

2 July 2008

Company Announcements Office
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

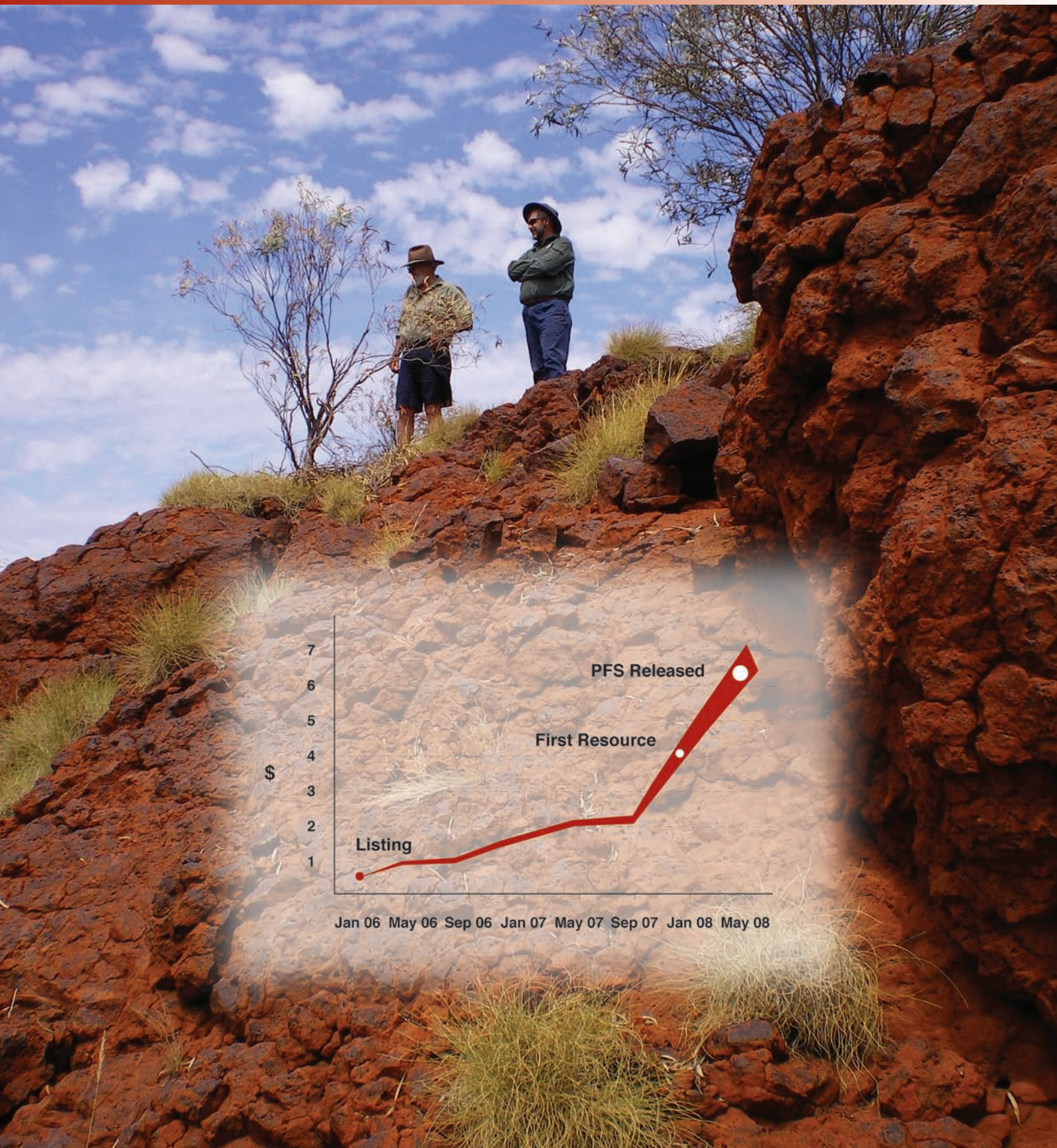
**NEWSLETTER TO SHAREHOLDERS
THE RED HILL IRON STORY**

Attached is a copy of a newsletter being despatched to shareholders today summarising the progress to date in the company's iron ore joint venture with API Management Pty Ltd a company owned equally by subsidiaries of Aquila Resources Limited and AMCI Holdings Inc.

Yours faithfully

P.C.Ruttledge
Company Secretary

THE RED HILL IRON STORY



Dear Shareholder,

Since listing on ASX in February of 2006 with an issue price of 20 cents per share raising \$4 million, Red Hill Iron has experienced an extraordinary rate of share capital growth associated with the advancement of the Red Hill Iron Ore Joint Venture. This letter provides shareholders with an historic perspective of your Company's holdings in the West Pilbara, explains the present position and seeks to provide some insight into possible future opportunities.

The IPO represented the culmination of the first phase of enhancement of the project which began with the accumulation of ground through tenement applications submitted throughout the mid 1990s. Research during 2004 and 2005, as the iron ore boom started to gather pace, suggested that the target mesas might have potential for channel iron deposits and revealed that scout drilling of some mesas during the 1960s had in fact intersected promising mineralization.

By June 2005, the tenement package had been amalgamated under the umbrella of a holding company – Red Hill Iron Limited – and negotiations commenced with various iron ore exploration and mining companies in order to secure favourable terms for funding onward exploration and any future mine development.

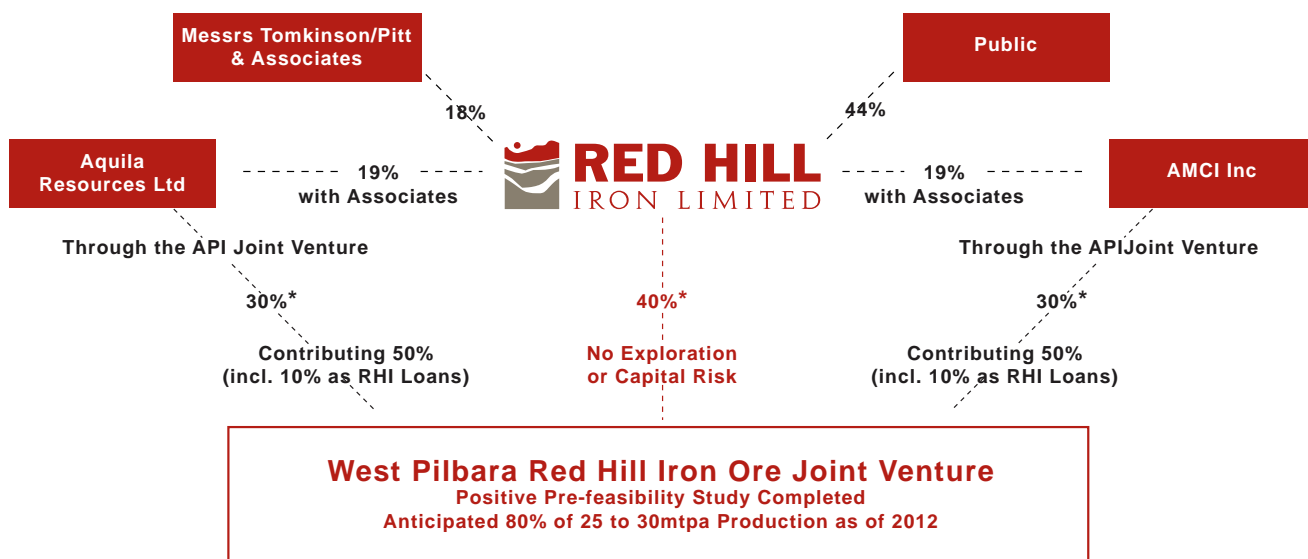
One group with an impressive exploration team and attitude that showed particular interest in our project was the Australian

Premium Iron Ore Joint Venture (API). API is owned equally by the ASX listed Aquila Resources Ltd and a subsidiary of the international resources investment group, AMCI Incorporated. Negotiations were successfully concluded with this group in November 2005 and the Red Hill Iron Ore Joint Venture agreement consummated.

The agreement provides that in the event of development the capital requirements of your Company will be sole funded by API which will in exchange be entitled to a further 20% interest in the project upon the first delivery of iron ore. Red Hill Iron can elect to repay these funds at any time as a lump sum or during mining operations, by paying API 80% only of its share of the project's free cash flow.

Additionally, should the economics of the project appear unfavourable during the period up to the delivery of first ores to customers, Red Hill Iron can elect to revert to a 2% FOB royalty which will result in the automatic cessation of liability in relation to development funds provided by API at no further cost to your Company.

The project area lies in close proximity to the Deepdale channel iron deposits owned by the Robe River Iron Associates and covers much of the western flank of the Hamersley Ranges. Extensive iron rich mesas occur throughout the project area similar in appearance to those being mined at Deepdale.



* The API Joint Venture participants' project interest will increase from a combined 60% to 80% with the Red Hill Iron Limited project interest reducing from 40% to 20% at the date on which iron ore is first delivered under a Contract of Sale.

As previously announced, the Joint Venture has already established some 350 million tonnes of channel iron deposits in eight mesas which outcrop from the north to the extreme south of the project area. Because these mesas generally rise some tens of metres above plain level, stripping ratios for mining operations will be low. Red Hill Iron is confident that this deposit base will be expanded as mesa exploration continues and exploration begins for buried deposits. Success in this regard would allow mine life to be extended.

The PFS anticipates some 80% of the first 15 years of production will be derived from the Joint Venture project area with the remaining ore derived from the API/Cullen Resources Ltd project area, situated to the south, of which your Company has no ownership.

The capital and operating costs determined by the study are as shown in the following tables. Definitive Feasibility Studies will now commence with the aim of refining these estimates.

CAPITAL COSTS	US\$ 000
Mine Processing and Infrastructure	781
Railway and Rolling Stock	822
Port Processing, Material Handling, Jetty and Wharf, Dredging and Ancillaries	<u>1,262</u>
Total Direct Costs	2,865
EPCM	429
Contingency	564
Owners' Costs	<u>86</u>
TOTAL CAPITAL COSTS	<u>3,944</u>

OPERATING COSTS	US\$ per tonne
Mine and Processing	8.58
Rail	2.26
Port Processing and Handling	3.79
Administration and Marketing	0.57
Royalties	<u>4.16</u>
TOTAL OPERATING COSTS	<u>19.36</u>

A major component of the capital cost estimate is based on the assumption of a need for a stand alone port facility. Your board considers that there are several ways in which this could be mitigated. As an example, port development costs could be shared or transport costs reduced if satisfactory access arrangements could be achieved for bulk transportation of our iron ore using the Robe River Iron Associates railway and port facilities at Cape Lambert.

Your Company has an exciting future ahead. It is adequately funded with over \$8 million of cash reserves - ample to maintain its modest base metal and gold exploration effort in the Red Hill area and to husband the Company through the foreseeable future.

Should the Definitive Feasibility Study conclude that the project is indeed viable as expected, your Company, with its particularly attractive joint venture funding arrangements, can expect positive future cash flow commencing from the first days of mining operations.

Your board is well aware that the cash rich outlook for Red Hill Iron Ltd may well attract attention from parties which have ambitions to secure a long term stable cash flow from iron ore production. Some measured research in this regard may be undertaken as the Study process evolves.

Shareholders can look forward to continued capital appreciation as the Red Hill Iron project progresses and as the full value of your Company's project interest and joint venture funding arrangements are recognised.

Yours sincerely



Neil Tomkinson
Chairman

1st July 2008

