REDSTONE RESOURCES

REDSTONE RESOURCES PTY LTD

ABN 42090169154

ASX CODE RDS

QUARTERLY REPORT

FOR PERIOD ENDING DECEMBER 31st 2006

HIGHLIGHTS

- During the three months ("Quarter") to 31st December 2006, Redstone Resources Limited conducted a systematic on-ground exploration programme in the West Musgraves that defined several sizeable geochemical targets, including Halleys and Titan on the Blackstone Range Project (farm-in agreement with Resource Mining Corporation - **ASX: RMI**).

- Halleys is situated within the Araplats Trend, a 35km long Ni-Cu-PGE anomalous trend identified in the previous Quarter. Rock chip samples from an ironstone outcrop at Halleys have yielded peak results of 0.91%Cu, 0.52% Ni, 181ppb Pt and 61ppb Pd (279ppb PGE+Au). Results from 100 x 100m spaced lag sampling have extended the intensely anomalous Cu, Ni, PGE zone to 2.5km strike. Total PGE geochemistry indicates the ironstone is gossanous, with similar PGE trends to the gossan over the Voiseys Bay Ni-Cu-PGE deposit in Canada. Ground EM defined several near-surface weak EM conductors coincident with strong geochemical anomalies. Results to date suggest the presence of significant Ni-Cu-PGE sulphide mineralisation.

- A large Cu anomaly (10 x 4 km) was defined in the southeast part of the Blackstone Range Project Area. This broad anomaly contains several targets, the best of which is the Titan Cu prospect (1.2km long by 600m wide at >300ppm Cu) with coincident anomalous Ag and Co and a partly coincident PGE anomaly.

- On the Mt Muir Project, lag sampling has located a PGE anomaly at >15ppb PGE over 1.2 km strike and 500m wide, containing a peak gold assay of 1050ppb Au. The 1g/t Au-rich lag sample contains 2.5ppm Mo, 15ppb PGE and 1.4ppm U.

- At Aladdin on the Tollu Project, an 80m x 80m outcrop containing 5 to 10% disseminated ex-sulphide is associated with a weak Cu-Pb lag anomaly and is open in three directions under sand cover and is hosted in basement metamorphic rocks adjacent to a major regional NE-trending structure.

- A detailed aeromagnetic survey was completed over Baggaley Hills / Mt Agnes / Antlion and Tollu East, defining several outstanding aeromagnetic targets. Significant additional ground (639 km^2) was acquired adjacent to Redstones' tenements on the basis of the results of this survey.

- An agreement has been signed with Discovery Metals Limited (**ASX: DML**) documenting the terms upon which Redstone will farm-in to five of Discovery's tenements in the West Musgrave. 33 airborne EM targets have been defined over these tenements which are highly prospective for Ni-Cu-PGE mineralisation.

- RAB and RC drilling is scheduled for late March/early April to test many of the targets defined, particularly Halleys, Titan and Tollu.

CORPORATE

During the Quarter Redstone Resources Limited ("Redstone") and Discovery Metals Limited negotiated the commercial terms pursuant to which Redstone can farm-in to five of Discovery Metals West Musgrave tenements (E69/1640, E69/1641, E69/1642, E69/1663 and E69/1662) in the Murray Range region, 50km to the west-northwest of the Wingellina Ni-Co Deposit, as announced earlier today.

The agreement relates to five exploration licences to the north of Blackstone, four of which have access agreements with the local council. The 704km^2 area covers a large volume of unexplored Giles Complex rocks, which are highly prospective for Ni-Cu-PGE sulphide mineralisation and Ni-Co laterite deposits. Discovery Metals and Falconbridge completed airborne EM surveys across the entire tenement package, totalling over 2500 line kilometres of GeoTEM, with the recognition of 11 first order EM anomalies, and 33 anomalies overall. No other significant work has been conducted on the tenements.

Formal terms of a farm-in agreement have been agreed between Redstone and Discovery and documentation has been executed by both companies.

The key terms of the farm-in include:

- Redstone have a minimum expenditure commitment of $260,000
- Redstone can earn a 51% interest in the Musgrave Project for the expenditure of $1,000,000.
- Redstone can earn a 75% interest in the Musgrave Project for a total expenditure of $2,000,000.
- As an alternative, Discovery has also granted Redstone an option to purchase the Musgrave Project up until 30th April 2007 for $300,000 in Redstone shares and a cash payment of $190,000.
- Discovery will retain a 2% Net Smelter Return royalty, in either case.

EXPLORATION ACTIVITY STATEMENT

During the Quarter, Redstone continued its exploration on the Tollu, Blackstone Range and Mt Muir Projects.

- Redstone has now taken approximately 4000 lag geochemical samples and 150 rock samples in the West Musgraves, covering approximately 900km^2.
- All samples, and an additional 640 rocks and 740 soil samples, have been assayed using a handheld XRF machine.
- Most anomalies have been mapped at 1:5000 to 1:2000 scale or better. Petrological studies were conducted on 29 samples
- Eighteen lines of MLEM (moving loop EM) were completed over the Halleys anomaly for a total of 198 stations and 35.85 line km of data.
- A low level aeromagnetic survey at 100m line spacing was completed by Fugro on Baggaley Hills / Mt Agnes / Antlion and Tollu East.
- The third round of clearances was undertaken on the Tollu and Blackstone Range Projects, including infill clearances over Halleys, Titan, Aladdin and Tollu Mining Centre. Excellent relations with the Ngaanyatjarra peoples have been developed, which has allowed the progression of on-ground exploration on these projects.

Blackstone Range Project (Farm-in Agreement with Resource Mining Corporation: Redstone to earn 75% - ASX:RMI)

Halleys (Ni-Cu-PGE)
Regional 800m x 200m soil lag sampling by Redstone in the previous Quarter highlighted the Halleys target within the Araplats trend, containing peak values of 1400ppm Cu, 62ppb PGE and 833ppm Ni (reported in Sept Quarterly Report to the ASX). The Araplats Trend is interpreted to be a magma flow-through zone related to the Saturn Complex, which is prospective for sulphide deposits, perhaps analogous to the famous Platreef PGE-Ni-Cu district in the Bushveld Complex of South Africa.

Infill soil lag sampling has subsequently defined a 2.5km long zone of strong Cu-Ni-PGE soil geochemistry with peak values of 1915ppm Cu, 1157ppm Ni and 111ppb PGE. Strong Ni-PGE anomalism (without surficial Cu) extends for a further 2km along strike to the NW, under a clay-rich drainage depression.

Rock chip sampling of a small ironstone hill at the southernmost end of the Halleys Target yielded peak values of 0.91%Cu, 0.52% Ni, 181ppb Pt and 61ppb Pd (279ppb PGE+Au; Pt :Pd ratio of 1:1 to 3:1). Analysis and plotting of the entire PGE suite (Os, Ir, Ru, Rh, Pt, Pd, Au) indicates a magmatic pattern typical of derivation from Ni-Cu sulphides and very similar to that of the discovery gossan at the large Voiseys Bay deposit in Canada. It thus is likely that the soil anomalies and ironstones overlie Ni-Cu-PGE sulphide mineralisation at depth.

To confirm the interpretation, 35.85 line km line kilometres of ground electromagnetic surveys (MLEM - 200m stations on 200m spaced lines for a total of 198 stations) were completed over the Halleys area in early December. Whilst no strong bedrock conductors (volumes of massive sulphide) were detected, three anomalies were located which are caused by relatively shallow conductive sources that probably represent disseminated mineralisation. One of the EM targets trends NNW from the anomalous ironstone outcrop and is interpreted to represent a NNW-plunging Cu-Ni-PGE sulphide body, given its spatial coincidence with the surface geochemical anomalies. Drill testing of the target will commence in March-April, 2007.

Detailed geological and scientific work has been conducted by Redstone to determine which Giles Complex intrusions are prospective for sulphide deposits. The Saturn Complex, including the Araplats Trend, has many favourable criteria that the other intrusions do not:

- Petrological descriptions for rock samples in the Saturn Complex have shown variable rock types including olivine gabbro, gabbronorite, troctolite, anorthosite, dolerite and a highly unusual Fe-REE-P-Zr rich gabbro on the outer ring of Saturn – This suggests that the Saturn Complex is highly fractionated and possibly contaminated.
- Sulphides (including pentlandite and chalcopyrite) are present in many gabbro samples from the Complex; and
- Ni content of microprobe analysed olivines show a large variation and strongly suggest sulphide depletion of the magma.

Titan (Cu-PGE-Ag)
Regional Lag sampling has defined a broad copper anomalous zone at >120ppm Cu over an area of 10 x 4km in the southeastern portion of the Blackstone Range Project, southeast of the Saturn Complex.

Two high-order (>200ppm Cu) copper anomalies are present within this zone: Titan and Titan North. The Titan anomaly has been enhanced by close spaced 50 x 100m multielement lag sampling. Outcrop over the anomaly is almost non existent. The copper anomaly at >300ppm Cu is 1.2km long and 600m wide trending 060° and has coincident anomalous Ag and Co and partly coincident PGEs. Peak values are 1064ppm Cu, 1.3ppm Ag, 463 ppm Co and 28ppb PGE. The PGE anomaly is sited on the SW flank of the copper anomaly, with partial overlap.

This is the largest Cu anomaly thus far defined in the West Musgrave Block.

Mt Muir Project (100% Redstone)

Reconnaissance exploratory work in the Mt Muir area at the northern edge of the West Musgraves has yielded extremely positive results. Three Ni-Cu-PGE and PGE-Au geochemical anomalies require follow-up work;

1. Carman West is a PGE anomaly at >15ppb PGE over 1.2 km strike and 500m wide and open west off the tenement on to adjacent Redstone ground. The peak PGE result is 25ppb. Within the anomaly is a one point 1050ppb Au anomaly supported by 3 and 10ppb Au assays to the south. The 1g/t gold rich sample has 2.5ppm Mo, 15ppb PGE and 1.4ppm U.

2. Alystra is a moderate Ni, Cu, PGE, Co, anomaly with elevated Ti, V and Zn. The anomaly is defined on 1.6km x 200m spaced sample points in an area of low magnetic signature, about 700m north of an outcrop of Giles Complex olivine gabbro containing trace chalcopyrite. Peak values include 448ppm Ni, 224ppm Cu, 15ppb PGE, 614ppm Co and 141ppm Zn.

3. MM8 is a very significant PGE anomaly with associated Cu and Ti. Peak values of 70ppb PGE occur in a sample at the end of the sampling traverse near the centre of the tenement. The anomaly is sited over a linear NE trending magnetic anomaly.

Small gabbroic bodies containing accessory sulphides are present at Mt Muir and a large sequence of copper-anomalous intermediate volcanic rocks has been defined.

Tollu Project (100% Redstone)

A third round of clearances at Tollu was conducted in November, for EM surveys and RAB drilling at the Tollu Mining Centre and regional work in the southwestern part of the project.

Results were returned for the bulk of the sampling completed on the Tollu Licences with a moderate Cu-Ni anomaly on 800 x 200m spaced sampling defined at Araplats (NE of Scarab) on the northern border of tenement E69/1527 (trending into a Redstone ELA 69/2197) and a moderate Cu anomaly along the Tollu Fault, to the south of the Tollu Mining Centre.

Aladdin
On ground exploration commenced in the basement Proterozoic (>1350Ma) Birksgate Complex, which comprises metamorphosed volcano-sedimentary sequences prospective for Broken Hill type (BHT) base-metal deposits. On site XRF assaying of regional lag geochemical samples revealed a 569ppm Pb anomaly adjacent to the regional NE-trending Lupton Hills Fault. Mapping near the anomaly in terrain dominated by sand dunes defined a disseminated sulphide body over 80m x 80m, containing at least 5% iron-oxide boxworks after sulphide in weathered and leached mafic rocks. The zone is open under sand to the north, west and south. The iron-oxide boxworks are interpreted to be pyrrhotite, but no petrology has yet been carried out. Peak rock-chip values from the anomaly are 448ppm Cu, 35ppm Mo and 284ppm Pb

Tollu East
An airborne aeromagnetic survey flown in early October at 100m N-S line spacings across the Tollu East tenement (ELA69/2010) better defined a large circular Giles Complex Intrusion to the east of Tollu.

Baggaley Hills (100% Redstone)

A detailed 100m line-spaced low-level aeromagnetic survey (8085 line km) was flown over the Baggaley Hills area in the southeastern part of the West Musgraves Project, where geophysical targets, particularly the Olympic Dam – type IOCG (iron-oxide Cu-Au) targets, required better definition. The extremely high quality images show a variety of faults, bulls-eye magnetic targets, large magnetic granite intrusions and abundant gabbro of the Giles Complex. The images also better define the margins of the Antlion intrusion, and have highlighted magnetic targets on the edge of the intrusions, as well as additional smaller mafic intrusions nearby.

The data have defined outstanding targets, and application has been made for an additional 639km^2 in two tenements to cover several new anomalies adjacent to the pre-existing Mt Agnes/Baggaley Hills tenements.

FUTURE EXPLORATION

Blackstone Range
A RAB drilling program is scheduled for April 2007, aimed at testing well-defined Ni-Cu-PGE and Cu targets highlighted during the geochemical, geological and geophysical exploration programs, and to test geophysical targets in the northern part of the project, where thick calcrete prevents effective surface geochemistry. Shallow angled RC drilling to 100m depth will also be conducted by the multipurpose rig in April 2007, to evaluate EM and geochemical targets at Halleys and possibly Titan. Further detailed work will commence along the Araplats trend to follow-up several anomalies including further ground EM surveys along strike of the Halleys target.

Tollu
RAB Drilling will be conducted at Aladdin to test the Cu-Pb anomalous sulphide system, and to the south of the Tollu Mining Centre, to test anomalous Cu in areas of relatively thick colluvial cover. Shallow RC drilling will be utilised to test the Tollu East stockwork-vein Cu target. Approximately 30% of the Project requires first-pass geochemical exploration.

Mt Muir
Regional 1600 x 200m spaced sampling will be completed over approximately half the tenement, including infill sampling and reconnaissance evaluation over anomalies already defined. RAB drilling will be conducted in areas of significant cover.

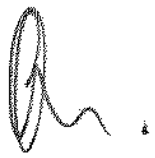
Murray Range
Exploration on the new Discovery Metals Farm-in Tenements will commence early in 2007, with clearance proposals to the Land Council, followed by on-ground EM to validate the priority GeoTEM targets and detailed geochemical sampling of those targets. Regional geochemical sampling will be utilised across the tenements to locate mineralisation not detectable by geophysical techniques.

Traditional Owners Access and Clearance
Planning meetings with the Ngaanyatjarra Council are due to be held in late January to schedule access negotiations and clearances for the 2007 field season.

GLOBAL TARGETING

Redstone continued its global targeting strategy during the Quarter, particularly in South America. To this end, Redstone has established a Brazilian subsidiary company and has already applied for ground based on its conceptual targeting for nickel deposits. It is also negotiating with a major mining company to further this conceptual targeting activity in South America.

The company was unsuccessful in its application for exploration ground applied for in Finland.



A. AILAKIS
MANAGING DIRECTOR

24th January 2007

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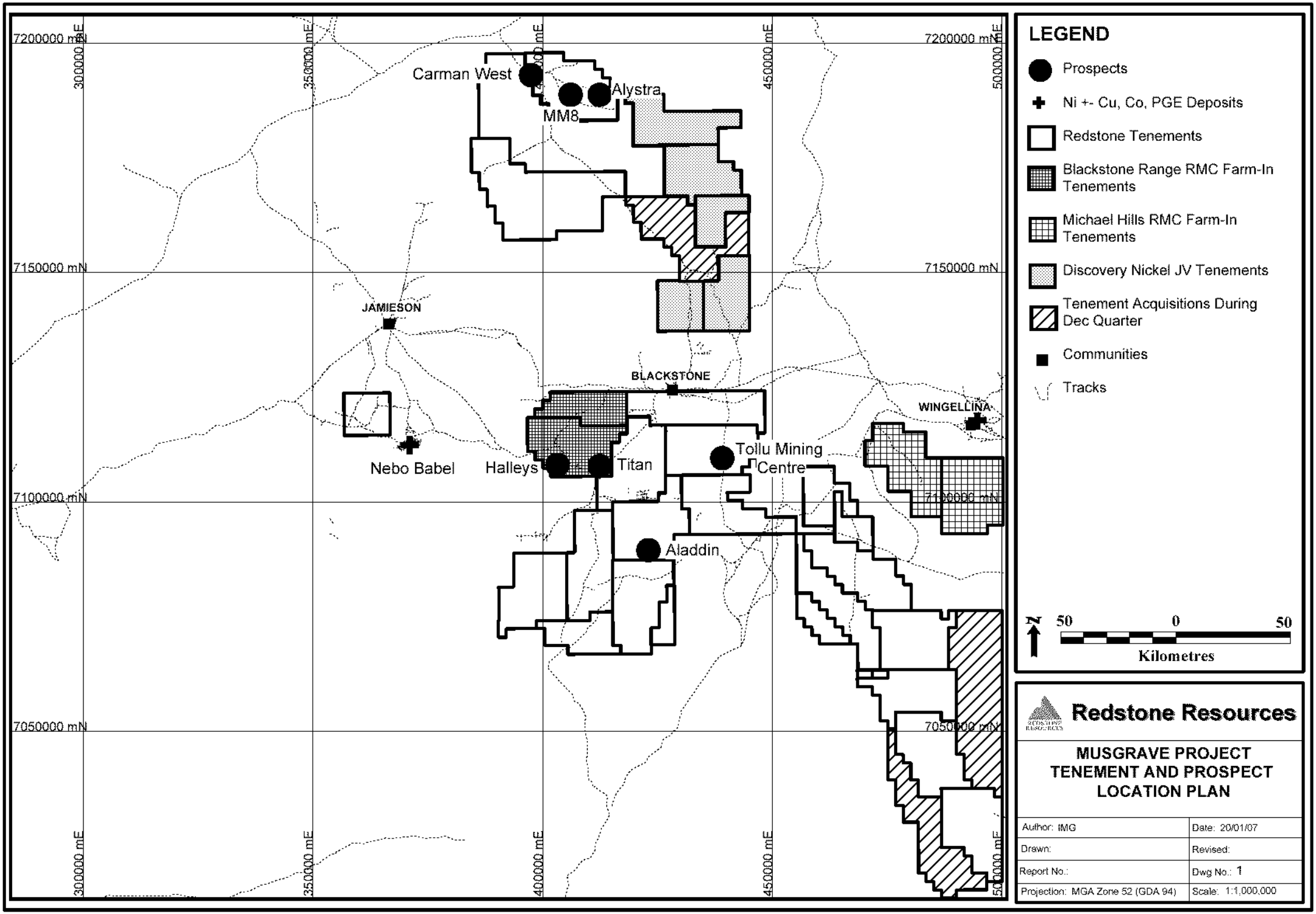
ATTRIBUTION

The information in this report that relates to exploration results is based on information compiled by Professor David Groves, a member of the Australian Institute of Geoscientists. Professor Groves has sufficient experience relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves'. Professor Groves consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.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Halleys
Titan
Tollu Mining Centre
Aladdin
LEGEND
Prospects
Ni +- Cu, Co, PGE Deposits
Redstone Tenements
Blackstone Range RMC Farm-In Tenements
Michael Hills RMC Farm-In Tenements
Discovery Nickel JV Tenements
Tenement Acquisitions During Dec Quarter
Communities
Tracks
N
50
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50
Kilometres
Redstone Resources
MUSGRAVE PROJECT
TENEMENT AND PROSPECT
LOCATION PLAN
Author: IMG
Date: 20/01/07
Drawn:
Revised:
Report No.:
Dwg No.: 1
Projection: MGA Zone 52 (GDA 94)
Scale: 1:1,000,000

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Redstone Resources Limited

ABN	Quarter ended ("current quarter")
42 090 169 154	31 December 2006

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (6 months) $A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for		
	(a) exploration and evaluation	(457)	(770)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(334)	(554)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	34	34
1.5	Interest and other costs of finance paid	-	(17)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	(172)
	Net Operating Cash Flows	(757)	(1,479)
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a)prospects – Acquisition of interests in mining tenements	(37)	(377)
	(b)equity investments	-	-
	(c)other fixed assets	(16)	(208)
1.9	Proceeds from sale of:		
	(a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other	-	-
	Net investing cash flows	(53)	(585)
1.13	Total operating and investing cash flows (carried forward)	(810)	(2,064)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(810)	(2,064)
	Cash flows related to financing activities		
1.14	Proceeds from issues of initial public offer	-	5,149
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	87
1.17	Repayment of borrowings	-	(237)
1.18	Dividends paid	-	-
1.19	Other – Payment of share issue costs	(7)	(151)
	Net financing cash flows	(7)	4,848
	Net increase (decrease) in cash held	(817)	2,784
1.20	Cash at beginning of quarter/year to date	3,940	339
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	3,123	3,123

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	85
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Managing Director Salary - $35,000

Non Executive Directors Fees – $17,750

Directors Consulting Fees – $32,475

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	450
4.2	Development	-
	Total	**450**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	57	40
5.2	Deposits at call	3,066	3,900
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	3,123	3,940

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil			
6.2	Interests in mining tenements acquired or increased	ELA/2311 ELA/2330 ELA/2331	Application Application Application	Nil Nil Nil	100% 100% 100%

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	74,368,860	74,368,860		Fully paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	3,450,000 2,950,000 8,000,000 3,000,000		*Exercise price* 25 cents 50 cents 25 cents 25 cents	*Expiry date* 31/12/08 31/12/09 31/12/09 03/08/09
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	-	-	-	-
7.11	**Debentures** *(totals only)*				

+ See chapter 19 for defined terms.

7.12	**Unsecured notes** *(totals only)*		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date: 24 January 2007
Managing Director

Print name: Anthony Ailakis.....

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.