



# MARKET RELEASE

7 March 2003

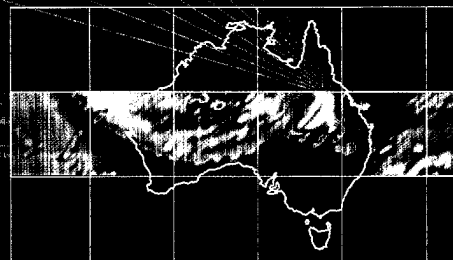
Lodestone Exploration Limited

Lodestone Exploration Limited has applied for admission to the official list of Australian Stock Exchange Limited and for quotation of its securities. It has been given a provisional ASX code. Provision of an ASX code and publication of the following information does not mean that the entity will be admitted or that its securities will be quoted.

Pam Ross  
**Manager Company Announcements Office**

PROSPECTUS

**LODESTONE EXPLORATION LIMITED**  
ABN 20 075 877 075



Exploring the Mount Morgan metals  
district with advanced technologies

UNDERWRITER: ABN AMRO MORGANS CORPORATE LIMITED  
ABN 32 010 539 607

 **ABN-AMRO Morgans**

FOR AN UNDERWRITTEN OFFER OF 12,500,000 SHARES,  
AT 20 CENTS EACH, TO RAISE \$2,500,000 TOGETHER WITH  
ONE ATTACHING OPTION FOR EVERY TWO SHARES ISSUED.



## CORPORATE DIRECTORY

### DIRECTORS

John T Shaw (Chairman)  
Martin Ackland  
Gregory A.J. Baynton  
John McCawley  
Patrick Sankey

### COMPANY SECRETARY

Leni Stanley

### CONSULTANT AND GENERAL MANAGER

Mark Dugmore

### CONSULTANT AND CHIEF GEOLOGIST

Peter Fox

### REGISTERED OFFICE

c/o Stanley Yeates & Associates  
Chartered Accountants  
Level 18, 200 Mary Street, Brisbane QLD 4000

### LAWYERS TO THE OFFER

Corrs Chambers Westgarth  
Level 35, Waterfront Place,  
1 Eagle Street, Brisbane QLD 4000

### INDEPENDENT EXPERT

Ian Youles – Consulting Geologist  
Burgar Road, Middleton SA 5213

### CORPORATE ADVISOR

Orbit Capital Pty Ltd  
Level 29, Riverside Centre,  
123 Eagle Street, Brisbane QLD 4000

### UNDERWRITER TO THE SHARE OFFER

ABN AMRO Morgans Corporate Limited  
Level 29, Riverside Centre,  
123 Eagle Street, Brisbane QLD 4000

### AUDITOR AND INDEPENDENT ACCOUNTANT

Douglas Heck & Burrell  
Chartered Accountants  
Level 21, 300 Queen Street, Brisbane QLD 4000

### SHARE REGISTRY

Douglas Heck & Burrell Registries  
Level 22, 300 Queen Street, Brisbane QLD 4000  
Telephone: 07 3228 4219  
Facsimile: 07 3221 3149

## ELECTRONIC PROSPECTUS

### PROSPECTUS AVAILABILITY

This prospectus is available in electronic form on the Internet at:

[www.lodestonex.com](http://www.lodestonex.com)  
[www.abnamromorgans.com.au](http://www.abnamromorgans.com.au)

The offer of securities under this prospectus is made in Australia only and pursuant to the Australian Corporations Act. Access to this prospectus by persons outside of Australia is not permitted. The Company is entitled to refuse an application for securities under this prospectus if it believes that the applicant did not receive the offer in Australia.

Any person receiving this prospectus electronically will be sent a paper copy of the prospectus (and attached Application Form) by the Underwriter free of charge on request during the period of the Share Offer.

Applications must be made by completing a paper copy of the Application Form. The Company will not accept Application Forms electronically.

The Application Form may only be distributed attached to a complete and unaltered copy of the prospectus. The Application Form attached to this prospectus contains a declaration that the investor has personally received the complete and unaltered prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the applicant has not received a complete paper copy or electronic copy of the prospectus, or if it has reason to believe that the Application Form or electronic copy of the prospectus has been altered or tampered with in any way.

Applicants should read this prospectus in its entirety before deciding to apply for securities. If you do not understand this prospectus, you should consult your sharebroker, accountant or other professional adviser without delay, in order to satisfy yourself as to the contents of this prospectus.

The Shares and Options offered by this prospectus are speculative in nature.

## LODESTONE EXPLORATION LIMITED

GPO Box 762, Brisbane QLD 4001  
Telephone: 07 3003 1159  
Facsimile: 07 3003 0200  
e-mail: [info@lodestonex.com](mailto:info@lodestonex.com)  
Website: [www.lodestonex.com](http://www.lodestonex.com)

Investment in Securities offered by this prospectus should be considered speculative.

This prospectus is important and should be read in its entirety, together with the Application Form attached to this prospectus. If after reading this prospectus you have any questions you should consult your professional adviser.



The Directors  
Lodestone Exploration Limited  
PO Box 71  
Mount Morgan  
Queensland 4714

5 February 2003

Ian Youles - Consulting Geologist  
ABN 72 809 062 525  
Burgar Road, Middleton  
South Australia  
P.O. Box 2118, Middleton, S.A. 5213  
Ph: 08-8555 4046 Fax: 08-8555 4151  
Email: youles@ozemail.com.au

Dear Sirs

### **RE: INDEPENDENT CONSULTING GEOLOGIST'S REPORT**

I refer to the report of 30 December 2002 (the "Report") that I provided to you for inclusion in the prospectus, which Lodestone lodged with Australian Securities and Investments Commission on Friday 24 January 2003.

In the last paragraph of the Executive Summary of the Report, I referred to a budgeted expenditure of \$1,640,000 over two years. I acknowledge that the Company's budgeted expenditure over those two years is \$1,663,000 and I confirm that all of the statements in that paragraph in relation to budgeted expenditure are applicable in respect of a budgeted expenditure of \$1,663,000.

In addition to the statements set out in the first paragraph of Section 8.6 of the Report, I add that Lodestone Exploration Limited represented in writing to me that it had disclosed to me in full all material information for the preparation of the Report and, that to the best of its knowledge and understanding, such information was complete, accurate and true.

In addition to the last sentence in the third paragraph of Section 8.0 of the Report, I add that reference should be made to the Legal Report on Tenements in Section 9 of the prospectus for the details and status of the tenements and tenement applications and that reference should be made to Section 12.2 of the prospectus for a summary of the BHP Billiton Agreement.

I consent to a copy of this letter being provided with the prospectus.

Yours faithfully



**Ian Youles**  
*BSc ARSM FAIMM MIMM CEng*

## 2. IMPORTANT NOTES

This prospectus is dated 24 January 2003 and a copy of this prospectus was lodged with the Australian Securities and Investments Commission (ASIC) on that date (Lodgement Date). Neither ASIC nor Australian Stock Exchange Limited (ASX) takes any responsibility for the contents of this prospectus.

No Shares or Attaching Options will be allotted or issued on the basis of this prospectus later than 13 months after the date of this prospectus.

Shares issued pursuant to the exercise of Attaching Options will be issued on the terms and conditions on which the Attaching Options are granted (See Section 13.2.1 of this prospectus) and in any event not more than 14 days after the Company receives notice of exercise of the Attaching Option and payment of the exercise price for the Attaching Option. This prospectus does not constitute an offer of securities in any jurisdiction where, or to any person to whom, it would not be lawful to make such an offer.

Applications for Shares and Attaching Options can only be made by completing the Application Form in full, in accordance with the instructions in this prospectus.

The Company will not accept applications under this prospectus during the period of seven days after the Lodgement Date, or such other period (not exceeding 14 days after the Lodgement Date) as ASIC may require. No preference will be conferred on applications received during this period. The purpose of this period is to enable this prospectus to be examined by market participants prior to the raising of funds. This examination may result in the identification of a deficiency in this prospectus. If this occurs, the Company will:

- return all application money that the Company has received; or
- give to each applicant a supplementary or replacement prospectus that corrects the deficiency and give the applicant the option to withdraw the application within one month and be repaid the application money; or
- issue to the applicant the securities applied for in the application, give to each applicant a supplementary or replacement prospectus that corrects the deficiency, and give the applicant the option to withdraw the application within one month and be repaid the application money.

Certain terms in this prospectus have defined meanings that are explained in Section 14 of this prospectus.

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## KEY DATES

Offer Opens	10 February 2003
Offer Closing Date	5 March 2003
Intended date of quotation of Shares on ASX	14 March 2003

### 3. CHAIRMAN'S LETTER

Lodestone Exploration Limited  
ABN 20 075 877 075

24 January 2003



Dear Investor

On behalf of the Directors, it is my pleasure to introduce this prospectus to you and invite you to invest in Lodestone Exploration Limited (Lodestone).

Lodestone is an exploration company focused on identifying and investigating potential blind or hidden ore bodies in Central Queensland, Australia. Established in 1996, the Company has more than 600 square kilometres of prospective tenements commencing three kilometres south of the historic Mount Morgan mine.

The Mount Morgan ore deposit was Australia's premier volcanic-hosted massive sulphide (VHMS) deposit. In the late nineteenth and twentieth centuries, this deposit yielded more than 9.4 million ounces of gold and 360,000 tonnes of copper. It has been described as the greatest single mountain of gold ever discovered.

Ore bodies similar in style to Mount Morgan exist in other countries. VHMS deposits typically occur as clusters of deposits, seldom as one in isolation. Due to the past limitations of available technologies, the detection of similar satellite deposits under cover rocks in the Mount Morgan area was not possible.

Today, Lodestone is in a position to explore in the Mount Morgan area using advanced technologies. In addition to securing a prospective tenement area, the Company has been able to use the advances made in airborne electromagnetic survey techniques to commission geophysical exploration of the region southeast of the original Mount Morgan deposit.

The prospective ground includes area covered by a substantial thickness of volcanic rocks. Technology available in the past decade was not capable of detecting ore bodies beneath such cover. Advances in geophysical techniques have opened up this underlying area to electromagnetic examination. Since 1998, three airborne electromagnetic surveys have identified more than 15 electromagnetic (EM) anomalies. Massive sulphide deposits would be expected to provide EM anomalies.

In 2002, Lodestone entered into an agreement confirming an exploration alliance with BHP Billiton. If a mineral resource with an inground commodity value of greater than \$750 million is identified and BHP Billiton incurs total exploration expenditure of \$8 million or completes a bankable feasibility study, BHP Billiton will earn a 70% interest in the tenements. The rights to smaller deposits would remain with Lodestone. (See summary of the BHP Billiton Agreement in Section 12)

This prospectus seeks to raise \$2.5 million at 20 cents per Share (with 1:2 Attaching Options) which, based on current budgets will provide sufficient funds for the exploration program for two years. The proceeds of the Share issue will be used largely for follow-up geophysical surveys and to drill the conductors, which the Company intends to commence soon after quotation on the ASX.

While investment in Lodestone Shares under this prospectus must be considered speculative, our dual strategies of pursuing a potential world-class discovery and maintaining, where possible, a tight capital structure, are intended to maximise shareholder wealth in the event of exploration success.

On behalf of the Board of Directors, I commend this offer to you. Please read the prospectus thoroughly and consult your financial adviser if you have any queries. I look forward to welcoming you on board as a shareholder in Lodestone.

A handwritten signature in black ink, appearing to read 'JT Shaw'.

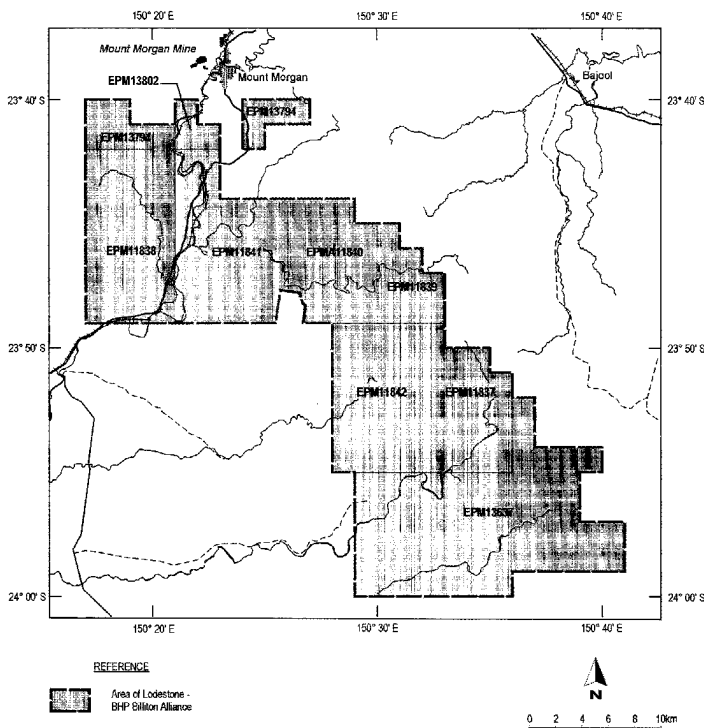
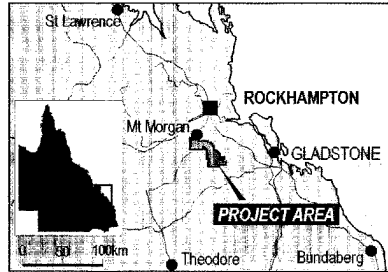
JT Shaw  
Chairman



#### 4. INVESTMENT HIGHLIGHTS

- Founded in 1996, Lodestone is a gold and base metals exploration company with well-located tenements in Central Queensland.
- Lodestone has an experienced and strong technical and commercial management team.
- The objective is clear and focused; to discover major gold and/or copper-gold deposits similar to Mount Morgan.
- The wholly-owned tenements are located in close proximity to the Mount Morgan mine and include occurrences of the prospective Mine Corridor Equivalents.
- Limited airborne exploration has been conducted on the tenements. Until recently they had not been assessed using modern geophysical search techniques.
- Advanced exploration tools and concepts are being used by Lodestone and electromagnetic (EM) surveys have generated priority drill targets.
- Lodestone intends to commence drilling soon after listing.
- Benefits, including access to specialist technology and expertise, arise from a strategic alliance with BHP Billiton on the Mount Morgan project.
- Areas of initial interest to Lodestone are primarily freehold or exclusive leasehold, and as such, are expected to have minimal native title risk.
- The region is well serviced in terms of personnel and infrastructure.
- A tight capital structure offers excellent investment upside to exploration success.
- 1:2 Attaching Options accompany all Shares issued under this prospectus. The Company will seek quotation of these options. The Attaching Options offer investors further upside potential in the event of exploration success.

LOCATION DIAGRAM



Prepared by AUSMEC – Australasian Mineral Exploration Consultants (“AUSMEC”) after Tenement Administration Services 2002.

The Company has more than 600 square kilometres of prospective tenements, commencing three kilometres south of the historic Mount Morgan mine.

#### MOUNT MORGAN PROJECT

#### TENEMENT LOCATION

## 5. OVERVIEW OF THE MOUNT MORGAN PROJECT

### 5.1 INTRODUCTION

The objective of exploration on the Company's Mount Morgan tenements is to discover large gold-copper deposits. This section provides an outline of the Mount Morgan Project. A technical assessment of the exploration project is contained in the Independent Geologist's Report in Section 8 of this prospectus.

### 5.2 MOUNT MORGAN PROJECT

Lodestone is seeking similar and related orebodies to the Mount Morgan mine, the premier volcanic-hosted massive sulphide deposit (VHMS) in Australia. During its productive years, the Mount Morgan mine produced more than 9.4 million ounces of gold and 360,000 tonnes of copper. VHMS deposits usually occur as clusters, rarely as an isolated deposit. Accordingly, the Mount Morgan district may include deposits similar to the Mount Morgan mine. There are a variety of related, but dissimilar, VHMS mineral deposits that may also be found.

The Mount Morgan Project is located approximately 40 kilometres southwest of Rockhampton, Queensland. It comprises eight exploration permits and an application for a permit (see legal report on tenements in Section 9 of this prospectus). The area covered by the permits and the application is approximately 621 square kilometres and is located south of the town of Mount Morgan. The northern-most tenement boundary lies approximately three kilometres south of the original Mount Morgan mine.

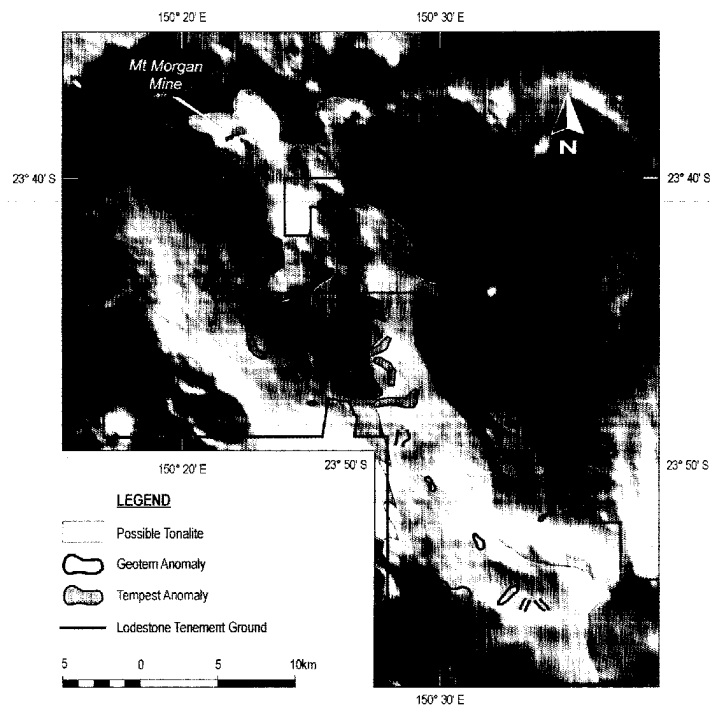
From detailed assessment of previous exploration and extensive geological fieldwork, Lodestone determined that a prospective corridor extends over 25 kilometres southeast from the Mount Morgan mine into the tenement area. This corridor is believed to be prospective for Mount Morgan-type gold-copper orebodies (see summary of previous exploration in Section 8.2 of this prospectus).

In recent times, two significant advances have occurred that improve the exploration prospects for Lodestone's tenements:

- while the geology in the tenement area has been long-recognised as prospective, the area was inaccessible to geophysical techniques due to a substantial layer of volcanic rock cover. Prior to Lodestone's formation, the technology available was not capable of detecting ore bodies beneath such cover rocks. Technology has now developed to the point where this geology can be successfully explored; and
- the extent of the prospective corridor, and the occurrence of favourable geology on Pomegranate station to the south of the mine, was not previously known and therefore not adequately explored.

### 5.3 RECENT EXPLORATION

BHP Billiton has recently stated that the pre-mining Mount Morgan resource of about 9.4 million ounces of gold and 360,000 tonnes of copper would, if discovered today, potentially be of interest to BHP Billiton. According to BHP Billiton, given that a significant portion of the Mount Morgan deposit occurs as massive sulphide, airborne electromagnetic surveying techniques are considered an effective search method and should detect mineralisation if it is present.



Prepared by D. Price and AUSMEC, 2002.

#### EXTENT OF TONALITE DEFINED BY AEROMAGNETIC INTERPRETATION

### FIGURE 1

The favourable host rock sequence associated with the Mount Morgan deposit continues southeast from the Mine into the Lodestone tenements for a distance of some 25 kilometres. Airborne electromagnetic (EM) surveys have identified more than 15 EM anomalies.



In 1998, as part of a joint venture between BHP Minerals Pty Ltd and Lodestone, BHP Minerals Pty Ltd commissioned an airborne electromagnetic survey (GEOTEM) over a prospective area within Lodestone's tenements south of Mount Morgan. This survey is believed to have been effective over most of the area to a depth of at least 300 metres and nine EM anomalies were identified from the data. Massive sulphide deposits would be expected to provide EM anomalies such as these.

Six of the GEOTEM anomalies (G1, G4, G5, G7, G8, G9) occur over the cover sequence of the Mount Hoopbound Formation while three anomalies (G2, G3, G6) occur over Raspberry Creek Formation rocks. The strongest of the EM anomalies is G7, where quartz veining with associated alteration occurs within the area of this anomaly.

Other geological features in the vicinity of the GEOTEM anomalies include:

- gold mineralisation in prospects;
- siliceous alteration and pyritic breccias;
- structural complexity;
- interpreted subsurface intrusions; and
- zones of increased magnetic activity similar to the Mount Morgan mine.

At least one GEOTEM target is ready for immediate drill testing after recently confirming its size with the new airborne HoistEM system over this target while the remaining GEOTEM anomalies may require additional definition prior to drill testing. An initial drilling program is planned to commence soon after the date of listing to test a number of shallow targets.

In July and August 2002, a TEMPEST airborne electromagnetic survey was flown over a separate area. Preliminary assessment of the data obtained indicates there are eight main clusters of individual anomalies in this new area, with potential sulphide mineralisation worthy of immediate follow-up work and drilling. Of these TEMPEST anomalies, three are top priority targets, and 25 require detailed investigation by geological fieldwork to upgrade them to drill targets.

#### 5.4 BHP BILLITON AGREEMENT

In October 2002, Lodestone entered into an agreement confirming an exploration alliance with BHP Billiton in respect of the Mount Morgan Project. The BHP Billiton Agreement confirms that Lodestone's interest in the tenements (and in the joint venture established between the parties) is initially 100%. BHP Billiton will earn a 70% interest in the tenements (and in the joint venture) if, within 6 years after a prescribed date, BHP Billiton:

- incurs expenditure of \$8 million on exploration and evaluation of the tenements; or
- completes a bankable feasibility study,

and a mineral resource with an in-ground commodity value of greater than \$750 million has been identified. (See summary of the BHP Billiton Agreement in Section 12 of this prospectus).

Under the agreement, Lodestone may also obtain access to Falcon™, which is an airborne gravity gradiometer system that measures minute changes in the earth's gravity field. Falcon™ is a trademark of BHP Billiton Innovation Pty Ltd. This airborne system can provide a distinct competitive advantage in the search for mineral deposits and hydrocarbon reserves.

#### 5.5 BUSINESS OBJECTIVES AND BUDGET

The objective of exploration on the Mount Morgan Project tenements is to discover large gold-copper deposits.

The work program will drill test the highest priority electromagnetic targets defined from the airborne surveys and on-going work. A further airborne electromagnetic survey is planned for the northern area and BHP Billiton's Falcon™ gravity survey system may also be flown.

The program outlined is founded on current technical knowledge and exploration concepts and is based on the assumption that exploration outcomes will justify an on-going exploration program. The program will be subject to critical technical review. Expenditures and work committed may therefore change as exploration results become available. This is particularly relevant to the Year Two activities as ongoing work is contingent on results achieved



Far left: Mount Morgan - Linda Mine c.1909

from the Year One activities. Native title and heritage issues may also influence the timing of the budgeted expenditures (see discussion in Section 9 of this prospectus).

As the Company is also intending to develop and/or assess new opportunities, as and when they may arise, some funds may be utilised for this pursuit.

The Company will have sufficient working capital to carry out its stated objectives.

## 6. DETAILS OF THE SHARE OFFER

The information set out in this section is not intended to be comprehensive and should be read in conjunction with the more detailed information appearing elsewhere in this prospectus.

### 6.1 THE SHARE OFFER

By this prospectus, the Share Offer seeks to raise \$2.5 million by offering for subscription 12.5 million new Shares at an issue price of 20 cents each, payable in full on application. The Company will issue one Attaching Option with every two Shares issued. Each option is exercisable at 20 cents at any time on or before 7 December 2004.

### 6.2 PURPOSE OF THE SHARE OFFER AND USE OF FUNDS

The net funds raised by the Share Offer after payment of all associated costs are expected to provide the Company with approximately \$2.21 million in additional capital.

This will enable Lodestone to increase the momentum and intensity of its exploration activities south of Mount Morgan, fund the proposed drilling program, meet costs associated with the Share Offer, and cover corporate overheads.

The following table illustrates the proposed application of funds over two calendar years from the date of listing based on the assumption that none of the Attaching Options are exercised before their expiry date:

\$'000	YEAR 1	YEAR 2	TOTAL
Opening Cash	15	1,010	15
Proceeds of Share Issue	2,500	0	2,500
<b>Funds Available</b>	<b>2,515</b>	<b>1,010</b>	<b>2,515</b>
<b>Expenditure:</b>			
Exploration Program	994	669	1,663
Corporate Overheads	293	292	585
Cost of Share Offer*	218	0	218
<b>Total Expenditure</b>	<b>1,505</b>	<b>961</b>	<b>2,466</b>
<b>Closing Cash</b>	<b>1,010</b>	<b>49</b>	<b>49</b>

\* This excludes \$72,000 of IPO-related expenditure, which was paid by the Company prior to completion of the IPO.

Note: If all of the Attaching Options are exercised before their expiry date, the Company would raise additional capital of \$1,250,000 in cash from the issue of Shares on exercise of those options and Closing Cash for Year 2 would be \$1,272,000 (before costs or other expenditure).

### 6.3 CAPITAL STRUCTURE

The capital structure of the Company immediately following the issue of Shares under this prospectus will be as follows:

	ORDINARY SHARES	% EQUITY	IMPLIED CAPITALISATION \$
Existing Ordinary Shares	18,411,154	60%	3,682,231
This Share Offer	12,500,000	40%	2,500,000
<b>Total Shares on Issue</b>	<b>30,911,154</b>	<b>100%</b>	<b>6,182,231</b>
Attaching Options	6,250,000		
Directors' Options	800,000		
Executive Options	100,000		

### 6.4 KEY DATES

The proposed timetable for the Share Offer is set out below:

Applications Open	10 February 2003
Applications Close	5 March 2003
Intended Allotment Date	10 March 2003
Intended Date of ASX Listing	14 March 2003

These dates are indicative only and subject to change. The Company reserves the right to vary all or any dates.

### 6.5 HOW TO APPLY

An application for Shares can only be made on the Application Form attached at the back of this prospectus. The application must be completed in accordance with the instructions set out on the Application Form. All applications for Shares must be for a minimum of 10,000 shares (\$2,000) and after that in multiples of 2,500 Shares (\$500).

Applications for Shares must be accompanied by payment in Australian currency of 20 cents per Share. Cheques must be made payable to "Lodestone Exploration Limited – Share Offer Account" and crossed "Not Negotiable".

Applicants should not forward cash. Receipts for payment will not be issued.



The completed Application Form, together with the cheque(s) for the application monies should be mailed or delivered to the Share Registry or the Underwriter at the address listed in the Corporate Directory of this prospectus.

Application Forms must be received no later than 5:00pm (Eastern Standard Time) on 5 March 2003 unless the Closing Date is varied.

Successful applicants will be advised of their holding following allotment of the Shares and Attaching Options. The Directors, in conjunction with the Underwriter, reserve the right to reject any application or to allocate to any applicant a lesser number of Shares and Attaching Options than that applied for.

#### **6.6 INVESTOR ENQUIRIES**

Any potential investor wishing to make an enquiry about the Offer or requiring additional copies of this prospectus, should contact the Underwriter at the address listed in the Corporate Directory of the prospectus.

#### **6.7 UNDERWRITING**

The Share Offer is fully underwritten by ABN AMRO Morgans Corporate Limited. A summary of the Underwriting Agreement, including the terms upon which the Underwriter may terminate the Underwriting Agreement, is set out in Section 12.1 of this prospectus.

The Underwriter has not underwritten the exercise of the Attaching Options or the issue of any Shares on the exercise of Attaching Options.

#### **6.8 MINIMUM SUBSCRIPTION**

The minimum subscription for the Share Offer is \$2.5 million comprising 12.5 million new Shares at an issue price of 20 cents each. No Shares or Options will be allotted under this prospectus until the minimum subscription for the Shares has been reached.

#### **6.9 STOCK EXCHANGE LISTING**

The Company will apply to ASX within seven days after the date of this prospectus for Lodestone to be admitted to the Official List of ASX and for official quotation of its Shares and the Attaching Options on ASX. If granted, official quotation of the Shares that are not subject to escrow restrictions and

Attaching Options will commence as soon as practicable after the allotment of Shares and Attaching Options to successful applicants.

If the Shares and/or Attaching Options are not admitted to quotation within three months after the date of this prospectus, the Company will:

- return all application money that the Company has received; or
- give each applicant a supplementary or replacement prospectus that changes the terms of the Offer and gives the applicant the option to withdraw the application within one month and be repaid the application money; or
- issue to the applicant the securities applied for in the application, give each applicant a supplementary or replacement prospectus that changes the terms of the Offer, and give the applicant the option to withdraw the application within one month and be repaid the application money.

#### **6.10 CHES**

The Company will apply to participate in CHES pursuant to the Listing Rules and the Securities Clearing House Business Rules. In addition to a CHES sub-register operated by ASX on the Company's behalf, the Company will operate an issuer sponsored sub-register. These two sub-registers, together, will make up the Company's register of members. A successful applicant that elects to hold securities on the issuer sponsored sub-register will be provided with a holding statement (similar to a bank account statement) which sets out the number of securities allotted to the applicant under this prospectus. For a successful applicant that elects to hold securities on the CHES sub-register, the Company will, on allotment, issue an advice to the applicant that sets out the number of securities allotted to the applicant under this prospectus and, at the end of the month of allotment, ASX (acting on behalf of the Company) will provide the applicant with a holding statement that confirms the number of securities allotted.

The Company will not issue certificates to successful applicants.



A holding statement (whether issued by the ASX or the Company) will also provide details of a successful applicant's Holder Identification Number (in case of a holding on the CHES sub-register) and Security holder Reference Number (in the case of a holding on the issuer sponsored sub-register). Following distribution of these initial holding statements to all successful applicants, a holding statement will only routinely be provided to a security holder at the end of any subsequent month during which the balance of the security holder's holding of securities changes. Additional holding statements may be requested at any other time (although an administration fee may be charged).

#### 6.11 OVERSEAS INVESTORS

The distribution of this prospectus, in jurisdictions outside the Commonwealth of Australia, may be restricted by law, and any person who receives this prospectus should inform themselves about and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This prospectus does not constitute an offer of Shares or Attaching Options in any jurisdiction where, or to any person to whom it would not be lawful to issue the prospectus.

It is the responsibility of any overseas applicants to ensure compliance with all laws of any country relevant to their application.

Neither the Shares nor the Attaching Options have been or will be registered under the United States Securities Act and they may not be offered or sold in the United States or to, or for the account of, or for the benefit of United States persons except in transactions exempt from the requirements of the United States Securities Act. Accordingly, neither this prospectus nor the Application Form may be sent to investors in the United States or otherwise distributed in the United States.

## 7. OVERVIEW OF THE COMPANY

### 7.1 HISTORY AND PURPOSE

Mount Morgan is located in Central Queensland and was the site of an immensely rich gold deposit with a long and colourful history.

Lodestone was founded in 1996 with the intention of acquiring Mount Morgan tenements and conducting an exploration program on them using advanced geophysical tools.

Since then, the Company has:

- assembled a Board and technical team;
- formed an alliance with BHP Billiton;
- increased its tenement coverage;
- carried out the geological studies and geophysical surveys described in Sections 5 and 8 of this prospectus; and
- identified anomalies and priority drill targets of the Mt Morgan Project.



*Lodestone Exploration board members and key people.*

## 7.2 BOARD OF DIRECTORS

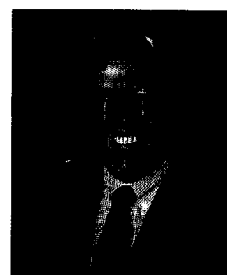
**John T Shaw – Chairman** B.Sc(Geological Engineering), FAusIMM, MCIM, FAICD, MAIME

Mr Shaw is currently a director of Kingsgate Consolidated Ltd and was previously a director of AurionGold Ltd, Delta Gold Ltd and Chairman of Zimbabwe Platinum Mines Ltd. He worked with the Placer Dome organisation for more than 30 years, retiring in 1999 as Managing Director of Kidston Gold Mines Limited and Vice President Australian Operations of Placer Dome Asia Pacific.



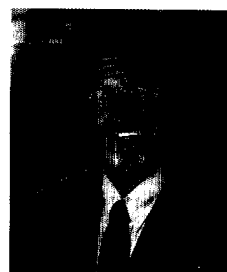
**Martin Ackland – Director** B.App.Sc., MAusIMM, MAIME

Mr Ackland has over 35 years experience in metallurgy and mining. He is President and Chief Executive Officer of Southern Cross Resources Inc and a director of McConnell Dowell Corporation Limited. He is also a director of Sedimentary Holdings Limited, an ASX-listed company that has a gold resource project at Cracow in Queensland.



**Patrick Sankey – Director** AIMM

Mr Sankey is a management consultant with more than 30 years experience in the mining industry. From 1966 to 1985, he held several positions at both the Mount Isa operations and the coal division of MIM Holdings Limited. Mr Sankey joined the Placer Dome Group in 1985 at the Kidston mine and was resident manager of the mine from 1988 to 1991. From 1991 to 1994 Mr Sankey served as General Manager – Finance and Administration for Placer Pacific. He was appointed a director of Kidston Gold Mines Limited in 1994.



**John McCawley – Director** B.Com(Hons)

Mr McCawley's experience is in resources exploration and finance. His former employers include Carpentaria Exploration Pty Ltd, Amax Exploration Inc and MIM Holdings Limited. He was the manager of the Venture Fund at QIDC, a Queensland Government owned investment and finance institution (now part of the Suncorp Metway group). He is now Investment Manager at Business Management Limited (BML); a Brisbane based venture and development capital fund manager, and also serves on the board of a Sydney based biomedical engineering company.



**Greg Baynton – Director** M.Econ St, MBA, B.Bus, ASIA, FAICD

Mr Baynton is founder and Managing Director of Orbit Capital Pty Ltd, an investment bank focusing on structuring and funding companies in preparation for Stock Exchange listing. He is the founder of a junior ASX-listed oil and gas exploration company and comes from a background in merchant banking and Queensland Treasury. Mr Baynton serves on the boards of a number of private companies.



### 7.3 KEY PEOPLE



**Mark Dugmore** – *Consultant and General Manager* M.Sc, B.AppSc, MAusIMM, MAIG

Mr Dugmore has 18 years experience in the mining and minerals exploration industry. Most recently, as Manager Global Base Metals at BHP Minerals, Mr Dugmore led 80 professionals and support staff, and managed local and overseas regional offices. He has been involved in the discovery and successful commercial development of several mineral deposits within Australia and overseas.



**Peter E. Fox** – *Consultant and Chief Geologist* B.Sc. (Hons), M.Sc., PhD, P.Eng (BC)

Until recently, Dr Fox headed Fox Geological Services Inc (formerly Fox Geological Consultants Ltd), a Canadian consulting firm. The firm specialised in managing, evaluating and developing exploration and mining operations from conceptual stages through to feasibility studies. Its client list included major mining companies of North America as well as several junior companies with prospects located worldwide. Dr Fox has authored technical publications and professional presentations, is a member of the Society of Economic Geologists, the Canadian Institute of Mining and Metallurgy, the Association of Professional Engineers and Geoscientists of British Columbia and a past chairman of Vancouver's Mining and Exploration Group.

Dr Fox's discoveries include the Quesnel River gold mine, the Gambier Island porphyry copper deposit in British Columbia, and several other deposits in Western Canada. Dr Fox has drawn upon his understanding of the world-renowned Noranda mining "camp" and other mining districts in guiding and developing the Company's Mount Morgan project.



**Leni Stanley** – *Company Secretary and Financial Accountant* B.Com, CA

Ms Stanley is a partner of Stanley Yeates & Associates, Chartered Accountants. She has performed the role of Chief Financial Officer for a number of listed companies for the past 16 years. These companies include ASX listed companies in the technology sector, and resource companies engaged in mineral and petroleum exploration both in Australia and overseas.



#### 7.4 PRO FORMA STATEMENT OF FINANCIAL POSITION

The pro forma statement of financial position of the Company immediately following the Offer is set out below:

<b>CURRENT ASSETS</b>	<b>\$</b>
Cash	2,296,562
Other	18,316
<b>Total Current Assets</b>	<b>2,314,878</b>
<b>NON CURRENT ASSETS</b>	<b>\$</b>
Plant and Equipment	5,126
Exploration Expenditure	423,193
<b>Total Non Current Assets</b>	<b>428,319</b>
<b>Total Assets</b>	<b>2,743,197</b>
<b>CURRENT LIABILITIES</b>	<b>\$</b>
Payables	2,750
<b>Total Current Liabilities</b>	<b>2,750</b>
<b>Total Liabilities</b>	<b>2,750</b>
<b>Net Assets</b>	<b>2,740,447</b>
<b>EQUITY</b>	<b>\$</b>
Contributed Equity	2,870,917
Accumulated Losses	(130,470)
<b>Total Equity</b>	<b>2,740,447</b>

The above pro forma balance sheet has been prepared based on the balance sheet as at 31 December 2002, with the following adjustments:

- The issue of 12,500,000 new Shares at 20 cents each raises \$2,500,000.
- The estimated expenses of the Offer of approximately \$290,000 are charged to the share capital account. \$72,000 has been offset prior to 31 December 2002.
- The proceeds of the Offer net of expenses are recorded as cash.
- None of the Attaching Options are exercised.
- None of the Directors' or Executive Options are exercised.

#### 7.5 BUSINESS OBJECTIVE AND WORKING CAPITAL

The Company's business objective is to discover viable gold-copper deposits south of Mount Morgan in Central Queensland. See Section 5.5 of this prospectus for further information on the business objective of the Company.

Upon raising \$2.5 million of equity capital under the Share Offer, the Company will have sufficient working capital to pursue this objective.

#### 7.6 ESCROW PERIOD

The Directors anticipate that ASX will require, as a condition of admitting the Company to the Official List, that the Company enters into restriction agreements in the format required by the Listing Rules with pre-IPO Investors, in respect of their Shares and in respect of Directors' and Executive Options.

The Directors anticipate that the ASX will require:

- a proportion of the pre-IPO Shares; and
- all of the Directors' Options and Executive Options and all Shares issued upon the exercise of the Directors' Options and Executive Options,

to be escrowed in accordance with Chapter 9 of the Listing Rules for up to two years from the commencement of the official quotation of Shares.

Each restriction agreement will prohibit the transfer of effective ownership or control of the Shares and Options to which it relates.

#### 7.7 IMPACT OF EXERCISE OF DIRECTORS' AND EXECUTIVE OPTIONS

If all of the Directors' Options and Executive Options are exercised the Company would raise additional capital of \$270,000 in cash (before costs) and would issue 900,000 additional Shares increasing the number of the Company's issued Shares following completion of the Share Offer by 2.95%.



The Directors  
Lodestone Exploration Limited  
PO Box 71  
Mount Morgan  
Queensland 4714  
30 December 2002

Ian Youles - Consulting Geologist  
Burgar Road, Middleton  
South Australia  
P.O. Box 2118, Middleton, S.A. 5213  
Ph: 08-85554046 Fax: 08-85554151  
Email: cain@dove.net.au

Dear Sirs

## INDEPENDENT CONSULTING GEOLOGIST'S REPORT

This independent report, which you requested, was prepared in relation to the Issue by your company, Lodestone Exploration Limited (hereinafter referred to as Lodestone or the Company), of a prospectus dated on or about 24 January 2003, for the issue of shares. The sole and restricted purpose of this report is for reference in the context of the forthcoming prospectus and it should not be relied upon for any other purpose. In particular, I express no opinion as to whether any investment in the shares of Lodestone is fair or warranted and make no recommendations in relation to such investment. References in this report to the Company are references to Lodestone Exploration Limited or any relevant subsidiary of that Company. I assume that the conditions of the transfer of those tenements that are not presently held by the Company, as set out elsewhere in this prospectus, will be duly satisfied.

### EXECUTIVE SUMMARY

I assessed the Lodestone mineral exploration properties, as defined by you in the Mount Morgan district, and drew summary conclusions as expressed below. In my opinion, Lodestone's exploration strategy for the Mount Morgan project was carefully thought out and provides an excellent platform for success. It demonstrates strong geological knowledge, sound exploration judgment and effective ground acquisition.

With regard to the stated objectives of the Company, the proposed exploration program being implemented by Lodestone is sound. It should be noted, however, that any proposed program would be subject to amendment from ongoing exploration results or variations in economic, market, legal or political factors.

I consider that sufficient exploration in a regional and local context took place in recent years in the Mount Morgan region to justify the budgeted expenditure of \$1,640,000 over two years, and which includes \$771,000 for drilling operations. The proposed program and budget are considered appropriate to achieve cost effective results and would exceed statutory requirements.

### METHODOLOGY

The purpose of this report is to provide a technical assessment of the exploration project interests reviewed therein. This report was prepared independently and in keeping with the provisions of the Valmin Code of The Australian Institute of Mining and Metallurgy.

For the purposes of this report, I made two site visits to the Mount Morgan project area in Queensland. Discussions were also held with Lodestone's executive management team. I have not searched titles nor carried out due diligence on any joint venture agreements, contracts or other legal matters. A Heads of Agreement was sighted and Lodestone's advice as to the fundamentals and materiality of all agreements relied upon.

This technical review of the Lodestone properties was based on information provided by Lodestone, technical reports by previous tenement holders, and other relevant published and unpublished data. A listing of the principal sources of information is included with the report. By making reasonable enquiries, I endeavoured to confirm the authenticity and completeness of the technical data used in the preparation of this report and to ensure access to all relevant technical and other information.

Yours faithfully



Ian Youles  
BSc ARSM FAIMM MIMM CEng

### PROFESSIONAL STATUS

*I am a qualified mining geologist with over 40 years experience in mineral exploration and mining geology on three continents. I hold an Associateship of the Royal School of Mines, London, and a BSc (Special) (Hons) in Mining Geology from London University. In addition, I am a Fellow of the Australasian Institute of Mining and Metallurgy, a Member of the Institution of Mining and Metallurgy and a Chartered Engineer. I have the appropriate relevant qualifications, experience and competence to be considered an Expert under the Valmin Code.*



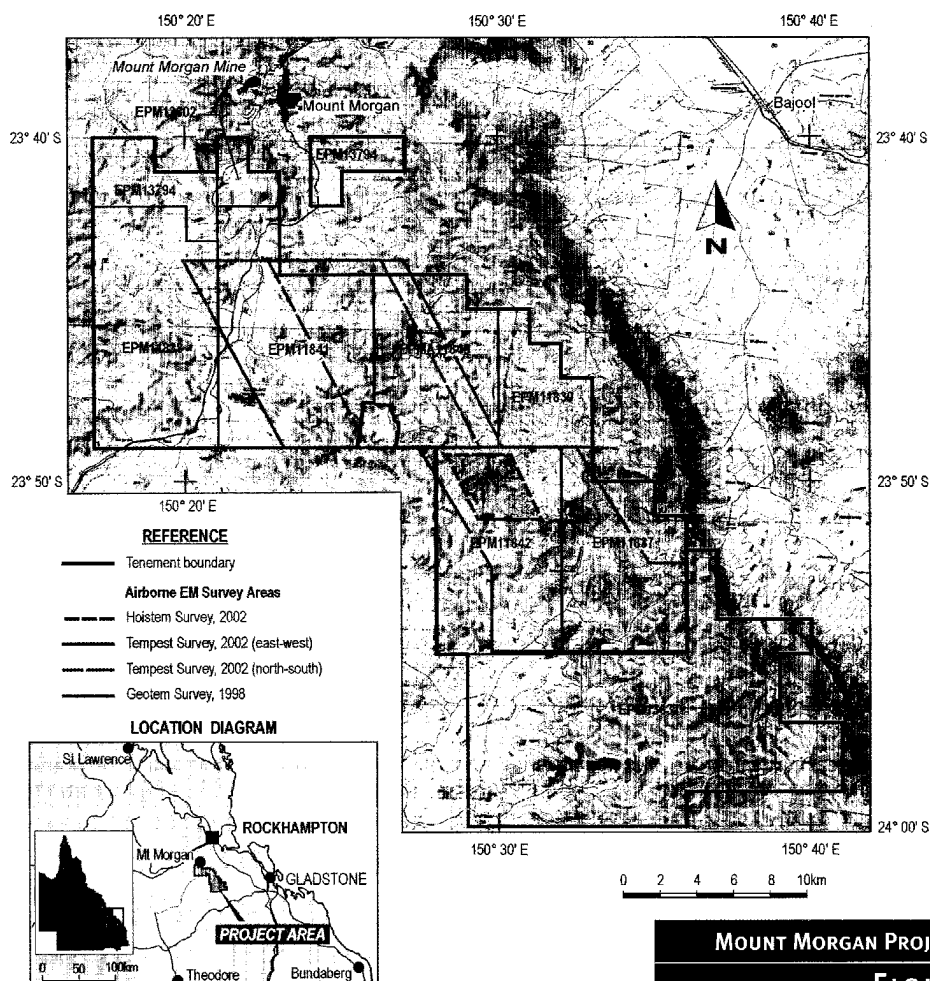
## 8.0 INDEPENDENT GEOLOGIST'S REPORT

### Mount Morgan Project

Lodestone Exploration Limited (the Company) is seeking similar and related orebodies to the premier Mount Morgan gold-copper mine, Central Queensland (Figure 1). This mine produced some 52 million tonnes of ore from which were extracted over 9.4 million ounces of gold and 360,000 tonnes of copper, along with 1.2 million ounces of silver and 568,000 tonnes of metallurgical grade pyrite.

The deposit, discovered in 1882, was mined for gold until 1902, when both gold and copper were produced. It was an opencut and underground mine until 1927, when flooding of workings after a major fire stopped operations. Opencut mining recommenced in 1932 and continued up to the closure of the mine in 1981. Reworking of the 52 million tonnes of tailings from 1983 to 1990 recovered an additional 1.8 million ounces of gold.

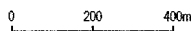
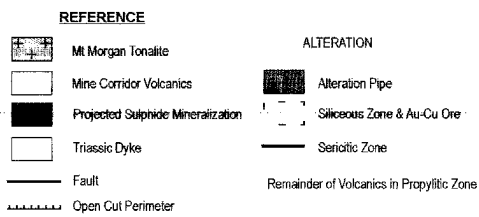
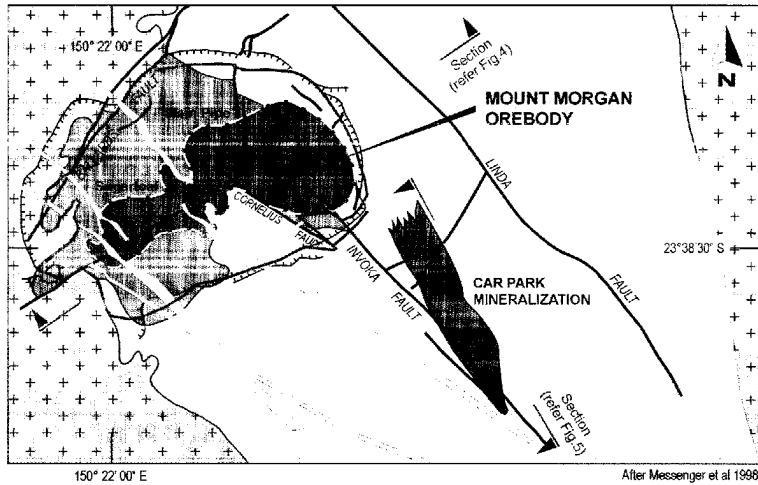
This report deals with the exploration and geology of the total area of 620.7 square kilometres comprising the Company's Mount Morgan Project (Figure 1). Three tenements (EPM 13637, 13794 & 13802) and one tenement application (EPMA 11840) by the Company and five tenements (EPM 11837, 11838, 11839, 11841 & 11842) held by BHP Billiton Minerals Pty Ltd (BHP Billiton) and beneficially owned by the Company cover this project area (Figure 1). Upon successful fund raising under this prospectus, BHP Billiton would transfer all its tenements to the Company. Reference should be made elsewhere in this prospectus to determine the details of the tenements, tenement application and the Company's Memorandum of Agreement with BHP Billiton.



**MOUNT MORGAN PROJECT TENEMENT LOCATION**

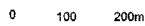
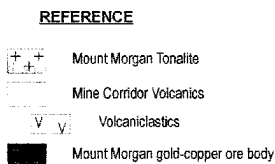
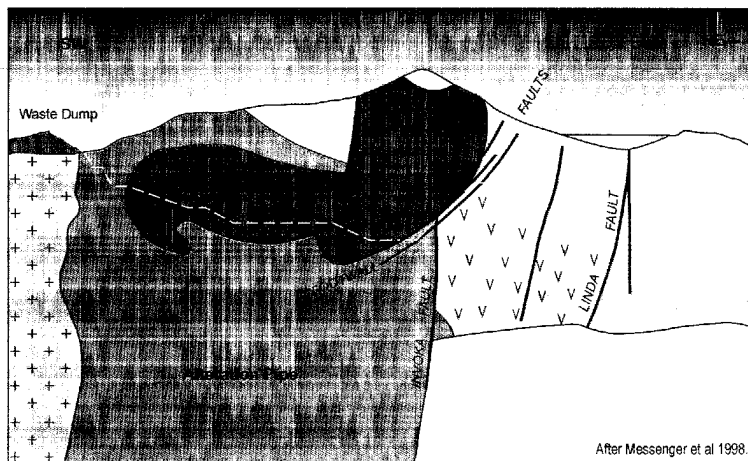
**FIGURE 1**

Prepared by Ian Youles, with CAD design and layout by AUSMEC. Source Data/Map courtesy Geoscience Australia, Canberra. Crown copyright ©. All rights reserved. [www.ga.gov.au/nmd](http://www.ga.gov.au/nmd)



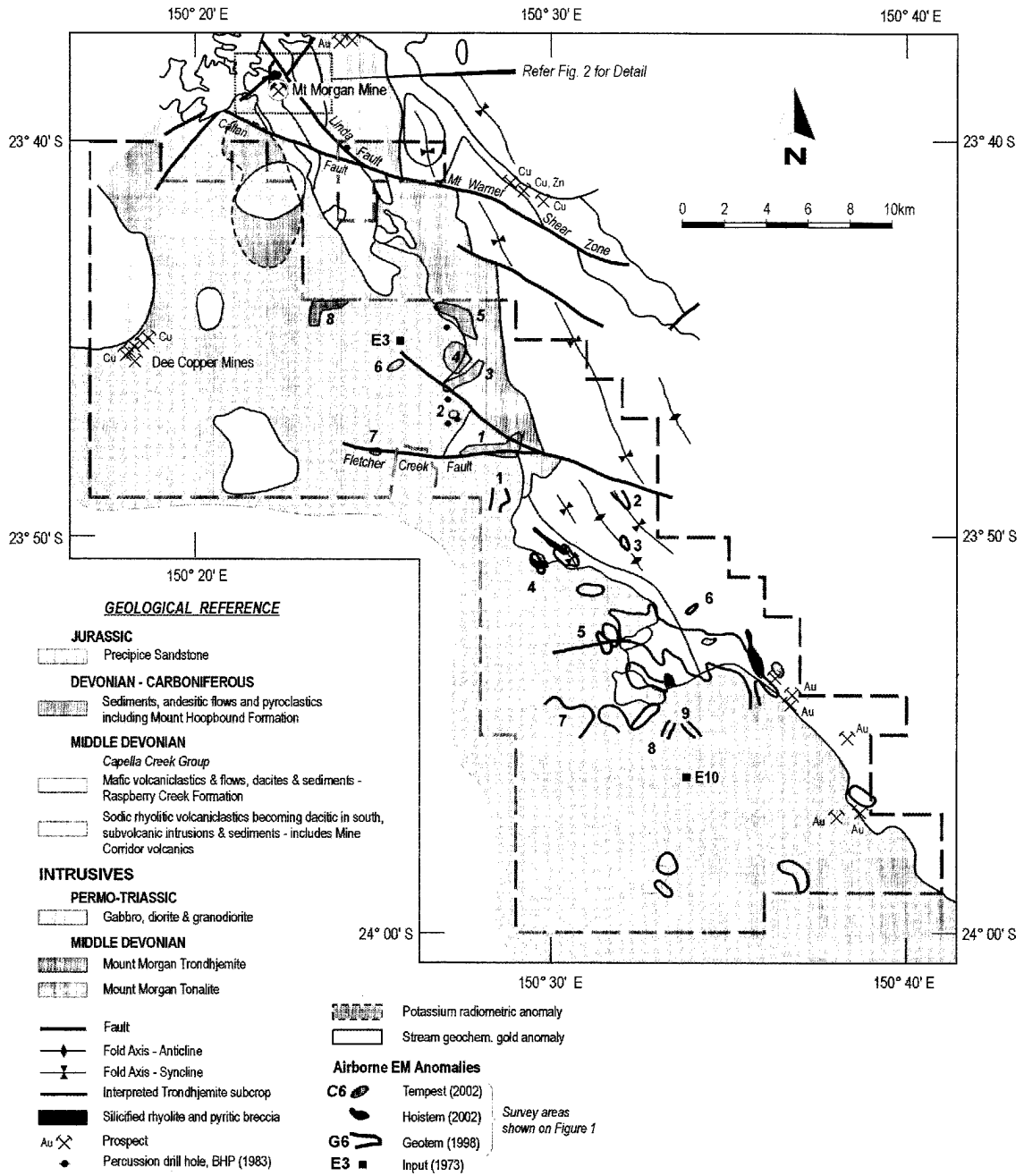
**MOUNT MORGAN PROJECT MINE AREA**  
**FIGURE 2**

*Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.*



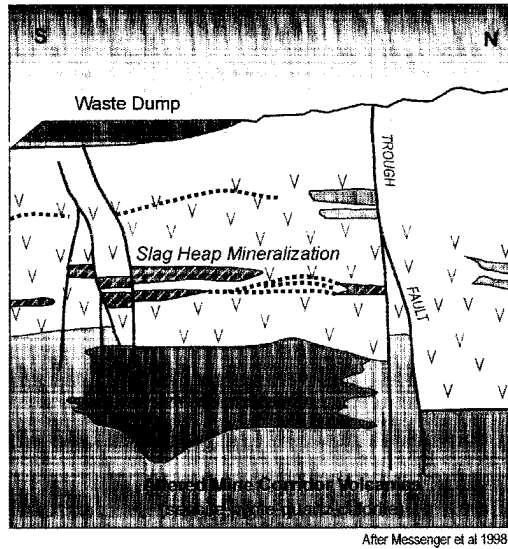
**MOUNT MORGAN MINE AREA CROSS SECTION**  
**FIGURE 3**

*Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.*

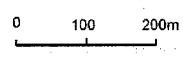


**MOUNT MORGAN PROJECT BEDROCK GEOLOGY**  
**FIGURE 4**

Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.

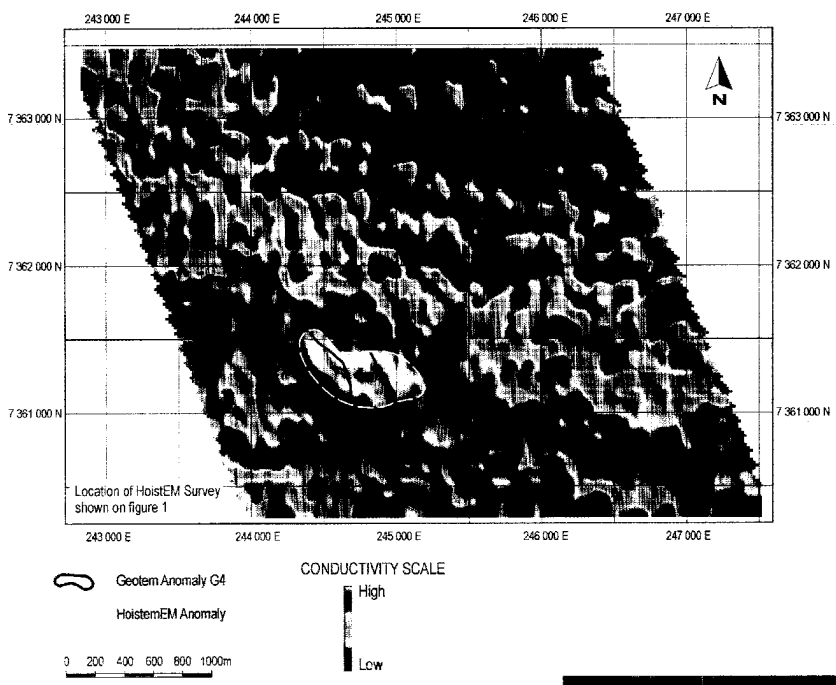


- REFERENCE**
- Mine Corridor Volcanics
  - Limestone
  - Exhalite
  - Volcaniclastics



**CAR PARK MINERALISED AREA CROSS SECTION**  
**FIGURE 5**

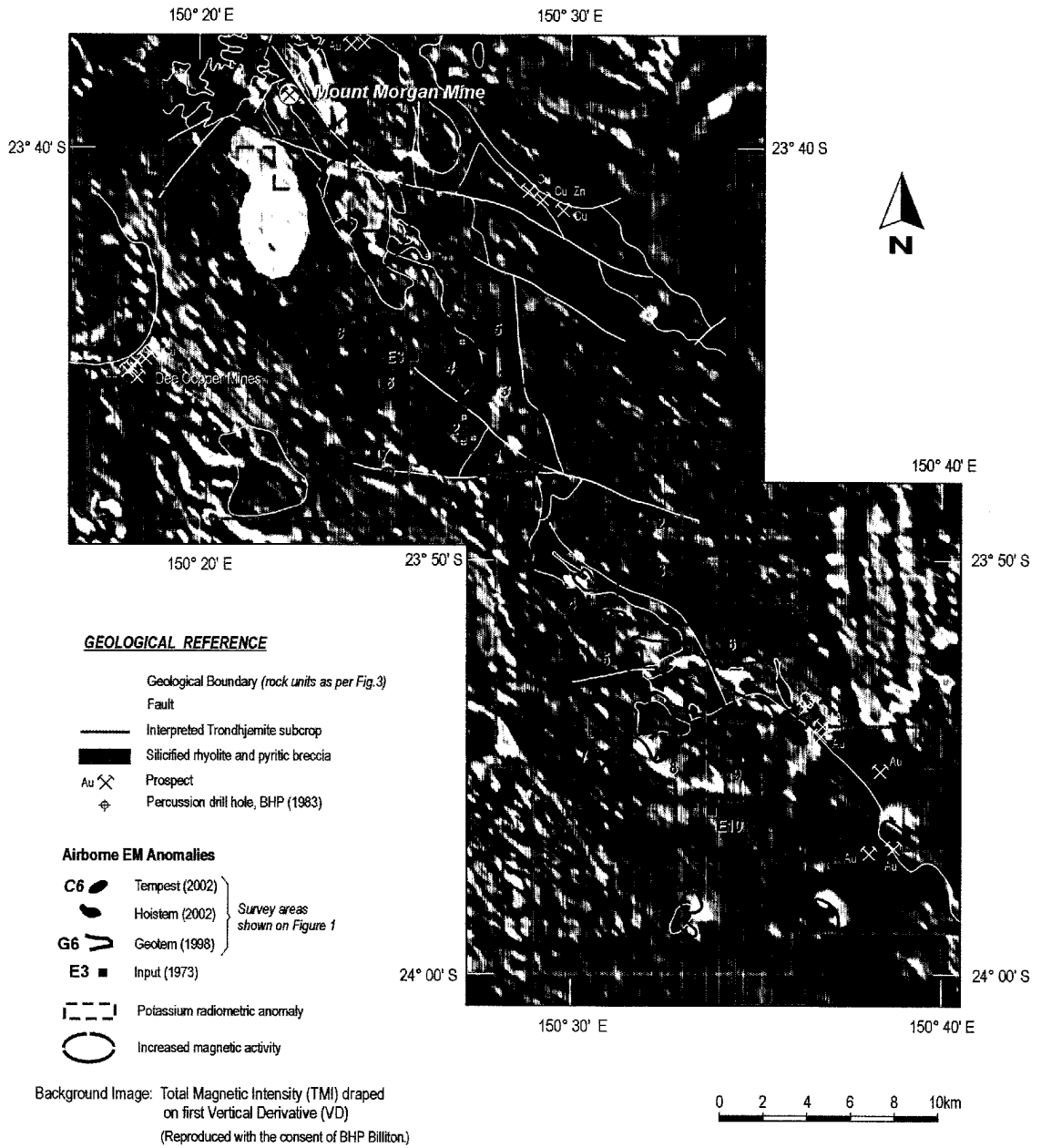
*Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.*



**GEOLOGICAL EM SURVEY HOISTEM RESULTS AT ANOMALY G4**  
**FIGURE 7**

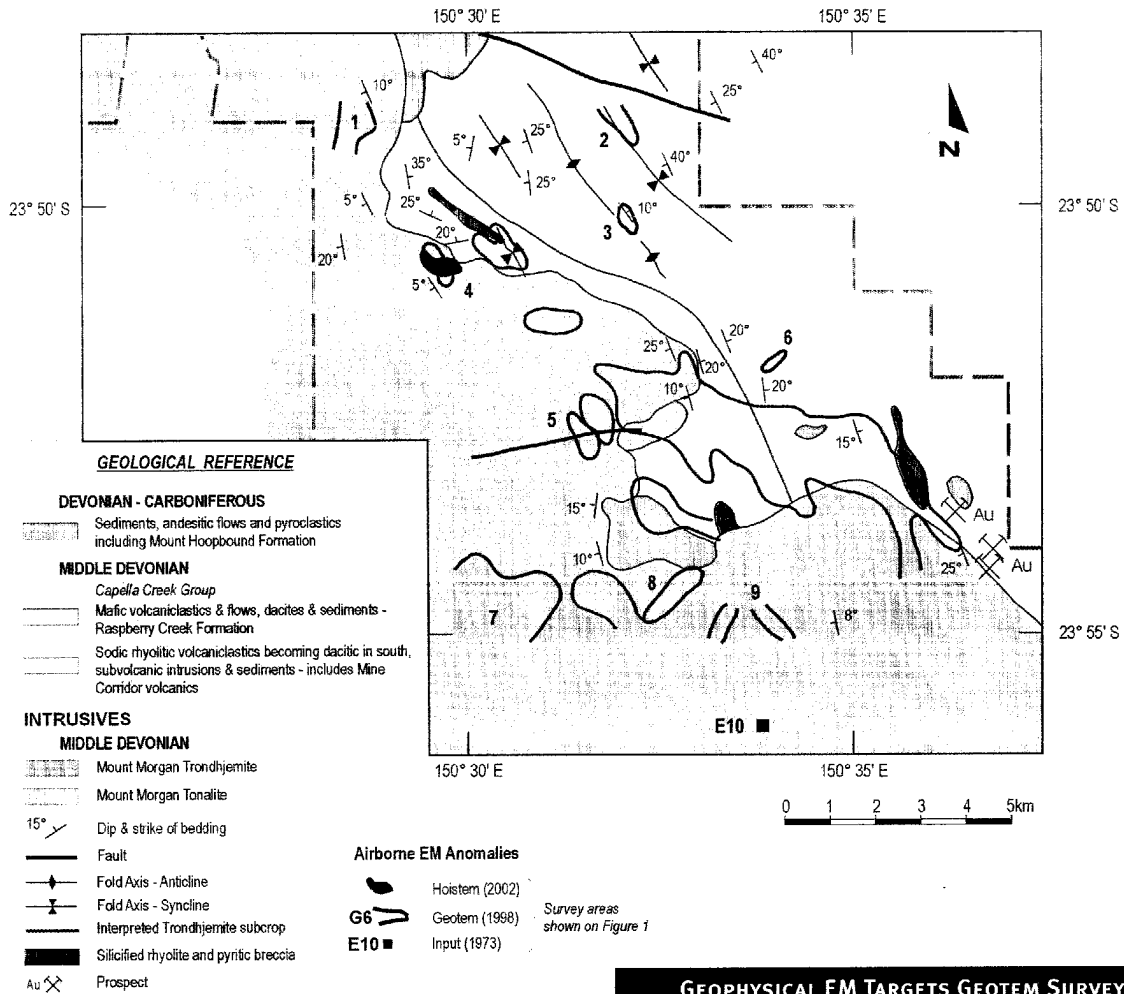
*Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.*





**GEOLOGY AND GEOPHYSICAL TARGETS ON AEROMAGNETIC IMAGE**  
**FIGURE 6**

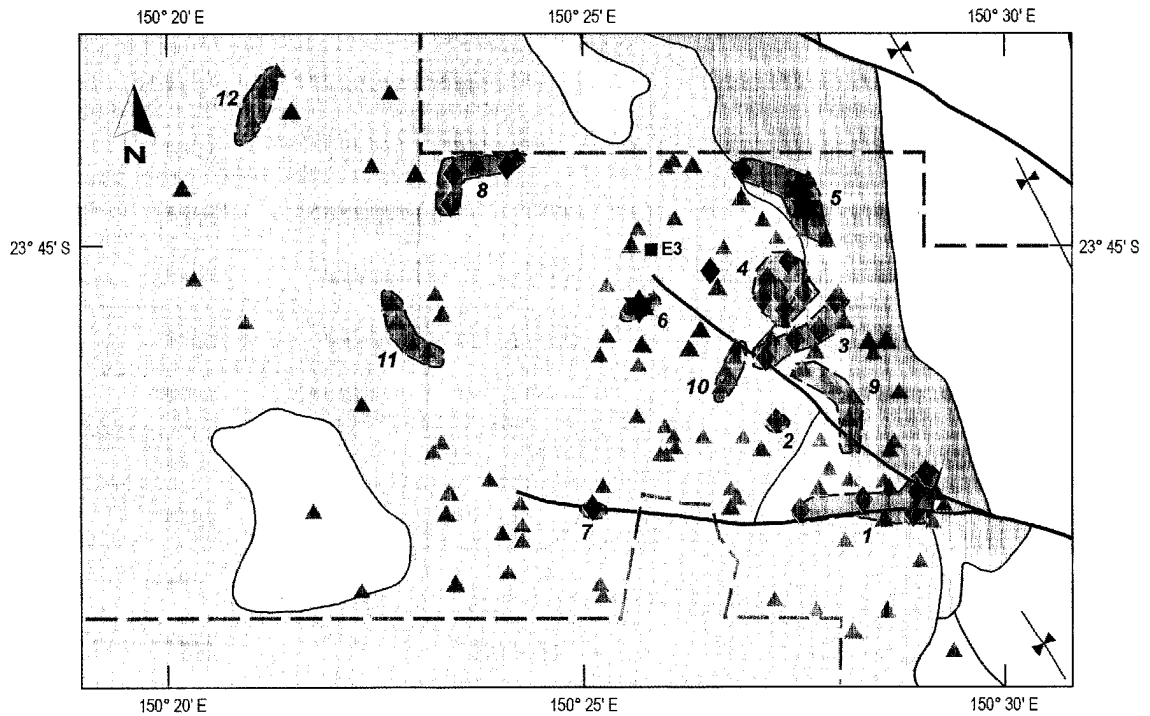
*Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.*



**GEOPHYSICAL EM TARGETS GEOTEM SURVEY**  
**FIGURE 8**

Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.





**REFERENCE**

- Anomaly Ratings
- ★ Top priority
  - ◆ 2nd
  - ▲ 3rd
  - ▲ 4th
- C6** Anomaly cluster
- Note: Rock units as per Figure 4

**GEOPHYSICAL EM TARGETS TEMPEST SURVEY**  
**FIGURE 9**

*Prepared by Ian Youles, with CAD design and layout by AUSMEC, 2002.*

## 8.1 GEOLOGY

### 8.1.1 Regional Setting

The Mount Morgan orebody (Figure 2) is hosted by a small, intensely altered, quartz-plagioclase porphyry intrusive that is a time-equivalent of the surrounding Mine Corridor volcanics in the lower part of the Capella Creek Group. This sequence, of Middle Devonian age, is at least 1000 metres thick and consists of low potassium rhyolitic volcanic rocks, subaqueous pyroclastic flows and local exhalites and sediments. The strata generally dip eastwards, are locally domed at the open pit (with the porphyry stock in the centre) and cut by major and minor faults. Total exposed area is about 6 kilometres by 2 kilometres.

The volcanic rocks are surrounded and intruded by the Mount Morgan Tonalite and small intrusions of diorite, quartz diorite, quartz gabbro and dome-like porphyry. These rocks are part of the Mount Morgan Trondhjemite that forms the largest intrusions south-southeast of the Mount Morgan mine (Figure 4). They are low in potassium, similar to the Mine Corridor rhyolitic volcanics. The Mine Corridor volcanics, their equivalents in the Capella Creek Group to the east and southeast and the Mount Morgan Trondhjemite are a group of time-equivalent rocks forming the Mount Morgan volcano-plutonic suite and include the main mineralisation at Mount Morgan.

Recent published 1:100,000 maps by the Queensland Geological Survey divide the Capella Creek Group into basal Mount Dick Beds (not exposed in the Company's project area), middle Mount Warner Volcanics including units previously referred to as the Mine Corridor volcanics and upper Raspberry Creek Formation. To maintain emphasis on the prospective part of the stratigraphy, this report uses the historical 'Mine Corridor volcanics' to describe the sequence around the Mount Morgan mine and 'Mine Corridor equivalents' to describe similar rocks to the southeast, adjacent to and within the Company's project area.

The Mount Morgan volcano-plutonic suite trends south-southeast, with the Mount Morgan deposit and the Mine Corridor volcanics to the north and Mine Corridor equivalents to the southeast within the Company's tenements (Figure 4). Overlying these rocks to the east are units of the upper Capella Creek Group (mafic volcanics and sediments of the Raspberry Creek Formation) and to the west with angular unconformity are andesitic volcanoclastics and sediments of the Mount Hoopbound Formation (Figure 4). The whole sequence was then folded and faulted during the Permian. Permian to Triassic intrusions, associated with that tectonic activity, were responsible for some of the later mineralisation in the region, such as the Dee copper mines (Figure 4 & 6).

### 8.1.2 Mount Morgan Deposit

The Mount Morgan orebody (Figure 2 & 3) consisted mainly of two large lobes within a tabular envelope of quartz-pyrite rock. It reached maximum dimensions of 640 metres by 270 metres and extended vertically for 300 metres. To the northeast was the Main Pipe orebody at a higher level than the nearby Sugarloaf orebody to the southwest. After late faulting, this juxtaposition gave an apparent, irregular southwesterly plunge (Figure 3).

Weathering of the Main Pipe formed a surface gossan of quartz and iron oxides highly enriched in gold and devoid of copper. Below the gossan from a depth of about 15 metres to an average depth of 76 metres was a porous zone of skeletal quartz and gold formed by the complete leaching of sulphides. Gold again was highly enriched, with an average grade of over 30 g/t for the 2.4 million tonnes mined from this zone. The base of the porous zone was a sharp contact with the underlying Mundic ore zone, which consisted of gold, pyrite and quartz and barren of copper minerals. The Mundic ore was about 20 metres thick and graded rapidly downward into primary mineralisation.

The Main Pipe orebody consisted of massive and stringer sulphides, predominantly pyrite with lesser amounts of chalcopyrite, gold, gold tellurides, pyrrhotite and magnetite, cut by anastomosing quartz veins; minor amounts of sphalerite occurred at the margins. Gold and copper were concentrated in high-grade shoots and the orebody concentrically zoned with a gold-copper rich core grading outwards to relatively low-grade margins.

In contrast, the Sugarloaf orebody consisted of disseminated and stringer pyrite, pyrrhotite and chalcopyrite with sugary quartz all cut by the anastomosing quartz veins; fine gold was distributed throughout relatively evenly.

Overall recovered grades from the 52 million tonnes of ore were 5.9 g/t gold and 0.72% copper (with 0.1% zinc, <0.1% lead and 6 g/t silver).

Alteration of the host porphyry stock and surrounding Mine Corridor volcanics is concentrically zoned around the orebody (Figure 2 & 3). Within the porphyry stock is the ore zone core with between 30% and 95% sulphide and chlorite. Surrounding this core, within the porphyry stock and extending into surrounding Mine Corridor volcanics, is a siliceous zone of coarse granular quartz with minor chlorite, pyrite and sericite and showing rare indications of the original porphyry or volcanoclastic rocks. The zone is sub-circular and up to 350 metres wide enclosing the Main Pipe orebody and 200 metres wide by about 700 metres long around the Sugarloaf orebody. Exploration drill holes intersected this siliceous zone to depths of 900 metres.





Surrounding the siliceous core is a sericitic zone up to 1000 metres wide, in which feldspars are altered to sericite - less so towards the outer part of the zone; chlorite is locally abundant. Peripheral to the sericitic zone at the eastern end are the well-known "Hurgledurglite" rocks with characteristic orbicular texture, formed by alteration of fine-grained sediments and volcanics. Outside the sericitic zone, propylitic alteration affects all rocks of the surrounding Mine Corridor volcanics such that the groundmass consists of quartz, albite and chlorite. Trondhjemite adjacent to and below these volcanics is also variably altered to albite-chlorite-sericite.

In contrast, the unaltered Mount Morgan Tonalite overprinted adjacent rocks in the sericitic zone of the mineralisation with quartz-albite-actinolite-biotite alteration. This overprint confirms the late intrusion of the Mount Morgan tonalite.

### 8.1.3 Mineralisation Within the Mine Corridor Volcanics

Recent exploration by Perilya Mines NL, 200 to 500 metres to the southeast of the Mount Morgan orebody, discovered stratabound sulphide/magnetite intervals (Slag Heap mineralisation) with a footwall massive pyrite body (Car Park mineralisation) (Figure 2 & 5). These sulphides occur within the Mine Corridor volcanics with no associated porphyry intrusive. The stratabound mineralisation consists of pyrite rich bands and siliceous weakly pyritic bands and is zinc enriched (sphalerite), whilst the massive pyrite body is copper enriched (chalcopyrite). Magnetite and pyrrhotite are also present. The massive Car Park sulphide body is within a footwall alteration zone beneath the Slag Heap mineralisation (Figure 5). This strong alteration consists of sericite-pyrite-quartz-chlorite and extends vertically and laterally for several hundred metres below the sulphide intervals. Above the mineralisation is a narrow (< 30 metres) zone of disseminated and veined pyrite mineralisation with more widespread weaker sericite-pyrite-chlorite alteration.

The Car Park sulphide mineralisation shows some similarities to the Mount Morgan orebody, but the porphyry intrusive stock is absent. The main mineralisation differences are that the Mount Morgan orebody has larger and more abundant quartz veins, a central siliceous zone and economic gold-copper grades.

### 8.1.4 Interpretation

Consistent with field evidence, the Company believes that the quartz plagioclase porphyry stock domed, faulted and intruded cool, sea-water saturated sediments within the Mine Corridor volcanics; this caused, through quenching, rapid to explosive boiling and phase separation of the intrusion close to surface. The uppermost part of the stock was replaced completely with silica and semi to massive sulphide and

below that, much of the porphyry was transformed into a vertical, silica-cored, quartz-sericite alteration pipe.

The sulphide orebody was a complex assemblage of replacement and chamber-fill ore-shoots controlled by extensional domains of the synore Slide fault - part of a regional northeasterly trending fault system that jogs easterly then northerly through the deposit. This facilitated intrusion of the porphyry stock and abundant mineralisation from a deeper Trondhjemitic magmatic source. The elongate siliceous alteration zone around the Sugarloaf orebody is almost coincident with the Slide Fault and supports the interpretation of that fault system being a dominant structure during intrusion and mineralisation.

### 8.1.5 Volcanic Hosted Massive Sulphide Deposits

The Mount Morgan orebody and satellite mineralisation (Slag Heap and Car Park deposits) are separate styles within the volcanic-hosted massive sulphide (VHMS) class of mineral deposits. These occur worldwide in host sequences dominated by submarine volcanics, generally low potassium rhyolitic rocks with synvolcanic faulting.

The Mount Morgan orebody itself is in a major, separate class of VHMS deposit. The Horne mine (production some 54 million tonnes averaging 6.1 g/t gold, 2.2% copper and 13 g/t silver) in the Noranda district, Canada, with similar characteristics, is also in this class. They are premier gold-copper orebodies formed from near surface intrusion of a porphyry stock during a VHMS-style mineralising period.

The Car Park mineralisation (copper-bearing) is interpreted as the feeder system to a sea-floor VHMS sulphide mound represented by the banded zinc-rich sulphide Slag Heap mineralisation (Figure 5). This is the more common VHMS mineralisation style. Thin pyritic intervals adjacent to the open-cut within the Mine Corridor volcanics are also sea floor sulphide accumulations of VHMS type mineralisation.

VHMS deposits may be subdivided into three classes based on their economic metals. All contain some gold but none of the Australian VHMS examples given below are as high grade or, Mount Lyell excepted, as large as Mount Morgan:

- Copper - e.g. Mount Morgan, Balcooma and Mount Lyell
- Zinc-copper - e.g. Wilga
- Zinc-lead-copper - e.g. Hellyer, Que River, Rosebery, Currawong, Woodlawn, Captains Flat, Surveyor<sub>1</sub>, Dry River South and Thalanga.

Exploration directed towards locating an orebody similar to Mount Morgan may also discover, therefore, any one of a wide variety of VHMS mineral deposits under the cover rocks south of the mine.

## 8.2 PREVIOUS EXPLORATION

### 8.2.1 Summary

Previous exploration within the Company's project area concentrated on exposed rocks similar to and adjacent to those around the Mount Morgan mine. Numerous areas of mineralisation or alteration are recorded and many are within Mine Corridor equivalents in the Capella Creek Group with characteristics of VHMS style mineralisation.

Within the Company's project area, only five shallow holes were drilled previously to test the Mine Corridor volcanics or equivalent rocks. The only other drilling recorded within the project area was by Mount Morgan Industrial & Mining Co. Pty Ltd (late 1960s) at the Dee copper mines (Figure 4) where four diamond core holes were drilled; minor sulphides were noted.

In the past, electrical geophysical exploration techniques were not adequate to penetrate the cover rocks of the Mount Hoopbound Formation south of the Mount Morgan mine and identify drilling targets. A considerable database however is available and includes detailed geological, petrological and geochemical data and airborne magnetic, electromagnetic and radiometric data. This database may now be utilised to continue exploration below the cover rocks.

### 8.2.2 Previous Company Exploration

Considerable exploration for similar deposits to Mount Morgan took place over the past 40 years or so. Geopeko Limited and Peko-Wallsend Operations Ltd and subsequently Peko Exploration Ltd and farminee RGC Exploration Pty Ltd carried out intensive exploration over 22 years until 1990 aimed at discovering another Mount Morgan type deposit within the exposed prospective rock sequences of the Mount Morgan volcano-plutonic suite. Exploration techniques included soil, rock chip and stream sediment sampling, aerial magnetic, electromagnetic (Input) and radiometric surveys, electromagnetic and self-potential ground surveys, geological mapping and drilling; however, no drilling from this phase of exploration is recorded within the Company's project area. Two anomalies from the airborne electromagnetic (Input) survey in 1973 occur within the Company's project area (E3 & E10, Figure 4).

In the early 1980s, Getty Oil Development Company and Electrolytic Zinc Company of Australasia Ltd carried out geological and geochemical surveys on ground released by Geopeko Limited. In the mid 1980s, BHP Limited (BHP) carried out the only investigations aimed at the low-potassium rhyolitic rocks of the Mine Corridor volcanics below cover rocks of the Mount Hoopbound Formation. Immediately to the south-southeast of the Mount Morgan mine and mostly within the Company's project area, BHP conducted detailed aeromagnetic and radiometric surveys and followed up with ground geophysical (including gravity) and geochemical surveys. Five drillholes within the Company's project area (maximum depth 100 metres) (Figure 4) investigated separate small gravity highs, but no anomalous results are recorded.

Immediately south of the Mount Morgan mine, BHP collected nine stream sediment samples from around a large potassium radiometric anomaly detected during the airborne survey (Figure 4 & 6). These samples of 6-9 kilograms each were analysed by the bulk leach extractable gold (BLEG) technique. Values ranged from 0.65 to 14.9 ppb with four samples exceeding 3 ppb and regarded as anomalous. Follow-up sampling of stream sediments and stream banks (loam sampling) returned two anomalous values; however, the samples were the sieved -80 mesh fraction, of small size and analysed by AAS after acid leach. These techniques are not considered adequate to test the BLEG anomalies. Detailed BLEG stream sediment and loam sampling are recommended.

Subsequently, in the late 1980s to early 1990s, Haoma North West NL, CRA Exploration Pty Ltd, Asarco Gold Pty Ltd, Dominion Mining Pty Ltd and Queensland Metals Corporation Pty Ltd in particular all carried out geophysical and geochemical surveys, south and southeast of Mount Morgan and partly within the Company's project area. Freeport Australia carried out graphical analysis of stream sediment geochemical data reported by Geopeko Limited from south of the mine. Anomalous copper and/or zinc areas were identified around the region of an airborne potassium radiometric anomaly identified by BHP (Figure 4 & 6). In the same general area, Freeport conducted limited stream sediment sampling for gold; 5 samples returned 0.5 to 1.4 ppm gold and are regarded as anomalous (Figure 4 & 6).

### 8.3 EXPLORATION CRITERIA AND STRATEGY

Key exploration criteria for the Mount Morgan region identified by the Company from its interpretation of the Mount Morgan mine environs are:

- Low potassium rhyolitic pyroclastics
- Near surface porphyry intrusion coeval with the rhyolitic volcanism
- Major extensional, localising structures similar to the Slide fault
- Significant magnetic and electromagnetic responses from large pyritic bodies with associated pyrrhotite and magnetite
- Extensive alteration zones around a major orebody
- Under-explored region

The Company's exploration effort is focused along the western side of the Trondhjemite belt in proximal low potassium rhyolites of the Mine Corridor equivalents, trending south-easterly from Mount Morgan to the west of the Raspberry Creek syncline (Figure 4). These target rock units were folded, faulted, mineralised and intruded by the Mount Morgan Trondhjemite prior to being covered unconformably by the Late Devonian Mount Hoopbound Formation.

The Company located exposed elements of the low potassium rhyolites and dacites towards the south-eastern part of the Project area, including siliceous/pyritic breccias and alteration zones (Figure 4 & 8), and correlated them with the lithologically similar Mine Corridor volcanics. Continuation of these rhyolitic rocks westerly below the cover sequence of the Mount Hoopbound Formation is the main focus (Figure 4). As the buried structure of the Capella Creek Group rocks and the thickness of the cover rocks are unknown, the westerly extension of the prospective units below that cover is also unknown. Most of this prospective yet untested area is within the Company's tenements (Figure 4). It has and will be subjected to extensive, deep-penetrating airborne electromagnetic surveys (Geotem, Tempest & HoistEM), the BHP Billiton Falcon™ airborne gravity system (subject to availability) and by reverse circulation (RC) and diamond core drilling operations.

### 8.4 LODESTONE-BHP BILLITON EXPLORATION

The Company and BHP (BHP Billiton in 2001) commenced investigations in the late 1990s and lodged six applications in June 1997, of which five were granted during year 2000. Three additional applications were lodged and granted in 2002, when prospective ground immediately south of Mount Morgan became available. The Company is currently exploring a total area of 620.7 square kilometres (Figure 1).

Following detailed assessment of previous exploration and extensive geological fieldwork, principally by Fox Geological Services Inc (Fox), the Company determined that the Mount Morgan Trondhjemite belt and rocks equivalent to the Mine Corridor volcanics extended over 25 kilometres southeast from the mine area (Figure 4) and were quite prospective for Mount Morgan type gold-copper orebodies. Exploration concentrated on the prospective but under-explored region below the cover of the Mount Hoopbound Formation. Whilst assessing previous exploration, two untested airborne electromagnetic (Input) anomalies were noted over this cover sequence (Figure 4). As sulphides within the underlying Mine Corridor equivalents may cause these anomalies, further airborne and/or ground surveys will be conducted to define them for drilling operations.

In 1998, an airborne electromagnetic survey (358 line kilometres, 200 metres spacing & 63 metres receiver height) using the Geotem system covered the southern extension of the prospective rocks, both exposed and under cover (Figures 1 & 6). On behalf of the Company, Infofield Consulting Pty Ltd (Infofield) carried out an assessment of the results based on a physical model of the Mount Morgan deposit and identified nine anomalies, (G1 to G9, Figure 4, 6 & 8). Contrary to most of Australia, this region has a highly resistive surface layer and Infofield concluded, therefore, that airborne electromagnetic systems are an excellent exploration technique in this environment.

Following grant of initial tenements in 2000, an additional airborne electromagnetic survey using the later Tempest system was planned (Figure 1). Due to demands on the aircraft worldwide and inclement weather, this survey was flown in July-August, 2002 (1100 line kilometres, 200 metres spacing & 110m receiver height) and preliminary results received in October, 2002. A rapid assessment identified eight main clusters of individual anomalies for immediate follow-up with potential for sulphide mineralisation, (C1 to C8, Figure 4, 6 & 9). In addition C9 to C12 (Figure 9) are distinct groupings or alignments of low ranked anomalies that need further investigation. Much additional processing and interpretation utilising all geological, aeromagnetic and radiometric data, coupled with feedback from the Company's drilling operations will refine this assessment. Clusters C1 to C5, C9 and C10 are within the area of tenement application EPMA 11840.

Geoimage Pty Ltd combined and processed aeromagnetic and radiometric data from four surveys that cover the whole region. The results show that the Mount Morgan mine occurs within a zone of increased magnetic activity, including groups of magnetic lows, some of which may be due to pyrrhotite mineralisation. Similar zones also occur to the southeast, mostly within the Company's tenements (Figure 6).

Electromagnetic Tempest clusters C1 to C5 and Geotem anomalies G4 to G9 occur on or adjacent to these zones of increased magnetic activity (Figure 6). Infocore also examined the aeromagnetic data for the southern part of the Company's area and interpreted non-exposed probable Trondhjemite intrusives extending to the southern boundary of the Company's tenements (Figure 4 & 6). Processing and interpretation has yet to be carried out on the new detailed aeromagnetic data obtained during the recent Tempest survey.

#### 8.4.1 Target Assessment

Six of the Geotem electromagnetic anomalies (G1, G4, G5, G7 to G9, Figure 6 & 8), with depth estimates of about 50 metres (maximum 100 metres), are interpreted to originate from the prospective Mine Corridor equivalents below the Mount Hoopbound Formation (Figure 4, 6 & 8). Within the area of G7, geological mapping by Fox located quartz veining with associated alteration and weak sulphides in probable rhyolitic volcanics. As the depth estimate for G7 is about 50 metres, these exposures may be windows of the prospective Mine Corridor equivalents through the Mount Hoopbound Formation.

Geotem anomalies G1, G4, G5, G8 & G9 are aligned in a south-easterly direction and approximately located over the interpolated position, below the Mount Hoopbound Formation, of the prospective Mine Corridor equivalents (Figure 4, 6 & 8). Siliceous alteration and pyritic breccias occur in Mine Corridor equivalents exposed to the east of the anomalies (Figure 8) and confirm hydrothermal activity in this region. In addition, trondhjemite intrudes the Mine Corridor equivalents between anomalies G5 and G8. Aeromagnetic data indicate several other intrusions below the cover sequence and associated with the zones of increased magnetic activity (Figure 6). Anomalies G1, G4, G5, G8 & G9 may, therefore, be caused by sulphides. With the exception of G4 (see below), these airborne anomalies may require further geophysical definition prior to drilling operations.

The other anomalies (G2, G3 & G6) occur over Raspberry Creek Formation rocks (Figure 4, 6 & 8). Due to structural complexity in these areas the lower prospective Mine Corridor equivalents may be close to surface. In addition to further geophysical definition, detailed field mapping of rock types, alteration zones and geochemical vectoring would be required to validate the anomalies as targets.

As the terrain is hilly in part and therefore difficult for fixed wing aircraft to maintain constant ground clearance and due to delays with the Tempest survey, a heliborne electromagnetic survey (115 line kilometres, 100 metres spacing & 30 metres receiver height) using the new HoistEM system was flown over G4, one of the prospective Geotem anomalies (Figure 4, 6 & 8). As the helicopter receiver is closer to the ground than with fixed wing aircraft (Geotem receiver at 63 metres), the results defined the anomaly in sufficient detail (Figure 7) that no further geophysical groundwork is required before drilling operations.

Anomaly G4 (Figure 8) has an estimated depth to the prospective Mine Corridor equivalents of approximately 50 metres below the cover sequence. A siliceous pyritic alteration zone within the Mine Corridor equivalents, 1 kilometre to the north and extending over 1.5 kilometres south-easterly, may result from hydrothermal activity related to interpreted subsurface Trondhjemite intrusions. The strongest part of the electromagnetic HoistEM anomaly (approximately 600 metres by 200 metres) trends easterly and parallels a similar strike change in the adjacent and underlying Mine Corridor equivalents (Figure 8) and indicates of an extensional structure. In such a setting, G4 may be interpreted as a sulphide accumulation within the Mine Corridor equivalents.

Preliminary assessment of the Tempest electromagnetic survey results, received in October 2002, identified twenty eight individual anomalies for immediate follow-up, of which three are top priority targets (one in C6 & two in C5) and twenty five are ranked second (in C1 to C4, C7 & C8) (Figure 9).

Tempest anomalies are most frequent near the contact of the Mount Hoopbound Formation with the underlying Mount Morgan Trondhjemite (Figure 9) within and adjacent to a zone of increased magnetic activity (Figure 6). These responses reflect the more conductive nature of the Mount Morgan Trondhjemite, including the nearby Mine Corridor equivalents, probably in part due to mineralisation.

Tempest clusters C5 (top priority), C1 & C3, originate within the prospective Mount Morgan Trondjemite and/or possible pendants of Mine Corridor volcanics. Clusters C2 and C4 are near-surface anomalies also associated with these highly prospective rocks (Figure 4, 6 & 9). Clusters C6 (top priority), C7 & C8 that lie three to five kilometres west of the Mount Hoopbound Formation/Mount Morgan Trondjemite contact may be related to shallow mineralisation in rocks of Mine Corridor equivalents below the Mount Hoopbound Formation or to different styles of mineralisation.

### 8.5 EXPLORATION PROGRAM AND BUDGET

The Company proposes to proceed to heliborne geophysical surveys, geological mapping/sampling and RC drilling operations to be followed by diamond core drilling where appropriate. Petrological and geochemical analyses may be carried out to determine alteration styles and geochemical signatures, from which the proximity to sulphide mineralisation may be indicated. The Company also plans to process and interpret Landsat data to assist in understanding the structural complexity of target areas and in determining drilling locations. In addition, a heliborne electromagnetic survey (HoistEM) is planned for the hilly terrain within EPM 13794 and/or EPM 13802.

During 2004, the Company may utilise the BHP Billiton Falcon™ airborne gravity system (if available) to test the most prospective area indicated by existing airborne electromagnetic surveys and drilling operations. Massive sulphide deposits similar to Mount Morgan in size should provide sufficient density contrast to be detected by gravity. RC drilling operations, as in the first year, would then be carried out on those gravity targets.

Anticipated expenditure is \$994,000 on drilling operations, an airborne electromagnetic survey and administration to November 2003 and \$669,000 on an airborne gravity survey (subject to availability of equipment), drilling operations and administration to November 2004. The proposed program and budget are considered appropriate to achieve cost effective results and would exceed statutory requirements.

### 8.6 LIMITATIONS, INDEMNITIES AND CONSENTS

In the preparation of the Technical Report, I relied upon information provided by the Company's management and Directors. Efforts were made to check this information and I have no reason to believe that any information supplied was false, or that any relevant information was withheld. Draft copies of the Technical Report were reviewed for factual errors by the Company's management and Directors. Whilst certain changes were made as a result of those reviews, there was no alteration to the conclusions. Hence, the statements and opinions expressed herein are given in good faith and in the belief that these statements and opinions are not false and misleading.

The Company provided me with an indemnity in relation to information provided by it, which I relied upon in preparing the Technical Report. The Company agreed that neither it nor its officers and/or associates will make any claim against me to recover any loss or damage which it may suffer as a result of my reliance on that information in the preparation of the Reports. The Company has agreed also to indemnify me against any claim arising out of the assignment to prepare the Report, except where the claim arises as a result of any proved wilful default or negligence or unlawful act on my part. This indemnity applies also to any consequential extension of work through queries, questions, public hearings or additional work required, arising out of my engagement to produce the Report.

I do not have any material interest in any of the properties or companies mentioned in this report. My relationship with the Company is solely one of professional association between client and consultant. This report is prepared in return for professional fees based on a per diem rate and out of pocket expenses. The payment of these fees is in no way contingent on the results of this report, nor the issue of shares under the prospectus.

The Technical Report is provided solely for the purpose outlined in the covering letter. Neither the whole nor any part of this document, nor any references thereto, may be included in or with, or attached to, any document, circular, resolution, letter or statement to be published or distributed externally to the Company and its associated companies without my prior written consent to the form and context in which it is to be so published or distributed. Also, I declare that I was involved only in the preparation of this Independent Geological Expert's Report for inclusion in this prospectus and so take responsibility for its contents alone. I have authorised or caused the issue of only those parts of the prospectus and was not responsible for the preparation of any other part.



**Ian Youles**

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30 December 2002

## 8.7 PRINCIPAL REFERENCES

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## TECHNICAL TERMS

Terms not included here are used in accordance with their definitions in the Concise Oxford Dictionary

<b>aeromagnetic survey</b>	airborne survey systematically collecting readings of the earth's magnetic field
<b>anomaly</b>	a value higher or lower than the norm or a feature different in character from the data in general
<b>axis (fold)</b>	line parallel to a fold hinge or crest
<b>banded iron formation (BIF)</b>	a sedimentary rock composed of iron and silica rich layers
<b>base metal</b>	a metal such as copper, lead, zinc, nickel
<b>basic</b>	an igneous rock having a low silica content
<b>batholith</b>	large intrusive mass
<b>bedrock</b>	solid rock underlying cover
<b>breccia</b>	rock consisting of angular fragments
<b>Cainozoic</b>	a time period, between 2 and 65 million years ago
<b>calcite</b>	a mineral, calcium carbonate
<b>chalcopyrite</b>	a copper iron sulphide mineral
<b>chert</b>	a fine grained siliceous rock
<b>chlorite</b>	a soft green micaceous mineral, hydrated magnesium aluminium iron silicate
<b>Devonian</b>	a time period between 354 and 410 million years ago
<b>diamond drilling</b>	rotary drilling using diamond impregnated bits to produce a core sample
<b>diorite</b>	igneous rocks intermediate in composition between acid and basic
<b>dip</b>	the angle that rock strata make with horizontal surface measured at right angles to strike
<b>dolerite</b>	a medium grained mafic intrusive rock
<b>dyke</b>	a tabular igneous rock which intrudes across bedding
<b>Electromagnetic</b>	geophysical technique (EM) for measuring induced magnetic fields
<b>exhalite</b>	chemical precipitate on sea floor from hot solutions, e.g. chert
<b>exposure</b>	the part of a rock formation that is visible at surface
<b>extensional</b>	low pressure regions in which openings may develop
<b>fault</b>	a line of fracturing due to movement in a rock sequence

<b>feldspar (orthoclase, plagioclase)</b>	common rock forming mineral, sodium/potassium (orthoclase) and sodium/calcium (plagioclase) silicates
<b>ferruginous</b>	contains a high iron content
<b>fold</b>	a bend in the rock strata
<b>foliation</b>	a planar arrangement of textural or structural features
<b>gabbro</b>	a coarse grained rock consisting of plagioclase and mafic minerals
<b>gangue</b>	an uneconomic mineral in direct association with ore e.g. quartz
<b>geotectonic</b>	pertaining to the form, arrangement and structure of the Earth's crust
<b>gneiss</b>	a metamorphic rock with compositional banding
<b>gold telluride</b>	a mineral consisting of gold and tellurium
<b>granite</b>	coarse grained intrusive rock containing quartz and more alkali feldspar than plagioclase
<b>granitoid</b>	a general term for coarse grained rocks containing quartz and feldspar
<b>g/t</b>	grams per tonne
<b>heli-mag</b>	magnetometer survey by helicopter
<b>hydrothermal</b>	of or pertaining to heated fluids which transport minerals in solution
<b>igneous</b>	formed by the solidification of molten material
<b>ilmenite</b>	iron-titanium oxide; an ore mineral for titanium metal
<b>indicator mineral</b>	a mineral which occurs in close association with a target rock type, ore or mineralisation
<b>Induced Polarisation</b>	geophysical technique for measuring electrical induction in rocks
<b>isoclinal</b>	fold with parallel limbs
<b>jasper</b>	iron rich ultrafine silica rock
<b>kaolin</b>	a form of clay mineral formed by weathering of feldspar and mica
<b>limonite</b>	term used for a range of hydrated iron oxides and iron hydroxides
<b>lineament</b>	a linear feature (topographic, magnetic, gravity) of regional extent that is believed to reflect the Earth's crustal structure

<b>lithology (ies)</b>	the physical character of a rock	<b>quartz</b>	a silica oxide mineral
<b>lode</b>	a mineral deposit consisting of veins, disseminations or pods	<b>quartzite</b>	a metamorphosed arenite
<b>Ma</b>	One million years	<b>Quaternary</b>	a time period, approximately 0 to 2 million years ago
<b>mafic</b>	an igneous rock rich in iron and magnesium minerals	<b>RAB</b>	Rotary Air Blast, a form of drilling using rotating drill bit to break the rock and compressed air to recover cuttings
<b>magma</b>	Molten rock, containing dissolved gases and suspended solid particles	<b>radiometric survey</b>	systematic survey of readings of the earth's radioactivity
<b>magnetic survey</b>	systematic survey of readings of the earth's magnetic field	<b>RC</b>	Reverse Circulation, a form of percussion drilling where drill cuttings are recovered through drill rods, reducing contamination
<b>malachite</b>	copper oxide mineral	<b>rare earth elements</b>	metals of cerium group and lanthanum group
<b>metamorphism</b>	the process by which change is brought to a rock through the effects of heat, pressure and chemical change	<b>reef</b>	mineralised quartz vein
<b>mudstone</b>	a fine grained sedimentary rock	<b>resource</b>	in situ quantity of mineralised rock of known grade
<b>ore</b>	naturally occurring material from which minerals can be extracted at a profit	<b>rhyolite</b>	a lava, the extrusive equivalent of granite
<b>orogeny</b>	the process of mountain building	<b>scree</b>	accumulation of fragments often resulting from transport by gravity over a short distance
<b>outcrop</b>	the part of a rock formation that is in-situ at surface may be covered	<b>sericite</b>	a fine grained variety of mica
<b>oxidised</b>	the process by which minerals are altered by the action of water carrying oxygen	<b>shale</b>	a fine grained sedimentary rock
<b>Palaeozoic</b>	a time period, approximately 230 to 600 million years ago	<b>shear</b>	a planar zone of reformed rock formed by shearing stress
<b>pegmatite</b>	an extremely coarse-grained igneous rock with interlocking crystals, usually with a bulk chemical composition similar to granite	<b>silicified</b>	replaced by silica
<b>percussion drilling</b>	form of drilling using hammering action	<b>silliminite</b>	a mineral, aluminium silicate
<b>Permian</b>	a time period, approximately 250 to 295 million years ago	<b>siltstone</b>	fine grained sedimentary rock
<b>phyllite</b>	a metamorphosed fine grained sediment	<b>stress</b>	internal forces in a body caused by a reaction to an external force
<b>plunge (fold)</b>	angle between axis and a horizontal line lying in the same vertical plane	<b>strike</b>	horizontal trend of a rock formation
<b>pluton</b>	an intrusion of igneous rock	<b>stringer</b>	narrow veins
<b>porphyry</b>	igneous rock with large crystals in a matrix of relatively finer-grained crystals	<b>sulphide</b>	a mineral containing sulphur and metal
<b>ppb(m)</b>	parts per billion (million). 1 ppm equates to 1 g/t	<b>syenite</b>	an igneous rock consisting principally of sodium/ potassium feldspars and one or more mafic minerals
<b>precious metals</b>	consisting of gold and/ or silver	<b>synore</b>	occurred at the same time as formation of orebody
<b>propylitic</b>	hydrothermal process whereby rock forming minerals are altered to chlorite and/or epidote	<b>Tertiary</b>	a time period 0 to 65 million years ago
<b>pyrite</b>	an iron sulphide mineral commonly known as "fool's gold"	<b>tonalite</b>	a diorite with quartz
<b>pyroclastics</b>	clastic material formed by volcanic explosion	<b>tremolite</b>	a fibrous mineral, hydrated calcium magnesium silicate
<b>pyrrhotite</b>	a magnetic iron sulphide mineral	<b>Triassic</b>	a time period between 204 and 250 million years ago
<b>pyroxene</b>	a dark green mostly calcium-iron-magnesium silicate	<b>trondhjemite</b>	igneous rock high in silica and low in potassium
		<b>tuff</b>	a rock containing volcanic fragments
		<b>vugh</b>	a small cavity in a rock
		<b>weathered</b>	decomposed by action of external agencies



## 9. LEGAL REPORT ON TENEMENTS

This report has been prepared for inclusion in the prospectus to be dated on or about 24 January 2003 and issued by Lodestone Exploration Limited (“Lodestone”) offering for subscription 12,500,000 Shares at an issue price of 20 cents payable in full on application together with one Attaching Option for every two Shares issued.

This report sets out:

- the results of our searches of the Exploration Permits for Minerals in which Lodestone has an interest (“EPMs”) and Applications for an EPM (“EPMA”) in which Lodestone has an interest; and
- our opinion on the effect of native title on the EPMs and EPMA.

### 1 INTRODUCTION AND DETAILS OF SEARCHES CONDUCTED

1.1 The Schedule to this report lists the EPMs and EPMA.

1.2 Of the tenements listed in the Schedule:

- The 8 EPMs and EPMA 11840 are in the vicinity of Mount Morgan in Central Queensland, and are subject to the BHP Billiton Agreement. The BHP Billiton Agreement is described in Section 12.2 of the prospectus. (These tenements are referred to in this report as the “Mt Morgan tenements”); and
- EPMA 11980 is near Mareeba in North Queensland, and is not subject to the BHP Billiton Agreement. (This EPMA is referred to in this report as the “Mareeba EPMA”).

1.3 For the purpose of this report we have reviewed searches of the register maintained in Queensland by the Department of Natural Resources and Mines (“Department”) under the Mineral Resources Act 1989 (Qld) in respect of the tenements. The searches were obtained on 20 January 2003. A summary of the results of these searches, which are dependent upon the accuracy of the register maintained by the Department, is set out in the Schedule to this report.

1.4 The information contained in the Schedule relating to:

- minimum annual expenditure requirements in respect of the tenements has been obtained from copies of correspondence written by the Department in relation to the expenditure requirements for the tenements;
- rentals in respect of the tenements has been obtained through enquiry from the Department;
- native title claims affecting the tenements has been obtained from maps obtained from the Department and searches conducted with the National Native Title Tribunal; and
- underlying land tenure has been obtained from blinmaps and a land tenure map provided by tenement Administration Services Pty Ltd,

and in each case the accuracy of the information contained in the Schedule is dependent upon the accuracy of the raw data provided to us.

1.5 The Company engages Tenement Administration Services Pty Ltd to provide tenement administration services to the Company in respect of the tenements.

### 2 TENEMENTS

2.1 The Schedule to this report summarises the results of our searches in relation to the tenements.

2.2 Lodestone is registered as the holder of a 100% interest in the Mareeba EPMA.

2.3 In the case of the Mt Morgan tenements:

- Lodestone is registered as the holder of a 100% interest in 3 of the EPMs and the EPMA; and
- BHP Billiton is registered as the holder of a 100% interest in the remaining 5 EPMs.

- 2.4 However, the BHP Billiton Agreement states that BHP Billiton holds the Mt Morgan tenements on behalf of Lodestone, and requires BHP Billiton to transfer registration of the Mt Morgan tenements to Lodestone upon Lodestone achieving a listing on the Australian Stock Exchange, or after 30 June 2003 in the event that Lodestone has not achieved listing by that date and the parties have not agreed to an extension of that date.
- 2.5 Four of the Mt Morgan EPMS (EPMS 11837, 11838, 11841 and 11842) fell due for renewal in May 2002. In each case renewal applications were lodged on 12 April 2002, but those renewal applications have not yet been processed. Under the Mineral Resources Act 1989 (Qld), where an application for renewal of an exploration permit is duly made but the application has not been disposed of before the date that the exploration permit would otherwise have expired, the exploration permit shall continue and shall be taken not to have expired until the application is disposed of by the Minister.
- 2.6 One further Mt Morgan EPM (EPM 11839) expired on 7 November 2002. The Department issued a renewal notice on 1 August 2002 and a renewal application was lodged on 7 October 2002. The renewal application has not yet been processed.
- 2.7 Three of the Mt Morgan EPMS (EPMS 13637, 13794 and 13802) were only recently granted during September 2002 for initial terms ranging from 2 to 3 years.
- 2.8 The final Mt Morgan tenement (EPMA 11840) has not yet been granted. The application was lodged on 12 June 1997, but remains outstanding. This EPMA largely covers a forestry/timber reserve and environmental park.
- 2.9 The Mareeba EPMA (EPMA 11980) has not yet been granted. The application was lodged on 1 September 1997. This EPMA largely covers non-exclusive "pastoral holding" leases.

### 3 NATIVE TITLE

#### NATIVE TITLE STATUS OF LAND UNDERLYING THE EPMS

- 3.1 The existence of native title is now recognised as part of the common law of Australia. Native title rights in respect of any particular land must be established according to the traditional laws and customs of Aboriginal people who can demonstrate an ongoing connection with the land. Even if native title rights to particular land could otherwise be established, such native title may have been extinguished under common law principles or by virtue of the Native Title Legislation.
- 3.2 The Federal and Queensland State Parliaments have passed legislation dealing with native title – the *Native Title Act 1993* ("Commonwealth Act") and the *Native Title (Queensland) Act 1993* ("Queensland Act") respectively (together the "Native Title Legislation").
- 3.3 In Queensland exploration permits applied for on or after 1 January 1994 have generally only been granted on condition that categories of land which could be subject to native title are excluded from the area of the grant unless a previous form of land tenure or land use can be determined to have extinguished native title. The Department does not determine what land in an area applied for as an exploration permit is subject to native title. This responsibility rests with the holder of, or applicant for, the exploration permit. There is no right to explore under such an exploration permit in respect of land in which native title may exist, and no right under an exploration permit to apply for a Mining Lease in respect of a discovery made on such land.
- 3.4 As a general rule, if any of the land underlying the EPMS was, before 24 December 1996:
- a freehold estate; or
  - a commercial, residential or community purpose lease; or
  - a leasehold interest giving exclusive possession (other than a mining lease or other mining tenement); or
  - a leasehold interest of the type set out in Part 3 of Schedule 1 of the Commonwealth Act, including interests such as freeholding leases, grazing homestead freeholding leases or grazing homestead perpetual leases; or
  - subject to a public work such as a road, railway or public building,
- then any native title which may have existed in that land would have been extinguished.

- 3.5 As outlined in the Schedule to this report, based on our review of the blinmaps and land tenure map provided to us by Tenement Administration Services Pty Ltd, it appears that, with the exception only of the 2 outstanding applications (ie. Mt Morgan EPMA 11840 and Mareeba EPMA 11980), the tenements largely cover freehold land and exclusive leasehold land. On that basis the tenements would be largely free of native title, although some of the tenements may have some areas in which native title may exist.
- 3.6 No detailed title searches of the underlying land have been undertaken. It is only by doing detailed historical title investigations of the land underlying the tenements that it can be definitively ascertained whether there has been, prior to 24 December 1996, a form of tenure or land use which would have extinguished native title.

#### **NATIVE TITLE CLAIMS**

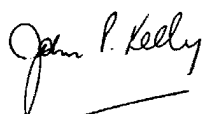
- 3.7 We have reviewed a map obtained from the Department on 29 August 2002, and searches conducted with the National Native Title Tribunal on 10 September 2002, for the purpose of identifying any native title claims which affect the tenements.
- 3.8 Our review identified that:
- each of the nine Mt Morgan tenements falls wholly or partly within the boundary of native title claim QC 97/36 (Federal Court of Australia No. QG 6144/98) lodged by the Gangulu People in the National Native Title Tribunal on 15 September 1997 and registered on 7 June 2000;
  - one of the Mt Morgan tenements (EPM 13637), in addition to falling partly within native title claim QC 97/36, also falls partly within the boundary of native title claim QC 01/29 (Federal Court of Australia No. Q 6026/01) lodged by Port Curtis Coral Coast in the Federal Court of Australia on 25 July 2001 and registered on 27 February 2002; and
  - the Mareeba EPMA (EPMA 11980) is not wholly or partly within the boundary of any native title claim.
- 3.9 However, not all of the land within the boundaries of the native title claims referred to in paragraph 3.8 above is subject to those native title claims. In each case the native title claim excludes from the claim certain land, including any freehold land and exclusive leasehold land which was validly granted on or before 23 December 1996.
- 3.10 As a result, whilst the Mt Morgan tenements fall wholly or partly within the boundary of the native title claims referred to in paragraph 3.8 above, it would appear that, with the exception only of the 2 outstanding applications (ie. Mt Morgan EPMA 11840 and Mareeba EPMA 11980), the tenements largely cover freehold land and exclusive leasehold land, and therefore the land underlying the Mt Morgan EPs is largely excluded from the native title claims. However some of the Mt Morgan EPs may have some areas which are included in the native title claims.

#### **4 CONCLUSION**

- 4.1 All of the Mt Morgan EPs are valid with respect to native title, having been granted on terms having the effect that any land in which native title may continue to exist is excluded from the grant.
- 4.2 Based on the blinmaps and land tenure map provided to us by Tenement Administration Services Pty Ltd, it appears that all of the Mt Morgan EPs largely overlay freehold land and exclusive leasehold land. As a result, those EPs are largely free of native title, and largely excluded from the native title claims referred to in paragraph 3.8. However, some areas within some of the Mt Morgan EPs may be subject to native title, and may be subject to the native title claims.
- 4.3 So long as Lodestone's areas of interest within the Mt Morgan EPs are confined to land in which native title does not exist (such as freehold land and exclusive leasehold land), native title issues should not prevent the future renewal or upgrading of the EPs over those areas.

Yours faithfully

CORRS CHAMBERS WESTGARTH



**John Kelly**  
Partner

TENEMENT & STATUS	REGISTERED HOLDER OR APPLICANT	TERM AND RENEWAL	AREA & SPECIAL CONDITIONS (\$)	ANNUAL COMMITMENT	NATIVE TITLE <sup>3</sup>	UNDERLYING LAND TENURE
EPM 11837 Granted Mt Morgan	BHP BILLITON MINERALS PTY LTD 100.00% <sup>7</sup>	2 years expiring 17/05/02 Renewal lodged 12/04/02 <sup>1</sup>	20 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>4</sup>	Year 1 \$30 000 Year 2 \$40 000 Year 3 \$45 000 <sup>9</sup>	QC 97/36	largely exclusive leasehold and freehold.
EPM 11838 Granted Mt Morgan	BHP BILLITON MINERALS PTY LTD 100.00% <sup>7</sup>	2 years expiring 17/05/02 Renewal lodged 12/04/02 <sup>1</sup>	27 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>4</sup>	Year 1 \$30 000 Year 2 \$40 000 Year 3 \$45 000 <sup>9</sup>	QC 97/36	largely freehold and exclusive leasehold.
EPM 11839 Granted Mt Morgan	BHP BILLITON MINERALS PTY LTD 100.00% <sup>7</sup>	2 years expiring 07/11/02 Renewal lodged 07/10/02	9 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>4</sup>	Year 1 \$20 000 Year 2 \$30 000	QC 97/36	largely exclusive leasehold and freehold. Small portion covers forestry/ timber reserve.
EPMA 11840 Application Mt Morgan	LODESTONE EXPLORATION PTY LTD <sup>10</sup> 100.00% <sup>7</sup>	Application for 2 year term lodged 12/06/97	19 sub blocks <sup>2</sup>	Year 1 \$38 000 Year 2 \$63 000 Year 3 \$60 000 Year 4 \$62 000 Year 5 \$64 000	QC 97/36	largely forestry/timber reserve. Some exclusive leasehold. Small portion covers environmental park.
EPM 11841 Granted Mt Morgan	BHP BILLITON MINERALS PTY LTD 100.00% <sup>7</sup>	2 years expiring 17/05/02 Renewal lodged 12/04/02 <sup>1</sup>	29 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>4</sup> and Environment Park 415	Year 1 \$30 000 Year 2 \$40 000 Year 3 \$45 000 <sup>9</sup>	QC 97/36	largely freehold and exclusive leasehold. Small portion covers environment park.
EPM 11842 Granted Mt Morgan	BHP BILLITON MINERALS PTY LTD 100.00% <sup>7</sup>	2 years expiring 17/05/02 Renewal lodged 12/04/02 <sup>1</sup>	24 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>4</sup>	Year 1 \$30 000 Year 2 \$40 000 Year 3 \$45 000 <sup>9</sup>	QC 97/36	largely exclusive leasehold and freehold.
EPM 13637 Granted <sup>5</sup> Mt Morgan	LODESTONE EXPLORATION PTY LTD <sup>10</sup> 100.00% <sup>7</sup>	3 years expiring 10/10/05	52 sub blocks <sup>2</sup> but will be reduced to 26 blocks for Year 3 of operation. Excludes non-exclusive land <sup>6</sup>	Year 1 \$65 000 Year 2 \$110 000 Year 3 \$110 000	QC 97/36 QC 01/29	largely freehold and exclusive leasehold. Some timber/forestry reserve.
EPM 13794 Granted <sup>5</sup> Mt Morgan	LODESTONE EXPLORATION PTY LTD <sup>10</sup> 100.00% <sup>7</sup> 11 sub blocks <sup>2</sup>	2 years expiring 08/10/04	11 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>6</sup>	Year 1 \$26 000 Year 2 \$70 000	QC 97/36	largely exclusive leasehold and freehold.
EPM 13802 Granted <sup>5</sup> Mt Morgan	LODESTONE EXPLORATION PTY LTD <sup>10</sup> 100.00% <sup>7</sup>	2 years expiring 04/11/04	3 sub blocks <sup>2</sup> Excludes non-exclusive land <sup>6</sup>	Year 1 \$25 000 Year 2 \$30 000	QC 97/36	largely freehold.
EPMA 11980 Application Mareeba	LODESTONE EXPLORATION PTY LTD <sup>10</sup> 100.00% <sup>8</sup>	Application for 5 year term lodged 01/09/97	18 sub blocks <sup>2</sup>	Year 1 \$40 000 Year 2 \$51 500 Year 3 \$54 000 Year 4 \$60 500 Year 5 \$65 500	Nil	non-exclusive leasehold (pastoral holdings).

- All granted exploration permits and applications for exploration permits are for all minerals other than coal.
  - Current rentals have been paid on all granted tenements.
  - Security deposits have been lodged in respect of all granted tenements where required. Security deposits are yet to be assessed in respect of tenements for which applications or renewals are still pending.
- 1 Where a renewal application has been lodged in respect of a tenement the Mineral Resources Act 1989 (Qld) deems that the tenement remains in force until such time as the application for renewal is determined.
  - 2 A block is the land contained within 2 meridians, 5 minutes longitude apart, each meridian being a multiple of 5 minutes of longitude from the meridian of Greenwich and within parallels of latitude 5 minutes apart, each parallel of latitude being a multiple of 5 minutes of latitude from the equator. A block is divided into 25 sub blocks, each sub block being bounded by 2 meridians, one even minute of longitude apart and 2 parallels of latitude one even minute of latitude apart.
  - 3 These tenements fall within the external boundaries of the following native title claims which have been lodged with the National Native Title Tribunal and Federal Court:
    - QC 97/36 (Federal Court No QG6144/98) lodged by Gangulu People registered on 7 June 2000.
    - QC 01/29 (Federal Court No Q6026/01) lodged by Port Curtis Coral Coast registered on 27 February 2002.
 However, the land over which the tenements are granted is excluded from the above claim areas.
  - 4 This tenement is exclusive of other than the following land:
    - (1) Current or past Private Freehold Land and Exclusive Possession Tenures as defined in Schedule 1 of Part 3 of the Native Title Act 1993 (Cth). (Land previously held under tenures of this type, which is now held or currently set aside for the benefit of Aboriginals or Torres Strait Islander or unallocated State land, and is occupied by Aboriginal People or Torres Strait Islanders, is not included).
    - (2) Validly dedicated road reserves up to maximum width of 120.7 metres (6 chains) that are surrounded by private freehold land or exclusive possession tenures as defined in (1) above.
    - (3) Those parts of the area of a road (other than roads defined in (2) above, and either dedicated or otherwise legally available for public use), that contain a constructed road, to a maximum distance of 60.35 metres (3 chains) either side of the centre line of the constructed road.
  - 5 The Department has advised that renewal of this tenement will be subject to either a significant reduction in area and/or a significant increase in expenditure and work program commitment.
  - 6 The grant of this Exploration Permit is limited to land where native title is taken to have been extinguished as defined in sections 238, 249C and Schedule 1 Part 3, Commonwealth Native Title Act 1993.
  - 7 This tenement is subject to the BHP Billiton Agreement.
  - 8 This tenement is not subject to the BHP Billiton Agreement.
  - 9 The Year 3 expenditure commitment shown for this tenement is the annual expenditure commitment that has been proposed for the tenement as part of the renewal application but has not yet been approved by the Department.
  - 10 Lodestone Exploration Pty Ltd was converted to a public company and changed its name to “Lodestone Exploration Limited” on 18 July 2002.

## 10. INDEPENDENT ACCOUNTANT'S REPORT

**Douglas Heck & Burrell** | Chartered Accountants  
Share Registries  
Consultants

20 January 2003

The Directors  
Lodestone Exploration Limited  
Level 18  
200 Mary Street  
BRISBANE QLD 4001

Dear Sirs

### INDEPENDENT ACCOUNTANT'S REPORT

#### 1. INTRODUCTION

We have prepared this Report at your request for inclusion in a prospectus to be dated on or about 24 January 2003, relating to an Issue by Lodestone Exploration Limited ("Lodestone" or the "Company") to the public of:

- (a) 12,500,000 shares at an issue price of 20 cents each to raise \$2,500,000; and
- (b) 6,250,000 options, on the basis of one option for every two shares subscribed for, exercisable at 20 cents each on or before 7 December 2004.

#### 2. BASIS OF PREPARATION

This Report has been prepared to provide investors with information on the financial position of Lodestone, and to provide investors with a pro-forma statement of financial position of Lodestone as at 31 December 2002 adjusted to include pre IPO transactions and funds raised by this prospectus.

This Report does not address the rights attaching to the shares and options to be issued in accordance with the prospectus, the risks associated with the investment, nor forms the basis of an independent expert's opinion with respect to a valuation of Lodestone or a valuation of the share issue price of 20 cents per share and option issue price of nil.

We have not been requested to consider the prospects for Lodestone nor the merits and risks associated with becoming a shareholder and accordingly, have not done so, nor purport to do so. Accordingly, we take no responsibility for those matters or for any matter or omission in the prospectus, other than responsibility for this Report.

#### 3. BACKGROUND INFORMATION

##### 3.1 Incorporation

Lodestone was incorporated on 7 October 1996 as Lodestone Exploration Pty Ltd, a proprietary limited company. On 18 July 2002 Lodestone changed its name to Lodestone Exploration Limited and became a public company.

##### 3.2 Activities

Since incorporation, Lodestone has undertaken gold exploration activities in Australia focussing on the Mt Morgan region in Central Queensland.

#### **4. SCOPE OF REPORT AND PROCEDURES**

##### **4.1 Historical Financial Reports**

Douglas Heck & Burrell have acted as auditors of Lodestone since its incorporation. The audit reports have not been subject to qualification.

##### **4.2 Financial Report as at 31 December 2002 and Pro-Forma Statement of Financial Position**

We have reviewed the 31 December 2002 and pro-forma statement of financial position in accordance with Australian Auditing Standards applicable to review engagements to report whether, on the basis of the procedures described below, anything has come to our attention which would cause us to believe that the pro-forma statement of financial position is not properly drawn up in accordance with the basis of preparation and assumptions set out therein.

Review procedures are substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. The review was limited primarily to:

- (a) inquiries of the Directors of Lodestone;
- (b) review of relevant working papers, accounting records and other documentation; and
- (c) review of information to determine that it is in accordance with Lodestone's current accounting policies and the key assumptions underlying the preparation of the prospectus.

Having regard to the nature of the review, which provides a level of assurance less than that given in an audit, and to the nature of the pro-forma statement of financial position, this Report does not express an audit opinion on these statements.

#### **5. FINANCIAL INFORMATION AS AT 31 DECEMBER 2002**

##### **5.1 Historical Financial Information**

The statement of financial position of Lodestone as at 31 December 2002 is set out in Section 5.3 and the accounting policies upon which it is prepared are set out in Appendix A.

##### **5.2 Pro-Forma Financial Information**

The pro-forma financial information reflects the proposed financial structure of Lodestone after completion of the Issue, on the basis that the following transactions have occurred:

- (a) Issue of
  - (i) 12,500,000 shares at 20 cents each, and
  - (ii) 6,250,000 options exercisable at 20 cents each on or before 7 December 2004;
- (b) The estimated expenses of \$290,000 associated with the preparation of and capital raising under the prospectus have been offset against the share capital raised, \$72,000 has been offset prior to 31 December, 2002.

### 5.3 Statement of Financial Position

	APPENDIX A NOTE	ACTUAL DECEMBER 2002 \$	PRO-FORMA DECEMBER 2002 \$
<b>Current Assets</b>			
Cash		14,562	2,296,562
Other	2	18,316	18,316
<b>Total Current Assets</b>		<b>32,878</b>	<b>2,314,878</b>
<b>Non Current Assets</b>			
Plant and equipment	3	5,126	5,126
Exploration expenditure	4	423,193	423,193
<b>Total Non Current Assets</b>		<b>428,319</b>	<b>428,319</b>
<b>Total Assets</b>		<b>461,197</b>	<b>2,743,197</b>
<b>Current Liabilities</b>			
Payables	5	2,750	2,750
<b>Total Current Liabilities</b>		<b>2,750</b>	<b>2,750</b>
<b>Total Liabilities</b>		<b>2,750</b>	<b>2,750</b>
<b>Net Assets</b>		<b>458,447</b>	<b>2,740,447</b>
<b>Equity</b>			
Contributed equity (Sections 5.4 and 5.5)		588,917	2,870,917
Accumulated losses	6	(130,470)	(130,470)
<b>Total Equity</b>		<b>458,447</b>	<b>2,740,447</b>

### 5.4 Movements in Contributed Equity to 31 December 2002

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	\$
1 July 2000	Opening balance	12,020,000	\$0.01	120,200
5 February 2001	Share issue	1,485,000	\$0.04	59,194
30 June 2001	Balance	13,505,000	-	179,394
6 November 2001	Share issue	500,000	\$0.04	20,000
29 January 2002	Share issue	1,000,000	\$0.04	40,000
28 May 2002	Share issue	1,590,000	\$0.10	159,000
30 June 2002	Share issue costs	-	-	(9,900)
23 August 2002	Share issue	500,000	\$0.15	75,000
31 October 2002	Share issue	807,822	\$0.15	121,173
31 December 2002	Share issue	508,332	\$0.15	76,250
31 December 2002	Share issue costs	-	-	(72,000)
<b>31 December 2002</b>	<b>Balance</b>	<b>18,411,154</b>		<b>588,917</b>

#### Options Issued:

- (a) 800,000 Type 2 options are exercisable at 30 cents each on or before 30 September 2007
- (b) 100,000 Type 3 options are exercisable at 30 cents each on or before 30 September 2005



## 5.5 Share Capital Structure post IPO Transactions

	NUMBER OF SHARES	\$	NUMBER OF OPTIONS
Shares on issue 31 December 2002	18,411,154	588,917	900,000
Issued under the prospectus	12,500,000	2,500,000	6,250,000
Less outstanding issue costs	-	(218,000)	-
<b>Pro-forma issued capital</b>	<b>30,911,154</b>	<b>2,870,917</b>	<b>7,150,000</b>

### Options and Terms

- (a) 6,250,000 Type 1 options are exercisable at 20 cents each on or before 7 December 2004
- (b) 800,000 Type 2 options are exercisable at 30 cents each on or before 30 September 2007
- (c) 100,000 Type 3 options are exercisable at 30 cents each on or before 30 September 2005

## 5.6 Reconciliation of Cash

	\$
Cash as at 31 December 2002	14,562
Proceeds of IPO	2,500,000
Less IPO outstanding issue costs	(218,000)
<b>Pro-forma Cash as at 31 December 2002</b>	<b>2,296,562</b>

## 5.7 Directors' Shareholdings and Proposed Remuneration

- (a) The Directors of the Company are:

NAME	SHARES HELD	TYPE 2 OPTIONS HELD
J T Shaw – direct	100,000	400,000
J L McCawley – direct	5,098,147	Nil
G Baynton – direct	Nil	200,000
G Baynton – indirect	1,090,000	Nil
P Sankey	Nil	Nil
M Ackland	Nil	200,000

- (b) The company has approved that annual Directors' remuneration, including statutory superannuation obligations, paid to the Chairman will be \$43,600, and \$32,700 to each of the Non-executive Directors.

## 6. OPINIONS

### 6.1 Historical Financial Information

In our opinion, based on the scope of our procedures, the historical financial information comprising:

- (a) the statement of financial position as at 31 December 2002; and
- (b) the notes to the financial information (Appendix A)

are fairly presented in accordance with generally accepted accounting principles for the presentation of such information in a prospectus.

### 6.2 Pro-forma Financial Information

Based on our review, which is not an audit, nothing has come to our attention which would cause us to believe that the pro-forma financial information is not properly drawn up in accordance with the basis of preparation and assumptions set out in this Report and with generally accepted accounting principles for the presentation of such information in a prospectus.

As set out in Note 4 to the Pro-forma Statement of Financial Position, \$423,193 has been included by the Directors as exploration interests. This is the principal asset (apart from cash) of Lodestone and has been the subject of an Independent Geologist Report, which is contained in Section 8 of this Prospectus. The ultimate recovery of this asset is primarily dependent upon the successful development and commercial exploration of, or alternatively, sale of the tenements.

## 7. SUBSEQUENT EVENTS

Other than the matters dealt with in this Report, to the best of our knowledge and belief, there have been no material items, transactions or events subsequent to 31 December 2002 to the date of this Report which would require comment on, or adjustment to the content of this Report, or which would cause the information included in this Report to be misleading.

## 8. DISCLOSURE

Douglas Heck & Burrell does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to these matters. Douglas Heck & Burrell will receive a professional fee for the preparation of this Report and will act as auditors, tax advisers and share registrars for the Company. The Partners of Douglas Heck & Burrell do not hold nor have any interest in any shares of Lodestone.

Consent to the inclusion of the Independent Accountant's Report in this prospectus, in the form and context in which it appears, has been given. At the date of this Report our consent has not been withdrawn.

Yours faithfully

DOUGLAS HECK & BURRELL  
Chartered Accountants



R C Brown  
Partner

## APPENDIX A

### NOTES TO THE STATEMENT OF FINANCIAL POSITION AND PRO-FORMA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2002

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have 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.

The financial statements are prepared in accordance with the historical cost convention and 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 can be regarded as being 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 plant and equipment

Depreciation is calculated on a diminishing value 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 15 – 20 years

##### (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

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.

## APPENDIX A

### NOTES TO THE STATEMENT OF FINANCIAL POSITION AND PRO-FORMA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2002

	ACTUAL DECEMBER 2002 \$	PRO-FORMA DECEMBER 2002 \$
<b>NOTE 2 CURRENT ASSETS – OTHER</b>		
Security deposit	2,500	2,500
GST receivable	15,816	15,816
	<u>18,316</u>	<u>18,316</u>
<b>NOTE 3 NON-CURRENT ASSETS – PLANT AND EQUIPMENT</b>		
Motor vehicle at cost	22,060	22,060
Less: Accumulated depreciation	(16,934)	(16,934)
	<u>5,126</u>	<u>5,126</u>
<b>NOTE 4 NON-CURRENT ASSETS - EXPLORATION EXPENDITURE</b>		
Exploration phase property costs		
Geological and exploration database expenditure – at cost	<u>423,193</u>	<u>423,193</u>
<b>NOTE 5 CURRENT LIABILITIES – PAYABLES</b>		
Trade creditors	<u>2,750</u>	<u>2,750</u>
<b>NOTE 6 ACCUMULATED LOSSES</b>		
Accumulated losses at the beginning of the financial year	(85,929)	(85,929)
Net loss attributable to members of Lodestone Exploration Limited	(44,541)	(44,541)
<b>Accumulated losses at 31 December 2002</b>	<u>(130,470)</u>	<u>(130,470)</u>

Accumulated losses comprise corporate overheads and sundry expenses incurred since incorporation.

## APPENDIX A

### NOTES TO THE STATEMENT OF FINANCIAL POSITION AND PRO-FORMA STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2002

	ACTUAL DECEMBER 2002 \$	PRO-FORMA DECEMBER 2002 \$
<b>NOTE 7 FUTURE INCOME TAX BENEFIT</b>	<b>170,016</b>	<b>235,416</b>

The future income tax benefit for tax losses has not been recognised in the financial statement and will only be obtained if:

- (a) the entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (b) the entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (c) no changes in tax legislation adversely affect the entity in realising the benefit from the deductions for the losses.

#### NOTE 8 COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

##### Consulting Commitments

Commitments for payments under personal services contracts in existence at the reporting date but not recognised as liabilities payable are as follows:

Within one year	50,000	50,000
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
<b>Commitments not recognised in the financial statements</b>	<b>50,000</b>	<b>50,000</b>

##### Commitment in respect of permits

So as to maintain current rights to tenure of various exploration tenements, the company will be required to outlay amounts in respect of tenement rent to the relevant governing authorities and to meet certain annual exploration expenditure commitments. 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.

## 11. MATERIAL RISKS

The Shares and Attaching Options offered under this prospectus are considered speculative because of the inherent risks associated with minerals exploration, appraisal, development, production, transport and marketing. In addition, there are risks inherent in investing in the sharemarket in general.

The Directors have considered and identified in this Section of the prospectus the critical areas of risk associated with investing in the Shares and Attaching Options. The risks identified by the Directors are not exhaustive and potential investors should read this prospectus in full and seek professional advice if they require further information on material risks in deciding whether to subscribe for the Shares and Attaching Options.

### 11.1 SPECIFIC RISKS

#### 11.1.1 Exploration Risks

The business of minerals exploration, project development and production involves risks by its very nature. It depends on the successful exploration, appraisal and development of economic deposits. Outcomes of the exploration program outlined in this prospectus will affect the future performance of the Company and the Shares and Attaching Options.

#### 11.1.2 Production Risks

Operations such as design and construction of efficient mining and processing facilities, competent operation and managerial performance, and efficient transport and marketing services, are required to be successful. In particular, production operations can be hampered by force majeure circumstances, engineering difficulties, cost overruns, inconsistent recovery rates and other unforeseen events. In the event the Company proceeds to development of economic deposits production may be affected by these matters.

#### 11.1.3 Access to Land

Delays may be experienced in gaining access to land that is subject to a Lodestone Tenement application.

Two of the ten of the Lodestone Tenements are at the initial application stage only, and access to land within the tenement area is dependent upon the tenement being granted.

The Directors believe that the areas of immediate interest to Lodestone, in which the Company wishes to carry out intensive exploration, are located on freehold lands covered by EPMs that have already been granted, and therefore the Company will not experience significant delays in gaining access to those areas.

#### 11.1.4 Cultural Heritage

Delays may be experienced if evidence of native Australian occupation or heritage exists on any land to which the Company requires access.

When exercising a right or permission for access to any land, it is an offence under the Cultural Record (Landscapes Queensland and Queensland Estate) Act 1987, to disturb physical evidence of human occupation of prehistoric or historic significance without statutory permission. This restriction applies to any activity including minerals exploration and production.

The Company has not undertaken the comprehensive research, investigations or enquiries which would be necessary to enable it to form an opinion with certainty as to whether any such evidence exists on any land covered by a Lodestone Tenement.

#### 11.1.5 Title

Five of the EPMs in which Lodestone has an interest (EPM 11837, EPM 11838, EPM 11839, EPM 11841 and EPM 11842) are subject to renewal applications, the original terms having expired.

The Mineral Resources Act provides that where an application for renewal of an exploration permit is duly made, but the application has not been disposed of before the date that the exploration permit would otherwise have expired, the exploration permit shall continue and shall be taken not to have expired until the application is disposed of by the Minister.

The renewal of the term of these Tenements is at the discretion of the Queensland Minister for Natural Resources and Mines under the Mineral Resources Act. If these Tenements are not renewed, the Company will lose the opportunity to explore for minerals on these Tenements. However, the Directors are not aware of any reason why renewal of the term of any of these Tenements would not be granted.

On renewal of an EPM and in subsequent years, the Minister may require a reduction in the area to which the EPM applies.

For further information on the issue of title refer to the Legal Report on tenements in Section 9 of this prospectus.

#### **11.1.6 Native Title**

The effect of the Native Title Act 1993 (Commonwealth) is that new mining tenement applications and existing tenements in Australia may be affected by Native Title claims or procedures. This may preclude or delay granting of exploration and mining tenements and considerable expense may be incurred in negotiating and resolving issues.

As a consequence of the decision of the High Court in the Mabo case and subsequent Federal and Queensland Native Title legislation, the possibility that native title may affect the Lodestone tenements must be taken into account. The relevance of the native title has been increased by the decision of the High Court in the Wik case, which has indicated that certain land tenures such as pastoral leases previously thought to have been capable of extinguishing native title, may not necessarily have done so. For further information on the risks of native title refer to the Legal Report on Tenements in Section 9 of this prospectus.

The Legal Report on Tenements indicates that native title claims presently affect land covered by the Lodestone Tenements.

Further claims could be made in the future over any of the lands covered by the Lodestone Tenements.

The Company has not undertaken the legal, historical and anthropological research, or the investigations, that would be necessary to enable it to form an opinion as to whether any claim for native title could be upheld over any particular parcel of land covered by the tenement.

On the basis of maps published by the Queensland Department of Natural Resources indicating the nature of the land titles for the lands that are covered by the Lodestone tenements, the Directors believe that there are sufficient areas of land subject to freehold title or other exclusive tenure, which would have extinguished native title, to allow the Company to commence exploration and appraisal operations without undue delay or restriction from native title interests.

From the information available to date, the Directors are of the opinion that the areas of immediate interest to Lodestone's exploration program are immediately available for exploration and appraisal.

Notwithstanding this, the tenements indicated as being applications at the current time, have been applied for over land, some of which could be subject to native title. The Queensland Government cannot grant these tenements unless and until it has (along with the applicant) entered

into an appropriate agreement with relevant native title groups as to the granting of the tenement. These agreements (often referred to as indigenous land use agreements) may take some time to negotiate. There is therefore the potential for delay until the applications are granted, unless the area of the application is confined only to underlying land in which native title could not exist, such as freehold and certain types of exclusive leasehold interests. It will be a condition of the grant of those tenements which could affect native title interests, that agreements be entered into with relevant native title parties which may involve the provision or payment to native title parties of consideration both monetary and in kind.

#### **11.1.7 Environmental Impact Constraints**

The Company's exploration and appraisal programs will, in general, be subject to approval by government authorities. Development of any mineral resources will be dependent on the project meeting environmental guidelines and gaining approvals by government authorities.

#### **11.1.8 Exploration and Appraisal Expenditure**

Exploration and appraisal is a process subject to unforeseen contingencies. The exploration program must be flexible enough to respond to the results obtained.

The actual scope and cost of the exploration program may differ substantially from the proposals set out in this prospectus. Financial failure, or default by any future alliance or joint venture partner of the Company, may require the Company to face unplanned expenditure or risk forfeiting relevant tenements.

#### **11.1.9 Limited Operating History**

While the Company's Directors and officers have significant experience in the mining and mining exploration industry, the Company was only incorporated in 1996. Accordingly, the Company has limited historical, financial or operating information. The Company's ability to achieve its growth objectives depends on the ability of its Directors and officers to implement current plans and to respond to any unforeseen circumstances which require changes to those plans.

#### **11.1.10 Funding**

Unless and until the Company develops or acquires income producing assets, it will be dependent upon the funds raised by the Offer, and its ability to obtain future equity or debt funding to support exploration evaluation and development of the properties in which it has an interest. The Company's ability to raise further equity or debt, or to divest part of its

interest in a project, and the terms of such transactions will vary according to a number of factors, including the success of exploration results and the future development of the projects, stockmarket conditions and prices for metals in world markets.

#### 11.1.11 Key Personnel

The ability of the Company to achieve its objectives depends on the retention of key external contractors that provide management and technical expertise. If the Company cannot secure external technical expertise (for example to carry out drilling) or if the services of the present management or technical team cease to be available to the Company, this may affect the Company's ability to achieve its objectives either fully or within the timeframes and the budget the Company has decided upon.

The Company has secured the services of the general manager under a contract for services with Mareko Pty Ltd. This contract is summarised in Section 12. The chief geologist of the Company provides his services on an ad hoc basis as an external consultant to the Company.

Whilst the ability of the Company to achieve its objectives may be affected by the matters mentioned above it is the belief of the Directors that appropriately skilled and experienced professionals would be available to provide services to the Company at market levels of remuneration in the event key external contractors cease to be available.

### 11.2 GENERAL RISKS

#### 11.2.1 General Economic Climate

Factors such as inflation, currency fluctuation, interest rates, changes to legislation, political decisions and industrial disruption have an impact on operating costs and on metals prices. The Company's future income, asset values and share price can be affected by these factors and, in particular, by the market price for any metals that the Company may produce and sell.

#### 11.2.2 Stockmarket Conditions

The market price of the Shares and Attaching Options when quoted on the ASX will be influenced by international and domestic factors affecting conditions in equity and financial markets. These factors may affect the prices for listed securities and the prices for the securities of minerals exploration companies quoted on the ASX, including Lodestone.

## 12. MATERIAL CONTRACTS

### 12.1 UNDERWRITING AGREEMENT

The Company and the Underwriter have entered into the Underwriting Agreement whereby the Underwriter has agreed to underwrite the subscription of all of the Shares in the Share Offer ("Underwritten Shares").

Under the Underwriting Agreement:

- (a) The Company appointed the Underwriter as its agent to arrange and manage the Offer, including to nominate, in its absolute discretion, the allottees of all or any of the Underwritten Shares after consultation with Company.
- (b) The Company agreed not to allot any Underwritten Shares under the Share Offer without prior consultation with and approval of the Underwriter.
- (c) The Company acknowledged that the Underwriter has not agreed to underwrite the exercise of any Attaching Options or the issue of any Shares on the exercise of any Attaching Options.
- (d) The Company agreed to pay the Underwriter:
  - an underwriting commission of 4.0% of the Underwritten amount (the Underwritten amount is A\$2.5 million); and
  - a management fee of 1.0% of the Underwritten Amount.
- (e) The Underwriter agreed that it will be responsible for paying any handling fees in relation to the Offer.
- (f) The Company agreed to pay or reimburse the Underwriter for certain other costs and expenses incurred in relation to the Offer. The Underwriter agreed to obtain the prior approval of the Company to incur any single cost above A\$2,000.



The Underwriter's obligations under the Underwriting Agreement are conditional on:

- (a) The Company providing the Underwriter with a due diligence report in terms satisfactory to the Underwriter in its absolute discretion.
- (b) The Company providing a legal opinion to the Underwriter in relation to the prospectus, the Offer and the due diligence investigations referred to in clause 7.1 of the Underwriting Agreement addressed to, and expressed to be for the benefit of, the Company, its Directors, the members of the due diligence committee and the organisations they represent, in terms satisfactory to the Underwriter in its absolute discretion.
- (c) The Company providing a closing certificate to the Underwriter on or before 5.00pm on 11 March 2003.
- (d) The Company becoming capable of accepting applications in respect of the Offer in accordance with section 727(3) of the Corporations Act by 17 February 2003.
- (e) The Company lodging the prospectus at ASIC in a form in which the Underwriter has consented to be named on or before 24 January 2003.
- (f) ASX indicating in writing that it will grant permission for the official quotation of the Shares and the Attaching Options (subject only to customary pre-quotation conditions) on or before 5.00pm on 12 March 2003.

The Underwriter may terminate its obligations under the Underwriting Agreement if any of these conditions are not satisfied by the date specified, unless the condition is satisfied in the meantime or the breach or non-fulfilment has been waived by the Underwriter.

Clause 11.1 of the Underwriting Agreement provides that the Underwriter may terminate all further obligations of the Underwriter under the Underwriting Agreement (including the obligation to subscribe for shortfall Shares) by notice to the Company at any time before allotment of the Underwritten Shares and Attaching Options if the Underwriter becomes aware of the happening of any one or more of the following events:

- (a)
  - (i) approval is refused or not granted, other than subject to customary conditions, for the admission of the Company to the official list of ASX or to the official quotation of all of the Shares on ASX on or before 12 March 2003, or if granted, the approval is subsequently withdrawn, qualified or withheld before the issue of any Shares;
  - (ii) the S & P/ASX 200 Index is at the close of normal trading on any three consecutive Trading Days prior to the allotment date more than 10% below the level of that Index at the close of normal trading on ASX on the Trading Day before the date of signing the Underwriting Agreement;
  - (iii) the S&P/ASX 200 Resources Index is at the close of normal trading on any three consecutive Trading Days prior to the allotment date more than 10% below the level of that Index at the close of normal trading on ASX on the Trading Day before the date of signing the Underwriting Agreement;
  - (iv) any material adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company or the Group (insofar as the position in relation to an entity in the Group affects the overall position of the Company) including:
    - (A) any change in the earnings, future prospects or forecasts of the Company or an entity in the Group;
    - (B) any change in the nature of the business conducted by the Company or an entity in the Group;
    - (C) the insolvency or voluntary winding up of the Company or an entity in the Group or the appointment of any receiver, receiver and manager, liquidator or other external administrator; or
    - (D) any change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Group from those respectively disclosed in the prospectus or the public and other media statements made by or on behalf of the Company in relation to the affairs of the Company or the Offer;

- (v) a charge over all or any of the assets of the Company (except for a charge granted by the Company to the Underwriter) is created or comes into existence without the prior written approval of the Underwriter or otherwise in accordance with the prospectus;
  - (vi) the Company withdraws or terminates the Offer; or
  - (vii) any circumstance arises after lodgement of the prospectus that results in the Company either repaying the money received from applicants or offering applicants an opportunity to withdraw their applications for Shares and be repaid their application money; or
- (b)
- (i) a statement contained in the prospectus is misleading or deceptive, or a matter required by the Corporations Act is omitted from the prospectus (having regard to the provisions of sections 710, 711 and 716 of the Corporations Act);
  - (ii) the Company fails to lodge a supplementary or replacement prospectus in a form acceptable to the Underwriter in circumstances where the Underwriter reasonably believes that the Company is prohibited by section 728(1) of the Corporations Act from offering Shares or Options under the prospectus;
  - (iii) any information supplied by or on behalf of the Company to the Underwriter in relation to the Group or the Offer as part of the due diligence process is misleading or deceptive;
  - (iv) there occurs a new circumstance that has arisen since the prospectus was lodged that would, in the reasonable opinion of the Underwriter, have been required to be included in the prospectus if it had arisen before the prospectus was lodged in relation to the Company or any entity in the Group;
  - (v) any material contract of the Company, including the BHP Billiton Agreement, is terminated, rescinded or materially amended;
- (vi) there is an outbreak of hostilities whether war has been declared or not, actively involving any one of Australia, the United Kingdom, the United States of America, Russia, the Peoples Republic of China or Indonesia, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;
  - (vii) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia, a new law intended to come into effect within 12 months, or the Reserve Bank of Australia, or any authority of the Commonwealth or any State or Territory of Australia adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement) with effect from the date of the announcement or within three months afterwards, any of which does or is likely to have a material adverse effect on the success of the Offer;
  - (viii) a change in the board of Directors or senior management of the Company occurs;
  - (ix) any of the following occurs:
    - (A) a Director is charged with an indictable offence;
    - (B) legal proceedings are commenced against the Company or any Director of the Company; or
    - (C) any Director is disqualified from managing a corporation under section 206A of the Corporations Act; or
  - (x) prior to the allotment date, a change to the constitution of the Company or the Company's capital structure occurs without the prior written consent of the Underwriter;
  - (xi) a contravention by the Company or any entity in the Group of the Corporations Act, the Listing Rules, its constitution or any other applicable law or regulation;

- (xii) the prospectus or any aspect of the Offer does not comply with the Corporations Act, the Listing Rules or any other applicable law or regulation;
- (xiii) any of the following notifications are made:
  - (A) ASIC gives notice of intention to hold a hearing in relation to the prospectus under section 739(1) or section 739(3) of the Corporations Act;
  - (B) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the prospectus or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cwlth) in relation to the prospectus;
  - (C) any person gives a notice under section 733(3) of the Corporations Act or any person who has previously consented to the inclusion of its name in the prospectus (or any supplementary prospectus) or to be named in the prospectus withdraws that consent; or
  - (D) any person gives a notice under section 730 of the Corporations Act in relation to the prospectus; or
- (xiv) the Company breaches any of its obligations under the Underwriting Agreement;
- (xv) any person commits a substantial breach of a material contract;
- (xvi) any representation or warranty contained in the Underwriting Agreement on the part of the Company is not true or correct;
- (xvii) an event specified in section 652C(1) or section 652C(2) of the Corporations Act, but replacing “target” with “Company”; or
- (xviii) an event specified in the timetable in the Underwriting Agreement is delayed for more than five Business Days other than as the direct result of actions taken by the Underwriter (unless those actions were requested by the Company) or the actions of the Company (where those actions were taken with the Underwriter’s prior consent).

If an event referred to in paragraph (b) above occurs, the Underwriter may not terminate its obligations under clause 11.1 of the Underwriting Agreement unless it believes that the event has or is likely to have a materially adverse effect on the outcome of the Offer or could give rise to a liability of the Underwriter under any law or regulation.

Without prejudice to its rights under clause 11.1 of the Underwriting Agreement, the Underwriter may, at any time after becoming aware of the happening of any one or more of the events specified in clause 11.1, by notice in writing to the Company:

- (a) advise the Company that it has become aware of the happening of the event and that in its view it is entitled to terminate its obligations under clause 11.1 of the Underwriting Agreement as a consequence of the event; and
- (b) set out the grounds which have led the Underwriter to form that view and that as a consequence the Underwriter reserves the right to terminate its obligations under clause 11.1 of the Underwriting Agreement unless the event is remedied to the satisfaction of the Underwriter within a period specified by the Underwriter, if capable of remedy, or the Underwriter determines that it is prepared to waive its rights in relation to that event.

The Company unconditionally and irrevocably agreed in the Underwriting Agreement to indemnify and keep indemnified the Underwriter, its officers, employees, advisers, related bodies corporate, and officers, employees and advisers of any related body corporate (“the Indemnified Parties”) against all demands, damages, losses, costs, expenses and liabilities (“Losses”) and all allegations, debts, causes of action, liabilities, claims, proceedings, suits or demands (“Claims”) incurred directly or indirectly (including Losses and Claims arising out of or in connection with the preparation for or involvement in investigations conducted by ASIC) as a result of or in connection with:

- (a) the prospectus or the Offer including:
- (i) any statement in the offer documents (including the prospectus) or the public and other media statements made by or on behalf of the Company in relation to the affairs of the Company or the Offer being misleading or deceptive (including, without limitation, misleading representations within the meaning of section 728(2) of the Corporations Act) or containing an omission;
  - (ii) the publication or distribution of the offer documents (including the prospectus) and the making of the Offer;
  - (iii) the name of the Underwriter appearing in the prospectus;
- (b) any of the representations and warranties by the Company contained in the Underwriting Agreement not being true and correct;
- (c) any advertising or publicity of the Offer issued with the knowledge and consent of the Company, including any roadshow presentation or announcement;
- (d) the allotment of Shares or Options to investors;
- (e) any breach of or failure to perform the Underwriting Agreement by the Company or the Company failing to perform any of its other obligations relating to the Offer;
- (f) any statement made or issued by an Indemnified Party to the extent the statement is made or issued in good faith and in reliance on the prospectus or any material or information provided by or on behalf of the Company;
- (g) the occurrence of any of the events described in clause 11.1 of the Underwriting Agreement; and
- (h) any claim that an Indemnified Party has a liability under the Corporations Act or any other applicable law in relation to the prospectus or the Offer.

The indemnity does not extend to and is not to be taken to be an indemnity against any Losses and Claims of an Indemnified Party if those Losses and Claims are finally judicially determined to result primarily from any fraud, wilful misconduct, gross negligence or breach of contract of that Indemnified Party.

## 12.2 BHP BILLITON AGREEMENT

Lodestone and BHP Billiton Minerals Pty Ltd (“BHP Billiton”) are parties to a memorandum of agreement dated 22 October 2002 (“BHP Billiton Agreement”).

The BHP Billiton Agreement sets out the arrangements between Lodestone and BHP Billiton in relation to the Exploration Permits for Minerals (“EPMs”), and the application for an Exploration Permit for Minerals (“EPM Application”) and the terms and conditions for the formation of a joint venture. The EPMs and EPMA are listed in a schedule to the BHP Billiton Agreement (being the cluster of 8 EPMs and 1 EPM Application to the south of Mount Morgan in Central Queensland which are listed in the table below and which are referred to in the BHP Billiton Agreement as the “tenements”).

### EPMS AND EPM APPLICATION SUBJECT TO THE BHP BILLITON AGREEMENT

EPM 11837	EPM 11841	EPM 13794
EPM 11838	EPM 11842	EPM 13802
EPM 11839	EPM 13637	EPMA 11840 (Application)

The BHP Billiton Agreement replaces the previous arrangements between Lodestone and BHP Billiton set out in short Heads of Agreement dated 18 May 2000 and 29 May 2002 respectively.

The BHP Billiton Agreement states that BHP Billiton is the registered holder of five of the tenements, but holds those tenements on behalf of Lodestone. BHP Billiton is obliged under the BHP Billiton Agreement to transfer registration of the tenements to Lodestone within 30 days after Lodestone achieves listing on the ASX or, if Lodestone has not achieved listing by 30 June 2003 and the parties have not agreed to an extension, within 14 days after 30 June 2003. In either case Lodestone will be required to replace the securities provided by BHP Billiton in respect of the tenements. If Lodestone does not achieve listing by 30 June 2003 and for any reason Lodestone is unable to effect the transfer of the tenements to Lodestone, BHP Billiton may at its discretion relinquish any or all of the tenements.

The Manager (initially Lodestone) is required to use all reasonable endeavours to enter into all agreements and obtain all licences, consents and permits from landholders and others as are necessary to enable exploration activities to proceed.

The role of Manager will pass between Lodestone and BHP Billiton as funding arrangements change. BHP Billiton will be the Manager while it is sole funding expenditure. Lodestone will be the Manager while it is sole funding Expenditure. If both parties are contributing to expenditure, the party with the majority interest will be the Manager or, if each party has a 50% interest, BHP Billiton will be the Manager unless the parties otherwise agree.

On and from the date of signing of the BHP Billiton Agreement, BHP Billiton is obliged to carry out the following work, at its own cost:

- process and interpret the 1998 GEOTEM Survey data and provide results to Lodestone;
- engage in a technical discussion with Lodestone in relation to those results;
- process and interpret the 2002 TEMPEST Survey data and provide results to Lodestone; and
- engage in a technical discussion with Lodestone in relation to those results.

Upon completion of that work BHP Billiton must elect to either implement and sole fund a work program for the tenements, or alternatively allow Lodestone to implement and sole fund a work program.

Initially the respective interests of Lodestone and BHP Billiton in the tenements (and in the joint venture established between the parties) are Lodestone 100% and BHP Billiton 0%. However, BHP Billiton will earn a 70% interest in the tenements (and in the joint venture) if, within 6 years after the Commencement Date, BHP Billiton:

1. incurs expenditure of \$8 million on exploration / evaluation of the tenements; or
2. completes a bankable feasibility study,

and a mineral resource with an in-ground commodity value of greater than \$750 million has been identified. The Commencement Date is defined as being the final date upon which BHP Billiton does all things necessary to transfer to Lodestone registration of those tenements which are in the name of BHP Billiton as at the date the BHP Billiton Agreement was signed and Lodestone provides the replacement securities in respect of those tenements.

BHP Billiton is not obliged to fund exploration expenditure of \$8 million or to complete a bankable feasibility study. However, if it elects to do so and a relevant mineral resource is identified, then BHP Billiton will have earned a 70% interest.

If BHP Billiton initially elects not to implement and sole fund a work program for the tenements and allows Lodestone to do so instead, BHP Billiton can at any time thereafter “buy its way back in” by refunding to Lodestone three times the amount of expenditure incurred by Lodestone up to that point in time (capped at \$2 million expenditure by Lodestone) and thereafter complete BHP Billiton’s earn in obligations to earn a 70% interest.

If, having elected to implement and sole fund a work program for the tenements, BHP Billiton ceases funding before earning a 70% interest, BHP Billiton will not be entitled to any proportional interest in the tenements, but will be entitled to a refund of all expenditure that had been incurred by BHP Billiton out of future sales proceeds of gold or base metals produced from a mine on the tenements.

BHP Billiton may, at its sole discretion, deploy the Falcon™ System over the tenements for the purpose of minerals exploration if BHP Billiton determines that the use of the Falcon™ System would advance the geological understanding of the area. The Falcon™ System is defined in the BHP Billiton Agreement as an airborne gravity gradiometer system deployed by a related body corporate of BHP Billiton to conduct airborne resource exploration.

Upon BHP Billiton earning a 70% interest in the tenements (and the joint venture), Lodestone and BHP Billiton would thereafter contribute to further expenditure in proportion to their respective interests (ie, BHP Billiton 70% and Lodestone 30%). However, either party (“Diluting Party”) may elect not to contribute to expenditure relating to a future program and budget, in which case the Diluting Party’s interest in the tenements and in the joint venture will be diluted in accordance with a typical dilution formula contained in the BHP Billiton Agreement.

If a Diluting Party’s interest is diluted down to 20%, and it fails to elect to contribute its then 20% interest share of expenditure for future work programs and budgets, then its 20% interest shall automatically be converted to a 10% interest which will be free carried until a decision to develop a mine on the tenements is made (meaning that the other party will bear the Diluting Party’s 10% share of expenditure up to that point).

Upon a decision to develop the first mine on the tenements being made, the Diluting Party will be required to either:

- contribute its 10% share of all future work programs and budgets for the joint venture (including its 10% share of the mine development costs); or
- have its 10% interest converted to a 3% Net Profit Interest (in which case the Diluting Party will cease to hold an interest in the tenements or in the joint venture, and will have no further obligation to contribute towards expenditure, but will be entitled to a percentage share of the net profits from the sale of minerals produced from the tenements).

The BHP Billiton Agreement contemplates that upon BHP Billiton earning a 70% interest in the tenements and the joint venture, either party may at any time thereafter request that a more detailed joint venture agreement be negotiated and entered into, but unless and until that more detailed joint venture agreement is finalised and signed, the BHP Billiton Agreement would continue to apply.

### 12.3 MAREKO AGREEMENT

The Company has entered into a contract with Mareko Pty Limited whereby Mareko Pty Ltd will provide the services of Mark Dugmore in the role of general manager of the Company ("Mareko Agreement").

Under the Mareko Agreement Mareko Pty Ltd has agreed that Mark Dugmore will be available to the Company for a minimum of two days per week for the sum of \$50,000 per annum. If a Director of the Company agrees, additional days in which Mr Dugmore is required to be available will be for the sum of \$500 per day. The Mareko Agreement is for a period of one year from 1 July 2002.

In accordance with the Mareko Agreement the Company has issued 100,000 options to Mareko Pty Ltd which are exercisable within three years of the date of issue at a 50% premium to the initial public offering issue price, but are not exercisable before one year from the date of issue.

It is agreed that all information of the Company made available to and any work undertaken on behalf of the Company by Mareko Pty Ltd or Mr Dugmore will remain the property of the Company and strictly confidential.

## 13. ADDITIONAL INFORMATION

### 13.1 RIGHTS ATTACHING TO SHARES AND OPTIONS

For details of the rights attaching to the Shares and Options, potential investors should refer to the Company's Constitution and to the terms of the Attaching Options, Directors' Options and Executive Option set out in Section 13.2 of this prospectus. A copy of the Constitution is available for inspection at the Company's registered office. The rights attaching to the Shares and Options are summarised in this section. This summary does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of shareholders.

### VOTING RIGHTS

At a general meeting, subject to any rights or restrictions attached to any Shares, every shareholder present in person or by proxy, attorney or representative, has one vote on a show of hands and, on a poll, has one vote for each fully paid Share held, and for every partly paid Share, a fraction of a vote proportionate to the amount paid up on the Share (excluding amounts credited).

### DIVIDEND RIGHTS

The Directors may, before declaring a dividend, set aside out of the profits of the Company such sums as they think proper as reserves to be applied, at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

Subject to the rights of persons (if any) entitled to Shares with special rights as to dividend, a dividend payable on Shares will be paid according to the proportion that the amount paid is of the total amount paid and payable for the Share, disregarding any amount credited as paid.

Dividends may only be paid out of the profits of the Company.

The Directors may authorise payment by the Company of such dividends, including interim dividends, as the Directors consider are justified by the profits of the Company. The payment of these dividends does not require the sanction of the shareholders.

## RIGHTS ON WINDING UP

Upon the Company being wound up, the liquidator may, as it thinks fit:

- divide among contributories, including shareholders, in specie or in kind any part of the assets of the Company; and
- vest any part of the assets of the Company in trust upon any trusts for the benefit of all or any of the contributories, including shareholders.

## TRANSFER OF SHARES

There are no restrictions on the transfer, in proper form, of Shares and Options, except as imposed by the Corporations Act, the Listing Rules or the SCH Business Rules. Until the Company is admitted to the Official List of ASX, the Company may, in the Board's discretion, refuse to register any transfer of Shares or Options. Once it is admitted to the Official List of ASX, the Company may only refuse to register a transfer of Shares or Options where the Listing Rules or SCH Business Rules require or permit the Company to do so. Shareholder approval is required for the registration of transfers under a Proportional Takeover Bid.

## ISSUE OF SHARES

Except as provided by contract or the Company's Constitution, all issues of Shares are under the control of the Directors who may allot them with such rights and restrictions as to dividends, voting, return of capital or otherwise and on such terms and conditions as the Directors determine. Directors may also grant Options to take up un-issued Shares in the Company in such manner and on such terms as the Directors see fit.

## VARIATION OF RIGHTS

If the share capital of the Company is divided into different classes, the rights attaching to Shares in that class may, subject to the terms of issue of Shares of that class and the Listing Rules, be altered with the approval of a resolution passed at a meeting of the holders of Shares in that class by a three quarters majority of such holders as, being entitled to do so, vote at that meeting, or with the written consent of the holders of at least three-quarters of the votes in that class on issue.

## GENERAL MEETINGS

Every shareholder is entitled to receive notice of every general meeting.

### 13.2 TERMS OF OPTIONS

#### 13.2.1 Attaching Options

6.25 million Attaching Options will be issued under this prospectus on the following terms:

- (a) Each Option entitles the holder to subscribe for one Share upon exercise of the Option and payment of the exercise price.
- (b) The exercise price of each Option is 20 cents.
- (c) The exercise period of the Options will commence on the date that is the date of allotment of the Options and will expire at 5.00pm (Brisbane time) on 7 December 2004.
- (d) An Option will be exercisable by giving notice of exercise to the Company, and paying the exercise price for the Option.
- (e) The Options will not confer an entitlement to receive dividends declared and paid by the Company, nor an entitlement to vote at general meetings of the Company.
- (f) Subject to the Company's constitution, each Share issued pursuant to the exercise of an Option will rank equally in all respects with the issued Shares.
- (g) The Options will not confer on the holder an entitlement to participate in rights issues or bonus issues of securities made or offered pro-rata to shareholders of the Company without exercising such Options.
- (h) The Company will apply to ASX for official quotation of the Options.
- (i) The Options will be freely transferable.
- (j) The Company will apply for official quotation by ASX of the Shares issued upon exercise of Options within the time period required by the Listing Rules.
- (k) Options not exercised or lapsed prior to the expiry of the exercise period will lapse at the end of the exercise period.
- (l) All Options may be exercised if a takeover bid (as defined in the Corporations Act) is made for Shares.

- (m) In the event of a reorganisation of the capital of the Company, the rights of the Optionholder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (n) If the capital of the Company is reconstructed, the number of Options and/or the exercise price of the Options will be correspondingly reconstructed in a manner which will not result in any additional benefits being conferred on Optionholders which are not conferred on Shareholders.

### 13.2.2 Directors' Options

On 30 September 2002 the Company issued 800,000 Directors' Options to the following Directors:

- (i) John T Shaw – 400,000 Options;
- (ii) Gregory A.J. Baynton – 200,000 Options; and
- (iii) Martin Ackland – 200,000 Options.

The Directors' Options were issued on the following terms:

- (a) Each Option entitles the Director to subscribe for one Share upon exercise of the Option and payment of the exercise price.
- (b) The exercise price of each Option is 30 cents.
- (c) The exercise period of the Options will commence on 30 September 2003 and end on 30 September 2007.
- (d) An Option will be exercisable by giving notice of exercise to the Company and paying the exercise price for the Option.
- (e) The Options will not confer an entitlement to receive dividends declared and paid by the Company nor an entitlement to vote at general meetings of the Company.
- (f) Subject to the Company's constitution, each Share issued pursuant to the exercise of an Option will rank equally in all respects with the issued Shares.
- (g) The Options will not confer on the holder an entitlement to participate in rights issues or bonus issues of securities made or offered pro-rata to shareholders of the Company without exercising such Options.
- (h) The Company will not apply to ASX for official quotation of the Options.
- (i) The Company will apply for official quotation by ASX of the Shares issued upon exercise of Options within the time period required by the Listing Rules.

- (j) The Options may not be assigned or transferred except to a Company controlled by the Director or to a trust in which the Director is a principal beneficiary or (in the case of death) to the deceased's personal representative.
- (k) Options not exercised will lapse at the end of 30 September 2007.
- (l) All Options may be exercised if a takeover bid (as defined in the Corporations Act) is made for Shares.
- (m) In the event of a reorganisation of the capital of the Company, the rights of the Optionholder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (n) If the capital of the Company is reconstructed, the number of Options and/or the exercise price of the Options will be correspondingly reconstructed in a manner which will not result in any additional benefits being conferred on Optionholders which are not conferred on shareholders.

### 13.2.3 Executive Options

On 30 September 2002 the Company issued 100,000 Executive Options to Mareko Pty Limited, a company controlled by Mr Mark Dugmore, the General Manager of the Company, under the Mareko Agreement described in Section 12.3 of this prospectus. The Executive Options were issued on the same terms as the Directors' Options except as follows:

- (a) The exercise period of the Options will commence on 30 September 2003 and end on 30 September 2005.
- (b) All unexercised Options will lapse :
  - (i) immediately upon termination of the Mareko Agreement if that agreement is terminated by the Company on the ground of a material breach of any term or condition of the agreement or on the ground of material misconduct or neglect in the discharge of the duties under the agreement;
  - (ii) 3 months after termination of the Mareko Agreement if that agreement is terminated by the Company on any other lawful ground;
  - (iii) 3 months after termination of the Mareko Agreement if that agreement is terminated by Mareko Pty Ltd;
  - (iv) at the end of 30 September 2005 if the Mareko Agreement is terminated for any other reason.



### 13.3 LITIGATION

As at 21 January 2003, there was no litigation of any nature, pending or threatened, which may significantly affect the operations of the Company.

### 13.4 DIVIDENDS

The Company seeks to provide the prospect of future dividends from profitable production of metals and metals concentrates. However, the Directors are unable to predict the timing of any dividend payments, as this will depend on future exploration success, profitability and the financial position of the Company.

### 13.5 CORPORATE GOVERNANCE

The Board of Directors has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of shareholders.

#### The Board of Directors

##### Role of the Board

The Board of Directors is responsible for setting the strategic direction and establishing the policies of the Company. It is responsible for overseeing the financial position and for monitoring the business and affairs on behalf of the shareholders by whom the Directors are elected and to whom they are accountable. It also addresses issues relating to internal controls and approaches to risk management. If the Board appoints a Managing Director it will delegate responsibility for day to day management to the Managing Director. If the Board does not appoint a Managing Director, the Board will delegate to the General Manager responsibility for day to day management of the Company.

##### Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least three Directors and should maintain a majority of Non-Executive Directors;
- the Chairman must be a Non-Executive Director;
- the Board should comprise Directors with an appropriate range of skills, experience, qualifications, expertise and vision to enable it to operate the Company's business successfully;

- the Board shall meet at least five times per year and follow meeting guidelines set down to ensure all Directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The Company's Constitution specifies that all Directors (with the exception of the Managing Director) must retire from office no later than the third Annual General Meeting following their last election. A Director who retires in this way may stand for re-election.

#### Chairman, Managing Director and General Manager

The Company recognises that Non-Executive Directors play an important role in supervising executive management. As such the Company maintains that there must be a separation between the roles of the Chairman and the Managing Director (if appointed). The Chairman must be a Non-Executive Director. If appointed, the Managing Director is responsible for supervising the management of the business as designated by the Board. The management responsibilities are clearly defined by the Board. This ensures the appropriate independent functioning of the Board and management. The Chairman and the Managing Director can be appointed only by a unanimous decision of Non-Executive Directors.

If a Managing Director has not been appointed by the Board, the General Manager will be responsible for supervising the management of the business as designated by the Board.

#### Independent Professional Advice

The Company intends to establish procedures enabling any Director or committee of the Board to seek external professional advice as considered necessary, at the Company's expense. Prior written approval of the Chairman will be required, but this will not be unreasonably withheld.

#### Conflict of Interest

In the event that a potential conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over the Board members or receive relevant Board papers.

## Shareholder Relations

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information on all major developments affecting the Company is communicated to the shareholders through:

- the Annual Report;
- the Half-Yearly Report;
- the abridged Quarterly Report;
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate. All shareholders who are unable to attend these meetings will be encouraged to communicate issues or ask questions by writing to the Company; and
- the Company's web site.

## Committees of the Board

The Board has established an Audit Committee and will establish other ad hoc committees as the need arises to advise and guide the Board. To ensure that the procedures are current and comprehensive, the responsibilities of each committee will be reviewed at least annually. The committees will operate under the following principles:

- each will comprise both Executive and Non-Executive Directors (where possible) with the exception of the Remuneration Committee, of which all members will be Non-Executive Directors;
- the Committee Chairman will be a Non-Executive Director.

## Audit Committee

The Audit Committee is currently comprised of Patrick Sankey and Martin Ackland. The Audit Committee:

- reviews the findings of the Company's internal and external auditors and reports to the Board; and
- may examine any other matters referred to it by the Board.

## Remuneration Committee

The Remuneration Committee will consist of the Non-Executive Directors.

The Remuneration Committee will advise the Board on remuneration policies and practices generally, and make specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment will be reviewed annually by the Committee having regard to performance, relevant comparative information and independent expert advice. Remuneration packages will be set at levels that are intended to attract and retain executives capable of managing the Company's operations. The terms upon which the services of Mr Mark Dugmore are provided to the Company are set in Section 12 of the Company's prospectus.

The Board determines remuneration of Non-Executive Directors within the maximum amount approved by the shareholders from time to time.

## Other Committees

The finance, nomination, risk management and environment functions are handled by the full Board of the Company. The Company is not of a size nor are its financial affairs of such complexity to justify other standing committees of the Board of Directors. This is appropriate at this stage of the Company's development and will be reviewed from time to time.

## Ethical Standards and Performance

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of the company.

A fundamental theme is that all business affairs are conducted legally, ethically and with the strict observance of the highest standards of integrity and propriety. The Directors and management have the responsibility to carry out their functions with a view to maximising the Company's financial performance. This concerns the propriety of decision making in conflict of interest situations and the quality of decision making for the benefit of shareholders.

The Company has not adopted a formal code of ethics.

The Company intends to establish insider trading guidelines for staff and contractors to ensure that unpublished price sensitive information about the Company or any other Company is not used in an illegal manner.

## 13.6 INTEREST OF DIRECTORS AND PROMOTERS

No Director or promoter of the Company holds, or has at any time during the last two years held any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with:
  - the formation or promotion of the Company, or
  - the offer of Shares or Options under this prospectus, or
- the offer of Shares or Options under this prospectus, except as set out below, or elsewhere in this prospectus, such as Section 13.7.

DIRECTOR	NUMBER OF SHARES	NUMBER OF DIRECTORS' OPTIONS
John Shaw	100,000	400,000
John McCawley	5,097,147	0
Greg Baynton	1,000,000 held by Allegro Capital Nominees Pty Ltd 90,000 held by Orbit Capital Pty Ltd	200,000
Martin Ackland	Nil	200,000

### 13.7 PAYMENTS OR BENEFITS TO DIRECTORS AND PROMOTERS

No person has paid or agreed to pay any amount or has given or agreed to give any benefit to:

- a Director to induce him to become or qualify as a Director of the Company; or
  - a Director or promoter for services provided by the Director or promoter in connection with:
    - the formation or promotion of the Company, or
    - the offer of Shares or Options under this prospectus;
- except as set out below or in Section 13.6 of this prospectus.

#### 13.7.1 Directors' Indemnities and Insurance

The Company has entered into a deed with each Director providing for:

- an indemnity by the Company in favour of the Director;
- reasonable access to company documents for proper purposes for a prescribed period after ceasing to be a Director; and
- maintenance by the Company of a directors' and officers' insurance policy for the Director while in office and for a prescribed period after ceasing to be a Director.

#### 13.7.2 Directors' Remuneration

Under the Company's Constitution the Directors are entitled to be paid such remuneration as is authorised by an ordinary resolution of the Company in general meeting (excluding remuneration of Managing or Executive Directors). The amount that the Company has currently authorised the Directors to receive is a maximum of \$160,000 plus statutory superannuation to be divided between them as Director's fees.

If a Director undertakes any work additional to the ordinary duties of a Director, or undertakes travel for the Company's

business at the request of the Board, the Directors may decide to pay that Director additional remuneration which is not included in the above limits. Directors are also entitled to reasonable travelling, accommodation and other expenses for attending meetings while engaged in the Company's business.

If the Directors appoint any Managing Director or Executive Director, they will determine the remuneration payable to that person for his or her services, which will be additional to the amount that the Company has authorised the Directors to receive.

#### 13.7.3 Orbit Capital Pty Ltd

The Company has paid \$9,000 in commissions for previous capital raisings to Orbit Capital Pty Ltd, a company of which Greg Baynton is a director that is 25% owned by ABN AMRO Morgans Limited a company associated with the Underwriter and 75% owned by Allegro Capital Nominees Pty Ltd, a company controlled by Greg Baynton. Orbit Capital Pty Ltd has invested this \$9,000 in Lodestone Shares prior to this Offer. Subject to the completion of the IPO, the company has agreed to pay Orbit Capital Pty Ltd \$25,000 plus GST, for work performed in relation to its role as corporate advisor to the IPO. Orbit Capital Pty Ltd will receive approximately \$5,000 in commission from the Underwriter for introducing the Company to the Underwriter.

#### 13.7.4 Greg Baynton

Allegro Capital Nominees Pty Ltd, a company controlled by Greg Baynton, has entered into a sub-underwriting commitment with the Underwriters to subscribe for 200,000 shares and attaching options (\$40,000) in the IPO for a 1.5% fee (\$600).

### 13.8 PAYMENTS OR BENEFITS TO UNDERWRITERS, ADVISERS AND EXPERTS

No person has paid or agreed to pay any amount or has given or agreed to give any benefit to:

- a stockbroker or underwriter to the Offer, or
  - a person named in this prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this prospectus for services provided by the stockbroker, underwriter or other such person in connection with:
    - the formation or promotion of the Company, or
    - the offer of Shares or Options under this prospectus;
- except as set out below or in Sections 13.6 and 13.7 of this prospectus.

### 13.9 INTEREST OF UNDERWRITER, ADVISERS AND EXPERTS

Except as set out in this prospectus, no person named in this prospectus as a stockbroker or underwriter to the issue, or as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this prospectus holds, or has at any time during the last two years held, any interest in:

- the formation or promotion of the Company
- property acquired or proposed to be acquired by the Company in connection with:
  - the formation or promotion of the Company
  - the offer of Shares or Options under this prospectus; or
- the offer of Shares or Options under this prospectus.

#### 13.9.1 Underwriters

ABN AMRO Morgans Corporate Limited will receive fees of \$125,000 for underwriting and managing the Share Offer under the Underwriting Agreement.

Orbit Capital Pty Ltd (a company of which Greg Baynton is a director and that is 25% owned by ABN AMRO Morgans Limited a company associated with the Underwriters) will receive approximately \$5,000 in commission from the Underwriter for introducing the Company to the Underwriter.

#### 13.9.2 Douglas Heck & Burrell

Douglas Heck & Burrell will receive approximately \$6,500 for the provision of the Independent Accountant's Report which is set out in Section 9 of this prospectus.

#### 13.9.3 Ian Youles

Ian Youles will receive approximately \$25,000 for the provision of the Independent Geologist's Report which is set out in Section 8 of this prospectus.

#### 13.9.4 Corrs Chambers Westgarth

Corrs Chambers Westgarth will receive approximately \$80,000 from the Company for providing legal services to the Company in relation to the preparation of this prospectus.

### 13.10 CONSENTS

The Directors have given their consent to the lodgement of this prospectus with ASIC and have not withdrawn this consent prior to lodgement.

The following persons have given, and have not before the lodgement of this prospectus, withdrawn consents in the terms specified:

- Corrs Chambers Westgarth have given their consent to the inclusion of their Legal Report on tenements in this prospectus in the form and context in which it is included.

- ABN AMRO Morgans Corporate Limited has given its consent to being named as the Underwriter to the Share Offer in this prospectus.
- Ian Youles has given his consent to the inclusion of the Independent Geologist's Report in this prospectus in the form and context in which it is included.
- Douglas Heck & Burrell have given their consent to the inclusion of the Independent Accountant's Report in this prospectus in the form and context in which it is included.
- BHP Billiton Minerals Pty Ltd has given its consent to the inclusion of the statements attributed to it in this prospectus in the form and context in which they are included.

### 13.11 EXPENSES OF OFFER

All expenses in connection with the Offer are payable by the Company including underwriting and issue management fees, corporate advisory fees, accounting fees, legal fees, share registry fees, printing and distribution costs and miscellaneous expenses. These expenses are estimated to be \$290,000.00.

### 13.12 PRIVACY

The information we ask for on the Application Form is used to carry out registry functions including sending annual and half yearly reports, notices of meetings, newsletters and notifications to the Australian Tax Office. In addition, the Company may use this information to inform shareholders of new activities. The Company and its share registry service provider, Douglas Heck & Burrell, will normally only use the information you provide on the Application Form for these purposes.

If the information requested is not provided, your application may not be able to be processed or accepted.

The Company and Douglas Heck & Burrell will not normally disclose information about shareholders to external parties, except to parties to which the Company has outsourced functions or which provide advice to the Company. This may include the Company's insurers, accountants, auditors and legal advisers.

The Company and Douglas Heck & Burrell might be required to disclose information about you to Government bodies (such as the Australian Taxation Office or the Australian Securities and Investments Commission).

You are able to access any information the Company and Douglas Heck & Burrell holds about you on request, and you are entitled to correct any information which is inaccurate or out-of-date. Please contact the Company or Douglas Heck & Burrell at their respective offices if you would like to access, update or correct your personal information.

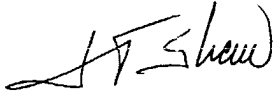
## 14. DEFINITIONS AND GLOSSARY OF TERMS

### 14.1 DEFINITIONS

<b>Advisers</b>	means persons named in this prospectus as performing a function with a professional advisory or other capacity in connection with the preparation or distribution of this prospectus.	<b>HoistEM</b>	is a helicopter-borne airborne electro-magnetic system, which measures the earth's electromagnetic response and can identify conductors representing massive and semi-massive sulphide bodies.
<b>Application Form</b>	means the application form attached to this prospectus.	<b>IPO</b>	means Initial Public Offering or float.
<b>ASIC</b>	means the Australian Securities and Investments Commission.	<b>Lodestone</b>	means the Company.
<b>ASX</b>	means Australian Stock Exchange Limited.	<b>Mine Corridor Equivalents</b>	means the sequence of Middle Devonian rocks that are time-equivalent to the porphyry intrusive that hosted the Mount Morgan mine ore body.
<b>Attaching Options</b>	means Options that the Company will issue under this prospectus at no additional cost to all successful applicants for Shares in the Share Offer in the ratio of one Option for every two Shares issued.	<b>Mineral Resources Act</b>	means the Mineral Resources Act 1989 (Qld).
<b>BHP Billiton Agreement</b>	means the agreement between the Company and BHP Billiton Minerals Pty Ltd dated 22 October 2002 which is described in Section 12.2 of this prospectus.	<b>Mount Morgan Project</b>	means the exploration project described in Section 5.2 of this prospectus.
<b>CHESS</b>	means Clearing House Electronic Sub-register System.	<b>Offer</b>	means the offer of Shares and Attaching Options under this prospectus.
<b>Closing Date</b>	means the date specified in Section 2 of this prospectus as the Closing Date for the issue, or such other date as is determined by the Directors to be the closing date for the Offer.	<b>Option</b>	means an option issued by the Company entitling the holder to subscribe for one Share on payment of the exercise price for the option.
<b>Corporations Act</b>	means the Corporations Act 2001 (Cth).	<b>Pre-IPO Investors</b>	means those shareholders who hold Pre-IPO Shares.
<b>Company</b>	means Lodestone Exploration Limited, ABN 20 075 877 075.	<b>Pre-IPO Shares</b>	means all Shares issued by the Company prior to the Share Offer.
<b>Director</b>	means a director of the Company.	<b>Proportional Takeover Bid</b>	has the meaning given to it under section 9 of the Corporations Act.
<b>EM</b>	means electromagnetic.	<b>SCH</b>	means ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532, being the Securities Clearing House of the ASX.
<b>EPM or Exploration Permit</b>	means an exploration permit for minerals under the Mineral Resources Act.	<b>SCH Business Rules</b>	means the business rules of SCH.
<b>EPMA or Exploration Permit Application</b>	means an application for exploration permit for minerals under the Mineral Resources Act.	<b>Share Offer</b>	means the offer of 12,500,000 new Shares to the public at an issue price of 20 cents each, payable in full on application.
<b>Escrow Period</b>	means the period for which the ASX requires, as a condition of admitting the Company to the Official List of ASX, that the Company enters into restriction agreements with the Pre-IPO Investors under Chapter 9 of the Listing Rules.	<b>Shares</b>	means ordinary shares in the Company.
<b>Falcon™</b>	is a trademark of BHP Billiton Innovation Pty Ltd and means an airborne gravity gradiometer that measures minute changes in the earth's gravity and is used to explore for mineral deposits.	<b>Tenement</b>	means an Exploration Permit (EPM) or an Exploration Permit Application (EPMA).
<b>GEOTEM</b>	means a fixed-wing airborne time-domain electromagnetic system used to survey prospective targets for mineral deposits.	<b>TEMPEST</b>	means the fixed wing airborne electromagnetic system designed for the production of high-resolution three-dimensional conductivity information of both cover and bedrock.
		<b>Underwriter</b>	means ABN AMRO Morgans Corporate Limited.
		<b>Underwriting</b>	means the agreement between the Company and the Underwriter dated 24 January 2003 which is described in Section 12.2 of this prospectus.
		<b>VHMS</b>	means volcanic-hosted massive sulphide.
		<b>Year One</b>	means the period of one calendar year commencing at the date the Company is admitted to the Official List of ASX.
		<b>Year Two</b>	means the period of one calendar year following Year One.

## 15. AUTHORISATION

This prospectus is issued by Lodestone Exploration Limited and has been signed by each Director.




**John Thomas Shaw**  
*Chairman*



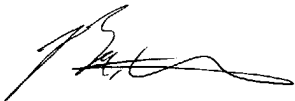
**Martin Clyde Ackland**  
*Director*



**Patrick Walter Sankey**  
*Director*



**John Lachlan McCawley**  
*Director*



**Gregory Alexander John Baynton**  
*Director*



# APPLICATION FORM

Lodestone Exploration Limited  
ABN 20 075 877 075

FOR REGISTRY USE ONLY

FOR BROKERS USE ONLY	
Broker Code	Adviser Code
<input type="checkbox"/>	<input type="checkbox"/>
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<input type="checkbox"/>	<input type="checkbox"/>

The Corporations Act 2001 prohibits any person from passing onto another person this Application Form unless it is attached to or accompanied by the Company's Prospectus.

## USE BLOCK LETTERS

### INSTRUCTIONS ON HOW TO COMPLETE SECTIONS A-I ARE SET OUT ON THE REVERSE OF THIS FORM.

**A** I / WE APPLY FOR   **B**

(Minimum 10,000 Shares and then in multiples of 2,500 Shares. Applicants will also be issued with Attaching Options for no additional consideration on the basis of one Option for every two Shares issued.)

Please make sure that the amount of your cheque(s) equals this amount and is made payable to Lodestone Exploration Limited Share offer A/C

### COMPLETE FULL NAME AND ADDRESS DETAILS

**C** INSERT CORRECT TITLE (MR/MRS/MISS/MS)  GIVEN NAME(S) (IN FULL)  SURNAME OR COMPANY NAME

INSERT CORRECT TITLE (MR/MRS/MISS/MS)  GIVEN NAME(S) (IN FULL)  SURNAME OR COMPANY NAME

**D** JOINT APPLICATION OR ACCOUNT DESIGNATION EG <SUPER FUND A/C>

**E** NUMBER/STREET OR PO BOX NO

SUBURB OR TOWN  STATE  POSTCODE

**F** CONTACT NUMBER (DAYTIME)  CONTACT NAME

**G** HIN — EXISTING CHESS PARTICIPANTS ONLY

PIN YOUR CHEQUE HERE

DRAWER	BANK	BRANCH	AMOUNT OF CHEQUE	Please make cheque payable to Lodestone Exploration Limited Share Offer Account
<input type="text"/>	<input type="text"/>	<input type="text"/>	\$ <input type="text"/>	
<input type="text"/>	<input type="text"/>	<input type="text"/>	\$ <input type="text"/>	

**I** I/we declare that this application is complete according to the declaration/appropriate statements on the reverse of this form and agree to be bound by the constitution of the Company. Returning the Application Form with your cheque for the application monies will constitute your offer to subscribe for shares in Lodestone Exploration Limited.

**NO SIGNATURE REQUIRED**

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.



## How to Complete the Application Form

Forward your completed application together with the application money to:

**By mail:** Douglas Heck & Burrell Registries  
GPO Box 35  
Brisbane Qld 4001  
PH:(07)3228 4219

**By delivery:** Douglas Heck & Burrell Registries  
Level 22, 300 Queen Street  
Brisbane Qld 4000  
PH:(07) 3228 4219

**Applications must be received by no later than 5.00PM on 5 March 2003.**

Please complete all relevant sections of the Application Form using **BLOCK LETTERS**.

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- (f) Enter the telephone numbers and contact person the registry can speak to if they have any queries regarding this application.
- (g) If you are sponsored in CHESS by a stockbroker or other CHESS participant enter your Holder Identification Number (HIN)
- (h) Complete cheque details as requested. Payments must be made in Australian currency and cheques must be drawn on an Australian bank. Cheques or bank drafts must be made payable to "Lodestone Exploration Limited - Share Offer A/C and crossed 'not negotiable'".
- (i) Before completing the application form the Applicant(s) declares that he or she has read the prospectus to which the application relates. Each applicant declares that he or she has personally received the complete and unaltered prospectus prior to completing this Application Form. The applicant(s) agree(s) that this application is for shares in Lodestone Exploration Limited upon and subject to the terms of the prospectus, agree(s) to take any number of shares equal to or less than the number of shares indicated in box A that may be issued to the applicant (s) pursuant to the prospectus and declare(s) that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

### Privacy and Collection of Tax File Numbers

Please refer to section 13.12 Privacy of the Prospectus for details about the collection, holding and use of your personal information. If you do not provide us with the information requested on the Application Form, your Application may not be processed or accepted. Collection of Tax File numbers (TFN s) is authorised by taxation laws. Quotation of your TFN is not compulsory and will not effect your application. However, if no TFN is quoted, your dividend may be taxed at the highest marginal tax rate plus Medicare levy.

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This ready reckoner will help you calculate the money you need to pay at \$0.20 per security									
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Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name (s) of natural persons, companies or other legal entities acceptable to the State. At least one name given in full and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms or registrable names below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full not initials	Mr John Alfred Smith	JA Smith
Company Use the Company s full title not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
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Trusts Use the trustee (s) personal names (s)	Mrs Susan Jane Smith <Sue Smith Family A/c>	Sue Smith Family Trust
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Superannuation Funds Use the names of the trustee of the fund	Jane Smith Pty Ltd <Sune Fund A/C>	Jane Smith Pty Ltd Superannuation Fund





# APPLICATION FORM

Lodestone Exploration Limited  
ABN 20 075 877 075

FOR REGISTRY USE ONLY

FOR BROKERS USE ONLY	
Broker Code	Adviser Code
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

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## USE BLOCK LETTERS

INSTRUCTIONS ON HOW TO COMPLETE SECTIONS A-I ARE SET OUT ON THE REVERSE OF THIS FORM.

**A** I / WE APPLY FOR   **B**

(Minimum 10,000 Shares and then in multiples of 2,500 Shares. Applicants will also be issued with Attaching Options for no additional consideration on the basis of one Option for every two Shares issued.)

Please make sure that the amount of your cheque(s) equals this amount and is made payable to Lodestone Exploration Limited Share offer A/C

## COMPLETE FULL NAME AND ADDRESS DETAILS

**C** INSERT CORRECT TITLE (MR/MRS/MISS/MS)  GIVEN NAME(S) (IN FULL)  SURNAME OR COMPANY NAME

INSERT CORRECT TITLE (MR/MRS/MISS/MS)  GIVEN NAME(S) (IN FULL)  SURNAME OR COMPANY NAME

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SUBURB OR TOWN  STATE  POSTCODE

**F** CONTACT NUMBER (DAYTIME)  CONTACT NAME

**G** HIN — EXISTING CHESS PARTICIPANTS ONLY

**I** PIN YOUR CHEQUE HERE

**H**

DRAWER	BANK	BRANCH	AMOUNT OF CHEQUE	Please make cheque payable to Lodestone Exploration Limited Share Offer Account
<input type="text"/>	<input type="text"/>	<input type="text"/>	\$ <input type="text"/>	
<input type="text"/>	<input type="text"/>	<input type="text"/>	\$ <input type="text"/>	

**I** I/we declare that this application is complete according to the declaration/appropriate statements on the reverse of this form and agree to be bound by the constitution of the Company. Returning the Application Form with your cheque for the application monies will constitute your offer to subscribe for shares in Lodestone Exploration Limited.

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## How to Complete the Application Form

Forward your completed application together with the application money to:

**By mail:** Douglas Heck & Burrell Registries  
GPO Box 35  
Brisbane Qld 4001  
PH:(07)3228 4219

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Level 22, 300 Queen Street  
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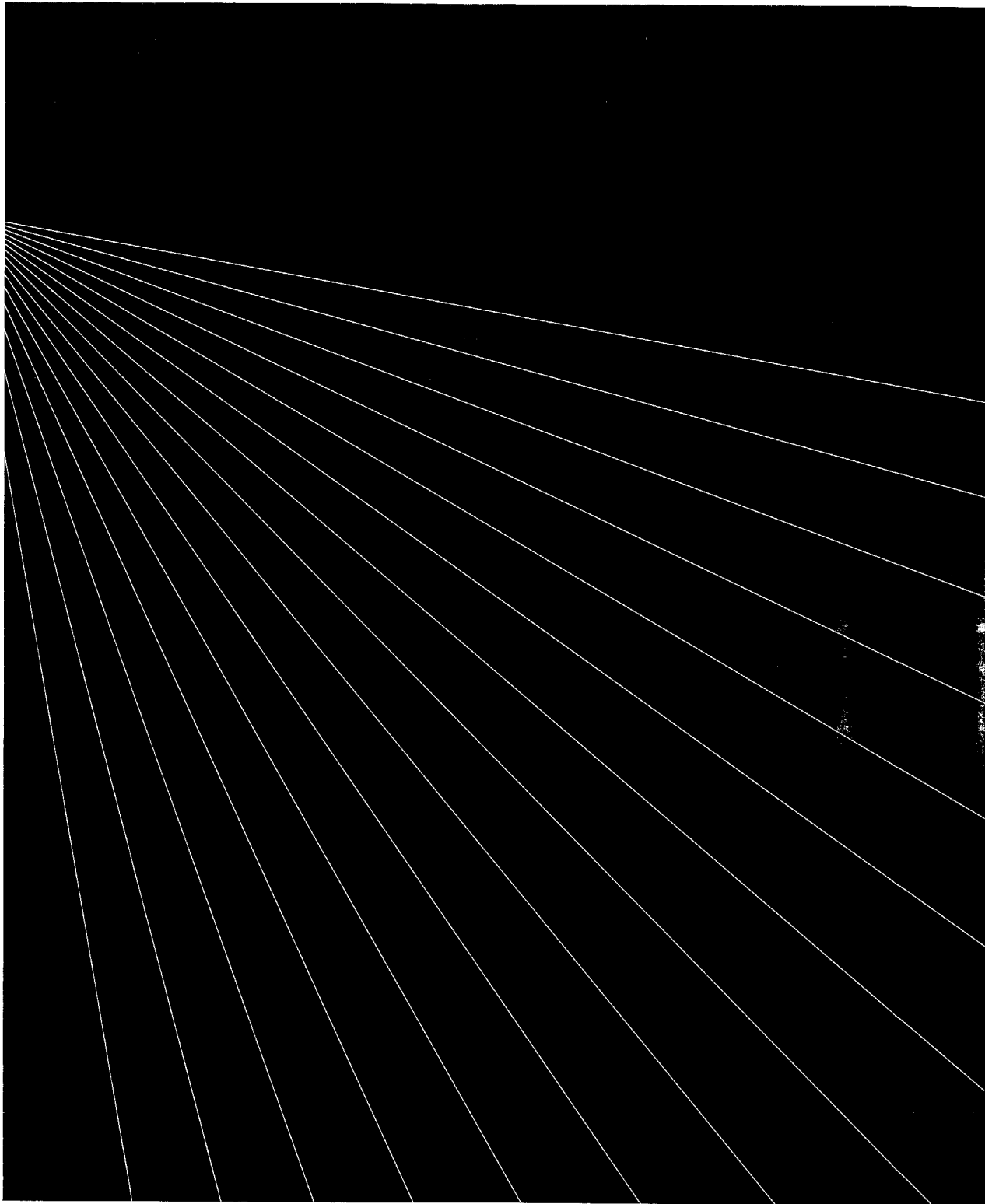
### Ready Reckoner

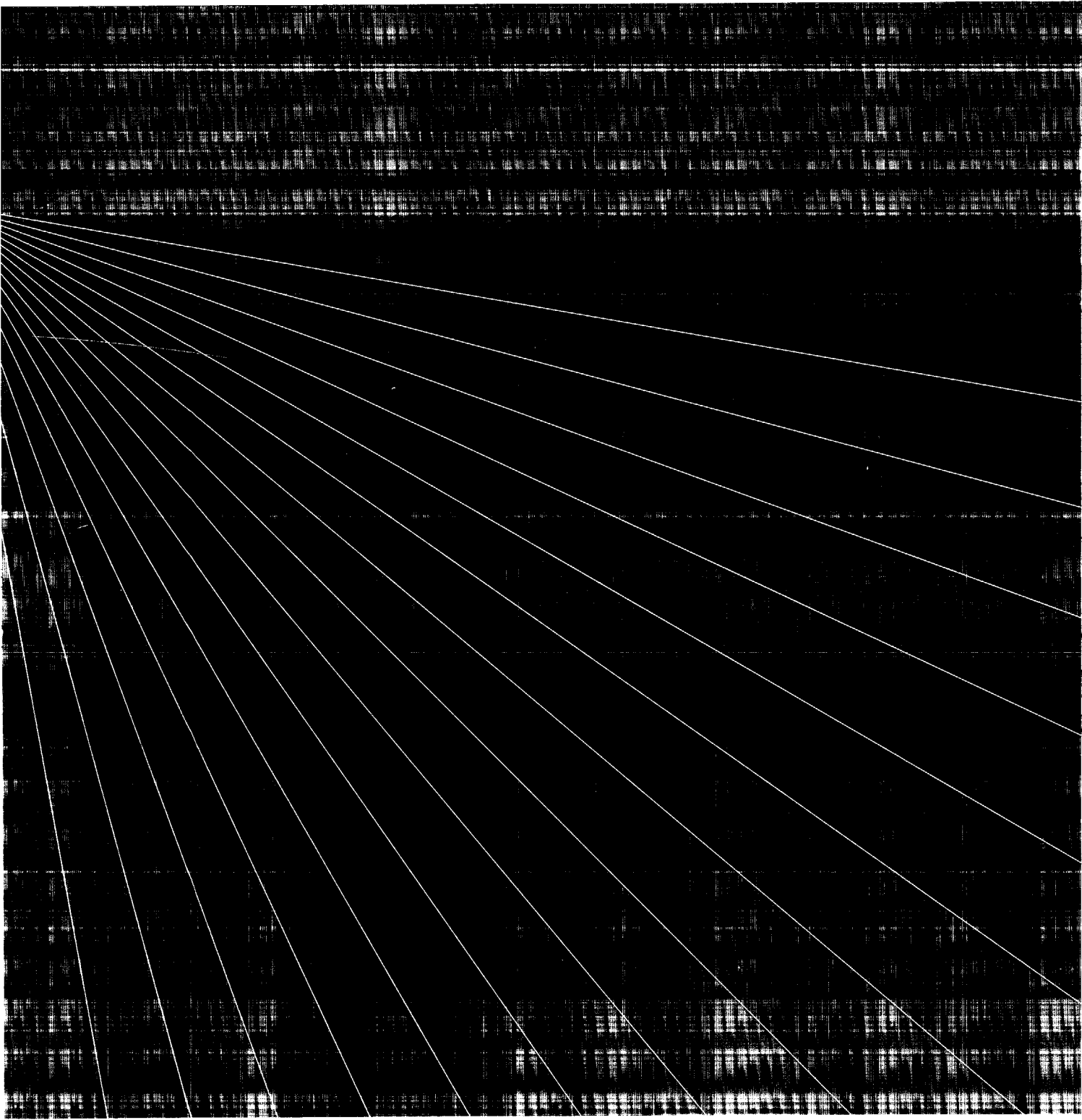
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LODESTONE EXPLORATION LIMITED

GPO Box 762, Brisbane QLD 4001

Telephone: 07 3003 1159

Facsimile: 07 3003 0200

e-mail: [info@lodestonex.com](mailto:info@lodestonex.com)

Website: [www.lodestonex.com](http://www.lodestonex.com)

