



January 31, 2005

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

Dear Sir,

**QUARTERLY ACTIVITIES REPORT FOR QUARTER
ENDED 31 DECEMBER, 2004**

During the quarter ended December 31, 2004, Lodestone Exploration Limited (ASX:LOD) focused on its projects south and west of Mount Morgan and south of Cracow.

Key Activities:

Since the beginning of October 2004, Lodestone has:-

- Raised \$400,000 in additional equity capital;
- Drilled the 1105 gravity target;
- Drilled part of the Mount Victoria mineralized structural target;
- Flown a detailed aeromagnetic survey west of Mount Morgan;
- Flown a detailed aeromagnetic survey south of Cracow;

Outline of Activities:

An outline of these activities follows:-

As a prelude to field work, technical presentations were made to two sharebroking firms that had shown interest in placing new shares to 'top up' Lodestone's cash ahead of its November 2004 drilling and flying programs.

A copy of this presentation was lodged with the Australian Stock Exchange on November 10, 2004, and may be seen by visiting www.lodestonex.com.

\$400,000 was raised by placing four million shares at 10 cents per share. Both firms participated in this intentionally small placement.

Mount Morgan South - Drilling of the 'Main Target' at 1105 gravity area was completed in December 2004. Difficult drilling conditions required three attempts before a fourth hole, 1105LD04, was completed to programmed depth.

| Drill Holes | Total Depth (m) |
|--------------------|------------------------|
| 1105LD01 | 18.4 |
| 1105LD02 | 23.7 |
| 1105LD03 | 53.2 |
| 1105LD04 | 209.7 |
| Total | 305m |

Hole 1105LD04 failed to intersect anything to conclusively explain the targeted anomaly.

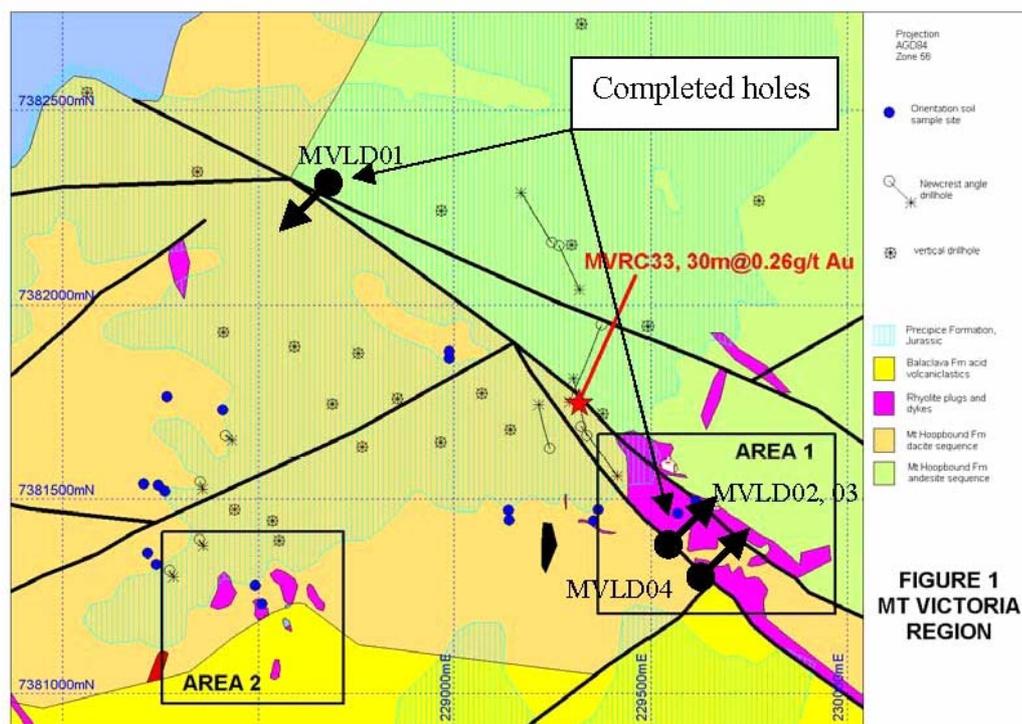
Back-modelling by SJV Geophysics in January 2005, using specific gravity measurements from drill core, suggests three possible explanations:-

- anomalies are due to errors associated with terrain corrections and proximity to Fletchers Hill (unlikely), or
- epidotised zones account for the anomaly (probably), or
- the anomaly is not fully tested and the bulk of the body is nearby (possibly).

Consequently, we are stepping back to further assess these explanations before any further work on the 1105 "Main Target".

Satellite 2, that hosts historic copper workings, will be mapped in February.

Mount Victoria – This optioned prospect is located 1500-2000 metres west of the former Mount Morgan mine site. Diamond drilling, geological mapping, and an aeromagnetic survey were carried out in November and December 2004. Four diamond drill holes were completed at Mount Victoria in November 2004:-



In summary, the drilling at Mount Victoria showed highly anomalous but sub-ore grade gold values (best 4m @ 0.39 g/t Au) associated with a rhyodacitic intrusion.

Mr. Alex Taube, who supervised the drilling program, is of the opinion that a separate related phase of mineralisation in the andesitic stratigraphy away from the rhyodacite appears to show a distinct zonation suggestive of a VMS environment. The highest gold value in the volcanic-hosted mineralisation is 0.414g/t Au between 127m and 128m in hole MVLD04 in semi-massive sulphides. Characteristics of this mineralisation suggests that it represents the outer fringe of a deposit rather than the core. Mr. Taube believes a high-grade core of VMS mineralisation could occur within a few hundred metres of the known intersections.

Drilling has now extended the known zone at Mount Victoria of anomalous but sub-ore grade mineralisation for some 600m in a north west-south east direction.

Preliminary interpretation of November's aeromagnetic survey, described below, reveals that the Mount Victoria alteration zone extends several hundred metres west from the rhyodacite intrusive drilled by Newcrest in 2001, and by Lodestone last year. Much of this zone has never been thoroughly tested, and will be carefully assessed in view of the VMS-style mineralisation intersected in Lodestone's drill holes MVLD02 and MVLD04.

Logistics are shown in the table below:-

| Drill Hole | Total depth (m) | Best Intersection | |
|-------------------|------------------------|--------------------------|-------------|
| MVLD01 | 29.4 | - | Abandoned |
| MVLD02 | 221.6 | 1m @ 0.063 g/t Au | from 111.5m |
| MVLD03 | 205.5 | 4m @ 0.39 g/t Au | from 100.0m |
| MVLD04 | 230.6 | 1m @ 0.414 g/t Au | from 127.0m |
| Total | 687.1m | | |

Hole MVLD01 was collared to intersect the north west extensions of the mineralisation in Newcrest hole MVRC033 (30m @ 0.26 g/t Au) but was abandoned at 29.4m in Jurassic sandstone due to drilling problems.

MVLD02 was collared to intersect the south east extension of the mineralisation in Newcrest hole MVRC033 and beneath gold anomalous rock chips in a quartz veined rhyolite intrusion identified by Dr. Gary Arnold's work. The hole was completed at 221.6m but did not intersect the rhyolite. But, unexpectedly and perhaps significantly, disseminated pyrite (up to 6%) was recorded from 101m–152.5m. "Hurgledurgleite" (essentially magnesian) alteration typical near mineralisation at the Mount Morgan Mine was intersected from 179.6m–180.6m

MVLD03 was collared above MVLD02. Best gold intersection is 4m @ 0.39 g/t from 100.0m within the rhyolite intrusion. End of hole was 205.5m

MVLD04 was collared several hundred metres along strike from the above two holes and completed at 230.6m.

Mine Corridor – A low level-high resolution aeromagnetic survey was flown in November by Perth-based UTS Geophysics Limited, www.uts.com.au. The survey, centred on Mount Victoria, covered 60 sq. kms. and included the Midas and Morganite prospects 3 kms. north of Mount Morgan, the former Mount Morgan mine site, and the historic Golden Gully alluvial workings 3 kms. south west of Mount Victoria.

Additional areas of exploration interest have been revealed by this survey, and detailed data interpretation is underway to select drill targets.

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

Gold mineralisation at Cracow occurs in distinctive environments, and similarly prospective settings exist south of the township within Lodestone's tenements.

As at Cracow, areas of particular interest are partly or entirely covered by sandstone that has frustrated and limited effective historic exploration.

On completing the Mount Morgan mine corridor survey, UTS Geophysics aircraft deployed to the Cracow South project area to collect detailed magnetic data from eight areas of specific interest to Lodestone. This data will be interpreted in February to define potentially mineralised structures that will be drilled as soon as possible.

Potential Joint Ventures – Talks that could lead to a major mining company farming into parts of Lodestone's Mount Morgan project will resume in February.

Field work to prioritise targets for the 2005 drilling program on the Quadrio project, east of Rockhampton, will begin when the storm season ends.

Lodestone will soon invite qualifying companies with established interests in the Cracow district to participate in the Cracow South project.

Tenement Additions and Reductions - Lodestone applied (on 3 January 2005) for an additional 45 sq. kms., centred approximately 20 kms. south of Cracow, and has relinquished 100 sq. kms. south and east of Pomegranate Station where cover rocks are too thick to explore cost-effectively. Nine sq. kms. have also been relinquished south of Bajool.

Forward Programs – Lodestone will build upon the results of last quarter's drilling, mapping and geophysical programs to select sites for additional drill holes on optioned ground near the Mount Victoria prospect west of Mount Morgan.

Planned mapping and recently acquired aeromagnetic and gravity data will be used to select drill sites at the Midas and Morganite prospects 3 kms. north of Mount Morgan. These programs will be advanced by Lodestone, either alone or in joint venture, and field work will resume in February.

Copper Opportunities at Mount Morgan: In addition to 9 million ounces of gold, Mount Morgan produced 720 million pounds of copper. Today's copper price, approximately \$1.50 per pound, is at an historic high and greatly increases the value and consequent attraction of Mount Morgan-style targets to Lodestone. An extensive drilling program, close to Mount Morgan, is envisaged for 2005.

Yours faithfully,



John McCawley
Executive Director

Information regarding exploration results contained in this report has been compiled by Mark Dugmore who is a "competent person" for the purposes of the Australian Stock Exchange Listing Rules. Mr. Dugmore is General Manager of Lodestone Exploration Limited and has consented in writing to the inclusion in this report of the matters based on the information in the form and context in which it appears.