



27 October 2004

The Manager  
Company Announcements Office  
Australian Stock Exchange Limited  
10<sup>th</sup> Floor, 20 Bond Street  
**SYDNEY NSW 2000**

Dear Sir,

**QUARTERLY ACTIVITIES REPORT FOR QUARTER  
ENDED 30 SEPTEMBER, 2004**

During the quarter ended 30 September, 2004, Lodestone Exploration Limited (ASX:LOD) advanced its projects south and west of Mount Morgan, east of Rockhampton, and south of Cracow.

**Key Activities:**

Since the beginning of July 2004, Lodestone has:-

- Confirmed the 1105 gravity target for drill testing;
- Prepared drill sites at Mount Victoria;
- Calculated the depths of cover rocks south of Cracow;
- Selected drill targets at the Quadrio Project;
- Contracted to fly two detailed aeromagnetic surveys;
- Applied for additional ground north of Mount Morgan.

**Outline of Activities:**

These activities are outlined below. A comprehensive presentation was made to shareholders who attended last week's Annual General Meeting, and four of the powerpoint images are attached to this report. Others, that have been lodged with the ASX, may be seen by visiting [www.lodestonex.com](http://www.lodestonex.com).

**Mount Morgan South** – Drill testing of gravity target 1105 will commence within the next 10-14 days. An image of the target, located 13 kms. south of Mount Morgan, is attached to this report.

A 150 metre diamond drill hole aims to intersect the target's centre at a vertical depth of 100 metres. 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 currently underway in search of extensions to gold mineralisation intersected in Newcrest's 1998 MVRC 33 and MVRC 35 drill holes and surface gold mineralisation located by Lodestone.

Gold content of Newcrest's intersections were sub-economic but the widths and possible style of mineralisation offer scope for better grades at depth and along strike. Consequently, Lodestone plans to drill two diamond drill holes, totalling 650 metres, this month.

Hole one, located 800 metres west of Newcrest's MVRC 33 drill hole, will search for a possible lateral extension of the mineralised rhyolite under sandstone cover. Planned depth is 250 metres. Images of the Mount Victoria Project are attached.

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

**Mine Corridor** – A DAISHSAT [www.daishsat.com](http://www.daishsat.com) geophysical crew has surveyed 8 sq. kms. of the Mount Morgan 'mine corridor'.

DAISHSAT's data assists Lodestone select and prioritise drill targets north and south of the former minesite where Lodestone is searching for Mount Morgan equivalents.

**Cracow South** – This project is centred 30 kms. south of Cracow, some four hours drive from Mount Morgan. The target is epithermal gold mineralisation similar in style to the Sedimentary Holdings-Newcrest mine development at Cracow.

Dr. Douglas Haynes has completed the fourth phase of Lodestone's search for buried Cracow equivalents.

Gold mineralisation at Cracow occurs in distinctive environments, and Dr. Haynes has recognised similarly prospective settings 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 and limited effective historic exploration.

Eight areas of specific interest within Lodestone's tenements, as outlined on the attached image, will be evaluated by detailed aeromagnetics, followed by either induced polarisation traverses and/or aircore drill traverses, beginning with a high-resolution aeromagnetic survey by UTS Geophysics [www.uts.com.au](http://www.uts.com.au) in mid-November 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, east of Rockhampton. An image of part of this project area is attached.

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 nine drill targets selected for drilling early next year.

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

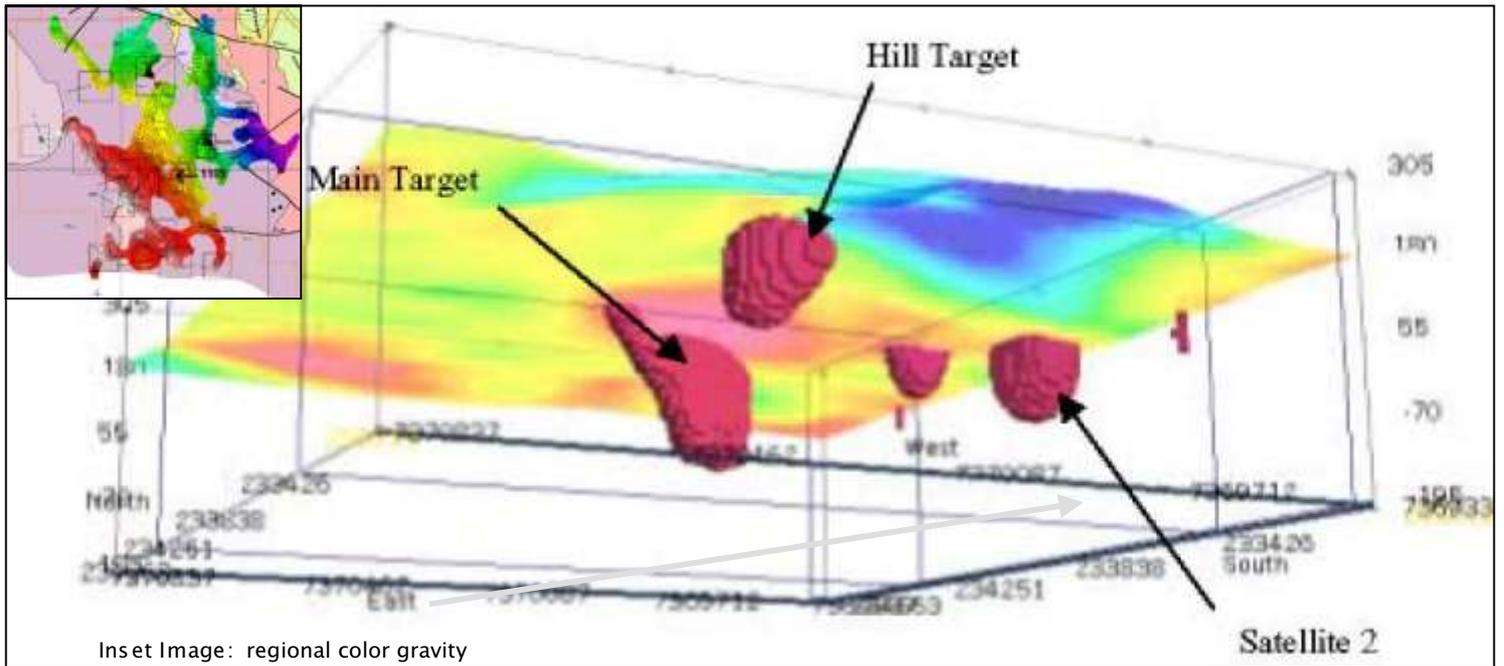
In summary – diamond drilling is underway just west of Mount Morgan at Mount Victoria. The rig will then move to the 1105 gravity target 13 kms. south of Mount Morgan. Detailed aeromagnetic surveys south of Cracow are scheduled for 12-15 November, 2004.

Yours faithfully,



John McCawley  
Executive Director

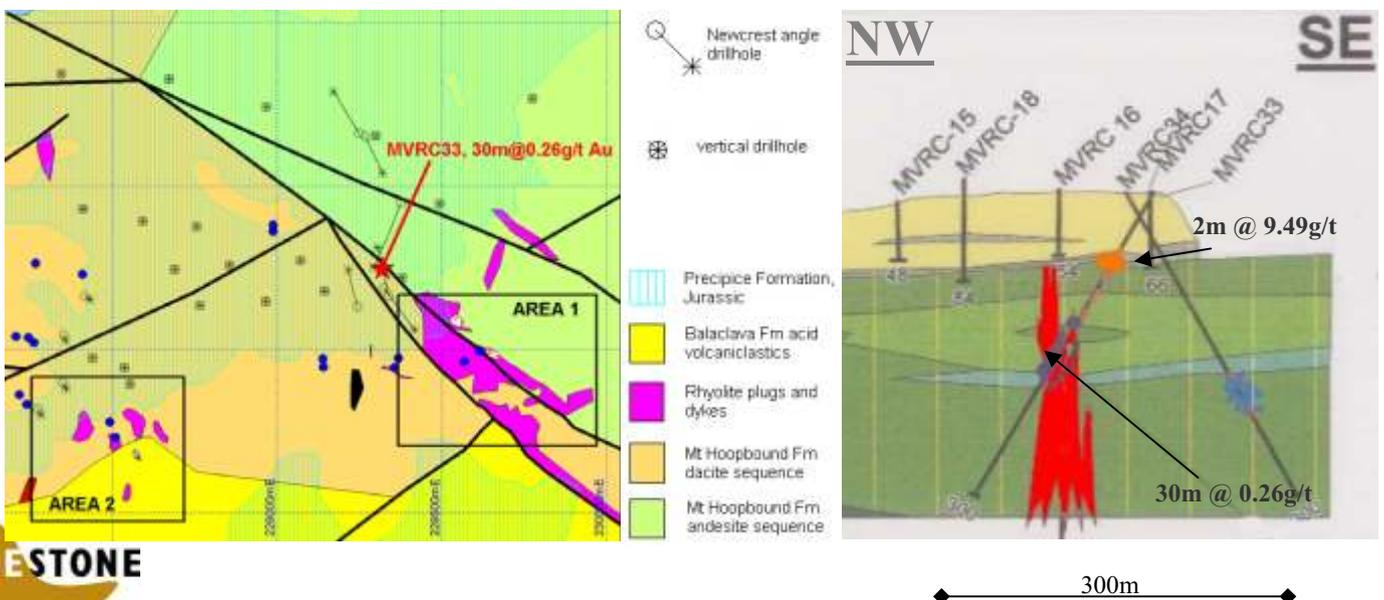
# Mt Morgan Gravity Survey



- Ground gravity survey over >100 sq.km south of Mt Morgan (inset)
- 10 anomalies
- Planned Drill testing of Main target ("1105")

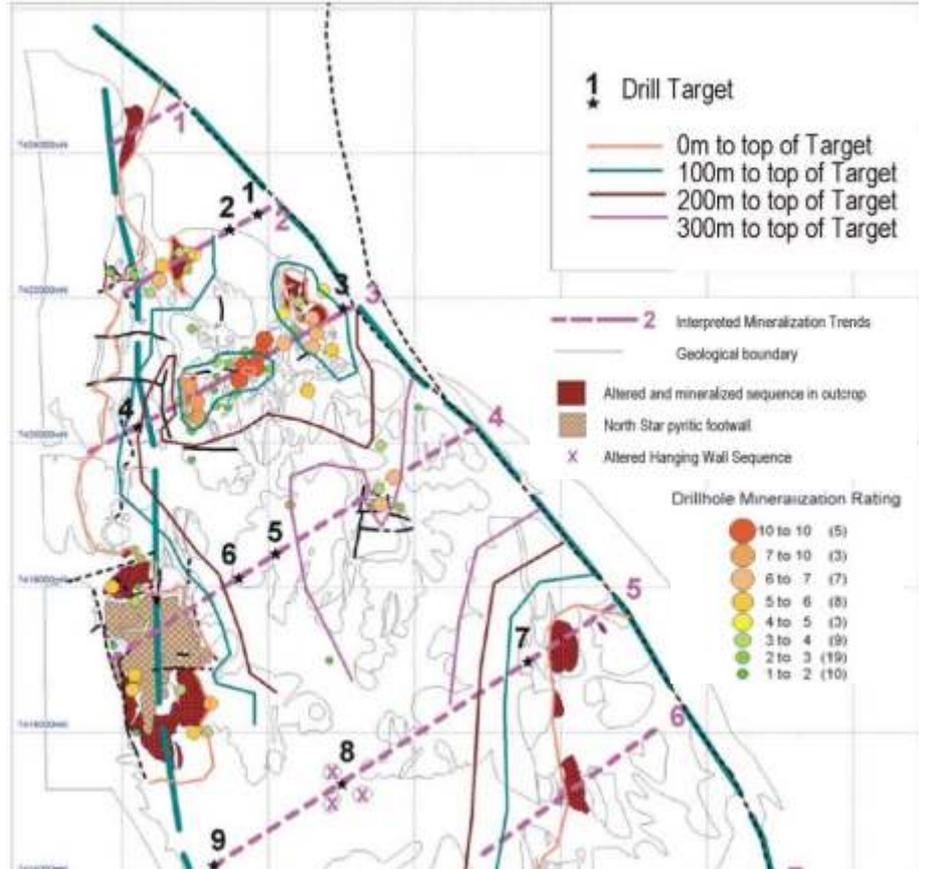
# Mt Victoria Prospect

- Mineralised structure extends from Mt.Morgan mine to Mt Victoria (1.5km)
- Previous Newcrest drilling intersected 30m averaging 0.26g/t gold (including 6m @ 0.58 g/t gold). Upper intersection of 2m averaging 9.49 g/t gold.
- Strong gold anomalies in rocks, soils & stream sediments surround area



# Quadrio Joint Venture

- JV with Dominion Mining Ltd
- Mt Chalmers was attractive Au-rich VMS orebody
  - 250,000 ounces gold equivalent
- Clusters of similar orebodies are possible
- Past drilling effectively tested only 10% of prospective area
- Main target is blind mineralisation close to prospective stratigraphy



# Cracow South Project

- Magnetic signature similar to Cracow deposit setting
- Magnetics show alteration along faults
- Covered by younger rocks therefore escaping effective previous exploration
- 30km south of Cracow Gold Mine Development
- Potential for high-grade gold deposit

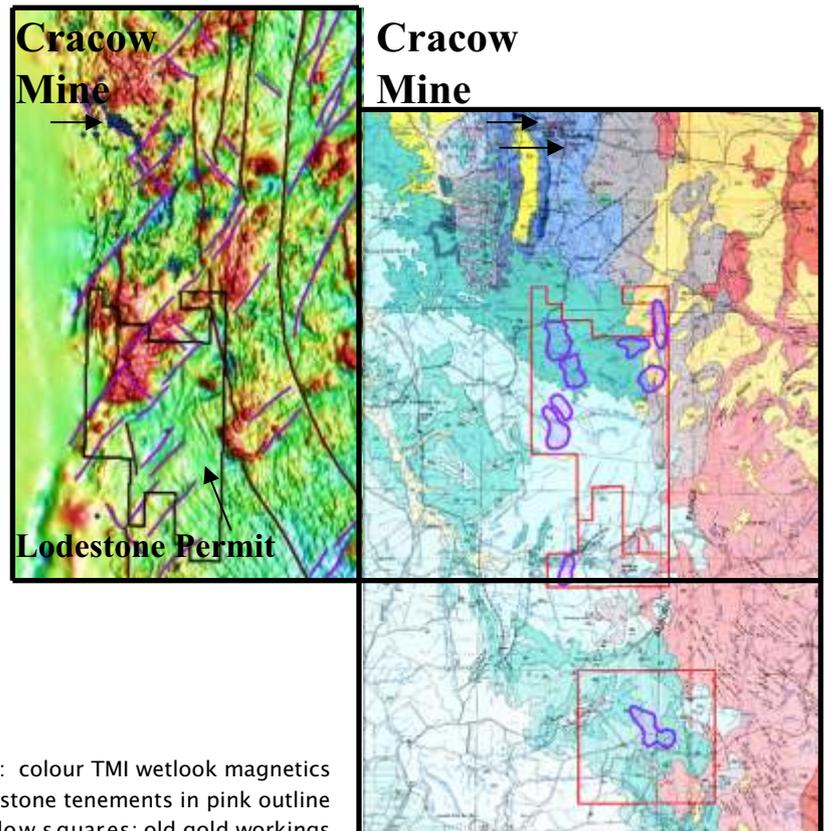


Image: colour TMI wetlook magnetics  
Lodestone tenements in pink outline  
Blue /Yellow squares: old gold workings