



January 12, 2007

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

Dear Sir/Madam,

**ACTIVITIES REPORT FOR QUARTER ENDED DECEMBER 31, 2006**

Lodestone is currently advancing three projects: Mount Morgan, Limestone Creek, and Karinya.

**Mount Morgan Project: Midas Prospect (100% Lodestone):** This prospect is three kilometres north of the historic mine site, and 50 kilometres south-west of Rockhampton, Queensland.

As indicated in Lodestone's announcement on December 14, 2006, Midas has returned consistently significant gold and copper assays from rock chip sampling over the decades from well-defined structures, as shown in Figure 1 attached. None of these structures have been drilled.

Lodestone will carry out a two-phase exploration program at Midas. The initial phase will establish, by shallow drilling, if the mineralised structures can contain enough near-surface tonnage and grade to warrant detailed evaluation.

The second phase type work is aimed at defining deeper drilling targets for concealed massive sulphides based on building a geological model by comparing detailed Mount Morgan mine site stratigraphy and alteration with that at Midas.

Recently discovered small outcrops of felsic volcanics or intrusives of unknown origin within the Midas area are considered significant. The regional type andesitic lithologies at Midas could be equivalents to upper sections of the Mount Morgan stratigraphy (both barren and andesitic in character) and the minor felsic rocks may represent upper sections or dykes of more significant intrusive bodies at depth (felsic rocks host the Mount Morgan deposit). The gold and copper mineralisation in the upper sections of the geological model might be confined to narrow structures within less favourable stratigraphy such as those observed at Midas. This work will include mapping, further geochemical sampling, petrology, and a review of selected old core holes from the Mount Morgan deposit.

Midas is to be drilled this quarter.

**Limestone Creek Project: Hill 425 and Bonanza Prospects (100% Lodestone):**

This project is located 200 kilometres north-west of Cairns, Queensland. Lodestone is targeting Mungana-style gold and copper mineralisation.

In November, Lodestone critiqued and recompiled data generated by other explorers more than 25 years ago.

Ausmec Geoscience is now replotting those outcrops and structures that, in the past, were described as 'gold-bearing', and look prospective in terms of modern Chillagoe Formation exploration models. Mapping follows.

**Bocoolima Project: Springlands Prospect (farm-in can earn up to 51%):** This optioned project is 50 kilometres south-west of Gladstone, Queensland.

Lodestone is targeting gold and copper in skarns at Bocoolima's Springlands Prospect; owned by Copper Strike Limited. Lodestone's commitment is to drill a minimum of 500 metres. Lodestone can then earn an initial 40% by spending an additional \$500,000 over three years.

During late November 2006, Lodestone carried out a small drilling program that consisted of 10 holes for 502 metres of open hole percussion drilling at the Springlands Prospect. Table 1 shows all drill hole collar information.

The drilling was designed to assess the gold and copper potential of mineralisation located within roof pendants of the Diglum Tonalite.

Previous exploration in the area had consisted of rock chip and soil sampling, dipole IP, and one drill hole SPDH6 to 78 metres. Several small pits and anomalous rock chips up to 7.96 g/t gold are located along the western edge of the prospect near the tonalite contact. The single drill hole failed to intersect any mineralisation and indicated that much of the prospect area could be a thin veneer of limestones, skarns and volcanics above the underlying Diglum Tonalite intrusive which is thought to be unprospective.

In detail, the drilling concentrated on evaluating beneath the anomalous rock chips, the small old workings, and to define if the Diglum Tonalite had stoped out any remaining potential for significant mineralisation.

Only holes SP005 and SP009 failed to terminate in tonalite intrusive. Of the 10 holes drilled, only one hole, SP009, intersected what appears to be blind mineralisation, a semi-massive pyrite zone (up to 30%) between 55 metres and 57 metres. SP009, SP004 and SP005 were drilled along one section across the prospect, and both SP005 and SP009 failed to intersect the underlying Diglum Tonalite at a down hole depth of 79 metres. Both holes ended in marble/limestone-type lithologies.

**TABLE 1**

Hole No.	AMG m E	AMG m N	Azimuth (mag)	Dip	Total Depth m
SP001	309947	7313034	270	-60	50
SP002	309920	7312986	270	-60	50
SP003	309949	7312976	270	-60	50
SP004	309921	7312913	81	-60	79
SP005	309911	7312915	265	-60	50
SP006	309925	7312724	300	-60	11
SP007	309923	7312733	270	-60	40
SP008	309934	7312768	297	-60	50
SP009	310000	7312904	287	-60	79
SP010	309979	7312867	233	-60	43
					<b>502</b>

Overall, the drilling indicates that the underlying intrusive tonalite is very shallow and therefore reduces the tonnage potential of any mineralisation associated with the old workings, skarns or anomalous rock chip samples taken previously.

Assays are pending. A decision on whether to carry out additional work, or withdraw, will be made then.

**Karinya Project (farm-in can earn up to 70%):** This zinc-lead-silver project, located 80 kilometres north-east of Adelaide, is optioned from Sedex Minerals Pty Ltd. Lodestone can earn an initial 51% equity by spending \$500,000 within two years.

Lodestone is targeting stratabound mineralisation within the Karinya Shale; part of the Lower Kanmantoo Group. This group hosts the Aclair, Talisker and Angus lead-zinc deposits, and the Kanmantoo copper deposit. These deposits are 70 kilometres to 90 kilometres south of Sedex's ground.

Last week, Perth-based UTS Geophysics flew a closely spaced high-resolution aeromagnetic survey of 16 square kilometres at Frankton to gather modern data.

A detailed gravity survey of the same area begins in a fortnight. A third survey, using electromagnetic and possibly other methods, will cover aeromagnetic, gravity, and structural targets.

Drilling will follow as soon as a rig can be sourced.

**Potential Joint Venturers:** Lodestone continues to canvass possible joint venture partners for Cracow South.

Limestone Creek and Morganite have been withdrawn from offer pending outcomes of ongoing work by Lodestone and competitors in the Chillagoe and Mount Morgan districts.

**Tenement Reductions:** Lodestone relinquished a total of 21 square kilometres in the Mount Morgan district during the quarter.

**Forward Programs:** The tempo of this year's fieldwork is quickening, with earliest emphasis on the Karinya and Mount Morgan Projects.

Yours faithfully,



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*Mr Michael Seed, BSc (App Geol) MAusIMM, a consultant geologist to Lodestone Exploration Limited, has over 25 years' experience in mineral exploration. He has more than five years' relevant experience in the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code of Reporting of Exploration Results". Mr Seed consents to the inclusion in the announcement of the matters based on information in the form and context in which it appears.*

