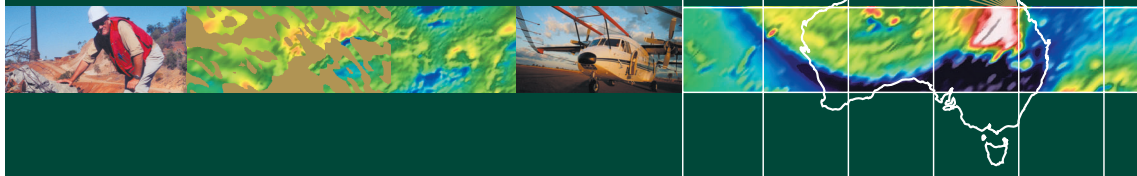


ANNUAL REPORT
2003



LODESTONE EXPLORATION LIMITED

ABN 20 075 877 075

Exploring the Mount Morgan metals
district with advanced technologies



CORPORATE DIRECTORY

DIRECTORS	John Shaw (Chairman) Martin Ackland Greg Baynton John McCawley
SECRETARY	Leni Stanley
PRINCIPAL REGISTERED OFFICE IN AUSTRALIA	c/o Stanley Yeates & Associates Level 18, 200 Mary Street Brisbane QLD 4000 (07) 3229 6606
SHARE REGISTER	Douglas Heck & Burrell Registries Level 22, 300 Queen Street Brisbane QLD 4000 (07) 3228 4000
AUDITOR	Douglas Heck & Burrell Level 21, 300 Queen Street Brisbane QLD 4000 (07) 3228 4000
SOLICITORS	Corrs Chambers Westgarth 1 Eagle Street Brisbane QLD 4000 (07) 3228 9424
BANKERS	Westpac Banking Corporation Cnr Queen and Eagle Streets Brisbane QLD 4000
STOCK EXCHANGE LISTING	Lodestone Exploration Limited shares are listed on the Australian Stock Exchange. (ASX Code: LOD)
WEBSITE ADDRESS	www.lodestonex.com

ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING	The annual general meeting of Lodestone Exploration Limited
WILL BE HELD AT	ASX Auditorium Level 6, 126 Eagle Street, Brisbane
TIME	11am
DATE	Monday 20 October 2003 A formal notice of meeting is enclosed.



LODESTONE EXPLORATION LIMITED

ABN 20 075 877 075

LODESTONE EXPLORATION LIMITED
ABN 20 075 877 075

Contents

Corporate Directory	
Operational Review	2
Directors' Report to Shareholders	9
Corporate Governance Statement	13
Independent Audit Report to the Members	16
Directors' Declaration	17
Financial Report	
Statement of Financial Performance	18
Statement of Financial Position	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Shareholder Information	31

Operational review

The Chairman's perspective

On behalf of your Board of Directors, I have pleasure in presenting the Company's seventh annual report, and its first since listing on the Australian Stock Exchange in March this year.

During the past year your Board has maintained its focus on the Company's exploration strategy within the Mount Morgan area, with our four objectives continuing to be:

- Discovering major gold and/or gold-copper deposits similar to Mount Morgan
- Generating drill targets by using advanced exploration tools and concepts
- Enhancing our strategic tenement holding in the Mount Morgan region
- Maintaining, where possible, a tight capital structure intended to maximise shareholder wealth in the event of exploration success.

In line with these objectives, Lodestone achieved some significant milestones during the year:

- The Company undertook a comprehensive assessment of its tenements in Central Queensland, and completed two TEMPEST airborne geophysical surveys
- Lodestone's capital base was broadened and strengthened by means of a successful \$2.5 million raising that introduced 450 new shareholders to the register
- Phase One of the planned drilling program was completed, in which four readily accessible electromagnetic targets were drilled
- An additional tenement was acquired in Central Queensland that covers some 107 square kilometres, and offers prospective geological targets.

The work program at the Mount Morgan Project has seen the completion of the Phase I drilling program in which a selection of priority electromagnetic targets defined from airborne surveys and ongoing work were drill tested. While no significant mineralisation was encountered in that shallow Phase I drilling program, the results have advanced our understanding of local geology and provided valuable data for development of ongoing programs.

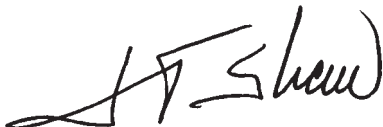
Emphasis at the Mount Morgan Project remains on Electromagnetic (EM) targets covered by younger volcanic rocks. Additional airborne and ground geophysical surveys will be carried out to prioritise existing targets and generate further targets for drill testing.

In June, your Company applied for a new tenement, extending Lodestone's exploration area by 107 square kilometres to the north, west and east of the historic Mount Morgan mine – increasing the total area to just under 700 square kilometers. The new tenement was applied for as a result of the recommendations made by an independent advisor engaged by the Company to investigate new opportunities.

The new area has an excellent structural setting and a number of small historic gold prospects. The new tenement area includes a small gold occurrence that might be significant. By extending this tenement area, Lodestone is increasing the potential for a new economic discovery in the future.

During the second half of the financial year, Mr Pat Sankey resigned from your Board due to personal reasons. Mr Sankey played a valuable role in Lodestone's transition from a private to a listed company and we were grateful for his involvement at such a crucial time.

We will continue to focus on maintaining a tight capital structure through our low cost operating model, by using contractors for core activities wherever possible. With this approach, combined with our carefully focussed exploration strategy, your Board is confident that Lodestone has the capabilities and resources to make a discovery that will deliver long-term value to shareholders.



John Shaw
Chairman

Where it all began – Overview

Lodestone Exploration (LOD) is an Australian listed junior explorer, with a tenement area of more than 700 square kilometres in Central Queensland.

The Company was established in 1996 to identify and investigate potential economic blind ore bodies in a prospective gold-copper region south of Mount Morgan in Central Queensland.

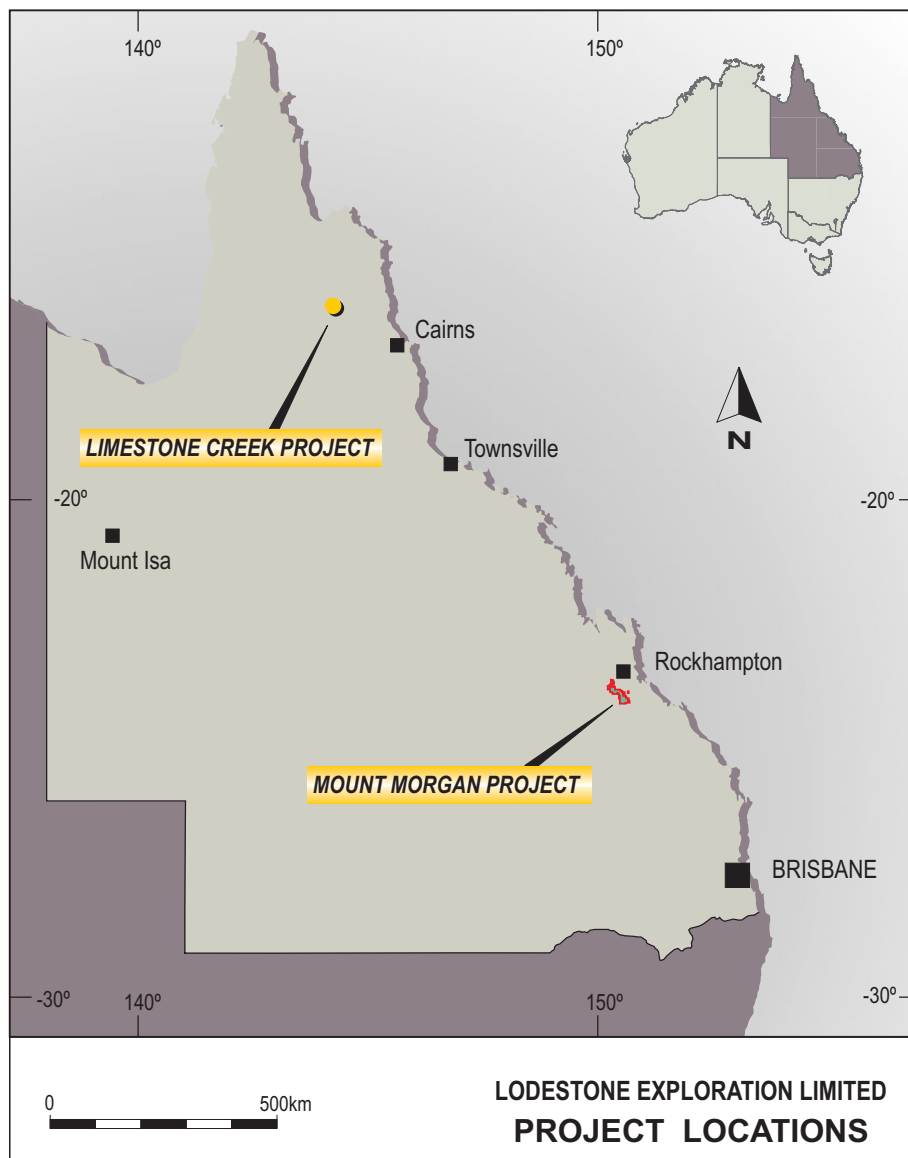
The Mount Morgan ore deposit was Australia’s premier volcanic-hosted massive sulphide deposit. The former mine yielded 9.4 million ounces of gold and 360,000 tonnes of copper and was described as one of the “largest mountains of gold ever discovered”.

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

Lodestone is applying the advances made in airborne electromagnetic survey techniques to conduct the first-ever, large-scale exploration of the region south-east of the original Mount Morgan deposit. The Company has deployed modern airborne electromagnetic survey equipment, specifically GEOTEM, HOISTEM and TEMPEST systems.

Operational Review

Figure 1. Project Location Map



MOUNT MORGAN PROJECT

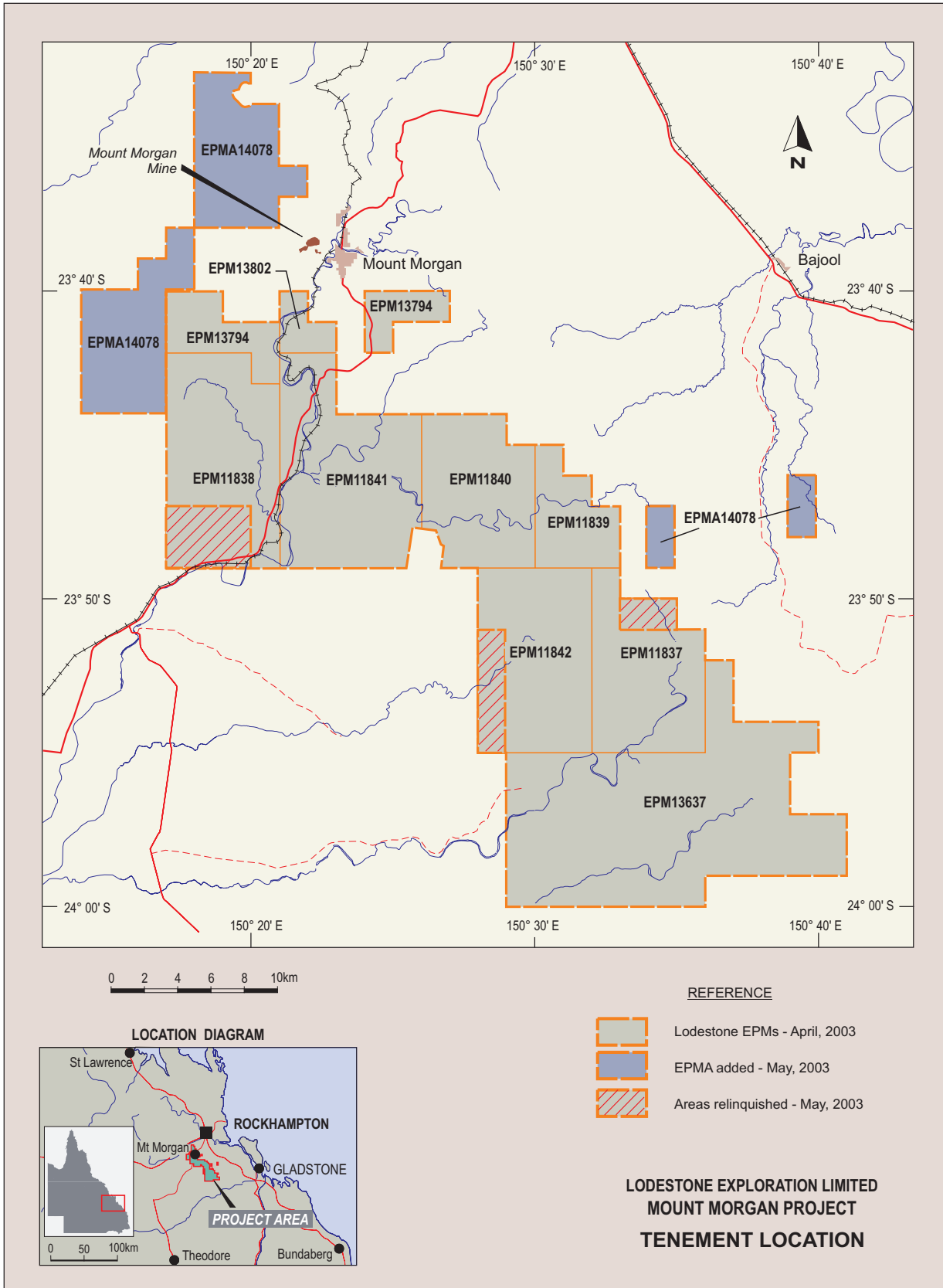
Exploration target: Gold, Copper

Owned: Lodestone 100%

Location: 40 kilometres southwest of Rockhampton, Queensland

The Mount Morgan Project is strategically located with the northern-most granted tenement boundary approximately three kilometres south of the original Mount Morgan mine (Figure 2). During its productive years this mine produced some 52 million tonnes of ore from which 9.4 million ounces of gold and 360,000 tonnes of copper were extracted.

Figure 2. Mount Morgan Project



Tenure and Infrastructure

The Project comprises nine contiguous exploration permits for minerals and one exploration permit application covering just under 700 square kilometres. The granted exploration permits are the subject of an exploration alliance with BHP Billiton.

Lodestone's interest in the granted permits (and in the alliance established between the parties) is initially 100%. BHP Billiton may earn a 70% interest in the granted permits if BHP Billiton incurs exploration expenditure of \$8 million or completes a bankable feasibility study within six years, and defines a mineral resource of not less than \$750 million in-ground value.

The Mount Morgan Project is favourably located some 40 kilometres south west of Rockhampton, Queensland – close to regional infrastructure and personnel. The major port of Gladstone, Stanwell Power Station, the Bruce Highway and railway links are all located within 100 kilometres of the Project.

Exploration Rationale

The Project's exploration objective on the Mount Morgan Project tenements is to discover large gold-copper deposits that are similar to the former Mount Morgan Mine, the premier volcanic-hosted massive sulphide deposit (VHMS) in Australia.

VHMS deposits usually occur as clusters, rarely as an isolated deposit and accordingly, the Mount Morgan district may include deposits similar to the Mount Morgan Mine.

Lodestone has established that a corridor that is prospective for Mount Morgan-type gold-copper orebodies extends over 25 kilometres from the Mount Morgan Mine into the tenement area. A layer of younger volcanic rock covers this prospective corridor. Historically, limited airborne exploration has been carried out on the tenements by previous explorers and, until recently, this corridor had not been assessed using modern geophysical search techniques.

Lodestone is now using advanced exploration tools and concepts and, in particular, airborne electromagnetic (EM) surveys that have generated numerous drill targets.

The Company's exploration focus during the year was on drill testing a small number of priority targets generated from earlier Lodestone and BHP Billiton airborne EM surveys.

Exploration Completed and Results

In July and August 2002, a TEMPEST airborne electromagnetic survey was flown over the central part of the tenements. In combination with the GEOTEM airborne electromagnetic survey flown in 1998, the two surveys have identified a number of EM anomalies. Massive sulphide deposits, [such as the original Mount Morgan Mine] would be expected to provide EM anomalies.

Four EM targets were tested in the Phase I drilling program during the year. Three of these targets were generated from the 1998 Geotem survey, flown by BHP Billiton. The fourth target was generated by Lodestone's Tempest EM survey flown in July and August 2002. Locations of targets and drill holes are shown in Figure 3. Drilling statistics are outlined in Table 1.

Figure 3. Mount Morgan Project drill target areas

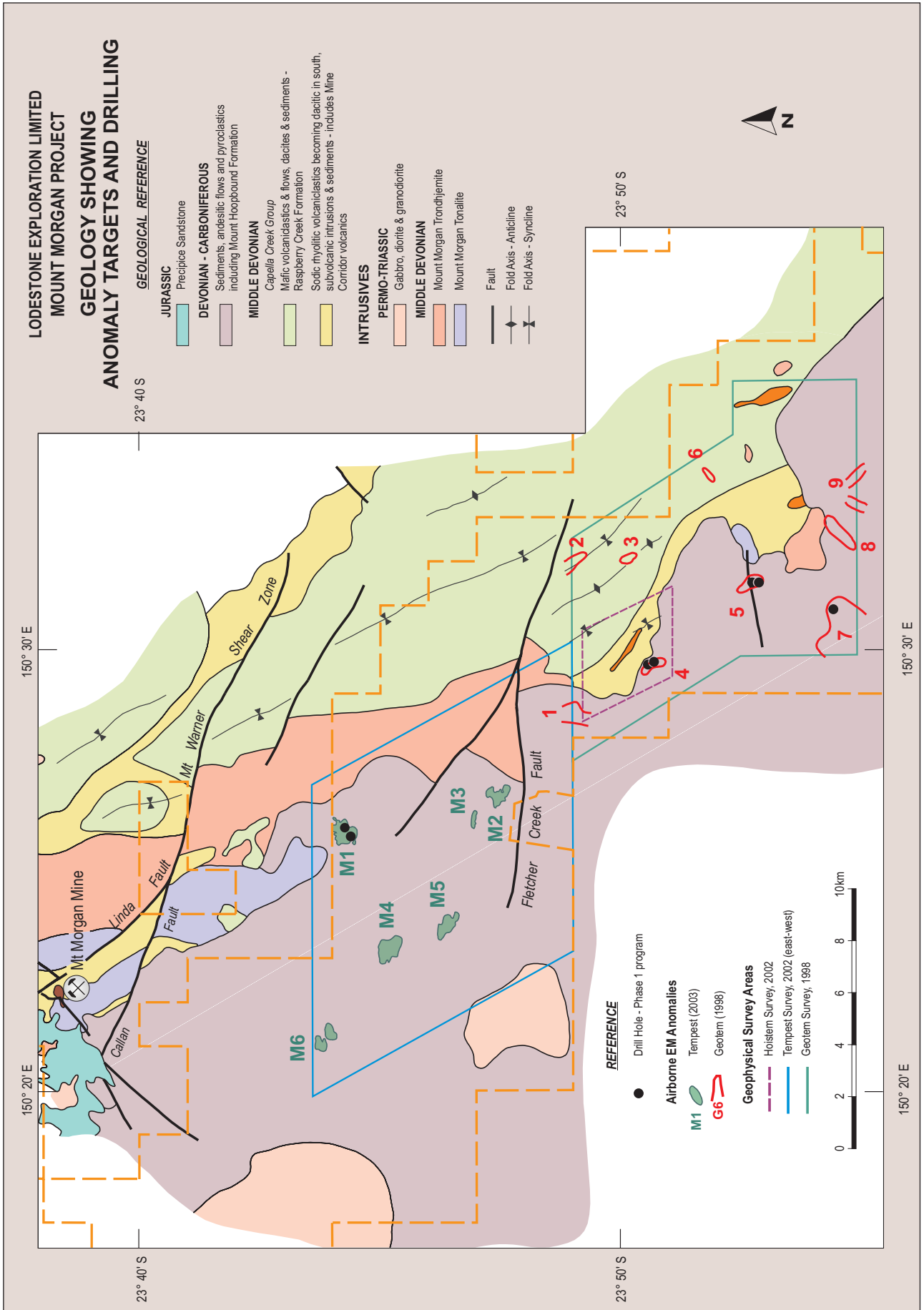


Table 1. Mount Morgan Project Drilling Statistics

Target	Hole(s)	Metres drilled
G4	G4RD001	124
	G4RD002	139
G5	G5R001	81
	G5RD002	153
G7	G7R001	96
MMS001	M1RD001	185
	M1D002	165

Two combined reverse circulation/diamond holes were drilled at target G4. This target was a weak GEOTEM conductor located 2 kilometres south of outcropping silicified and pyrite-bearing breccia within the prospective Mine Corridor volcanics.

Both holes encountered an alternating sequence of volcanoclastic lithofacies comprising non-mineralised porphyritic andesite, tuffaceous sandstone, volcanoclastic breccia and minor mudstone. Quartz veining with open space textures and associated clay coatings, typical of epithermal systems, were noted but were not mineralised. There was no obvious evidence for the source of the conductor observed in the drill core or chips.

The weak GEOTEM conductor at G5 was tested by two reverse circulation drill holes, one with a diamond tail. The sequence intersected comprised andesitic volcanoclastic breccia and conglomerate, porphyritic andesite and tuffaceous sandstone. Minor pyrite was noted in several siltstone interbeds. The source of the conductor remains unexplained.

The target at G7 was a medium to strong GEOTEM conductor. A single reverse circulation drill hole tested this target. No anomalous geochemistry was associated with interbedded tuffaceous sandstone and mudstone, which was thought to host the conductor.

Two diamond drill holes tested the medium to strong TEMPEST conductor at target MMS001. Both holes intersected a sequence of dominantly andesitic to basaltic volcanics and lesser tuffaceous sandstone and mudstone. Weak copper geochemistry up to 537ppm over a 4-metre interval was recorded in M1D001. Rare copper sulphides include bornite and chalcopyrite associated with specular haematite. The source of the conductor is perhaps partly explained by a conductive sequence intersected in M1D001 between 45 and 75 metres. There was no evidence for the source of the conductor in drill hole M1D002.

Project Generation

Lodestone applied for a new tenement that extended its exploration area by 107 square kilometres around the north, west and east of the historic Mount Morgan Mine site. This tenement was acquired as a result of the recommendations of an independent regional assessment carried out during the year. This assessment included detailed analysis and interpretation of the Company's geophysical data conducted to extract the maximum from these datasets and continue target generation.

Outlook

Results of the shallow Phase I drilling program have assisted in Lodestone better understanding the local geology and provided valuable data for development of a Phase II drilling program which is planned to commence this September.

A further airborne electromagnetic survey is planned for the northern area. The work program for 2003/2004 will continue to drill test the highest priority targets defined from the airborne surveys and ongoing work.

LIMESTONE CREEK PROJECT

Exploration target: Gold

Owned: Lodestone 100%

Location: 200 kilometres northwest of Cairns, Queensland

Lodestone is currently investigating potential gold opportunities at its wholly owned exploration tenement in the Chillagoe district of North Queensland.

At its Limestone Creek Project, Lodestone believes the area has potential for a Red Dome/Mungana-style copper-gold deposit. Carbonate-rich, altered and mineralised interbedded siltstones, shales and jaspers intruded by quartz-feldspar porphyry and mafic intrusives host a gold-mineralised system some 3000 metres in strike length. The mineralised system has an en-echelon width of 500-800 metres and assayed and visible gold occurs extensively.

The EPM covering the area is still under application and no work was carried out during this year.

Upon tenement grant, the work planned for 2003/2004 will be aimed at proving the viability, or otherwise, of the extensively mineralised system.

Tenement Schedule

MOUNT MORGAN PROJECT

Tenement	EPM Number	Area (sub-blocks)	Area (square km)
Mount Gelobera	11837	18*	57
Walmul West	11838	21*	66
Hoopbound East	11839	9	28
Mount Hoopbound	11840	19	57
Walmul	11841	29	89
Gelobera West	11842	20*	63
Black Mountain	13637	52	179
Mount Battery	13794	11	35
Mount Battery East	13802	3	9
Mount Battery North**	14078	37	123

*These EPM's had sub-blocks dropped during the year

LIMESTONE CREEK PROJECT

Tenement	EPM Number	Area (sub-blocks)	Area (square km)
Limestone Creek**	11980	18	60

** EPMA = Application for an exploration permit for minerals

DIRECTORS' REPORT

Your directors present their report on the entity for the year ended 30 June 2003.

Directors

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

J T Shaw – Chairman

G A J Baynton

J L McCawley

M C Ackland was appointed on 1 July 2002 and continues in office at the date of this report.

P W Sankey was a director from the beginning of the financial year until his resignation on 2 May 2003.

Principal Activities

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

Review of Operations

The operating loss after income tax of the company for the year was \$123,043 (2002: loss \$14,386). The loss reflects the nature of the company's principal activity.

Earnings per Share

	2003 Cents	2002 Cents
Basic earnings per share	(0.57)	(0.10)
Diluted earnings per share	(0.57)	(0.10)

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the entity during the financial year were as follows:

- (a) On 18 July 2002 the company converted to a public company,
- (b) Issued a Prospectus offering 12,500,000 shares at 20 cents each to raise \$2,500,000,
- (c) Listed on the Australian Stock Exchange on 17 March 2003.

	2003 \$
An increase in contributed equity of \$2,436,665 (from \$388,494 to \$2,825,159) as a result of:	
Issue of 1,816,154 fully paid ordinary shares @ \$0.15	272,423
Issue of 12,500,000 fully paid ordinary shares @ \$0.20 under the Prospectus	2,500,000
	<hr/>
	2,772,423
Less transaction costs arising on share issues	(335,758)
	<hr/>
Net increase in contributed equity	2,436,665
	<hr/> <hr/>

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

Dividend

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

Matters Subsequent to the End of the Financial Year

At the date of this report there are no matters or circumstances which have arisen since 30 June 2003 that has significantly affected, or may significantly affect:

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

Likely Developments and Expected Results from Operations

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

Environmental Regulation

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

Information on Directors

Director	Experience	Special Responsibilities	Ordinary shares	Particulars of Directors' Interests in Shares and Options		
				Options		
				Expiry Date 07/12/04	Expiry Date 30/09/05	Expiry Date 30/09/07
J T Shaw B.Sc (Geological Engineering) MCIM, FAUSIMM, FAICD, AIME	Non-Executive Director for 1 year. Chairman for 1 year. Director of Kingsgate Consolidated Limited. Formerly a director of a number of listed gold companies.	Non-Executive Chairman.	100,000	–	–	400,000
M C Ackland B.App.Sc., M.AusIMM, AIME	Non-Executive Director for 1 year. Director of Mineral Deposits Limited, and Sedimentary Holdings Limited. Formerly a director of several major operating resource and engineering companies.	Chairman of the audit committee.	37,500	18,750	–	200,000
G A J Baynton M.Econ St, MBA, B.Bus (Accounting), ASIA, FAICD	Non-Executive Director for 2 years. Director of several private companies.		1,291,000	100,000	–	200,000
J L McCawley B.Com (Hons)	Non-Executive Director for 7 years.		5,097,147	–	–	–

Company Secretary

The company secretary is Ms Leni Stanley CA, B.Comm. Ms Stanley was appointed to the position of company secretary in 2002. She currently is a partner with a Chartered Accounting firm.

Meetings of Directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2003, and the numbers of meetings attended by each director were:

	Full Meetings of Directors	Meetings of Audit Committee
Number of meetings held	8	1
Number of meetings attended by:		
J T Shaw	8	N/A
M C Ackland	7	1
G A J Baynton	8	N/A
J L McCawley	8	N/A
P W Sankey	7*	1

*Seven meetings held whilst a director

Retirement, election and continuation in office of directors

Mr P W Sankey retired as a director on 2 May 2003 and did not offer himself for re-election.

Mr J L McCawley and Mr G A J Baynton are the directors retiring by rotation who, being eligible, offer themselves for re-election.

Directors' and Executives' emoluments

Remuneration for non-executive directors is determined by the board within the maximum amount approved by the shareholders from time to time. The maximum currently stands at \$160,000 plus statutory superannuation.

Details of the nature and amount of each element of the emoluments of each director of Lodestone Exploration Limited are set out in the following table.

Non-Executive Directors of Lodestone Exploration Limited

Name	Directors' base fee \$	Superannuation \$	Options \$	Total \$
J T Shaw, Chairman	11,534	1,038	23,989	36,561
M C Ackland	8,651	779	11,994	21,424
G A J Baynton	8,651	779	11,994	21,424
J L McCawley	8,651	779	—	9,430
P W Sankey	3,781	340	—	4,121

The amounts disclosed above for remuneration relating to options are the assessed fair values of options at the date they were granted to directors during the year ended 30 June 2003. Fair values have been assessed using the Black-Scholes option pricing model. Factors taken into account by the Black-Scholes option pricing model include the exercise price, the term of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Further information on the options, including the number of options granted to directors is set out in the following sections of this report.

Share options granted to directors

Options over unissued ordinary shares of Lodestone Exploration Limited granted during or since the end of the financial year to any of the directors of the entity as part of their remuneration were as follows:

Directors	Options granted
J T Shaw	400,000
M C Ackland	200,000
G A J Baynton	200,000

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
1 October 2002	30 September 2005	\$0.30	100,000
1 October 2002	30 September 2007	\$0.30	800,000
10 March 2003	7 December 2004	\$0.20	6,250,000

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

Shares issued on the exercise of options

There were no ordinary shares of Lodestone Exploration Limited issued during the year ended 30 June 2003 on the exercise of options granted. No shares have been issued since that date.

Insurance of officers

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

Agreement to indemnify officers

During the financial year, Lodestone Exploration Limited entered into an agreement to indemnify the directors and the general manager of the company.

The indemnity relates to any liability:

- incurred in connection with or as a consequence of the Directors acting in the capacity including, without limiting the foregoing, representing the Company on any body corporate, and
- for legal costs incurred in defending an action in connection with or as a consequence of the Director acting in the capacity.

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

Proceedings on behalf of company


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

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

Auditor

Douglas Heck & Burrell, Chartered Accountants, continues in office in accordance with section 327 of the Corporations Act 2001.

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



J T Shaw
Chairman

5 September 2003

CORPORATE GOVERNANCE STATEMENT

The directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance these sometimes competing objectives in the best interests of the company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the company is properly managed.

Day to day management of the company's affairs and implementation of corporate strategy and policy initiatives are delegated by the board to the General Manager.

The functions of the board include:

- reviewing and approving corporate strategies, budgets and financial plans
- overseeing and monitoring organisational performance and the achievement of the company's strategic goals and objectives
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors
- appointment of, and assessment of the performance of, the General Manager
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the company
- ensuring the significant risks facing the company have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place, and
- reporting to shareholders.

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

The board of directors

The board operates in accordance with the following broad principles:

- the board may be comprised of both executive and non-executive directors with a majority of non-executive directors.

At the date of signing the directors' report the board consisted of four non-executive directors.

Further information about the directors is set out in the directors' report under the heading "Information on directors".

- in recognition of the importance of independent views and the board's role in supervising the activities of management the Chairman should be a non-executive director
- the Chairman of the board is elected by the full board and should meet regularly with the General Manager
- there is sufficient benefit to the company in maintaining a mix of directors on the board from different backgrounds with complementary skills and experience
- the board should undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the company.

The board has established an audit committee to assist in the execution of its duties and to allow detailed consideration of complex issues.

The audit committee is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis.

All matters determined by the committee are submitted to the full board as recommendations for board decision.

In addition the board seeks to ensure that the membership at any point in time represents an appropriate balance between directors with experience and knowledge of the company and directors with an external or fresh perspective.

Commitment

The board meets at least 5 times during a year. The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2003, and the number of meetings attended by each director is disclosed on page 11.

Conflict of interests

The board has considered the independence of its four directors and would offer the following:

- John Shaw and Martin Ackland are considered to be independent.
- J McCawley, because of his large shareholding, is not considered to be independent.
- G Baynton has in the past provided management services to the company. These are not considered to be material in nature and the board does not believe that this would affect Mr Baynton's independence.

The company defines "independent" as independent of the executive management and of business or other relationships which could otherwise detract from a director's ability to act impartially. A former executive is not considered independent until 5 years from the date of retirement.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Audit committee

The audit committee consists of the following non-executive directors:

M Ackland (Chairman) (appointed 7 November 2002)

G Baynton (appointed 14 April 2003)

P Sankey (appointed 7 November 2002 and resigned 2 May 2003)

The main responsibilities of the audit committee are to:

- review and report to the board on the annual report, the half-year financial report and all other financial information published by the company or released to the market
- assist the board in reviewing the effectiveness of the company's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and the auditor's independence, and
- review the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence.

In fulfilling its responsibilities, the audit committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the board. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Ethical standards

The company has developed a Code of Conduct (the Code) which has been adopted by the board at a meeting held on 18 August 2003 and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism. A copy of the Code is available to interested parties on request.

In summary, the Code requires that company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of both the law and company policies at all times.

Directors and officers of the company are prohibited from short-term trading of the company's securities while in possession of price sensitive information. Subject to the foregoing, directors and officers may buy or sell shares in the company in the four week period following the release of a Quarterly Report, half yearly results and yearly results. Any transactions undertaken must be notified to the Chairman and company secretary within three days of the transaction.

Continuous disclosure

The company secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the company that a reasonable person would expect to have a material effect on the price of the company's securities.

All information disclosed to the ASX is posted on the company's web site as soon as it is disclosed to the ASX. Prior to analysts being briefed on aspects of the company's operations, any new information used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LODESTONE EXPLORATION LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for Lodestone Exploration Limited (the company), for the year ended 30 June 2003.

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

Audit approach

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

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

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

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

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

Independence

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

Audit opinion

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

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2003 and of its performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.



DOUGLAS HECK & BURRELL
Chartered Accountants
Brisbane, 5 September 2003



R C Brown
Partner

DIRECTORS' DECLARATION

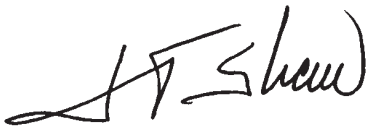
The directors declare that the financial statements and notes set out on pages 18 to 30:

- (a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's financial position as at 30 June 2003 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the directors' opinion:

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

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



J T Shaw
Chairman

Brisbane, 5 September 2003

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 \$	2002 \$
Revenue from ordinary activities	3	28,173	–
Professional services expenses		(66,091)	(1,050)
Exploration related expenses		–	(6,168)
Corporate overhead expenses		(38,696)	(5,377)
Depreciation expenses		(1,448)	(1,791)
Directors remuneration		(44,981)	–
Profit/(loss) from ordinary activities before income tax	4	(123,043)	(14,386)
Income tax expense	5	–	–
Net profit/(loss)		(123,043)	(14,386)
Total changes in equity other than those resulting from transactions with owners as owners	14	(123,043)	(14,386)
		Cents	Cents
Basic earnings per share	22	(0.57)	(0.10)
Diluted earnings per share	22	(0.57)	(0.10)

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

	Notes	2003 \$	2002 \$
Current assets			
Cash		1,957,043	134,004
Receivables	6	42,269	–
Other	7	13,260	2,500
Total current assets		<u>2,012,572</u>	<u>136,504</u>
Non-current assets			
Plant and equipment	8	7,133	6,167
Exploration expenditure	9	692,538	190,625
Total non-current assets		<u>699,671</u>	<u>196,792</u>
Total assets		<u><u>2,712,243</u></u>	<u><u>333,296</u></u>
Current liabilities			
Payables	10	96,056	19,159
Total current liabilities		<u>96,056</u>	<u>19,159</u>
Non-current liabilities			
Borrowings	11	–	11,572
Total non-current liabilities		<u>–</u>	<u>11,572</u>
Total liabilities		<u><u>96,056</u></u>	<u><u>30,731</u></u>
Net assets		<u><u>2,616,187</u></u>	<u><u>302,565</u></u>
Equity			
Contributed equity	12	2,825,159	388,494
Accumulated profits/(losses)	13	(208,972)	(85,929)
Total equity	14	<u><u>2,616,187</u></u>	<u><u>302,565</u></u>

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2003

	Notes	2003 \$ Inflows / (Outflows)	2002 \$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		58,517	–
Payments to suppliers (inclusive of goods and services tax)		(198,355)	(13,018)
Interest received		21,309	–
		<hr/>	
Net cash outflows from operating activities	20	(118,529)	(13,018)
Cash flows from investing activities			
Payments for exploration		(455,351)	(98,691)
Payments for property, plant and equipment		(2,414)	–
Payment for security deposit		(10,760)	–
		<hr/>	
Net cash outflows from investing activities		(468,525)	(98,691)
Cash flows from financing activities			
Loan from director		–	947
Repayments of loan from director		–	(15,366)
Proceeds from share issue		2,745,851	219,000
Proceeds from share applications not yet issued		–	15,000
Payment of share issue costs		(335,758)	(9,900)
		<hr/>	
Net cash inflows from financing activities		2,410,093	209,681
Net increase in cash held			
Cash at the beginning of the financial year		1,823,039	97,972
		134,004	36,032
		<hr/>	
Cash at the end of the financial year		<u>1,957,043</u>	<u>134,004</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2003

Note 1. Summary of significant accounting policies

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

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

(a) Income tax

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

(b) Exploration expenditure

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

(c) Acquisitions of assets

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

(d) Recoverable amount of non-current assets

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

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

Note 1. Summary of significant accounting policies (continued)

(e) Depreciation of property, plant and equipment

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

Plant and equipment	15 – 20 years
---------------------	---------------

(f) Trade and other creditors

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

(g) Cash

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

(h) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(i) Web site costs

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

Note 2. Segment information

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

2003	2002
\$	\$

Note 3. Revenue

Revenue from outside the ordinary activities

Interest

28,173	–
--------	---

Note 4. Profit from ordinary activities

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

Depreciation

1,448	1,791
-------	-------

Note 5. Income tax

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

Loss from ordinary activities before income tax expense

(123,043)	(14,386)
-----------	----------

Income tax calculated at 30% (2002: 30%)

(36,913)	(4,316)
----------	---------

Tax effect of permanent differences:

Business related capital costs

(20,848)	–
----------	---

Other

1,835	–
-------	---

Income tax expense / (benefit) adjusted for permanent differences

(55,926)	(4,316)
----------	---------

Future income tax benefits not brought to account

55,926	4,316
--------	-------

Income tax expense attributable to the loss

–	–
---	---

The directors estimate that the potential net future income tax benefit at 30 June 2003 amounts to \$188,452 (2002: \$62,553). The future income tax benefit, which has not been recognised as an asset, will only be obtained if:

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

No franking credits are available for the subsequent financial year.

	2003 \$	2002 \$
Note 6. Current assets – Receivables		
Interest receivable	6,864	–
Other debtors	35,405	–
	<u>42,269</u>	<u>–</u>

Note 7. Current assets – Other

Security deposit	13,260	2,500
	<u>13,260</u>	<u>2,500</u>

Note 8. Non-current assets – Plant and equipment

Motor vehicle – at cost	22,060	22,060
Less: Accumulated depreciation	(17,280)	(15,893)
	<u>4,780</u>	<u>6,167</u>
Plant and equipment – at cost	2,414	–
Less: Accumulated depreciation	(61)	–
	<u>2,353</u>	<u>–</u>
	<u>7,133</u>	<u>6,167</u>

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

	Motor vehicle \$	Plant and equipment \$	Total \$
Carrying amount at 1 July 2002	6,167	–	6,167
Additions	–	2,414	2,414
Depreciation expense	(1,387)	(61)	(1,448)
	<u>4,780</u>	<u>2,353</u>	<u>7,133</u>
Carrying amount at 30 June 2003	<u>4,780</u>	<u>2,353</u>	<u>7,133</u>

	2003 \$	2002 \$
Note 9. Non-current assets – Exploration expenditure		

Exploration phase property costs

Geological and exploration expenditure – at cost	692,538	190,625
	<u>692,538</u>	<u>190,625</u>

The capitalised exploration expenditure carried forward above has been determined as follows:

Opening balance	190,625	89,852
Expenditure incurred during the year	501,913	100,773
	<u>692,538</u>	<u>190,625</u>
Closing balance as shown above	<u>692,538</u>	<u>190,625</u>

	2003 \$	2002 \$
Note 10. Current liabilities – Payables		
Trade creditors	96,056	4,159
Share application funds received	–	15,000
	<u>96,056</u>	<u>19,159</u>

Note 11. Non-current liabilities – Borrowings

Loan payable to director – unsecured	–	11,572
	<u>–</u>	<u>11,572</u>

Note 12. Contributed equity

	2003 Shares	2002 Shares	2003 \$	2002 \$
(a) Share capital				
Ordinary shares				
Fully paid	30,911,154	16,595,000	2,825,159	388,494
	<u>30,911,154</u>	<u>16,595,000</u>	<u>2,825,159</u>	<u>388,494</u>

(b) Movements in ordinary share capital:

Date	Details	Number of Shares	Issue Price	\$
30 June 2001	Opening balance	13,505,000		179,394
6 November 2001	Share issue	500,000	\$0.04	20,000
29 January 2002	Share issue	1,000,000	\$0.04	40,000
28 May 2002	Share issue	1,590,000	\$0.10	159,000
	Share issue expenses	–		(9,900)
30 June 2002	Balance	16,595,000		388,494
23 August 2002	Share issue	500,000	\$0.15	75,000
31 October 2002	Share issue	807,822	\$0.15	121,173
31 December 2002	Share issue	508,332	\$0.15	76,250
10 March 2003	Shares issued under Prospectus	12,500,000	\$0.20	2,500,000
	Share issue expenses	–		(335,758)
30 June 2003	Closing balance	<u>30,911,154</u>		<u>2,825,159</u>

(c) Ordinary shares

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

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

(d) Options

At balance date 7,150,000 options over ordinary shares of Lodestone Exploration Limited were on issue. 900,000 options were issued on 30 September 2002 with an exercise price of \$0.30. 800,000 of these options expire on 30 September 2007 and the remaining 100,000 expire on 30 September 2005. A further 6,250,000 options were issued under the Prospectus. These options are exercisable at \$0.20 and expire on 7 December 2004.

	2003 \$	2002 \$
Note 13. Accumulated losses		
Accumulated losses at the beginning of the financial year	(85,929)	(71,543)
Net loss attributable to members of Lodestone Exploration Limited	(123,043)	(14,386)
	<hr/>	<hr/>
Accumulated losses at the end of the financial year	(208,972)	(85,929)

Note 14. Equity

Total equity at the beginning of the financial year	302,565	107,851
Total changes in equity recognised in the statement of financial performance	(123,043)	(14,386)
Transactions with owners as owners:		
Contributions of equity net of transaction costs	2,436,665	209,100
	<hr/>	<hr/>
Total equity at the end of the financial year	2,616,187	302,565

Note 15. Financial instruments

(a) Interest rate risk exposure

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

	Floating Interest Rate	Non-Interest Bearing	Total
2003	\$	\$	\$
Financial assets:			
Cash	1,950,000	7,043	1,957,043
Receivables	–	42,269	42,269
Other	–	13,260	13,260
	<hr/>	<hr/>	<hr/>
	1,950,000	62,572	2,012,572
	<hr/>	<hr/>	<hr/>
Weighted average interest rate	4.25%	–	
Financial liabilities:			
Payables	–	96,056	96,056
	<hr/>	<hr/>	<hr/>
	–	96,056	96,056
	<hr/>	<hr/>	<hr/>
Weighted average interest rate	–	–	
	<hr/>	<hr/>	<hr/>
Net financial assets/(liabilities)	1,950,000	(33,484)	1,916,516

Note 15. Financial instruments (continued)

	Floating Interest Rate	Non-Interest Bearing	Total
2002			
Financial assets:	\$	\$	\$
Cash	–	134,004	134,004
Other	–	2,500	2,500
	–	136,504	136,504
Weighted average interest rate	–	–	
Financial liabilities:			
Payables	–	4,159	4,159
Borrowings	–	11,572	11,572
	–	15,731	15,731
Weighted average interest rate	–	–	
Net financial assets/(liabilities)	–	120,773	120,773

(b) Fair net values

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

(c) Credit risk exposures

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

2003	2002
\$	\$

Note 16. Remuneration of directors and executives**(a) Directors**

Income paid or payable, or otherwise made available, to directors by the entity and related parties in connection with the management of affairs of the entity

92,960	–
--------	---

The amounts disclosed for remuneration of directors include the assessed fair values of options granted to directors during the year ended 30 June 2003 at the date they were granted. Fair values have been determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Note 16. Remuneration of directors and executives (continued)

The numbers of directors whose total income from the entity or related parties was within the specified bands are as follows:

	\$	\$	2003	2002
	0	– 9,999	2	–
	20,000	– 29,999	2	–
	30,000	– 39,999	1	–

(b) Executives

No executives received remuneration in excess of \$100,000.

2003	2002
\$	\$

Note 17. Remuneration of auditors

During the year the auditor of the entity earned the following remuneration:

Audit of financial report of the entity	10,000	1,050
IPO's Independent Accountant's Report	6,900	–
Taxation compliance and share registry	4,829	–
Other services	–	–
Total remuneration	21,729	1,050

Note 18. Related parties

Directors

The names of persons who were directors at any time during the financial year are as follows: J L McCawley, G Baynton, J T Shaw, P Sankey and M Ackland. J L McCawley was the only director who also held office during the year ended 30 June 2001. G Baynton was appointed on 5 November 2001. J T Shaw was appointed on 20 May 2002. P Sankey was appointed on 4 June 2002 and resigned on 2 May 2003. M Ackland was appointed on 1 July 2002.

Transactions of Directors and Director Related Entities concerning shares or share options

Aggregate number of shares and share options of Lodestone Exploration Limited acquired or disposed by directors or their director related entities during the period were as follows:

	2003 Number	2002 Number
Acquisitions		
Ordinary shares	415,647	1,090,000
Options over ordinary shares	918,750	–

Aggregate number of shares and share options of Lodestone Exploration Limited held directly, indirectly, or beneficially by directors of the company or their director related entities at balance date:

	2003 Number	2002 Number
Ordinary shares	6,525,647	6,110,000
Options over ordinary shares	918,750	–

Note 18. Related parties (continued)

Other Transactions of Directors and Director-Related Entities

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

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

	2003 \$	2002 \$
Aggregate amounts of each of the above types of other transactions with directors and their director-related entities:		
Commission	25,000	9,000
Rent of office space	6,000	–
Consulting fees	31,882	–
Aggregate amounts payable to directors and their director-related entities at balance date:		
Current liabilities	2,439	11,572

Note 19. Events occurring after reporting date

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

	2003 \$	2002 \$
Note 20. Reconciliation of loss from ordinary activities after income tax to net cash outflow from operating activities		
Loss from ordinary activities after income tax	(123,043)	(14,386)
Depreciation	1,448	1,791
Change in operating assets and liabilities:		
(Increase)/decrease in other debtors	(30,073)	(2,000)
(Increase)/decrease in interest receivable	(6,864)	–
Increase/(decrease) in trade creditors	40,003	1,577
Net cash outflow from operating activities	(118,529)	(13,018)

	2003 \$	2002 \$
Note 21. Commitments for expenditure		
Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,890	–
Exploration commitments		
Commitments for payments under exploration permits for minerals in existence at the reporting date but not recognised as liabilities payable are as follows:		
Within one year	695,561	–
Later than one year but not later than 5 years	–	–
Later than 5 years	–	–
Commitments not recognised in the financial statements	695,561	–

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

	2003 \$	2002 \$
Consulting commitments		
Commitments for payments under personal services contracts in existence at the reporting date but not recognised as liabilities payable are as follows:		
Within one year	122,500	50,000
Later than one year but not later than 5 years	–	–
Later than 5 years	–	–
Commitments not recognised in the financial statements	122,500	50,000

Note 22. Earnings per share

	2003 Cents	2002 Cents
Basic earnings per share	(0.57)	(0.10)
Diluted earnings per share	(0.57)	(0.10)
	2003 Number	2002 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	21,683,540	14,467,932
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	21,683,540	14,467,932

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 26 August 2003.

A. Distribution of equity securities

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

	Class of equity security	
	Shares	Options
1 – 1,000	1	–
1,001 – 5,000	20	176
5,001 – 10,000	191	72
10,001 – 100,000	265	168
100,001 and over	36	7
	513	423

There were 13 holders of less than a marketable parcel of ordinary shares and 350 holders of less than a marketable parcel of options.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	Ordinary shares	
	Number held	Percentage of issued shares
John Lachlan McCawley	5,097,147	16.48
Patrick Thomas Charles & Maria Julienne Barron	3,000,000	9.70
Foxcorp Holdings Ltd	2,000,000	6.47
Allegro Capital Nominees Pty Ltd	1,201,000	3.88
Talmetal Pty Ltd	1,000,000	3.23
Noel Clarence White	1,000,000	3.23
TBIC Pty Ltd	800,000	2.58
Lili Haas & Doug Price	500,000	1.61
Nicola Maree Mullins	416,667	1.34
Closemarket Pty Ltd	387,500	1.25
Donald Julian Channer	375,000	1.21
William J Daffron	360,000	1.16
Envoy Investments Limited	285,000	0.92
Hancroft Pty Ltd	250,000	0.80
Deslie Dawn Brampton	250,000	0.80
Scott William Power	250,000	0.80
JJNA Pty Ltd	222,500	0.71
Foligno Pty Ltd	205,000	0.66
Badge Nominees Pty Ltd	200,000	0.64
Berne No 132 Nominees Pty Ltd	199,999	0.64
	17,999,813	58.11

B. Equity security holders (continued)

Twenty largest quoted option holders

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

Name	Options	
	Number held	Percentage of issued options
Carnethy Investments Pty Ltd	237,500	3.80
Closemarket Pty Ltd	193,750	3.10
Donald Julien Channer	187,500	3.00
Envoy Investments Limited	142,500	2.28
Berne No 132 Nominees Pty Ltd	125,000	2.00
Benjamin James Cleary	120,000	1.92
Foligno Pty Ltd	102,500	1.64
Allegro Capital Nominees Pty Ltd	100,000	1.60
Robert James Dougall	90,000	1.44
Hancroft Pty Ltd	87,500	1.40
Talmetal Pty Ltd	85,000	1.36
Nicola Maree Mullins	82,500	1.32
Capco Trust Jersey Limited	75,000	1.20
ANZ Nominees Limited	62,500	1.00
Lyndal Joy Peterson	57,500	0.92
Matthew Alan Baker	52,500	0.84
Grant Donald Peterson & Christine Myrtle Lane	52,500	0.84
Noel James Blake	50,000	0.80
Burns Construction Pty Ltd	50,000	0.80
Dundee Investments Pty Ltd	50,000	0.80
	2,003,750	32.06

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
John Lachlan McCawley	5,097,147	16.48
Patrick Thomas Charles and Maria Julienne Barron	3,000,000	9.70
Foxcorp Holdings Ltd	2,000,000	6.47

D. Voting rights

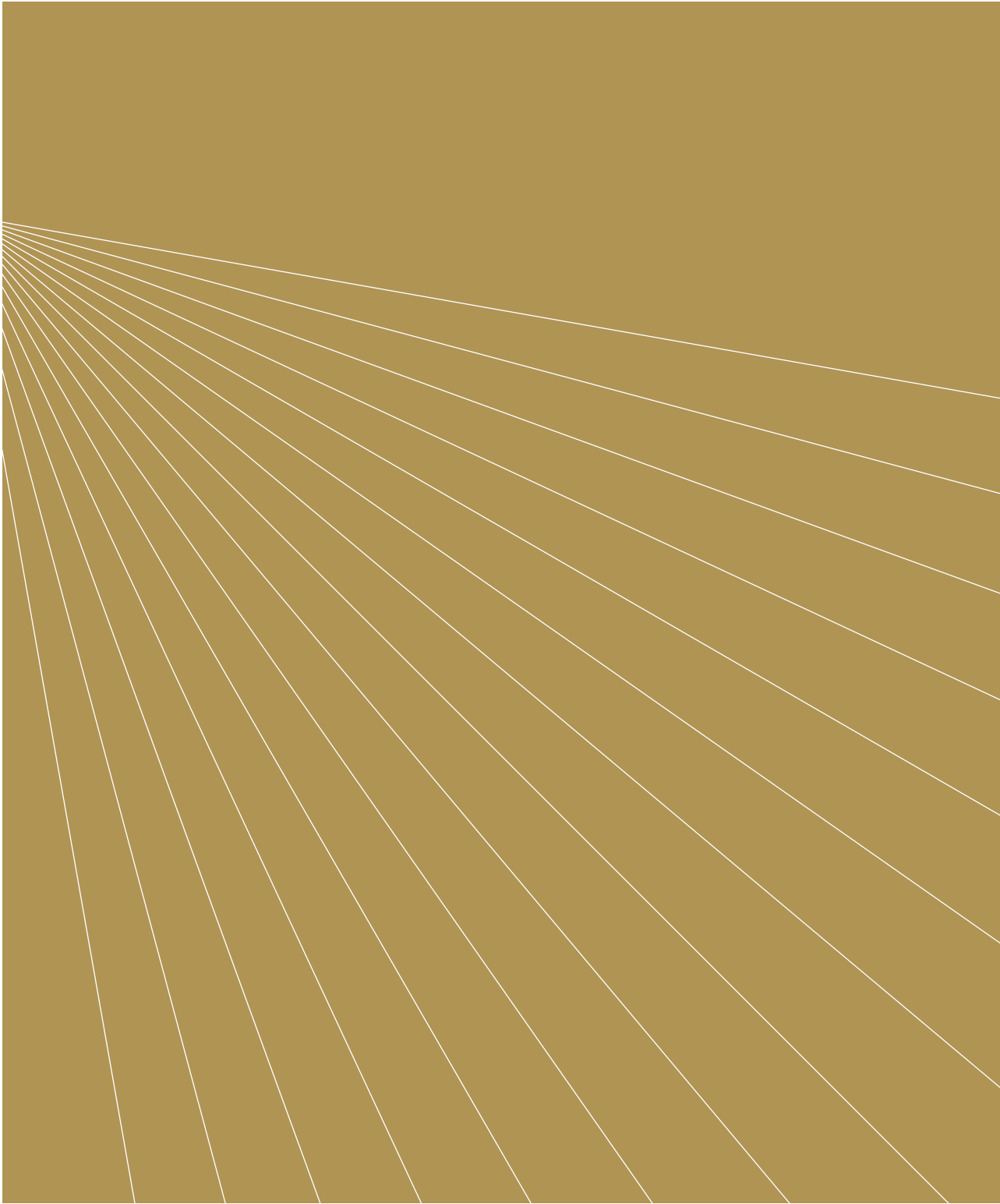
The voting rights attaching to each class of equity securities are set out below:

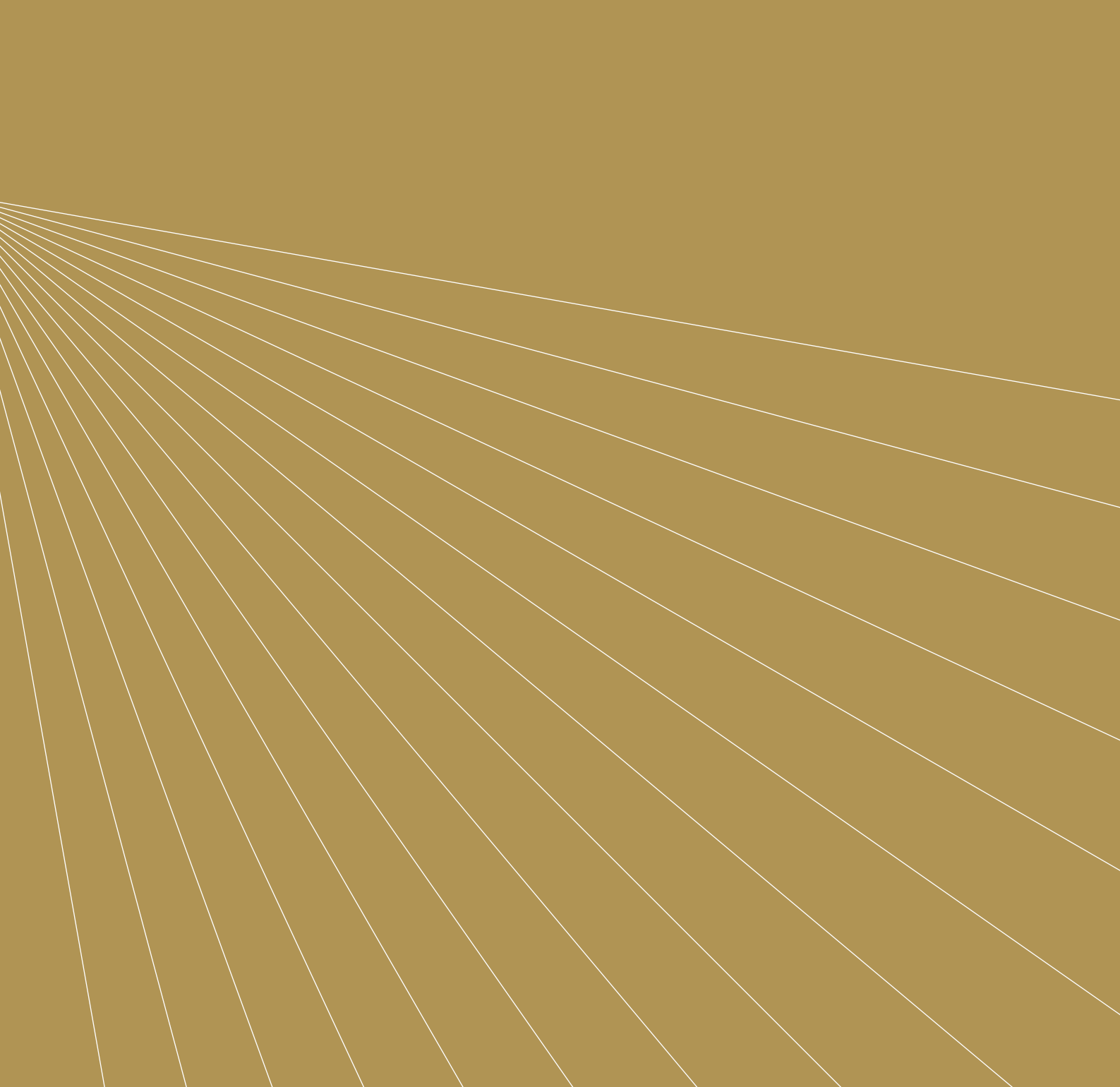
(a) Ordinary shares

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

(b) Options

No voting rights.





LODESTONE EXPLORATION LIMITED

GPO Box 762, Brisbane QLD 4001

Telephone: 07 3229 6606

Facsimile: 07 3221 6625

e-mail: info@lodestonex.com

Website: www.lodestonex.com