

LODESTONE EXPLORATION LIMITED
ABN 20 075 877 075

HALF-YEAR REPORT – 31 DECEMBER 2008

Contents

Half-year financial report	
Directors' report	1
Auditor's Independence Declaration	2
Income statement	3
Balance sheet	4
Statement of changes in equity	5
Cash flow statement	6
Notes to the financial statements	7
Directors' Declaration	9
Independent Auditor's Review Report	10

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Lodestone Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

LODESTONE EXPLORATION LIMITED

DIRECTORS' REPORT

Your directors present their report on the company for the half-year ended 31 December 2008.

Directors

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

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

Review of Operations

The operating loss after income tax of the company for the half-year was \$730,156 (2007: loss \$797,132). The loss reflects the nature of the company's principal activity, being mineral exploration.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the company's auditors, Hacketts DFK, to provide the directors with a written Independence Declaration in relation to their review of the financial report for the half-year ended 31 December 2008. The Auditor's Independence Declaration is attached and forms part of this Directors' Report.

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



M C Ackland
Chairman

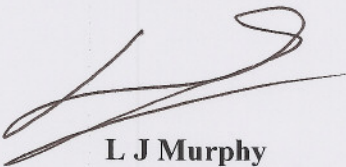
23 February 2009

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

In relation to the review of Lodestone Exploration Limited's financial report for the half-year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001*,
and
- (b) no contraventions of any applicable code of professional conduct.

Hacketts DFK



L J Murphy
Partner

Brisbane, 23 February 2009

LODESTONE EXPLORATION LIMITED

INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	2008 \$	Half-year 2007 \$
Revenue from operations	-	-
Other income	35,830	16,635
Professional services expenses	(92,936)	(53,144)
Tenement expenditure written off	(237,957)	(594,353)
Corporate overhead expenses	(150,612)	(91,945)
Depreciation expenses	(6,576)	(6,200)
Directors' remuneration	(277,905)	(68,125)
Loss before income tax	(730,156)	(797,132)
Income tax expense	-	-
Loss attributable to members of Lodestone Exploration Limited	(730,156) =====	(797,132) =====
	 Cents	 Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:		
Basic earnings per share	(0.4)	(0.7)
Diluted earnings per share	(0.4)	(0.7)

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

LODESTONE EXPLORATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2008

	31 December 2008 \$	30 June 2008 \$
ASSETS		
Current assets		
Cash and cash equivalents	1,394,837	586,204
Receivables	40,915	20,466
Total current assets	1,435,752	606,670
Non-current assets		
Plant and equipment	18,169	18,593
Tenement expenditure	303,261	280,850
Other	53,680	39,180
Total non-current assets	375,110	338,623
Total assets	1,810,862	945,293
	=====	=====
LIABILITIES		
Current liabilities		
Payables	55,056	87,467
Total current liabilities	55,056	87,467
Total liabilities	55,056	87,467
	=====	=====
Net assets	1,755,806	857,826
	=====	=====
EQUITY		
Contributed equity	8,259,087	6,769,825
Reserves	198,937	60,063
Accumulated losses	(6,702,218)	(5,972,062)
Total equity	1,755,806	857,826
	=====	=====

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

LODESTONE EXPLORATION LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	2008 \$	Half-year 2007 \$
Total equity at the beginning of the half-year	857,826	1,528,556
Loss for the half-year	(730,156)	(797,132)
Movement in share option reserve	138,874	-
Transactions with equity holders in their capacity as equity holders: Contributions of equity, net of transaction costs (note 4)	1,489,262	-
Total equity at the end of the half-year	1,755,806 =====	731,424 =====

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

LODESTONE EXPLORATION LIMITED

CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	2008 \$	Half-year 2007 \$
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,890	75,847
Payments to suppliers (inclusive of goods and services tax)	(475,205)	(263,973)
Interest received	32,997	19,854
Net cash outflow from operating activities	<u>(440,318)</u>	<u>(168,272)</u>
Cash flows from investing activities		
Payments for tenement expenditure	(159,659)	(563,038)
Payments for fixed assets	(6,152)	-
Payment for security deposit	(14,500)	(5,000)
Refund of security deposit	-	2,500
Net cash outflow from investing activities	<u>(180,311)</u>	<u>(565,538)</u>
Cash flows from financing activities		
Proceeds from share issue	1,429,262	-
Payment of share issue costs	-	-
Net cash inflow from financing activities	<u>1,429,262</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	808,633	(733,810)
Cash and cash equivalents at the beginning of the half-year	586,204	1,102,491
Cash and cash equivalents at the end of the half-year	<u>1,394,837</u> =====	<u>368,681</u> =====

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

LODESTONE EXPLORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Lodestone Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

These accounting policies include the capitalisation of tenement expenditure which as at 31 December 2008 amounts to \$303,261 (2007 : \$280,850). Expenditure on tenements represents a significant asset of the company. Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of tenement expenditure there is uncertainty as to the carrying value of tenement expenditure. The ultimate recovery of the carrying value of tenement expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interest in the tenements. The Directors are of the opinion that the tenement expenditure is recoverable for the amount stated in the financial report.

Note 2 Segment information

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

Note 3 Loss for the half-year

	2008 \$	Half-year 2007 \$
Loss for the half-year includes the following items that are unusual because of their nature, size or incidence:		
Expenses		
Loss before income tax includes the following specific expenses:		
Tenement expenditure written off	237,957	594,353
Depreciation	6,576	6,200

Note 4 Equity securities issued

	Half-year 2008 Shares	Half-year 2007 Shares	Half-year 2008 \$	Half-year 2007 \$
Issues of ordinary shares during the half-year				
Shares issued	48,085,314	-	1,489,262	-
Share issue expenses			-	-
Net increase in contributed equity	48,085,314	-	1,489,262	-

LODESTONE EXPLORATION LIMITED

Note 4 Equity securities issued (continued)

	Half-year	
	2008 Shares	2007 Shares
Movement in options during the half-year		
Options issued	10,000,000	-
Options exercised	(3,835,239)	-
Options expired	(27,098,395)	(800,000)

Note 5 Commitments for expenditure

	31 December 2008 \$	30 June 2007 \$
Exploration commitments		
Commitments as at 31 December 2008 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	315,000	2,422,100
Later than one year but not later than 5 years	490,000	2,588,000
Later than 5 years	-	-
Commitments as at 31 December 2008 not recognised in the financial statements	805,000	5,010,100

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

Exploration commitments total \$805,000. They are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, and new capital raisings.

Note 6 Events occurring after the balance sheet date

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

LODESTONE EXPLORATION LIMITED

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 1 to 8:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory financial reporting requirements, and
- (b) give a true and fair view of the company's financial position as at 31 December 2008 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that Lodestone Exploration Limited will be able to pay its debts as and when they become due and payable.

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



M C Ackland
Chairman

Brisbane
23 February 2009

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF LODESTONE EXPLORATION LIMITED

We have reviewed the accompanying half-year financial report of Lodestone Exploration Limited ("the company"). The half-year financial report comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, together with a statement of accounting policies, other selected explanatory notes and the Directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

Independence

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

Modified Conclusion

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

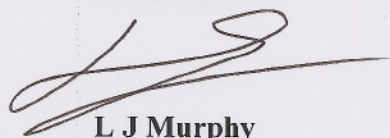
- (a) giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Inherent Uncertainty regarding capitalised Tenement Expenditure

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

As a result of the matter described in Note 1 to the financial statements, there is uncertainty as to whether the company will be able to recover the carrying value of capitalised tenement expenditure.

Hacketts DFK



**L J Murphy
Partner**

Brisbane, 23 February 2009