



28 May 2004

Dear Member,

### Mid-Quarter Report to Shareholders

This is the third of our mid-quarter reports to shareholders and optionholders. It reports on the program carried out over the past seven weeks and outlines forward plans to the end of June.

#### KEY ACTIVITIES

Since the beginning of April 2004, Lodestone has:

- Identified two new potential VHMS targets in the Mount Morgan mine corridor;
- Assembled additional data sets to help interpret two gravity anomalies south of Mount Morgan;
- Continued assessment of optioned ground between Mt Victoria and Mt Battery, close to the former Mount Morgan minesite;
- Advanced talks aimed at forming joint ventures on three groups of tenements;
- Applied for additional ground in the Cracow district and south of Mount Morgan.

#### OUTLINES OF ACTIVITIES

Results and implications of these activities are outlined below:-

**Structural Interpretation.** Dr. Tim Hopwood has completed his structural and stratigraphic study aimed at refining criteria by which Mt Morgan-type targets can be recognised and ranked.

Consequently he nominated two targets within the mine corridor for detailed follow-up exploration. One is located in the Crows Nest Creek area, 3km North of the Mount Morgan open cut and within the 'Midas' area of interest taken up at the suggestion of Dr Douglas Haynes in 2004.

Another of Dr Hopwood's targets is located 7 kms south of Mount Morgan, within areas of interest nominated by Drs Haynes and Arnold, each independently of the other.

As short introductions to these geologists, each has contributed directly to major discoveries: including Olympic Dam and Ernest Henry [Dr Haynes] Fitzpatrick Lode at North Broken Hill [Dr Hopwood] and North Parkes [Dr Arnold].

**Gravity Targets.** Lodestone has provided Canadian geophysicists, SJV Consultants Ltd with additional data sets to help define two gravity targets 14 kms and 19 kms south of Mount Morgan.

One of these gravity targets occurs near Fletcher's Hill where outcropping copper mineralisation was noted by Lodestone personnel during the drilling of 2EM targets in that area.

These sets include electromagnetic, magnetic, and radiometric data. Preliminary results of target modelling are expected within weeks.

A recommendation to drill one of these targets is anticipated. If so, drilling will begin as soon as a rig is available.



**Mount Victoria – Mount Battery.** Dr Arnold continues his mapping and rock chip sampling program on optioned ground between Mount Victoria and Mount Battery.

Mount Victoria is 3 kms south west of the Mount Morgan open pit and Mount Battery is 5 kms to the South West.

The aim of this work is to establish the extent and geometry of the mineralised system and to choose drill sites if warranted.

**Potential Joint Ventures.** Lodestone has talked with representatives of two major companies that have expressed interest in earning equities in several of Lodestone's areas. These talks continue.

Agreement in principle has been reached with a third company, whereby Lodestone can earn equity in that company's prospective ground by carrying out a work program that includes specified geophysics and drilling.

An agreement has been drafted, and should soon be signed.

**Additional Tenement Applications.** As reported in the February Mid-Quarter Report to Shareholders, Lodestone applied in January for some 300 square kms approximately 30kms south of Cracow, upon Dr Haynes' recommendation.

An additional application, for a similar sized area, was lodged in May. This area is located approximately 65 kms south of Cracow, and was also nominated by Dr Haynes.

Both tenements cover ground that is prospective for Cracow-style epithermal gold deposits.

An application for 18 square kms south of Mount Morgan was also lodged in May, after the area was surrendered by another company.

Lodestone has had its eye on this ground; that includes extensively altered mine corridor volcanics, for several years.

**In summary,** the immediate emphasis is on mapping the Mt Victoria – Mt Battery area close to Mount Morgan and interpreting the Fletchers Hill gravity and radiometric anomaly.

These efforts are focussed on developing targets to be drilled as soon as they are ready. We are hopeful that one or more of Mount Victoria, Fletcher's Hill, and Midas can be readied for drilling in June or July.

A handwritten signature in black ink, reading "John McCawley". The signature is written in a cursive, flowing style.

John McCawley  
Executive Director