

RISK MANAGEMENT POLICY

Principles

Risk recognition and management are viewed by Lodestone Exploration as integral to the company's objectives of creating and maintaining shareholder value, and the successful execution of Lodestone's strategies in exploration and development.

The board as a whole is responsible for 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.

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 managed decisions within the policy framework, and to communicate openly on all risk related matters.

Risk Framework

Key elements of the framework for the management of risk by Lodestone are:

- Oversight of the company's financial affairs by the Audit Committee.
- The formulation of programmes for exploration and development.
- Regular reporting against established targets.
- Approval guidelines for exploration and capital expenditure.
- Regulatory compliance programmes and reporting in key areas such as safety and environment.
- Management of capital and financial risk.
- An annual insurance programme.
- Oversight of the conduct of contractors.

Risk Evaluation and Control

The management team, under the leadership of the Executive director, is requested to draw together from within their ranks a group who periodically meet to identify and assess specific business risks. The group has experience in all of Lodestone Exploration's activities and is broadly conversant with Lodestone Exploration's business plans, objectives and values.

Risk Evaluation and Control (continued)

Based on reviews of each segment of Lodestone's business, an overall profile of the risks of Lodestone is established.

- Identified risks are assessed in terms of potential consequences and likelihood.
- Risks are ranked in accordance with their likely impact.
- The acceptability of each identified risk is assessed.
- Proposed actions to eliminate, reduce or manage each material risk are considered and agreed.
- Responsibilities for the management of each risk are assigned.

The overall results of this assessment are presented to the Board at least annually, and updated as needed.

Periodic review is made at least annually of the effectiveness and suitability of the risk management plan.