LODESTAR MINERALS LIMITED

ABN 31 127 026 528

INTERIM REPORT

31 DECEMBER 2007

LODESTAR MINERALS LIMITED
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LODESTAR MINERALS LIMITED
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DIRECTORS' REPORT

The Board of Directors of Lodestar Minerals Limited ("Lodestar") has pleasure in submitting its report in respect of the financial interim period ended 31 December 2007 and the review report thereon.

DIRECTORS

The names of the Directors in office during or since the end of the interim period are:

Name	Period of Directorship
William (Bill) Clayton *Managing director*	Appointed 2 November 2007
Rhod Grivas *Non-executive chairman*	Appointed 13 August 2007
David McArthur *Executive director*	Appointed 13 August 2007
Mark Pitt *Non-executive director*	Appointed 13 August 2007

Unless indicated otherwise, all Directors held their position as a Director throughout the entire financial interim period and up to the date of this report.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the interim period was exploration and evaluation of mineral interests.

RESULTS

The net loss of the Company entity for the interim period after income tax expense was $439,729.

REVIEW OF OPERATIONS

The Company was incorporated on 13 August 2007.

On 12 October 2007, the Company entered into a Sale Agreement with Dioro Exploration NL, whereby Dioro sold the nickel rights over its Penfolds tenements to the Company for $5,000,000 comprising of 25,000,000 Lodestar shares at 20 cents each.

On 24 October 2007, the Company issued 25,000,000 shares to Dioro Exploration NL shareholders on a pro-rata basis at 20 cents each to raise $5,000,000.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is included after this Directors' Report and forms part of the Directors' Report for the interim period ended 31 December 2007.

Signed in accordance with a resolution of Directors.

Dated at Perth on 29 February 2008.

D McArthur

D M McARTHUR
Director

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Lodestar Minerals Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the period ended 31 December 2007 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG
KPMG

J G Robinson
Partner

Perth
Dated: 29/2/08

LODESTAR MINERALS LIMITED
ABN 31 127 026 528

INTERIM INCOME STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2007

	31 December 2007 $
Employee expenses	(376,384)
Office administration	(5,450)
Registry and statutory fees	(23,387)
Professional fees	(55,827)
Other expenses	(1,932)
Results of operating activities	(462,980)
Financial income	23,251
Financial expenses	-
Net financing expenses	23,251
Loss before income tax	(439,729)
Income tax expense	-
Loss for the period	(439,729)
Loss attributable to equity holders	(439,729)
Loss per share	
- basic and diluted (cents per share)	(1.65)

The interim income statement is to be read in conjunction with the notes to the financial statements.

LODESTAR MINERALS LIMITED
ABN 31 127 026 528

INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	31 December 2007 $
CURRENT ASSETS		
Cash and cash equivalents		4,649,447
Trade and other receivables	3	74,874
TOTAL CURRENT ASSETS		4,724,321
NON-CURRENT ASSETS		
Exploration and evaluation expenditure	4	5,002,840
TOTAL NON-CURRENT ASSETS		5,002,840
TOTAL ASSETS		9,727,161
CURRENT LIABILITIES		
Trade and other payables	6	127,315
Employee benefits		5,563
TOTAL CURRENT LIABILITIES		132,878
TOTAL LIABILITIES		132,878
NET ASSETS		9,594,283
EQUITY		
Issued capital	7	9,725,003
Other reserves	8	309,009
Accumulated losses		(439,729)
TOTAL EQUITY		9,594,283

The interim balance sheet is to be read in conjunction with the notes to the financial statements.

LODESTAR MINERALS LIMITED
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INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2007

	Issued capital $	Accumulated losses $	Other reserves $	Total $
At 13 August 2007	-	-	-	-
Capital raising costs	(275,000)	-	-	(275,000)
Income and expense recognised directly in equity	(275,000)	-	-	(275,000)
Loss for the period	-	(439,729)	-	(439,729)
Issue of ordinary shares	5,000,003	-	-	5,000,003
Acquisition of Penfolds nickel rights	5,000,000	-	-	5,000,000
Cost of share-based payment	-	-	309,009	309,009
At 31 December 2007	9,725,003	(439,729)	309,009	9,594,283

The interim statement of changes in equity is to be read in conjunction with the notes to the financial statements.

LODESTAR MINERALS LIMITED
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INTERIM STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2007

	31 December 2007 $
Cash flows from operating activities	
Cash payments to suppliers and employees	(151,075)
Cash payments for exploration and evaluation	(2,840)
Interest received	1,077
Net cash used in operating activities	(152,838)
Cash flows from financing activities	
Proceeds from issue of shares	4,978,827
Capital raising costs	(275,000)
Loans from related entities	98,458
Net cash provided by financing activities	4,802,285
Net decrease in cash and cash equivalents	4,649,447
Cash and cash equivalents at the beginning of the interim period	-
Cash and cash equivalents at the end of the interim period	4,649,447

The interim statement of cash flows is to be read in conjunction with the notes to the financial statements.

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2007

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Lodestar Minerals Limited (the "Company") is a company domiciled in Australia.

The interim financial report was authorised for issue by the directors on 29 February 2008.

Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report.

Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis except for share-based payment transactions. These transactions are stated at their fair value.

Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Comparative information

The interim financial statements are prepared for the period from 13 August 2007 (date of incorporation) to 31 December 2007. Accordingly, there is no comparative information.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies

The following significant accounting policies have been adopted by the Company in the preparation and presentation of the interim financial report.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash in banks.

(b) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(c) Impairment of assets

At each reporting date, the company reviews the carrying amounts of its assets other than deferred tax assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease, to the extent of the previous revaluation with any excess recognised through profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax.

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(e) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Exploration and evaluation

In accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, exploration costs, including costs of acquiring licences, are capitalised in respect of each separate area of interest. Costs incurred before the company has obtained the legal rights to explore an area are recognised in the income statement. Exploration and evaluation expenditure are carried forward at cost where the rights of tenure are current and either:

(i) Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or

(ii) Exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable resources and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed annually for impairment in accordance with AASB 6, and where impairment indicators exist, recoverable amounts of these assets are estimated based on discounted cash flows from their associated cash generating units. The income statement will recognise expenses arising from excess of the carrying values of exploration and evaluation assets over the recoverable amounts of these assets.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the period in which that assessment is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

(g) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments.

(i) Trade and other receivables

Trade and other receivables are stated at fair value.

(j) Trade and other payables

Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services and are stated at amortised cost.

(k) Employee benefits

Provision is made for employee benefits accruing in respect of wages, salaries, annual leave, long service leave and sick leave representing present obligations resulting from employees' services provided to reporting date. Provisions expected to be settled within 12 months are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Defined contribution superannuation funds
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(l) Share based payment transactions

The grant date fair value of options granted is recognised as an expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

The fair value of stock options is measured using a Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instrument (based on option holder behaviour and escrow periods), expected dividends, and the risk free interest rate (based on government bonds). Service and non-market conditions attached are not taken into account in determining fair value.

(m) Share capital

Ordinary shares
Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

	31 December 2007 $

2. LOSS PER SHARE

Basic earnings per share	
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	26,595,748
Diluted earnings per share	
Weighted average number of ordinary and potential ordinary shares on issue used in the calculation of diluted earnings per share	26,595,748

The weighted average number of ordinary and potential ordinary shares at 31 December 2007 does not have a dilutive effect on the loss per share as the Company is in a loss position at 31 December 2007.

3. TRADE AND OTHER RECEIVEABLES

Trade receivables	18,626
Sundry debtors	26,243
Accrued interest income	22,174
GST receivables	7,831
	74,874

4. EXPLORATION AND EVALUATION EXPENDITURE

Exploration costs are carried forward in respect of mining areas of interest:

Exploration and evaluation expenditure - at cost	5,002,840
Reconciliation	
Balance at beginning of period	-
Nickel rights acquisition	5,000,000
Capitalised expenditure	2,840
Balance at end of period	5,002,840

The recovery of this expenditure is dependent upon the success of future exploration and development, or the realisation of the assets by sale for at least an amount equal to its carrying value.

5. SEGMENT REPORTING

The Company operates predominantly in the mineral exploration industry in Australia.

	31 December 2007 $
6. TRADE AND OTHER PAYBLES	
Trade payables	23,857
Accruals	5,000
Loans from a related party	98,458
	127,315

All payables are unsecured and interest free.

	31 December 2007 Number	31 December 2007 $
7. ISSUED CAPITAL		
Issued and paid-up capital		
Fully paid ordinary shares	50,000,003	9,725,003
Movements in issued and paid-up capital		
Balance at beginning of period	-	-
Issue of shares on incorporation at $1.00 each	3	3
Issue of shares at 20 cents each pursuant to the prospectus	25,000,000	5,000,000
Issue of shares at 20 cents each for the acquisition of the Penfolds nickel rights	25,000,000	5,000,000
Capital raising costs	-	(275,000)
	50,000,003	9,725,003

8. OTHER RESERVES

Employee equity-settled benefits reserve	309,009
Movements in employee equity-settled benefits reserve	
Balance at beginning of period	-
Cost of share-based payment	309,009
Balance at end of period	309,009

The employee equity-settled benefits reserve arises on the grant of equity instruments to employees and key management personnel. Refer to Note 9 for further details.

9. SHARE-BASED PAYMENT TRANSACTIONS

A share option plan has been established which entitles key management personnel and senior employees to the Company options over the ordinary shares of Lodestar Minerals Limited. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of Lodestar Minerals Limited. The options cannot be transferred and will not be quoted on the ASX. There are no voting rights attached to the options unless converted into ordinary shares. All options are granted at the discretion of the directors.

Options – 31 August 2012

On 21 December 2007, 1,500,000 options each were granted to Mr Grivas, Mr Pitt and Mr McArthur. These options were issued as an incentive to secure the ongoing commitment of the directors to the continued growth of the Company. The options were issued for nil consideration.

The options have been granted on the following terms and conditions:

Number	Grant date	Vesting date	Expiry date
4,500,000	12 October 2007	12 October 2007	31 August 2012

The fair value of the equity-settled options was estimated using the Black-Scholes pricing model taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model:

Expected volatility	75%
Risk-free interest rate	6.25%
Life of option	2.9 years
Exercise price	40 cents
Share price at grant date	20 cents

Based on these inputs the options have been valued at $309,009. This amount has been expensed to the income statement in "employee expenses".

All options remain unexercised at 31 December 2007.

10. RELATED PARTY DISCLOSURES

The following related party transactions are on normal commercial terms and conditions and are no more favourable than those available to other parties unless stated otherwise:

On 1 December 2007, the Company entered into a sublease agreement with Dioro Exploration NL (Dioro), a company of which Mr Grivas, Mr Pitt and Mr McArthur are directors, for the provision of fully maintained offices and related infrastructure and one car bay, for $51,980 per annum.

On 12 October 2007, the Company entered into a Sale Agreement with Dioro, whereby Dioro sold the nickel rights over its Penfolds tenements to the Company for $5,000,000 comprising of 25,000,000 Lodestar shares at 20 cents each.

During the interim period, Dioro loaned $98,458 to the Company for payment of expenses prior to the capital raising. The full amount is still outstanding at 31 December 2007 and is reflected in Note 6.

10. RELATED PARTY DISCLOSURES (continued)

1,500,000 options were granted to Mr Grivas for a total value of $103,003. This amount is recognised in profit or loss during the interim period.

1,500,000 options were granted to Mr McArthur for a total value of $103,003. This amount is recognised in profit or loss during the interim period.

1,500,000 options were granted to Mr Pitt for a total value of $103,003. This amount is recognised in profit or loss during the interim period.

11. COMMITMENTS

As per the sale agreement made between the Company and Dioro for the acquisition of the Penfold Nickel rights, the Company is liable to meet 100% of the expenditure commitments, rents and rates in respect of the Nickel Priority Tenements and 50% of the expenditure commitments, rents and rates in respect of equal priority tenements.

Accordingly, the expenditure commitments are as follows:

	31 December 2007 $
Not later than one year	485,370

12. CONTINGENCIES

Royalties

Under the terms of the "New Celebration Royalty Deed dated 11 February 1998" and the "Sale and Royalty Agreement – M15/726 – Karramindie", the Company may become liable to pay royalties in respect of future production from some tenements. At present the directors are unable to ascertain the amount of such royalties.

Therefore the directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

13. SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the interim financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of these operations, or the state of affairs of the Company in the future financial years.

LODESTAR MINERALS LIMITED
ABN 31 127 026 528

DIRECTORS' DECLARATION

In the opinion of the directors of Lodestar Minerals Limited ("the Company"):

1. the financial statements and notes set out on pages 6 to 18, are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the Company's financial position as at 31 December 2007 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 29th day of February 2008.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

D M McArthur

D M McARTHUR
Director

KPMG

Independent auditor's review report to the members of Lodestar Minerals Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Lodestar Minerals Limited, which comprises the interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a statement of accounting policies and other explanatory notes 1 to 13 and the directors' declaration of the Company.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2007 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Lodestar Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Lodestar Minerals Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2007 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

KPMG

JG Robinson

J G Robinson
Partner

Perth
Dated: 29/2/08