



24 September 2004

Dear Member,

MID-QUARTER REPORT TO SHAREHOLDERS

This is the fourth of our mid-quarter reports to shareholders and option holders. It covers the past ten weeks' program and outlines plans until the end of October.

Key Activities:

Since the beginning of July 2004, Lodestone has:-

- Confirmed the 1105 gravity target;
- Prepared drillsites at Mount Victoria;
- Advanced the Cracow South project;
- Contracted to fly two detailed aeromagnetic surveys;
- Applied for additional ground north of Mount Morgan.

Outline of Activities:

These activities are outlined below:-

Mount Morgan South - Gravity target 1105 will soon be drilled. A rig that is currently in the Northern Territory is scheduled to arrive in Mount Morgan on October 16, 2004.

An image of this target, located 13 kms. south of Mount Morgan, appears on Page 5 of Lodestone's 2004 Annual Report.

The initial diamond drill hole aims to intersect the target's centre at a vertical depth of 100 metres to see whether this high density body is a volcanogenic massive sulphide deposit or has a commercially insignificant explanation such as a mafic intrusion.

Additional holes will be drilled if mineralisation is intersected.

Mount Victoria-Mount Battery – This optioned prospect is located 1500-2000 metres west of the former Mount Morgan minesite.

Diamond drilling is scheduled to begin on October 18, 2004, in search of extensions to gold mineralisation intersected in Newcrest's 1998 MVRC 33 and MVRC 35 drill holes.

Gold content of Newcrest's intersections was and remains sub-economic but the widths and possible style of mineralisation offer scope for better grades at depth and along strike.

Geological mapping and geochemical sampling by Lodestone during June and July suggest that a mineralised system extends 500 metres south-easterly from MVRC 33 and outcrops over widths of up to 150 metres.

The system's alignment and width is influenced by steeply dipping sub-parallel and converging faults that strike north-west from MVRC 33 and offer the distinct possibility that the system also extends in that direction under sandstone cover.

Consequently, Lodestone plans to drill two diamond drill holes, totalling 650 metres, in October 2004.

The first hole, collared in outcropping rhyolite 400 metres south-east of Newcrest's MVRC 33 drill hole, will search for gold within and adjacent to the rhyolite-andesite contact and the intrusive breccia to a planned depth of 400 metres.

Hole two, located 1200 metres west of hole one, will search for a possible lateral extension of the mineralised rhyolite under sandstone cover.

Mine Corridor – A DAISHSAT www.daishsat.com gravity crew is currently surveying 8 sq. kms. of the Mount Morgan 'mine corridor'.

DAISHSAT's data will help Lodestone select and prioritise drill targets north and south of the former minesite where Lodestone is searching for massive sulphides.

Targeting will be further assisted by a high resolution aeromagnetic survey to be flown by Perth-based UTS Geophysics, www.uts.com. The aircraft is due in Rockhampton on October 14, 2004.

Images derived from the UTS data will be sharper and far more useful than images hitherto available which are composites compiled from surveys flown between 10 and 25 years ago.

Cracow South – This project is centred 30 kms. south of Cracow, some four hours drive from Mount Morgan. The target is breccia-hosted gold mineralisation, similar to the Sedimentary Holdings-Newcrest discoveries at Cracow.

Dr. Douglas Haynes has completed the third phase of Lodestone's search for buried Cracow look-alikes.

Gold mineralisation at Cracow occurs in distinctive environments, and Dr. Haynes has recognised similarly prospective environments south of the township within Lodestone's tenements.

As at Cracow, areas of particular interest are partly or entirely covered by sandstone which makes modern exploration difficult and has frustrated historic exploration.

Dr. Haynes has identified and ranked eight areas of specific interest within Lodestone's tenements.

These targets will be evaluated in a program of detailed magnetics, depth to bedrock modelling, induced polarisation traverses and/or aircore drill traverses, beginning with a high-resolution aeromagnetic survey by UTS Geophysics in mid-October 2004.

Potential Joint Ventures – Lodestone and a major mining company have signed a confidentiality agreement to facilitate discussions that could lead to that company farming into parts of Lodestone's Mount Morgan Project.

As noted in the June Quarterly Report, Lodestone has farmed into the Quadrio Project, 50 kms. north-east of Mount Morgan.

Since then, reprocessing and interpretation of aeromagnetic data have been completed by Geoimage and Dr. Colin Nash.

Open file geological and geochemical data has been digitised and replotted by AUSMEC Geoscience and the entire data package is being assessed.

Additional Tenement Applications - Lodestone has applied for some 80 sq. kms., centred approximately 10 kms. north of Mount Morgan.

In summary - Lodestone's immediate priorities are to drill the 1105 and Mount Victoria targets and fly detailed magnetic surveys along the Mount Morgan mine corridor and at Cracow South.

Yours faithfully,



John McCawley
Executive Director