

REDSTONE RESOURCES LIMITED

ACN 090 169 154

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2007**

REDSTONE RESOURCES LIMITED

ACN 090 169 154

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REDSTONE RESOURCES LIMITED

ACN 090 169 154

CORPORATE DIRECTORY

DIRECTORS:	Mr Anthony Alexander Ailakis Mr Juan Carlos Olivero Mr Stephen George Fountain
SECRETARY:	Ms Miranda Conti
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WEBSITE:	www.redstone.com.au
SHARE REGISTRY:	Computershare Investor Services Pty Ltd Level 2 Reserve Bank Building 45 St Georges Terrace PERTH WA 6000
HOME STOCK EXCHANGE:	Australian Stock Exchange Limited Level 2 Exchange Plaza 2 The Esplanade PERTH WA 6000 ASX Code: RDS
AUDITOR:	Butler Settineri (Audit) Pty Ltd Level 1 35 - 37 Havelock Street WEST PERTH WA 6005

REDSTONE RESOURCES LIMITED

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DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Redstone Resources Limited and its controlled entities ('Consolidated Entity') for the financial year ended 30 June 2007.

The Board of Directors

The names and details of directors in office during the financial year until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr Anthony Alexander Ailakis (*B. Juris LLB*) (Executive Chairman)

Mr Anthony Ailakis has been involved in the exploration and mining industry for almost 20 years. He has a law degree from the University of Western Australia in 1986 and worked as a general commercial and mining lawyer until he moved into the mining and exploration consultancy work on a project basis in the early 1990s.

Mr Ailakis has been involved in the development of constructive relationships with Aboriginal Land Councils and traditional owners and in the conduct of access and native title negotiations, as well as ground acquisition and matters relating to tenement management and Mining Act compliance.

Mr Ailakis has been actively involved in the development and implementation of Redstone's acquisition strategy over the past several years.

Mr Juan Carlos Olivero (Non-Executive Director)

Mr Juan Carlos Olivero has been involved in the mining and exploration industry in Australia for over 20 years. He founded and was managing director of Exclusive Air Charter Pty Ltd, a company responsible for secure air transport of gold from the majority of Western Australian mines to Perth for over 12 years. Mr Olivero grew the company from a one-aircraft one-pilot operation to a successful small airline which effectively covered the market for secure gold transport in Western Australia.

Through his business activities, Mr Olivero has developed an extensive commercial and mining industry network both within Australia and overseas, particularly Argentina where he has contacts at all levels of government and the mining industry.

Mr Stephen George Fountain (*B Bus, F Fin*) (General Manager) – Appointed 30 April 2007

Mr Fountain has almost 14 years experience in the Resources Industry in Western Australia. Mr Fountain graduated with an Accounting and Finance degree from Edith Cowan University in Perth in 1993. In 1996 he completed a Graduate Diploma in Applied Finance and Investment with the now renamed Financial Services Institute of Australasia (Finsia).

Mr Fountain joined WMC Resources in 1993 and has held various Accounting, Business Analysis and Managerial positions within WMC and other mining and exploration companies including LionOre Nickel Australia, Harmony Gold Australia and, most recently prior to this role, with BHP Billiton Nickel West.

Mr Fountain brings to Redstone experience in Project Controls and Business Systems to facilitate efficient management of the daily operations of Redstone as it grows.

The following director resigned during the financial year:

- Prof David Ian Groves Resigned 30 April 2007

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Company Secretary – Miranda Conti (BCom, GradDipCSP)

Ms Conti is a chartered secretary and certified practising accountant who currently consults to a number of public companies. Prior to this she most recently held the position of joint Company Secretary and Finance Manager at iiNet Limited, an international telecommunications company. Ms Conti was employed during a period of rapid and significant growth for iiNet, from March 2000 (following the company's listing on the ASX) to December 2004, during which time she was involved in the implementation and management of the finance function and corporate governance requirements. Ms Conti holds a Bachelor of Commerce degree from the University of Western Australia.

Principal Activities

The principal activities of the consolidated entity during the financial year were:

- * To carry out exploration of tenements in which the entity has an interest, both on a joint venture basis and by the entity in its own right;
- * To continue to seek extensions of areas held and to also seek out new areas with potential areas of mineralisation;
- * To evaluate and seek opportunities in the mineral sector globally by way of acquisition, investment or joint venture; and
- * To evaluate results achieved through surface sampling, drilling and geophysical surveys carried out during the year.

Review of Operations

The net loss after income tax attributable to members of the consolidated entity for the financial year ended 30 June 2007 amounted to \$2,031,676 (2006: \$609,535).

During the past year, the Company listed on the Australian Stock Exchange (ASX), and has been conducting on-ground exploration of its landholding in the West Musgrave Region.

Comprehensive sampling of over 1,300 sq km has been conducted and over 9,000 geochemical samples have been collected and assayed. The exploration activity also included two ground EM surveys, a detailed aeromagnetic survey across the eastern part of the Company's land-holding, extensive geological mapping and geological studies and over 13,000 metres of RAB and RC drilling.

This phase of exploration has been rapidly and efficiently conducted and is a credit to our small and dedicated field exploration team. Results have identified numerous mineralised areas that have been prioritised for infill sampling and preliminary drilling.

During the year the Company discovered a major Copper-Nickel-Platinum Group Elements (Cu-Ni-PGE) mineralised system (named Halleys) prospect in the Blackstone Range project in the West Musgrave Region in Western Australia. Preliminary shallow drilling results identified a mineralised body up to 450 metres in diameter and 250 metres thick.

RAB drilling results have also highlighted the platinum reef potential of the Saturn Complex (which forms part of the Blackstone Range project), with a 2.5km long PGE anomaly along the southern margin which is open to the north-west. This is part of a 9.5 km PGE geochemical anomaly which was also identified during the year.

Definition of drill targets in such a short period clearly demonstrates the potential of the West Musgrave Region and the ability of the Company's geological team to effectively and efficiently apply its geological models.

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The Company has established a close working relationship with the traditional owners of our West Musgrave projects. This has enabled the Company to perform ground clearances quickly and efficiently, to allow the effective implementation of our exploration program. Redstone has now cleared more land for exploration than any other company in the region, paving the way for the Company's future plans.

During the year, the Company acquired rights to earn up to a 75% interest in a prospective new area in the West Musgrave, through a farm-in with Discovery Metals Limited and also acquired over 2,500 sq km of additional tenements following analysis of the results of its aeromagnetic survey conducted over the eastern portion of the West Musgrave region.

The Company has applied for eight nickel properties and three iron-ore properties in Brazil which comprise five exploration projects. Redstone has an advanced geological understanding and extensive networks to acquire prospective projects for exploration in the Central Andes and Amazon Craton regions in South America.

Halleys (Blackstone Range Project – RMC Farm-In; ASX:RMI)

Slimline RC drilling under Halleys gossan outcrop (BSC001 to BSC005) intersected a mineralized zone up to 74m thick, in gabbroic rocks of the Saturn Complex layered intrusion. Significant RC intercepts include:

- 74m @ 0.29% Cu, 0.08% Ni, and 0.17g/t Pt+Pd+Au (from 6 to 80m, open at depth) with up to 2% disseminated chalcopyrite, including 20m @ 0.56% Cu, 0.14% Ni and 0.32g/t Pt+Pd+Au (BSC003);
- 9m @ 0.56% Cu, 0.11% Ni and 0.35g/t Pt+Pd+Au (BSC005); and
- 20m @ 0.56% Cu, 0.14% Ni and 0.32g/t Pt+Pd+Au from 16m (BSC003).

Peak values received in drilling include 1.1% Cu, 0.27% Ni, 1.2g/t Au, and 0.47g/t Pt+Pd+Au.

Results for the first 119 vertical RAB drill holes completed around the periphery of the gossan outcrop at Halleys include:

- 19m @ 0.21% Cu, 0.08% Ni and 0.13g/t Pt+Pd+Au (BSB0054 – open at depth);
- 28m @ 0.16% Cu, 0.11% Ni and 0.19g/t Pt+Pd+Au (BSB0070 – open at depth); and
- 3m @ 0.20% Cu, 0.20% Ni and 0.49g/t Pt+Pd+Au (BSB0058 – open at depth).

The mineralization defined to 70m below surface is open down dip (moderately dipping 20-40° northeast dip) and down plunge. Geological interpretation, drilling and geochemical results have highlighted a pipe-like geometry to the mineralized body with a diameter of approximately 450m, and a true thickness of up to 250m. Significantly, RAB drilling has intersected higher grade nickel and Pt-Pd-Au at the bottom hole BSB0058, demonstrating the potential for higher grade nickel-PGEs at depth.

Drilling 400m to the northwest, into EM anomalies along strike of the Halleys outcrop, has intersected barren clay, with fresh bedrock intersected at 75m down hole. The EM anomalies represents deep weathering which may relate to preferential weathering of sulphide mineralization, but deeper RC or diamond drilling is required to test the 3D geometry of the mineralization.

The results confirm Redstone's geological model that massive volumes of sulphide are present in the Saturn Complex and that the district is highly prospective for world-class Ni-Cu-PGE and PGE deposits. The copper-PGE mineralization so far drilled is likely to be only a small part of a much larger system nearby. RAB drilling of a 9.5km PGE geochemical anomaly has confirmed a 2.5km anomaly, which is open to the northwest and demonstrates the PGE reef potential of the entire Saturn Complex.

Extensive drilling is planned for the remainder of this year to follow up possible extensions of the thick intercepts of mineralisation, in order to test the down-dip and down-plunge position at Halleys and the Saturn Complex margin to the northwest for copper-PGE, nickel and PGE reef mineralization.

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South American Exploration

(i) Amazon Craton

Nickel

Redstone has targeted the Sunsás belt as the most important belt for nickel exploration in South America. The belt is of Grenvillian age (1,450-1,000 Ma) and is located in the western margin of the Amazon Craton, in the Brazil-Bolivia border region, and it includes a large amount of Grenvillian-age mafic-ultramafic intrusions. These intrusions have great potential for three styles of nickel deposits:

- 1) Nickel-laterite;
- 2) Voisey's Bay-type; and
- 3) Norilsk-type.

Two giant deposits have already been discovered in this belt. They are Rincón Del Tigre (Noril'sk-type gold-PGE in Bolivia) and Morro-Sem-Boné (nickel-cobalt-laterite in Mato Grosso State).

Redstone has acquired eight projects in the Sunsás belt (applications for exploration licences) covering mafic-ultramafic complexes totalling 46,000 ha in the states of Rondônia and Mato Grosso in Brazil. We believe these carefully selected areas will provide Redstone with unique commercial opportunities.

Iron

Three areas for iron exploration were recently selected in a Paleoproterozoic basin to the west of Carajás Province (Pará State-Brazil) and exploration licences were applied for with the Departamento Nacional de Produção Mineral of Brazil.

(ii) Central Andes

Redstone has identified a number of high priority targets and opportunities in the Central Andean region of South America. The company is very well positioned in this most prospective and under explored region. The Central Andes is the main source of copper in the world and is also a major source of other commodities such as gold, silver and molybdenum.

Compared with Chile, Peru and Bolivia, Argentina is the most under-explored country in the Central Andes in terms of mineral endowment. Redstone has a working relationship with SEGEMAR (Geological Survey of Argentina) in areas of advanced geochronology. This co-operation has the full support of the Federal Ministry of Mines of Argentina and the Federal Minister, Mr. Jorge Mayoral.

During the past year, members of the Company's generative/ conceptual targeting team have been assessing various projects in Argentina and have selected the most prospective north-western part of Argentina (provinces of Catamarca, Salta and Jujuy) for immediate follow-up. These provinces host world-class deposits such as the Bajo de la Alumbrera (Xtrata), Agua Rica (Northern Orion, presently investing in excess of US\$2,000 million).

Redstone has an extensive provincial network that includes the Universities of Jujuy and Salta (recognized for their Geological Departments) as well as local industry experts and past and present members of provincial governments.

The Company has developed a new tectonic-stratigraphic model to target porphyry systems in the Central Andes. This model combined with our regional geological knowledge, contacts, data base and its integration into a Geographic Information System is creating new opportunities and vastly improving our chances of success.

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Dividends

No dividends were paid during the year and the directors recommend that no dividends be paid or declared for the financial year ended 30 June 2007.

Significant Changes in State of Affairs

The 2007 year was significant for Redstone and started with the completion of the Company's Initial Public Offer (IPO) and listing on the Australian Stock Exchange. The Company raised \$5,500,000 through the issue of 22 million shares each at an issue price of 25 cents to fund a two year mineral exploration and development program of the Company's projects in the West Musgraves.

The IPO was oversubscribed and closed on 20 July 2006. All conditions of the offer were successfully completed on 3 August 2006, upon which date the Company's shares were officially quoted and commenced trading on the Australian Stock Exchange.

Subsequent Events

Pursuant to a Short Form Prospectus dated 12 July 2007 the Company raised \$3,122,234 through the issue of 2,601,862 ordinary shares each at an issue price of \$1.20 per share. The shares were issued on 20 August 2007.

The purpose of the offer is to provide Redstone with funding for the following exploration activities:

- Deep drilling of the highly prospective Halleys discovery;
- Drilling and continued exploration of the Company's other projects in the West Musgrave region;
- Exploration of the Company's nickel and iron-ore targets in Brazil, and acquisition of selected properties in the central Andean region of South America.

Since 30 June 2007 Redstone has lodged 27 applications for tenements, with potential for potassium, in the Amazon region of Brazil.

Likely Developments

Redstone continues to seek and review opportunities to acquire and invest in mining and exploration projects globally. Likely developments in the operations of the consolidated entity and the expected results of those operations have not been included in this report as the Directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Company.

Environmental Issues

The consolidated entity's operations are subject to significant environmental regulation under the law of the Commonwealth and State. The Directors of the Company monitor compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this Report.

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Share Options

As at the date of this report, 17,650,000 (2006: 17,400,000) options over unissued ordinary shares in Redstone have been granted. No options are listed on the Australian Stock Exchange.

Number	Exercise Price	Expiry Date
8,000,000	\$0.25	31 December 2009
3,000,000	\$0.25	3 August 2009
3,350,000	\$0.25	31 December 2008
2,850,000	\$0.50	31 December 2009
50,000	\$0.75	30 March 2010
400,000	\$1.50	29 June 2012
TOTAL	17,650,000	

Directors' Interests

The relevant interests of Directors, directly, or indirectly or beneficially, by each specified director including their personally-related entities, in the share capital and unissued shares of the Company as at the date of this report is as follows:

Director	Fully Paid Ordinary Shares		Share Options	
	Directly	Indirectly	Directly	Indirectly
Anthony Alexander Ailakis	-	494,108	1,500,000	-
Juan Carlos Olivero	-	837,500	1,500,000	-
Stephen George Fountain	-	706,324	-	-

Meetings of Directors

During the financial year, the following meetings of directors (including committees) were held:

	Directors' meetings	
	Number eligible to attend	Number attended
Professor David Ian Groves (resigned 30 April 2007)	9	9
Mr Anthony Alexander Ailakis	10	10
Mr Juan Carlos Olivero	10	10
Mr Stephen George Fountain (commenced 30 April 2007)	1	1

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Remuneration Report

This report details the nature and amount of remuneration for each director of the Company.

- **Remuneration Policy**

The Board of directors are responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The Board acts as the Remuneration Committee and assesses the nature and amount of compensation of key management personnel.

All remuneration paid to directors and executives is valued at cost to the consolidated entity and expensed. Options granted to directors are valued using the Black-Scholes option pricing model. Directors are also eligible to participate in the Company's Employee Share Option Plan (**ESOP**). Any such options to be offered to Directors under the terms of the ESOP require shareholder approval. These Options are issued for nil consideration and do not have performance conditions attached other than continued employment with the consolidated entity.

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and will review their remuneration annually, based on market practice, duties and accountability and to ensure their remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. Independent external advice is sought where required.

The maximum amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are currently fixed at up to \$250,000 and are not linked to the performance of the company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company. Options have been and will be issued to directors of the company. The purpose of issuing options to directors as part of a remuneration package is to be able to attract, retain and motivate people of the highest calibre to oversee management of the Company's operations by providing them with an opportunity to participate in the company's future growth and give them an incentive to contribute to that growth. The issue of options as a part of remuneration packages is a well established practice of public listed companies and, in the case of Redstone, has the benefit of conserving cash whilst properly rewarding the directors.

- **Performance based remuneration**

The Board seeks to align the interests of shareholders and executive directors through a performance related incentive package. Accordingly, the General Manager, Stephen Fountain, is entitled to an annual bonus, either by way of cash or shares or options in Redstone in a manner to be agreed and determined by the Board. No performance based amounts have been paid or determined to be paid to the Executive Chairman at this stage of the Company's development.

- **Company Performance, Shareholder Wealth and Director/Executive Remuneration**

Mr Fountain was offered 750,000 Options in April 2007 pursuant to an executive employment agreement, to be granted upon shareholder approval at the next annual general meeting of members. These options will entitle Mr Fountain to subscribe to one Ordinary Share upon exercise of each Option. These Options are proposed to be offered at an exercise price of \$1.40 per share, exercisable 12 months from the date of the executive employment agreement and expiring 31 December 2011.

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- **Details of Remuneration**

Year ended 30 June 2007

Directors	Cash Salary and fees (\$)	Other – Motor Vehicle (\$)	Superannuation (\$)	Share Options (\$)	Total (\$)	Performance Related (\$)
David Ian Groves (Ex-Chairman)	56,725	-	-	51,898	108,623	-
Anthony Alexander Ailakis (Chairman)	280,203	3,297	14,020	51,898	349,418	-
Juan Carlos Olivero (Non-Executive Director)	106,650	-	-	53,761	160,411	-
Stephen George Fountain (General Manager)	19,758	-	1,976	-	21,734	-
Executives						
Iain Groves (Exploration Manager)	138,581	-	-	21,596	160,177	-

Following listing of the company on 3 August 2006 and in accordance with a 2 year consulting agreement which expired on 31 December 2005, Anthony Ailakis was paid \$140,000 during the financial year for accrued consulting fees in relation to mining tenement management services.

Year ended 30 June 2006

Directors	Cash Salary and fees (\$)	Other – Motor Vehicle (\$)	Superannuation (\$)	Share Options (\$)	Total (\$)	Performance Related (\$)
David Ian Groves (Ex-Chairman)	21,650	-	-	11,517	33,167	-
Anthony Alexander Ailakis (Chairman)	70,000	1,436	7,000	11,517	89,953	-
Juan Carlos Olivero (Non-Executive Director)	3,303	-	297	6,481	10,081	-
Executives						
Iain Groves (Exploration Manager)	89,622	-	-	4,793	94,415	-

There are no performance conditions attached to remuneration paid during the current or previous financial year.

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- **Employment Contracts of Directors and Senior Executives**

Executive Directors

Remuneration and other terms of employment for the Chairman, Mr Ailakis are formalised in an executive employment agreement. Major provisions of this agreement are set out below:

- 5 years commencing 1 January 2006
- Base salary reviewed annually, currently \$140,000 plus 10% superannuation, subject to review annually on the anniversary of the Company's listing on the ASX
- Annual bonus, either by way of cash or shares or options in Redstone in manner to be agreed and determined by the Board.
- Other benefits including a vehicle to be leased by the Company for the exclusive use of the chairman, fully maintained and run, mobile phone and notebook with internet
- The company may pay a termination benefit in lieu of notice, being the amount payable for the termination period of 6 months, where termination is for other than misconduct or illness
- Written notice of six months to terminate the agreement if Mr Ailakis becomes incapacitated by illness or accident for a period of 6 months in any 12 month period.
- One-off bonus of 1,500,000 options to purchase fully paid ordinary shares were granted on 10 April 2006, 750,000 at 25 cents expiring 31 December 2008 and 750,000 at 50 cents expiring 31 December 2009.

Remuneration and other terms of employment for the General Manager, Mr Fountain are formalised in an executive employment agreement. Major provisions of this agreement are set out below:

- 3 years commencing 30 April 2007
- Base salary reviewed annually, currently \$150,000 plus 10% superannuation, subject to review annually
- Annual bonus, either by way of cash or shares or options in Redstone in manner to be agreed and determined by the Board and the Executive Chairman in good faith. The current executive employment agreement provides for the offer of 750,000 unquoted options to be granted subject to shareholder approval at the next annual general meeting of the company. These Options are proposed to be offered at an exercise price of \$1.40 per share, exercisable 12 months from the date of the agreement and expiring 31 December 2011.
- Other benefits including a mobile phone and notebook with internet access
- During the first six months of service, where termination is for other than misconduct or illness, either party may terminate the agreement upon one week's notice. Following six months of service either party may terminate the agreement upon 3 months notice upon which the Company shall pay the employee the amount of 3 months salary in lieu of notice.

Non-Executive Directors

The Company has entered into service agreements with non-executive Directors. Under these agreements, no director is on a fixed salary. The Directors' service agreements set out a daily rate at which a director may charge consulting fees for technical or corporate services beyond the Director's duties covered by the Directors' fees listed above.

The maximum daily rate that each Director may charge excluding superannuation entitlements and exclusive of GST is as follows.

J. C. Olivero \$625 per day on an as needed basis

Service agreements with Directors are separate from any responsibility they may have to the Company or the role they perform as a result of their appointment as a Director of the Company.

A service agreement with Olivero Consulting Group Pty Ltd, a director related entity of Juan Carlos Olivero is for a term of 2 years commencing from 1 July 2006.

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Option Holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held directly, or indirectly or beneficially, by each specified director including their personally-related entities, is as follows:

	Held 1 July 2006	Granted as remuneration	Exercised	Sold	Lapsed	Held as at 30 June 2007
Directors						
David Ian Groves (Chairman)	1,500,000	-	-	-	-	1,500,000
Anthony Alexander Ailakis (Chairman)	1,500,000	-	-	-	-	1,500,000
Juan Carlos Olivero (Non-Executive Director)	1,500,000	-	-	-	-	1,500,000
Executives						
Iain Groves (Exploration Manager)	600,000	-	-	-	-	600,000

Equity Holdings and Transactions

The movement during the reporting period in the number of ordinary shares of the Company held directly, indirectly or beneficially, by each specified director including their personally-related entities is as follows:

	Held at 1 July 2006	Received on Exercise of Options	Issue of Initial Public Offering Shares	Acquired/ (Disposed) on Market	Held as at 30 June 2007
Directors					
D. I. Groves	-	-	-	-	-
A. A. Ailakis	571,429	-	-	(77,321)	494,108
J. C. Olivero	760,000	-	-	77,500	837,500
S.G. Fountain	496,324	-	40,000	170,000	706,324
Executives					
I. Groves	-	-	-	-	-

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Exercise of Options Granted as Remuneration

During the period no shares were issued on the exercise of options granted as remuneration.

Indemnification and insurance of Officers

The Company currently has Directors and Officers insurance. The Company has entered into deeds with each director indemnifying each director against liabilities arising out of their conduct while acting in the capacity of a director of the Company to the full extent permitted by law.

The insurance premium relates to liabilities that may arise from an Officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

The Officer's covered by the insurance policies are the Directors and the Company Secretary.

The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of the premium.

Auditor

Butler Settineri (Audit) Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001. There were no non-audit services provided by the entity's auditor during the financial year.

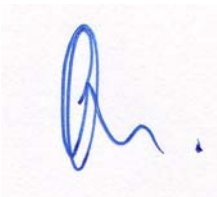
Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Legal Proceedings

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

Signed in accordance with a resolution of the Board of Directors.



Anthony A Ailakis
Executive Chairman

Dated this 28th day of September 2007



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Redstone Resources Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.

Butler Settineri (Audit) Pty Ltd

BUTLER SETTINERI (AUDIT) PTY LTD

Lucy Gardner

LUCY P GARDNER
Director

Perth
Date: 28 September 2007

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Directors:
Colin Butler
FCA
Paul Chabrel
FCA
Lucy Gardner
CA

Corporate Governance Statement

Principle 1:

Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall Corporate Governance of the company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The primary responsibilities of the Board include responsibility for:

- oversight of the company, including its control and accountability systems,
- appointing and removing the chief executive officer (or equivalent),
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the company secretary,
- input into and final approval of management's development of corporate strategy and performance objectives,
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance,
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available,
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures, and
- approving and monitoring financial and other reporting.

Directors consider that the Company's procedures comply with Principle 1 of the Principles of Good Corporate Governance.

Principle 2:

Structure the board to add value

2.1: A majority of the board should be independent directors.

The names of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report. Directors are appointed based on their experience and on independence of their decision-making and judgement.

In considering the status of directors as independent directors the company has regard to the following

An independent director is a non-executive director (ie is not a member of management) and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company.
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment.
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided.
- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- has no material contractual relationship with the company or another group member other than as a director of the company.
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Having regard to the above criteria, the Company currently departs from this principle by not having a majority of independent directors, including the Chairman. The Board considers that to date the Company has not been of a size, nor its affairs of such complexity to justify the appointment of a majority of independent non-executive Directors.

The Board believes that the individuals on the Board can make, and do make, quality and independent judgements in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board meeting before commencement of discussion on the topic.

In anticipation of an increase in the level of activity and complexity of the Company's operations, The Board intends to appoint independent non-executive directors in the near future.

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2.2: The chairperson should be an independent director.

Mr Ailakis is the Executive Chairman of the Company and has an indirect shareholding of <1% in the Company. The Board considers that the Chairman is not independent in terms of the ASX Corporate Governance Council's definition of independent director. However, the Board believes that the Chairman exercises unfettered and independent judgement to all relevant issues falling within the scope of the role of a Chairman.

2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual.

Mr Ailakis is the Executive Chairman of the Company and has an indirect shareholding of <1% in the Company. The Board does not view this as interfering with the exercise of unfettered and independent judgement. The composition of the Board and the nature and present state of the company's business activities precludes the Company from having both a Chairman and a Chief Executive Officer.

2.4: The board should establish a nomination committee

The company does not have a formal nomination committee due to the scale and nature of the company's activities. The whole board meet to consider additional appointments to the Board. Directors consider that the Company complies with the intentions of Principle 2.4 of the Principles of Good Corporate Governance.

2.5: Provide the information indicated in Guide to reporting on Principle 2

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report are disclosed in the Directors' Report included in the Annual Report.

Each Director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

A Director (other than the Managing Director) may not retain office for more than 3 years without submitting for re-election.

The company does not have a nomination committee for the reasons outlined in 2.4 above. Any departures from best practice recommendations 2.1, 2.2, 2.3, 2.4 or 2.5 are included in those sections.

The Board will review its composition on an annual basis to ensure it has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

Directors consider that the Company complies with Principle 2.5 of the Principles of Good Corporate Governance.

Principle 3:

Promote ethical and responsible decision-making

3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the company's integrity

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Board believes that the success of Redstone has been and will continue to be enhanced by a strong ethical culture within the organisation. As Redstone grows, the need to ensure that ethical standards remain has led the Board to embrace policies to ensure that all Directors, executives and employees act with the utmost integrity and objectivity in their dealings with all people that they come in contact with during their employment with Redstone.

Redstone is committed to achieving and maintaining high standards of conduct and to 'institutionalise' good corporate governance and generally build a culture of best practice.

Redstone has established an informal Code of Conduct which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour of the directors, officers, employees and consultants in carrying out their roles for the Company.

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3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.

The Company has in place a share trading policy which restricts all directors, employees or consultants of the Company from dealing in shares of the Company whilst in possession of price sensitive information or similarly passing information to other parties to buy or sell Redstone shares.

In addition to insider trading prohibitions arising from the Corporations Act, directors, executive officers and senior management are prohibited from trading as follows:

- No Director or executive officer should buy or sell Shares without the prior approval of the Chairman
- No senior manager should buy or sell Shares without the prior approval of the Chairman
- The Chairman should not buy or sell Shares without the prior approval of the Board or the next most senior Director;
- Directors and senior management are generally prohibited from trading Shares for a short term gain.
- Before trading in the Company's shares, directors, employees and consultants must advise the Company Secretary of their intention to trade and confirm that they are not aware of any unpublished market sensitive information.

Directors consider that the Company complies with Principle 3.2 of the Principles of Good Corporate Governance.

3.3: Provide the information indicated in Guide to reporting on Principle 3.

This information is provided in this statement.

Directors consider that the Company complies with Principle 3.3 of the Principles of Good Corporate Governance.

Principle 4:

Safeguard integrity in financial reporting

4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Executive Director provides the Board with this statement in relation to financial reports.

Directors consider that the Company complies with Principle 4.1 of the Principles of Good Corporate Governance.

4.2: The board should establish an audit committee.

Directors consider that the Company does not comply with Principle 4.2 of the Principles of Good Corporate Governance, however the Board considers that the Company is not currently of a size, nor are its financial affairs of such a complexity to justify the formation of an audit committee.

4.3: Structure the audit committee so that it consists of:

- only non-executive directors
- a majority of independent directors
- an independent chairperson, who is not chairperson of the board
- at least three members.

Directors consider that Principle 4.3 of the Principles of Good Corporate Governance is not applicable.

4.4: The audit committee should have a formal charter.

Directors consider that Principle 4.4 of the Principles of Good Corporate Governance is not applicable

4.5: Provide the information indicated in Guide to reporting on Principle 4.

Directors consider that the Company complies with Principle 4.5 of the Principles of Good Corporate Governance to the extent applicable to the Company.

Principle 5:

Make timely and balanced disclosure

5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

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The Board places a high priority on communication with Shareholders and is aware of the obligations under the Corporations Act and ASX Listing Rules, to keep the market fully informed of information which is not generally available and which may have a material effect on the price or value of Redstone's securities.

Redstone has adopted policies which establish procedures to ensure that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price sensitive information.

- All directors are required to have a general understanding of the matters that are to be, or not to be disclosed in accordance with the ASX Listing Rules.
- All matters concerning compliance with the listing rules are to be reported to the Chairman.
- The Board has primary responsibility for ensuring that the Company complies with its disclosure obligations and is primarily responsible for deciding what information will be disclosed.
- The Executive Chairman and the Company Secretary are responsible for promoting understanding of compliance and monitoring compliance.
- Directors are required to maintain confidentiality of corporate information to avoid premature disclosure.
- The Executive Chairman is responsible for media contact and comment, external communications such as analyst briefings and responses to shareholder questions.
-

Directors consider that the Company complies with Principle 5.1 of the Principles of Good Corporate Governance.

5.2: Provide the information indicated in Guide to reporting on Principle 5.

This information is provided in this statement.

Directors consider that the Company complies with Principle 5.2 of the Principles of Good Corporate Governance.

Principle 6:

Respect the rights of shareholders

6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

Information is communicated to shareholders as follows:

- notices of all meetings of shareholders;
- all documents that are released publicly are made available on the Company's website at www.redstone.com.au

Directors consider that the Company complies with Principle 6.1 of the Principles of Good Corporate Governance.

6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Directors anticipate that the Company will comply with Principle 6.2 of the Principles of Good Corporate Governance.

Principle 7:

Recognise and manage risk

7.1: The board or appropriate board committee should establish policies on risk oversight and management.

The Board monitors and if necessary receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.

Specific areas of risk, which are identified, will be regularly considered at Board meetings including performance of activities, human resources, the environment and continuous disclosure obligations.

7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Matters of risk management and compliance are currently addressed by the board as a whole at this stage of the development of the Company.

Directors consider that the Company complies with the intentions of Principle 7.2 of the Principles of Good Corporate Governance.

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7.3: Provide the information indicated in Guide to reporting on Principle 7.

This information is provided in this statement.

Directors consider that the Company complies with Principle 7.3 of the Principles of Good Corporate Governance.

Principle 8:

Encourage enhanced performance

8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

At this stage of the development of the Company, the Company does not have formal procedures in place for performance evaluation of the board, its committees and individual directors, and key executives.

Principle 9:

Remunerate fairly and responsibly

9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

At this stage of the development of the Company, the Company has formal remuneration policies in place.

9.2: The board should establish a remuneration committee.

At this stage of the development of the Company, the Company does not have a formal remuneration committee in place.

9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The remuneration of each director is set out in the Directors' Report included in the Annual Report.

Directors consider that the Company complies with Principle 9.3 of the Principles of Good Corporate Governance.

9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The company has equity-based executive remuneration that has been approved by shareholders.

Directors consider that Principle 9.4 of the Principles of Good Corporate Governance is not applicable.

9.5: Provide the information indicated in Guide to reporting on Principle 9.

This information is provided in this statement.

Directors consider that the Company complies with Principle 9.5 of the Principles of Good Corporate Governance.

Principle 10:

Recognise the legitimate interests of stakeholders

10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

Redstone has not yet established a formal published code of conduct.

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INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	3	118,513	15	192,387	15
Expenses					
Administration expenses		173,985	87,472	173,985	87,472
Employee benefit expense	3	704,885	278,465	661,611	278,465
Consulting expense		146,575	50,912	189,849	50,912
Depreciation and amortisation expense	3	81,222	20,316	78,485	16,896
Finance costs	3	15,944	12,871	15,944	12,871
Impairment of deferred exploration expenditure	7	518,110	-	-	-
Other expenses from ordinary activities	3	509,468	159,514	509,256	158,090
Loss Before Income Tax		(2,031,676)	(609,535)	(1,436,743)	(604,691)
Income tax expense	4	-	-	-	-
Net Loss attributable to members of Redstone Resources Limited		(2,031,676)	(609,535)	(1,436,743)	(604,691)
Basic and Diluted Loss per share (\$ per share)	17	(0.03)	(0.05)		

The accompanying notes form part of these financial statements.

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BALANCE SHEETS

AS AT 30 JUNE 2007

	Note	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	5	1,534,885	339,325	1,534,885	339,325
Trade and other receivables	6	93,021	22,845	93,021	22,845
Other assets	10	16,277	263,184	16,277	263,184
Total current assets		1,644,183	625,354	1,644,183	625,354
Non-current assets					
Deferred exploration expenditure	7	3,726,045	1,582,210	2,868,358	861,733
Property, plant and equipment	8	304,025	82,441	290,472	66,151
Goodwill	9	55,540	-	-	-
Other financial assets	10	-	-	118,001	48,001
Receivables	6	-	-	1,413,873	698,928
Total non-current assets		4,085,610	1,664,651	4,690,704	1,674,813
Total assets		5,729,793	2,290,005	6,334,887	2,300,167
Current liabilities					
Trade and other payables	11	524,035	514,355	524,035	514,355
Borrowings	12	2,133	159,438	2,133	159,438
Share applications in advance	13	-	351,000	-	351,000
Provisions	14	46,344	24,900	46,344	24,900
Total current liabilities		572,512	1,049,693	572,512	1,049,693
Total liabilities		572,512	1,049,693	572,512	1,049,693
Net assets		5,157,281	1,240,312	5,762,375	1,250,474
Equity					
Issued capital	15	7,240,160	1,989,504	7,240,160	1,989,504
Reserves	16	925,608	227,619	925,608	227,619
Accumulated losses		(3,008,487)	(976,811)	(2,403,393)	(966,649)
Total equity		5,157,281	1,240,312	5,762,375	1,250,474

The accompanying notes form part of these financial statements.

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STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

Consolidated

	Contributed Equity	Accumulated Losses	Share based- Payments Reserve	Total Equity
At 30 June 2005	\$ 997,504	\$ (367,276)	\$ -	\$ 630,228
Net loss for the period	-	(609,535)	-	(609,535)
Seed capital introduced	961,000	-	-	961,000
Loans converted to seed capital	31,000	-	-	31,000
Conversion of seed capital	(1,989,500)	-	-	(1,989,500)
Share capital issued	1,989,500	-	-	1,989,500
Cost of share-based payment	-	-	227,619	227,619
At 30 June 2006	1,989,504	(976,811)	227,619	1,240,312
Net loss for the period	-	(2,031,676)	-	(2,031,676)
Share capital issued	5,500,000	-	-	5,500,000
Cost of share capital issued	(249,344)	-	-	(249,344)
Cost of share-based payment	-	-	697,989	697,989
At 30 June 2007	7,240,160	(3,008,487)	925,608	5,157,281

Company

	Contributed Equity	Accumulated Losses	Share based- Payments Reserve	Total Equity
At 30 June 2005	\$ 997,504	\$ (361,959)	\$ -	\$ 635,545
Net loss for the period	-	(604,690)	-	(604,690)
Seed capital introduced	961,000	-	-	961,000
Loans converted to seed capital	31,000	-	-	31,000
Conversion of seed capital	(1,989,500)	-	-	(1,989,500)
Share capital issued	1,989,500	-	-	1,989,500
Cost of share-based payment	-	-	227,619	227,619
At 30 June 2006	1,989,504	(966,649)	227,619	1,250,474
Net loss for the period	-	(1,436,743)	-	(1,436,743)
Share capital issued	5,500,000	-	-	5,500,000
Cost of share capital issued	(249,344)	-	-	(249,344)
Cost of share-based payment	-	-	697,989	697,989
At 30 June 2007	7,240,160	(2,403,393)	925,608	5,762,375

The accompanying notes form part of these financial statements.

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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash flows from operating activities					
Payments to suppliers and employees		(1,094,066)	(338,838)	(1,019,980)	(337,413)
Interest received		117,713	15	117,713	15
Interest paid		(15,944)	(12,871)	(15,944)	(12,871)
Income tax paid		-	-	-	-
Other income		800	-	800	-
Net cash flows used in operating activities	26	(991,497)	(351,694)	(917,411)	(350,269)
Cash flows from investing activities					
Exploration expenditure		(1,941,583)	(562,068)	(1,300,723)	(296,176)
Proceeds on sale of property, plant and equipment		-	600	-	600
Payments for property, plant and equipment		(304,027)	(59,425)	(304,027)	(39,715)
Deposits paid		(52,522)	(33,311)	(52,522)	(33,311)
Payments to acquire subsidiary		(70,000)	-	(70,000)	-
Payments to acquire exploration tenements		(260,000)	-	(260,000)	-
Amounts advanced to related parties		-	-	(714,946)	(287,001)
Net cash flows used in investing activities		(2,628,132)	(654,204)	(2,702,218)	(655,603)
Cash flows from financing activities					
Applications received from IPO		5,149,000	351,000	5,149,000	351,000
Payment of Share Issue Costs		(183,438)	(82,308)	(183,438)	(82,308)
Proceeds from seed capital contributions		-	950,000	-	950,000
Proceeds from borrowings from related parties		87,000	40,559	87,000	40,559
Proceeds from borrowings from non-related parties		(237,373)	79,609	(237,373)	79,609
Net cash flows from financing activities		4,815,189	1,338,860	4,815,189	1,338,860
Net increase in cash held		1,195,560	332,962	1,195,560	332,988
Cash at the beginning of the financial year		339,325	6,363	339,325	6,337
Cash at end of financial year	5	1,534,885	339,325	1,534,885	339,325

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1. Corporate information

The financial report of Redstone Resources Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 28 September 2007.

Redstone Resources Limited is a company limited by shares incorporated and domiciled in Australia whose shares commenced public trading on the Australian Stock Exchange on 3 August 2006. The nature of operations and principal activities of the Group are described in the Directors' Report.

2. Summary of significant accounting policies

The following is a summary of the material accounting policies adopted by the Company and the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards, Urgent Issues Group Interpretations and other mandatory professional reporting requirements. The financial report has been prepared on a historical cost basis.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2007.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below:

- (i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will amend the impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.
- (ii) AASB-I 10 Interim Financial Reporting and Impairment
AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

c) **Principles of consolidation**

The consolidated financial statements comprise the financial statements of Redstone Resources Limited and its subsidiaries ('the Group') as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

d) **Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

e) **Property plant and equipment**

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Plant and equipment is measured on a cost basis.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing balance basis over their useful lives to the Group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Office furniture & equipment	11.25%
Satellite phone & digital equipment	22.50%
Office paintings	1.50%
Computer equipment	37.50%
Generators	7.50%
Motor vehicles	22.50%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

f) **Impairment**

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists the Group makes a formal estimate of recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset unless the assets value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs. The estimated future cash flows are discounted to their present value using a pre-discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

g) **Income tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

A deferred income tax asset is not recognised where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

h) **Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable or payable is included as a current asset or current liability in the balance sheet. Cash flows are included in the cash flow statements on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable or payable are classified as operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

i) **Employee benefits**

i. Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Annual leave entitlements are accounted for as a provision.

ii. Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

j) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day to day basis, net of outstanding bank overdrafts.

k) **Trade and other payables**

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

l) **Revenue recognition**

Revenues are recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue can be recognised.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

m) **Share-based payment transactions**

The Group provides incentives to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Company has in place an Employee Share Option Plan (ESOP) which provides benefits to directors, senior executives and key employees. Key terms of the ESOP are as follows:

- The Plan is available to eligible persons who will be determined by the Board but must be persons who are Directors or employees of the consolidated entity
- Options are issued for nil consideration:
- The exercise price is determined by the Board with regard to the market value of the Company's shares at the time it resolves to offer the options;
- Options will be issued subject to certain conditions that must be satisfied for them to be exercised to be determined by the Board when it resolves to offer the Options and in accordance with the purpose of the ESOP
- The expiry date of the Options will be determined by the Board prior to the offer of the relevant options, subject to any restrictions in the Corporations Act, but in any event no longer than 5 years from the date of issue.
- Options will lapse if the eligible person ceases to be an eligible person for any reason other than retirement, permanent disability, redundancy or death.
- Options are not transferable
- Any shares issued will rank equally with the Company's then existing issued shares
- The issue of Options to Directors will require shareholder approval in accordance with the ASX Listing Rules and the Corporations Act.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using Black-Scholes and binomial methods.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price if the shares of Redstone Resources Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

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FOR THE YEAR ENDED 30 JUNE 2007

m) **Share-based payment transactions (continued)**

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

n) **Share capital**

Ordinary share capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in share proceeds received.

o) **Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all the risks and benefits of the leased item, are charged as expenses in the periods in which they are incurred.

p) **Earnings per share**

Basic earnings per share Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Group, excluding any costs of service equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share Diluted earnings per share adjusts the figure used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to potential ordinary shares.

q) **Joint venture arrangements***Jointly controlled operations*

Where the group is a venturer (and so has joint control) in a jointly controlled operation the group recognises the assets that it controls and the liabilities it incurs, along with the expenses that it incurs and the group's share of the income that it earns from the sale of goods and services by the joint venture.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

r) **Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

s) **Significant accounting judgements, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Capitalisation of exploration and evaluation expenditure

Under AASB 6 *Exploration for and Evaluation of Mineral Resources* the Group has the option to either expense exploration and evaluation expenditure as incurred or to capitalise such expenditure provided that certain conditions are satisfied. The Group's policy is closer to the latter as outlined in note 2(d).

Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an independent valuer using either Black-Scholes or binomial methodology.

t) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

u) **Goodwill**

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

v) **Foreign currency**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the consolidated entity, and the presentation currency for the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

v) **Foreign currency (continued)**

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings
- exchange differences on transactions entered into in order to hedge certain foreign currency risks
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the consolidated entity, and the presentation currency for the consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

3.	Revenue and expenses	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
(a)	Revenue				
	Interest income third party	117,713	15	117,713	15
	Other income	800	-	74,674	-
		<u>118,513</u>	<u>15</u>	<u>192,387</u>	<u>15</u>
(b)	Depreciation				
	Property plant and equipment	81,222	20,316	78,485	16,896
(c)	Employee and director's benefits expenses				
	Share-based payment	234,511	44,212	234,511	44,212
	Other	470,374	234,253	427,100	234,253
		<u>704,885</u>	<u>278,465</u>	<u>661,611</u>	<u>278,465</u>
(d)	Operating lease payments				
	Included in administrative expenses:				
	Minimum rental payments	35,573	11,200	35,573	11,200
(e)	Finance costs				
	Short term borrowings	8,706	10,165	8,706	10,165
	Other third parties	7,238	2,706	7,238	2,706
		<u>15,944</u>	<u>12,871</u>	<u>15,944</u>	<u>12,871</u>
	Interest is expensed as it accrues.				
(f)	Loss on sale of assets	-	387	-	387
(g)	Dividends	-	-	-	-
	No dividends have been paid or are proposed as at 30 June 2007.				
	As at 30 June 2007 the Company has no franking credits available for use in future years.				
(h)	Other				
	Share-based payment (Vendor Options)	387,719	88,166	387,719	88,166
	Other	121,749	71,348	121,537	69,924
		<u>509,468</u>	<u>159,514</u>	<u>509,256</u>	<u>158,090</u>
4.	Income tax				
	Tax expense				
	Current tax	-	-	-	-
	Deferred tax	-	-	-	-
	Under/(over) provisions in prior year	-	-	-	-
	Income tax expense reported in the income statement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

4. Income tax (continued)

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loss before tax	(2,031,676)	(609,535)	(1,436,743)	(604,691)
Prima facie tax on loss	(609,503)	(182,861)	(431,023)	(181,407)
Tax effect of non-deductible items	200,209	134,877	200,209	134,877
Revenue losses not brought to account	409,294	47,984	230,814	46,530
Income tax expense reported in the income statement	-	-	-	-

The tax rate used in the above reconciliation is the tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. No amounts of current or deferred tax have been recognised directly in equity as at 30 June 2007.

Deferred income tax

Unrecognised deferred income tax at 30 June relates to the following:

Deferred tax liabilities

Capitalised exploration and evaluation expenditure	(1,117,537)	(405,432)	(860,507)	(405,432)
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Deferred tax assets

Tax losses available to offset against future income	1,434,480	636,781	1,256,000	480,484
Deferred tax assets not brought to account as realisation is not considered probable	(316,943)	(231,349)	(395,493)	(244,353)

Gross deferred income tax assets	-	-	-	-
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Redstone Resources Limited and its controlled entities have not elected to form a tax consolidation group.

It is considered that it is not probable that the consolidated entity will utilise all its carry forward tax losses in the foreseeable future, hence it is not expected to pay tax in the foreseeable future. The deferred tax balances noted above have therefore not been accounted for in the balance sheet.

At 30 June 2007, the consolidated entity has tax losses in Australia of \$4,034,882 (2006: \$2,122,604) that are available indefinitely for offset against future taxable income. The consolidated entity has not recognised deferred income tax assets in relation to these losses as realisation of the benefit is not regarded as probable.

These deferred tax assets will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in the income tax legislation adversely affect the consolidated entity in realising the benefit from the deduction of the loss.

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FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
5. Cash and cash equivalents				
Cash at bank	1,534,885	(11,675)	1,534,885	(11,675)
Cash on trust - IPO	-	351,000	-	351,000
	<u>1,534,885</u>	<u>339,325</u>	<u>1,534,885</u>	<u>339,325</u>

Cash on trust - IPO relates to applications received from the Company's Prospectus dated 8 June 2006, and were held on trust until the conditions relating to the completion of the initial public offer were met.

6. Trade and other receivables				
Current				
GST receivable	93,021	22,845	93,021	22,845
Non-current				
Amounts due from controlled entities	-	-	1,413,873	698,928

7. Deferred exploration expenditure				
Exploration costs brought forward	1,582,210	856,974	861,733	497,030
Expenditure incurred on exploration	2,661,945	725,236	2,006,625	364,703
Exploration costs impaired (i)	(518,110)	-	-	-
Carrying amount at the end of the year	<u>3,726,045</u>	<u>1,582,210</u>	<u>2,868,358</u>	<u>861,733</u>

The ultimate recoupment of costs carried forward in relation to exploration expenditure is dependent on the successful development and commercial exploitation or sale of the areas of interest at an amount at least equal to the carrying value.

(i) The impairment loss of \$518,110 was recognised as a result of exploration licence 69/1507 expiring on 19 April 2007. Subsequent to the year end, the company has applied for a new exploration licence 69/2450 covering exactly the same land area. The impairment will be reversed once the exploration licence has been granted.

8. Property, plant and equipment				
At cost	413,601	110,795	393,891	91,085
Accumulated depreciation	(109,576)	(28,354)	(103,419)	(24,934)
Total written down value	<u>304,025</u>	<u>82,441</u>	<u>290,472</u>	<u>66,151</u>

Reconciliation

A reconciliation of the carrying amounts of property plant and equipment at the beginning and end of the current financial period.

Property, plant and equipment				
Carrying amount at beginning of year	82,441	47,691	66,151	47,691
Additions	302,806	56,053	302,806	36,343
Disposals	-	(987)	-	(987)
Depreciation expense	(81,222)	(20,316)	(78,485)	(16,896)
Total property, plant and equipment	<u>304,025</u>	<u>82,441</u>	<u>290,472</u>	<u>66,151</u>

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FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
9. Goodwill				
Cost (i)	55,540	-	-	-
Accumulated impairment losses	-	-	-	-
Net carrying value	55,540	-	-	-

(i) The goodwill relates to the acquisition of Westmin Exploration Pty Ltd as discussed at Note 31. Goodwill has an infinite life. During the financial year, the Company assessed the recoverable amount and determined that no impairment adjustment was required because the goodwill relates to certain farm-in rights which the Company regards as being of significant value going forward.

10. Other assets				
Current				
Prepayments	16,277	259,474	16,277	259,474
Deposits	-	3,710	-	3,710
Total current assets	16,277	263,184	16,277	263,184

Included in prepayments in 2006 is \$228,668 relating to costs incurred for the Company's Initial Public Offer.

Non-current				
Investment in controlled entities	-	-	118,001	48,001

11. Trade and other payables				
Trade creditors (i)	414,077	93,286	414,077	93,286
Other creditors (ii)	109,958	421,069	109,958	421,069
	524,035	514,355	524,035	514,355

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 days terms
- (ii) Other creditors are non-interest bearing and have an average term of 30 days.

Trade and other payables includes \$382,760 relating to exploration expenditure.

12. Borrowings				
Loans – interest bearing (i)	-	130,191	-	130,191
Loans – non-interest bearing (ii)	2,133	29,247	2,133	29,247
	2,133	159,438	2,133	159,438

Notes:

- (i) These loans related to directors and employees and were repaid during the financial year
- (ii) These loans are non-interest bearing and relate to a loan with employees. These loans are expected to be repaid in the 2008 financial year.

13. Share applications in advance				
Share applications in advance (i)	-	351,000	-	351,000

(i) Pursuant to a Prospectus dated 8 June 2006 the company received \$351,000 in application monies for an initial public offer of shares in the Company. As at 30 June 2006 these funds were held on trust but were converted to share capital upon successful completion of the offer on 28 July 2006.

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FOR THE YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
14. Provisions – employee entitlements				
Opening balance at 1 July 2006	24,900	-	24,900	-
Additional provisions	47,769	24,900	47,769	24,900
Amounts used	(26,325)	-	(26,325)	-
Balance as at 30 June 2007	46,344	24,900	46,344	24,900

15. Contributed equity

(a) Issued and paid up capital				
74,368,860 (2006: 52,368,860) ordinary shares fully paid	7,240,160	1,989,504	7,240,160	1,989,504

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised share capital and issued shares do not have a par value.

(b) Movements in fully paid ordinary shares during the year were as follows:

	2007		2006	
	No. of Shares	\$	No. of Shares	\$
Movements in shares on issue				
Opening balance	52,368,860	1,989,504	4	4
Share split of 9,875,758 shares for 1 share on 7 April 2006	-	-	39,503,028	-
Conversion of seed capital	-	-	12,865,828	1,989,500
Shares issued pursuant to prospectus on 3 August 2006	22,000,000	5,250,656	-	-
Closing balance	74,368,860	7,240,160	52,368,860	1,989,504

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
(c) Seed capital contributions				
Contributions at beginning of year	-	997,500	-	997,500
Conversion of loans to seed capital	-	31,000	-	31,000
Contributions received during the year	-	961,000	-	961,000
Total seed capital contributions	-	1,989,500	-	1,989,500
Conversion of seed capital	-	(1,989,500)	-	(1,989,500)
Total seed capital at year end	-	-	-	-

The weighted average price of shares issued to seed capital investors was 15.46 cents per share.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

15. Contributed equity (continued)

(d) Reconciliation of options on issue

During the year no options were converted into shares (2006: nil) and no options expired.

Unlisted share options	As at 30 June 2006	Issued	As at 30 June 2007	Exercise price	Exercisable from	Expiry
To vendor shareholders	8,000,000	-	8,000,000	0.25	3 Aug 07	31 Dec 09
Class A	3,450,000	-	3,450,000	0.25	3 Aug 07	31 Dec 08
Class B	2,950,000	-	2,950,000	0.50	3 Aug 07	31 Dec 09
To NEMS	3,000,000	-	3,000,000	0.25	4 Aug 06	3 Aug 09
Unlisted options	-	50,000	50,000	0.75	30 Mar 08	30 Mar 10
Unlisted options	-	400,000	400,000	1.50	29 Jun 08	29 Jun 12
	17,400,000	450,000	17,850,000			

(e) Terms and conditions of contributed equity

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Contributions from seed capital investors were received in accordance with individual contracts with each investor for shares. Ordinary shares were issued to seed capital investors pursuant to these contracts on 4 May 2006.

Option holders do not have the right to receive dividends nor are they entitled to vote at a meeting of the company.

(f) Additional share capital and movements post balance date:

Subsequent to 30 June 2007, the company has undertaken additional capital raising activities, which involved:

- new shares issued via a Short Form Prospectus: 2,601,862 ordinary shares at \$1.20 per share (\$3,122,234) - details on the Short Form Prospectus are contained in Subsequent events note; and
- 200,000 new shares issued as a result of the conversion of 100,000 Class A options and 100,000 Class B options.

16. Reserves

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Share based payment reserve (i)	925,608	227,619	925,608	227,619

(i) This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and as consideration for other equity settled transactions.

Movements in reserves are set out in the Statement of Changes in Equity.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

17. Loss per share

	Consolidated	
	2007 \$	2006 \$
Basic loss per share (\$)	(0.03)	(0.05)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	72,319,545	11,100,296
Earnings used in the calculation of basic loss per share	(2,031,676)	(609,535)

As the consolidated entity made a loss for the year, diluted earnings per share is the same as basic earnings per share.

18. Key management personnel disclosures

(a) **Directors**

The directors of Redstone Resources Limited during the financial year were:

David I Groves (*PhD, FAAS*) (Non-Executive Chairman)

Anthony A Ailakis (*B. Juris LLB*) (Chairman)

Juan C Olivero (Non-Executive Director)

Stephen G Fountain (*BBus, F Fin*) (General Manager) – appointed 30 April 2007

David I Groves resigned as a Director and Chairman on 30 April 2007

(b) **Other key management personnel**

Iain Groves (Exploration Manager)

(c) **Remuneration of key management personnel**

2007

The following amounts were granted as remuneration and specified executives for the financial year ending 30 June 2007.

(\$)	Short Term		Post-Employment		Total (\$)
	Base Emolument	Other Benefits	Superannuation Contribution	Share-based payments	
Director					
D. I. Groves	56,725	-	-	51,898	108,623
A. A. Ailakis	280,203	3,297	14,020	51,898	349,418
J. C. Olivero	106,650	-	-	53,761	160,411
S. G Fountain	19,758	-	1,976	-	21,734
Executives					
I. Groves	138,581	-	-	21,596	160,177

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

18. Key management personnel disclosures (continued)**2006**

The following amounts were granted as remuneration and specified executives for the financial year ending 30 June 2006.

(\$)	Short Term		Post-Employment		Total (\$)
	Base Emolument	Other Benefits	Superannuation Contribution	Share-based payments	
Director					
D. I. Groves	21,650	-	-	11,517	33,167
A. A. Ailakis	70,000	1,436	7,000	11,517	89,953
J. C. Olivero	3,303	-	297	6,481	10,081
Executives					
I. Groves	89,622	-	-	4,793	94,415

Employment contracts of Directors and Senior Executives**Executive Directors**

Remuneration and other terms of employment for the Chairman, Mr Ailakis are formalised in an executive employment agreement. Major provisions of this agreement are set out below:

- 5 years commencing 1 January 2006
- Base salary reviewed annually, currently \$140,000 plus 10% superannuation, subject to review annually on the anniversary of the Company's listing on the ASX
- Annual bonus, either by way of cash or shares or options in Redstone in manner to be agreed and determined by the Board.
- Other benefits including a vehicle to be leased by the Company for the exclusive use of the chairman, fully maintained and run, mobile phone and notebook with internet
- The company may pay a termination benefit in lieu of notice, being the amount payable for the termination period of 6 months, where termination is for other than misconduct or illness.
- Written notice of six months to terminate the agreement if Mr Ailakis becomes incapacitated by illness or accident for a period of 6 months in any 12 month period.
- One-off bonus of 1,500,000 options to purchase fully paid ordinary shares were granted on 10 April 2006, 750,000 at 25 cents expiring 31 December 2008 and 750,000 at 50 cents expiring 31 December 2009.

Remuneration and other terms of employment for the General Manager, Mr Fountain are formalised in an executive employment agreement. Major provisions of this agreement are set out below:

- 3 years commencing 30 April 2007
- Base salary reviewed annually, currently \$150,000 plus 10% superannuation, subject to review annually
- Annual bonus, either by way of cash or shares or options in Redstone in manner to be agreed and determined by the Board and the Executive Chairman in good faith. The current executive employment agreement provides for the offer of 750,000 unquoted options to be granted subject to shareholder approval at the next annual general meeting of the company. These Options are proposed to be offered at an exercise price of \$1.40 per share, exercisable 12 months from the date of the agreement and expiring 31 December 2011.
- Other benefits including a mobile phone and notebook with internet access
- During the first six months of service, where termination is for other than misconduct or illness, either party may terminate the agreement upon one week's notice. Following six months of service either party may terminate the agreement upon 3 months notice upon which the Company shall pay the employee the amount of 3 months salary in lieu of notice.

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FOR THE YEAR ENDED 30 JUNE 2007

18. Key management personnel disclosures (continued)

Director and Executive service agreements

Non-Executive Directors

The Company has entered into service agreements with non-executive Directors. Under these agreements, no director is on a fixed salary. The Directors' service agreements set out a daily rate at which a director may charge consulting fees for technical or corporate services beyond the Directors duties covered by the Directors' fees listed above.

The maximum daily rate that each Director may charge excluding superannuation entitlements and exclusive of GST is as follows.

Director
J. C. Olivero \$625 per day on an as needed basis

Service agreements with Directors are separate from any responsibility they may have to the Company or the role they perform as a result of their appointment as a Director of the Company.

A service agreement Olivero Consulting Group Pty Ltd, a director related entity of Juan Carlos Olivero is for a term of 2 years commencing from 1 July 2006.

A new service agreement with Insight Geology Pty Ltd, a director related entity of Iain Groves is for a term of 2 years commencing from 21 July 2007, unless terminated earlier by either party with six weeks notice.

Executive
I. Groves \$900 per day, guaranteed for a minimum of 40 days per annum

The contractual arrangements contain certain provisions typically found in contracts of this nature.

Refer to Directors Report for details on the Company's remuneration policy.

- Equity instruments

Options granted as remuneration to key management personnel

2007	Balance at start of year	Granted as compensation	Exercised	Balance at end of year
Directors				
D. I. Groves	1,500,000	-	-	1,500,000
A. A. Ailakis	1,500,000	-	-	1,500,000
J. C. Olivero	1,500,000	-	-	1,500,000
Executives				
I. Groves	600,000	-	-	600,000
	<u>5,100,000</u>			<u>5,100,000</u>

No options were granted as remuneration to key management personnel or vested during the year.

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18. Key management personnel disclosures (continued)

2006	Balance at start of year	Granted as compensation	Exercised	Balance at end of year
Directors				
D. I. Groves	-	1,500,000	-	1,500,000
A. A. Ailakis	-	1,500,000	-	1,500,000
J. C. Olivero	-	1,500,000	-	1,500,000
Executives				
I. Groves	-	600,000	-	600,000
	-	5,100,000		5,100,000

(d) Share holdings of key management personnel

	Held at 1 July 2006	Received on Exercise of Options	Issue of Initial Public Offering Shares	Acquired/ (Disposed) on Market	Held as at 30 June 2007
Directors					
D. I. Groves	-	-	20,000	(20,000)	-
A. A. Ailakis	571,429	-	-	(77,321)	494,108
J. C. Olivero	760,000	-	-	77,500	837,500
S.G. Fountain	496,324	-	40,000	170,000	706,324
Executives					
I. Groves	-	-	-	-	-

	Held at 1 July 2005	Granted as remuneration	Received on Exercise of Options	Other – Share Split	Held as at 30 June 2006
Directors					
D. I. Groves	-	-	-	-	-
A. A. Ailakis	-	-	-	571,429 ^[1]	571,429
J. C. Olivero	-	-	-	760,000 ^[2]	760,000
Executives					
I. Groves	-	-	-	-	-

^[1] Mr Anthony Ailakis's shareholding relates to 571,429 shares issued at 8.75 cents each following conversion of seed capital contributed by a related party.

^[2] Mr Juan Olivero's shareholding relates to 760,000 shares issued at 5.92 cents each following conversion of seed capital contributed by a director related entity.

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

REDSTONE RESOURCES LIMITED

ACN 090 169 154

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

18. Key management personnel disclosures (continued)

(e) Loans to key management personnel

There were no loans outstanding to key management personnel at the end of the period.

2007

All loans from key management personnel were repaid during the financial year.

2006

	Loan Amount \$	Accrued Interest to 30 June 2006 \$	Interest Rate %
Directors			
A. A. Ailakis	11,247	0	Non-interest bearing
A. A. Ailakis related party	14,005	2,251	15% per annum
J. C. Olivero director related entity	29,311	0	5% on total borrowing for minimum of 3 months from 28 June 2006

(f) Transactions with other related parties

Juan Carlos Olivero, a director of Redstone Resources Limited, has a 1% shareholding in Redstone Mineraco Do Brasil Ltda. The entity is also 98% owned by the Company. The remaining shareholding is held by an employee of Redstone Resources Limited, who is a Brazilian citizen. The Board and shareholding structure is in accordance with Brazilian law.

Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$

19. Employee benefits

Aggregate liability for employee benefits excluding on-costs

Current

Other creditors and accruals	39,963	69,993	39,963	69,993
Employee entitlement provision	46,344	24,900	46,344	24,900
	<u>86,307</u>	<u>94,893</u>	<u>86,307</u>	<u>94,893</u>

The Company has in place an employee share option plan (ESOP) for the granting of non-transferable options to certain directors, senior executives and key employees, further details of which are provided in note 2(m).

20. Auditors remuneration

Amounts received or due and receivable by the auditors of the consolidated entity for:

- an audit or review of the financial statements of the consolidated entity	7,500	6,000	7,500	6,000
- Investigating Accountants Report	-	12,100	-	12,100
	<u>7,500</u>	<u>18,100</u>	<u>7,500</u>	<u>18,100</u>

REDSTONE RESOURCES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

21. Subsequent events

Pursuant to a Short Form Prospectus dated 12 July 2007 the Company raised \$3,122,234 through the issue of 2,601,862 ordinary shares each at an issue price of \$1.20 per share and dispatched for official quotation on the Australian Stock Exchange on 20 August 2007.

Subsequent to the year end, the Company has applied for a new exploration licence 69/2450 covering exactly the same land area as the impaired exploration licence 69/1507.

22. Segment information

The Company has one business segment (its primary basis of segmentation) being mineral exploration in Australia and South America.

During the financial year, the Company established a subsidiary in Brazil: Redstone Mineracao Do Brasil Ltda. As at 30 June 2007, the Company has not acquired any assets in Brazil. The Company has applications pending on iron ore and nickel tenements. The costs of acquiring these tenements have not been capitalised in accordance with the Company's accounting policies.

Segment result	2007	2006
	\$	\$
Revenue	-	-
Operating expenses	(11,438)	-
Loss before tax	(11,438)	-
Income tax expense	-	-
Loss for the year from continuing operations	(11,438)	-

2007	Segment assets	Acquisition of Segment assets
	\$	\$
Australia	5,724,568	297,581
South America	5,225	5,225
	<u>5,729,793</u>	<u>302,806</u>

There were no operations in Brazil in 2006.

23. Related party transactions

Controlled entities

During the year the Company provided loans to controlled entities. The loans are made in the ordinary course of business and are unsecured and interest free with no fixed term of repayment. The amounts receivable from these entities as at the end of the reporting period are as follows:

	2007	2006
	\$	\$
Allhawk Nominees Pty Ltd	1,393,685	678,951
Minex Services Pty Ltd	20,188	19,976

Other than disclosed above and in note 18 there were no other related party transactions during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

24. Expenditure commitments**Exploration expenditure commitments**

In order to maintain current rights of tenure over its mineral tenement leases, the company and its controlled entities will be required to outlay amounts in respect of rent and to meet minimum expenditure requirements of the Department of Minerals and Energy (DME).

The annual expenditure commitments on granted tenements as at 30 June 2007 amounted to \$2,725,500 (2006: \$1,085,300) These obligations may vary from time to time, are subject to approval and are expected to be fulfilled in the normal course of operations by the relevant entity.

	Consolidated		Company	
	2007	2006	2007	2006
Non cancellable operating lease commitments for exploration tenements	\$	\$	\$	\$
Within one year	2,254,210	1,051,288	2,020,583	774,585
One year or later and no later than five years	4,534,142	1,474,488	3,164,779	1,385,937
Later than five years	38,901	-	38,901	-
	<u>6,827,254</u>	<u>2,525,776</u>	<u>5,224,264</u>	<u>2,160,522</u>

The total annual expenditure commitment for all granted tenements of the Consolidated Entity is \$2,725,500 (Company: \$492,500). However, the Board is of the view that this amount does not accurately reflect the actual expenditure commitment that will be required to be incurred by the Company because those granted tenements over which exploration access has not been secured will almost certainly be granted exemptions from expenditure commitments. This expectation is based on the provisions of the Mining Act whereby holders of tenements are exempted from expenditure commitments where certain factors (including lack of exploration access) preclude exploration from occurring.

Therefore the Board is of the view that the more accurate calculation of the Company's future exploration commitment is to only include those tenements for which exploration access has been granted. The future exploration commitment of the Consolidated Entity and Company relating to tenements over which exploration access has been granted is as follows:

	Consolidated	Company
Non cancellable operating lease commitments for exploration tenements		
Within one year	592,780	334,293
One year or later and no later than five years	332,369	24,169
	<u>925,148</u>	<u>358,463</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

24. Expenditure commitments (continued)

Joint venture commitments

Blackstone Range/Michael Hills Joint Venture

The Farm-In Deed dated 2 June 2005 is between Giles Exploration Pty Ltd (Giles), Resources Mining Corporation Ltd (RMC), Westmin Exploration Pty Ltd (Westmin) and Rivergold Exploration Pty Ltd (Rivergold).

Westmin acquired a 40% interest in the Blackstone Range/Michael Hills Exploration Licences (EL) by solely funding \$1,000,000 of exploration costs. Westmin can acquire a further 35% interest in the EL's by solely funding a further \$1,000,000 of exploration costs by 2 July 2008. Westmin cannot withdraw from the Farm-In Deed until it has spent \$200,000 on exploration costs.

RMC provided Giles with certain geological and geophysical information, following which RMC acquired a 25% interest in the EL's. If RMC withdraws from the Farm-In Deed, Westmin may acquire a 25% interest in the EL's for \$1. If Westmin withdraws from the Farm-In Deed, RMC may acquire a 75% or 35% (as the case may be) interest in the EL's for \$1.

During the period in which Westmin may earn an interest in the EL's (Earning Period), Westmin has the exclusive right to conduct exploration on the EL's. During the Earning Period, Westmin has reporting obligations and must keep the EL's in good standing. Giles may terminate the Earning Period (and Westmin's and RMC's right to acquire any interest in the EL's not acquired as at such termination) upon 30 days unremedied breach by Westmin or RMC (as the case may be).

RMC may convert its 25% interest to a 10% free carried interest to completion of a feasibility study, in which case RMC will transfer a 15% interest in the EL's to Westmin and Westmin will assume RMC's funding obligations to completion of a feasibility study.

Discovery Metals Joint Venture

Under the terms of the agreement the Company has agreed to the following:

- Redstone has 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 Metals has also granted Redstone an option to purchase the Musgrave Project up until 30 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.

Operating lease – company office

The Company has an operating lease for its office premises which was renewed for a further one year term effective from 1 January 2007. Monthly rent for the new lease term is \$2,980 excluding GST.

Capital Commitments

The Consolidated Entity does not have any capital commitments as at balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

25. Financial instruments disclosure**Financial risk management objectives and policies**

The consolidated entity and Company's principal financial instruments are cash and short term borrowings. The main purpose of these financial instruments is to provide working capital for operations.

The consolidated entity and Company has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations. The main risks arising from the consolidated entity and Company's financial instruments are interest rate risk and credit risk.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Interest rate risk

The following table sets out the carrying amount and maturity of the financial instruments exposed to interest rate risk:

Consolidated – 2007 Category	Time Period	Interest Bearing (Floating)	Non- Interest Bearing	Total Carrying Amount as per the Balance Sheet	Weighted Average Effective Interest Rate %
Financial assets:					
Cash	<1 year	1,534,885	-	1,534,885	6.2%
Trade and other receivables	<1 year	-	93,021	93,021	-
Total financial assets		1,534,885	93,021	1,627,906	
Financial liabilities					
Trade creditors and other payables	<1 year	-	524,035	524,035	-
Borrowings	<1 year	-	2,133	2,133	-
Total financial liabilities		-	526,168	526,168	-

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

25. Financial instruments disclosure (continued)

Consolidated - 2006 Category	Time Period	Interest Bearing (Floating)	Non- Interest Bearing	Total Carrying Amount as per the Balance Sheet	Weighted Average Effective Interest Rate %
Financial assets:					
Cash	<1 year	-	339,325	339,325	-
Trade and other receivables	<1 year		22,845	22,845	-
Total financial assets		-	362,170	362,170	-
Financial liabilities					
Trade creditors and other payables	<1 year		514,355	514,355	-
Borrowings	<1 year	130,191	29,247	159,438	20.5%
Share applications in advance	<1 year	-	351,000	351,000	-
Total financial liabilities		130,191	894,602	1,024,793	-
Parent – 2007					
Category	Time Period	Interest Bearing (Floating)	Non- Interest Bearing	Total Carrying Amount as per the Balance Sheet	Weighted Average Effective Interest Rate %
Financial assets:					
Cash	<1 year	1,534,885	-	1,534,885	6.2%
Trade and other receivables	<1 year	-	93,021	93,021	-
Total financial assets		1,534,885	93,021	1,627,906	
Financial liabilities					
Trade creditors and other payables	<1 year	-	524,035	524,035	-
Borrowings	<1 year	-	2,133	2,133	-
Total financial liabilities		-	526,168	526,168	-
Parent – 2006					
Category	Time Period	Interest Bearing (Floating)	Non- Interest Bearing	Total Carrying Amount as per the Balance Sheet	Weighted Average Effective Interest Rate %
Financial assets:					
Cash	<1 year	-	339,325	339,325	-
Trade and other receivables	<1 year	-	22,845	22,845	-
Total financial assets		-	362,170	362,170	-
Financial liabilities					
Trade creditors and other payables	<1 year		514,355	514,355	-
Borrowings	<1 year	130,191	29,247	159,438	20.5%
Share applications in advance	<1 year	-	351,000	351,000	-
Total financial liabilities		130,191	894,602	1,024,793	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

25. Financial instruments disclosure (continued)

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the balance sheet and the notes to the financial statements.

The consolidated entity and Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments it has entered into.

Net fair values

The carrying amount of financial assets and financial liabilities approximate their net fair values at balance date.

Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$

26. Cash flow information

Reconciliation of loss after income tax to the net cash flows from operations

Loss from ordinary activities after income tax	(2,031,676)	(609,535)	(1,436,743)	(604,690)
Add (less) non cash items:-				
Depreciation and amortisation	81,222	20,316	78,485	16,896
Loss or sale of asset	-	387	-	387
Impairment of deferred exploration expenditure	518,110	-	-	-
Share-based payments	622,230	132,378	622,230	132,378
Changes in assets and liabilities				
Increase/(decrease) in provisions	21,444	24,900	21,444	24,900
Increase/(decrease) in trade creditors and accruals	(153,455)	103,336	(153,455)	103,336
(Increase)/decrease in sundry receivables and prepayments	(49,372)	(23,476)	(49,372)	(23,476)
Net cash flow used in operating activities	(991,497)	(351,694)	(917,411)	(350,269)

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

26. Cash flow information (continued)

Non cash financing and investing activities

During the period the company granted 450,000 share options for nil consideration. These share-based payments were independently valued using either Black Scholes or binomial methodology as detailed in note 2(m). The independent value of these, and existing, options for the year ending 30 June 2007 is as follows:

\$		
	8,000,000	Options granted to vendor shareholders on 8 April 2006 Exercise price 25 cents
475,884		Exercisable from 3 August 2007 and expiring 31 December 2009
	2,600,000	Class A Options granted to directors, consultants and key employees on 10
		April 2006 Exercise price 25 cents Exercisable from 3 August 2007 and expiring 31
123,208		December 2008 granted to directors, consultants and key employees
	2,100,000	Class B Options granted to directors, consultants and key employees on 10
		April 2006 Exercise price 50 cents Exercisable from 3 August 2007 and expiring 31
78,050		December 2009
	750,000	Class A Options granted to directors, consultants and key employees on 17 May
		2006 Exercise price 25 cents Exercisable from 3 August 2007 and expiring 31 December
33,929		2008 granted to directors, consultants and key employees
	750,000	Class B Options granted to directors, consultants and key employees on 17 May
		2006 Exercise price 50 cents Exercisable from 3 August 2007 and expiring 31 December
26,313		2009 granted to directors, consultants and key employees
	100,000	Class A Options granted to directors, consultants and key employees on 30 April
		2006 Exercise price 25 cents Exercisable from 3 August 2007 and expiring 31 December
4,630		2008 granted to directors, consultants and key employees
	100,000	Class B Options granted to directors, consultants and key employees on 30 April
		2006 Exercise price 50 cents Exercisable from 3 August 2007 and expiring 31 December
3,612		2009 granted to directors, consultants and key employees
	3,000,000	Options granted to NEMS on 17 May 2006 Exercise price 25 cents Exercisable
171,000		from 4 August 2006 and expiring 3 August 2009
	50,000	Options granted to consultant 30 March 2007 Exercise price 75 cents Exercisable
7,905		from 30 March 2008 and expiring 30 March 2010
	400,000	Options granted key employee on 29 June 2007 Exercise price \$1.50 Exercisable
1,077		from 29 June 2008 and expiring 29 June 2012
<hr/>		
925,608	Total Options	17,850,000
<hr/>		

The option valuations adopted in the table above are calculated using the following assumptions:

Underlying security spot price of between \$0.15 and \$1.54

Dividend rate of nil

Volatility factor of 70%

Risk free interest rates between 5.23% and 6.40%

The weighted average exercise price is \$0.321 and the weighted average expiry period is 2.30 years.

The weighted average value per option as at the measurement date is \$0.078 cents per option.

27. Contingencies

The Company and consolidated entity had no contingent liabilities or contingent assets at 30 June 2007 (2006: nil).

REDSTONE RESOURCES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

28. Controlled entities

Redstone Resources Limited is the ultimate parent entity of the controlled entities.

(a) Particulars in relation to controlled entities	Country of incorporation	2007 Ownership %	2006 Ownership %
Allhawk Nominees Pty Ltd	Australia	100	100
Minex Services Pty Ltd	Australia	100	100
Westmin Exploration Pty Ltd ¹	Australia	100	-
Redstone Mineracao Do Brasil Ltda ²	Brazil	98	-

¹The Company acquired the shares of Westmin Exploration Pty Ltd on 31 July 2006. Refer Note 31 for further discussion.

²The Company incorporated the shares of Redstone Mineracao Do Brasil Ltda on 19 February 2007

Juan Carlos Olivero, a director of Redstone Resources Limited, has a 1% shareholding in Redstone Mineraco Do Brasil Ltda. The entity is also 98% owned by the Company. The remaining shareholding is held by an employee of Redstone Resources Limited, who is a Brazilian citizen. The Board and shareholding structure is in accordance with Brazilian law.

(b) Contribution to consolidated result

The results of the controlled entities inclusion in the income statement is a loss of \$521,059 (2006: (\$4,134)).

29. Share based payments

The impact of share based payments on the Income Statement for the financial year ending 30 June 2007 is as follows:

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Net loss after income tax and including share based payments	(2,031,676)	(609,535)	(1,436,743)	(604,691)
Add: share based payments expense	622,230	132,378	622,230	132,378
Net loss after income tax excluding share based payments	<u>(1,409,446)</u>	<u>(477,157)</u>	<u>(814,513)</u>	<u>(472,313)</u>

REDSTONE RESOURCES LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

30. Jointly controlled operations and assets

The consolidated entity has an interest in a joint venture arrangement in the Blackstone Range/Michael Hills and Discovery Metals Farm-In in Western Australia. The consolidated entity is earning an interest in these joint ventures by funding and carrying out exploration on these tenements (refer to note 24).

31. Acquisition of subsidiary

On 31 July 2006, the consolidated entity acquired 100% of the shares of Westmin Exploration Pty Ltd for \$70,000.

Net assets acquired	Book value	Fair value adjustments	Fair value on acquisition
Non-current assets			
Exploration expenditure	14,460	-	14,460
Liabilities	-	-	-
Goodwill on acquisition			55,540
			<u>70,000</u>

REDSTONE RESOURCES LIMITED

ACN 090 169 154

DIRECTORS' DECLARATION

In the director's opinion:

- a) the financial statements and notes set out on pages 20 to 51 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by s295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Anthony A Ailakis
Executive Chairman

Perth, 28 September 2007

**INDEPENDENT AUDITOR REPORT
TO THE MEMBERS OF REDSTONE RESOURCES LIMITED**

Chartered
Accountants



Scope

We have audited the attached financial report, being a general purpose financial report of Redstone Resources Limited for the financial year ended 30 June 2007 as set out on pages 20 to 52 comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001.

This responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**BUTLER
SETTINERI**

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Construction House
35-37 Havelock Street
West Perth 6005

**Locked Bag 18
West Perth 6872
Western Australia**

Phone: **(08) 9426 4444**
Fax: **(08) 9321 5215**
Email: mail@butlersettineri.com.au

Directors:

Colin Butler
FCA

Paul Chabrel
FCA

Lucy Gardner
CA

Auditor's Opinion

In our opinion, the financial report of Redstone Resources Limited is in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- b) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

Butler Settineri (Audit) Pty Ltd

BUTLER SETTINERI (AUDIT) PTY LTD

Lucy Gardner

LUCY P GARDNER
Director

Perth
Date: 28 September 2007

REDSTONE RESOURCES LIMITED

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ADDITIONAL SHAREHOLDER INFORMATION AS OF 25 SEPTEMBER 2007

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is contained within the Director's Report.

B. SHAREHOLDING

1. Substantial Shareholders

The names of the substantial shareholders listed on the company's register:

Shareholder	Number
BULLRUN INVESTMENTS PTY LTD <BULLRUN ACCOUNT>	9,875,758
EASTERN PROSPECTING PTY LTD <EASTERN PROSPECTING A/C>	9,875,758
LANARK RESOURCES PTY LTD <LANARK HOLDINGS A/C>	9,875,758
SAMARKAND HOLDING PTY LTD <SAMARKAND A/C>	9,875,758

2. Number of holders in each class of equity securities and the voting rights attached

There are 1,410 holders of ordinary shares. Each shareholder is entitled to one vote per share held. On a show of hands every shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

There are 13 holders of unlisted options (details of which are set out in section 7 below). There are no voting rights attached to these options. There are no other unquoted securities of the Company.

3. Distribution schedule of the number of holders in each class is.

	Holders of Ordinary Shares	Number of Ordinary Shares	%
1 - 1,000	95	72,029	0.09
1,001 - 5,000	361	1,112,945	1.44
5,001 - 10,000	317	2,583,074	3.35
10,001 - 100,000	573	18,146,146	23.51
100,001 and over	64	55,256,528	71.60
TOTALS	1,410	77,170,722	100.00

4. Marketable Parcel

There are 459 shareholders with less than a marketable parcel.

5. Twenty largest holders of each class of quoted equity security

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds is as follows:

REDSTONE RESOURCES LIMITED

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Rank	Name	No. of Ordinary Shares	%
1	BULLRUN INVESTMENTS PTY LTD <BULLRUN ACCOUNT>	9,875,758	12.80
2	EASTERN PROSPECTING PTY LTD <EASTERN PROSPECTING A/C>	9,875,758	12.80
3	LANARK RESOURCES PTY LTD <LANARK HOLDINGS A/C>	9,875,758	12.80
4	SAMARKAND HOLDING PTY LTD <SAMARKAND A/C>	9,875,758	12.80
5	MR BARRY JOHN ANGOVE & ANGOVE PROPERTIES PTY LTD <ANGOVE SUPER FUND	1,000,000	1.30
6	POSSUM INVESTORS PTY LTD <THE POSSUM A/C>	865,000	1.12
7	EXCLUSIVE AIR CHARTER PTY LTD	837,500	1.09
8	MS MIRANDA CONTI & MR ANTON CONTI <THE M & A CONTI FAMILY A/C>	793,333	1.03
9	JINCHUAN GROUP LTD	668,000	0.87
10	MR STEPHEN GARDOLL	630,000	0.82
11	DUXFORD STIRLING PTY LTD <HALIFAX SUPER FUND A/C>	536,324	0.69
12	MR PAUL DELBRIDGE & MRS ALISON DELBRIDGE	500,000	0.65
13	MR TIMOTHY MCNAMARA & MRS KAREN MCNAMARA	500,000	0.65
14	MS ERICA LAMPARD		
15	RENSEY PTY LIMITED <SUPER FUND ACCOUNT>	316,500	0.41
16	BIGWEST PTY LTD <THE AVALON FAMILY A/C>	366,667	0.48
17	MIDALU PTY LTD	359,565	0.47
18	MR EDWARD JAMES BARRETT <THE BARRETT ACCOUNT>	353,565	0.46
19	MR CRAIG NUGENT	346,667	0.45
20	MR PETER JAMES SMITH <SMITH GOLDEN TREE FAMILY A/C>	326,408	0.42
		48,405,691	62.73

6. Details of Restricted Securities

40,683,794 Ordinary Shares are subject to escrow until 3 August 2009.

7. Details of unlisted Options

% or No. holders	No. Options	Name / Class of Option
1	3,000,000	North Eastern Mining Services Pty Ltd <Camin Trust> Exercise price 25c from 4 August 2006 and expiring 3 August 2009
1	2,000,000	Bullrun Investments Pty Ltd
1	2,000,000	Eastern Prospecting Pty Ltd
1	2,000,000	Lanark Resources Pty Ltd
1	2,000,000	Samarkand Holding Pty Ltd
	8,000,000	Exercise price 25c from 4 August 2007 and expiring 31 December 2009
6	3,350,000	Class A Options under employee incentive scheme. Exercise price 25c from 3 August 2007 and expiring 31 December 2008
	2,850,000	Class B Options under employee incentive scheme. Exercise price 50c from 3 August 2007 and expiring 31 December 2009
1	50,000	Options under employee incentive scheme. Exercise price 75c from 30 March 2008 and expiring 30 March 2010
1	400,000	Options under employee incentive scheme. Exercise price \$1.50 from 29 June 2008 and expiring 29 June 2012
13	17,650,000	Total Share Options

REDSTONE RESOURCES LIMITED

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C. OTHER DETAILS

1. Company Secretary

The name of the company secretary is Miranda Conti.

2. Address and telephone details of the entity's registered and administrative office

Suite 3, 110-116 East Parade
East Perth WA 6004
Tel: (08) 9328 2552
Fax: (08) 9328 2660
email: contact@redstone.com.au

3. Address and telephone details of the office at which a register of securities is kept

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Tel: 1300 557 010

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the Australian Stock Exchange (ASX: RDS).

5. Review of Operations

A review of operations is contained in the Directors' Report.

6. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

REDSTONE RESOURCES LIMITED

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D. TENEMENT SUMMARY

Project	Tenement	Registered Holder Applicant	Holder Interest	Redstone Interest	Grant Date (Application Date)	Expiry	Blocks	Area km2
Tollu (AUSTMINE)	E 69/2197	Redstone Resources Limited	100%	100%	26/03/2007	25/03/2012	70	217.0
Tollu (AUSTMINE)	E 69/2198	Allhawk Nominees Pty Ltd	100%	100%	26/03/2007	25/03/2012	70	217.0
Tollu	ELA 69/2450	Redstone Resources Limited	100%	100%	(28/8/2007)	N/A	69	214.0
Tollu	E 69/1527	Allhawk Nominees Pty Ltd	100%	100%	12/01/2001	11/01/2008	70	217.0
Tollu	E 69/1528	Allhawk Nominees Pty Ltd	100%	100%	12/01/2001	11/01/2008	70	217.0
Tollu (South Hill)	E 69/1537	Allhawk Nominees Pty Ltd	100%	100%	12/01/2001	11/01/2008	20	62.0
Tollu (South Hill)	E 69/1541	Redstone Resources Limited	100%	100%	12/01/2001	11/01/2008	62	192.0
Tollu (South Hill)	E 69/1630	Redstone Resources Limited	100%	100%	1/02/2001	31/01/2008	70	217.0
Tollu (South Hill)	E 69/1631	Redstone Resources Limited	100%	100%	1/02/2001	31/01/2008	21	65.0
Tollu (Lupton Hills)	E 69/1540	Redstone Resources Limited	100%	100%	12/01/2001	11/01/2008	14	43.0
Tollu (Lupton Hills)	E 69/1903	Redstone Resources Limited	100%	100%	20/09/2004	19/09/2009	70	217.0
Tollu (Lupton Hills)	E 69/1904	Redstone Resources Limited	100%	100%	20/09/2004	19/09/2009	70	217.0
Tollu (Lupton Hills)	E 69/1905	Redstone Resources Limited	100%	100%	20/09/2004	19/09/2009	70	217.0
Tollu (Lupton Hills)	E 69/1906	Redstone Resources Limited	100%	100%	20/09/2004	19/09/2009	38	118.0
Tollu (Glenorn)	E 69/2010	Redstone Resources Limited	100%	100%	26/03/2007	25/03/2012	52	161.0
Tollu (Glenorn)	E 69/2248	Redstone Resources Limited	100%	100%	9/08/2007	8/08/2012	35	108.0
Baggaley (Antlion)	E 69/2200	Redstone Resources Limited	100%	100%	26/03/2007	25/03/2012	70	217.0
Baggaley North	E 69/2249	Redstone Resources Limited	100%	100%	9/08/2007	8/08/2012	60	186.0
Baggaley Hills	E 69/2053	Redstone Resources Limited	100%	100%	31/01/2007	30/01/2012	70	217.0
Baggaley Hills	E 69/2054	Redstone Resources Limited	100%	100%	28/04/2006	27/04/2011	70	217.0
Baggaley East	ELA 69/2339	Redstone Resources Limited	100%	100%	(23/01/2007)	N/A	127	393.7
Baggaley South	ELA 69/2340	Redstone Resources Limited	100%	100%	(23/01/2007)	N/A	79	244.9
Michael Hills	E 69/2106	Westmin Exploration Pty Ltd	100%	40%	4/05/2007	3/05/2012	70	217.0
Michael Hills	E 69/2107	Westmin Exploration Pty Ltd	100%	40%	4/05/2007	3/05/2012	70	217.0
Blackstone Range	E 69/2108	River Gold Exploration Pty Ltd	100%	40%	28/04/2006	27/04/2011	39	121.0
Blackstone Range	E 69/2109	River Gold Exploration Pty Ltd	100%	40%	28/04/2006	27/04/2011	70	217.0
Mount Muir	E 69/1629	Redstone Resources Limited	100%	100%	1/02/2001	31/01/2008	70	217.0
Mount Muir	E 69/2280	Redstone Resources Limited	100%	100%	14/06/2007	14/06/2012	141	437.1
Mount Muir	E 69/2247	Redstone Resources Limited	100%	100%	24/08/2007	23/08/2012	192	595.0
Murray Hills	ELA 69/2435	Redstone Resources Limited	100%	100%	(13/07/2007)	N/A	79	244.9
Discovery Metals	E 69/1640	Discovery Nickel Limited	100%	Nil	1/02/2001	31/01/2008	48	148.8
Discovery Metals	E 69/1642	Discovery Nickel Limited	100%	Nil	1/02/2001	31/01/2008	30	93.0
Discovery Metals	E 69/1662	Frugal Mining NL	100%	Nil	8/10/2003	7/10/2008	59	182.9
Discovery Metals	E 69/1663	Thrifty Mining Pty Ltd	100%	Nil	28/02/2001	27/02/2008	54	167.4
Red Rock	E 69/1386	Broadlake Holdings Pty Ltd	100%	100%	4/06/1998	3/06/2007	30	93.0
							2,159	6,691.7