

LODESTONE EXPLORATION LIMITED
ABN 20 075 877 075

HALF-YEAR REPORT – 31 DECEMBER 2004

Contents

Directors' Report	1
Auditors' Independence Declaration	2
Statement of Financial Performance	3
Statement of Financial Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
Directors' Declaration	8
Independent Review Report to the members	9

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2004 and any public announcements made by Lodestone Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

DIRECTORS' REPORT

Your directors present their report on the company for the half-year ended 31 December 2004.

Directors

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

J T Shaw - Chairman
G A J Baynton
J L McCawley – Executive Director
M Ackland

Review of Operations

The operating loss after income tax of the company for the half-year was \$432,718 (2003: loss \$109,285). The loss reflects the nature of the company's principal activity, being mineral exploration.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the company's auditors, Pitcher Partners, to provide the directors with a written Independence Declaration in relation to their review of the financial report for the half-year ended 31 December 2004. The Auditor's Independence Declaration is attached and forms part of this Directors' Report.

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



J T Shaw
Chairman
2 March 2005



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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

In relation to our review of the financial report of Lodestone Exploration Limited for the half-year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PITCHER PARTNERS

S A Green
Partner

Brisbane, 2 March 2005

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

	2004	Half-year	2003
	\$		\$
Revenue from ordinary activities	17,096		35,855
Professional services expenses	(34,048)		(40,526)
Exploration abandoned	(308,823)		-
Corporate overhead expenses	(31,099)		(29,906)
Depreciation expenses	(3,531)		(600)
Directors' remuneration	(72,313)		(74,108)
	<hr/>		<hr/>
Profit/(loss) from ordinary activities before income tax	(432,718)		(109,285)
Income tax expense	-		-
	<hr/>		<hr/>
Net profit/(loss)	(432,718)		(109,285)
	<hr/>		<hr/>
Total changes in equity other than those resulting from transactions with owners as owners	(432,718)		(109,285)
	=====		=====
		Cents	Cents
Basic earnings per share	(1.35)		(0.35)
Diluted earnings per share	(1.35)		(0.35)

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

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004**

	31 December 2004 \$	30 June 2004 \$
Current assets		
Cash	651,343	894,166
Receivables	47,426	27,567
Other	35,760	28,260
	<hr/>	<hr/>
Total current assets	734,529	949,993
	<hr/>	<hr/>
Non-current assets		
Plant and equipment	28,506	32,037
Exploration expenditure	1,105,325	959,898
	<hr/>	<hr/>
Total non-current assets	1,133,831	991,935
	<hr/>	<hr/>
Total assets	1,868,360 =====	1,941,928 =====
Current liabilities		
Payables	13,936	45,036
	<hr/>	<hr/>
Total current liabilities	13,936	45,036
	<hr/>	<hr/>
Total liabilities	13,936 =====	45,036 =====
Net assets	1,854,424 =====	1,896,892 =====
Equity		
Contributed equity	3,216,409	2,826,159
Accumulated profits/(losses)	(1,361,985)	(929,267)
	<hr/>	<hr/>
Total equity	1,854,424 =====	1,896,892 =====

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

**STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004**

	Half-year	
	2004	2003
	\$	\$
	Inflows / (Outflows)	
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	30,965	56,803
Payments to suppliers (inclusive of goods and services tax)	(219,426)	(220,709)
Interest received	17,866	37,303
Net cash outflows from operating activities	<u>(170,595)</u>	<u>(126,603)</u>
Cash flows from investing activities		
Payments for exploration	(454,978)	(479,377)
Payment for security deposit	(7,500)	(7,500)
Net cash outflows from investing activities	<u>(462,478)</u>	<u>(486,877)</u>
Cash flows from financing activities		
Proceeds from share issue	410,250	1,000
Payment of share issue costs	(20,000)	-
Net cash inflows from financing activities	<u>390,250</u>	<u>1,000</u>
Net increase in cash held	(242,823)	(612,480)
Cash at the beginning of the financial year	894,166	1,957,043
Cash at the end of the financial year	<u>651,343</u> =====	<u>1,344,563</u> =====

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 1. Basis of preparation of half-year financial report

This general purpose financial report for the interim half-year reporting period ended 31 December 2004 has been prepared in accordance with Accounting Standard AASB 1029 Interim Financial Reporting, other mandatory financial reporting requirements (Urgent Issues Group Consensus Views), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2004 and any public announcements made by Lodestone Exploration Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2 Segment information

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

Note 3 Equity securities issued

	Half-year		Half-year	
	2004 Shares	2003 Shares	2004 \$	2003 \$
Issues of ordinary shares during the half-year				
Shares issued	4,000,000	-	400,000	-
Exercise of options issued under the prospectus	51,250	5,000	10,250	1,000
Share issue expenses			(20,000)	-
			<hr/>	<hr/>
Net increase in contributed equity	4,051,250	5,000	390,250	1,000

Note 4 Commitments for expenditure

	Half-year	
	2004 \$	2003 \$
Exploration commitments		
Commitments as at 31 December 2004 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	900,000	250,000
Later than one year but not later than 5 years	1,300,000	-
Later than 5 years	-	-
	<hr/>	<hr/>
Commitments as at 31 December 2004 not recognised in the financial statements	2,200,000	250,000

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, work program deferred or Joint Venture Agreement and concluded.

Exploration commitments total \$468,000. They extend over 23 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 5 Events occurring after reporting date

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

Note 6 Impact of adopting Australian equivalents to International Financial Reporting Standards

The company has commenced investigating the transition from current Australian Accounting Standards to Australian equivalents of International Financial Reporting Standards (IFRS). Management has had initial discussions with its professional advisors to identify key areas that may be impacted. As the company has a 30 June year end, consideration will be given to the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the company entity prepares its first fully IFRS compliant financial report for the year ending 30 June 2006. Set out below are the key areas identified at this time where accounting policies may change and have an impact on the financial report of the company.

Exploration and Evaluation Costs

The current accounting policy for exploration and evaluation costs is set out in note 1(b). Under the IASB's ED 6 Exploration for and Evaluation of Mineral Resources it was expected that a more rigorous impairment test would need to be performed in relation to recognised exploration and evaluation assets. However, in its July 2004 Action Alert the AASB advised that the IASB has decided to fully grandfather national GAAP such as Australia's existing area of interest method of accounting for exploration costs until such time as the IASB produces a comprehensive extractive industry IFRS. Accordingly, at this time it is expected that the current policy will continue under the grandfathering in the transition to Australian equivalents of IFRS. The policy will, however, be subject to possible future change under a more comprehensive extractive industry IFRS post 2005.

Equity-based Compensation Benefits

Under the new standard AASB 2 *Shared-based Payments*, equity-based compensation to directors and employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy where no expense is recognised for equity-based compensation.

Income Tax

Under the new standard AASB 112 *Income Taxes*, there is a requirement that the company adopt a balance sheet approach to income tax accounting rather than the current income statement approach. Additionally, the tests for the recognition of deferred tax assets, such as future income tax benefits, will be based on where realisation of the benefit is "probable" rather than where realisation of the benefit can be regarded as being assured beyond any reasonable doubt or virtually certain. The company does not currently recognise deferred tax assets as these are not considered virtually certain. Adoption of the new standard may result in recognition of deferred tax assets earlier than under the current standard.

Total equity at 1 July 2004	\$
As reported under Australian Accounting Standards	1,896,892
Adjustments relating to adoption of international accounting standards	-
	<hr/>
As restated under Australian equivalents to IFRS's	1,896,892
	<hr/>
Operating profit after tax for the six months to 31 December 2004	\$
As reported under Australian Accounting Standards	432,718
Adjustments relating to adoption of international accounting standards	-
	<hr/>
As restated under Australian equivalents to IFRS's	432,718
	<hr/>

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 3 to 7:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory financial reporting requirements, and
- (b) give a true and fair view of the company's financial position as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

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

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

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

J T Shaw
Chairman

Brisbane
2 March 2005



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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF LODESTONE EXPLORATION LIMITED

Scope

The Financial Report and Directors' responsibilities

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for Lodestone Exploration Limited ("the company") for the half-year ended 31 December 2004.

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

Review Approach

We have conducted an independent review of the financial report in order for the company to lodge the financial report with the Australian Securities & Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with Accounting Standard AASB 1029 : Interim Financial Reporting, other mandatory financial reporting requirements in Australia and the Corporations Act 2001, a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

Our review procedures were limited to:

- i) inquiries of the company's personnel of certain internal controls, transactions, significant accounting estimates and individual items; and
- ii) analytical procedures applied to financial data.

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

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

Review Approach (continued)

The Australian Auditing Standards do not require, and we have not undertaken, an analysis of the appropriateness of the business decisions made by the Directors or management.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

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

Review Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Lodestone Exploration Limited is not in accordance with:

- a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the company's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 1029 : Interim Financial Reporting and the Corporations Regulations 2001; and

- b) other mandatory financial reporting requirements.



PITCHER PARTNERS



S A Green
Partner

Brisbane, 2 March 2005