



January 18, 2007

Dear Shareholder,

Last week, Lodestone issued the second quarter activities report detailing work undertaken in the latest December quarter. The full report is available on the company website at www.lodestonex.com. I am taking this opportunity to write to you with a review of your company's recent work and to outline Lodestone's ambitions for 2007.

The **Midas Prospect** (100% Lodestone) is three kilometres northwest of the historic mine site of Mount Morgan. The **Mount Morgan Project** of which Midas is the current focus retains long term interest and priority for Lodestone. The company has confirmed significant gold and copper mineralisation at Midas where rock chip sampling over several years has consistently returned gold and copper values – up to 103 g/t gold and 3.45% copper occurring along the main, well defined geological structures, none of which has been drilled.

We want to explore near surface – Midas is traditionally seen as an area of shallow mineralisation. However, we believe this prospect should also be pursued at depth. Recently discovered small outcrops of felsic volcanics or intrusives of unknown origin within the Midas area are significant in that they may indicate deeper rocks of the kind that host the Mount Morgan deposit. Therefore, we will carry out a two-phase exploration program at Midas – shallow drilling during the current March 2007 quarter to establish if there is enough near surface tonnage and grade to warrant detailed evaluation, followed by a program to generate deeper targets to drill in search of concealed massive sulphides.

The **Limestone Creek Project** (100% Lodestone) is 40 km west of the old goldfield at Maytown in far north Queensland. We are concentrating on the Hill 425 and Bonanza Prospects where we are targeting Mungana and Red Dome style gold and copper mineralisation. Rock chip sampling in the 1980's returned gold values ranging from zero to 7 g/t together with strongly elevated base metals values at Hill 425, and gold values from zero to 1.5 g/t at Bonanza.

At Lodestone, to verify the previous work, we recently recompiled and critiqued the old data. We have now contracted Ausmec Geoscience to replot outcrops and structures that, in the past, were described as gold bearing and look prospective through modern exploration modelling. Our aim is to look for similarities between Limestone Creek and areas nearer Chillagoe where discoveries have been made in recent years.

At the **Karinya Project** (Lodestone can earn up to 70%) in South Australia (Lodestone's only exploration outside Queensland) three detailed geophysical programs should provide information needed to advance this interesting zinc-lead-silver target. Previous exploration has established that zinc, lead and silver are present at Karinya as part of the widespread mineralisation in the Lower Kanmantoo Trough, but the historical data is not precise enough.

We are expecting some valuable information from a recent aeromagnetic survey. It was a closely spaced, high-resolution survey flown early this month over 16 square kilometres at the lowest possible altitude and should produce modern, high quality data. A detailed gravity survey of the same area is about to begin. An electromagnetic survey, also scheduled for this month, will complete the geophysical picture to enable drill sites to be prepared.

At the **Bocoolima Project** (Lodestone can earn up to 51%), 50km south-west of Gladstone, Lodestone is targeting gold and copper at the Springlands Prospect. Rock chips of up to 7.96 g/t gold had previously been located along the western edge of the prospect. Last November, a small drilling program of 10 holes totalling 502 metres probed beneath anomalous rock chips to test potential for significant mineralisation. The drilling indicated that the basement rock was shallower than expected, reducing the tonnage potential of any mineralisation above it. Assays are being done and when they are available, a decision on whether to carry out more work will be made.

During 2006, there was an increase in the level of exploration activity and the acquisition of interests. I am pleased to report to you that the momentum is being maintained in 2007 and look forward to reporting on positive progress as the year advances.

Yours faithfully,



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