

LODESTONE EXPLORATION LIMITED
ABN 20 075 877 075

ANNUAL REPORT
FOR YEAR ENDED 30 JUNE 2007

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LODESTONE EXPLORATION LIMITED
ABN 20 075 877 075

CORPORATE DIRECTORY

| | |
|---|---|
| Directors | John Shaw (Chairman) Martin Ackland Greg Baynton John McCawley |
| Secretary | Leni Stanley |
| Principal registered office in Australia | Level 1, 101 Edward Street Brisbane QLD 4000 (07) 3229 6606 |
| Share register | Link Market Services Limited Level 12, 300 Queen Street Brisbane QLD 4000 (02) 8280 7454 |
| Auditor | Pitcher Partners 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 388 Queen Eagle Street Brisbane QLD 4000 |
| Stock exchange listing | Lodestone Exploration Limited shares are listed on the Australian Securities Exchange. |
| Website address | www.lodestonex.com |

Operational Review

The Chairman's Perspective

2007 has been the busiest of Lodestone's four years as a listed public company.

The Karinya Project's drilling results were very disappointing, especially in view of the evident quality of the Frankton Prospect's targets. Further work will be done within the wider Karinya Project Area, with the aim of developing additional drill targets.

Fieldwork at the Mount Morgan and Limestone Creek Projects has provided material encouragement. Lodestone deployed a powerful heliborne electromagnetic system at Mount Morgan. This is the fourth and most advanced system Lodestone has used in the District. Electromagnetic and geochemical data underpins Lodestone's interest in the Struck Oil Copper-Molybdenum Prospect, and sharpens focus at the Midas Prospect. The Mount Morgan District is still regarded as 'Elephant Territory'.

Application of fresh exploration concepts at the Limestone Creek Copper-Gold Project resulted in the discovery of an extensive zone of copper mineralisation. This is a new discovery; separate and distinct from mineralisation reported by earlier explorers, and is of considerable interest to Lodestone.

It is important that Lodestone has new projects in the pipeline and, in this regard, is actively pursuing additional opportunities, especially high quality exploration prospects and advanced projects.

May I thank shareholders again for their interest in and support of Lodestone, especially those who have been with us for some time, and welcome shareholders who have joined us this year.

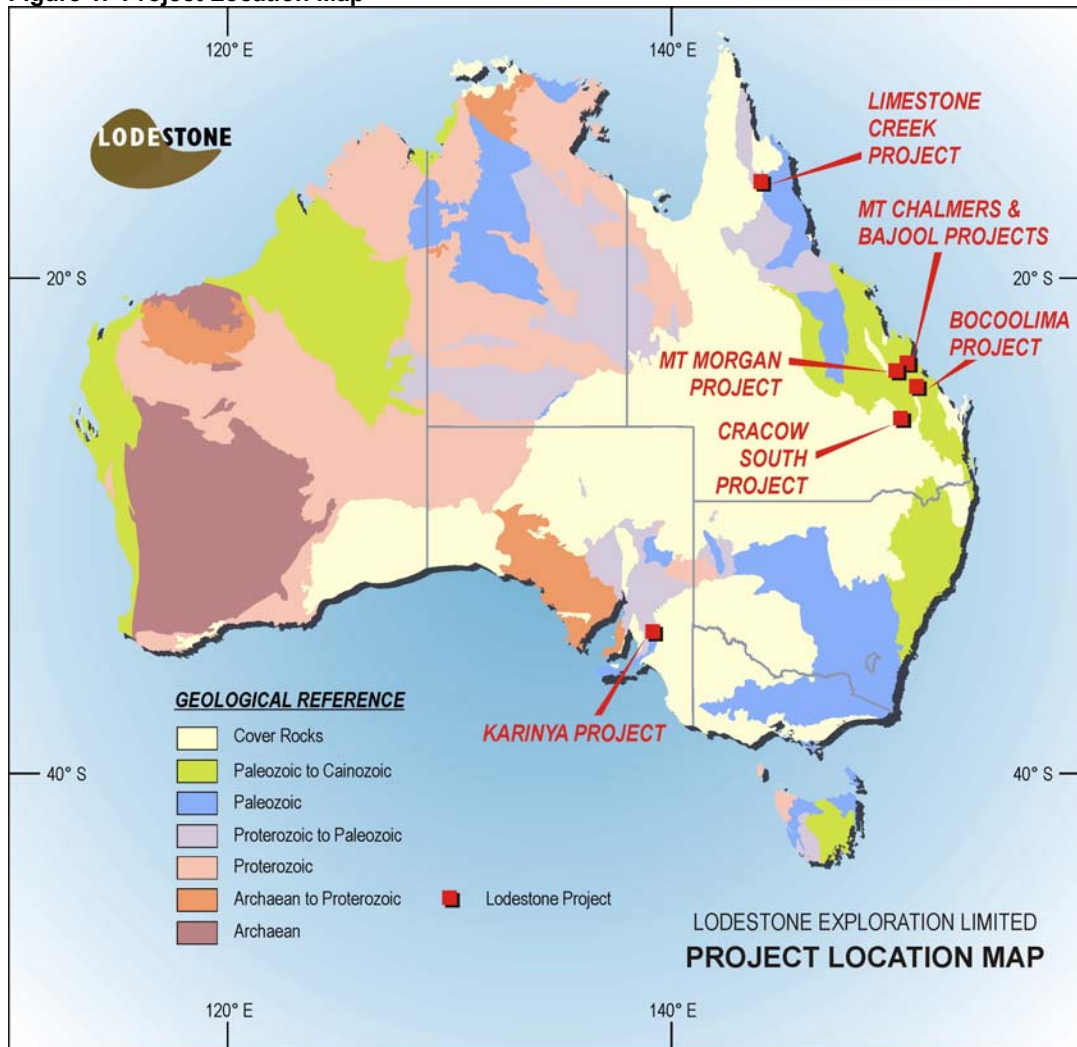
A handwritten signature in black ink, appearing to read 'J T Shaw', written in a cursive style.

John T Shaw
Chairman

Operational Review

Lodestone Exploration Limited (Lodestone) is an Australian-listed junior explorer, with tenements covering 300 square kilometres within richly endowed historic goldfields in Central and Northern Queensland, and optioned base and precious metals projects near Gladstone, Rockhampton and Adelaide.

Figure 1. Project Location Map



The company was established in 1996, and listed on the Australian Stock Exchange in March 2003, to search for blind orebodies in a prospective gold-copper region south of Mount Morgan in Central Queensland. Lodestone has deployed modern airborne electromagnetic survey equipment, high-resolution aeromagnetic systems, and advanced ground gravity tools, in a decade-long search of this challenging district.

Assessment of additional opportunities within Central Queensland goldfields led Lodestone to acquire tenements south of Cracow in 2004, and to option ground east of Mount Chalmers. Both townships were founded on historic goldfields.

Lodestone's fourth and long-standing area of interest is Limestone Creek, some 20 kilometres west of the historic Maytown goldfield in North Queensland. The Limestone Creek tenement was granted in June 2005, after a seven year application process.

A decision to diversify targeting led Lodestone to farm into the Bocoolima gold-copper project near Gladstone in Central Queensland, and the Karinya Zinc-Lead-Silver Project near Eudunda, South Australia, in 2006.

Mount Morgan District Project

The Mount Morgan orebody 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 from operations spanning almost a century. In Tasmania, Canada, and elsewhere, satellite deposits have been discovered around similar types of orebodies.

Lodestone's extensive geophysical programs, detailed geological mapping and select geochemical surveys, plus other rigorous studies since 2003, have led to the current focus on two prospects: Midas and Struck Oil.

At Midas, narrow but high grade copper and gold mineralisation had been sporadically mined last century.

Lodestone drilled nine holes in February 2007 to determine if widths increased at shallow depths and, more importantly, whether the mineralisation or its host rocks evidenced the possibility of Mount Morgan-style mineralisation at greater depths.

Results offered little immediate encouragement, and it was consequently decided to defer additional drilling until the advanced Canadian VTEM helicopterborne geophysical system could be deployed.

Heavy demand and bad weather delayed its arrival at Mount Morgan until May 2007, some six months late.

Midas was flown as part of an 800 line-kilometre survey, that also included Lodestone's Morganite, Hamilton Creek, and Struck Oil Prospects.

VTEM data reveals a roughly circular conductive zone at the northern end of the Midas Prospect. The zone is in steep, difficult terrain that includes volcanic and intrusive rocks overlain by sandstone.

Stream sediment sampling carried out in the 1980s shows anomalous gold in several nearby creeks and gullies. Fresh sampling will be carried out in October.

Struck Oil. The VTEM survey also revealed a 250⁺ metre by 300⁺ metre conductive zone at Lodestone's wholly-owned Struck Oil Copper-Molybdenum Prospect, seven kilometres east of Mount Morgan.

GeoPeko Limited, that owned the Mount Morgan mine and smelter, explored Struck Oil in the early 1970s, in search of additional feedstock for its minesite concentrators.

Exploration included drilling, soil sampling, and geophysics. 26 drill holes, varying between 37 metres and 462 metres deep, and 13 shallow holes less than 20 metres deep, have been drilled by GeoPeko and others at Struck Oil.

A soil anomaly, with copper values of 1000ppm (0.1%) or more, covers more than 200,000 square metres.

Anomalous molybdenum values largely coincide with the copper in soil anomaly.

The conductive zone identified by this year's VTEM survey, partly coincides with the copper in soil and the molybdenum in soil anomalies.

GeoPeko's DDH12, drilled in 1973, is sited on the southern edge of the VTEM conductive zone. Copper values in the unweathered top 30 metres (from seven metres) average 1850ppm (0.18%). Anomalous copper and molybdenum values persist throughout most of the hole, to the final depth of 465 metres.

The size, strength and coincidence of copper and molybdenum anomalies, the partially coinciding VTEM conductive zone, and the depth and tenor of mineralisation evident in GeoPeko's DDH 12, add up to an uncommonly attractive exploration prospect that will be drilled systematically.

Current fieldwork, guided by geophysical and geochemical data already collected, will help Lodestone to decide whether to keep or abandon the Hamilton, Morganite and Queenslander Prospects, in order to provide the strongest possible focus at Struck Oil.

Mount Chalmers Farm-in Project

The Mount Chalmers Project in Central Queensland is a farm-in arrangement with Quadrio, a subsidiary of Dominion Mining, under which Lodestone has earned a 50% interest.

Data review and target generation during 2007, show that robust exploration opportunities exist north of the former mine site, at relatively shallow depths.

It is hoped that these opportunities can be tested in 2008, either jointly with Dominion or by including a third party.

Cracow South Project

Jurassic Sandstone covers Camboon Andesite that hosts the Cracow epithermal gold orebodies 30 kilometres to the north of Lodestone's tenements.

This year's program located basement windows in the widespread sandstone cover, and identified underlying rocks at the Aeroplane Two and Quinns Two Prospects.

Fieldwork shows that the Camboon Andesite is less extensive than previously inferred, and that the potential for porphyry-style mineralisation is substantially less than the high-resolution aeromagnetic data indicates.

Interest now centres on the north-west corner of Lodestone's ground. The balance will be relinquished.

Limestone Creek Project

This Project is located 40 kilometres west of the old Maytown Goldfield in North Queensland. Lodestone is targeting Mungana-style copper and gold.

Historic data has been recompiled, critiqued, and plotted on Ikonos satellite imagery.

At a fresh discovery made this year, copper mineralisation can be traced more than 400 metres along a limestone-chert contact zone. Widths are uncertain because of soil and other cover, but geochemical soil sampling results are encouraging.

Current work aims to identify less prospective ground for statutory relinquishment and to scope a substantial exploration program at this discovery, and nearby. The program will probably include geochemistry and drilling.

Bocoolima Farm-in Project

Lodestone drilled part of the Springlands Prospect at Bocoolima in November 2006, under the terms of a farm-in agreement that allowed Lodestone to explore and to earn an interest in EPM 14963; owned by Copper Strike Limited. Bocoolima is situated 50 kilometres south-west of Gladstone, Queensland.

Blind semi-massive sulphide mineralisation was intersected in Drill Hole SP009: two metres @ 4.3% zinc, from a down-hole depth of 55 metres to 57 metres.

An Induced Polarisation Survey, centred on this intercept and more mapping, was carried out in May 2007 with encouraging outcomes.

Additional drilling targeting the blind zinc mineralisation, and re-examination of outcropping copper-gold mineralisation several hundred metres to the east of SP009, are warranted.

Karinya Farm-in Project

Lodestone carried out a substantial exploration program this year at the Frankton Prospect, 80 kilometres north of Adelaide, in search of silver-lead-zinc.

Frankton covers 15 square kilometres of the Karinya Project; encompassed by Sedex Pty Ltd's 100 square kilometre Exploration Licence 3420.

Folded pyritic shale and siltstone, distinctive magnetic features, and complex structures, gave Frankton the highest ranking of several areas of interest within Exploration Licence 3420.

Lodestone's program consisted sequentially of:

- 300 line kilometres of low-level high-resolution aeromagnetics, flown at line intervals of 50 metres, by www.utsgeophysics.com.au of Perth, Western Australia.
- 15 square kilometres of precision gravity at 100 metre station intervals, surveyed by www.daishsat.com.au of Murray Bridge, South Australia.
- 21 line kilometres of moving-loop surface pulse EM, surveyed at 100 metre-300 metre line intervals by www.outer-rim.com.au of Townsville, Queensland.
- 266 metres of reverse-circulation and diamond drilling in two holes, by Blacklaws Woods' contractors, of Elphinstone, Victoria.
- Down-hole electromagnetic surveying by www.zonge.com.au of Welland, South Australia.
- 660 metres of diamond drilling, in two holes, by Coughlans Contractors of Dry Creek, South Australia.

The aims of these elements of the program were to:

- Gain modern detailed magnetic data over a 6 kilometre by 2.5 kilometre area of interest at Frankton, so as to better define the distinctive magnetic lows and crosscutting structures evident in older, coarser data, in the most cost-effective way possible.
- Search for gravity features that might signify blind, dense mineralised bodies.
- Search for electromagnetic conductors that could represent base metal sulphides.
- Adequately drill-test the magnetic, gravity, and conductive targets identified during the integrated geophysical campaign.

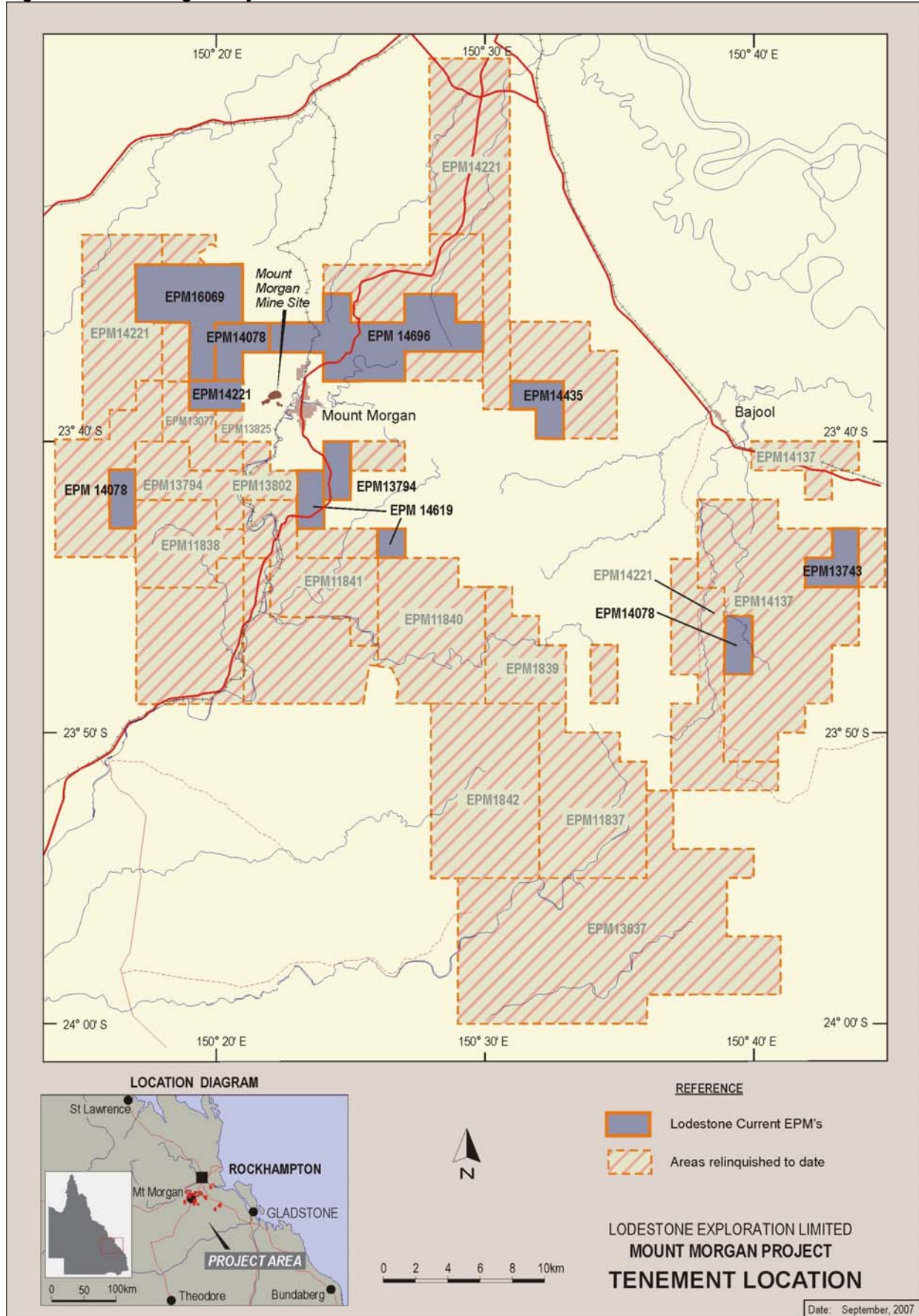
Outcomes. Four drill holes, varying from 66 metres to 510 metres, tested combinations of targets. No significant mineralisation was found. Graphitic shales, carrying minor iron sulphides, proved to be the source of the strong conductivity that characterised each target.

Having drilled all of the geophysical targets evident in the 15 square kilometre Frankton Prospect, attention now turns to other sections of the Karinya shale that are not necessarily solely graphitic, and remain prospective for stratiform or stratabound silver-lead-zinc mineralisation.

The shale outcrops, or can be traced by its magnetic expression, for 15 kilometres north of Frankton.

Bedrock geochemical sampling of the shale, and its underlying horizon, will be carried out at realistic intervals along this belt, in search of drill-worthy targets.

Figure 2. Mount Morgan Project



UPCOMING SHORT-TERM MILESTONES

Lodestone's priorities for the next three months are to:

- Scope and fund an ambitious program at Limestone Creek.
- Assess the near-surface copper-molybdenum potential of the Struck Oil Prospect, Mount Morgan.
- Determine the significance of the VTEM conductive zone at the Midas Prospect, Mount Morgan.

SUMMARY

Lodestone has drilled the Springlands, Midas, and Frankton Prospects, since July 2006.

Springlands and Midas continue to show potential, in the light of post-drilling geophysical surveys.

Frankton has no evident ongoing potential.

The Limestone Creek Project's appeal is strengthened by the discovery of copper mineralisation over several hundred metres of a limestone-chert contact zone.

Interest in the Struck Oil Prospect at Mount Morgan is heightened by recent VTEM survey data, that shows a conductive zone partly underlying strong copper and molybdenum soil anomalies abutting a broad stock-work of narrow quartz veins that carry chalcopyrite and molybdenite.

Tenement Schedule

| Tenement | EPM Number | Area (sub-blocks) ³ |
|---|------------|-----------------------------------|
| MOUNT MORGAN ALLIANCE TENEMENTS ¹ | | |
| Mount Battery | 13794 | 2 |
| MOUNT MORGAN TENEMENTS ² | | |
| Mount Battery North | 14078 | 7 |
| Morganite East | 14696 | 14 |
| New Chum | 14619 | 3 |
| Mount Coombes | 16069 | 10 |
| BAJOOL TENEMENTS ² | | |
| Mount Kelly | 14221 | 2 |
| Station | 14435 | 3 |
| Queenslander | 13743 | 3 |
| NORTH QUEENSLAND TENEMENTS ² | | |
| Limestone Creek | 11980 | 18 |
| CRACOW SOUTH TENEMENTS ² | | |
| Dawsonvale | 14495 | 46 |
| Shearing Creek | 14936 | 15 |

Notes:

- 1 "Alliance Tenements" are included in the BHP Billiton Alliance.
- 2 Lodestone Exploration Limited has a 100% interest in these tenements.
- 3 Each sub-block approximates 3 sq. kms.

DIRECTORS' REPORT

Your directors present their report on the company for the year ended 30 June 2007.

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
M Ackland
G A J Baynton
J L McCawley – Executive Director

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 future years.

Review of Operations

The operating loss after income tax of the company for the year was \$1,459,789 (2006: loss \$1,491,790). The loss reflects the nature of the company's principal activity. Information on the operations of Lodestone Exploration Limited and its business strategies and prospects is set out in the review of operations and activities on pages 3 to 8 of this annual report.

Significant Changes in the State of Affairs

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

| | 2007 |
|--|-----------|
| | \$ |
| An increase in contributed equity of \$2,336,226 (from \$3,923,589 to \$6,259,815) as a result of: | |
| Rights issue of 61,892,953 fully paid ordinary shares @ \$0.038 each | 2,351,932 |
| Placement of 5,000,000 fully paid ordinary shares @ \$0.05 each in accordance with the Karinya Farm-In Agreement | 250,000 |
| Issue of 11,867 fully paid ordinary shares on the exercise of \$0.05 options | 594 |
| | ----- |
| | 2,602,526 |
| Less: Transaction costs arising on share issues, net of current income tax | (266,300) |
| | ----- |
| Net increase in share capital | 2,336,226 |
| | ===== |

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

Other than as disclosed in Note 19 in the financial report, at the date of this report there are no matters or circumstances which have arisen since 30 June 2007 that have significantly affected, or may significantly affect:

- (a) the company's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the company'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 that are expected to significantly affect the results of the company in future 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

J T Shaw B.Sc (Geological Engineering) FAusIMM, FAICD, MCIM, SME. *Chairman – non-executive.* Age 67.

Experience and expertise

Independent non-executive Chairman for 5 years. More than 40 years experience in gold, copper, silver and tungsten in exploration, development and operations.

Other current directorships

Non-executive Chairman of TriOrigin Minerals Limited (director since 2003).

Non-executive director of IAMGOLD Corp (director since March 2006).

Non-executive director of Discovery Metals Limited (director since November 2006)

Former directorships in last 3 years

Non-executive Chairman of Gallery Gold Limited from 2003 to 2006.

Non-executive director of Kingsgate Consolidated Limited from 2000 to 2005.

Special responsibilities

Chairman of the Board.

Member of the audit committee (appointed 25 September 2006).

Interests in shares and options

422,821 ordinary shares in Lodestone Exploration Limited.

517,949 options over ordinary shares in Lodestone Exploration Limited.

J L McCawley B.Com (Hons). *Executive Director.* Age 64.

Experience and expertise

Non-executive director for 9 years and executive director for 4 years.

Other current directorships

None.

Former directorships in last 3 years

Non-executive director of AtCor Medical Limited from 2001 to 2004.

Special responsibilities

Executive Director.

Interests in shares and options

5,162,532 ordinary shares in Lodestone Exploration Limited.

25,000 options over ordinary shares in Lodestone Exploration Limited.

M C Ackland B.App.Sc. (PrimMet), M.AusIMM, FAICD, MAIME. *Non-executive director.* Age 61.

Experience and expertise

Non-executive director for 5 years.

Other current directorships

Executive director of Mineral Deposits Limited (director since 2003).

Former directorships in last 3 years

Non-executive director of Sedimentary Holdings Limited from 1993 to 2006.

Special responsibilities

Chairman of the audit committee.

Interests in shares and options

266,988 ordinary shares in Lodestone Exploration Limited.

276,283 options over ordinary shares in Lodestone Exploration Limited.

G A J Baynton M.Econ St, MBA, B.Bus (Accounting), FFINSIA, FAICD. *Non-executive director.* Age 38.

Experience and expertise

Non-executive director for 6 years.

Other current directorships

Non-executive director of two other public companies: PIPE Networks Limited (director since 2004), Tissue Therapies Limited (director since 2003). Executive Director of Orbit Capital Pty Limited.

Former directorships in last 3 years

None.

Special responsibilities

Member of the audit committee.

Interests in shares and options

1,525,769 ordinary shares in Lodestone Exploration Limited.

1,200,000 options over ordinary shares in Lodestone Exploration Limited.

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 2007, and the numbers of meetings attended by each director were:

| | Full Meetings of Directors | Meetings of Audit Committee |
|---------------------------------|---------------------------------------|--|
| Number of meetings held | 10 | 2 |
| Number of meetings attended by: | | |
| J T Shaw | 9 | 2 |
| J L McCawley | 10 | N/A |
| M C Ackland | 8 | 1 |
| G A J Baynton | 10 | 2 |

Company Secretary

The company secretary is Ms Leni Stanley CA, B.Com. Ms Stanley was appointed to the position of company secretary in 2002. Ms Stanley is currently is a partner with a Chartered Accounting firm and holds the office of company secretary with other companies.

Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration

A Principles used to determine the nature and amount of remuneration

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

Directors' fees

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$160,000 in aggregate plus statutory superannuation.

Executive pay

The combination of base pay and superannuation make up the executive director's total remuneration. Base pay for the executive director is reviewed annually to ensure the executive's pay is competitive with the market.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Lodestone Exploration Limited are set out in the following tables.

The key management personnel of Lodestone Exploration Limited includes the directors as per pages 10 – 11 above and Leni Stanley – Company Secretary.

Key management personnel of Lodestone Exploration Limited

| 2007 | Short-term benefits | Post-employment benefits | Share-based payment | |
|---------------------------------------|-------------------------|--------------------------|---------------------|----------------|
| Name | Cash salary and fees \$ | Superannuation \$ | Options \$ | Total \$ |
| <i>Non-executive directors</i> | | | | |
| J T Shaw, <i>Chairman</i> | 40,000 | 3,600 | - | 43,600 |
| M C Ackland | 30,000 | 2,700 | - | 32,700 |
| G A J Baynton | 30,000 | 2,700 | - | 32,700 |
| Sub-total non-executive directors | 100,000 | 9,000 | - | 109,000 |
| <i>Executive director</i> | | | | |
| J L McCawley | 137,500 | 12,375 | - | 149,875 |
| <i>Other key management personnel</i> | | | | |
| L P Stanley | 15,000 | - | - | 15,000 |
| Totals | 252,500 | 21,375 | - | 273,875 |

| 2006 | Short-term benefits | Post-employment benefits | Share-based payment | |
|---------------------------------------|-------------------------|--------------------------|---------------------|----------------|
| Name | Cash salary and fees \$ | Superannuation \$ | Options \$ | Total \$ |
| <i>Non-executive directors</i> | | | | |
| J T Shaw, <i>Chairman</i> | 40,000 | 3,600 | - | 43,600 |
| M C Ackland | 30,000 | 2,700 | - | 32,700 |
| G A J Baynton | 30,000 | 2,700 | - | 32,700 |
| Sub-total non-executive directors | 100,000 | 9,000 | - | 109,000 |
| <i>Executive director</i> | | | | |
| J L McCawley | 75,000 | 6,750 | - | 81,750 |
| <i>Other key management personnel</i> | | | | |
| L P Stanley | 15,000 | - | - | 15,000 |
| Totals | 190,000 | 15,750 | - | 205,750 |

L P Stanley provides accounting services in addition to her appointment as company secretary. The company secretarial and accounting services are provided through a partnership of which she is a member based on normal commercial terms and conditions.

Share Options granted to Directors and the most highly remunerated officers

No options over unissued ordinary shares of Lodestone Exploration Limited have been granted during or since the end of the financial year to any of the directors or officers of the company as part of their remuneration.

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 2007 | \$0.30 | 800,000 |
| 27 January 2006 | 27 January 2011 | \$0.20 | 501,000 |
| 21 July 2006 | 21 July 2008 | \$0.05 | 30,934,634 |

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

The following ordinary shares of Lodestone Exploration Limited were issued during the year ended 30 June 2007 on the exercise of options. No further shares have been issued since that date. No amounts are unpaid on any of the shares

| Date options granted | Issue price of shares | Number of shares issued |
|----------------------|-----------------------|-------------------------|
| 21 July 2006 | \$0.05 | 11,867 |

Insurance of Officers

The company did not during 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.

Since the end of the financial year, Lodestone Exploration Limited paid a premium to insure the directors and secretary of the company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

Agreement to Indemnify Officers

Lodestone Exploration Limited is party to an agreement to indemnify the directors of the company.

The indemnity relates to any liability:

- (a) 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
- (b) 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.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of amounts paid or payable to the auditor (Pitcher Partners) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

2007
\$

2006
\$

During the year the following fees were paid or payable for services provided by the auditor of the company:

Assurance services

1. Audit services

Fees paid to Pitcher Partners for audit and review of financial reports and other audit work under the Corporations Act 2001

20,075

20,500

Total remuneration for assurance services

20,075
=====

20,500
=====

Taxation services

Fees paid to Pitcher Partners for tax compliance services, including preparation of company income tax returns

3,720

3,650

=====

=====

Auditor

Pitcher Partners, Accountants Auditors & Advisors, 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**

18 September 2007



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

As lead auditor for the audit of Lodestone Exploration Limited for the year ended 30 June 2007,
I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Lodestone Exploration Limited.

PITCHER PARTNERS

S A Green
Partner

Brisbane, 18 September 2007

CORPORATE GOVERNANCE STATEMENT

Lodestone Exploration Limited (Lodestone) and the Board of Directors (“the Board”) are committed to achieving and demonstrating the highest standards of corporate governance.

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.

A full set of Lodestone’s corporate governance policies and charters is available on the company’s website at www.lodestonex.com under the area of “Corporate Governance”.

Board Responsibilities

The Board is responsible to shareholders for the governance of Lodestone, its operations and its financial performance. The Board has adopted a Board and Governance Charter which set out, among other things, the roles and responsibilities of the Board. These include:

- Review, advance and approve Lodestone’s:
 - objectives and strategies,
 - exploration and development programs, and
 - capital management.
- Monitor Lodestone’s business, financial performance, and corporate governance including risk management, audit processes and compliance with laws, policies and procedures.
- Oversee the financial position of Lodestone.
- Report to shareholders.
- Ensure effective control systems are in place.
- Appoint and appraise the Executive Director.
- Oversee the senior management team in terms of performance evaluation, succession planning and remuneration.
- Establish and maintain a culture of high ethical, environmental, health and safety standards.
- Ensure the Board is effective.

Board Structure

The structure of Lodestone’s Board is consistent with Principle 2.1, 2.2 and 2.3 of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in March 2003 (“the Recommendations”). It has a majority of Non-Executive Directors being comprised of three Non-Executive Directors and one Executive Director and it does have a majority of independent Directors in accordance with the definition of ‘independence’ as set out in the Recommendations. Mr J McCawley does not satisfy the definition of ‘independence’ due to his position of Executive Director and also due to his substantial shareholding in the company.

The skills, experience, qualifications and special responsibilities of each Director are set out in “Information on Directors” detailed earlier in this Annual Report. The term of each Director is limited to three years, and each year one-third of the Board retire pursuant to the Constitution and may offer themselves for re-election by shareholders at the Annual General Meeting. Each Director is expected to declare any actual or potential conflict of interest, and where necessary, a Director may obtain independent advice prior to notifying the Chairman of any such conflict.

Consistent with the recognition in Principle 2.4 of the Recommendations that a Nomination Committee may not be efficient for smaller boards, Lodestone’s nomination matters are considered by the Board as a whole, as set out in the Charter. The Board, as a whole, aims to ensure that it always has an appropriate depth and diversity of qualifications, experience and expertise consistent with Lodestone’s objectives.

Performance Review

In accordance with the Board & Governance Charter, the Chairman has conducted a performance review of the Board focusing on its overall effectiveness and competencies, and the availability and contribution of each Director in a manner consistent with Principle 8.1 of the Recommendations.

The Board as a whole is responsible for appraising the Executive Director in a manner consistent with Principle 8.1 of the Recommendations.

Audit Committee

The Audit Committee, which operates under a Charter approved by the Board, provides advice and assistance to the Board in fulfilling the Board’s responsibilities relating to Lodestone’s financial statements, financial and market reporting processes, internal accounting and financial control systems, external audit, risk management and such other matters as the Board may request from time to time.

The Audit Committee processes are consistent with Principles 4.2 through 4.4 of the Recommendations except that the Committee has only two members. The Directors consider this appropriate given the size of the Board.

The Committee is composed of all Non-Executive Directors of the Board, a majority of Independent Directors and is chaired by an Independent Director who is not the Chairman of the Company, Mr M Ackland. The Audit Committee consists of members who have sufficient industry, business and financial expertise to be effective members of the Committee. During the year the members of the Audit Committee were Mr M Ackland and Mr G Baynton.

Effective 25 September 2006 John Shaw was appointed to the audit committee.

The specific responsibilities of the Committee include:

- Overseeing the adequacy and effectiveness of the company's accounting and financial policies and controls including compliance with all regulatory requirements;
- Overseeing the company's financial reporting process, specifically, its annual and interim financial statements;
- Reviewing the scope and plans for external audit, and all reports issued by the external auditor;
- Reviewing performance, approving remuneration, and, as needed, recommending to the Board the appointment of the external auditor;
- Reviewing any proposed activity or service by the providers of external audit unrelated to external audit assurance activities;
- Examining the adequacy of the nature, extent and effectiveness of the internal control process of the company; and
- Overseeing the risk management framework of the company and reviewing risk management reports.

The complete Audit Committee Charter is available on the company's website.

Remuneration Policy

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$160,000 in aggregate plus statutory superannuation.

The combination of base pay and superannuation make up the Executive Director's total remuneration. Base pay for the Executive Director is reviewed annually to ensure the pay is competitive with the market.

Further information on remuneration matters is included in Note 16 of the Financial Statements.

The structure and disclosure of the company's remuneration arrangements is consistent with Principles 9.1, 9.3 and 9.4 of the Recommendations. Currently the company has no equity based remuneration plans.

Remuneration Committee

Consistent with the recognition in Principle 9.2 of the Recommendations that a Remuneration Committee might not be efficient for smaller boards, Lodestone's remuneration matters are considered by the Board as a whole, as set out in the Charter. The Board, as a whole, aims to ensure that it always has an appropriate depth and diversity of qualifications, experience and expertise consistent with Lodestone's objectives.

Executive Assurance

The Executive Director and Company Secretary have provided the following assurance to the Lodestone Board in connection with Lodestone's full year financial statements and reports, to the best of their knowledge and belief:

- The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at 30 June 2007 and the performance of the company for the year then ended and comply in all material respects with Accounting Standards;
- The statements made above regarding the integrity of the financial statements is founded on a system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors; and
- The risk management and internal compliance and control systems of the company relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects.

The executive assurance is consistent with Principles 4.1 and 7.2 of the Recommendations.

Code of Conduct

The company seeks to maintain high standards of integrity and is committed to ensuring that Lodestone conducts all its business in accordance with high standards of ethical behaviour.

The company requires all employees, consultants and contractors to comply with the spirit and the letter of all laws and other statutory requirements governing the conduct of Lodestone's activities. The Code of Conduct applies to all employees, consultants and contractors including the company's Executives and Directors.

The Company has developed a Securities Trading Policy which provides guidance to Directors, employees, consultants and contractors on the purchase and sale of securities of Lodestone in order to ensure:

- that breaches of the Australian Corporations Act 2001 do not occur; and
- dealings by Directors, employees, consultants and contractors in Lodestone's securities are fair, and are seen to be fair.

Summaries of the Code of Conduct and the Securities Trading Policy are available on the company's website.

The company's actions, outlined above, to promote ethical and responsible decision making are consistent with Principles 3.1, 3.2 and 10.1 of the Recommendations.

Risk Management

Lodestone views risk recognition and risk management as integral to the company's objectives of creating and maintaining shareholder value, and the successful execution of Lodestone's strategies.

The Board as a whole is responsible for the oversight of the processes by which risk is considered for both ongoing operations and prospective actions. In specific areas, it is assisted by the Audit Committee.

Management is responsible for establishing procedures which provide assurance that major business risks are identified, consistently assessed and appropriately addressed. The management of operational risk is explicitly considered in the selection and monitoring of the contractors through whom most of Lodestone's operations are conducted.

The formal processes for identification and addressing all key risks is ongoing and is reviewed on an ongoing basis.

Not all aspects of risk management can be formalised, and Lodestone places considerable reliance on the skill, experience and judgement of its people to take risk based decisions within the policy framework, and to communicate openly on all risk related matters.

The company's risk management procedures are consistent with Principle 7.1 of the Recommendations and the Risk Management Policy of Lodestone is available on the company's website.

Disclosure Policy

Lodestone's Continuous Disclosure Policy sets out the company's commitment to comply with its continuous disclosure obligations. Directors, employees and consultants to Lodestone are required to adhere to procedures set out in the Policy to ensure compliance with the legal requirements for disclosure. Underpinning the Continuous Disclosure Policy is the disclosure protocol which governs Lodestone's policy in relation to interactions with external individuals, investors, stockbroking analysts and market participants.

When Lodestone makes an announcement to the market, it is released through the Australian Securities Exchange (ASX) where the company's shares are quoted.

The Company Secretary, as the designated Disclosure Officer, is responsible for Lodestone's compliance with its continuous disclosure obligations and for overseeing and co-ordinating disclosures to the ASX and other interested parties.

The company's Continuous Disclosure Policy is consistent with Principle 5.1 of the Recommendations and is available on the company's website.

Investor Relations and Communications

Lodestone is committed to communicating with its investors in an effective and timely manner. The company investor relations program includes briefings and presentations to accompany annual and half yearly release of results, a website that displays all the company announcements and notices as soon as they have been released to the Australian Securities Exchange, as well as all major management and roadshow presentations which are also released to the Australian Securities Exchange and posted on the website. In addition, the company's external auditor is available at the Annual General Meeting to answer questions from shareholders about the conduct of the audit and the preparation and content of the audit report and the company's financial reports.

The Investor Relations and Communications Policy is consistent with Principles 6.1 and 6.2 of the Recommendations, and all of the specified information requirements of Principles 2.5, 3.3, 4.5, 5.2 and 9.5 are met.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 21 to 40 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; 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 has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2007.

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

A handwritten signature in black ink, appearing to read 'J T Shaw', written in a cursive style.

J T Shaw
Chairman

Brisbane, 18 September 2007

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

| | Notes | 2007 \$ | 2006 \$ |
|---|-------|----------------------|----------------------|
| Revenue from operations | 5 | 88,739 | 11,822 |
| Other income | | - | - |
| Exploration abandoned | | (1,212,759) | (1,173,255) |
| Professional services expenses | | (98,407) | (86,496) |
| Corporate overhead expenses | | (83,149) | (91,407) |
| Depreciation expenses | | (12,513) | (10,754) |
| Directors remuneration | | (141,700) | (141,700) |
| | | ----- | ----- |
| Loss from before income tax | 6 | (1,459,789) | (1,491,790) |
| Income tax expense | 7 | - | - |
| | | ----- | ----- |
| Loss from operations | | (1,459,789) | (1,491,790) |
| | | ----- | ----- |
| Loss attributable to members of Lodestone Exploration Limited | 15 | (1,459,789) ===== | (1,491,790) ===== |
| | | | |
| | | Cents | Cents |
| Earnings per share for profit attributable to the ordinary equity holders of the company | | | |
| Basic earnings per share | 22 | (1.33) | (3.46) |
| Diluted earnings per share | 22 | (1.33) | (3.46) |

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

**BALANCE SHEET
AS AT 30 JUNE 2007**

| | Notes | 2007 \$ | 2006 \$ |
|----------------------------|-------|-------------|-------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 1,102,491 | 112,109 |
| Receivables | 9 | 70,406 | 74,543 |
| | | ----- | ----- |
| Total current assets | | 1,172,897 | 186,652 |
| | | ----- | ----- |
| Non-current assets | | | |
| Plant and equipment | 10 | 30,933 | 43,446 |
| Exploration expenditure | 11 | 548,325 | 475,803 |
| Other | 12 | 39,180 | 50,180 |
| | | ----- | ----- |
| Total non-current assets | | 618,438 | 569,429 |
| | | ----- | ----- |
| Total assets | | 1,791,335 | 756,081 |
| | | ===== | ===== |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 262,779 | 103,962 |
| | | ----- | ----- |
| Total current liabilities | | 262,779 | 103,962 |
| | | ----- | ----- |
| Total liabilities | | 262,779 | 103,962 |
| | | ===== | ===== |
| Net assets | | 1,528,556 | 652,119 |
| | | ===== | ===== |
| EQUITY | | | |
| Contributed equity | 14 | 6,259,815 | 3,923,589 |
| Reserves | 15 | 60,063 | 60,063 |
| Accumulated losses | 15 | (4,791,322) | (3,331,533) |
| | | ----- | ----- |
| Total equity | | 1,528,556 | 652,119 |
| | | ===== | ===== |

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007**

| | 2007 | 2006 |
|--|------------------|----------------|
| | \$ | \$ |
| Total equity at the beginning of the financial year | 652,119 | 1,376,666 |
| Contractor share options | - | 60,063 |
| Loss for the year | (1,459,789) | (1,491,790) |
| Transactions with equity holders in their capacity as equity holders: | | |
| Contributions of equity, net of transaction costs (Note 14) | 2,336,226 | 707,180 |
| | <hr/> | <hr/> |
| Total equity at the end of the financial year | 1,528,556 | 652,119 |
| | ===== | ===== |

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

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

| | Notes | 2007 \$ | 2006 \$ |
|---|-------|---------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 45,981 | 72,255 |
| Payments to suppliers (inclusive of goods and services tax) | | (417,206) | (374,205) |
| Interest received | | 84,110 | 12,572 |
| Net cash outflows from operating activities | 20 | <u>(287,115)</u> | <u>(289,378)</u> |
| Cash flows from investing activities | | | |
| Payments for exploration | | (819,729) | (568,950) |
| Payments for property, plant and equipment | | - | (29,174) |
| Payment for security deposit | | (2,500) | (2,000) |
| Refund of security deposit | | 13,500 | - |
| Net cash outflows from investing activities | | <u>(808,729)</u> | <u>(600,124)</u> |
| Cash flows from financing activities | | | |
| Proceeds from share issue | | 2,352,526 | 744,400 |
| Payment of share issue costs | | (266,300) | (37,220) |
| Net cash inflows from financing activities | | <u>2,086,226</u> | <u>707,180</u> |
| Net increase/(decrease) in cash and cash equivalents | | 990,382 | (182,322) |
| Cash and cash equivalents at the beginning of the financial year | | 112,109 | 294,431 |
| Cash and cash equivalents at the end of the financial year | | <u>1,102,491</u> ===== | <u>112,109</u> ===== |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the financial statements and notes of Lodestone Exploration Limited comply with International Financial Reporting Standards (IFRSs).

Early adoption of standard

The company has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- revised AASB 101 *Presentation of Financial Statements* (issued October 2006)

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Taxes

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(d) 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 of interest 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. When sub-blocks within an area of interest are relinquished accumulated exploration expenditure capitalised is written off against income in the year of relinquishment on a prorata basis.

(e) 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.

(f) 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.

(g) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line 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 | 5 – 10 years |
|---------------------|--------------|

Note 1 Summary of significant accounting policies (continued)

(h) 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.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(j) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(k) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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.

(l) Website 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 1 Summary of significant accounting policies (continued)

(m) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

(ii) *AASB-1 10 Interim Financial Reporting and Impairment*

AASB-1 10 is applicable to reporting periods commencing on or after 1 November 2006. The Company has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Company's financial statements.

Note 2. Financial risk management

The Company's activities expose it to a variety of financial risks; liquidity risk and cash flow interest rate risk.

Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets or borrowings, the Company's income and operating cash flows are not materially exposed to changes in market interest rates.

Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

The Company has capitalised exploration expenditure of \$1,269,287. This amount includes costs directly associated with exploration. These costs are capitalised as an intangible asset until assessment and/or drilling of the permit is complete and the results have been evaluated. These costs include employee remuneration, materials, rig costs, delay rentals and payments to contractors. The expenditure is carried forward until such a time as the area of interest moves into the development phase, is abandoned, sold or sub-blocks relinquished.

Note 4 Segment information

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

| | 2007 \$ | 2006 \$ |
|-----------------------|-----------------|-----------------|
| Note 5 Revenue | | |
| <i>Other revenue</i> | | |
| Interest | 88,739 ===== | 11,822 ===== |

Note 6 Expenses

Loss before income tax includes the following specific expenses:

| | | |
|-----------------------|-----------|-----------|
| Exploration abandoned | 1,212,759 | 1,173,255 |
| Depreciation | 12,513 | 10,754 |

| | 2007 \$ | 2006 \$ |
|---|----------------------|----------------------|
| Note 7 Income tax expense | | |
| (a) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Loss from operations before income tax expense | (1,459,789) ===== | (1,491,790) ===== |
| Tax at the Australia tax rate of 30% (2006: 30%) | (437,937) | (447,537) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Non-deductible legal fees | - | 831 |
| | (437,937) | (446,706) |
| Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised | 437,937 | 446,706 |
| Income tax expense | - ===== | - ===== |
| (b) Unrecognised net deferred tax assets | | |
| Unused tax losses for which no deferred tax asset has been recognised | 5,625,415 | 4,009,296 |
| Temporary differences for which no deferred tax asset / (liability) has been recognised: | | |
| - Property, plant and equipment | 5,667 | 83 |
| - Accruals | 15,000 | 15,000 |
| - Prepayments | 1,830 | - |
| - Capital raising costs | 293,145 | 171,331 |
| - Exploration expenditure | (488,258) | (475,803) |
| - Interest receivable | (5,115) | (490) |
| | 5,447,684 ===== | 3,719,417 ===== |
| Potential tax effect at 30% | 1,634,305 ===== | 1,115,825 ===== |

Note 8 Current assets – Cash and cash equivalents

| | | |
|--------------------------|--------------------|------------------|
| Cash at bank and in hand | 2,359 | 3,909 |
| Deposits at call | 1,100,132 | 108,200 |
| | 1,102,491 ===== | 112,109 ===== |

(a) Cash at bank and on hand

These are non-interest bearing.

(b) Deposits at call

The deposits are bearing an interest rate of between 5% and 5.5% (2006 – 4.75%).

| | 2007 \$ | 2006 \$ |
|--|------------|------------|
| Note 9 Current assets – Receivables | | |
| Interest receivable | 5,119 | 490 |
| Other debtors | 65,287 | 74,053 |
| | ----- | ----- |
| | 70,406 | 74,543 |
| | ===== | ===== |

Note 10 Non-current assets – Plant and equipment

| | Motor vehicles \$ | Plant and equipment \$ | Total \$ |
|--------------------------------|-------------------------|------------------------------|-------------|
| As at 1 July 2005 | | | |
| - Cost | 49,319 | 3,630 | 52,949 |
| Accumulated depreciation | (26,568) | (1,355) | (27,923) |
| Net book amount | ----- | ----- | ----- |
| | 22,751 | 2,275 | 25,026 |
| Year ended 30 June 2006 | | | |
| Opening net book amount | 22,751 | 2,275 | 25,026 |
| Additions | 27,811 | 1,363 | 29,174 |
| Disposals | - | - | - |
| Depreciation charge | (9,755) | (999) | (10,754) |
| Closing net book amount | ----- | ----- | ----- |
| | 40,807 | 2,639 | 43,446 |
| At 30 June 2006 | | | |
| - Cost | 77,130 | 4,993 | 82,123 |
| Accumulated depreciation | (36,323) | (2,354) | (38,677) |
| Net book amount | ----- | ----- | ----- |
| | 40,807 | 2,639 | 43,446 |
| | Motor vehicles \$ | Plant and equipment \$ | Total \$ |
| Year ended 30 June 2007 | | | |
| Opening net book amount | 40,807 | 2,639 | 43,446 |
| Additions | - | - | - |
| Disposals | - | - | - |
| Depreciation charge | (11,514) | (999) | (12,513) |
| Closing net book amount | ----- | ----- | ----- |
| | 29,293 | 1,640 | 30,933 |
| At 30 June 2007 | | | |
| - Cost | 77,130 | 4,993 | 82,123 |
| Accumulated depreciation | (47,837) | (3,353) | (51,190) |
| Net book amount | ----- | ----- | ----- |
| | 29,293 | 1,640 | 30,933 |

| | 2007 \$ | 2006 \$ |
|---|----------------------|----------------------|
| Note 11 Non-current assets - Exploration expenditure | | |
| Exploration phase property costs | | |
| Deferred geological, geophysical, drilling and other expenditure – at cost | 548,325 ===== | 475,803 ===== |
| The capitalised exploration expenditure carried forward above has been determined as follows: | | |
| Opening balance | 475,803 | 1,030,814 |
| Expenditure incurred during the year | 1,285,281 | 618,244 |
| Exploration abandoned | (1,212,759) ----- | (1,173,255) ----- |
| Closing balance as shown above | 548,325 ===== | 475,803 ===== |
| Note 12 Non-current assets – Other | | |
| Security deposit | 39,180 ===== | 50,180 ===== |
| Note 13 Current liabilities – Trade and other payables | | |
| Trade payables | 262,779 ===== | 103,962 ===== |

Note 14 Contributed equity

| | 2007 Shares | 2006 Shares | 2007 \$ | 2006 \$ |
|--------------------------|----------------------|---------------------|--------------------|--------------------|
| (a) Share capital | | | | |
| Ordinary shares | | | | |
| Fully paid | 113,324,535 ===== | 46,419,715 ===== | 6,259,815 ===== | 3,923,589 ===== |

(b) Movements in ordinary share capital:

| Date | Details | | Number of Shares | Issue Price | \$ |
|------------------|----------------------|-----|---------------------|----------------|------------------|
| 1 July 2005 | Opening balance | | 34,967,404 | | 3,216,409 |
| 6 October 2005 | Placement | (e) | 6,587,693 | \$0.065 | 428,200 |
| 27 October 2005 | Placement | (e) | 4,864,618 | \$0.065 | 316,200 |
| | Share issue expenses | | - | | (37,220) |
| 30 June 2006 | Balance | | <u>46,419,715</u> | | <u>3,923,589</u> |
| 21 July 2006 | Rights issue | (f) | 61,892,953 | \$0.038 | 2,351,932 |
| 30 August 2006 | Placement | (g) | 5,000,000 | \$0.05 | 250,000 |
| 13 November 2006 | Options exercised | (d) | 1,867 | \$0.05 | 94 |
| 22 January 2007 | Options exercised | (d) | 10,000 | \$0.05 | 500 |
| | Share issue expenses | | - | | (266,300) |
| | | | <u>113,324,535</u> | | <u>6,259,815</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 32,235,634 options over ordinary shares of Lodestone Exploration Limited were on issue. 800,000 of these options were issued on 1 October 2002 with an exercise price of \$0.30 and an expiry date of 30 September 2007. 501,000 options were issued on 27 January 2006 with an exercise price of \$0.20 expiring on 27 January 2011. 30,934,634 options were issued on 21 July 2006 with an exercise price of \$0.05 expiring on 21 July 2008.

During the financial year 11,867 options that were issued on 21 July 2006 were exercised and 2,000,000 options that were issued on 18 May 2006 expired. These options were exercisable at \$0.05 and expired on 18 May 2007.

(e) Placements 2006

On 6 October 2005 6,587,693 ordinary shares were issued under a share purchase plan for \$0.065 per share to raise \$428,200.

On 27 October 2005 a placement of 4,864,618 ordinary shares was made to sophisticated investors at \$0.065 per share to raise \$316,200.

(f) Rights issue

On 16 June 2006 the company invited its shareholders to subscribe to a rights issue of 61,892,953 ordinary shares at an issue price of \$0.038 per share on the basis of 4 new fully paid ordinary shares for every 3 fully paid ordinary shares held, with such shares to be issued on 21 July 2006. The issue was fully subscribed.

(g) Placement 2007

On 30 August 2006 5,000,000 ordinary shares were issued in accordance with the Karinya Farm-In Agreement for \$0.05 per share.

| | 2007 \$ | 2006 \$ |
|--|----------------------|----------------------|
| Note 15 Reserves and accumulated losses | | |
| (a) Reserves | | |
| Share-based payments reserve | 60,063 ===== | 60,063 ===== |
| Movements: | | |
| Balance 1 July | 60,063 | - |
| Option expense | - | 60,063 |
| | ----- | ----- |
| Balance 30 June | 60,063 ===== | 60,063 ===== |
| (b) Accumulated losses | | |
| Balance 1 July | (3,331,533) | (1,839,743) |
| Net loss for the year | (1,459,789) | (1,491,790) |
| | ----- | ----- |
| Balance 30 June | (4,791,322) ===== | (3,331,533) ===== |

Note 16 Key management personnel disclosures

(a) Directors

The following persons were directors of Lodestone Exploration Limited during the financial year:

(i) *Chairman – non-executive*
J T Shaw

(ii) *Executive director*
J L McCawley

(iii) *Non-executive directors*
M C Ackland
G A J Baynton

(b) Other key management personnel

L P Stanley, as a result of her position of company secretary, is considered to be a key management person. Due to the small size of the entity there are no other specified executives. L P Stanley was also a key management person during the year ended 30 June 2006.

(c) Key management personnel compensation

| | 2007 \$ | 2006 \$ |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 252,500 | 190,000 |
| Post-employment benefits | 21,375 | 15,750 |
| | ----- | ----- |
| | 273,875 ===== | 205,750 ===== |

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report on pages 12 to 13.

Note 16 Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Lodestone Exploration Limited and other key management personnel, including their personally related parties, are set out below.

| 2007 | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|----------------------------------|---|---------------------------|-------------------------------|--------------------------------|---|
| Name | | | | | | |
| Directors of Lodestone Exploration Limited | | | | | | |
| J T Shaw | 400,000 | - | - | 117,949 | 517,949 | 517,949 |
| M C Ackland | 200,000 | - | - | 76,283 | 276,283 | 276,283 |
| G A J Baynton | 200,000 | - | - | 1,000,000 | 1,200,000 | 1,200,000 |
| J L McCawley | - | - | - | 25,000 | 25,000 | 25,000 |
| Other key management personnel | | | | | | |
| L P Stanley | - | - | - | 46,770 | 46,770 | 46,770 |

| 2006 | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|----------------------------------|---|---------------------------|-------------------------------|--------------------------------|---|
| Name | | | | | | |
| Directors of Lodestone Exploration Limited | | | | | | |
| J T Shaw | 400,000 | - | - | - | 400,000 | 400,000 |
| M C Ackland | 200,000 | - | - | - | 200,000 | 200,000 |
| G A J Baynton | 200,000 | - | - | - | 200,000 | 200,000 |

(ii) Share holdings

The number of ordinary shares in the company held during the financial year by each director of Lodestone Exploration Limited and other key management personnel, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

| 2007 | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|----------------------------------|---|-------------------------------|--------------------------------|
| Name | | | | |
| Directors of Lodestone Exploration Limited | | | | |
| J T Shaw | 186,923 | - | 235,898 | 422,821 |
| M C Ackland | 114,423 | - | 152,565 | 266,988 |
| G A J Baynton | 1,525,769 | - | - | 1,525,769 |
| J L McCawley | 5,112,532 | - | 50,000 | 5,162,532 |
| Other key management personnel | | | | |
| L P Stanley | 30,077 | - | 93,540 | 123,617 |

| 2006 | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|---|----------------------------------|---|-------------------------------|--------------------------------|
| Name | | | | |
| Directors of Lodestone Exploration Limited | | | | |
| J T Shaw | 110,000 | - | 76,923 | 186,923 |
| M C Ackland | 37,500 | - | 76,923 | 114,423 |
| G A J Baynton | 1,295,000 | - | 230,769 | 1,525,769 |
| J L McCawley | 5,097,147 | - | 15,385 | 5,112,532 |
| Other key management personnel | | | | |
| L P Stanley | 7,000 | - | 23,077 | 30,077 |

Note 16 Key management personnel disclosures (continued)

(f) Other transactions with key management personnel

During the year to 30 June 2007 the company paid fees for accounting and administration services provided by Stanley Yeates & Associates, a firm of Chartered Accountants, of which L P Stanley is a partner, on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with directors and their director-related entities:

| | 2007 | 2006 |
|-----------------------------------|-------------|-------------|
| | \$ | \$ |
| Accounting and administration fee | 57,151 | 45,000 |

Note 17 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non-related audit firms:

Assurance services

1. Audit services

Fees paid to Pitcher Partners for audit and review of financial reports and other audit work under the Corporations Act 2001

| | |
|--------|--------|
| 20,075 | 20,500 |
|--------|--------|

Total remuneration for assurance services

| | |
|--------------------------|--------------------------|
| ----- 20,075 ===== | ----- 20,500 ===== |
|--------------------------|--------------------------|

Taxation services

Fees paid to Pitcher Partners for tax compliance services, including review of company income tax returns

| | |
|-------|-------|
| 3,720 | 3,650 |
|-------|-------|

| | |
|-------------------------|-------------------------|
| ----- 3,720 ===== | ----- 3,650 ===== |
|-------------------------|-------------------------|

It is the company's policy to employ Pitcher Partners on assignments additional to their statutory audit duties where Pitcher Partners' expertise and experience with the company are important. These assignments are mainly tax advice.

Note 18 Related parties

Directors

Disclosures relating to key management personnel are set out in Note 16.

Note 19 Events occurring after reporting date

At the date of this report there are no matters or circumstances which have arisen since 30 June 2007 that have significantly affected, or may significantly affect:

- (d) the company's operations in future financial years, or
- (e) the results of those operations in future financial years, or
- (f) the company's state of affairs in future financial years.

Note 20 Reconciliation of loss from ordinary activities after income tax to net cash outflow from operating activities

| | 2007 \$ | 2006 \$ |
|--|---------------------------|---------------------------|
| Loss from ordinary activities after income tax | (1,459,789) | (1,491,790) |
| Exploration abandoned | 1,212,759 | 1,173,255 |
| Depreciation | 12,513 | 10,754 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in other debtors | (48,497) | (59,024) |
| (Increase)/decrease in interest receivable | (4,629) | 750 |
| Increase/(decrease) in trade creditors | 528 | 76,677 |
| Net cash outflow from operating activities | <u>(287,115)</u> ===== | <u>(289,378)</u> ===== |

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 | - | - |
| | ===== | ===== |

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 | 456,000 | 764,000 |
| Later than one year but not later than 5 years | 267,000 | 1,090,000 |
| Later than 5 years | - | - |
| Commitments not recognised in the financial statements | <u>723,000</u> ===== | <u>1,854,000</u> ===== |

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

Exploration commitments total \$723,000. They extend over 14 exploration tenements and are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, and new capital raisings.

Note 22 Earnings per share

| | 2007 Cents | 2006 Cents |
|---|------------------------|------------------------|
| (a) Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the company | (1.33) ===== | (3.46) ===== |
| (b) Diluted earnings per share | | |
| Profit attributable to ordinary equity holders of the company | (1.33) ===== | (3.46) ===== |
| | 2007 \$ | 2006 \$ |
| (c) Reconciliation of earnings used in calculating earnings per share | | |
| <i>Basic earnings per share</i> | | |
| Profit from operations | (1,459,789) ===== | (1,491,790) ===== |
| <i>Diluted earnings per share</i> | | |
| Profit from operations | (1,459,789) ===== | (1,491,790) ===== |
| (d) Weighted average number of shares used as the denominator | | |
| | 2007 Number | 2006 Number |
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i> | 110,112,975 | 43,058,846 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | - | - |
| | ----- | ----- |
| <i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i> | 110,112,975 ===== | 43,058,846 ===== |

Note 23 Share-based payments

During the previous financial year Lodestone Exploration Limited granted 501,000 options to a contractor for no consideration. The options are granted for a five year period, and 33.33% of each new tranche vests and is exercisable after the first anniversary of the date of grant, 33.33% is exercisable after two anniversaries of the grant date and 33.33% is exercisable after three anniversaries of the grant date.

During the previous year 2,000,000 options were granted as part consideration for Lodestone's acquisition of up to 70% of the Karinya Silver-Zinc project.

Options granted carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Securities Exchange during the five trading days immediately before the options are granted.

Set out below are summaries of options granted:

| | Grant date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Expired during the year Number | Balance at end of the year Number | Exercisable at end of the year Number |
|----------|------------|-------------|------------------|--|-----------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|--|
| A | 27/01/2006 | 27/01/2011 | \$0.20 to \$0.30 | 501,000 | - | - | - | 501,000 | 167,000 |
| B | 18/05/2006 | 18/05/2007 | \$0.05 | 2,000,000 | - | - | (2,000,000) | - | - |

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.57 years (2006 – 1.62)

Fair value of options granted

The assessed fair value at grant date of options granted was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2007 included:

Issue A

- (a) options are granted for no consideration. Options vest and are exercisable 33.33% after one anniversary of the grant date, 33.33% are exercisable after two anniversaries of the grant date and 33.33% are exercisable after three anniversaries of the grant date.
- (b) exercise price \$0.20 to \$0.30
- (c) grant date: 27 January 2006
- (d) expiry date: 27 January 2011
- (e) share price at grant date: \$0.043
- (f) expected price volatility of the shares: 159%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 5.31%

Note 23 Share-based payments (continued)

Issue B

- (a) options are granted as part consideration for Lodestones part acquisition of an interest in the Karinya Silver-Zinc project, all options vest and are exercisable immediately.
- (b) exercise price \$0.05
- (c) grant date: 18 May 2006
- (d) expiry date: 18 May 2007
- (e) share price at grant date: \$0.048
- (f) expected price volatility of the shares: 159%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 5.73%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of exploration expenditure were as follows:

| | 2007 | 2006 |
|----------------|------|-----------|
| Options issued | \$ - | \$ 60,063 |



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LODESTONE EXPLORATION LIMITED

We have audited the accompanying financial report of Lodestone Exploration Limited (“the company”), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration.

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of Directors and executives (“remuneration disclosures”), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading “Remuneration Report” on pages 12 to 13 of the Directors' Report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures contained in the Directors' Report

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

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The Directors of the company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF LODESTONE EXPLORATION LIMITED
(continued)**

Auditor's Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' Report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report and the remuneration disclosures contained in the Directors' Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

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

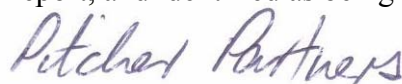
Audit opinion

In our opinion,

- (a) the financial report of Lodestone Exploration Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Remuneration Disclosures contained in the Directors' Report

In our opinion the remuneration disclosures that are contained on pages 12 to 13 of the Directors' Report, and identified as being subject to audit, comply with Accounting Standard AASB 124.



PITCHER PARTNERS



S A Green
Partner

Brisbane, 18 September 2007

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 11 September 2007.

A. Distribution of equity securities

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

| | Class of equity security | |
|------------------|--------------------------|------------|
| | Ordinary Shares | Options |
| 1 – 1,000 | 22 | 2 |
| 1,001 – 5,000 | 26 | 7 |
| 5,001 – 10,000 | 152 | 13 |
| 10,001 – 100,000 | 343 | 87 |
| 100,001 and over | 182 | 72 |
| | 725 | 181 |

There were 239 holders of less than a marketable parcel of ordinary shares and 56 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 |
| Nefco Nominees Pty Ltd | 16,588,542 | 14.64 |
| John Lachlan McCawley | 5,162,532 | 4.56 |
| ANZ Nominees Limited | 2,525,000 | 2.23 |
| Bernard Wessels Holtshousen | 2,500,000 | 2.21 |
| M F J Holdings Limited | 2,500,000 | 2.21 |
| Berne No 132 Nominees Pty Ltd <323731 A/c> | 2,261,537 | 2.00 |
| Paso Holdings Pty Ltd | 2,100,000 | 1.85 |
| Mr Raul Used | 2,100,000 | 1.85 |
| TBIC Pty Limited | 2,000,000 | 1.76 |
| Dr John Campbell Larking | 1,516,376 | 1.34 |
| Allegro Capital Nominees Pty Limited | 1,354,846 | 1.20 |
| Top Nominees Pty Ltd | 1,269,954 | 1.12 |
| Anthony John Francis Bahagiar | 1,250,000 | 1.10 |
| Bedel & Sowa Corp Pty Ltd | 1,000,000 | 0.88 |
| Noel Clarence White | 1,000,000 | 0.88 |
| Berne No 132 Nominees Pty Ltd <224266 A/c> | 1,000,000 | 0.88 |
| Leslie Marta | 980,000 | 0.86 |
| Toltec Holdings Pty Ltd | 976,586 | 0.86 |
| J & E Kerr Investments Pty Ltd | 937,821 | 0.83 |
| Ianaki Semerdziew | 900,000 | 0.79 |
| | 49,923,194 | 44.05 |

B. Equity security holders (continued)**Twenty largest quoted equity security holders (continued)**

| Name | Options | |
|--|-------------------|------------------------------|
| | Number held | Percentage of issued options |
| Nefco Nominees Pty Ltd | 3,061,871 | 9.90 |
| Terry Ronald Sharp and Lynette Catherine Sharp | 1,300,000 | 4.20 |
| Anthony John Vetter | 1,120,000 | 3.62 |
| Orbit Capital Pty Ltd | 1,000,000 | 3.23 |
| John Rawson Donaldson | 975,000 | 3.15 |
| Peter Fabian Hellings | 850,000 | 2.75 |
| Raul Used | 666,667 | 2.16 |
| TBIC Pty Ltd | 651,282 | 2.11 |
| Berne No 132 Nominees Pty Ltd | 646,154 | 2.09 |
| Nonda Pty Ltd | 501,282 | 1.62 |
| Haptell Pty Ltd | 500,000 | 1.62 |
| Alexander McCabe | 492,688 | 1.59 |
| Davin Craig Harris | 475,000 | 1.54 |
| Martin Christopher Angel and Laura Marie Angel | 450,000 | 1.45 |
| Goffacan Pty Ltd | 400,000 | 1.29 |
| Donald James Montgomery | 400,000 | 1.29 |
| Peter John Douglas | 394,512 | 1.28 |
| Ian Randal Thompson | 385,377 | 1.25 |
| JFT Nominees Pty Ltd | 381,579 | 1.23 |
| Toro De Plata Pty Ltd | 380,000 | 1.23 |
| | 15,031,412 | 48.60 |

Unquoted equity securities

| | Number of issue | Number of holders |
|------------------|-----------------|-------------------|
| Unquoted options | 1,301,000 | 4 |

Holders of greater than 20% of unquoted equity securities

| Name | Unlisted options | |
|----------------------------------|------------------|--------------------------------|
| | Number Held | Percentage of unquoted options |
| Douglas Haynes Discovery Pty Ltd | 501,000 | 38.51 |
| J Shaw | 400,000 | 30.75 |

C. Substantial holders

Substantial holders in the company are set out below:

| | Number held | Percentage |
|------------------------|-------------|------------|
| Ordinary shares | | |
| Nefco Nominees Pty Ltd | 16,588,542 | 14.64 |

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.