



February 25, 2005

The Manager
Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
SYDNEY NSW 2000

Dear Sir,

MID-QUARTER REPORT TO SHAREHOLDERS

This is the fifth of our mid-quarterly letters to shareholders outlining Lodestone's activities since January 1, 2005, and plans for the next six weeks.

Results of the December quarter's geological, geophysical and drilling programs were compiled, reported to the Australian Stock Exchange on January 31, 2005, and posted on www.lodestonex.com under the 'Investor Network' heading. That report, enclosed with this letter, has a heavier technical content than any previous report. Consequently, some key activities have been revisited to make them more easily understood by shareholders with non-technical backgrounds.

Mount Victoria – Diamond drilling at the Mount Victoria prospect, on optioned ground 1500 metres – 2000 metres west of the former Mount Morgan mine site, intersected VMS-style mineralisation in two holes and rhyolite-associated mineralisation in one hole.

VMS-style mineralisation, of which Mount Morgan and Noranda's Horne deposit are two of more than 700 examples, has been targeted by Lodestone since 1997 without success, until now.

Metal grades in Mount Victoria's drill core are sub-economic, but the widths of mineralised sections - 43 metres in Lodestone's second drill hole, 21 metres in the third drill hole, and 47 metres in the fourth drill hole - are significant, according to Mr. Alex Taube who supervised the drilling.

Mr. Taube, a former Mount Morgan mine geologist and now a senior exploration geologist, is encouraged by the 'mix' of elements in the mineralised sections of core and by distinctive rock types and alteration. Together, these are reminiscent of the 'Mundic Sequence' that outcrops immediately south and east of the former Mount Morgan orebody and hosts/overlies the adjacent 'Slag Heap' VMS deposit.

Consequently, mineralisation intersected in Lodestone's recent drilling could represent the edge of a VMS deposit whose centre lies along strike or down dip, perhaps within several hundred metres of Lodestone's November, 2004, intersection. Field work will resume in March, 2005, with drilling likely in May, 2005, to follow up this possibility.

Mine Corridor - A detailed airborne geophysical survey, flown for Lodestone in December, 2004, at a nominal height of 50 metres, collected magnetic and other data that is far more useful than the 20 year old data previously available.

Preliminary interpretation of the new data in January, 2005, and detailed interpretation now underway in Perth and Vancouver, will help Lodestone target this year's drilling at Mount Victoria, Midas and Morganite, more gainfully than otherwise possible. Field work at Midas and Morganite will also begin in March, 2005, as a prelude to drilling in June, 2005.

Mount Morgan South – Drilling at the main '1105' target in November/December, 2004, 13 kms. south of Mount Morgan was not successful. The target was a dense, buried body recognised during detailed geophysical surveys carried out in April, 2004.

The targeted body now seems unlikely to be VMS-style mineralisation and has been downgraded pending a review of all the data collected in December's program. Geophysical aspects are being reviewed in Canada at the present time.

Cracow South – A detailed aeromagnetic survey, similar to that flown at Mount Morgan, was completed on Lodestone's tenements south of Cracow in December, 2004.

As in the Mount Morgan survey, this high quality data has been used to further define and rank targets to be drilled as soon as possible this year.

Talks that could lead to a 'farm-out' in which an exploration company would contribute funding in return for equity in the Cracow South project, have begun.

Quadrio – Field work at the 'Quadrio' VMS project, east of Rockhampton, where Lodestone is farming into ground held by a Dominion Mining Limited subsidiary, will resume in April. Six holes, totalling 1200 metres, are planned for May/June, 2005.

Limestone Creek – Lodestone is very pleased to report that it signed a land-access agreement with the Western Yalanji Peoples on February 15, 2005, and will outline this agreement in a joint statement. The Limestone Creek tenement covers 54 sq. kms. and is situated 200 kms. north west of Cairns.

Lodestone is targeting copper and gold mineralisation similar in style to that mined at Red Dome in the early 1980s. Pat Barron, a third generation prospector who formerly held the ground and introduced the project to Lodestone, reported widespread gold, copper and mercury mineralisation in a geological setting broadly similar to that of Red Dome.

Yours faithfully,



John McCawley
Executive Director