



Gold/Copper : Lodestone Exploration Limited

Market Statistics		Proposed IPO Timetable		23 January 2003	
Offer Opens	10-Feb-03	Shares : 30.4m	Options : 7.15m	Recommendation	SPEC BUY
Offer Closes	05-Mar-03	Existing : 17.9m	Existing : 0.90m	Share Offer Price	\$0.20
ASX Quotation	14-Mar-03	Offered : 12.5m	Offered : 6.25m	Total 30m shares	A\$6m
1 free option -for- 2 shares issued				Underwriting Broker	ABN-AMRO Morgans
By : Eagle Research (Keith Goode)				www.lodestonex.com	

Lodestone Exploration Limited – Targeting Gold and Copper Mount Morgan Look-alikes in Queensland

- **The IPO Offer : Lodestone Exploration Limited (LODE) is offering a subscription of 12.5m shares at 20c to raise \$2.5m (minimum subscription 12.5m shares raising \$2.5m) to find hidden gold and/or gold-copper Mount Morgan look-alikes southeast of the historic Mount Morgan mine in QLD. As part of the offer, 1 free option (exercisable at 20c before 7 December 2004) is to be issued for every 2 shares subscribed.**
- **LODE's underwritten offer (by ABN AMRO Morgans) is on a project that is actually relatively very advanced, having already flown three surveys since 1998 including aeromag and TEM in a joint venture/exploration alliance with BHP Billiton, and delineated a series of targets that are ready to be drilled.**
- **The rationale behind the project is that Mount Morgan (which produced 9.4moz of gold and 360,000t of copper before it closed in 1990) has been classified as a VHMS (volcanic-hosted massive sulphide) deposit, and in other parts of the world where these types of orebodies exist (such as Noranda) they usually occur in clusters or multiple deposits. Hence this project to find the other orebodies possibly associated with Mount Morgan, which may be hidden, but can be exposed using the latest advanced exploration techniques.**
- **Using a geological theory of LODE's Chief Geologist with knowledge of VHMS deposits, a concept for the project was made and has been verified in the field by observation of the rock structures and the airborne electromag surveys. Initially 17 targets have been identified and ranked according to their prospectivity. Now those targets await drilling.**

OTHER KEY POINTS:

- **The initial average grades at Mount Morgan in the pyrite-rich oxide gossanous cap over the orebody were 0.75oz/t or 24g/t (with some rich parts recording values up to 5oz/t), resulting in 2.5moz mined from 1882 to 1902.**
- **The mine then moved underground with the lower levels exposing copper grades of 1% in a chalcopyrite-rich ore and started producing gold and copper from its blast furnace in 1906.**
- **The first target to be drilled is expected to be G4 under <50m cover, possibly followed by G7 (on which we saw some quartz veining in the outcrop of the intrusion)**
- **The BHP Billiton exploration alliance enables BHPB to earn a 70% interest in any mineral resource with an in-ground commodity value of >A\$750m after having spent \$8m in exploration or completing a bankable feasibility study. Lesser-sized orebodies remain with LODE**
- **An adjacent extension to the Mt Morgan mineralisation was found by Perilya under the car park in a different geological setting**
- **The Mount Morgan deposit was not completely mined out, the initial underground mine closed after it flooded following mineworkers setting fire to it over a pay dispute in the 1920's.**

Corporate Overview

There has been considerable exploration by a number of companies including Geopeko, RGC, Getty Oil, BHP, CRA etc searching in the region for a Mount Morgan look-alike. However, it was only with the re-interpretation by Fox Geological Services of the area southeast of the Mount Morgan mine comparing it to other VHMS districts, that Lodestone Exploration was founded in 1996 and an exploration alliance made with BHP (now BHP Billiton). Six applications were lodged in June 1997 (5 granted in 2000), and in 1998 an airborne electromag survey used Geotem over the southern extension to identify 9 anomalies (G1 to G9). In July-Aug 2002, a Tempest Survey was flown identifying 8 main clusters of individual anomalies (C1 to C8). The locations of these anomalies are shown in figure 1b.

Lodestone is now raising funds to commence drilling the most prospective of the anomalies, targeting possibly hidden gold or gold-copper Mount Morgan look-alikes. Only 12.5m shares are being issued at 20c to raise \$2.5m to total 30.4m shares in issue. Free options exercisable at 20c by 7 December 2004 are attached 1 –for- 2 to the shares, and there are only 0.9m other directors’ and executive options.

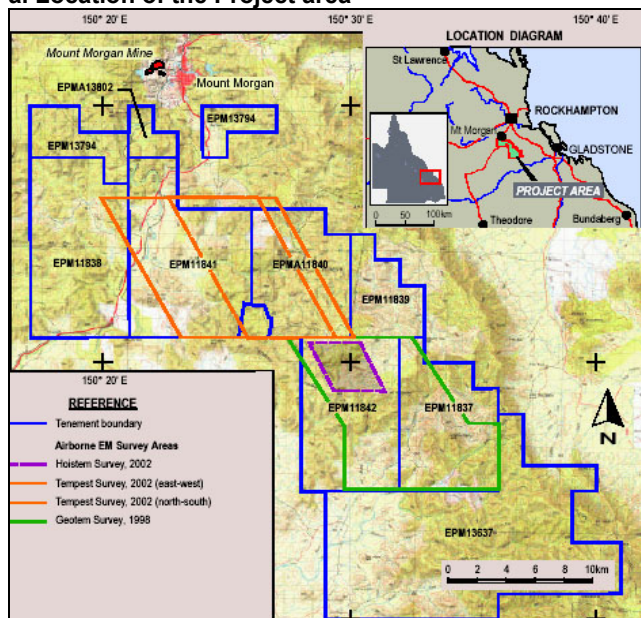
Historical Background

The 620 sq km project area extends southeast from the town of Mount Morgan, which is located about 30km southwest of Rockhampton in QLD, as shown in Figure 1a. Mount Morgan was a gold-copper mine that produced over 9.4moz gold and 360,000t of copper (being 52mt at 5.9 g/t gold, 0.72% copper, 0.1% zinc, <0.1% lead and 6g/t silver) before it closed in 1990. Initially the pyrite-rich oxide gossanous cap over the orebody that comprised the hill was mined to recover 2.5moz gold from 1882 to 1902 at an average grade of 24g/t. The mine then moved underground with the lower levels exposing copper grades of 1% in a chalcopyrite-rich ore and started producing gold and copper from its blast furnace in 1906.

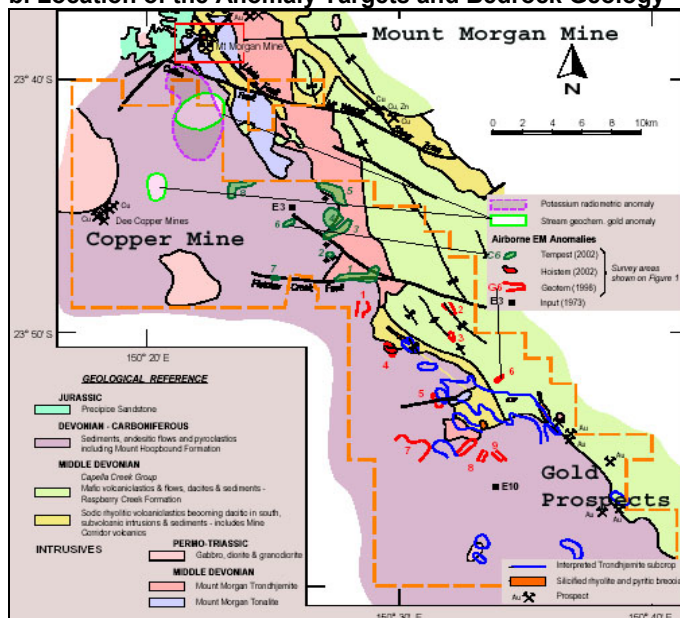
Mining continued until 1925 when some miners set the timber-rich underground workings on fire (over a pay dispute), which resulted after the fire burnt itself out, in the mine flooding. The underground workings ceased despite the apparent likelihood of deeper extensions. Up to 1927, the mine had produced 5.35moz of gold from 9.3mt of ore at an average grade of 18g/t. Open-cut mining commenced in 1932 and continued until 1981, extracting the lower grade halo of ore. The mine was again re-opened in 1983 when the tailings west of the open-cut were reworked up to 1990 to produce an additional 1.8moz of gold. Currently the old open-cut and tailings areas are filled with water as shown in figure 2a.

Figure 1. Location of Lodestone’s Exploration Project, Mount Morgan and the Anomaly Targets

a. Location of the Project area



b. Location of the Anomaly Targets and Bedrock Geology



Geological Overview

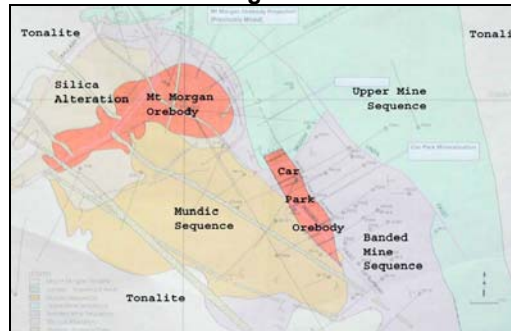
The Mount Morgan orebody consisted of the two large lobes shown in Figure 3a within an envelope of quartz-pyrite rock. Weathering of the Main Pipe formed a gossan of quartz and iron oxides highly enriched in gold up to 50z/t, and devoid of copper. Below the gossan from 15m to 76m below surface was a porous zone of skeletal quartz and enriched gold up to 30g/t formed from the leaching of the sulphides. It was this pyrite-rich oxide gossanous cap over the orebody that comprised the hill and was initially mined to recover the 2.5moz at 24g/t.

Figure 2. Geological plan and section of Mount Morgan

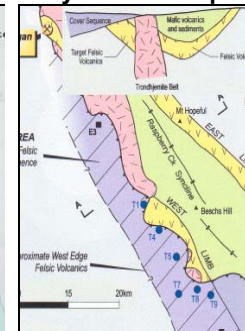
a. Aerial View of Mount Morgan mine area



b. Plan of Mount Morgan



c. Synclinal Perspective

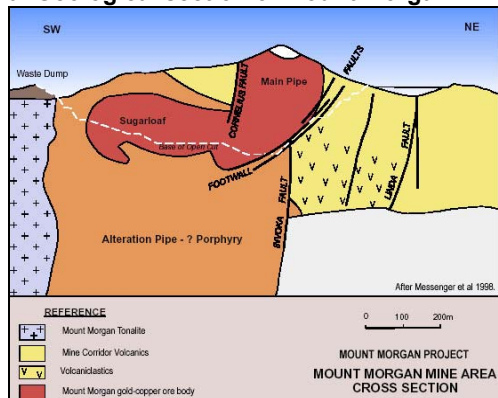


Below the porous zone, the ore graded rapidly into the primary mineralisation, with the Main Pipe consisting of massive and stringer iron pyrite sulphides with lesser amounts of copper sulphide chalcopyrite. A feature of the mineralisation was the quartz-veining, with the gold and copper concentrated in high grade shoots, and the orebody concentrically zoned (like a tree) with a gold-copper rich core grading out to lower grade margins. In contrast, the Sugarloaf orebody shown in Figure 3a was more disseminated with grades more evenly spread.

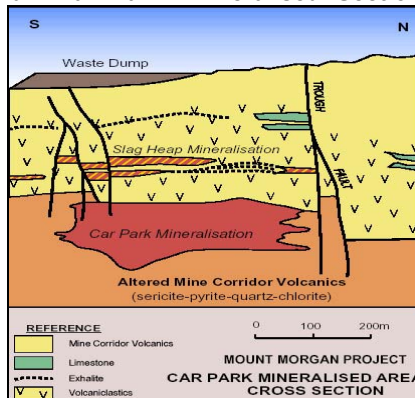
Recent exploration by Perilya discovered a footwall massive pyrite orebody called the Car Park mineralisation shown in Figure 3b, in which the ore is copper-enriched chalcopyrite, but the gold-copper grades are apparently uneconomic. This orebody is however, significant in that it does not have porphyry intrusive stock, and is hence a different geological setting to the Main Pipe orebody. The Mount Morgan orebody and Car Park mineralisation are types of VHMS (volcanic-hosted massive sulphide) deposits.

Figure 3. Geological sections of Mount Morgan and Plan of the possible Tonalite boundary

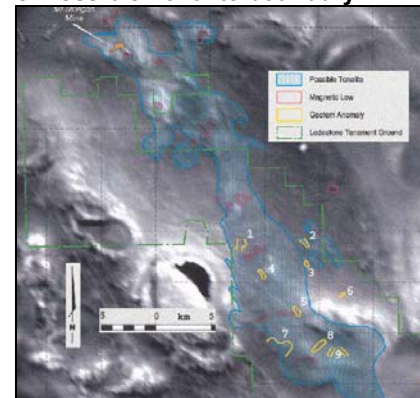
a. Geological section of Mount Morgan



b. "Car Park" Mineralised Section



c. Possible Tonalite boundary



The Car Park mineralisation fits the most common VHMS-type being a feeder system to a sea-floor VHMS sulphide. However, Mount Morgan is in a different class, comparable to the Horne mine (54mt at 6.1g/t gold 2.2% copper and 13g/t silver) in Canada's Noranda district which formed from a near-surface intrusion of a porphyry stock during a VHMS-style mineralising period. More importantly is that VHMS deposits usually occur in clusters or fields, so "where is the rest?" near Mount Morgan.

Lodestone's Chief Geologist (Peter Fox) who has his own Canadian consulting company, re-interpreted Mount Morgan as lying in a syncline (see Figure 2c) and not the anticline of previous interpretations. Also at the southern end of Lodestone's tenements about 33km SE from the mine LODE encountered low potassium "F3 rhyolites" which are apparently synonymous with the Noranda district. These rock types were able to be correlated with the Mine Corridor Volcanics and are associated with the blue-shaded Tonalite zone shown in Figure 3c, focusing exploration towards the western side of the Trondhjemite belt.

Geological exploration techniques have evolved significantly from what could historically be achieved, especially in regard to delineating hidden orebodies. Having already flown aeromag, and targeting the felsic volcanics, Lodestone in an exploration alliance with BHP (now BHPB) flew Geotem, (which is capable of electromag penetration to depths of 500m below cover) in 1998 over the southern half of their leases and discovered the 9 "G" anomalies shown in Figures 1b and 3c. In addition to Geotem, Lodestone has also conducted HoistEM (focusing on the top 200m) on the G4 anomaly, and delineated 8 clusters of anomalies from the more recent Tempest airborne survey of the northern half of the leases in Oct 2002.

The Geotem "G" anomalies have been ranked according to their prospectivity such as G4 and G7. The Tempest "C" anomalies still need to be field examined in order to upgrade them to drill targets. It is the drilling of these targets that needs to happen to find out what is there, which is the purpose of this IPO.

Site Visit

We visited the exploration project in August 2002, and examined one of the main anomalies (G7) in the field. It can be seen that the two small hills that comprise this anomaly appear to be an andesitic volcanic intrusion (with some quartz veining in some of the rocks) through the surrounding country (the base of the hill is a conglomerate). Examining G7's TEM chart, it appears to be a classic exploration target to drill.

We visited the local museum and mine offices and learnt that the reason why the mine originally flooded was because miners set fire to it over a pay dispute, and hence why it was not completely mined out. Most of LODE's exploration ground appears to be under freehold and hence easier to obtain an ML on. It can be seen that LODE's project is in fact advanced exploration with the area already re-interpreted. LODE on listing is already at a stage which some successful exploration companies take at least one year to attain. ***It is a case of using the IPO monies to drill the targets and see what intersections occur.***

Management

Board of Directors

John Shaw – Chairman. John is an engineering geologist with a wealth of technical and managerial experience. He was General Manager of Kidston during its construction and commissioning, later becoming MD, and worked with Placer Dome for more than 30 years and became Vice President of their Australian Operations. He is currently a director of AurionGold and Kingsgate Consolidated.

Martin Ackland – Director. Martin has over 35 years' experience in metallurgy, processing and mining development. He is president and CEO of Southern Cross Resources, a director of McConnell Dowell and is a director of Sedimentary Gold which has the Cracow project in QLD.

Patrick Sankey – Director. Pat has over 30 years' experience in the mining industry. Initially at Mount Isa and MIM's coal division from 1966 to 1985, followed by the Placer Group since 1985. He was recently appointed Managing Director of Placer Dome's newly acquired subsidiary, AurionGold.

John McCawley – Director. John is one of the founders of Lodestone, and he has a background in exploration and finance with a number of companies such as Carpentaria, Amax, Ausminda (Placer & Noranda) and MIM. John is currently an investment manager with a venture and development capital fund.

Greg Baynton – Director. Greg has a background in merchant banking and the QLD Treasury and is the founder and Managing Director of Orbit Capital, an investment bank that focuses on structuring and funding early stage companies preparing for an ASX listing.

Senior Management

Mark Dugmore – General Manager. Mark has over 18 years' experience in the mining and minerals exploration industry. He was manager global base metals at BHP Minerals with responsibility for local and overseas exploration. He has been involved in the discovery and successful commercial development of several mineral deposits in Australia and overseas.

Peter Fox – Consultant and Chief Geologist. Peter formed his own Canadian geological consulting company in 1971. His firm specialises in managing exploration programmes from conceptual through to feasibility stages and has made a number of discoveries. It is his understanding of VHMS-style deposits that has resulted in the re-interpretation of Mount Morgan's geology.

Ms Leni Stanley – Company Secretary and Financial Accountant. Leni is a partner of Stanley Yeates & Associates, chartered accountants. She has been CFO for some listed companies such as Bligh Ventures.

Applications

Applications for the LODE IPO must be made for a minimum of 10,000 shares at 20c per share (\$2,000), and then in multiples of 2,500 shares (\$500).

Note : Please read the prospectus (the BHPB agreement is mainly detailed on page 49).

Disclosure

Lodestone Exploration Limited commissioned Keith Goode (who holds a Proper Authority with State One Equities Ltd ACN 064 904 650, and is a consultant with Eagle Research Advisory Pty Ltd ACN 098 051 677) to compile this report, for which Eagle Research Advisory Pty Ltd has received a consultancy fee. At the date of this report Keith Goode and his associates do not hold interests in shares issued by Lodestone Exploration Limited, but may subscribe in the IPO prospectus.

Disclaimer

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