

**Date:** 28 January 2011

**To:** Australian Securities Exchange  
Companies Announcement Office  
Electronic Lodgment System

Dear Sir

**ACTIVITIES REPORT FOR QUARTER ENDED 31 DECEMBER 2010**

**ACTIVITIES RELATED TO ENERGY PROJECTS:**

**Tambo Project**

Seven new Exploration Permits for Coal (EPCs) were granted during the quarter bringing the total to twenty seven in the Tambo Project area, all of which contain one or more targets of interest. In addition the rights to EPC 2056 (Chinchilla East) were acquired for no consideration from interests associated with Lodestone director Greg Baynton.

Drilling continued in the quarter with an initial scout drilling program within EPC 1786 being completed. The programme confirmed strata in this area contained minor coal seams but were above the main Walloon targets in the Juandah and Taroom Coal Measures.

Ongoing rain, flooding and resulting poor access conditions in the Maranoa region interrupted operations several times and prevented drilling progress during December 2010.

The Company expects that these conditions will prevail in early 2011. A further update on drilling plans for the Tambo Project will be issued when weather conditions and access arrangements facilitate the recommencement of drilling.

Lodestone's wholly-owned subsidiary, Surat Gas Pty Ltd, has been appointed preferred tenderer for three new petroleum tenements (ATPs) 1072, 1095 and 1098 in the Surat/Eromanga Basin. The appointment follows the Queensland Government's 2010 Petroleum Land Release competitive tender process which closed in September 2010.

Each of the new ATP areas is either unexplored (or significantly underexplored) for petroleum and gas and all are contiguous with each other and/or Lodestone's existing tenement footprint.

Formal acceptance and final granting of the three new ATPs would result in a 310% increase in the Company's petroleum and gas acreage footprint in the Surat/Eromanga Basin. As a result, the Company's acreage portfolio in this region would become one of the largest holdings in the Surat/Eromanga region and would include approximately 20,500 square kilometres.

**Moreton Energy Project**

Lodestone's Moreton Project consists of four EPCs located near Beaudesert in South Queensland. No field activity was undertaken in the quarter.

Core samples from a borehole in EPC 1302 indicated the presence of coal seams suitable for thermal coal use. More work is required to further define the extent and characteristics of the deposit.

An application for the renewal of EPC1302 was lodged in December.

**ACTIVITIES RELATED TO MINERAL PROJECTS:**

Lodestone is considering funding and farm-out options for both properties.

**Mount Morgan District Project (100% Lodestone)**

This project is centred on the historic gold mining town of the same name, and is situated 50km southwest of Rockhampton, Queensland.

**Chillagoe District Project (100% Lodestone)**

This project is situated 130km north of the Chillagoe township in North Queensland. The structural and lithological setting of this project is similar to the Mungana and Red Dome gold-copper deposits near Chillagoe.

Results are available from the drilling program in the Chillagoe district in the September quarter however further assays results and completion of microscope examination of samples will be completed before deciding on future work.

**CORPORATE ACTIVITY:**

Following acquisition of Tambo Coal and Gas Pty Limited and Moreton Energy Pty Limited and the appointment as preferred tenderer of wholly-owned subsidiary Surat Gas Pty Limited, Lodestone is exploring commercial arrangements for future joint ventures, farm-outs, spin-offs and project funding/capital raising options.

Yours faithfully,

**Roger Clarke**  
Chairman

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Chief Executive Officer  
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