

31 January 2007

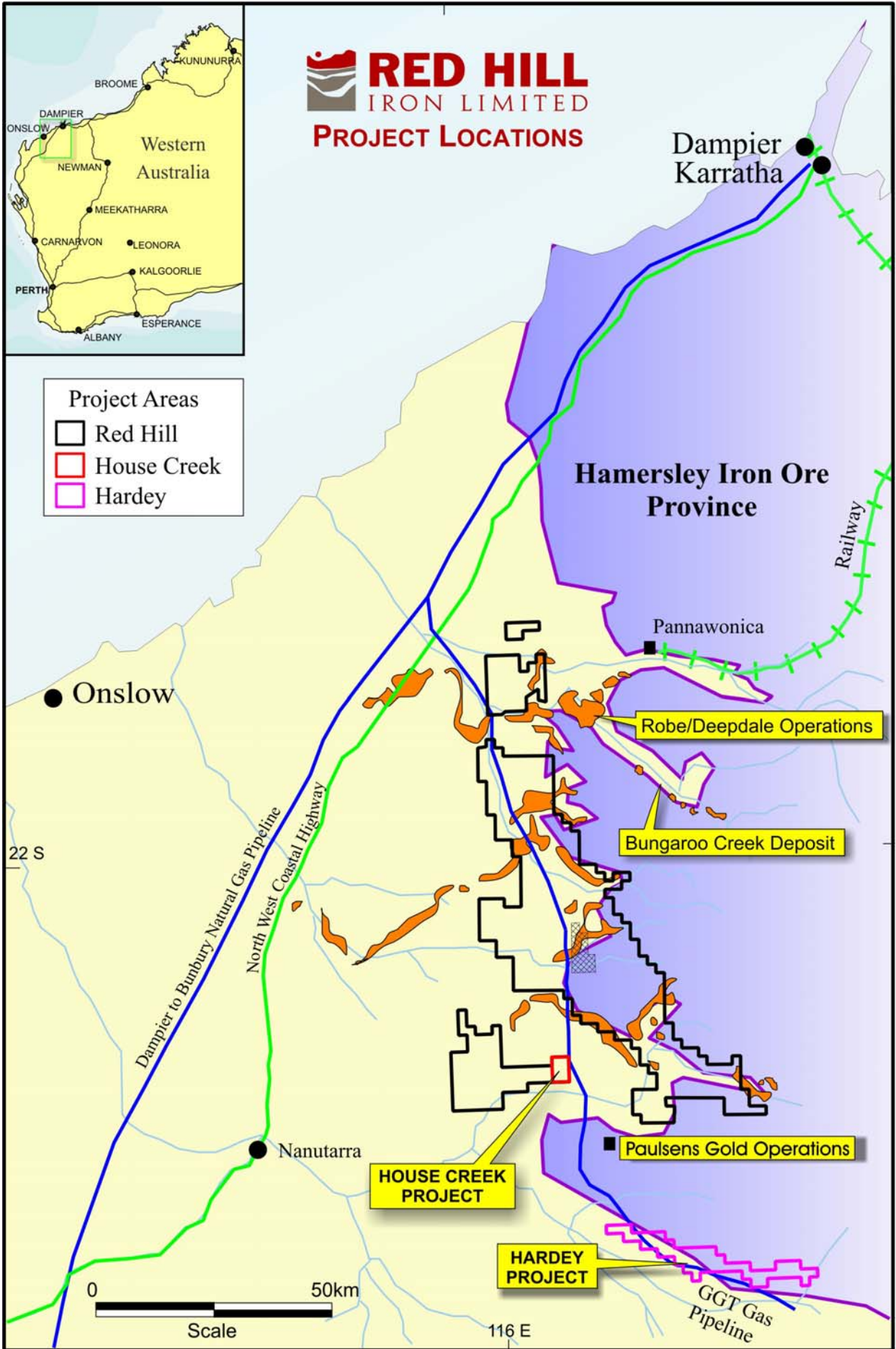
Company Announcements Office
Australian Stock Exchange
PO Box H224, Australia Square
Sydney NSW 2000

Dear Sir/Madam,

**ACTIVITIES REPORT FOR THE QUARTER
ENDED 31 DECEMBER 2006**

HIGHLIGHTS

- \$4 million now spent on the Red Hill Iron Ore Project
- API Management Pty Ltd elects to earn 80% interest in Red Hill Iron Ore Project by funding all further exploration and development costs through to commercial production
- Commencement of Pre-Feasibility Study on the Red Hill Iron Ore Project
- Aquila Resources group commits to take up a placement of 5,882,353 shares to raise \$7.9 million
- A number Gold and Base Metal geochemical anomalies defined for further exploration



CORPORATE

At the end of the quarter the Company's joint venture partner in the Red Hill Iron Ore Project, API Management Pty Ltd ("API"), advised the Company that it had completed the \$4 million expenditure required to earn a 60% participating interest in the Project. API is owned 50% by Aquila Steel Pty Ltd ("Aquila"), a wholly owned subsidiary of Aquila Resources Limited (AQA).

Under the terms of the joint venture, API has elected to proceed to earn an 80% participating interest by funding all project costs, including any capital costs for mine development. Red Hill Iron will be required to repay its share of these costs together with interest but only out of 80% of its share of any future mine revenue. Red Hill Iron also has the right to convert its project interest to a 2% free-on-board royalty at any time up to the first delivery of iron ore to customers.

Under the terms of the joint venture, upon reaching the expenditure of \$4million, API also earned the right to subscribe for 5,882,353 shares in the Company at a price calculated to be \$1.3435 per share. Red Hill Iron agreed to allow Aquila to take up this entitlement, given that API is 50% owned by Aquila, and a Subscription Agreement to effect this placement was entered into. This number of shares was determined in accordance with the terms of the original joint venture executed prior to the public listing of Red Hill Iron Limited. As the number of shares to be issued exceeds the 15% limit prescribed by the ASX listing rules, a waiver was requested. The ASX subsequently granted this waiver and the Company expects the placement to be completed on 15 February raising \$7.9 million.

RED HILL IRON ORE PROJECT (API 60%, earning 80%)

During the quarter drill evaluation of channel iron deposits (CIDs) on the Red Hill Iron Ore Project continued and API commenced a Pre-Feasibility Study involving all its West Pilbara iron ore projects of which the Red Hill Iron Ore Project is an integral part.

PRE-FEASIBILITY STUDY (PFS)

A Port Options Study has been commissioned and preliminary results will be available for evaluation during the forthcoming Quarter. Rail operator Australian Railroad Group has created a model to provide both below and above rail construction and operating data. Conceptual pooling diagrams were generated for a 150 kilometre rail line at potential mine production profiles of 10, 15 and 20 million tonnes per annum.

Advice has also been received on the capacity of road haulage at high tonnages, concluding 10 million tonnes per annum is the realistic capacity limit, based on port distances and the number of trucks and drivers required to operate effectively and safely.

Consideration is being given to the benefits of Continuous Surface Miners for their selective mining capacity and the added benefit of avoiding the requirement for primary crushing.

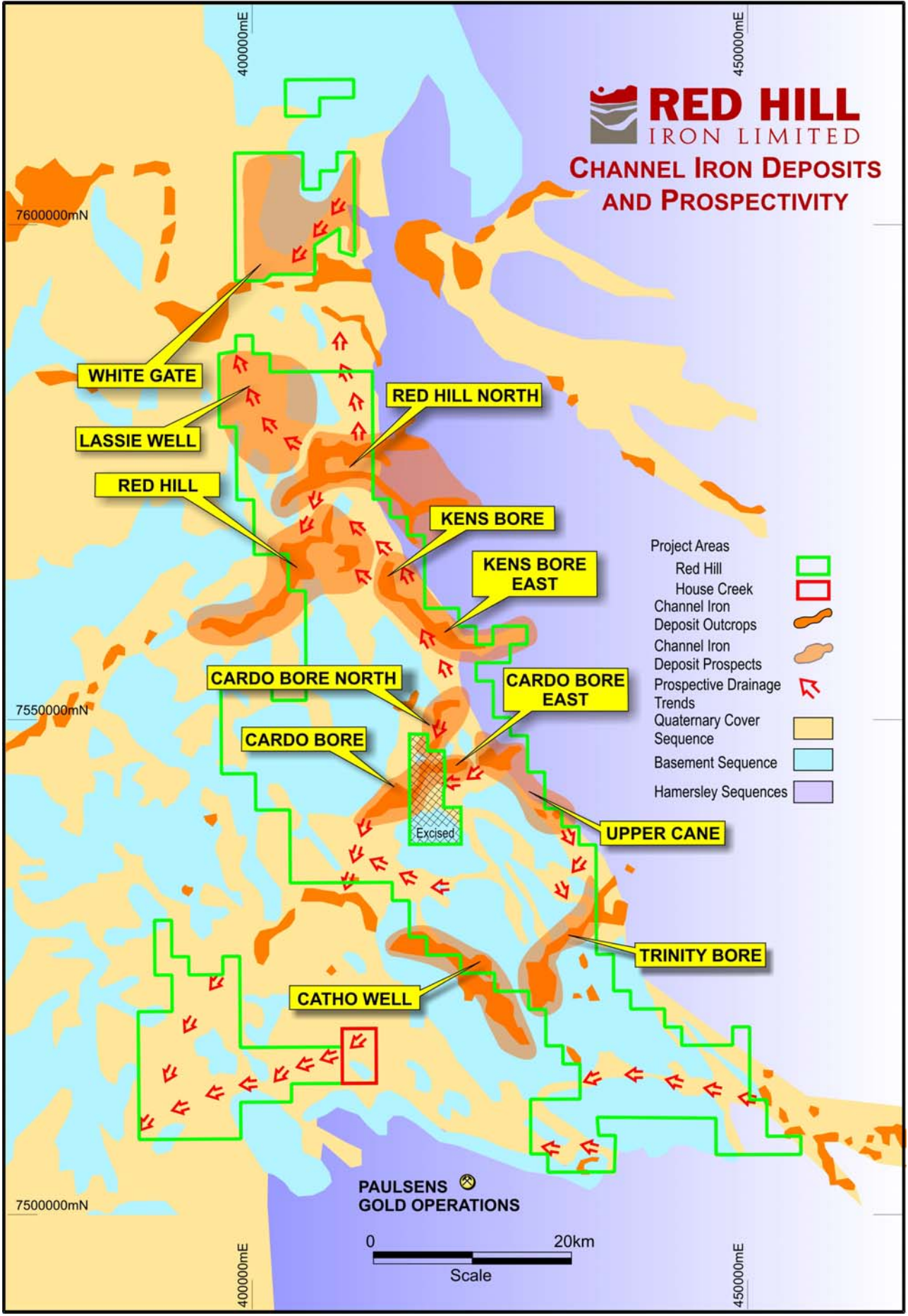
Diamond drill core from the Red Hill North deposit was transported to AMMTEC analytical laboratory and iron ore processing consultant Mr Noel Poetschka was engaged to oversee the technical work. Initial results are expected late February regarding the potential benefits of a washplant and the test work will continue in order to develop the product characteristics.

Work progressed on developing the structure and schedule for the PFS. Consultants Evans & Peck were engaged to assist with management and coordination activities, together with environmental consultants Aquaterra, who will assist with the environmental approvals schedule.

An important part of the schedule is the land based flora and fauna surveys and preliminary discussions were held with Biota (fauna) and Landcare Holdings (flora) to determine program requirements. In addition, a marine environment consultant has been selected to address marine impacts associated with the project.

A preliminary overall project schedule is being developed, based on the statutory approvals program.

Calibre Projects Pty Ltd have been selected to prepare preliminary designs and estimates for infrastructure at the mine and port, excluding marine structures. Calibre partner Engenium Pty Ltd will study transport corridors for road and rail options.



RED HILL
IRON LIMITED
**CHANNEL IRON DEPOSITS
AND PROSPECTIVITY**

- Project Areas
- Red Hill
- House Creek
- Channel Iron Deposit Outcrops
- Channel Iron Deposit Prospects
- Prospective Drainage Trends
- Quaternary Cover Sequence
- Basement Sequence
- Hamersley Sequences

PAULSENS GOLD OPERATIONS



IRON ORE EXPLORATION

Cardo Bore East

Final results have been received for RC drilling completed at Cardo Bore East during the Quarter. Results continue to define a mineralised channel extending over 2.5 kilometres in length and ranging from 250 metres to 1,000 metres in width. Thickness of the mineralised zone ranges between 15-26 metres.

A list of selected recent drill intercepts are contained in Table 1.

Table 1: Selected RC drill intercepts from the **Cardo Bore East** prospect.

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
Cardo Bore East								
CBRC213	22	48	26m @ 59.08% Fe	3.83	5.00	0.074	0.010	5.88
CBRC216	20	46	26m @ 60.63% Fe	3.63	3.40	0.059	0.015	5.73
CBRC218	20	40	20m @ 59.86% Fe	3.82	3.84	0.074	0.009	6.22
CBRC221	12	34	22m @ 57.97% Fe	3.58	5.02	0.069	0.018	7.57

Red Hill North

Follow up RC drilling has been completed at the Cochrane and Farnum prospects and has confirmed the continuation of the mineralised CID joining the two prospect areas, increasing the width of the channel to approximately 600 metres. Significant mineralisation has been defined along the length of the mesa ranging up to 20 metres in thickness and is consistent along the 2-2.5 kilometres length of the mesa.

Table 2: Selected RC drill intercepts from **Red Hill North** – Cochrane / Farnum prospect.

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
RNRC151	32	52	20m @ 55.78% Fe	4.80	5.90	0.069	0.017	9.09
RNRC153	30	54	24m @ 55.76% Fe	4.42	5.99	0.077	0.016	9.27
RNRC158	30	54	24m @ 56.39% Fe	4.13	5.31	0.073	0.017	9.19
RNRC161	26	56	30m @ 56.69% Fe	4.55	5.88	0.079	0.015	7.80
RNRC168	22	46	24m @ 56.52% Fe	3.99	5.93	0.058	0.023	8.84
RNRC174	0	26	26m @ 56.89% Fe	3.21	5.57	0.119	0.025	8.99
RNRC177	12	34	22m @ 58.45% Fe	3.16	4.07	0.110	0.021	8.37
RNRC251	12	32	20m @ 58.48% Fe	4.29	4.15	0.085	0.017	7.39

Ken's Bore

As announced during the Quarter, the initial program of RC drilling completed at the Ken's Bore prospect has identified a broad mineralised pisolitic channel iron deposit greater than 30 metres thick over a wide area. All results have now been received from the 76 drill hole program. Results received subsequent to the Company's earlier ASX announcement continue to support the interpretation above. Selected intercepts are listed in Table 3.

Table 3: Selected RC drill intercepts from the **Ken's Bore** prospect

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
KBRC020	16	36	20m @ 56.51% Fe	3.84	5.33	0.066	0.015	9.35
KBRC035	20	50	30m @ 59.04% Fe	3.13	4.23	0.089	0.010	7.73
KBRC041	4	52	48m @ 58.67% Fe	3.36	3.91	0.077	0.007	8.45
KBRC047	24	56	32m @ 58.74% Fe	3.22	4.18	0.084	0.009	8.03
KBRC048	30	50	20m @ 58.85% Fe	2.97	4.90	0.082	0.010	7.62
KBRC050	42	74	32m @ 56.69% Fe	3.28	6.22	0.191	0.010	8.60
KBRC052	8	46	38m @ 59.99% Fe	2.78	3.24	0.075	0.007	7.71
KBRC054	8	44	36m @ 59.44% Fe	2.90	3.66	0.076	0.013	8.06

Trinity Bore

First pass RC drilling has been completed at the Trinity Bore prospect. A total of 88 holes for 3,328 metres have been completed on a 400 metre x 200 metre grid. All drill holes intersected pisolitic channel iron at variable depths. Selected intercepts are listed in Table 4. Iron grades range between 54% and 56%.

Follow up drill programs will be planned once all results have been received.

Table 4: Selected RC drill intercepts from the **Trinity Bore** prospect

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
TBRC015	4	32	28m @ 55.71% Fe	4.21	6.27	0.048	0.026	9.32
TBRC032	10	34	24m @ 56.28% Fe	4.09	5.43	0.130	0.004	9.13
TBRC034	12	32	20m @ 55.17% Fe	4.34	6.43	0.055	0.022	9.67

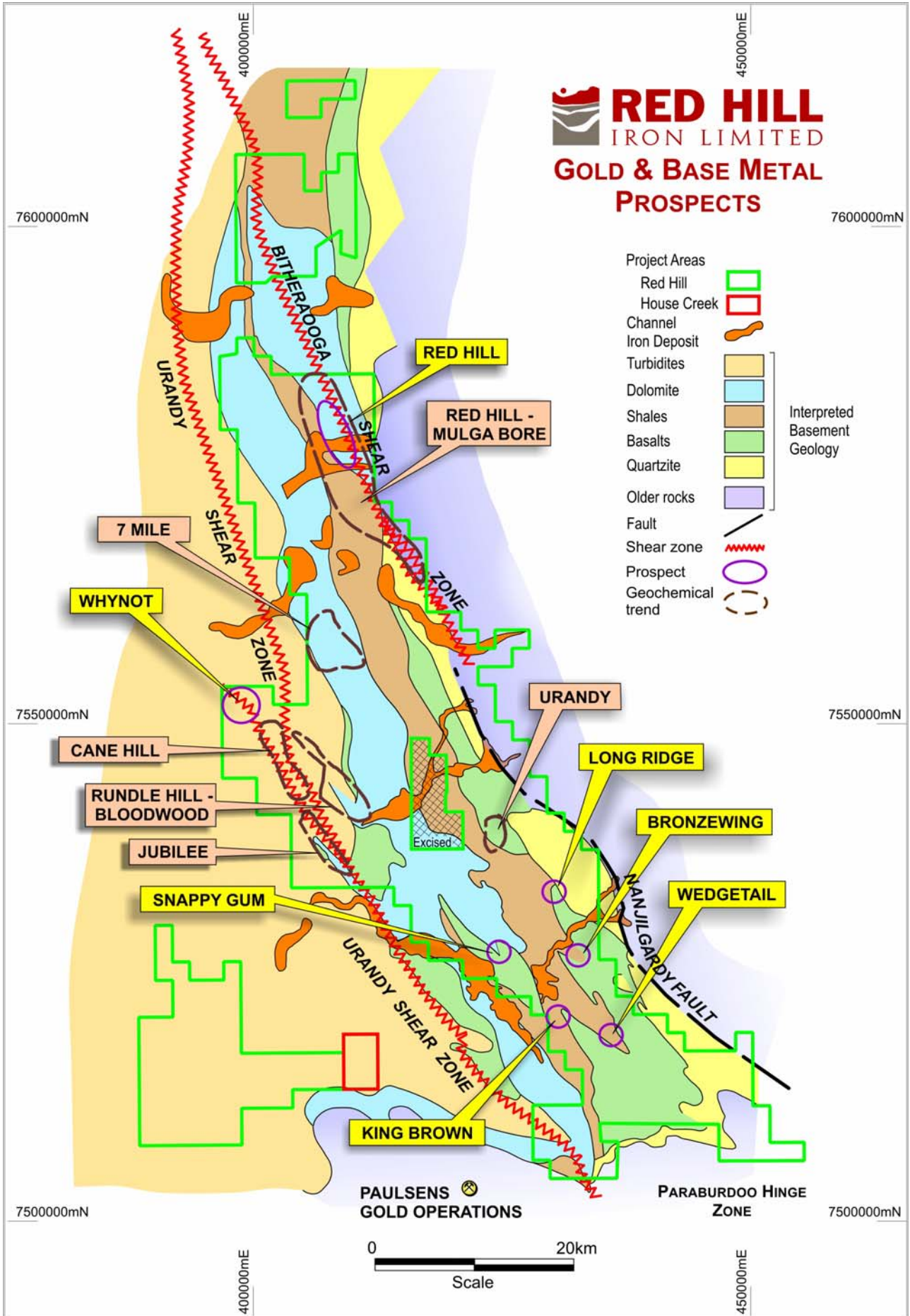
Upper Cane

The Upper Cane prospect, located approximately 1 kilometre east of the Cardo Bore East prospect, is the continuation of the Cardo Bore palaeochannel. A first pass RC drilling program, comprising 78 holes for 3,314 metres, was completed on 200 metre x 100 metre grid. Drilling intersected thick hematite-rich pisolite channel iron up to 52 metres from the surface. The stratigraphy is relatively consistent over the 3.5 kilometre length of the prospect and 250-500 metre width of the channel.

Selected RC returned are listed in Table 5.

Table 5: Selected RC drill intercepts from the **Upper Cane** prospect

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
UCRC004	0	26	26m @ 59.62% Fe	2.18	5.45	0.102	0.019	6.31
UCRC008	2	24	22m @ 60.27% Fe	1.91	3.17	0.097	0.022	0.00
UCRC012	0	46	46m @ 58.8% Fe	3.20	5.47	0.064	0.014	0.00
UCRC016	0	26	26m @ 60.22% Fe	2.53	4.15	0.058	0.022	6.60
UCRC021	0	38	38m @ 58.46% Fe	3.56	4.55	0.069	0.020	7.75
UCRC025	4	26	22m @ 59.86% Fe	2.60	3.47	0.075	0.015	7.86
UCRC028	0	40	40m @ 57.56% Fe	3.47	4.75	0.088	0.034	8.72
UCRC041	0	36	36m @ 57.93% Fe	2.66	6.30	0.114	0.021	7.59
UCRC045	0	24	24m @ 60.24% Fe	2.58	3.68	0.076	0.030	7.28
UCRC047	0	34	34m @ 59.55% Fe	2.99	3.76	0.068	0.022	7.77
UCRC050	0	28	28m @ 60.16% Fe	2.55	4.49	0.059	0.021	6.51
UCRC052	0	52	52m @ 58.61% Fe	3.35	4.88	0.094	0.013	7.35
UCRC053	0	44	44m @ 59.44% Fe	3.06	4.80	0.075	0.015	6.79
UCRC057	0	28	28m @ 60.5% Fe	2.69	3.90	0.064	0.016	6.55
UCRC059	2	32	30m @ 59.31% Fe	3.01	3.79	0.061	0.019	7.96
UCRC064	6	38	32m @ 60.16% Fe	2.92	3.17	0.089	0.019	7.46
UCRC068	0	38	38m @ 58.28% Fe	3.28	4.48	0.087	0.028	8.40
UCRC071	2	28	26m @ 57.8% Fe	3.17	5.30	0.087	0.012	8.39
UCRC075	0	24	24m @ 59.29% Fe	3.24	3.59	0.075	0.031	7.98



GOLD & BASE METAL EXPLORATION

Apart from the Red Hill Iron Ore Project with API, Red Hill Iron is actively exploring the Red Hill Project Area in its own right for gold and base metals.

Field work for 2006 was completed in mid December, and will resume in April 2007. In the meantime the results of work conducted during 2006 are being collated, analysed and assessed, forming the basis of work programs for the 2007 field season. These will be formulated during the March Quarter.

RESULTS

Regional Geochemical Soil Sampling

The regional geochemical soil sampling program of exposed parts of the Paraburdoo Hinge Zone (PHZ) continued during the Quarter. An additional 600 samples were collected during the Quarter, bringing the cumulative total of soil samples collected during 2006 to 5,110 samples.

The results of this work are encouraging for both gold and base metals. Apart from the existing Red Hill Gold - Copper and Why Not Copper - Gold prospects, six new areas of gold +/- arsenic antimony and / or copper nickel lead zinc anomalism have been defined. They are:

- Cane Hill – sporadic gold anomalism over twelve kilometres in sheared Ashburton Formation metapelites in the Urandy Shear Zone and associated splays, south east of Why Not;
- Jubilee - gold arsenic antimony copper lead zinc nickel anomalism over six kilometres in sheared Ashburton Formation June Hill Volcanics and Duck Creek Dolomite, south-eastern continuation of Cane Hill, in the Urandy Shear Zone and associated splays;
- Rundle Hill – Bloodwood trend - gold arsenic antimony copper lead zinc nickel anomalism over ten kilometres, in Duck Creek Dolomite north west of Cardo Outcamp;
- Red Hill - Mulga Bore trend - gold arsenic antimony copper nickel anomalism over approximately twenty kilometres adjacent to the Bitherabooga Shear Zone; includes the Red Hill Gold Copper prospect and the Sandy prospect (an area of intense epithermal alteration);
- 7 Mile - copper lead zinc nickel arsenic anomalism over a broad area straddling the contact between the Ashburton Formation and Duck Creek Dolomite.
- Urandy – gold arsenic nickel zinc anomalism in soil over two kilometres of strike length straddling the contact zone between the Mt McGrath Formation and Cheela Springs Basalt.

Further exploration of these areas will include follow-up geochemical sampling, prospecting, geological mapping, and RAB / aircore drilling.

RAB/Aircore Drilling:

During the December Quarter testing of the unexposed parts of the PHZ continued with 800 metre by 800 metre spaced RAB / aircore drilling. 7,671 metres of drilling were completed, bringing the cumulative total for 2006 to 9,880 metres.

The broad spaced nature of this drilling requires that subtle geochemical values in the appropriate geological environment justify follow – up. In this context, seventeen RAB holes with elevated gold values associated with alteration and veining occur within the Red Hill - Mulga Bore trend. A further seven holes with elevated gold values occur in the lower Ashburton Formation - upper Duck Creek Dolomite, north of 7 Mile, and six holes with elevated gold values occur around 6 Mile Well, in the lower Duck Creek Dolomite and upper Mt McGrath Formation.

The base metal geochemistry is being evaluated.

Red Hill Gold – Copper IP Survey

This survey was completed during the Quarter. The results indicate a number of geologically realistic chargeability anomalies, five of which possibly represent blind sulphide concentrations related to the main gold in soil anomaly. The remainder of the anomalies have no obvious surface manifestations, but possibly represent blind sulfides.

A reverse circulation drilling program is being formulated to test these targets in 2007.

Airborne EM Target Testing

Drill testing of the five main airborne EM targets was partially completed during the Quarter. Ground conditions proved unsuited to diamond drilling and the only diamond hole completed was at Long Ridge, where broken friable sulphidic black shales were encountered. One reverse circulation hole was completed at the King Brown prospect, where sulphidic black shales and dolomites were intersected. No anomalous gold or base metal values were intersected.

The precollars for the diamond holes at the remaining EM prospects will be utilised for reverse circulation drill testing in 2007. Second and third order conductors defined by the EM survey will also be systematically assessed.

Bottom of Hole Geochemical Sampling

API Management Pty Limited who are earning an interest in the iron ore within the Project tenements by exploring the potential of the channel iron deposits (CID), have made available the bed rock bottom of hole samples from the large number of RC holes they drilled in 2006. Red Hill Iron has analysed these for precious and base metals, further adding to the precious and base metal geochemical inventory of the project area.

The results show low order clusters of multi element anomalism where the Red Hill North CID intersect the Red Hill – Mulga Bore trend, south of the Red Hill Gold Copper prospect, in the Cardo Bore East and Cardo Bore North CID areas.

Yours faithfully

G R Strong
Director

COMPLIANCE STATEMENT

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Tim Boddington who is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Boddington is a full-time employee of the company. Mr. Boddington 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Boddington consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this announcement, insofar as it relates to iron ore exploration activities, is based on information compiled by Stuart H Tuckey, who is a member of the Australian Institute of Mining and Metallurgy, and who has more than five years experience in the field of activity being reported on. Mr Tuckey is a full-time employee of API Management Pty Ltd. Mr. Tuckey 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 2004 Edition of the 'Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Tuckey consents to the inclusion in the report of the above matters, based on their information in the form and context in which it appears.