



LODESTONE EXPLORATION LIMITED (ASX:LOD)

COMPANY UPDATE

18 AUGUST 2005

KEY HIGHLIGHTS

- Lodestone is **currently drilling at the optioned Mount Victoria prospect** in its Mount Morgan district project. Two holes have been completed at the adjacent optioned Jasper prospect and samples despatched for assay.
- Lodestone will **commence drilling the Tungamull prospect** at the Mount Chalmers Joint Venture project in late August 2005.
- Lodestone was **recently granted the highly-prospective Limestone Creek gold tenement** in North Queensland following an application period of more than seven years. The Limestone Creek project has had no on-ground exploration since the late 1980s and **includes surface gold grades of up to 7.2g/t** in previous rockchip samples within the tenement area and coarse gold in adjacent stream sediments. Field exploration will begin in September 2005.
- The Company plans to **commence drilling gold/copper targets at its Cracow South project** as soon as possible after completion of drilling at Mount Chalmers, subject to confirmation of the project budget and funding.
- A Share Purchase Plan (SPP) announced on 18 August 2005 will provide **funding to accelerate the Company's drilling and related exploration programs** at Mount Morgan, Mount Chalmers, Cracow South and Limestone Creek and provide for additional working capital requirements.
- The SPP will provide shareholders the **opportunity to increase their holding in Lodestone at a significant discount to the recent share price.**

PROGRESS TO DATE

The Company listed on the ASX in March 2003, raising \$2.28 million after costs of the Initial Public Offering (IPO).

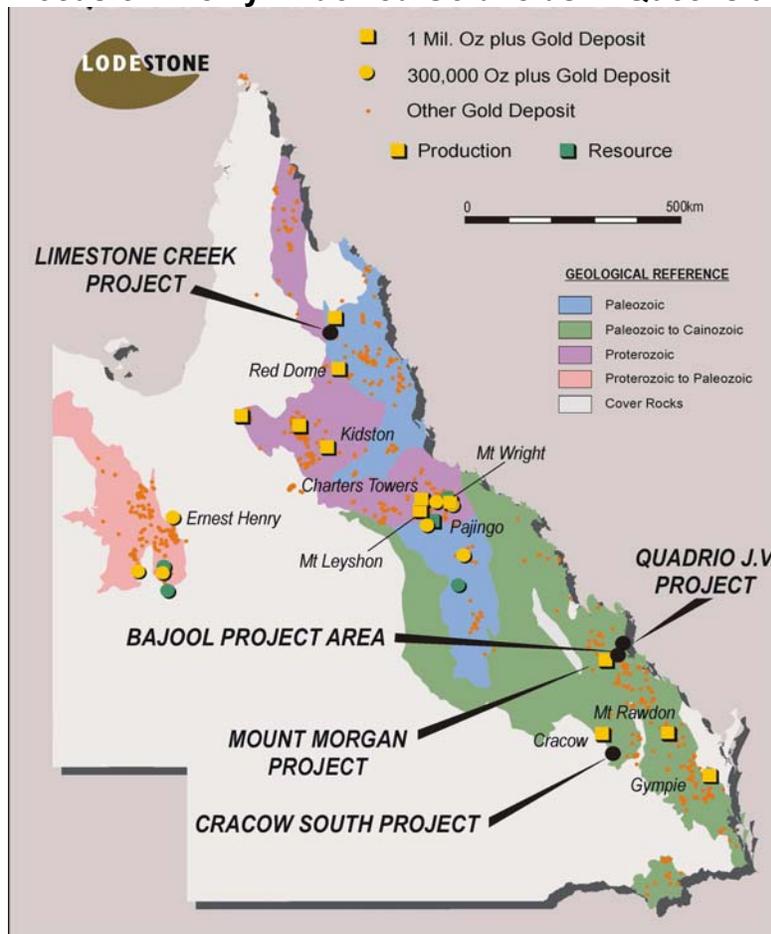
Lodestone has pursued a conservative approach to its expenditures as a public company, raising minimal funds as required to advance its highest priority exploration targets. In this manner, the Company has raised \$0.4 million since the \$2.5 million IPO and maintained a consistently tight capital structure. Since the 2003 IPO, the Company has drilled ten targets in the Mount Morgan district, with the current program planned to drill additional targets in this area and nearby Mount Chalmers.

LODESTONE'S CORPORATE STRATEGY

“A low-cost explorer focused on richly-endowed goldfields in Queensland”

Since its incorporation in 1996, the Company has pursued a focused exploration strategy, with a low-cost approach, targeting richly endowed mining districts in Central Queensland. These include the historic Mount Morgan, Mount Chalmers, and Cracow gold/copper districts where Lodestone tenements and optioned tenements are being explored with modern techniques. The Company also holds 100% of the Limestone Creek gold project 20 kms west of the historic Maytown goldfield in North Queensland.

A Focus on Richly-Endowed Goldfields in Queensland



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

EXPLORATION PROJECT OVERVIEW

Mount Morgan Area Project

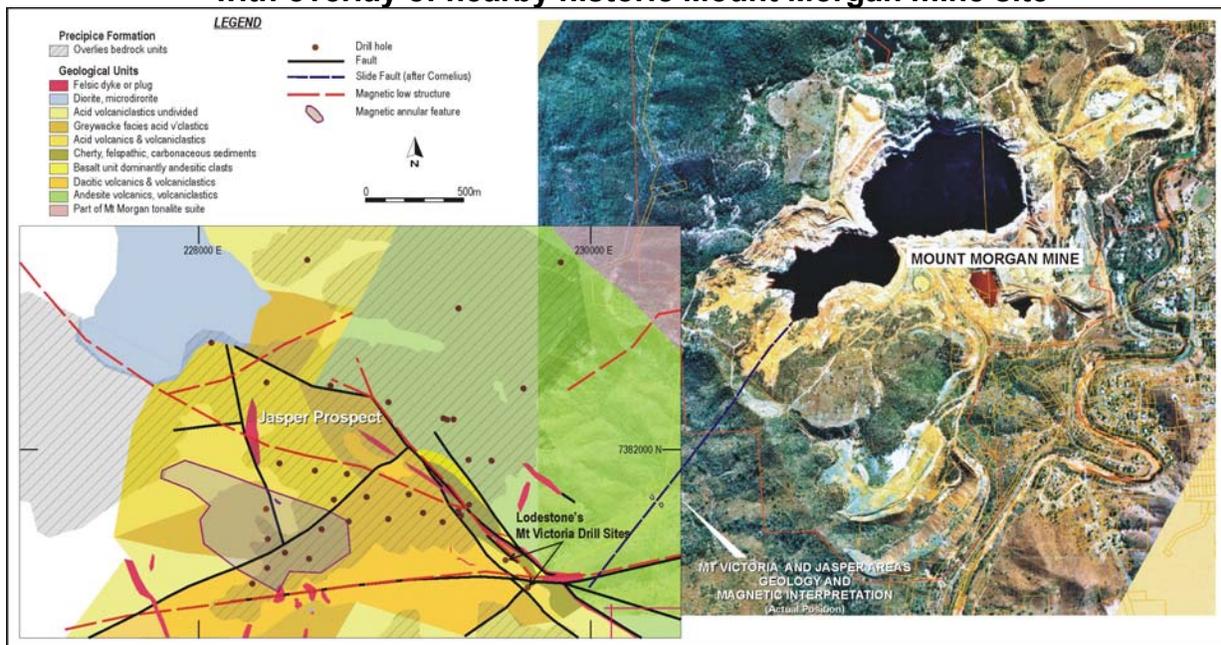
The Mount Morgan ore deposit was Australia’s premier volcanic-hosted massive sulphide deposit. The former mine yielded 9.4 million ounces of gold, and 360,000 tonnes of copper and was described as one of the “largest mountains of gold ever discovered”.

In other countries, satellite deposits have been discovered around similar ore bodies. Until recently, the limitations of available geophysical technologies have meant that the detection of conductors that might include similar satellite deposits under thick cover rocks in the Mount Morgan area was extremely difficult.

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

Drilling is currently underway at the optioned Mount Victoria Prospect, 2km south west of the historic Mount Morgan gold/copper mine. Two holes and a total of 365 metres of drilling during August 2005 will pursue higher-grade extensions of the gold-bearing mineralized halo confirmed in the Company’s November 2004 drilling program at Mount Victoria.

Lodestone’s Mount Victoria and Jasper Prospects – with overlay of nearby historic Mount Morgan mine site





Initial drilling has recently been completed in mid August 2005 at the Jasper prospect, 1.2km west of Mount Victoria to determine whether this prospect provided a source of nearby placer gold in the old Mount Victoria workings and alluvial gold found in adjacent 'Golden Gully'. Samples from this initial drilling were dispatched in mid-August for assaying in Brisbane.

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

Mount Chalmers Joint-Venture Project

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

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

Earlier drilling by Peko at Tungamull (2,500 metres to the east of the Mount Chalmers deposit) had intersected substantial zones of alteration, with gold, copper, lead and zinc anomalism (eg. 19.4m @ 0.33g/t gold, 21.7m @ 0.58% Zinc and 0.28% lead). These encouraging intersections were all within a single coherent zone, and are regarded as identical to peripheral zones around the original Mount Chalmers orebody. This zone of anomalism and alteration is only very partially tested, is open to the south, and is planned to be tested by Lodestone in September 2005 by three drill holes for a total of 800m of combined RC and diamond drilling after completion of the Mount Victoria program.

Recent Projects Added to the Portfolio

As a consequence of its low-cost approach to new project generation, the Company has also been granted highly-prospective new exploration tenements at Cracow South in Central Queensland, and Limestone Creek in North Queensland.

Cracow South Project

At Lodestone's Cracow South project, five high-grade epithermal Cracow-style gold/copper targets have been identified and will be drilled as soon as possible, subject to budgetary constraints.



Historical gold production within the entire Cracow goldfield stands at 850,000 oz between 1932 and 1993. At the new Cracow gold mine, November 2004 saw the first gold pour by joint venture partners Newcrest Mining (70%) and Sedimentary Holdings (30%). The development plans for the new mine envisage initial production of at least 680,000 ounces of gold over a seven year life for the joint venture. Grades are expected to be between 11-14g/t Au.

Limestone Creek Project

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

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

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

In the absence of an attractive farm-in arrangement, Lodestone will commence field exploration in September 2005, with drilling of probable targets as soon as possible.

DRILLING PROGRAMS

The Company has commenced its 2005 drilling program at its Mount Morgan project and nearby Mount Chalmers project and, subject to available funding, will continue drilling during 2005 with follow-up drilling of these targets and new programs of drilling at the Company's Cracow South and Limestone Creek projects as soon as possible.

Mount Morgan Project (optioned ground) – Current Drilling Program

Mount Victoria Prospect

As mentioned previously, drilling is currently underway at the optioned Mount Victoria Prospect, 3km south west of the historic Mount Morgan gold/copper mine. Two holes and a total of 365 metres of drilling during August 2005 will pursue higher-grade extensions of the gold-bearing mineralized halo confirmed in the Company's November 2004 drilling program at Mount Victoria.



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

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

Jasper Prospect

Following drilling at the optioned Jasper prospect earlier this month, the Company is awaiting the results of assays to determine the requirement for follow-up drilling at this target. The Jasper prospect is located favourably with respect to magnetic features and is inferred to be the likely source of placer gold in the old Mount Victoria workings and alluvial gold found in adjacent 'Golden Gully'. The main target is believed to be located under 35-40 metres of Jurassic Precipice Sandstone cover.

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

Drill sites have been prepared for 800 metres of drilling to commence during September at Tungamull, located 50km north east of Mount Morgan. Drilling at Tungamull will be targeted from sites located 2.5km south east of the historic Mount Chalmers open pit gold/copper mine.

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

Five high-grade epithermal Cracow-style gold/copper targets will be drilled as soon as possible, depending upon budgetary constraints.

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

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

UPCOMING SHORT-TERM MILESTONES

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

- Completion of current drilling program at Mount Morgan and Mount Chalmers



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

SUMMARY

Lodestone is currently in the process of drilling high-priority gold/copper targets at its Mount Morgan project area and will soon begin drilling at its nearby Mount Chalmers project in Central Queensland.

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

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

With a current market capitalisation of approximately \$2.3 million based on the SPP pricing at the time of announcement of this offer, your Board believes that Lodestone offers shareholders significant upside potential in the event of exploration success in our current and planned drilling programs during the next six months.

Information regarding exploration results contained in this report has been compiled by Mark Dugmore who is a "competent person" for the purposes of the Australian Stock Exchange Listing Rules. Mr. Dugmore is General Manager of Lodestone Exploration Limited and has consented in writing to the inclusion in this report of the matters based on the information in the form and context in which it appears.