



1 September 2003

Dear Security holder

On behalf of your Board, I am pleased to issue you Lodestone Exploration's first quarterly Shareholder update. Your Directors are committed to keeping you informed of our exploration strategy and outcomes, both through our statutory reporting and via quarterly updates.

Our search for 'another Mount Morgan' is building momentum.

Lodestone continues to focus on tracing the southern extensions of the volcanic rocks that hosted the Mount Morgan orebody, and which are thought to extend as a corridor from Mount Morgan, south to Pomegranate Station.

Lodestone's tenements now cover a total area of just under 800 square kilometres. Our immediate task is to define that corridor, and to confirm and test anomalies generated by TEMPEST and GEOTEM airborne electromagnetic surveys.

Three shallow GEOTEM anomalies; G4, G5, and G7 and one TEMPEST anomaly; MMS01, were drilled in May. The 'Phase One' drilling significantly increased our knowledge of the Hoopbound Formation - Volcanic and sedimentary rocks that have buried the mine corridor volcanics associated with the historic Mount Morgan mine.

Importantly, we now believe that our drill targets are more deeply buried than first thought. This knowledge will help us optimise our efforts in the second phase of the drilling program, planned to commence in mid September.

Lodestone's team is now drawing on geophysical fieldwork and specialised interpretive skills to refine our model of the local terrain, and help rank our electromagnetic targets.

This work includes ongoing reinterpretation of TEMPEST data, a depth to magnetic basement interpretation, and collection of ground-based electromagnetic and gravity data. We expect that this mix of new data will help us prioritise and refine our drill targets.

Subject to the results of surveys undertaken in August, new drilling will commence in September to test three new targets and to follow-up a previously drilled target.

With work now well underway, your Board decided to capitalise on our burgeoning knowledge of the area and widen our search, and look for additional opportunities within the Mount Morgan district.

Following an independent regional geological review, undertaken by Dr Douglas Haynes, Lodestone has applied for some 100 square kms of new ground. This new area includes a northern extension of the mine corridor volcanics and sites that offer new exploration prospects, broadly similar to Kidston-type and Mount Leyshon-type targets. Dr Haynes is known in the exploration industry for his key involvement in the discovery of the Olympic Dam and Ernest Henry deposits.



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An additional consultant, Dr Gary Arnold, is also undertaking further independent work to identify other possibilities within the Mount Morgan district.

In summary, our activities to the south of the historic Mount Morgan mine are now well underway. We are also considering in detail the district's wider potential, leading to new applications for additional prospective ground. The regional review is continuing and may yield additional possibilities for Lodestone for an economic discovery.

The next phase of drilling commences in mid-September, and we will report on those results at the completion of the program.

Yours sincerely

A handwritten signature in black ink, appearing to read "JT Shaw". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

JT Shaw
Chairman