

22 September 2008

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

Dear Sir/Madam

Financial Report for the year ended 30 June 2008

Attached is the Red Hill Iron Limited Financial Report for the year ended 30 June 2008.

Yours faithfully

P.C.Ruttledge
Company Secretary

RED HILL IRON LIMITED

ABN 44 114 553 392

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2008

RED HILL IRON LIMITED

DIRECTORS' REPORT

Red Hill Iron Limited ("the Company" or "Red Hill Iron") is an Australian company listed on the Australian Securities Exchange. The registered and corporate office of the Company is located at Level 2, 9 Havelock Street, West Perth, and the exploration office is located at Ground Floor, 43 Ventnor Avenue, West Perth, Western Australia.

The Directors of the Company present their report on the Company for the year ended 30 June 2008.

DIRECTORS

The following persons were Directors of Red Hill Iron Limited during the financial year and up to the date of this report:

Joshua Pitt
Garry Strong
Neil Tomkinson (appointed 11 April 2008)
Graham Riley (resigned 11 April 2008)
Stanley Macdonald (resigned 11 April 2008)

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year consisted of iron ore, other base metal and gold exploration. There has been no significant change in these activities during the financial year.

DIVIDENDS

No dividends were paid during the year and the directors do not recommend the payment of a dividend.

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

The operating loss after tax for the year was \$1,392,867 (2007: \$1,911,013).

Exploration and feasibility studies continued during the year on the Company's Red Hill iron ore project in the West Pilbara region of Western Australia. The project is managed by API Management Pty Ltd (API), a company 50% owned by Aquila Resources Ltd and the American investment group, AMCI Incorporated. API, through the Red Hill Iron Ore Joint Venture with the Company (RHIOJV), currently owns a 60% participating interest in the iron ore rights of the project and is earning a further 20% participating interest by lending Red Hill Iron all of its share of exploration and development costs. The loans are repayable from 80% only of Red Hill Iron's share of mine revenue. The Company retains the option to convert its ultimate 20% interest in the project to a 2% FOB royalty at any time up to the first delivery of ore to a customer thereby cancelling all repayment obligations.

The year has seen the rapid advancement of the project. In March 2008, the Company announced a significant increase in channel iron resources to 350 million tonnes at 57.2% iron. A Pre-feasibility Study (PFS) was completed by May of this year which indicated the technical and financial viability of a 25 to 30 million tonne per annum operation. Capital expenditure was estimated at US\$3.9 billion for dedicated project facilities including the construction of a 160 kilometre railway and a new deepwater port facility at Cape Preston.

The coming year will be very active for the Company with definitive feasibility studies now commenced and intensive drilling underway seeking increased confidence in the stated resources and additional tonnes. The budget for this work which includes rail and port studies is over \$60 million.

Following the failure of discussions with API with regard to matters relating to the RHIOJV, Red Hill Iron is preparing to commence certain court actions to clarify its joint venture rights. The matters stem from an API proposal that rail and port studies should be excluded from the RHIOJV program and budget component of the definitive feasibility studies, a proposition that your Company strongly rejects. This report is written on the basis that the Company's understanding of its joint venture rights and assets will be supported by the ultimate rulings of the court.

The Company also maintains a significant gold and base metal exploration programme in the Red Hill region in which API has no involvement. The gold and base metal rights are mostly wholly owned by the Company. It is earning a 70% interest in adjacent tenements, owned by Cullen Resources Ltd, by managing and funding exploration.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the operating results there were no significant changes in the state of affairs of the Company during the financial year.

RED HILL IRON LIMITED

DIRECTORS' REPORT (continued)

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There are no matters or circumstances which have arisen since the end of the financial year that have significantly affected the operations of the Company or the results of those operations or the state of affairs of the Company, nor are there any such matters or circumstances or likely developments which in the view of Directors may significantly affect the future operations or the results of those operations or the state of affairs of the Company.

ENVIRONMENTAL REGULATIONS

The mining leases, exploration licences and prospecting licences granted to the Company pursuant to the Mining Act (1978) (WA) are granted subject to various conditions which include standard environmental requirements. The Company adheres to these conditions and the Directors are not aware of any contraventions of these requirements.

INFORMATION RELATING TO DIRECTORS

Non Executive Chairman

Neil Tomkinson LLB, appointed 11 April 2008

Mr Tomkinson was appointed non-executive director and chairman of the Company on 11 April 2008. Mr Tomkinson has extensive experience over the last thirty years in the administration of and investment in exploration and mining companies. Mr Tomkinson is the non-executive chairman of Hampton Hill Mining NL (appointed January 1997) and Traka Resources Limited (appointed September 2003), and is a non-executive director of Pan Pacific Petroleum NL (appointed 23 June 2007). Mr Tomkinson is an investor in private mineral exploration and in resources in general in Australia.

Non Executive Directors

Joshua Pitt, BSc, MAusIMM, MAIG

Mr Pitt is a geologist with extensive exploration experience who has for more than thirty years been a director of exploration and mining companies in Australia. He is a non-executive director of Hampton Hill Mining NL (appointed January 1997), Traka Resources Limited (appointed July 2003) and Red Metal Limited (appointed July 2003). Mr Pitt was a non-executive director of LionOre Mining International Limited from November 2003 to May 2005. Mr Pitt is involved in substantial resource investment.

Garry Strong

Mr Strong is a prospector with forty years experience in gold and basemetal reconnaissance exploration in Australia. He has spent the last 15 years working in the Pilbara Region of Western Australia for the private exploration syndicate which originally acquired the core tenements purchased by Red Hill Iron. Previously he was a director of Golden Grove Mining NL, Aztec Exploration Limited, and Riverina Gold NL.

Graham Riley, BJuris LLB

Mr Riley, was a non executive director and chairman of the Company until his resignation on 11 April 2008.

Stanley Macdonald

Mr Macdonald was a non-executive director of the Company until his resignation on 11 April 2008.

INFORMATION RELATING TO GENERAL MANAGER

Timothy Boddington, BSc Hons, MAusIMM, MAIG, GSA

Mr Boddington is an exploration geologist with forty years experience in gold and base metal exploration, including several years spent exploring the Ashburton Trough on behalf of a private exploration syndicate which originally acquired the core tenements purchased by Red Hill Iron. He has extensive field experience and has spent a significant amount of time at senior management level directing exploration programs for a number of listed and unlisted companies.

INFORMATION RELATING TO COMPANY SECRETARY

Peter Rutledge, BSc, CA, FIA

Mr Rutledge is a Chartered Accountant and a Fellow of The Financial Services Institute of Australia and has over 20 years experience as company secretary of a number of listed mining and exploration companies.

RED HILL IRON LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The number of shares and options in the Company held directly and indirectly by the Directors as at the date of this report is set out below:

Directors	Ordinary Shares	Options over Ordinary shares
N Tomkinson	3,014,369	-
J N Pitt	3,576,155	-
G R Strong	1,593,946	-

The relevant interests of Mr Tomkinson and Mr Pitt in the shares of the company are their combined holdings of 6,590,524 ordinary shares together with the voting rights in respect of a further 1,088,193 ordinary shares.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of directors held during the financial year and the number of meetings attended by each director:

Director	Meetings of Directors whilst a Director	Meetings attended
N Tomkinson	1	1
G D Riley	8	8
J N Pitt	9	9
G R Strong	9	9
S A Macdonald	8	8

AUDITED REMUNERATION REPORT

(a) Principles used to determine the nature and amount of remuneration

The objective of the Company's remuneration policy for directors and other key management personnel is to ensure that:

- remuneration packages properly reflect the duties and responsibilities of the person concerned, and
- remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The remuneration framework has regard to shareholders' interests by:

- focusing on sustained growth in share price, as well as focusing the executive on key non-financial drivers of value, and
- attracting and retaining high calibre executives.

The remuneration framework has regard to executives' interests by:

- rewarding capability and experience,
- providing a clear structure for earning rewards,
- providing recognition for contribution.

The remuneration policy is not linked to the Company's performance.

Remuneration is reviewed by the board on an annual basis having regard to performance and market competitiveness.

The remuneration of executive personnel is determined by the non-executive directors and comprises a base salary or fee and, by way of an incentive, the opportunity to take up options in the Company and thereby participate in the future success of the Company.

All remuneration paid to key management personnel is valued at cost to the Company and expensed.

Non-executive directors

Fees paid to the non-executive directors for services as directors are determined by the board (within the overall limit set by shareholders) based on their level of responsibility and with reference to the general level of fees paid by companies of similar size and operations.

The Company operates with a small staff and a non-executive Director can be called upon to undertake work for the Company in addition to his/her services as a Director. Where this occurs provision is made to remunerate the Director for those additional services at market rates. Non-executive directors may be paid all travelling and other expenses properly incurred by them in the business of the Company.

Executives

The remuneration of the general manager is determined by the board and comprises a base salary with superannuation, the use of a company 4-wheel drive vehicle primarily for accessing the Company's exploration properties, and from time to time the grant of options to acquire shares in the Company. The non-executive directors review terms of the General Manager's remuneration on an annual basis. The nature and amount of

RED HILL IRON LIMITED

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (Continued)

remuneration paid to the General Manager has been determined by reference to the services provided, experience, length of service and prevailing market rates.

The remuneration of the Company Secretary, Mr Peter Rutledge, is by way of fees paid to Sable Management Pty Ltd, for company secretarial, accounting and administration services provided to the Company, and invoiced on an hourly basis. The directors regularly review the services provided and the hourly rate charged.

(b) Details of remuneration

The key management personnel of the Company are the Directors and the General Manager.

The remuneration of Directors and other specified executives for the financial year is summarised below:

2008	Short Term	Post-employment Benefits	Share based payments	Total	Value of options as proportion of remuneration
	Salary & Fees	Superannuation	Options		
	\$	\$	\$	\$	%
Directors – non-executive					
N Tomkinson (Appointed 11 April 2008)	5,495	495	-	5,990	-
G D Riley (Resigned 11 April 2008)	19,505	1,746	-	21,251	-
J N Pitt	27,250	-	-	27,250	-
G R Strong	46,366	27,250	-	73,616	-
S A Macdonald (Resigned 11 April 2008)	23,387	-	-	23,387	-
	<u>122,003</u>	<u>29,491</u>	<u>-</u>	<u>151,494</u>	
Other specified executives					
T Boddington – General Manager	88,333	100,000	-	188,333	-
P C Rutledge – Company Secretary	30,271	-	-	30,271	-
	<u>118,604</u>	<u>100,000</u>	<u>-</u>	<u>218,604</u>	
2007	Short Term	Post-employment Benefits	Share based payments	Total	Value of options as proportion of remuneration
	Salary & Fees	Superannuation	Options		
	\$	\$	\$	\$	%
Directors – non-executive					
G D Riley	25,000	2,250	-	27,250	-
J N Pitt	27,250	-	-	27,250	-
G R Strong	30,335	27,250	-	57,585	-
S A Macdonald	27,250	-	-	27,250	-
	<u>109,835</u>	<u>29,500</u>	<u>-</u>	<u>139,335</u>	
Other specified executives					
T Boddington – General Manager	140,138	39,862	-	180,000	-
P C Rutledge – Company Secretary	33,242	-	-	33,242	-
	<u>173,380</u>	<u>39,862</u>	<u>-</u>	<u>213,242</u>	

In addition to directors' fees Mr Strong received \$46,366 (2007: \$30,335) during the year for general geological and management services rendered to the Company. These services were provided on an hourly rate and approved by the other non-executive directors.

No part of the remuneration of directors and other specified executives is contingent on the performance of the Company.

RED HILL IRON LIMITED

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (Continued)

(c) Service Agreements

Non-executive directors

Shareholders of the Company have approved the maximum fees payable in aggregate to the Directors of the Company for their services as Directors be set at \$200,000 per annum. Each non-executive Director of the Company is entitled to receive an annual fee of \$25,000 plus statutory superannuation for their services as Directors.

Executives

The terms and conditions of employment of the General Manager, Mr Boddington, are set out in a written employment agreement the initial two year term of which was to February 2008. The agreement was extended for a further 12 months at an increased annual salary of \$200,000. The salary and superannuation package for Mr Boddington for the year ended 30 June 2008 was \$188,333 (2007: \$180,000). There are no termination arrangements in respect of Mr Boddington's employment other than the expectation that he would receive 3 months salary in the event of his services being terminated by the Company. Mr Boddington has held this position since the Company's listing on 9 February 2005.

The fees payable by the Company to Sable Management Pty Ltd for Mr Rutledge's services for the financial year exclusive of GST were \$30,271 (2007: \$33,242). Mr Rutledge has held this position since the Company's formation on 1 June 2005.

(d) Share based compensation

The General Manager and other specified executives from time to time are entitled to participate in the Red Hill Iron Employee Share Option Plan and be granted options to acquire ordinary shares in the Company, at the discretion of the board. Share based payments are provided as incentives and are not linked to company performance.

No options have been issued to directors or other specified executives during the year ended 30 June 2008.

(e) Additional information

Share based compensation: Options

There were no options granted to key management personnel and other specified executives during the year.

Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to key management personnel are set out below:

Name	Date of exercise of options	Amount paid per share	Number of ordinary shares issued on exercise of options during the year	
			2008	2007
T Boddington	28 March 2008	\$0.30	1,000,000	-

No amounts are unpaid on any shares issued on the exercise of options.

Employee share schemes

None of the Directors of the Company are eligible to participate in the company's employee share scheme.

RED HILL IRON LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' BENEFITS

Since 30 June 2008 no director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or receivable by a Director shown in the Remuneration Report), by reason of a contract that the Director, a firm of which he is a member, or an entity in which he has a substantial financial interest, has made (during the year ended 30 June, 2008 or at any other time) with:

- (a) the Company, or
- (b) an entity that the Company controlled or a body corporate that was related to the Company when the contract was made or when the Director received, or became entitled to receive, the benefit.

SHARE OPTIONS

Options to take up ordinary fully paid shares in the Company at the date of this report are as follows:

Date options granted	Exercise price	Expiry date	Number of options
7 December 2005	\$0.30	6 December 2008	1,000,000
28 November 2006	\$1.10	28 November 2009	200,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options:

The following ordinary shares of the Company were issued during the year ended 30 June 2008 on the exercise of options granted under the Employee Option Plan:

Date options granted	Issue price of shares	Number of shares issued
7 December 2005	\$0.30	1,000,000
28 November 2006	\$1.10	300,000

INSURANCE OF OFFICERS

During the financial year the Company paid a premium to insure the directors and officers of the Company against certain liabilities which may be incurred by them whilst acting in their capacity as directors and officers of the Company. In accordance with commercial practice the policy prohibits disclosure of the terms of the policy including the limit of liability and the amount of premium paid.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of any court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for a purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not party to any such proceedings during the year.

AUDIT COMMITTEE

The Company is not of a size nor are its financial affairs of such complexity to justify a separate audit committee of the Board of Directors. All matters that might properly be dealt with by such a committee are the subject of scrutiny at full board meetings.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required by Section 307C of the Corporations Act 2001 is included in this Annual Report.

NON-AUDIT SERVICES

BDO Kendalls Audit & Assurance (WA) Pty Ltd, the company's auditors, did not perform any non-audit services for the Company for the year ended 30 June 2008.

Signed in Perth in accordance with a resolution of Directors on 19 September 2008.



Mr N Tomkinson
Chairman

19 September 2008

The Directors
Red Hill Iron Limited
PO Box 689
WEST PERTH WA 6872

Dear Sirs

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF RED HILL IRON LIMITED

As lead auditor of Red Hill Iron Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Red Hill Iron Limited.



B G McVeigh
Director



BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia.

RED HILL IRON LIMITED

CORPORATE GOVERNANCE STATEMENT

Red Hill Iron Limited is a small listed company with an uncomplicated corporate structure. Governance arrangements are based on the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX Corporate Governance Council. The Company has adopted those of the Best Practice Recommendations which its board of Directors ("the Board") considers to be appropriate to safeguard shareholder assets and efficiently manage the business, taking into account the size of the Company and the inherent and well understood high risk nature of the exploration industry.

In August 2007 the ASX Corporate Governance Council released the second edition of the Corporate Governance Principles and Recommendations ("Revised Principles"). Listed entities are required to report in accordance with these Revised Principles in the first financial year commencing on or after 1 January 2008. Consequently the Company will report in accordance with the Revised Principles for the financial year ending 30 June 2009.

The following statement, which is current at the date of the 2008 Director's Report, outlines the Corporate Governance measures adopted by the Company and the extent to which the Company has followed the Best Practice Recommendations during the financial year ended 30 June 2008.

MANAGEMENT AND GOVERNANCE

Objectives of the Board

The Board's key objective is the increase of shareholder value by successful exploration. At all times shareholders' rights and interests are safeguarded by the provision of an appropriate overview of management. The Board meets regularly in the discharge of its responsibilities.

Board Responsibility

The Board focuses the Company's activities on pursuing exploration opportunities in the mineral resource business, which are judged to have the potential for success without exposing the Company to undue risk. The Board has put in place adequate management control and monitoring systems that include:

- (a) continually reviewing the performance of the Company and its executive, including management and financial performance, overseeing strategy implementation and where necessary ensuring appropriate resources are available. The Board retains the right to replace the Company's General Manager;
- (b) at regular Board meetings, reviewing, approving and amending where necessary the General Manager's annual programmes and budgets, the Company's then current exploration activities and its overall corporate objectives;
- (c) putting in place systems of risk management and legal control mechanisms and ensuring their effectiveness;
- (d) approving and monitoring the progress of major capital expenditure, the management of capital and acquisitions and divestitures;
- (e) maintaining responsibility for the overall financial management of the Company with the ability to approve the appointment (if necessary) of a Financial Officer and to replace the Company Secretary;
- (f) monitoring and approving financial and other reporting;
- (g) supervising the overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities to ensure division of functions remain appropriate to corporate needs;
- (h) liaising with the Company's external auditors;
- (i) monitoring, and ensuring compliance with all of the Company's legal obligations, in particular those relating to the maintenance of the Company's mineral tenements, the environment, native title, cultural heritage and occupational health and safety requirements.

Within the above framework the Board retains the ability to delegate some of its responsibilities; however the size of the Company and the nature of its operations has resulted in delegation being kept to a minimum.

Materiality

The Board has agreed on the following guidelines, which are deemed appropriate for a company of the maturity and size of Red Hill Iron for assessing the materiality of matters:-

- (a) Quantitative materiality
All balance sheet and profit and loss items in excess of \$5,000 are material.

RED HILL IRON LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

(b) Qualitative materiality

The following matters are considered material in a qualitative sense:

- (i) any matters which impact on the reputation of the Company and/or its Board;
- (ii) any activities of the Company, its joint venturers, employees or contractors which may involve a breach of legislation or are in the Board's view outside the ordinary course of its business;
- (iii) any matter which might negatively affect the Company's rights to its assets;
- (iv) any activity of the Company, its joint venturers, employees or contractors which has the capacity to involve a contingent liability that would in the Board's view have a potential material effect on the Company's balance sheet or a similar effect on one or more profit and loss items.

(c) Materiality in contracts

Red Hill Iron Limited is a relatively small company and its Directors consider most contracts entered into by the Company to be material. With the exception of day to day agreements the responsibility for which fall upon the General Manager, all contracts are subjected to review by the Board.

BOARD OF DIRECTORS AND MANAGEMENT

The name, expertise, experience and term of the office of each director is set out in the Directors' Report. The Board is comprised of three non-executive directors, including the Chairman.

Independent Directors

There is one independent director, Mr Garry Strong. The remainder of the directors on the Board are not independent within the strict meaning of the term as set down in the ASX Principles of Good Corporate Governance because they are associated as substantial shareholders or directors of substantial shareholders, as defined in the Corporations Act, and hence are deemed to lack independence. However the make up of the Board is such that, although the majority of the Company's directors are not deemed to be independent, the Board is satisfied that there is sufficient independence of view and variety of intellectual input between directors to mollify any reservations which shareholders might have in this regard.

The Chairman

The Chairman is a non-executive director and is responsible for leadership of the Board and for the efficient organisation and conduct of the Board. He also retains overall responsibility, subject to management input, for communication with shareholders.

Management

The General Manager runs the Company on a day to day basis pursuant to authority delegated by the Board and is responsible for the implementation of Board and corporate policy and planning in accordance with approved programmes and budgets. The General Manager reports to the Board regularly and is under an obligation to make sure that all reports which he presents give a true and fair view of the Company's exploration and other activities and its then current financial status.

Nomination for board positions

The full Board will decide on the choice of any new director(s) upon the creation of any new Board position and/or if any casual vacancy arises. Any decisions taken to appoint new directors will be minuted. The small size of the Company and of the Board does not warrant the appointment of a nomination committee.

Independent professional advice

Each director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required and will not be unreasonably withheld.

ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Board adheres to and is responsible for enforcing the Corporate Code of Conduct set out in this Corporate Governance Statement.

RED HILL IRON LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

Policy on share trading

The Red Hill Iron Board policy is that directors, officers and employees are prohibited from dealing in the Company's shares when they possess inside information. The Board is to be notified when trading of shares in Red Hill Iron by any Director or officer of the Company occurs. 'Inside information' is information that, if it were generally available, would or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

INTEGRITY IN FINANCIAL REPORTING

Financial Reports

The General Manager and Company Secretary are required to confirm in writing to the Board that the Company's half year and full year 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.

Audit Committee

Red Hill Iron's Directors do not consider that the Company's affairs are of such a size and complexity as to merit the establishment of a separate audit committee. Until this situation changes, the Board will carry out any necessary audit committee functions.

The Board monitors the form and content of the Company's financial statements; it also maintains an overview of the Company's internal financial control and audit system and risk management systems.

Additionally, on an annual basis, the Board, in line with its overall responsibility to shareholders, reviews the performance and independence of the external auditor and the continuation of that appointment. The Board also approves the remuneration and terms of engagement of the external auditor. Any appointment of a new external auditor is submitted for ratification by shareholders at the next annual general meeting of the Company.

TIMELY AND BALANCED DISCLOSURE

Detailed compliance procedures, to ensure timely and balanced disclosure of information in line with ASX Listing Rule disclosure requirements and Continuous Disclosure Guidelines, have been noted and adopted by the Company. The Company Secretary is charged with ensuring that any necessary steps which need to be taken by the Company are brought before the Board for discussion and, subject to amendment, approval.

COMMUNICATION WITH AND PARTICIPATION OF SHAREHOLDERS

Red Hill Iron Limited maintains a website at www.redhilliron.com.au

Red Hill Iron Limited shareholders may find all recent information on the Company under various headings on the Company's website, including latest ASX releases, details of its projects and its Corporate Profile. Shareholders may also request a copy of the Company's ASX recent releases.

The Company invites the external auditor to attend its annual general meeting and to be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditor's report.

RISK MANAGEMENT

Consistent with the compliance systems detailed elsewhere in this statement the Board takes responsibility for the risk management of the Company.

The Board routinely reviews corporate risk and supervises internal compliance and control systems.

The General Manager is responsible to the board for ensuring the systems are complied with and is required annually to make a statement to the board in writing to this effect.

Whilst high priority is given to the management of risk in the Company, current and potential investors are reminded that they are investors in a company engaged in exploration activities which by their very nature are high risk and where successful may give rise to high rewards.

PERFORMANCE EVALUATION OF THE BOARD AND INDIVIDUAL EXECUTIVES

The Board conducts regular informal reviews of executive performance including that of the Company Secretary on at least an annual basis.

REMUNERATION OF DIRECTORS AND EXECUTIVES

The Company currently has one full time employee, the General Manager. The full Board carries out an annual review of the adequacy of his remuneration, and participation in share incentive arrangements.

The non-executive directors each are to receive directors' fees of \$25,000 per annum, plus statutory superannuation. This is reviewed annually within the overall maximum allowed of \$200,000 per annum. Details of directors' and executives' remuneration are set out in the annual Financial Report in accordance with accounting standards.

RED HILL IRON LIMITED

CORPORATE GOVERNANCE STATEMENT (Continued)

CORPORATE CODE OF CONDUCT AND OBJECTIVES

Red Hill Iron Limited is committed to:

- (a) applying the Company's funds in an efficient manner in the search for mineral resources, the quality of which will increase shareholder value;
- (b) applying high standards of professional excellence;
- (c) adopting high standards of occupational health and safety, environmental management and ethics;
- (d) fostering and maintaining a culture of ownership, care and professional excellence from the Company's employees; and
- (e) ensuring that all of its business affairs are conducted legally, ethically and with integrity.

Corporate Responsibility

The Company complies with all legislative and common law requirements which affect its business, including environmental regulations, native title and cultural heritage laws.

Employment

Red Hill Iron Limited's policy is to employ the best available staff; at this stage in the Company's development all potential employees are subject to full Board scrutiny.

Third Parties

The Company treats third parties in a fair and reasonable manner and does not engage in deceptive practices.

Conflict of Interest

The Board and the executive are obligated to avoid situations of real or apparent conflict of interest between them as individuals and as directors or employees of the Company. If a situation where a conflict of interest arises the Chairman is to be notified and the matter will then be considered and the appropriate steps taken to avoid a repetition.

Breach of Corporate Governance

Any breach of Corporate Governance is required to be reported directly to the Chairman.

Review of Rules of Corporate Governance

The Board through the Chairman monitors the Company's compliance with the Rules periodically.

RED HILL IRON LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	2008 \$	2007 \$
Revenue from continuing operations	4	625,474	316,159
Exploration expenditure		(1,555,096)	(1,597,378)
Expenses	5	<u>(463,245)</u>	<u>(629,794)</u>
Loss before income tax from continuing operations		(1,392,867)	(1,911,013)
Income tax expense	6	<u>-</u>	<u>-</u>
Loss attributable to the ordinary equity holders of the Company		<u>(1,392,867)</u>	<u>(1,911,013)</u>
Loss per share for loss attributable to the ordinary equity holders of the Company			
Basic loss and diluted loss per share	22	3.49 cents	5.37 cents

The above Income Statement should be read in conjunction with the accompanying notes.

RED HILL IRON LIMITED

BALANCE SHEET

AS AT 30 JUNE 2008

	NOTE	2008 \$	2007 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	8,613,744	9,405,172
Trade and other receivables	8	<u>193,157</u>	<u>164,404</u>
Total Current Assets		<u>8,806,901</u>	<u>9,569,576</u>
Non Current Assets			
Exploration assets	9	102,110	102,110
Plant and equipment	10	<u>101,131</u>	<u>128,020</u>
Total Non Current Assets		<u>203,241</u>	<u>230,130</u>
Total Assets		<u>9,010,142</u>	<u>9,799,706</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	11	<u>130,459</u>	<u>144,517</u>
Total Current Liabilities		<u>130,459</u>	<u>144,517</u>
Total Liabilities		<u>130,459</u>	<u>144,517</u>
Net Assets		<u>8,879,683</u>	<u>9,655,189</u>
EQUITY			
Issued Capital	12	12,775,617	12,158,256
Reserves	13	285,770	285,770
Accumulated losses		<u>(4,181,704)</u>	<u>(2,788,837)</u>
Total Equity		<u>8,879,683</u>	<u>9,655,189</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

RED HILL IRON LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Issued Capital	Share Based Payments Reserve	Future Value Option Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2006	<u>3,974,115</u>	<u>92,770</u>	<u>-</u>	<u>(877,824)</u>	<u>3,189,061</u>
Net loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,911,013)</u>	<u>(1,911,013)</u>
Total income and expense recognised during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,911,013)</u>	<u>(1,911,013)</u>
Transactions with equity holders in their capacity as equity holders:					
Issue of ordinary fully paid shares	8,106,941	-	-	-	8,106,941
Equity settled share based payment transactions	<u>77,200</u>	<u>193,000</u>	<u>-</u>	<u>-</u>	<u>270,200</u>
Balance at 30 June 2007	<u>12,158,256</u>	<u>285,770</u>	<u>-</u>	<u>(2,788,837)</u>	<u>9,655,189</u>
Balance at 1 July 2007	<u>12,158,256</u>	<u>285,770</u>	<u>-</u>	<u>(2,788,837)</u>	<u>9,655,189</u>
Net loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,392,867)</u>	<u>(1,392,867)</u>
Total income and expense recognised during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,392,867)</u>	<u>(1,392,867)</u>
Transactions with equity holders in their capacity as equity holders:					
Issue of ordinary fully paid shares	617,361	-	-	-	617,361
Equity settled share based payment transactions	<u>-</u>	<u>(162,185)</u>	<u>162,185</u>	<u>-</u>	<u>-</u>
Balance at 30 June 2008	<u>12,775,617</u>	<u>123,585</u>	<u>162,185</u>	<u>(4,181,704)</u>	<u>8,879,683</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

RED HILL IRON LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	2008 \$	2007 \$
Cash flows from operating activities			
Payments to suppliers and employees		(384,495)	(404,708)
Payments for exploration expenditure		(1,577,852)	(1,689,158)
Interest received		<u>561,625</u>	<u>255,769</u>
Net cash outflow from operating activities	21	<u>(1,400,722)</u>	<u>(1,838,097)</u>
Cash flows from investing activities			
Proceeds from sale of plant and equipment		9,091	-
Payments for plant and equipment		<u>(17,158)</u>	<u>(69,365)</u>
Net cash outflow from investing activities		<u>(8,067)</u>	<u>(69,365)</u>
Cash flows from financing activities			
Proceeds from issue of shares		<u>617,361</u>	<u>8,184,141</u>
Net cash inflow from financing activities		<u>617,361</u>	<u>8,184,141</u>
Net increase/(decrease) in cash and cash equivalents		(791,428)	6,276,679
Cash and cash equivalents at the beginning of the year		<u>9,405,172</u>	<u>3,128,493</u>
Cash and cash equivalents at the end of the year	7	<u><u>8,613,744</u></u>	<u><u>9,405,172</u></u>

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial report consists of the financial statements for Red Hill Iron Limited for the year ended 30 June 2008 ("the financial year"). Red Hill Iron Limited is a listed public company, incorporated and domiciled in Australia.

(a) Basis of preparation

This general-purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Red Hill Iron Limited comply with International Financial Reporting Standards (IFRS).

Reporting Basis and Conventions

These financial statements have been prepared on an accruals basis and under the historical cost convention.

Critical accounting estimates

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key Estimates — Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(b) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operation in other economic environments.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Interest income is brought to account as income over the term of each financial instrument on an accrual accounting basis.

Other revenue is recognised as it accrues.

(d) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Impairment of assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any objective evidence that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) Cash and cash equivalents

Cash includes deposits at call and bills of exchange 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.

(g) Trade receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(h) Other financial assets and liabilities

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debts less principal payments and amortisation.

Impairment

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(i) Exploration and evaluation expenditure

Exploration and evaluation expenditure is recorded at historical cost on an area of interest basis. Expenditure on acquisition of an area of interest is carried forward where rights to tenure of the area of interest are current and:

- It is expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
- Exploration and evaluation activities are continuing in an area of interest but at balance date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A provision for unsuccessful exploration and evaluation is created against each area of interest by means of a charge against the Income Statement.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest that are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged against profit.

Exploration and evaluation expenditure incurred by the Company subsequent to acquisition is expensed as incurred.

Once a decision to proceed to development has been taken, all further expenditure incurred relating to the area will be capitalised.

Projects are advanced to development status when it is expected that further expenditure can be recouped through sale or successful development and exploitation of the area of interest.

(j) Plant and equipment

Recognition and measurement

Plant and equipment items are measured on the cost basis less accumulate depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and Equipment (including motor vehicles):	5% to 50% straight line.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables 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.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Retirement benefits obligations

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

Share based payments

The fair value of options granted to employees is recognised as an employee benefit expense with a corresponding increase in contributed equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using an option pricing model that takes into account the price, the term, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the unlisted options, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term.

(m) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributed to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributed to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a buy-back, those instruments are deducted from equity, and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(n) Loss per share

Basic loss per share

Basic loss per share is determined by dividing the operating loss after income tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted loss per share

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

(o) Joint ventures

The Company's joint ventures do not constitute separate legal entities. They are contractual agreements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit.

The joint ventures are of the type where initially one party contributes tenements with the other party earning a specified percentage by funding exploration activities; thereafter the parties often share exploration and development costs in proportion to their ownership of joint venture assets. The joint ventures do not hold any assets and accordingly the company's share of exploration expenditure is accounted for in accordance with the policy set out in Note 1(i).

(p) 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 statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New accounting standards and interpretations

The following Australian Accounting Standards have been issued and or amended and are applicable to the Company but are not yet effective. They have not been adopted in the preparation of the financial statements at reporting date. The Application Date of the standard is for the annual reporting periods beginning on or after the date shown in the table below.

Reference	Affected Standards	Nature of change to accounting policy and impact on accounts	Application date
AASB 8 (issued Feb 2007)	AASB 8 replaces AASB 114 Segment Reporting	As this is a disclosure standard, there will be no impact on amounts recognised in the financial statements. The amendments may have an impact on the Company's segment disclosures.	1 January 2009
AASB 101 (revised) (issued Sept 2007)	Amendments to AASB 101 Presentation of Financial Statements	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.	1 January 2009
AASB 2008-1 (issued Feb 2008)	Amendments to AASB 2 – Share Based Payments : Vesting Conditions and Cancellations	No impact because the Company has not issued any options to employees that include non-vesting conditions.	1 January 2009
Amendments to International Financial Reporting Standards (IFRS)	Improvements to IFRSs	The Company has not yet determined the extent of the impact of the amendments, if any.	1 January 2009 except amendments to IFRS 5, which are effective from 1 July 2009
AASB 2008-5 (issued July 2008)	Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 and 1038)	Only the amendments to AASB 136 are applicable and there will be no financial impact when these amendments are first adopted because these amendments relate to additional disclosure requirements only.	1 January 2009

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 – FINANCIAL RISK MANAGEMENT

The Company, in its normal course of business, is exposed to financial risks comprising market risk (essentially interest rate risk), credit risk and liquidity risk.

The directors have overall responsibility for the Company's management of these risks and seek to minimise these risks through ongoing monitoring and review of the adequacy of the risk management framework in relation to the risks encountered by the Company.

Market risk

The Company's market risk exposure is to the Australian money market interest rates in respect of its cash assets. The risk is managed by monitoring the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of its cash assets and interest rate return.

Bills of exchange, with a face value \$8,400,000 (2007: \$9,427,000), and bank deposits at call, amounting to \$32,000 (2007: \$0), all mature within 40 days of balance date.

The weighted average rate of interest earned by the Company on its cash assets during the year was 6.94% (2007: 4.55%).

The table below summarises the sensitivity of the Company's cash assets to interest rate risk. The Company has no interest rate risk associated with any of its other financial assets or liabilities.

Financial Assets	Weighted average carrying amount of cash assets	Effect of decrease or increase of interest rate on profit and equity of the Company			
		-1%		+ 1%	
		Profit	Equity	Profit	Equity
	\$	\$	\$	\$	\$
2008					
Cash & cash equivalents	9,009,258				
Total increase/(decrease)		(90,093)	(90,093)	90,093	90,093
2007					
Cash & cash equivalents	6,942,836				
Total increase/(decrease)		(69,428)	(69,428)	69,428	69,428

Liquidity risk

The Company has no significant exposure to liquidity risk as the Company's only debt is that associated with trade creditors in respect of which the Company's policy is to ensure payment within 30 days. The Company manages its liquidity by monitoring forecast cash flows.

Credit risk

The Company does not have any significant exposure to credit risk. The minimal exposure to credit risk that could arise is from having its cash assets all deposited at one bank. Whilst the risk of the bank failing is considered minimal, the Company manages this exposure by ensuring its funds are deposited only with a major bank with high security ratings.

Exposure to credit risk	Closing carrying amount of cash assets	
	2008	2007
	\$	\$
Trade and other receivables	193,157	115,390
Cash & cash equivalents	8,613,744	9,405,172

Fair value estimates

The carrying amount of the Company's financial assets and liabilities approximates fair value due to their short term maturity.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2 – FINANCIAL RISK MANAGEMENT (Continued)

Capital management risk

The Company's objective in managing capital is to safeguard its ability to continue as a going concern, so that it can continue to explore for minerals with the ultimate objective of providing returns for shareholders whilst maintaining an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares, sell assets, or farm out joint venture interests in its projects.

NOTE 3 – SEGMENT INFORMATION

The Company operates predominantly in one industry. The principal activities are iron ore, other base metal and gold exploration and prospecting.

The Company currently operates only in Australia which is a single geographic segment.

NOTE 4 – REVENUE

	2008 \$	2007 \$
Revenue from continuing operations		
Interest income	625,374	316,159
Other income	<u>100</u>	<u>-</u>
	<u>625,474</u>	<u>316,159</u>

NOTE 5 – EXPENSES

Loss before income tax includes the following specific administration expenses:

Personnel expenses		
Salaries, superannuation and associated expenses	171,259	161,435
Increase in liability for annual leave	10,547	10,144
Equity-settled transactions	-	270,200
Depreciation	24,265	15,434
Other expenses		
Accounting fees	40,126	34,633
Admin services	33,067	16,616
ASX fees	32,176	39,621
Audit	20,140	18,040
Communication costs	6,715	6,274
Operating lease expense	41,665	31,687
Other	<u>83,285</u>	<u>25,710</u>
	<u>463,245</u>	<u>629,794</u>

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 6 – INCOME TAX

	2008 \$	2007 \$
(a) Income tax		
The components of income tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Operating loss from continuing operations before income tax	<u>(1,392,867)</u>	<u>(1,911,013)</u>
Income tax at the tax rate of 30% (2007: 30%)	(417,860)	(573,304)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Interest income accrued	(19,154)	(18,116)
Share issue costs	(9,558)	(4,800)
Provisions	3,164	3,043
Share based payment expense	-	81,060
Other non-deductible expenditure	1,771	1,950
Tax loss and temporary differences not brought to account	<u>441,637</u>	<u>510,167</u>
Income tax expense	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
(c) Deferred tax assets not brought to account		
The directors estimate that the potential future income tax assets and liabilities carried forward but not brought to account at year end at the Australian corporate tax rate of 30% are made up as follows:		
Deferred tax assets at 30%		
On income tax account:		
Carried forward losses	1,204,130	759,230
Temporary differences	<u>(33,190)</u>	<u>7,839</u>
	<hr/>	<hr/>
	1,170,940	767,069
	<hr/>	<hr/>

These benefits will only be obtained if the conditions for deductibility set out in note 1(d) occur.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 7 – CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2008 \$	2007 \$
Cash on hand	200	200
Cash at bank	195,257	134,544
Deposits at call	32,000	-
Bills receivable	<u>8,386,287</u>	<u>9,270,428</u>
	<u>8,613,744</u>	<u>9,405,172</u>

Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	<u>8,613,744</u>	<u>9,405,172</u>
Balance per cash flow statement	<u>8,613,744</u>	<u>9,405,172</u>

Information about the Company's exposure to interest rate risk and credit risk is disclosed in Note 2.

NOTE 8 – CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

Interest	179,239	115,390
Other	<u>13,918</u>	<u>49,014</u>
	<u>193,157</u>	<u>164,404</u>

Interest receivables comprise pro-rata interest receivable at balance date in respect of bills of exchange that are expected to be repaid within 60 days.

Other receivables are receivables expected to be repaid within 30 days of balance date. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

NOTE 9 – NON-CURRENT ASSETS - EXPLORATION ASSETS

Carrying amount at beginning of year	102,110	102,110
Acquisition of mineral tenements	<u>-</u>	<u>-</u>
Carrying amount at end of year	<u>102,110</u>	<u>102,110</u>

Ultimate recoupment of exploration expenditure capitalised on acquisition of tenements and carried forward is dependent on successful development and commercial exploitation, or alternatively sale, of the respective tenements.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 10 – NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	2008 \$	2007 \$
Leasehold improvements – at cost	5,714	5,714
Accumulated depreciation	<u>(5,713)</u>	<u>(381)</u>
	<u>1</u>	<u>5,333</u>
Field equipment – at cost	46,663	33,502
Accumulated depreciation	<u>(10,493)</u>	<u>(4,801)</u>
	<u>36,170</u>	<u>28,701</u>
Office furniture and equipment – at cost	29,211	27,004
Accumulated depreciation	<u>(8,964)</u>	<u>(3,995)</u>
	<u>20,247</u>	<u>23,009</u>
Motor vehicle – at cost	56,580	79,140
Accumulated depreciation	<u>(11,867)</u>	<u>(8,163)</u>
	<u>44,713</u>	<u>70,977</u>
Total plant and equipment	<u>101,131</u>	<u>128,020</u>

A reconciliation of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year is set out below:

	Leasehold improvements	Office furniture & equipment	Field equipment	Motor vehicle	Total
	\$	\$	\$	\$	\$
Carrying amount at 1 July 2006	5,619	16,715	27,325	24,430	74,089
Additions during the year	-	9,688	5,540	54,137	69,365
Depreciation expense	<u>(286)</u>	<u>(3,394)</u>	<u>(4,164)</u>	<u>(7,590)</u>	<u>(15,434)</u>
Carrying amount at 30 June 2007	5,333	23,009	28,701	70,977	128,020
Additions during the year	-	2,207	14,951	-	17,158
Disposals during the year	-	-	(1,650)	(18,132)	(19,782)
Depreciation expense	<u>(5,332)</u>	<u>(4,969)</u>	<u>(5,832)</u>	<u>(8,132)</u>	<u>(24,265)</u>
Carrying amount at 30 June 2008	<u>1</u>	<u>20,247</u>	<u>36,170</u>	<u>44,713</u>	<u>101,131</u>

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 11 – CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2008 \$	2007 \$
Trade creditors and accruals	97,692	129,045
Employee entitlements	<u>32,767</u>	<u>15,472</u>
	<u>130,459</u>	<u>144,517</u>

The Company's exposure to liquidity risk related to trade and other payables is disclosed in Note 2.

NOTE 12 – EQUITY – ISSUED CAPITAL

Paid up capital 40,715,686 (2007: 39,415,686) ordinary fully paid shares

<u>12,775,617</u>	<u>12,158,256</u>
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(a) Rights attaching to ordinary shares

Ordinary shares entitle the holder to participate in dividends and in the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary fully paid 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. The ordinary fully paid shares are listed on the Australian Securities Exchange ("ASX").

(b) Restricted shares

As at balance date there were no shares restricted from trading on the ASX. 11,973,333 ordinary fully paid shares which had been restricted from trading on the ASX for 24 months from the date of initial quotation were released from restriction on 14 February 2008.

(c) Movements in ordinary share capital during the past 2 years:

Fully Paid Shares

Date	Details	Number of Ordinary Shares	Issue Price \$	Amount \$
1 July 2006	Balance	33,333,333		3,974,115
15 February 2007	Share placement	5,882,353	1.3435	7,902,941
09 March 2007	Less cost of share issue	-	-	(16,000)
09 March 2007	Exercise of options & transfer from reserves	200,000	1.10	220,000
		<u>-</u>		<u>77,200</u>
30 June 2007	Balance	39,415,686		12,158,256
19 July 2007	Exercise of options	100,000	1.10	110,000
	Less cost of share issue	-	-	(1,243)
12 October 2007	Exercise of options	100,000	1.10	110,000
	Less cost of share issue	-	-	(1,243)
14 February 2008	Cost of releasing restricted shares	-	-	(7,635)
26 March 2008	Exercise of options	1,000,000	0.30	300,000
	Exercise of options	100,000	1.10	110,000
	Less cost of share issue	<u>-</u>	<u>-</u>	<u>(2,518)</u>
30 June 2008	Balance	<u>40,715,686</u>		<u>12,775,617</u>

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 12 – EQUITY - CONTRIBUTED EQUITY (Continued)

(d) Options

At balance date the Company had on issue 1,200,000 unlisted options to acquire 1,200,000 ordinary shares, 1,000,000 exercisable on or before 6 December 2008 at 30 cents per share and 200,000 exercisable on or before 28 November 2009 at \$1.10 per share.

(e) Movements in options during the last 2 years

Date	Details	Number of Options	Exercise Price Per Share cents	Grant Date	Expiry Date
01 July 2006	Balance	2,000,000			
28 November 2006	Options issued	700,000	110	28/11/2006	28/11/2009
09 March 2007	Exercise of options	<u>(200,000)</u>	110	28/11/2006	28/11/2009
30 June 2007	Balance	2,500,000			
19 July 2007	Exercise of options	(100,000)	110	28/11/2006	28/11/2009
12 October 2007	Exercise of options	(100,000)	110	28/11/2006	28/11/2009
26 March 2008	Exercise of options	(1,000,000)	30	7/12/2008	6/12/2008
	Exercise of options	<u>(100,000)</u>	110	28/11/2006	28/11/2009
30 June 2008	Balance	<u>1,200,000</u>			

NOTE 13 – EQUITY - RESERVES

	2008	2007
	\$	\$
Share based payments reserve	123,585	285,770
Future value option reserve	<u>162,185</u>	<u>-</u>
	<u>285,770</u>	<u>285,770</u>

Nature and purpose of reserves

The share based payments reserve records items recognised as expenses on valuation of options issued to employees.

The future value option reserve arises on the exercise of options when the share based payments reserve attributable to the options being exercised is transferred to this reserve.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2008 \$	2007 \$
Short-term employee benefits	210,336	249,973
Post-employment benefits	129,491	69,362
Share-based payments	-	-
	<u>339,827</u>	<u>319,335</u>

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report contained in the Director's Report forming part of this Annual Report.

(b) Shareholdings

The number of ordinary fully paid shares in the Company held directly and indirectly by the Directors and other key management personnel and any movements in these holdings over the year is set out below:

2008	Balance 1 July 2007	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2008
Directors					
N Tomkinson (appointed 11/04/2008)	-	-	-	2,954,493	2,954,493
G D Riley (resigned 11/04/2008)	684,742	-	-	(684,742)	-
J N Pitt	2,178,825	-	-	1,288,251	3,467,076
G R Strong	1,723,946	-	-	(145,000)	1,578,946
S A Macdonald (resigned 11/04/2008)	<u>743,239</u>	-	-	<u>(743,239)</u>	-
	<u>5,330,752</u>	-	-	<u>2,669,763</u>	<u>8,000,515</u>
Other key management personnel					
Mr T Boddington	<u>238,193</u>	-	<u>(1,000,000)</u>	<u>(70,000)</u>	<u>1,168,193</u>
2007	Balance 1 July 2006	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2007
Directors					
G D Riley	605,900	-	-	78,842	684,742
J N Pitt	2,040,000	-	-	138,825	2,178,825
G R Strong	1,723,946	-	-	-	1,723,946
S A Macdonald	<u>743,239</u>	-	-	-	<u>743,239</u>
	<u>5,113,085</u>	-	-	<u>217,667</u>	<u>5,330,752</u>
Other key management personnel					
Mr T Boddington	<u>680,000</u>	-	-	<u>(441,807)</u>	<u>238,193</u>

Net changes other relate to shares acquired or sold during the financial year, and balance of shares on commencing or ceasing to be a director during the year.

No shares are held nominally

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(b) Shareholdings (Continued)

In 2008 Mr Tomkinson and Mr Pitt declared their relevant interest in the shares of the company to be their combined holdings of 6,421,569 shares. In addition as at 30 June 2008 they controlled the voting of a further 1,088,193 shares resulting in a total relevant interest of 7,509,762 shares.

Subsequent to 30 June 2008 and up to the date of the Directors' Report, Mr Tomkinson has acquired an additional 59,876 ordinary shares, Mr Pitt has acquired an additional 109,079 ordinary shares and Mr Strong has acquired an additional 15,000 ordinary shares.

(c) Option holdings

The number of options held by key management personnel are set out below:

2008	Balance 1 July 2007	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2008
Other key management personnel					
T Boddington	<u>2,000,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>1,000,000</u>
2007	Balance 1 July 2006	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2007
Other key management personnel					
T Boddington	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000,000</u>

No directors held options at any time during the financial year.

NOTE 15 – REMUNERATION OF AUDITORS

Amounts received, or due and receivable, by auditors for:
Auditing or reviewing the accounts of Red Hill Iron Limited
Other Services

	2008 \$	2007 \$
	20,140	18,040
	<u>-</u>	<u>-</u>
	<u>20,140</u>	<u>18,040</u>

NOTE 16 – CONTINGENCIES

Contingent Liabilities

There are no contingent liabilities for termination benefits under service agreements with Directors or executives at 30 June 2008.

The Directors are not aware of any other contingent liabilities at 30 June 2008.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 17 – CAPITAL AND LEASE COMMITMENTS

Mineral Tenements

In order to maintain the mineral tenements in which the Company and other parties are involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the tenements are granted. The minimum estimated expenditure in accordance with the requirements of the Western Australian Department of Industry and Resources for the next financial year in respect of most of the Company's mineral tenements is expected to be paid by the party farming in to the iron ore rights on the Company's tenements in accordance with a farm in agreement.

The Company expects to have some commitments for minimum expenditure requirements and maintenance expenditure in respect of tenements not part of the iron ore joint venture. In addition, during the year the company entered into a base metals exploration farm-in and joint venture agreement as a result of which the Company has expenditure commitments in respect of the mineral tenements covered by that agreement.

The Company expects to have commitments as set out below. These commitments are expected to be fulfilled in the normal course of operations and may be varied from time to time subject to approval by the grantor of titles. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

	2008 \$	2007 \$
Minimum estimated expenditure requirements	<u>484,627</u>	<u>236,101</u>

Operating Leases

Commitment for minimum lease payments in relation to a non-cancellable operating lease are payable as follows:

Within one year	32,390	25,918
Longer than one year, not longer than five years	<u>32,390</u>	<u>-</u>
	<u>64,780</u>	<u>25,918</u>

The above commitments relate to an operating lease in respect of the Company's premises.

NOTE 18– RELATED PARTY TRANSACTIONS

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 14.

(b) Other transactions with director-related entities

Office rental, secretarial and administration services

During the financial year, the Company paid, pursuant to a sub-lease, \$57,227 (2007: \$43,711) to Traka Resources Limited, a listed company of which Mr Pitt and Mr Tomkinson are directors and shareholders, for rental of office space and secretarial and administration services. Both the office rental and the secretarial and administration services are pursuant to arms length agreements between the companies on normal commercial terms and conditions.

During the financial year the Company paid \$2,196 (2007: \$2,165) to Hampton Hill Mining NL, a listed company of which Mr Pitt and Mr Tomkinson are directors and shareholders, for administration services determined on arms length basis between the companies on normal commercial terms and conditions.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 18- RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions of directors and director-related entities concerning shares or share options

The aggregate number of ordinary shares in the Company held directly, indirectly or beneficially by Directors or their Director-related entities at balance date were as follows:

	2008	2007
	No. of shares	No. of shares
Ordinary shares – fully paid	<u>8,000,515</u>	<u>5,330,752</u>

In addition two Directors together controlled the voting rights in respect of a further 1,088,193 (2007: Nil) ordinary shares.

Shares acquired and disposed of by the Directors during the year are set out in Note 14.

NOTE 19 – JOINT VENTURES

The Company has interests in the following mineral exploration joint ventures as at 30 June 2008:

Name of project	Interest	Activities	Other Parties
West Pilbara – Red Hill Iron Ore	40%	Iron ore exploration	API Management Pty Ltd (60% earning 80%)
Cullen	0%	Base metal exploration	Cullen Resources Limited (100% - Red Hill Iron earning 70%)

In order for API to earn an increase in its interest in the Red Hill Iron Ore Joint Venture from 60% to 80%, API is required to fund, on a 100% basis, all exploration and development expenditures relating to the Red Hill project up to the point when first delivery of ore to customers takes place.

At any time up to and including the first delivery of ore, Red Hill Iron can elect to:-

- maintain a 20% participating interest in the project by agreeing to repay the 20% of funds expended on its behalf by API out of 80% of the Company's share of the Red Hill project's free cash flow during mining operations; or
- revert to a 2% FOB royalty, which election will trigger the automatic cancellation of all liability in relation to exploration and development expenditures incurred by API on the Company's behalf.

Red Hill Iron may also repay funds expended on its behalf by API at any time by way of a lump sum payment.

The total expenditure funded on behalf of Red Hill Iron by API to 30 June 2008, including interest thereon, amounted to \$3.4 million.

The Company's joint ventures do not constitute separate legal entities but are contractual agreements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit. Refer note 1(o).

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 20 – EVENTS OCCURRING AFTER BALANCE DATE

There have been no material items, transactions or events subsequent to 30 June 2008 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

To the best of the Directors' knowledge and belief there have been no material items, transactions or events subsequent to 30 June 2008 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

NOTE 21 – CASH FLOW INFORMATION

	2008	2007
	\$	\$
(a) Reconciliation of loss after income tax with cash flow from operating activities		
Loss after income tax	(1,392,867)	(1,911,013)
Depreciation	24,265	15,434
Nett loss/(profit) on disposal of non-current assets	10,690	-
Equity based payments	-	193,000
Change in operating assets and liabilities:		
(Increase)/Decrease in debtors	(63,849)	(59,291)
(Decrease)/Increase in creditors	(14,057)	12,664
Decrease/(Increase) in GST receivable	<u>35,096</u>	<u>(88,891)</u>
Net cash outflow from operating activities	<u>(1,400,722)</u>	<u>(1,838,097)</u>

NOTE 22 – LOSS PER SHARE

	Cents	Cents
Basic and diluted loss per share	<u>(3.49)</u>	<u>(5.37)</u>
Reconciliation of loss	\$	\$
The loss used in calculating basic and diluted loss per share is equal to the loss attributable to ordinary equity holders of the Company in the Income Statement.	<u>(1,392,867)</u>	<u>(1,911,013)</u>
	No. of Shares	No. of Shares
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted loss per share	<u>39,872,672</u>	<u>35,577,063</u>

The weighted average number of ordinary shares used in calculating basic and diluted loss per share is derived from the fully paid ordinary shares on issue.

The diluted loss per share is the same as the basic loss per share on account of the Company's potential ordinary shares (in the form of options) not being dilutive because their conversion to ordinary shares would not increase the loss per share.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 23- SHARE BASED PAYMENTS

The Company has established an Employee Share Option Plan, the details of which were set out in the Company's initial public offering prospectus in December 2005. The Company from time to time grants options to acquire ordinary fully paid shares in the Company to key management personnel and other staff on terms set out in the plan. The granting of options is at the Directors' discretion and is designed to provide an incentive component in the remuneration package of key personnel. Options granted carry no dividend or voting rights. Each option is exercisable into a fully paid ordinary share of the Company. The exercise price of the options is set at the time of grant with reference to the weighted average price at which the Company's shares have been trading on the ASX prior to the decision to grant.

A summary of share based payments is set out below:

2008

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during year	Exercised during year	Balance at end of year
7 Dec 2005	6 Dec 2008	\$0.30	2,000,000	-	1,000,000	1,000,000
28 Nov 2006	28 Nov 2009	\$1.10	500,000	-	300,000	200,000
			<hr/>			
			2,500,000	-	1,300,000	1,200,000

The weighted average price at which options were exercised during the year was \$0.485

The weighted average remaining contractual life of options outstanding at the end of the year was 7 months.

2007

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during year	Exercised during year	Balance at end of year
7 Dec 2005	6 Dec 2008	\$0.30	2,000,000	-	-	2,000,000
28 Nov 2006	28 Nov 2009	\$1.10	-	700,000	200,000	500,000
			<hr/>			
			2,000,000	700,000	200,000	2,500,000

The weighted average price at which options were exercised during the year was \$1.10

The weighted average remaining contractual life of options outstanding at the end of the year was 19.4 months.

No options expired during the periods covered by the above tables.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 23- SHARE BASED PAYMENTS (Continued)

No options were granted during the year. The assessed fair value, and hence the cost to the Company, of the options granted during the prior year ended 30 June 2007 was \$270,200. The fair value has been calculated as at the date of grant using the Black-Scholes model for the valuation of call options. The assumptions used in arriving at the value of the options issued to key management personnel and other staffs are set out below.

	2008	2007
No of options granted	-	700,000
Grant date	-	28 November 2007
Exercise by	-	28 November 2009
Exercise price per share	-	\$1.10
Expected average life of the options	-	2 years
Underlying security spot price at time of grant	-	\$1.00
Risk free interest rate	-	5.88%
Expected volatility	-	70%

Historical volatility has been the basis for estimating likely future share price volatility. Actual future volatility may differ from the estimate used.

The expected average life of the options granted in the year ended 30 June 2007 was determined to be 2 years, 1 year less than the term, to take account of the fact that the options are not transferable. The expected average life of the options granted prior to the Company's listing in the year ended 30 June 2006 was determined to be the full term of the options. The actual life of the options could differ from this estimate if the holder of the options chooses to exercise his options prior to their expiry date.

The underlying security spot price of the options granted prior to the Company's listing in the year ended 30 June 2006 was determined by applying a 25% discount to the price of 20 cents per share set for the Company's IPO anticipated at the time of grant of the options.

RED HILL IRON LIMITED

DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) the financial statements and notes set out on this financial report are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the financial position as at 30 June 2008 and the performance for the year ended on that date of the Company and the consolidated entity;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures included in the Directors' Report (as part of the Remuneration Report) for the year ended 30 June 2008, comply with section 300A of the Corporations Act 2001; and
- (d) The directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by Section 295A of the Corporations Act 2001.

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



Mr N Tomkinson
Chairman

Perth, 19 September 2008

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RED HILL IRON LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Red Hill Iron Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company.

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 the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 the 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 opinions.

Independence

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

Auditor's Opinion

In our opinion the financial report of Red Hill Iron Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Red Hill Iron Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
BG McVeigh

BG McVeigh
Director

Perth, Western Australia
Dated this 19th day of September 2008