

PROSPECTUS
2006



LODESTONE EXPLORATION LIMITED

ABN 20 075 877 075

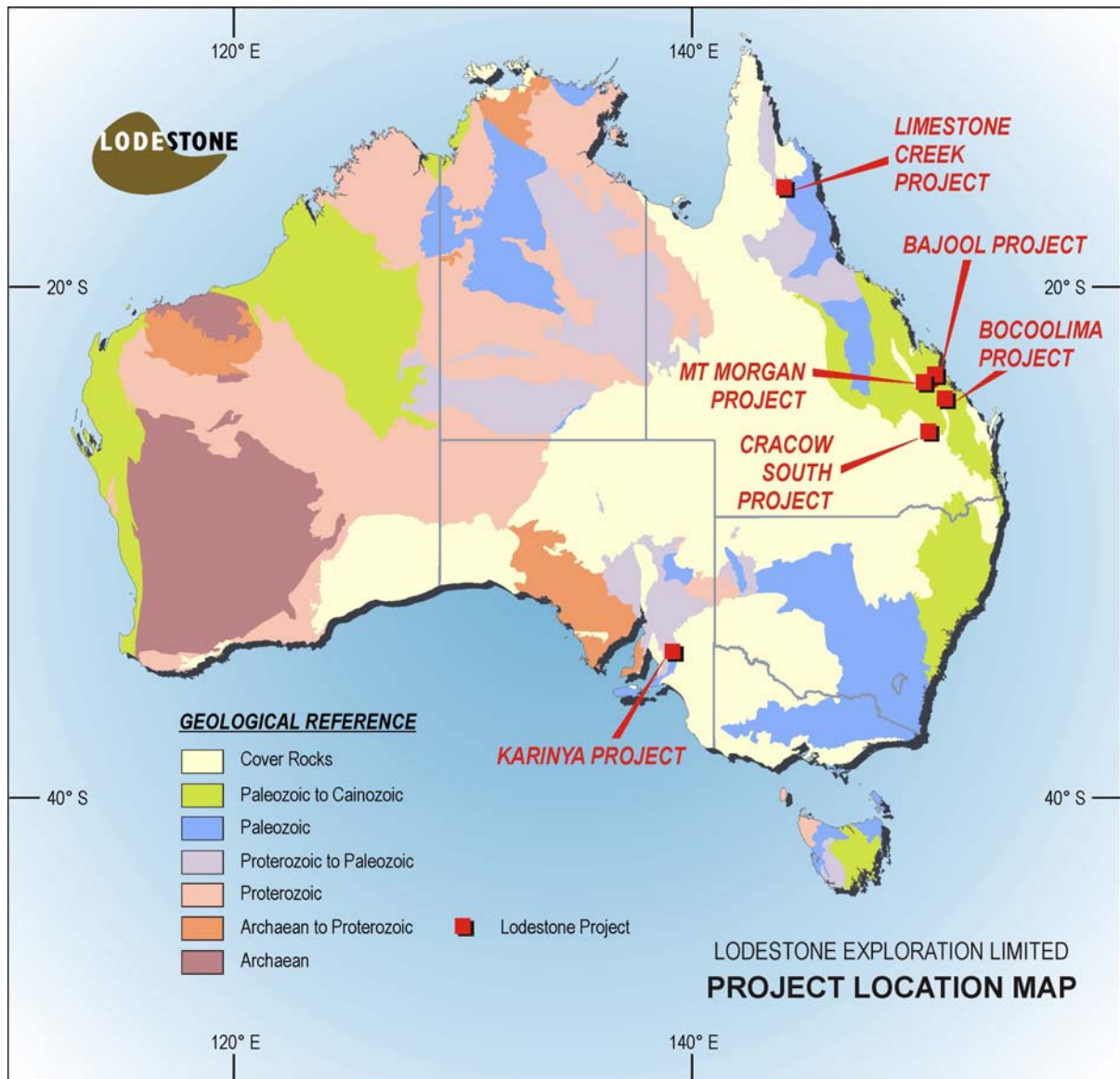
For a renounceable offer of 4 New Shares for every 3 shares held with 2 free New Options by way of a Renounceable Rights Issue at an application price of 3.8 cents per New Share to raise approximately \$2.35 million

UNDERWRITER AND LEAD MANAGER

PATERSONS SECURITIES LIMITED ACN 008 896 311

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





IMPORTANT NOTICE

This Prospectus is dated 16 June 2006. A copy of this Prospectus has been lodged with ASIC on that date. ASIC takes no responsibility for the contents of this Prospectus.

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

Lodestone has applied to ASX for quotation of the New Shares and the New Options. ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may quote the New Shares and New Options is not to be taken in any way as an indication of the merits of Lodestone.

Before deciding to invest in Lodestone, you should read and understand the entire Prospectus and, in particular, in considering Lodestone's prospects, you should consider the risk factors that could affect Lodestone's performance. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek advice from your professional adviser before deciding to invest. Investing in Lodestone involves risks. See 'Risk Factors' in Section 6 for a discussion of certain risk factors that you should consider before deciding to invest in Lodestone.

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus or has not been released to ASX with the authorisation of Lodestone.

The Entitlement and Acceptance Form accompanying this Prospectus is important. Please refer to the instructions in Section 5 of this Prospectus regarding the acceptance of your Entitlement. Applications can only be submitted on a valid Entitlement and Acceptance Form that is only available with this Prospectus.

Restrictions on distribution

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to lodge this Prospectus in any jurisdiction outside of Australia or to otherwise permit a public offering of Rights or New Shares or New Options in any jurisdiction outside Australia. This Prospectus is not to be distributed in, and no offer of Shares is to be made in, countries other than Australia and New Zealand.

Neither the Rights, Shares nor Options have been or will be registered under the US Securities Act of 1933 and may only be offered, sold or resold in, or to persons in, the United States in accordance with an available exemption from registration.

It is the responsibility of any Applicant to ensure compliance with any laws of a country relevant to their Application. Return of a duly completed Entitlement and Acceptance Form will be taken by Lodestone as a representation that there has been no breach of such laws, that the Applicant is an Eligible Shareholder and that the Applicant is physically present in Australia or New Zealand.

Shareholders outside Australia and New Zealand should refer to Section 1.11 of this Prospectus for details of how your Entitlement will be dealt with.

Rights trading

Your Rights may have value. If you decide not to exercise all or part of your Rights and take up New Shares and New Options you should consider whether to sell your Rights. It is important that you either accept or sell your Entitlement in accordance with the instructions in Section 5 of this Prospectus and on the back of the Entitlement and Acceptance Form.

Individual applicants are responsible for determining their allocations of Rights and New Shares and New Options before trading in them. Eligible Shareholders trade in Rights or New Shares or New Options before receiving confirmation of their allocation at their own risk.

Shareholders who take no action in respect of their Rights will receive no benefits. An Entitlement and Acceptance Form is enclosed with this Prospectus.

Prospectus availability

This Prospectus is available in electronic form at www.lodestonex.com and www.asx.com.au only for persons within Australia. Persons who access the electronic form of this Prospectus must ensure that they download and read the entire Prospectus.

A printed copy of this Prospectus is available free of charge by calling Link Market Services Limited on (02) 8280 7454.

Definitions and glossary, financial amounts and time

Definitions of certain terms used in this Prospectus are contained in Section 8. All references to currency are to Australian dollars and all references to time are to Brisbane time, unless otherwise indicated.

Pictures and other representations may not be drawn to scale and are for illustrative purposes only and do not and are not to be taken to represent assets that are either owned or controlled by Lodestone, unless otherwise stated.

Enquiries

For further information in relation to the Offer, please call Lodestone's Company Secretary on (07) 3229 6606.

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INVESTMENT HIGHLIGHTS

- Lodestone is a precious and base-metals exploration company with interests in Queensland and South Australia.
- The objective is to discover major gold and base metals deposits similar to Mount Morgan and Mount Isa.
- Drill targets have been identified in South Australia and Central Queensland.
- Lodestone intends to commence drilling as soon as practical after completion of the issue.
- Areas of immediate interest are primarily freehold or exclusive leasehold and, as such, are expected to have minimal Native Title risk.
- The Karinya Project in South Australia is free of any Native Title claim.
- Project areas are close to transport and energy infrastructure.

IMPORTANT DATES

Shares trade "ex-rights" and Rights trading commences on ASX	:	21 June 2006
Record Date to determine Entitlements under the Rights Issue	:	27 June 2006
Prospectus and Entitlement and Acceptance Form despatched	:	30 June 2006
Last day of Rights trading	:	7 July 2006
Closing Date for acceptances	:	14 July 2006
Allotment and issue of New Shares	:	21 July 2006
Despatch of shareholding statements for New Shares	:	21 July 2006
Trading of New Shares expected to commence	:	24 July 2006

This timetable is indicative only and subject to change. The Directors generally reserve the right to vary these dates, including the Closing Date without prior notice. The Directors also reserve the right not to proceed with the whole or part of the Offer any time prior to allotment. In that event, the relevant Application Money will be returned without interest.

LETTER FROM THE CHAIRMAN

Dear Shareholder,

Your Directors are pleased to offer you an opportunity to participate in Lodestone's renounceable Rights Issue.

In summary, this is a 4 for 3 Rights Issue of New Shares at an issue price of 3.8 cents per New Share, with one free attaching New Option for each 2 New Shares. It is expected to result in the issue of at least 61,892,953 New Shares and 30,946,476 New Options, raising approximately \$2.35 million.

The free attaching New Options (one for every 2 New Shares) have an exercise price of 5 cents and an exercise period of 2 years. The Company will apply for the New Options to be quoted with ASX.

The Rights Issue is underwritten and the Company has incorporated a top up facility whereby Eligible Shareholders may apply for additional New Shares in excess of their Entitlement at the same price.

The funds raised will increase the Company's cash and will primarily assist us to fund our first phase of drilling on the optioned Karinya Zinc-Silver Prospect in South Australia, the optioned Bocoolima Gold-Copper Prospect in Central Queensland, enhance targets near Mount Morgan, at Cracow South and at Limestone Creek and to pursue additional opportunities as the Board sees fit. Proceeds will also be used to meet costs associated with the Offer, cover corporate overheads and provide working capital for the next 2 years.

Your Directors draw your attention to the courses of action available to you as set out in Section 5. Your Entitlement to New Shares is set out on the accompanying Entitlement and Acceptance Form.

Your Directors also draw your attention to Section 6, Risks, and ask that you carefully consider the potential risks outlined before making an investment under this Prospectus.

The proceeds of the Rights Issue will enhance the future of the Company and on behalf of the Board, I invite you to consider the contents of this Prospectus and encourage you to participate in the Rights Issue.

Yours sincerely,

John Shaw, Chairman

16 June 2006

1. DETAILS OF RIGHTS ISSUE

1.1 Description of Rights Issue

Lodestone is offering, by way of a 4 for 3 renounceable Rights Issue, approximately 61,892,953 New Shares at an Application Price of 3.8 cents per New Share with 1 free New Option for each 2 New Shares to each Eligible Shareholder to raise approximately \$2.35 million.

1.2 Entitlement to Rights Issue

Shareholders who are on the Company's Share Register at the close of business on the Record Date, being 7.00 pm on 27 June 2006 will receive Rights to acquire 4 New Shares with 2 free New Options for every 3 Shares held, at an Application Price of 3.8 cents per New Share.

Fractional entitlements will be rounded up to the nearest whole number of New Shares and New Options. For this purpose, holdings in the same name are aggregated for calculation of Entitlements. If Lodestone considers that holdings have been split to take advantage of rounding, Lodestone reserves the right to aggregate holdings held by associated Shareholders for the purpose of calculating Entitlements.

An Entitlement and Acceptance Form setting out your Entitlement to New Shares and New Options accompanies this Prospectus.

Eligible Shareholders may apply for Additional New Shares under Section 1.7.

1.3 Application Price

The Application Price of 3.8 cents represents a discount of 9.8% to the closing price of Shares of 4.2 cents on 13 June 2006, being the last day of trading before the announcement of the Rights Issue. For every two New Shares issued, applicants receive one free New Option.

1.4 Use of proceeds

Lodestone expects to raise approximately \$2.35 million under the Rights Issue before Offer costs and will use the proceeds as set out in Section 2.

1.5 Underwriting

The Rights Issue is fully underwritten by Patersons Securities Limited. A summary of the underwriting agreement (including the circumstances in which the agreement may be terminated) is set out in Section 7.

1.6 Actions Required by Shareholders

An explanation of the actions required by Shareholders is set out in Section 5.

1.7 Applying for Additional New Shares

Eligible Shareholders may, in addition to their Entitlement, apply for Additional New Shares and the relevant number of New Options regardless of the size of their present holding.

If more Additional New Shares are applied for than are available from the quantity of New Shares not taken up under the Rights Issue, the Directors will scale back those applications in a manner determined by the Company and the Underwriter in their absolute discretion and excess application money will be refunded without interest.

Entitlements not taken up become available as Additional New Shares in the first instance. It is possible, particularly if there is an active Rights trading market, that there will be few or no Additional New Shares available for issue. It is an express term of the Offer that Applicants will be bound to accept a lesser number of Additional New Shares and additional New Options allocated to them than applied for, in which case excess application money will be refunded without interest.

Further details of how to apply for Additional New Shares are set out in Section 5.

1.8 Allotment and Application Money

All Eligible Shareholders who accept the Offer will receive their Entitlement in full.

New Shares and New Options will be issued only after all Application Money has been received and ASX has granted permission for the New Shares and New Options to be quoted. It is expected that New Shares and New Options will be issued on 21 July 2006 and trading of the New Shares and New Options on ASX is expected to commence on 24 July 2006.

All Application Money received before New Shares and New Options are issued will be held in a special purpose account. After Application Money is refunded (if required) and New Shares and New Options are issued to Applicants, the balance of funds in the account plus accrued interest will be received by Lodestone.

If the New Shares and New Options are not quoted by ASX within three months after the date of this Prospectus, Lodestone will refund all Application Money in full.

1.9 Closing Date

The closing date for acceptance of your Entitlement is 5.00 pm on 14 July 2006. The Company reserves the right to cancel the Rights Issue at any time prior to allotment.

1.10 Rights trading

Trading of Rights commences on ASX on 21 June 2006 with the last day of trading being on 7 July 2006. All or part of an Eligible Shareholder's Rights may be traded on ASX or otherwise sold between these dates should you choose not to accept all or part of your Entitlement.

1.11 Treatment of Overseas Shareholders

The Offer in this Prospectus is not being extended to any Shareholder, as at the Record Date, whose registered address is not situated in Australia or New Zealand because of the small number of such Shareholders, and the cost of complying with applicable regulations in jurisdictions outside Australia and New Zealand. The Prospectus is sent to those Shareholders for information only.

The Offer contained in this Prospectus to Eligible Shareholders with registered addresses in New Zealand is made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand). Members of the public in New Zealand who are not existing Shareholders on the Record Date are not entitled to apply for any New Shares.

Recipients may not send or otherwise distribute this Prospectus or the Entitlement and Acceptance Form to any person outside Australia (other than to Eligible Shareholders).

The Company has appointed the Underwriter (or associates of the Underwriter) as nominee to sell the Non-qualifying Foreign Shareholders' Rights. The Underwriter (or associates of them) will only sell the rights if there is a viable market in the rights and a premium over the expenses of sale can be obtained.

Any such sale will be at a price and be conducted in a manner that the nominee will determine in its absolute discretion.

The proceeds of sale (in Australian dollars) will be distributed to the Non-qualifying Foreign Shareholders for whose benefits the Rights have been sold in proportion to their shareholdings as at the Record Date (after deducting the costs of the sale and the distribution of the proceeds), save that individual amounts of less than \$10 will be retained by Lodestone.

Neither the Company nor the nominee will be liable for any failure to sell the Rights or to sell the Rights at any particular price. If there is no viable market for the Rights of the Non-qualifying Foreign Shareholders, their Entitlement will be allowed to lapse and the relevant New Shares and New Options will revert to the Underwriter.

1.12 Rights attaching to New Shares and New Options

From issue, the New Shares issued under this Prospectus will rank equally in all respects with existing Shares. Summaries of the important rights attaching to Shares as set out in the Company's Constitution and rights attaching to New Options are contained in Section 7 of this Prospectus.

1.13 Risk Factors

Applicants should appreciate that mineral exploration is a high risk enterprise which only occasionally provides rewards and whose new economic discoveries are rare. There are a number of risk factors, both specific to Lodestone and of a general nature, which may affect the future operating and financial performance of Lodestone and the value of an investment in Lodestone. These risk factors are discussed in more detail in Section 6 of this Prospectus and include the following:

- highly speculative nature of mineral exploration and development;
- mining risks;
- cultural heritage;
- renewal of title of existing tenements;
- Karinya Project joint venture and Minister's consent;
- native title;
- operating history;
- key personnel;
- consequences of inability to raise funds;
- environmental impact constraints;
- share market risk;
- volatility in the price of minerals;
- insurance risks;
- possible volatility in the market price of the Company's shares; and
- negative publicity may adversely affect the Company's share price.

2. PURPOSE AND EFFECT OF THE RIGHTS ISSUE

2.1 Purpose of the Rights Issue

The net funds raised from the issue of New Shares and New Options through the Offer after payment of all associated costs, are expected to provide the Company with approximately \$2.11 million in additional capital.

This will enable Lodestone to fund its first phase of drilling on the optioned Karinya Zinc-Silver Prospect in South Australia and the optioned Bocoollima Gold-Copper Prospect in Central Queensland, enhance targets near Mount Morgan, at Cracow South and at Limestone Creek and to pursue additional opportunities as the Board sees fit.

Proceeds will also be used to meet costs associated with the offer of New Shares and New Options and cover corporate overheads and provide working capital for the next two years.

The following table shows the proposed application of funds over two financial years from 1 July 2006 based on the assumption that none of the New Options are exercised before their expiry date:

\$'000	Year 1	Year 2	Total
Exploration Program	900	600	1,500
Corporate Overheads	295	295	590
Cost of New Share Offer	240	0	240
Subtotal	1,435	895	2,330
Opening Cash	130	1,047	130
Proceeds of Share Issue	2,352	0	2,352
Closing Cash	1,047	152	152

Note: If all of the New Options are exercised before their expiry date the Company would raise additional capital of \$1,547,324 in cash from the issue of Shares on exercise of those New Options and Closing Cash for Year 2 would be \$1,699,000 (before costs or other expenditure).

The following table shows the proposed exploration expenditure by project over two financial years from 1 July 2006.

\$'000	Year 1	Year 2	Total
Karinya Project	500	250	750
Bocoollima	200	250	450
Enhancement of mature projects	200	100	300
Total	900	600	1,500

Note: These are approximate and anticipated expenditures but may vary significantly according to exploration outcomes.

2.2 Effect of the Rights Issue

The principal effects of the Rights Issue will be to:

- increase the Company's cash reserves by approximately \$2.35 million before taking into account the costs of the Rights Issue;
- provide the Company with additional capital for the purposes referred to in Section 2.1; and
- increase the total number of issued Shares (refer Section 2.3).

Pro-forma consolidated historical financial information is provided in the following paragraphs summarising the effect of the Rights Issue.

2.3 Effect of the Rights Issue on capital structure

The effect of the Rights Issue on the Company's issued share capital will be as follows:

Ordinary Shares	Number	% Equity
Existing Shares	46,419,715	43%
Issue under Share Offer	61,892,953	57%
Totals	108,312,668	100%

Other securities:	
New Options	30,946,476
Directors' Options	800,000
Consultant's Options	501,000
Vendors' Options	2,000,000
Total Options	34,247,476

These numbers may vary slightly due to rounding up to the nearest whole number.

2.4 Effect of the Rights Issue on Company's financial position

Set out below is the historical Consolidated Balance Sheet of the Company as at 31 December 2005 and a proforma Consolidated Balance Sheet of the Company after the Rights Issue.

The financial information prepared below is prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

\$'000	31 Dec 05 (Reviewed)	Rights Issue Proceeds	31 Dec 05 (Pro forma)
Current Assets			
Cash	277	2,112	2,389
Receivables	46	-	46
Total Current Assets	323	2,112	2,435
Non Current Assets			
Property, plant & equipment	50	-	50
Exploration expenditure	874	-	874
Other	50	-	50
Total Non Current Assets	974	-	974
Total Assets	1,297	2,112	3,409
Current Liabilities			
Payables	19	-	19
Total Current Liabilities	19	-	19
Total Liabilities	19	-	19
Net Assets	1,278	2,112	3,390
Equity			
Contributed Equity	3,924	2,112	6,036
Accumulated losses	(2,646)	-	(2,646)
Total Equity	1,278	2,112	3,390

2.5 Market price of Shares

The highest and lowest market prices of the Company's Shares on ASX during the 3 months immediately preceding the date of lodgment of this Prospectus with ASIC and the respective dates of those sales were:

Highest: 7 cents on 4 May 2006

Lowest: 2.8 cents on 17 March 2006

The volume weighted average sale price on ASX of the Company's Shares during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC was 4.5 cents.

The latest available market sale price of the Company's Shares on ASX prior to the date of lodgement of this Prospectus with ASIC was 4.2 cents on 13 June 2006.

3. COMPANY INFORMATION

3.1 Introduction to Lodestone and its business

Lodestone is a junior explorer with a tenement area of more than 500 square kilometres within historic goldfields in Central and Northern Queensland.

The Company was established in 1996 and listed on the ASX in March 2003.

Initially, Lodestone deployed modern airborne electromagnetic survey equipment, specifically GEOTEMDEEP, HOISTEM and TEMPEST systems and high resolution aeromagnetics. Lodestone has also deployed advanced ground gravity tools in the Mount Morgan region, near Rockhampton.

The Company has drilled twelve targets since June 2003 and has moved progressively closer to Mount Morgan as additional target areas were recognised and land became available.

Assessment of additional opportunities within Central Queensland goldfields, led to the broadening of Lodestone's activities to include parts of the historic goldfields near Cracow and Mount Chalmers.

In June 2005, Lodestone was granted a tenement at Limestone Creek in North Queensland after a lengthy application process.

3.2 Portfolio - Multiple Projects and Targets

Lodestone has mainly focused on the Mount Morgan district, in search of blind and buried Mount Morgan "look-alikes".

More recently it has optioned projects west of Gladstone, Queensland (Bocoolima) and north of Adelaide, South Australia (Karinya).

These, together with Lodestones' wholly-owned projects south of Cracow and Chillagoe, both in Queensland, provide a substantial inventory of potential drill targets - all in historic gold and mineral fields.

This portfolio is listed below and more information can be obtained from the Company's website at www.lodestonex.com.

- **Mount Morgan/Bajool District Projects** – Three Mount Morgan-style-gold-copper targets situated within EPMS 14078 and 14435.
Two intrusion-centred gold targets situated within EPMS 13743 and 14137.
- **Cracow South Project** – Five epithermal gold targets situated within EPM 14495.

Four porphyry-style copper targets situated within EPM 14495.

- **Limestone Creek Project** – Two sediment-hosted gold-copper targets situated within EPM 11980.
- **Bocoolima Project (option. farm-in)** - refer to Section 3.3.
Two skarn and intrusive related gold-copper targets.
- **Karinya Project (option. farm-in)** - refer to Section 3.3.
Two sediment-hosted zinc-silver targets.

3.3 Overview of Recent Projects

The net funds raised in this Rights Issue will enable Lodestone to fund its first phase of drilling on the optioned Karinya Zinc-Silver Project in South Australia, the optioned Bocoolima Gold-Copper Project in Central Queensland, and enhance several other wholly-owned gold-copper targets in Queensland.

An overview of recent projects is set out below.

Karinya Farm-In Project

Lodestone has signed a farm-in agreement with Sedex to allow Lodestone to explore and earn a majority interest in the Karinya Zinc-Silver Project (EL3420) in the resurgent base and precious metals region of Kanmantoo in South Australia. Karinya is situated 80 km north-east of Adelaide in an area with well-developed infrastructure. There is a railhead nearby and the major lead-zinc smelter refinery at Port Pirie is 200 km away by rail.

The Kanmantoo Trough, Australia's oldest mining province, is now a base and precious metals hot spot where new and revived mines are currently being planned and exploration activity increased.

Terramin's Angas zinc-lead-silver gold deposit is scheduled for production next year, and the reopening of Hillgrove's historic Kanmantoo copper-gold open cut mine is in pre-feasibility study.

Sedex has identified attractive zinc targets in the same prospective belt. Sedex's Karinya Project contains abundant pyritic black shales, stratigraphic gossans with anomalous geochemistry, complex structures, and other features indicative of a classical shale hosted lead-zinc environment similar to that of the major zinc-lead deposits of Mount Isa, Sullivan (Canada) and Red Dog (Alaska).

Exploration by the South Australian Government has established the presence of zinc, lead and silver at Karinya as part of the widespread lead-zinc

mineralisation within the Lower Kanmantoo Group in which the Karinya Shale is located.

Previous exploration in the Karinya Shale to the south of the Karinya Project resulted in zinc-lead gossans assaying up to 17% zinc; follow up drill holes yielded intersections of two metres at 8.1% zinc, 2.37% lead and 33 ppm silver and 12 metres at 1.53% zinc and 0.45% lead.

Lodestone has issued two million one year five cent options, and has agreed to issue an additional five million shares and spend \$500,000 on the Karinya Project within two years to earn 51% equity in the Karinya Project. Lodestone may then issue an additional 2.5 million shares (or pay \$250,000 at Sedex's choice) to earn an additional 19% equity in the Karinya Project.

For further information, please see the Independent Expert's Report in Section 4 of this Prospectus and the summary of the agreement in Section 7.9.

Bocoolima Farm-in Project

Lodestone has signed a joint venture farm-in agreement with Copper Strike Limited to allow Lodestone to explore and earn an interest in Copper Strike's wholly-owned Bocoolima Gold Project (EPM 14963) located 50 km south-west of Gladstone, Queensland.

Under the terms of the agreement, Lodestone must drill a minimum of 500 metres during the initial exploration program that Lodestone expects to begin in August. A number of holes will be drilled to test continuity of grade along strike and down-dip of surface samples that obtained narrow high grade gold mineralisation at the Springlands and Diglum prospects.

If it decides to continue beyond the initial program, Lodestone can earn 40% of the Bocoolima Project by spending \$500,000 on exploration over three years. It then has an option to earn 51% of the Project by issuing four million Lodestone shares to Copper Strike, or the equivalent in cash, at Lodestone's choice.

In the Diglum-Springlands prospect area, rock chip sampling has confirmed anomalous gold values in outcropping garnet-wollastonite skarns. Of the 37 samples taken, 12 had values greater than 1 g/t Au, with one value of 106 g/t Au and another at 11 g/t Au. The sampled skarn has widths of one to four metres, from both isolated outcrops and continuous exposure, over strike lengths of up to several hundred metres. High values were confirmed by Lodestone sampling. For further information, please see the independent expert's report in Section 4 of this Prospectus.

Drilling by earlier explorers at the Griffith Hill prospect intersected some significant gold results, including 9 metres of 3.85 g/t Au, within a granite-hosted hydrothermal breccia zone.

Copper Strike sees this joint venture as a means of maintaining an interest in a highly prospective gold project while focusing on copper exploration, particularly at Einasleigh and Walford Creek in northern Queensland. For Lodestone, this presents an opportunity within a region of long-standing interest.

For further information, please see the Independent Expert's Report in Section 4 of this Prospectus and the summary of the agreement in Section 7.9.

3.4 Summary of business objectives

Until recently, Lodestone's main activity has been to search for large blind or buried orebodies under thick cover rocks. This has been a difficult task; but one that may yet bear fruit in the Mount Morgan and Cracow districts.

Consequently, a decision was made in January 2006 to also pursue fresh projects that also offer the potential to deliver rich prizes but are easier and cheaper to explore because of mineralisation styles, and absence of thick cover rocks. The first two such projects are Bocoolima and Karinya.

Deep or complex targets, particularly those masked by thick or dense cover, will now be offered for farm-out. Henceforth, Lodestone will focus on shallow targets at Karinya, Bocoolima, and on the best of the shallow Mount Morgan, Bajool, Cracow South, and Limestone Creek targets.

Lodestone is also seeking opportunities to acquire more advanced projects, with known or likely resources so as not to be wholly dependent on exploration results.

The Company's Board has the experience and talents needed to achieve Lodestone's aims, as evidenced below.

3.5 Information on Directors

John Shaw (Chairman) B.Sc (Geological Engineering) FAusIMM, FAICD, MCIM, SME.

John Shaw has been independent non-executive Chairman for three years. He has more than 40 years experience in gold, copper, silver and tungsten in exploration, development and operations.

John is non-executive Chairman of Tri-Origin Minerals Limited (director since 2003) and a non-executive director of IAMGOLD Corporation since March 2006. He was the former non-executive

Chairman of Gallery Gold Limited (director since 2003), non-executive director of Kingsgate Consolidated Limited from 2000 to 2005, and a non-executive director of Aurion Gold Limited from 2001 to 2003. John 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. Age 66.

John McCawley (Executive Director)
B.Com (Hons)

John McCawley has been a non-executive director of the Company for nine years and executive director for two years.

From 1989 to 1997 he was manager of the Venture Fund at QIDC, a Queensland Government owned investment and finance institution, now part of Suncorp Metway Limited. Age 63.

Martin Ackland (Non-executive director)
B.App.Sc. (PrimMet), M.AusIMM, FAICD, MAIME.

Martin Ackland has been a non-executive director for three years.

He is a director of two other public companies, Mineral Deposits Limited (executive director since 2003) and Sedimentary Holdings Limited (non-executive director since 1993).

Martin was non-executive Chairman of Ausenco Limited from 1995 to 2003, and a non-executive director of McConnell Dowell Corporation Limited from 1999 to 2003.

He was a director and CEO of Southern Cross Resources Inc from 1997 to 2003 and an executive director of Ticor Limited from its foundation until 1995.

He is Chairman of Lodestone's audit committee. Age 60.

Greg Baynton (Non-executive Director)
M.Econ St, MBA, B.Bus (Accounting), ASIA, FAICD.

Greg Baynton has been a non-executive director for four years.

He is a non-executive director of two other public companies, PIPE Networks Limited (director since 2004) and Tissue Therapies Limited (director since 2003). He is also a director of Genera Biosystems Pty Limited, Farmacule BioIndustries Pty Limited and executive director of Orbit Capital Pty Limited.

Greg is a member of Lodestone's audit committee. Age 38.

4. INDEPENDENT EXPERT'S REPORT

N. F. STUART and ASSOCIATES

P.O. BOX 150 BELLBOWRIE, QLD. 4070. PH. 07 32025442, FX. 07 38781433

16 June 2006

The Directors
Lodestone Exploration Limited
G.P.O. Box 762,
Qld. 4001

Dear Sirs,

Re: Independent Geologist's Report

Neil Stuart, Principal of N. F. Stuart & Associates has been requested by Lodestone Exploration Limited to prepare an Independent Report on the Bocoolima and Karinya projects for the purpose of inclusion in a Prospectus (dated 16 June 2006 seeking to raise \$2,352,000.

The Report provides a summary and appraisal of the projects based on data made available through Lodestone Exploration Limited. Much of these data is publicly available. The status of the tenements has not been verified by N. F. Stuart & Associates.

The Report has been prepared by Neil F. Stuart M.Sc., F.Aus.I.M.M., MMICA, MAIG, Consultant Geologist with some 35 years experience in the mineral industry.

References consulted are listed at the end of the Report. There is no reason to doubt the authenticity or substance of the information consulted.

Neil Stuart and N. F. Stuart & Associates consent to the inclusion of this Report and references to it, in the form and context in which it is included. Apart from that, neither the whole nor any part of the Report, nor any references thereto, may be included in, or with, or attached to any document, circular, resolution, letter or statement without the prior written consent of Neil Stuart and/or N. F. Stuart & Associates.

Yours faithfully

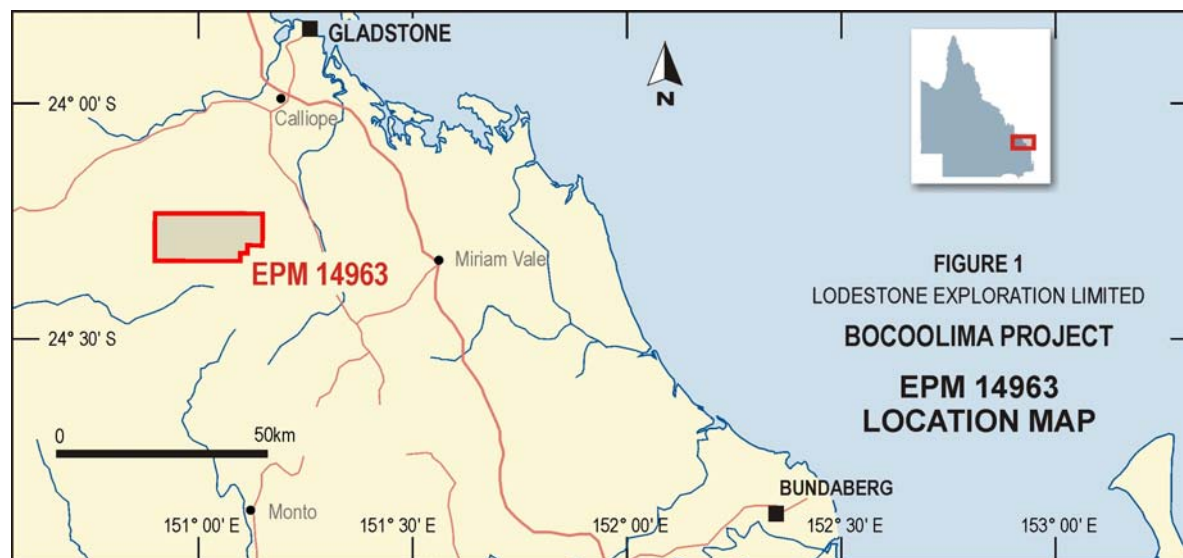
Neil Stuart (Principal)

BOCOOLIMA PROJECT – EPM 14963

INTRODUCTION

Exploration Permit Minerals (EPM) 14963 consists of 85 sub-blocks (some 276 square kilometers) and is located some 50 kilometres south-west of Gladstone in central-eastern Queensland.

Access into the area is by gravel roads and farm tracks. Some of the area is quite hilly and vehicle access is limited.

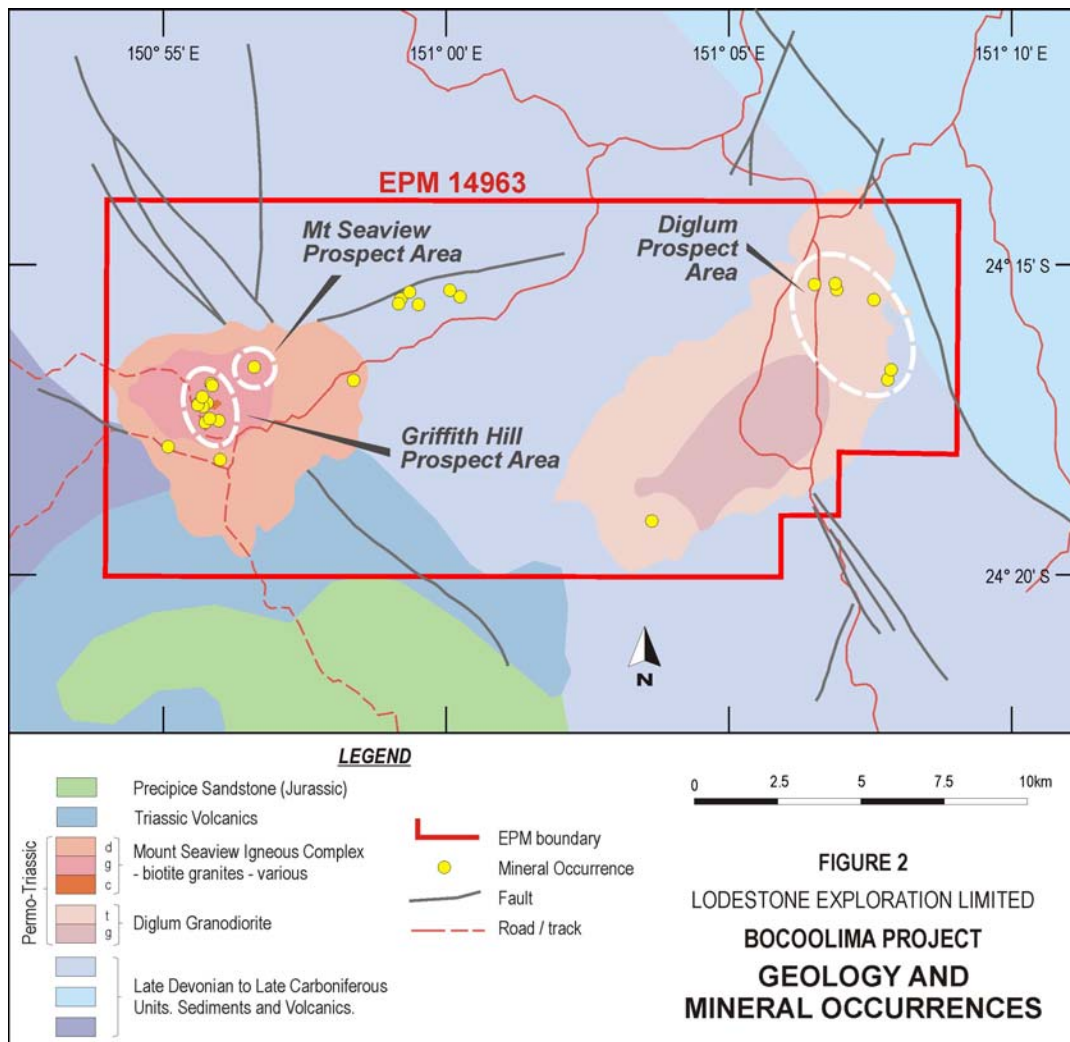


GENERAL GEOLOGY AND MINERALISATION

The general geology and location of known old mine workings and prospects is given in Figure 2. The basement of the area is the belt of north-westerly trending Late Devonian to Early Permian sediments and volcanics. The units identified on the 1:100,000 geological sheet “Biloela” (Qld. Dept. Natural Resources and Mines 2001) within the EPM area are as follows:

- Mount Alma Formation – interbedded sandstone and siltstone, andesitic to dacitic volcanoclastics, conglomerates with “rip-up” clasts.
- Three Moon Conglomerate – andesitic to basaltic polymictic conglomerate, sandstones, siltstones, andesites.
- Rockhampton Group – mudstones, siltstones, felsic volcanic sandstones, ooid bearing conglomerate, polymictic conglomerate and oolitic limestone.
- Youlambie Conglomerate – granular to boulder, polymictic conglomerate, volcanoclastic sandstone, tuffaceous to carbonaceous siltstone, dacite to rhyolytic ignimbrite.

These units are intruded by Permo-Triassic granitoids and associated stocks. The Mount Seaview Igneous Complex is the most dominant intrusive complex and includes hornblende-biotite granite, diorites, quartz gabbro and brecciated granite. The Seaview Complex is multi-phase and hosts numerous occurrences of (mostly) gold mineralization. Most of the known mineralization occurs in thin quartz vein situations – particularly in zones of brecciated/fractured host rocks.



EXPLORATION AND MINING HISTORY

Early mining activity was carried out in the Mount Seaview area (called the Barmundoo or Tableland Goldfield) from about 1888 to the early 1900's and again briefly in the 1930's. Gold was won mainly from thin (2 to 20 cm wide) quartz veins, which commonly carried high grades (2 – 4 ounces Au per tonne). Some alluvial workings of about this time are also evident in the Griffith Hill area. The total recorded production up to 1907 has been given as 13,318 ounces.

Modern exploration in the area commenced with the work of Noranda Australia Ltd in 1967, who carried out stream sediment sampling (Pb, Zn, Cu), some geological mapping and rock chip sampling. BHP Ltd. reviewed available data in 1974, as did Samantha Exploration N.L. in 1980.

Goldfields Exploration Ltd. carried out extensive rock chip sampling and bedrock auger sampling over the Griffith Hill breccia area. This area was also mapped in detail. Two drill holes were completed, one hole (SV1) targeted areas below old workings (on quartz veins) at the western end of the breccia zone, while the other hole (SV2) was drilled beneath altered breccia. Best results were 1.5m @ 1.07 g/t Au, 1.5m @ 1.02 g/t Au from Hole SV1, and 1.5m @ 1.17 g/t Au from Hole SV2.

In 1984-85 Astrik Resources N.L. carried out stream sediment sampling, rock chip sampling and detailed mapping in the Griffith Hill area. Transit Mining Ltd. farmed into the tenement during the period up to 1985, and carried out aerial photo interpretation studies, stream sediment surveys and geological reconnaissance.

Newcrest Mining Ltd. with Pacimex Pty. Ltd. and later on their own (1990-1992) carried out extensive investigations on their tenements over the area. This included geochemical surveys, airborne geophysical (magnetic) surveys, geological mapping and ground IP surveys. Several anomaly areas were followed up with drilling programs. A few holes were drilled, but no encouraging results were encountered, however at least one hole failed to reach the target.

At Griffith Hill prospect Newcrest drilled 3 percussion holes and one diamond (cored) hole. Percussion Hole GH3 intersected some significant gold results:-

- 9m (47-56m) @ 3.85 g/t Au (includes 1m @ 28.9 g/t Au).
- 1m (74-75m) @ 3.26 g/t Au.
- 3m (87-90m) @ 14.6 g/t Au (includes 1.0m @ 43 g/t Au).
- 2m (133-135m) @ 2.2 g/t Au.

The diamond Hole (GDH01), which was drilled some 200m below and north-west of percussion Hole GH3 intersected only one zone above 1.0 g/t Au (1.0m @ 1.2 g/t Au), but is thought not to have thoroughly tested the auriferous zones intersected in Hole GH3.

RECENT INVESTIGATIONS

The EPM holders over the last year have carried out extensive literature research and data compilation. In addition a program of field reconnaissance with rock chip sampling and analyses (37 samples) was completed over the skarn, calc-silicate and limestone outcrops in the Diglum-Springlands prospect areas (see Fig. 3). Some significant assay results were returned from this work – in particular the following samples:

- Sample BC06	garnet skarn	6.26 g/t Au
- Sample BC21	garnet skarn	7.96 g/t Au
- Sample BC37	garnet – wollastonite skarn	106 g/t, 1.17% Cu

Twelve of the 37 samples returned assays over 1 g/t Au.

EXPLORATION TARGETS AND PROSPECTS

The presence of the suite of Late Devonian to Early Permian sediments, volcanoclastics, limestones etc. intruded by the multiphase Mount Seaview Complex presents a set of geological conditions considered favourable for gold and other mineralization.

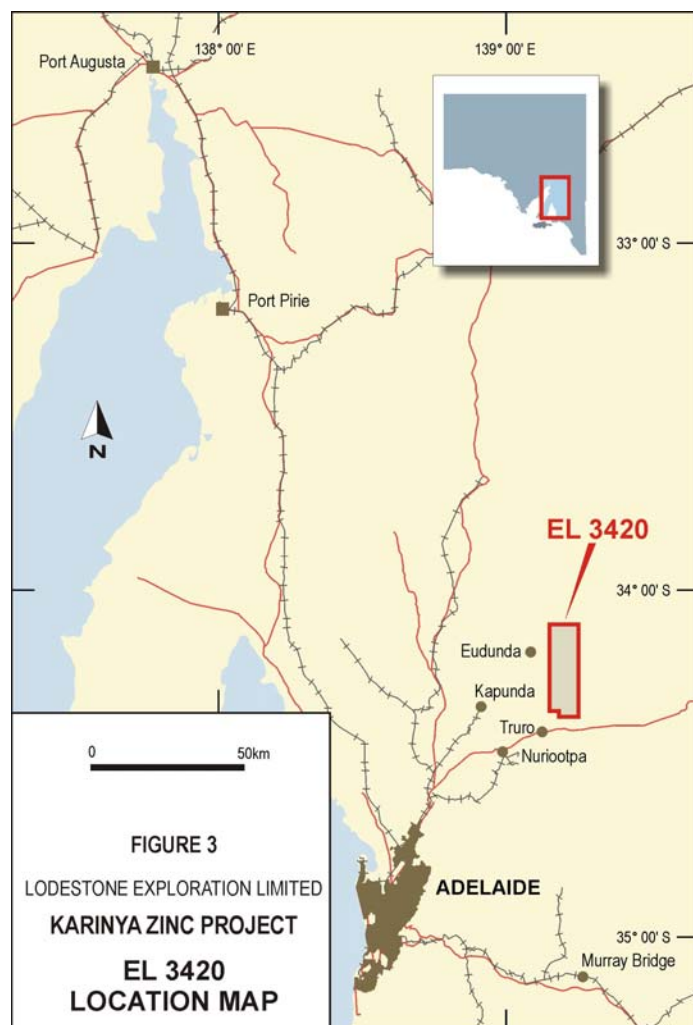
Intrusive related mineralization – porphyry style disseminated, breccia and/or quartz vein hosted and skarn situations are recognized possibilities. Earlier work has indicated that mineralization is widespread within the prospective areas. Initial targets for follow-up detailed work and drilling will be the Au-Cu bearing skarn possibilities in the Ajax-Diglum and Springlands areas and the identified Hydrothermal breccia zone at Griffiths Hill. More generalized investigations will also be carried out in order to define extra, specific target areas.

KARINYA ZINC – EL 3420

INTRODUCTION

Exploration Licence (EL) 3420 is located some 17 kilometres south-east of the town of Eudunda in the northern Mount Lofty Ranges in South Australia (Figure 3), and covers an area of approximately 267 square kilometers. The topography is gently undulating.

Access and infrastructure is good with sealed roads, scattered villages, rail heads, and numerous gravel roads and nearby power and water supplies.

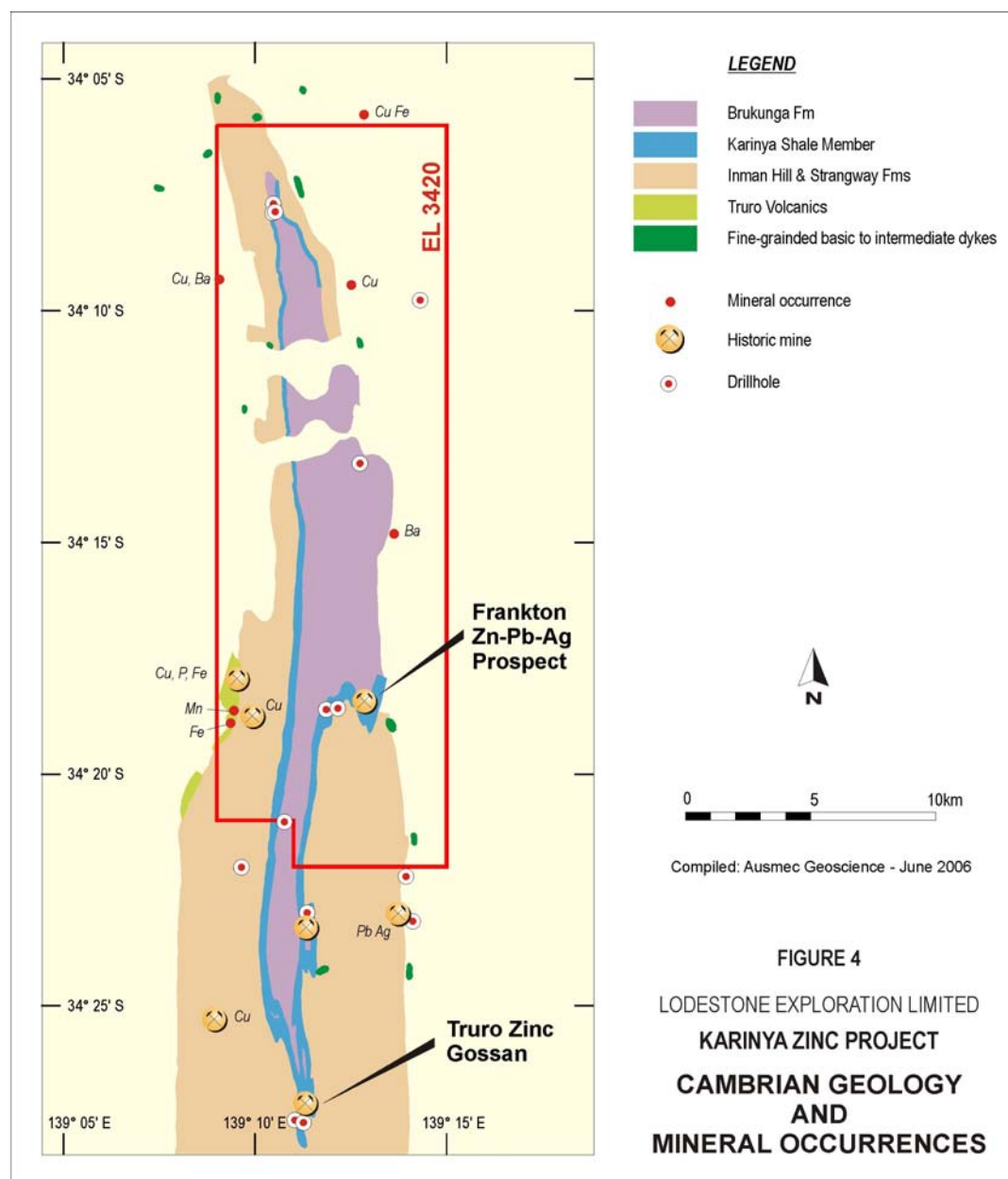


GENERAL GEOLOGY AND MINERALISATION

The main geological feature is the Karinya Syncline made up of Middle Cambrian sediments (and more particularly the Kanmantoo Group), of which the oldest are the Inman Hills and Strangeway Formations. These units consist of meta-greywackes, arkoses and turbidites. The general geology and location of known mineralization is shown on Figure 4.

The Karinya Shale unit is a relatively thin member bordering the core of the syncline. The unit is the lateral equivalent of the Nairne Pyrite Member which is a prominent marker horizon further south where it forms the base of the Brukunga Formation. The Brukunga Formation is host to the well known Kanmantoo copper deposit and the Kanmantoo Group in general is host to numerous lead-zinc occurrences and a few larger mines (e.g. Aclair Mine, Talisker Mine – see Both R. 1990). More recently there has been the discovery of the Angus lead-zinc deposit near Strathalbyn (Terramin Resources Ltd.). In the Karinya Syncline the exposed core consists of metasilstones and greywackes of the Brukunga Formation.

Stratigraphically below the Karinya Shale there is a well recognized horizon which hosts numerous lead-zinc gossans assaying up to 17% Zn. These are described by Dyson (1998). Dyson describes several drill holes in these areas yielding intersections of, for example, 2m @ 8.1% Zn, 2.37% Pb and 33 g/t Ag and 12m @ 1.53% Zn, 0.45% Pb from Hole RC96TR027 (CRA Exploration Pty. Ltd.). Also noted in this work was drill core showing epigenetic Zn/Pb mineralization in pyritic siltstones and a massive basic volcanic agglomerate lying below a thin Cu-Zn-Au gossan in the Karinya Shale.

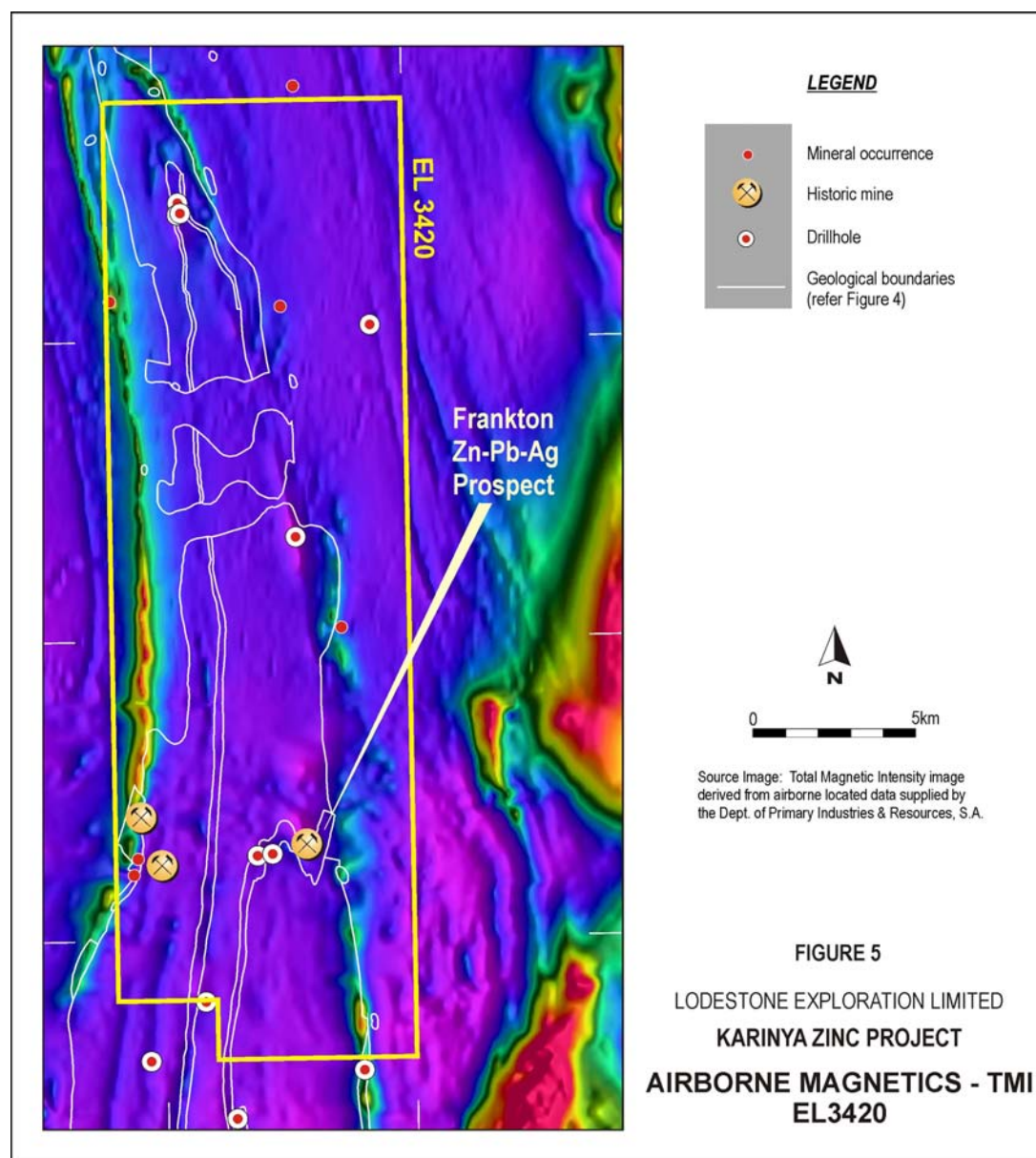


Structurally the Karinya area lies on a complex intersection zone of two major, continental style lineaments defined by regional gravity and topographic data (O'Driscoll 1981). Such situations are commonly favourable for the development of significant base metal deposits.

Other recorded exploration activity within the EL area includes work by Dodds (1971) where anomalous Sirotem and IP survey results were noted, and Morris (1991a, b, c), who reports on the drilling of a Pb-Zn geochemical anomaly within pyritic and graphitic units of the Karinya Shale.

AEROMAGNETIC DATA INTERPRETATION, PROSPECTIVITY AND TARGETS

The aeromagnetic image (TMI) for the EL area is given in Figure 5. The image shows the higher magnetic intensity of the Proterozoic (Adeladian) basement and the Palmer Fault (east of the Karinya Syncline). The Palmer Fault can be seen to truncate the pyritic Karinya Shale in the region of the Frankton Zn-Pb-Ag prospect (Figure 4). In this general area also two north-westerly trending magnetic structures can be observed. The southern one appears to coincide with the north-westerly trending limb of the Karinya Shale in this area, while the northern north-westerly structure is less easily explained, but probably is a parallel faulted structure. This is the general area where Morris (1991 a, b, c) reported on the drilling of a Pb-Zn geochemical anomaly and intersected quite elevated Pb and Zn values (1235 ppm and 1425 ppm) in pyritic and graphitic units of the Karinya Shale.



The association of the pyritic, graphitic (black) shales, stratabound gossans and carbonate-associated mineralization, along with a basic volcanic agglomerate is indicative of a shale hosted lead-zinc environment similar to the classic Pb-Zn at Mount Isa (Queensland) and elsewhere (see Hopwood 1971). A number of “walk-up” drilling targets present themselves while further detailed geological (and structural) mapping, extensive rock chip sampling and selected ground geophysical surveys in the area are likely to produce additional drilling targets.

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TECHNICAL TERMS USED IN REPORT

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

aeromagnetic: systems or data, carried or collected in aircraft, that measure variations in the earth's magnetic field

agglomerate: A breccia or conglomerate formed predominantly of volcanic rock clasts.

airborne geophysical surveys: programs in which magnetic, electromagnetic, radiometric, or gravity data is collected by systems carried by aircraft

alluvial workings: sites where gold deposited in creeks or gullies was extracted

andesite/andesitic: a volcanic rock composed essentially of andesine and one or more mafic constituents

anomaly: a value higher or lower than the norm or a feature different in character from the data in general

arkose: a sandstone containing 25% or more of feldspars usually derived from the disintegration of acid igneous rocks of granitoid texture

Au: Gold

auger: a tool similar to a post-hole digger

auriferous: gold-bearing

basement: crustal layer beneath a sedimentary layer

base metal: a metal such as copper, lead, zinc, nickel

basic: an igneous rock having a low silica content

bedrock: solid rock underlying cover

biotite: a common rock-forming mineral

boulder: a large rounded fragment of rock transported by natural means

breccia: fragmental rock whose components are angular, and not waterworn

calc silicate: a fine-grained metamorphic rock with a predominance of calc-silicate minerals

carbonaceous: composed largely of carbon

carbonate: a salt of carbonic acid

clast: an individual constituent of sedimentary rock produced by physical disintegration of a larger mass

complex: an assemblage of rocks that has been folded together, intricately mixed, or otherwise complicated

conglomerate: rounded waterworn fragments of rocks or pebbles, cemented together by another mineral substance

continental-style lineaments: linear structures traceable on the Earth's surface over large distances (100's of kilometers) and which reflect fundamental structural aspects of the Earth.

Cu: Copper

dacite: the extrusive equivalent of quartz diorite

diamond drilling: rotary drilling using diamond impregnated bits to produce a core sample

diorite: igneous rock intermediate in composition between acid and basic

disseminated: finely distributed throughout the matrix of a rock

drill core: rock cut and recovered by diamond drilling

Early Permian: Geological period – about 280MyBP

EL: Exploration Licence

elevated: higher than normal / average values

epigenetic: descriptive of mineralization formed after the formation of the host rock

EPM: Exploration Permit (Minerals)

fault: a line of fracturing due to movement in a rock sequence

faulted: fractured and displaced

felsic: a term derived from feldspar; a group of abundant rock-forming minerals

fractured: rock sequence or unit broken due to earth movements or rock cooling

gabbro: a plutonic rock consisting of plagioclase and other characteristic minerals

geophysical survey: exploration of an area in which geophysical properties and relationships unique to the area are mapped by one or more geophysical methods

gossan: a ferruginous deposit filling the upper parts of mineral veins or forming a superficial cover on masses of sulphides

granular: a textural term applied to rocks in which most of the mineral grains are equidimensional

granite: coarse grained intrusive rock containing quartz and more alkali feldspar than plagioclase

granitoid: a general term for coarse grained rocks containing quartz and feldspar

graphitic: containing native carbon, a very soft black to steel grey mineral

gravity: the acceleration experienced by a object under the influence of the Earth's mass

greywacke: a distinctive sandstone marked by large detrital quartz and feldspars set in a dominant 'clay' matrix

g/t: grams per tonne

horizon: the surface separating two beds and hence having no thickness

hornblende: a dark mineral common in igneous rocks

host: the "country rock" containing the mineralized zones, veins etc.

hydrothermal: of or pertaining to heated fluids which transport minerals in solution

igneous: formed by the solidification of molten material

ignimbrite: a silicic volcanic rock – mostly composed of pumice and ash (welded)

intrusive: having, while fluid, penetrated into or between other rocks, but solidifying before reaching the surface

Kanmantoo Group: A geologically defined mapping unit

Late Devonian: Geological period – about 350MyBP

limb: one of the two parts of an anticline or syncline on either side of the axis

limestone: a bedded sedimentary deposit consisting chiefly of calcium carbonate

lineament: a linear feature (topographic, magnetic, gravity) of regional extent that is believed to reflect the earth's crustal structure

magnetic intensity: magnetic field strength

marker horizon: a stratigraphic bed selected for use in preparing structure maps, and other maps that emphasise the nature or attitude of a plane or surface

massive: of homogeneous structure, without stratification, flow-banding, foliation, and the like

member: a division of a formation, generally of distinct lithological character or of only local extent

meta: prefix used to denote metamorphosis of rock qualified

Middle Cambrian: Geological period – about 500MyBP

mudstone: a fine grained sedimentary rock

Nairne pyrite member: A geological mapping unit

oolid-bearing: as with oolitic

oolitic: containing oolites; spherical to ellipsoidal calcareous, siliceous, hematitic or other composition

outcrop: the part of a rock formation that is in-situ and exposed at surface

percussion drilling: form of drilling using hammering action

Permian: Geological time period, approximately 250 to 295 MyBP

Permo-Triassic: Geological period at/near the Permian and Triassic Period boundaries – around 250MyBP

polymictic: descriptive of a clastic rock containing clasts or grains of numerous types of minerals / rocks

porphyry: igneous rock with large crystals in a matrix of relatively finer-grained crystals

porphyry-style: deposits characterized by huge size (particularly with respect to horizontal dimension), uniform dissemination, and low average metals content

ppb(m): parts per billion (million). 1 ppm equates to 1 g/t

prospect: a geologic or geophysical anomaly, especially one recommended for additional exploratory work

Proterozoic: A geological time period about 545 to 2500MyBP

Pyrite: A common mineral composed of iron sulphide

quartz: a most common mineral composed of silicon oxide

rhyolite: the finely crystalline volcanic rock equivalent of granite

'rip-up' clases: An intraformational clast (commonly mudstone from stratigraphically lower unit) in a sedimentary sequence

rock chip sampling: collecting rock samples by chipping outcrop and scree for chemical analysis or assay

sandstone: a cemented or compacted detrital sediment composed predominantly of quartz grains of sand size

sedimentary rocks: A rock formed by the consolidation of sediments (usually laid down in an aqueous environment)

shale: laminated sediment in which the particles are mainly clay

siltstone: fine grained (silt sized) sedimentary rock

SIROTEM: a geophysical system developed by the CSIRO. The system induced an electromagnetic field that could energise buried conductive material to reveal its presence

skarn: the term is generally reserved for rocks composed nearly entirely of lime-bearing silicates and derived from nearly pure limestones and dolomites into which larger amounts of silica, iron, alumina and magnesium have been introduced. See calc-silicate

stock: a body of intrusive igneous rock that covers less than about 100 sq kms, and has steep contacts with adjacent rocks

stratabound: generally a mineral occurrence restricted within a defined strata or layer

stream sediment sampling: collecting representative samples of fine-grained material from creeks and gullies, to analyse and detect traces of base, precious, and other metals that may indicate the presence of mineralized rocks upstream.

strike direction: the direction of a horizontal line constructed on an inclined plane

sulphide: a mineral containing sulphur and metal

syncline: a fold in rocks in which the strata dip inward from both sides towards the axis

TMI: total magnetic intensity; total strength of the magnetic field

tuff: a rock containing volcanic fragments

tuffaceous: rock containing a significant percentage of compacted volcanic fragments, generally smaller than 4mm in diameter

turbidites: turbidity current deposits

vein: an occurrence of barren or mineralised material, having a more or less regular development in length, width and depth within a rock of different composition

volcanic: characteristic of rocks formed by or from volcanic processes – eruptions, flows etc

5. ACTION REQUIRED BY SHAREHOLDERS

5.1 What Eligible Shareholders may do

The number of New Shares and New Options to which Eligible Shareholders are entitled (your Entitlement) is shown on the accompanying Entitlement and Acceptance Form.

If you do not take up your Entitlement, then your percentage holding in the Company will be diluted.

Eligible Shareholders may:

- take up all of your Entitlement and, if you wish, apply for Additional New Shares and New Options (refer Section 5.2);
- sell all of your Entitlement on ASX (refer Section 5.3);
- take up part of your Entitlement and sell the balance on ASX (refer Section 5.4);
- take up part of your Entitlement and allow the balance to lapse (refer Section 5.5);
- deal with part or all of your Entitlement other than on ASX (refer Section 5.6); or
- allow all or part of your Entitlement to lapse (refer Section 5.7).

Non-qualifying Foreign Shareholders may not take any of the steps set out in Sections 5.2 to 5.7.

5.2 Taking up all of your Entitlement

If you wish to take up all of your Entitlement, complete the accompanying Entitlement and Acceptance Form for New Shares and New Options in accordance with the instructions set out in that form.

If you have applied to take up all of your Entitlement, you may also apply for Additional New Shares and the appropriate number of New Options by completing the relevant section of the Entitlement and Acceptance Form.

You should then forward your completed Entitlement and Acceptance Form together with your Application Money in accordance with Section 5.8 to reach the Company's Share Registry no later than 5.00 pm on 14 July 2006.

5.3 Selling all your Entitlement on ASX

If you wish to sell all of your Entitlement on ASX, complete the appropriate section on the back of the accompanying Entitlement and Acceptance Form marked "Instructions to Your Stockbroker" and lodge

the Entitlement and Acceptance Form with your stockbroker as soon as possible, or otherwise provide instructions to your stockbroker regarding the number of Rights you wish to sell on ASX. You can sell your Rights on ASX from 21 June 2006 until 7 July 2006.

The Company accepts no responsibility for any failure by your stockbroker to carry out your instructions.

5.4 Taking up part of your Entitlement and selling the balance on ASX

If you wish to take up only part of your Entitlement, complete the accompanying Entitlement and Acceptance Form for the number of New Shares and New Options you wish to take up and follow the steps required in accordance with Section 5.2.

Subsequently, provide instructions to your stockbroker regarding the number of Rights you wish to sell on ASX.

5.5 Taking up part of your Entitlement and allowing the balance to lapse

If you wish to take up part of your Entitlement and allow the balance to lapse, complete the accompanying Entitlement and Acceptance Form for the number of New Shares and New Options you wish to take up and follow the steps required in accordance with Section 5.2. If you take no further action, the balance of your Entitlement will lapse and you will have forfeited any potential benefit to be gained from selling/trading your Rights.

5.6 Dealing with part or all of your Entitlement other than on ASX

You may transfer all or part of your Rights to another person other than on ASX provided that the purchaser is not a Non-qualifying Foreign Shareholder or would not be a Non-qualifying Foreign Shareholder if the purchaser was the registered holder of the Shares.

If you wish to transfer all of your Entitlement to another person other than on ASX, forward a completed standard renunciation form (obtainable from the Company's Share Registry) and the applicable transferee's cheque or bank draft for any Application Money for the New Shares and New Options they wish to subscribe for to the Company's Share Registry by 5:00pm on 14 July 2006.

If you wish to transfer part of your Entitlement to another person other than on ASX only, but also want to take up some or all of the balance of your Entitlement, you will need to take the steps described above in relation to the Rights you wish to transfer and complete the accompanying Entitlement and Acceptance Form in respect of the Rights you wish to take up. You will need to lodge the form in accordance with the procedure in Section 5.2.

If the Share Registry receives both a completed renunciation form and a completed Entitlement and Acceptance Form in respect of the same Rights, the renunciation will be given effect in priority to the acceptance.

5.7 Allow all or part of your Entitlement to lapse

Your Rights may have value.

Rights are renounceable, which enable Eligible Shareholders who do not wish to accept some or all of their Entitlement to sell or trade all or part of their Rights on ASX.

5.8 Payment

The Application Price for New Shares and New Options is payable in full on application by a payment of 3.8 cents per New Share. No additional amount is payable for the New Options. The Entitlement and Acceptance Form must be accompanied by a cheque or bank draft for the Application Monies.

Cheques or bank drafts must be drawn in Australian currency on an Australian bank and made payable to "Lodestone Exploration Limited - Share Offer Account" and crossed "Not Negotiable". Applicants must not forward cash. Receipts for payment will not be issued.

You should ensure that sufficient funds are held in relevant account(s) to cover the cheque(s). If the amount of your cheque(s) for Application Money is not sufficient to pay for the number of New Shares you have applied for, you may be taken to have applied for such lower number of New Shares as your cleared Application Money will pay for or your Application may be rejected.

CHEQUES SHOULD BE MADE PAYABLE TO "LODESTONE EXPLORATION LIMITED - SHARE OFFER ACCOUNT" AND CROSSED "NOT NEGOTIABLE".

5.9 Dealing in Additional New Shares and New Options

Applicants may only sell or otherwise deal in Additional New Shares and New Options subsequent to receipt of shareholding statements confirming the number of Additional New Shares and New Options allotted to a particular Shareholder and the commencement of trading of New Shares and New Options on ASX.

5.10 Enquiries

If you have any questions about your Entitlement please contact the Company's Share Registry:

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Telephone: (02) 8280 7454

Alternatively, contact your stockbroker or other professional adviser.

5.11 Brokerage

No brokerage or stamp duty is payable by Shareholders who accept their Entitlement to New Shares and New Options.

6. RISKS

The New Shares and New 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 share market in general.

The Directors have considered and identified in this section of the Prospectus the critical areas of risk associated with investing in the New Shares and New 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 New Shares and New Options.

6.1 Specific Risks

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 commercially viable deposits. Outcomes of the exploration programs outlined in this Prospectus will affect the future performance of the Company and its Shares.

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.

Access to Land

Significant delays may be experienced in gaining access to privately owned freehold or leasehold land. Delays may be caused by weather, deference to landholders' activities such as calving and mustering, and other factors.

Cultural Heritage

Delays may be experienced if evidence of Aboriginal cultural 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 *Aboriginal Cultural Heritage Act 2003* (Qld), 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 Lodestone's wholly-owned or optioned tenements.

Title

Four of the EPMs in which Lodestone has an interest (EPM 11841, EPM 13743, EPM 13794 and EPM 14435) are subject to renewal applications, the original terms having expired.

The *Mineral Resources Act 1989* (Qld) 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, Mines and Water under the *Mineral Resources Act 1989* (Qld). 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. Moreover, Lodestone is progressively reducing the number and extent of its exploration tenements.

Karinya Joint Venture and Minister's consent

The Karinya Joint Venture Agreement between Sedex and the Company is conditional upon the consent of the South Australian Minister for Primary Industries and Resources. If this consent is not granted, the Company will be unable to continue with the joint venture. It is not possible to predict whether this consent will be granted, however the Directors are not aware of any reason why such consent will not be granted.

Upon the satisfaction of the conditions set out in the Karinya Joint Venture Agreement, the Company is able to acquire 51% of the Karinya Project. The Minister is also required to consent to this acquisition. It is not possible to predict whether this consent will be granted, however the Directors are not aware of any reason why such consent will not be granted.

Native Title

The effect of the *Native Title Act* 1993 (Cth) 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 Lodestone's wholly-owned and optioned tenements must be taken into account. The relevance of 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.

Native Title claims presently affect land covered by Lodestone's wholly-owned and optioned tenements.

Further claims could be made in the future over any of the lands covered by Lodestone's wholly-owned and optioned 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, Mines and Water indicating the nature of the land titles for the lands that are covered by Lodestone's wholly-owned and optioned 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 continue exploration and appraisal operations in Queensland without undue delay or restriction from native title interests.

Searches conducted through the Department of Primary Industries and Resources (SA) indicate there are no current native title claims over land the subject of EL3420 (the Karinya Project).

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.

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.

Exploration and Appraisal Expenditure

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

The actual scope, costs and timetables of exploration programs 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.

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 and technical information. The Company's ability to achieve its growth objectives depends on the ability of its Directors, officers and technical panel to discover, earn into, or buy viable mineral resources.

Funding

Unless and until the Company develops or acquires income producing assets, it will be dependent upon the funds raised by this 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, stock market conditions and prices for metals in world markets.

Key Personnel

The ability of the Company to achieve its objectives depends on the retention of key external contractors who constitute its technical panel and provide technical expertise. If the Company cannot secure external technical expertise (for example to carry out drilling) or if the services of the present technical panel cease to become 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.

Whilst the ability of the Company to achieve its objectives may be affected by the matters mentioned above, the Directors believe 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.

Volatility in the price of minerals

Commodity prices are influenced by the physical and investment demand for those commodities. Fluctuations in commodity prices may influence timing, viability and management of projects in which the Company has an interest.

Volatility in the market price of Shares

Although the Company is listed on the ASX, there is no assurance that an active trading market for its Shares will be sustained. There is also no assurance that the market price for the Shares will not decline below the issue price. The market price of the Company's Shares could be subject to significant fluctuations due to various external factors and events, including the liquidity of the Shares in the market, any difference between the Company's actual financial or operating results and broader market-wide fluctuations.

Furthermore, any stock market volatility and weakness could result in the market price of the Shares decreasing so that they trade at prices significantly below the issue price, without regard to the Company's operating performance.

Negative publicity may adversely affect the Share Price

Any negative publicity or announcement relating to any of our substantial shareholders or key personnel may adversely affect the stock performance of the Company, whether or not this is justifiable. Examples of this negative publicity or announcement may include involvement in legal or insolvency proceedings, failed attempts in takeovers, joint ventures or other business transactions.

Insurance Risks

The Company maintains insurance coverage that is substantially consistent with exploration industry practice. However, there is no guarantee that such insurance or any future necessary coverage will be available to the Company at economically viable premiums (if at all) or that, in the event of a claim, the level of insurance carried by the Company now or in the future will be adequate, or that a liability or other claim would not materially and adversely affect the Company's business.

6.2 General Risks

General Economic Climate

Factors such as inflation, currency fluctuations, interest rates, legislative changes, 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.

Stock Market Conditions

The market price of the New Shares and the New Options when quoted on the ASX will be influenced by international 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.

The stock market has in the past and may in the future be affected by a number of matters including:

- commodity prices;
- market confidence;
- supply and demand for money; and
- currency exchange rates.

7. ADDITIONAL INFORMATION

7.1 Nature of the Prospectus

This Prospectus is a short form prospectus issued under section 713 of the Corporations Act which allows the issue of a short form prospectus in relation to offers of securities where those securities are of a class which have been quoted for twelve months before the date of that prospectus.

7.2 ASX listing

The Company participates in CHESS and will despatch holding statements in lieu of share and option certificates that set out the number of New Shares and New Options issued to each successful Applicant under this Prospectus.

It is the responsibility of Applicants to determine their allocation before trading in the New Shares or New Options. Applicants who sell New Shares or New Options before they receive their statement do so at their own risk.

7.3 Rights attaching to New Shares

The rights attaching to ownership of Shares (including New Shares) are:

- described in the Constitution; and
- regulated by the *Corporations Act*, the Listing Rules and the general law.

The following is a summary of the key provisions in the Constitution and the principal rights of shareholders as set out in the Constitution. This summary is not exhaustive, nor does it constitute a definitive statement of the rights and liabilities of shareholders.

Meetings and notices

Each shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, financial reports and other documents required to be sent to shareholders under the Constitution, the Corporations Act or the Listing Rules.

Voting

At meetings of shareholders, every shareholder present in person or by proxy, attorney or representative has one vote on a vote taken by a show of hands, and, on a poll has one vote for every fully paid Share held by him or her, and a proportionate vote for every partly paid Share. A poll may be demanded by the chairperson of the meeting, by any five shareholders present in person or by proxy, attorney or representative or by any one or more shareholders who are together entitled to not less than

5% of the votes that may be cast on the resolution on a poll.

Dividends

Dividends are payable out of the Company's profits and are declared or determined to be payable by the Directors.

Transfer

A shareholder may transfer all or any of its Shares by:

- in the case of an ASTC-regulated transfer, in any manner required or permitted by the Listing Rules or ASTC Settlement Rules; and
- in other cases, using any written transfer instrument in any common form or form approved or adopted by ASX or the Directors.

The Directors may decline to register any transfer where permitted to do so by the ASX Listing Rules and must decline to register a transfer of:

- Shares where required by the ASX Listing Rules; or
- Restricted Securities which may be in breach of the Listing Rules or any escrow arrangement entered into by the Company.

Liquidation Rights

The Company has one class of shares on issue, ordinary shares. Each ordinary Share ranks equally in the event of liquidation.

Variation of Rights

Subject to the ASX Listing Rules, the rights attached to the Shares may be varied with the consent in writing of shareholders holding three-quarters of the Shares or by a special resolution passed at a separate meeting of the holders of the Shares in accordance with the Corporations Act.

The Directors may, subject to the restrictions on allotment of shares imposed by the Constitution, the Corporations Act and the ASX Listing Rules, from time to time issue and allot further shares on such terms and conditions as they see fit.

Alteration of constitution

The Constitution can only be amended by a special resolution (that is, a resolution that has been passed by at least three-quarters of the votes cast by shareholders entitled to vote on the resolution). While the Company is listed, at least 28 days written notice of the special resolution must be given.

Indemnification of Directors

To the extent permitted by law, the Company indemnifies every person who is or has been an officer of the Company and indemnifies every person who is or has been an officer of the Company against reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by the person as an officer of the Company.

7.4 Rights and liabilities attaching to New Options

New Options will have the following terms:

- Each New Option entitles the holder to subscribe for one Share upon exercise of the New Option and payment of the exercise price.
- The exercise price of each New Option is 5 cents.
- The exercise period of the New Options will commence on the date of allotment and will expire at 5.00pm (Brisbane time) on the second anniversary of allotment (21 July 2008 based on the current timetable)
- A New Option will be exercisable by giving notice of exercise to the Company, and paying the exercise price.
- The New 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.
- Subject to the Company's constitution, each New Option issued pursuant to the exercise of an Option will rank equally in all respects with the issued Shares.
- A New Option holder cannot participate in new issues without exercising the New Options.
- The Company will apply to ASX for official quotation of the New Options.
- The New Options will be freely transferable.
- The Company will apply for official quotation by ASX of the Shares issued upon exercise of New Options within the time period required by the Listing Rules.
- New Options not exercised or lapsed prior to the expiry of the exercise period will lapse at the end of the exercise period.
- All New Options may be exercised if a takeover bid (as defined in the Corporations Act) is made for Shares.
- In the event of a reorganisation of the capital of the Company, the rights of the New Option

holder 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.

- If the capital of the Company is reconstructed, the number of New Options and/or the exercise price of the New Options will be correspondingly reconstructed in a manner which will not result in any additional benefits being conferred on New Option holders which are not conferred on Shareholders.

7.5 Other securities on issue

Directors' Options

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

- (i) John Shaw – 400,000 Directors' Options;
- (ii) Greg Baynton – 200,000 Directors' Options; and
- (iii) Martin Ackland – 200,000 Directors' Options.

The terms of the Directors' Options are the same as for the New Options except for the following differences:

- The exercise price of each Directors' Option is 30 cents.
- The exercise period of the Directors' Options commenced on 30 September 2003 and will end on 30 September 2007.
- The Directors' Options are unlisted.
- The Directors' 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.
- All unexercised Directors' Options will lapse if the Director ceases to hold the office of a director of the Company.
- Directors' Options not exercised will lapse at the end of 30 September 2007.

Consultants' Options

On 27 January 2006, the Company issued 501,000 unlisted Options to a consultant following approval by shareholders. The Options expire on 27 January 2011 and are exercisable as follows:

- 167,000 options are exercisable at 20 cents each from 27 January 2007 and before expiry;

- 167,000 options are exercisable at 25 cents each from 27 January 2008 and before expiry; and
- 167,000 options are exercisable at 30 cents each from 27 January 2009 and before expiry.

Vendors' Options

On 18 May 2006, the Company issued 2,000,000 unlisted options in accordance with its Heads of Agreement with Sedex for the Karinya Farm-In. The options are exercisable immediately at 5 cents each and expire on 18 May 2007.

7.6 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 dividend payments, if any, as this will depend on future exploration success, profitability and the financial position of the Company.

7.7 Continuous reporting and disclosure obligations

The Company is a "disclosing entity" (as defined in the Corporations Act) and as such is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise for the purpose of ASX making the information available to the stock market conducted by ASX. In particular, the Company has an obligation under the ASX Listing Rules (subject to certain limited exceptions), to notify ASX once it is, or becomes aware of information concerning the Company which a reasonable person would expect to have a material effect on the price or value of the Company's Shares.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a Directors' statement and report, and an audit or review report, appropriate.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

Since lodging the Company's Annual Report for the year ended 30 June 2005, the Company has made the following announcements to ASX:

Date	Description of ASX Announcement
16/06/2006	Request for voluntary suspension
14/06/2006	Announcement of trading halt
23/05/2006	Amended Appendix 3B - correcting

Date	Description of ASX Announcement
	exercise price of options
23/05/2006	Appendix 3B - Unlisted options issued in accordance with Heads of agreement in respect of Karinya Karinya Zinc-Silver Prospect with Sedex Minerals Pty Limited.
03/05/2006	Announcement of acquisition of option over a majority interest in the Karinya Karinya Zinc-Silver Prospect SA
21/04/2006	Third Quarter Activities Report
21/04/2006	Third Quarter Cashflow Report
03/04/2006	Announcement of Copper Strikes Limited - Joint Venture on Copper Strike's Bocoolima Ground Queensland
03/04/2006	Announcement of Joint Venture on Copper Strike's Bocoolima Ground
02/03/2006	Appendix 3B - Unlisted options issued in accordance with annual general meeting
21/02/2006	Announcement that Unlisted Options (501, 000 options) Issued to Douglas Haynes Discovery Pty Ltd
21/02/2006	Half year Report - 31 December 2005
27/01/2006	Appendix 5B - Second Quarter Cashflow Report
27/01/2006	Second Quarter Activities Report
05/12/2005	Drilling Update - Tungamull Prospect
27/10/2005	Appendix 3B - Share Placement to sophisticated investors
27/10/2005	Resolutions of Annual General Meeting
27/10/2005	AGM Presentation - 28 October 2005
27/10/2005	Chairman's Address to Shareholders
26/10/2005	Market Update Presentation - 26 October 2005
20/10/2005	Appendix 5B - First Quarter Cashflow Report
20/10/2005	First Quarter Activities Report
20/10/2005	Drilling Update - Tungamull Prospect
19/10/2005	Change of Director's Interest Notice - John T Shaw
19/10/2005	Change of Director's Interest Notice - John L McCawley
19/10/2005	Change of Director's Interest Notice - Gregory A J Baynton
19/10/2005	Change of Director's Interest Notice - Martin C Ackland
14/10/2005	Market Update: Drilling Progress Report on Mount Morgan Project
13/10/2005	Drilling Update on Tungamull Prospect
06/10/2005	Appendix 3B for ordinary full paid shares under share purchase plan
06/10/2005	Announcement that Share Purchase Plan Closed
06/10/2005	Announcement that Unlisted Options (100,000 options) lapsed on 30 September 2005

The information in these documents may be of interest to investors and their financial advisers.

The Company will provide a copy (free of charge), to any person who requests it in the period starting from the date of this Prospectus and ending on the Closing Date, of the Annual Report, the Half Year Report and any of the announcements made to ASX referred to above.

Alternatively, these documents may be viewed at the Company's website www.lodestonex.com.

7.8 Taxation

The Directors consider that it is not appropriate to give advice regarding the taxation consequences associated with the acquisition, sale or exercising of Rights, or the subsequent disposal of any Shares subscribed for under this Prospectus. The Directors recommend that all Eligible Shareholders consult their own professional tax advisors.

7.9 Material Contracts

Underwriting Agreement

An Underwriting Agreement has been entered into between the Company and the Underwriter dated 16 June 2006 pursuant to which the Underwriter has agreed to fully underwrite the Rights Issue.

Relief from Underwriting Obligations

The Underwriter may terminate its underwriting obligations under the Underwriting Agreement if:

(Indices fall): the All Ordinaries Index or the ASX 300 Resources Index, at any time after the date of the Underwriting Agreement, is below 10% or more of its respective level at the close of trading on 14 June 2006.

(Prospectus):

- the Company does not lodge the Prospectus on 16 June 2006 or the Offer is withdrawn by the Company;
- the Company does not provide copies of the Prospectus and such failure is not remedied within 2 days;
- the Prospectus contains a misleading or deceptive statement;
- there is a material omission from the Prospectus;
- a statement in the Prospectus becomes misleading or deceptive; or

- the Prospectus does not comply with sections 710, 711, 713 and 716 of the Corporations Act.

(No official quotation): ASX makes an official statement to any person, or indicates to the Company or the Underwriter that it will not approve the quotation of the New Shares or if ASX approval has not been given prior to 18 July 2006.

(Supplementary Prospectus): a supplementary prospectus is required under section 719(1) of the Corporations Act to be lodged with ASIC and the Company fails to comply or where the Company lodges a supplementary prospectus without the prior written agreement of the Underwriter.

(Restriction on allotment): the Company is prevented from allotting the Shares within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute or any competent body including ASIC, ASX or court of competent jurisdiction.

(Withdrawal of consent to Prospectus): any person (other than the Underwriter) who has previously consented to be named in the Prospectus, withdraws that consent.

(ASIC Application): an application is made by ASIC under the Corporations Act in relation to the Prospectus and that application has not been dismissed or withdrawn by 18 July 2006.

(ASIC Hearing): ASIC gives notice of its intention to hold a hearing under the Corporations Act in relation to the Prospectus to determine if it should make an interim or final stop order.

(Takeovers Panel): the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable under Pt 6.10 of the Corporations Act or an application for such a declaration is made to the Takeovers Panel.

(Hostilities): there is an outbreak of hostilities (whether or not war has been declared), a material escalation of hostilities involving one or more of the following countries:

- Australia;
- New Zealand;
- Indonesia;
- Japan;
- Russia;
- the United Kingdom;
- the United States of America;
- India;
- Pakistan;

- the Peoples Republic of China;
 - Israel;
 - or any member of the European Union,
- or a terrorist act is perpetrated or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world.

(Authorisation): Any authorisation which is material to anything referred in the Prospectus is repealed, revoked, terminated or expires or is modified or amended in a manner unacceptable to the Underwriter.

(Indictable Offence): a director or senior manager of the Company or its subsidiaries is charged with an indictable offence.

(Termination Events): any of the following events set out below occurs. However, the Underwriter can only exercise its rights to terminate if it determines reasonably and in good faith that the event has or would have had a material adverse effect on the Rights Issue or could create a liability for it under the Corporations Act:

- **(Default):** default or breach by the Company under the Underwriting Agreement;
- **(Incorrect or untrue representation):** any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect;
- **(Contravention of constitution or Act):** a contravention by the Company or its subsidiaries of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX;
- **(Adverse change):** an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of the Company and its subsidiaries including, if any forecast in the Prospectus becomes incapable of being met or in the Underwriter's reasonable opinion, unlikely to be met in the projected time;
- **(Error in Due Diligence Results):** it transpires that any of the due diligence or verification materials were false, misleading or deceptive or that there was an omission from them;
- **(Significant change):** a "new circumstance" as referred to in section 719(1) of the

Corporations Act arises that is materially adverse from the point of view of an investor;

- **(Public statements):** without the prior approval of the Underwriter a public statement is made by the Company in relation to the Offer, the Rights Issue or the Prospectus;
- **(Misleading information):** any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Rights Issue or the affairs of the Company or any of its subsidiaries is or becomes misleading or deceptive or likely to mislead or deceive;
- **(Change in Act or policy):** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
- **(Suspension of debt payments):** the Company suspends payment of its debts generally;
- **(Insolvency Event):** an insolvency event occurs (such as the Company being unable to pay its debts when they fall due or the appointment of a receiver, administrator or provisional liquidator) with respect to the Company or its subsidiaries;
- **(Judgment against Company or subsidiary):** a judgment in an amount exceeding \$25,000 is obtained against the Company or any of its subsidiaries and is not set aside or satisfied within 7 days;
- **(Litigation):** litigation, arbitration, administrative or industrial proceedings are commenced or threatened against the Company or any of its subsidiaries other than any claims foreshadowed in the Prospectus;
- **(Board and senior management composition):** there is a change in the composition of the Board or a change in the senior management of the Company without the prior written consent of the Underwriter;
- **(Change in shareholdings):** there is a material change in the major or controlling shareholdings of the Company or any of its subsidiaries or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in

relation to the Company or any of its subsidiaries;

- **(Timetable):** there is a delay in any specified date in the offer timetable which is greater than 3 business days;
- **(Force Majeure):** a Force Majeure event affecting the Company's business or any obligation under the Agreement lasting in excess of 7 days occurs;
- **(Certain resolutions passed):** the Company or any of its subsidiaries passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- **(Capital Structure):** the Company or any of its subsidiaries alters its capital structure in any manner not contemplated by the Prospectus;
- **(Investigation):** any person is appointed under any legislation in respect of companies to investigate the affairs of the Company or any of its subsidiaries;
- **(Market Conditions):** a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets;
- **(Sub-underwriters):** any of the Company Sub-Underwriters that are introduced by the Company do not comply with its obligations under the sub-underwriting agreements or threaten to not comply with its respective obligations under the sub-underwriting agreements; or
- **(Suspension):** the Company is removed from the Official List of the ASX or the Shares become suspended from official quotation and that suspension is not lifted within 24 hours following such suspension.

Indemnity

The Company has indemnified the Underwriter and its officers, employees, agents and advisers ("Indemnified") against certain liabilities that any of the Indemnified may incur as a result, whether indirectly or directly, of claims relating to the Rights Issue, the Prospectus, any promotions in relation to the Rights Issue or a breach by the Company of the Underwriting Agreement.

Fees

The Company must pay the Underwriter:

- an underwriting fee of 4% of the total funds to be raised by the Rights Issue; and
- a management fee of 1% of the total funds to be raised by the Rights Issue; and
- a lead manager fee of \$60,000,

on the date on which allotment of the last of the New Shares occurs pursuant to this Prospectus.

Bocoolima JV Agreement

An Agreement was entered into between the Company and Copper Strike Limited dated 24 March 2006.

The Agreement provides for the Company to earn a 40% interest in a Queensland exploration permit owned by CSE, with the option of acquiring an additional 11% interest.

The Company may, but is not obliged to, earn an interest of 40% in exploration permit for minerals number 14963 ("**EPM14963**") by contributing \$500,000 to exploration of EPM14963 during the Farm-In Period ("**Joint Venture Interest**").

Upon completion of the Initial Exploration Program, which must be completed no later than 24 September 2006, the Company is entitled to withdraw from the Agreement. If the Company withdraws in this manner, it will not be entitled to or retain the Joint Venture Interest as described above.

During the Farm-In Period, the Company must maintain EPM14963 in good standing, except for rental payments which will be met by CSE.

Within 90 days of CSE acknowledging the earning of the Joint Venture Interest by the Company ("**Option Period**"), the Company may exercise the option to acquire an additional 11% interest in EPM14963, by either:

- issuing 4 million ordinary fully paid shares in the Company to CSE; or
- the equivalent in cash (calculated on the ASX closing price for the Company's shares over the 10 trading days immediately prior to the Company exercising the option),

at the Company's election.

Following the earning of the Joint Venture Interest, a joint venture with the Company as initial manager will be formed. If the Company does not exercise the option, at the expiry of the Option Period CSE will

become manager. The Company and CSE must contribute to further expenditure in proportion to their respective interests.

On the making of a decision to mine, the parties must negotiate a mining joint venture agreement on the basis of principles specified in the Agreement.

Either party may, within 20 Business Days of a decision to mine, elect to sell its interest in the area the subject of the decision to mine to the other party in accordance with the Agreement.

If either party's interest is diluted to less than 10% then the other party may require it to convert its interest to a royalty of 1.5% of net smelter returns.

Under the Agreement, each party has provided the other party with a first right of refusal relating to its party's respective interest.

CSE provides a range of warranties usual for agreements of this type including warranties as to beneficial ownership of EPM14963 and current Native Title claims that may affect EPM14963.

Karinya Farm-In Agreement

An Agreement has been entered into between the Company and Sedex. The Agreement provides for the Company to have the right to earn a 51% interest in South Australian exploration licence 3420 ("EL3420") owned by Sedex, with the option of acquiring an additional 19% interest.

The Agreement is conditional upon:

- the Company raising at least \$500,000 in capital by way of a rights issue or other capital raising;
- Sedex completing arrangements to enable the holder of the exploration licence 3420 ("EL3420") to have access to the tenement lands and undertake the activities permitted by EL3420; and
- the parties obtaining the necessary approvals and consents from the Minister for Primary Industries and Resources in South Australia ("Minister"),

by no later than 21 August 2006.

To earn an interest of 51% in EL3420, the Company must:

- expend \$500,000 in carrying out exploration of EL3420 within approximately 12 months; and
- issue 5 million ordinary fully paid shares in the Company to Sedex or persons nominated

by Sedex no later than 21 August 2006 ("Joint Venture Interest").

The transfer of the 51% interest in EL3420 from Sedex to the Company is also conditional upon the parties obtaining the consent of the Minister.

Under the terms of the Agreement, Sedex is obliged to expend at least \$100,000 towards the costs associated with geological mapping of the EL3420 area.

Upon completion of certain initial exploration work, the Company is entitled to withdraw from the Agreement. If the Company withdraws in this manner, it will not be entitled to or retain the EL3420 interest as described above.

Whilst the Company is earning the Joint Venture Interest, Sedex must maintain EL3420 in good standing.

Within 6 months of earning the Joint Venture Interest, the Company may exercise the option to acquire an additional 19% interest in EL3420, by either:

- issuing 2.5 million ordinary fully paid shares in the Company to Sedex or persons nominated by Sedex; or
- paying Sedex \$250,000 in cash,

at Sedex's election.

Following the earning of the Joint Venture Interest, a joint venture with the Company as manager will be formed. The Company and Sedex must contribute to further expenditure in proportion to their respective interests.

On the making of a decision to mine, the parties must negotiate a mining joint venture agreement on the basis of principles specified in the Agreement.

Either party may, within 20 Business Days of a decision to mine, elect to sell its interest in the area the subject of the decision to mine to the other party in accordance with the Agreement.

Sedex is under no obligation to dilute its interest to less than 30%, although it may elect to do so. If either party's interest is diluted to less than 10% then the other party may require it to convert its interest to a royalty of 1.5% of net smelter returns.

Under the Agreement, each party has provided the other party with a first right of refusal relating to its party's respective interest.

Sedex provides a range of warranties usual for agreements of this type including warranties as to beneficial ownership of EL3420.

7.10 Interests of Directors

Other than as set out below or elsewhere in this Prospectus, no Director has, or had within two years before lodgment of this Prospectus with ASIC any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or the Rights Issue; or
- the Rights Issue,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director:

- to induce him or her to become, or to qualify him or her as, a Director; or
- for services provided by him or her in connection with the formation or promotion of the Company, or the Rights Issue.

The directors have interests in the Lodestone shares and options as follows:

Name	Number of Ordinary Shares	Number of Director's Options
John Shaw	176,923 Direct	400,000 Direct
John McCawley	5,112,532 Direct	0
Greg Baynton	1,525,769 Indirect	200,000 Direct
Martin Ackland	25,000 Direct 89,423 Indirect	200,000 Direct

All of the options listed above have vested and expire on 30 September 2007. The Directors are entitled to exercise those vested options prior to the Record Date in order to participate in the Rights Issue but do not intend to do so.

Orbit Capital

The Company has paid \$7,500 in commissions and fees for previous capital raisings to Orbit Capital Pty Ltd a company of which Greg Baynton is a director and principal. Orbit Capital Pty Ltd is owned by Allegro Capital Nominees Pty Ltd, a company controlled by Greg Baynton. Allegro Capital Nominees Pty Ltd is a shareholder in Lodestone.

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 Directors to receive is a maximum of \$160,000 plus statutory superannuation to be divided between them as Directors' fees. Currently the Directors only receive a total of \$100,000 plus statutory superannuation as Directors' 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.

Directors' Indemnities and Insurance

The Company has executed deeds of access and indemnity in favour of each Director. The indemnity is subject to the restrictions prescribed in the Corporations Act. Subject to the terms of the deed, it also gives Directors a right of access to Board papers.

7.11 Interests of Other Persons

Other than as set out below or elsewhere in this Prospectus, no 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, a promoter of the Company, or a financial services licensee named in the Prospectus as a financial services licensee involved in the Rights Issue, holds or held at any time within two years before lodgment of this Prospectus with ASIC any interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the company in connection with its formation or promotion or the Rights Issue; or
- the Rights Issue,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons for services rendered by him or her in connection with the formation or promotion of the Company or the Rights Issue.

Patersons Securities Limited has acted as Underwriter to the Company and has performed certain work in relation to this Rights Issue for which the fees

described in Section 7.9 have been paid or have been agreed to be paid.

Clayton Utz have acted as lawyers to the Rights Issue for which an amount of \$39,000 exclusive of GST has been paid or has agreed to be paid.

Neil Stuart, as independent expert, has performed certain work in relation to the provision of the Independent Geologist's Report which is set out Section 4 of this Prospectus for which an amount of approximately \$1,750 has been paid or has agreed to be paid.

7.12 Consents

The following parties have given written consent, which has not been withdrawn at the time of lodgement of this Prospectus with the ASIC, in the following terms:

Paterson Securities Limited has given its consent to be named in the Prospectus as Underwriter and Lead Manager in the form and context in which it is named.

Pitcher Partners has given its consent to be named in the Prospectus as auditor of Lodestone and to the inclusion of statements referring to the historical audited and reviewed accounts of Lodestone in the form and context in which they are included.

Clayton Utz has given its consent to be named in the Prospectus as lawyers to the Rights Issue in the form and context in which it is named.

Link Market Services Limited has given its consent to be named in the Prospectus as Share Registry in the form and context in which it is named.

Neil Stuart has given his consent to be named in the Prospectus as Independent Expert and to the inclusion of the Independent Expert's Report and statements in Section 3 based on that report, in the form and context in which they are included.

Each of the companies and firms named in this Section:

- has not authorised or caused the issue of this Prospectus;
- has not made any statement in this Prospectus, or any statement on which a statement in this Prospectus is based, except where expressly stated above;
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and except where expressly stated above; and

- was not involved in the preparation of the Prospectus or any part of it except where expressly attributed to that person.

7.13 Rights Issue expenses

The expenses of the Rights Issue are expected to be \$240,000. These expenses include corporate advisory, underwriting, legal, listing and other administrative fees as well as printing, advertising and other expenses relating to the Prospectus.

All expenses are payable by the Company.

7.14 Privacy

If you apply for New Shares and New Options, you will provide personal information to the Company and Link Market Services Limited. Company laws and tax laws require some of the information to be collected and kept. The Company will collect, hold and use the information provided by you to process your application and to administer your investment in the Company.

If you do not provide the information requested in the Entitlement and Acceptance Form, the Company and the Share Registry may not be able to process your application.

The Company may disclose your personal information for purposes related to your investment to the Company's agents and service providers. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the shareholder register,
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- the Underwriter to confirm applications; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising, on the Shares and for associated actions.

The Company complies with its legal obligations under the Privacy Act 1988 (Cth).

You may request access to your personal information held by (or on behalf of) the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Telephone: (02) 8280 7454

7.15 Governing law

This Prospectus, the Rights Issue and the contracts formed on acceptance of the Applications are governed by the law applicable in Queensland, Australia. Each Applicant submits to the exclusive jurisdiction of the courts of Queensland, Australia.

7.16 Directors authorisation

Each Director of Lodestone Limited has given, and has not withdrawn, their consent to the lodgement of this Prospectus with ASIC.

8. DEFINITIONS

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

Additional New Shares	New Shares in addition to an Eligible Shareholder's Entitlement for which an Applicant makes an Application.	EPM or Exploration Permit	means an exploration permit for minerals under the <i>Mineral Resources Act 1989</i> (Qld)
Annual Report	The 30 June 2005 Annual Report of the Company as lodged with ASIC and ASX.	Half Year Report	The 31 December 2005 Half Year Report for the Company as lodged with ASIC and ASX.
Applicant	A person who submits an Entitlement and Acceptance Form.	Karinya Project or Karinya Karinya Zinc-Silver Prospect	South Australian Exploration Licence (EL) number 3420 and any renewal of that exploration licence.
Application Money	Money received from Applicants in respect of their Applications	Listing Rules	The listing rules of ASX.
ASIC	Australian Securities and Investments Commission	Lodestone	See definition of Company.
ASTC Settlement Rules	means the operating rules of the settlement facility operated by ASX Settlement and Transfer Corporation Pty Limited, as amended from time to time.	New Options	Options that the Company will issue under this Prospectus at no additional cost to all successful applicants for New Shares in the Offer at the ratio of one Option for every 2 New Shares issued.
ASX	Australian Stock Exchange Limited.	New Shares	Shares to be issued pursuant to this Prospectus.
Auditor	Pitcher Partners	Non-qualifying Foreign Shareholder	A Shareholder, as at the Record Date, whose registered address is not situated in Australia or New Zealand.
Australian GAAP	means generally accepted accounting principles in Australia, including but not limited to applicable Australian Accounting Standards, the accounts provisions of the Corporations Act, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board.	Offer	means the offer of New Shares and New Options under this Prospectus
Board	The Board of Directors of Lodestone.	Option	An option to subscribe for a Share.
Bocoolima Project	Exploration Permit for Minerals (EPM) number 14963, the exploration licences granted pursuant to that permit and any renewal of that permit.	Prospectus	This Prospectus.
Business Day	Has the same meaning as in the Listing Rules.	Record Date	7.00 pm on 27 June 2006.
Business hours	8.30 am to 5.00 pm Monday to Friday.	Register	The register of Shareholders of the Company.
CHESS	ASX Clearing House Electronic Subregister System.	Rights Issue or Offer	The renounceable pro rata issue pursuant to this Prospectus by the Company of 4 New Share(s) for 3 Shares at an issue price of 3.8 cents per New Share with one free attaching New Option for every 2 New Shares issued.
Closing Date	14 July 2006 or such earlier or later time and or in time as the Directors may determine.	Rights	The right to subscribe for New Shares (with New Options) under this Prospectus.
Company or Lodestone	Lodestone Exploration Limited ABN 20 075 877 075	Securities Clearing House	The Clearing House which governs the administration of CHESS.
Constitution	The constitution of the Company	Sedex	Sedex Minerals Pty Ltd ACN 113 595 798.
Copper Strike	Copper Strike Limited ACN 108 398 983.	Share Registry	Link Market Services Limited
Corporations Act	<i>Corporations Act</i> 2001 (Cth)	Shareholders	Holders of Shares
Directors	Directors of Lodestone	Shares	Ordinary shares in the capital of the Company.
Eligible Shareholder	A Shareholder of the Company, as at the Record Date, other than a Non-Qualifying Foreign Shareholder.	Shortfall Shares	New Shares for which successful valid applications have not been received by the Closing Date.
Entitlement	The number of Rights to which a Shareholder is entitled pursuant to the Rights Issue	Rights Trading Period	The Rights trading period, namely 21 June 2006 to 7 July 2006.
Entitlement and Acceptance Form	The Entitlement and Acceptance Form accompanying this Prospectus that sets out the Entitlement of Shareholders to subscribe for New Shares pursuant to the Rights Issue.	Underwriter	Patersons Securities Limited.
		Underwriting Agreement	An agreement dated 16 July 2006 between the Company and the Underwriter.

9. CORPORATE INFORMATION

Directors

John Shaw, Chairman
John McCawley, Executive Director
Martin Ackland
Greg Baynton

Company Secretary

Leni Stanley

Registered and Head Office

Level 1
101 Edward Street
GPO Box 762
BRISBANE QLD 4000
Tel (07) 3229 6606

Web: www.lodestonex.com
Email: info@lodestonex.com

Share Registry

Link Market Services Limited
Level 12/680 George Street
SYDNEY NSW 2000
GPO Box 1500
SYDNEY SOUTH NSW 1234
Tel (02) 8280 7454

Web www.linkmarketservices.com.au

Auditor

Pitcher Partners
Level 21
300 Queen Street
BRISBANE QLD 4000

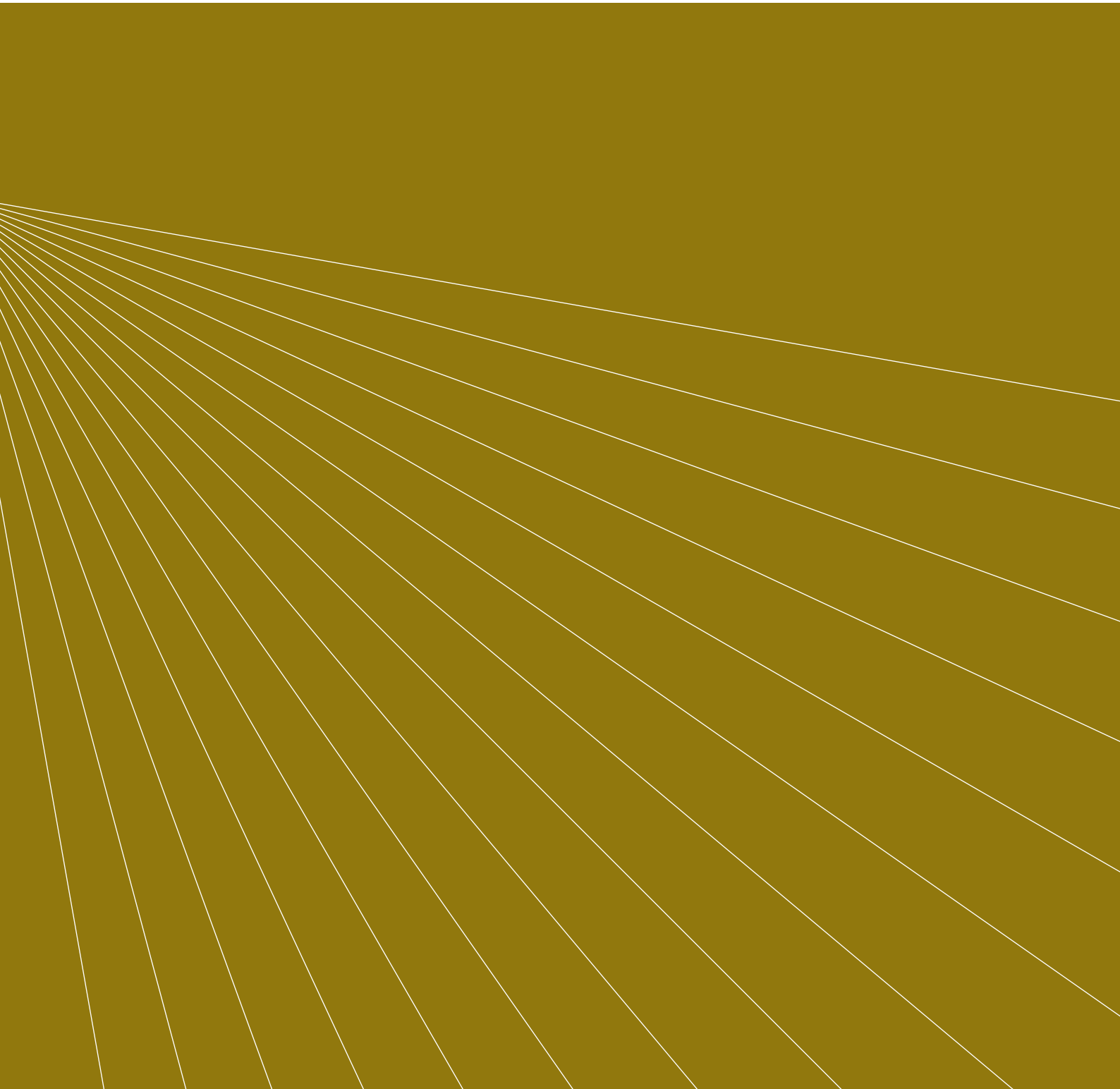
Lawyers to the Rights Issue

Clayton Utz
Level 28, Riparian Plaza
71 Eagle Street
BRISBANE QLD 4000

Underwriter and Lead Manager

Patersons Securities Limited
Level 23, Exchange Plaza
2 The Esplanade
PERTH WA 6000





LODESTONE EXPLORATION LIMITED

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