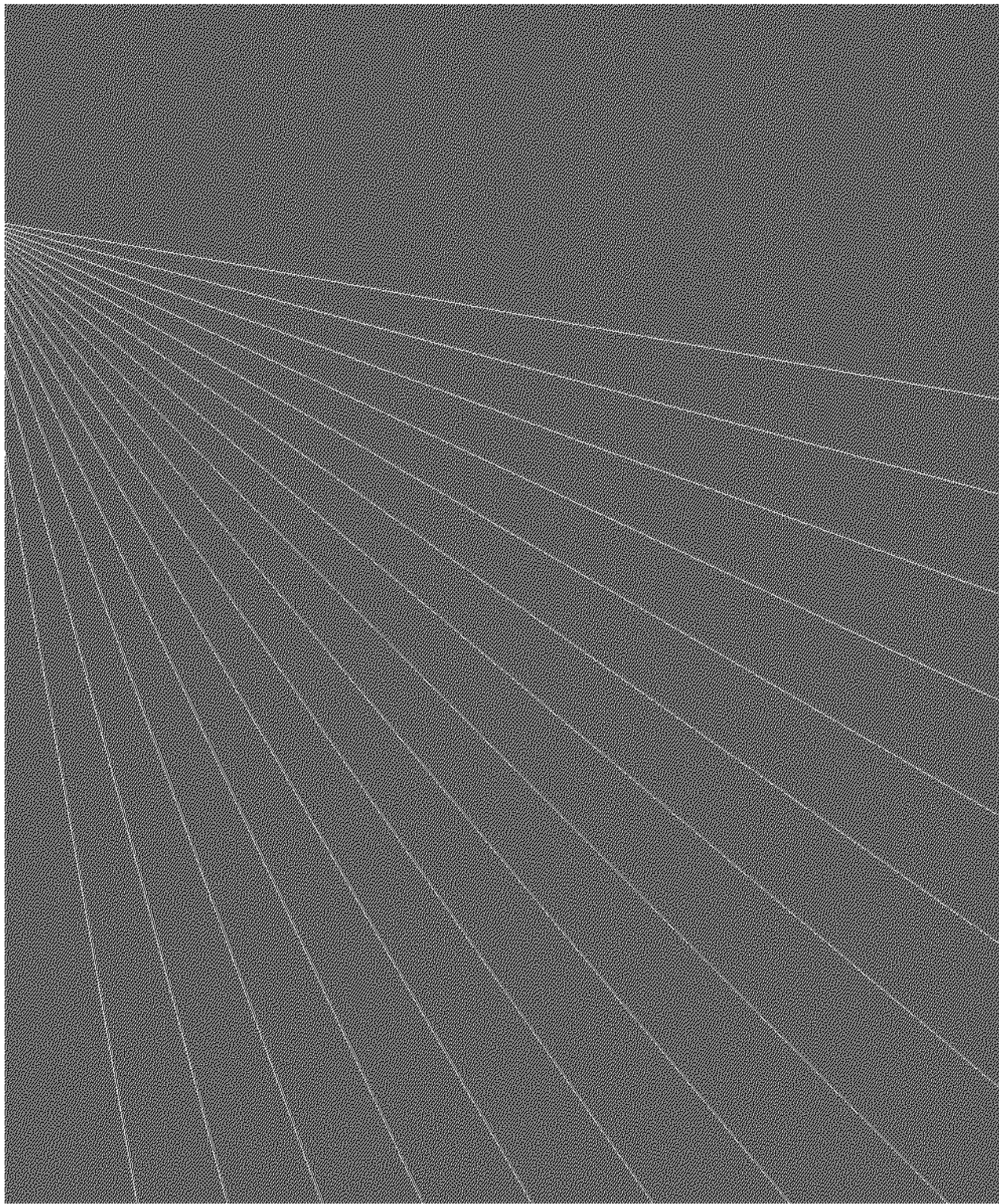
The voting rights attaching to each class of equity securities are set out below:

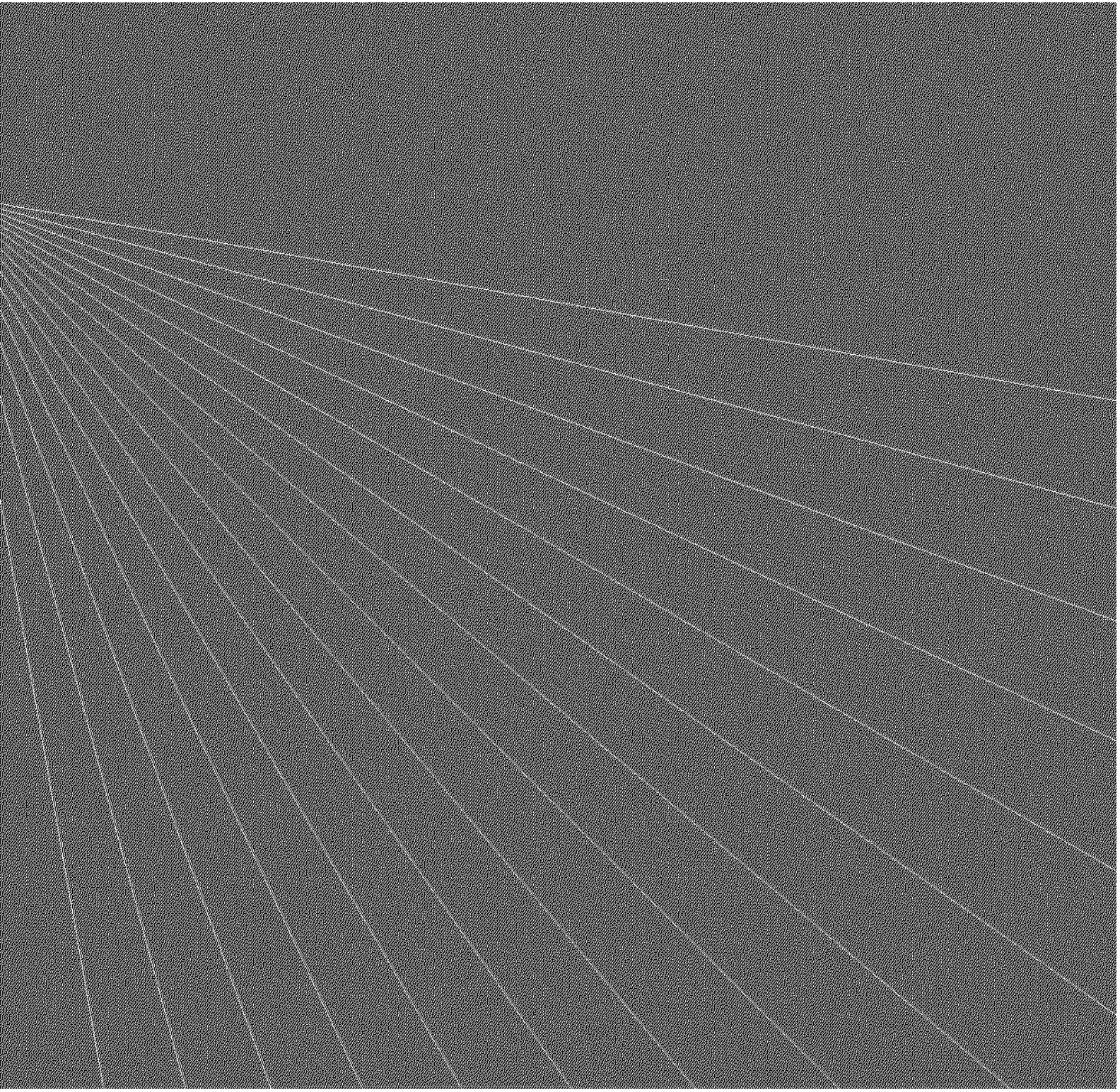
(a) Ordinary shares

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

(b) Options

No voting rights.





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