



**QUARTERLY REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

ASX CODE: RNI

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HIGHLIGHTS

Exploration Projects

Angola

- Receipt of finance from Tecmad – Mining Services SARL for refurbishment of Camutue Mine.
- Mobilisation of plant and infrastructure almost complete – first shipment arrived in Luanda.

Western Australia

- 2,655 metres drilled at Ellendale East with encouraging technical results now requiring bulk sampling.
- High resolution aeromagnetic and radiometric survey completed over Yule River Project, with a total of 7,217 line kilometres of 100 metre spaced north-south lines flown by Fugro Airborne Surveys.

South Africa

- Planned bulk sampling of the basal gravel from Swartsand scheduled to be carried out in first quarter of 2007.

Brazil

- Planning for ground-based geophysical surveys completed. This survey will be undertaken in the second quarter of 2007 when the rainy season is finished.

1.0 EXPLORATION PROJECTS

1.1 Camutue Project – Angola

As reported in the June 2006 quarterly report, R&I signed an Operating Agreement with Angolan-based Tecmad – Mining Services SARL (Tecmad) for its appointment as an independent contractor and operator to manage the planned recommissioning of the Camutue associated diamond deposits. This agreement is expected to lead to the re-establishment of mining operations at Camutue by the second quarter of 2007.

The design and procurement of the plant and infrastructure refurbishment is complete – the first of three shipments to Angola arrived in Luanda in early January 2007 and the other two are expected in late January. Mobilisation of personnel has started and is expected to be completed by the end of the first quarter of 2007.

The operating agreement incorporates an initial production plan which envisages the extraction of in excess of 100,000 carats of diamonds over a 16-month period, with processing to be carried out using the existing Dense Media Separation (DMS) diamond production plant located on site. Tecmad has to date invested in excess of US\$10 million on plant and equipment at the Camutue Project. The existence of a modern processing plant and existence of mining and associated infrastructure underpins a relatively rapid development time for the Project.

1.2 Ellendale East and Ellendale South Projects – Western Australia

(JV with Caldera Resources Inc. (Caldera) (TSX:CDR) R&I earning up to 51%)

R&I's Ellendale Projects comprise five adjoining Exploration Licences and Exploration Licence Applications covering an area of over 800 square kilometres, located south east of Kimberley Diamond Company's (KDC) Ellendale 4 mining operation. Geophysical surveys completed by Caldera in 2005 identified 47 magnetic targets within the Ellendale East area. Drilling and sampling of some of these targets led to that company announcing the discovery of up to six potential new lamproite pipes.

In September 2006, R&I commenced an aircore drilling program in the Ellendale East Project to test a number of high-priority magnetic targets. The program was designed to confirm previous results and to test magnetic anomalies not yet drilled by Caldera. A total of 46 holes and 2,655 metres were drilled to test 25 (out of 47) magnetic anomalies within the area. One of these targets covers an area in excess of 200 hectares.

Much of the drilling targeted a potential "volcaniclastic quartz tuff" unit previously identified by Caldera and reported to contain microdiamonds and indicator minerals. The 2006 drilling program confirmed the presence of this material and identified it as a distinct unit within the Permian-aged, Grant Formation. R&I collected over a tonne of samples from the unit and shipped the material to Diatech's laboratory in Perth for initial screening and dense media separation. The resulting heavy mineral concentrate and fine fraction was further processed at KDC's laboratory to recover microdiamonds and indicator minerals.

Observation of concentrates from drill samples is ongoing. At this stage, no microdiamonds have been recovered but a number of chromite grains having chemistry consistent with their derivation from a lamproitic (or kimberlitic) source have been identified. Mineral chemistry and petrological studies are being undertaken on the "volcaniclastic quartz tuff" material to confirm its identity and provenance. This work has the potential to lead to the identification a previously unrecognised kimberlite/lamproite emplacement event in the West Kimberley region. R&I will be seeking environmental approval to conduct a bulk sampling program to conclusively test this unit.

The drilling and sampling program within the Ellendale East area was terminated because of the early onset of the northern wet season. Additional drilling and a bulk sampling program are planned for 2007 but are unlikely to start before April. Their commencement will be conditional on access availability and on the outcome of ongoing work-programs.

R&I are expecting a number of Exploration Licence Applications in the Ellendale South Project area to be granted in the near future. The tenements lie along structures from the Ellendale East Project and Ellendale Lamproite Field and are considered very prospective. Detailed aeromagnetic surveys to locate additional lamproitic targets are currently planned for these areas.

1.3 Swartsand Project – South Africa

R&I secured the highly prospective Swartsand Project, located in the Namaqualand region of South Africa, in January 2005. The Swartsand Project comprises an area of 1,645 hectares within the flood plains of the Buffels River – a major source of diamonds in the area. The Swartsand Project is located immediately downstream of the Buffelsbank Mine – one of the richest alluvial diamond operations in the region, which produced 1.2 million carats over a 30-year period until its closure in 1998.

R&I will commence a program of bulk sampling of the channel gravels, previously outlined by drilling, in the first quarter of 2007.

R&I intends delivering to a jig plant approximately 7,625 cubic metres of Run of Mine (ROM) gravel. It is envisaged that two trenches will be excavated: Trench A containing approximately 3,800 cubic metres of gravel and 9,530 cubic metres of overburden; Trench B containing approximately 3,825 cubic metres of gravel and 5,230 cubic metres of overburden. Any diamond results of significance will be reported as, when and if, they occur.

1.4 Jequitinhonha Project – Brazil

The Jequitinhonha Project is located near the historic diamond mining centre of Diamantina in the Brazilian State of Minas Gerais, where first diamond production was recorded some 235 years ago. The Project is located some 400 kms north of the city of Belo Horizonte. Total recorded production over the past two decades from this region has been in the order of 1 million carats per annum, exclusively from alluvials. Brazil has total recorded diamond production of some 60 million carats, all from alluvial sources, making it one of the world's largest diamond producers.

The planned geophysical survey, as outlined in R&I's September quarterly, will be conducted in the second quarter of 2007 after river levels have dropped following seasonal rains.

1.5 Kimberley Project – Western Australia

The Kimberley Project is a conceptual diamond exploration play located in the Kimberley region of Western Australia, the same region that hosts Australia's two existing commercial diamond mines, the Ellendale and Argyle operations.

R&I's exploration focus is on the large Goat Paddock (EL 80/3153 & ELA 80/3266) circular physiographic anomaly in the central Kimberley region, which represents a high priority target area. The Goat Paddock Project comprises a crater-form topographic depression some 5 kms in diameter. Previous drilling (carried out in 1972) demonstrated a crypto-explosion crater structure in-filled with some 200 metres of carbonaceous lacustrine sediments overlying brecciated sandstone. The lacustrine sediments (lake-fill) have been dated at approximately 50 million years, compared with the surrounding host rocks which have been dated at an estimated 500 million plus years.

Detailed ground magnetic and gravimetric surveys carried out last quarter have demonstrated an internal magnetic anomaly (1.5 kms in diameter) disposed within the much larger topographic anomaly or crater structure (5 kms in diameter). This anomaly is interpreted to reflect a 'melt pool' related to a meteorite impact or a sub-volcanic intrusive possibly related to a kimberlitic diatreme.

Exploration Licence E80/3153 was halved in area during the quarter due to mandatory 50 per cent partial relinquishment requirements.

The Annual Technical Report, Relinquishment Report and Form 5 are being prepared for submission to the Department of Industry and Resources.

Planning was completed during the quarter for a proposed drilling program at this target which, subject to site clearances, is proposed to commence during the first half of 2007.

1.6 Yule River Project – Pilbara Region, Western Australia

The Yule River Project is located 65 kms south-west of Port Hedland and 30 kms north of the recently commissioned Range Rivers Indee gold mine.

A high resolution aeromagnetic and radiometric survey has been completed over the Yule River Project.

A total of 7,217 line kilometres of 100 metre spaced north-south lines were flown by Fugro Airborne Surveys. The data is currently being processed and will subsequently be interpreted by the consultant geophysicist.

Exploration Licence E47/1131 was halved in area during the quarter due to mandatory 50 per cent partial relinquishment requirements.

An Annual Mines Department Technical Report, Partial Relinquishment Report and Form 5 were submitted to the Department of Industry and Resources.

MILES KENNEDY CHAIRMAN

24 January 2007

COMPETENT PERSON

The information in this report that relates to an inferred mineral resource is based on information following a due diligence program conducted by Peter Danchin, B.Sc (Hons), Pr.Sci.Nat. (RSA), M.Aus.IMM, who is an executive director of Resource and Investment NL. Mr Danchin is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code). Mr Danchin consents to the inclusion in the report of the matters based upon his information in the form and context in which it appears.