

# ANNUAL REPORT 2010



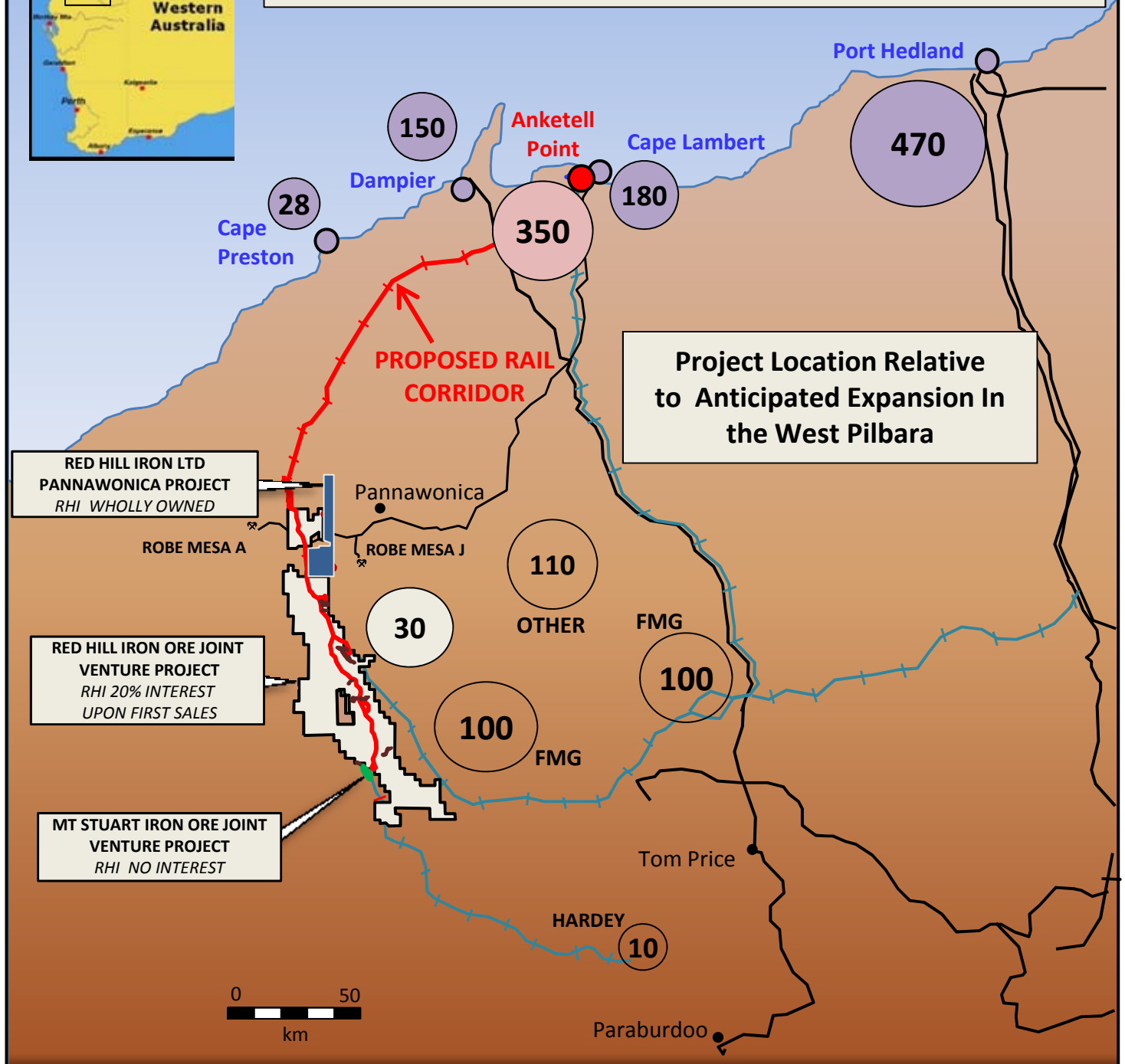
 **RED HILL**  
IRON LIMITED

ABN 44 114 553 392



**RED HILL  
IRON LIMITED**

# RED HILL IRON ORE PROJECT WEST PILBARA



**Project Location Relative  
to Anticipated Expansion In  
the West Pilbara**

**RED HILL IRON LTD  
PANNAWONICA PROJECT  
RHI WHOLLY OWNED**

**RED HILL IRON ORE JOINT  
VENTURE PROJECT  
RHI 20% INTEREST  
UPON FIRST SALES**

**MT STUART IRON ORE JOINT  
VENTURE PROJECT  
RHI NO INTEREST**

**30**

RHIOJV + Mt Stuart JV  
Planned Annual Production (Mt)

**350**

Planned Shipping Tonnage  
for Anketell Point (Mt)

**40**

Anticipated Annual Production  
of other entities (Mt)

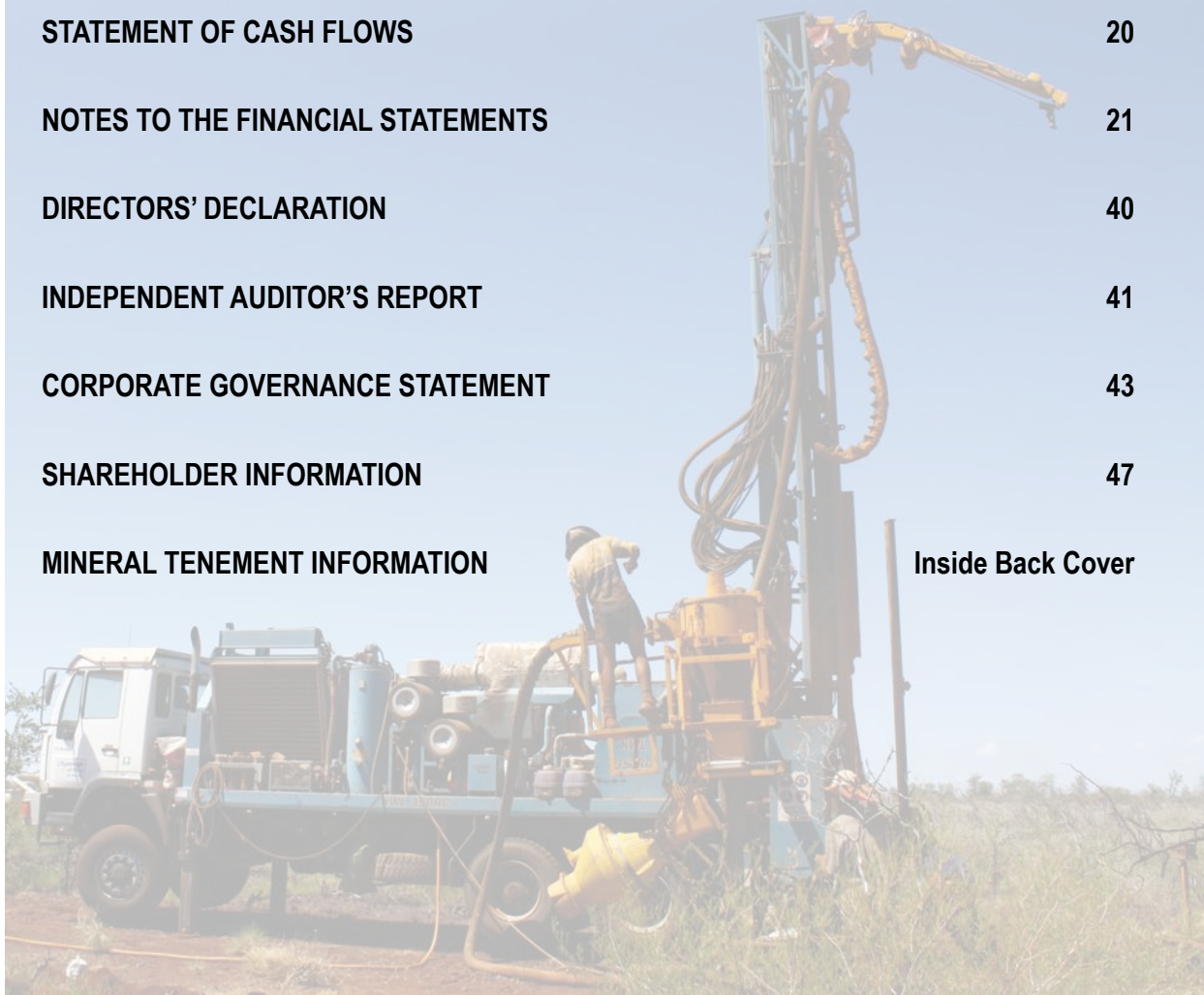
**180**

Anticipated Annual Capacity  
for other ports (Mt)

Additional Proposed  
West Pilbara Rail  
Corridors

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## CORPORATE DIRECTORY

### DIRECTORS

**Non Executive Chairman**  
Neil Tomkinson

**Non Executive Directors**  
Joshua Pitt  
Garry Strong

### GENERAL MANAGER

Tim Boddington

### PROJECT MANAGER

Doug Stewart

### COMPANY SECRETARY

Peter Rutledge

### HOME EXCHANGE

Australian Securities Exchange  
2 The Esplanade  
Perth WA 6000

### AUDITOR

BDO (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

### SHARE REGISTRY

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross WA 6153  
Telephone: (08) 9315 2333  
Facsimile: (08) 9315 2233  
Email: registrar@securitytransfer.com.au

### REGISTERED OFFICE

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Tel: (08) 9481 8628  
Fax: (08) 9481 8445  
Email: redhillinfo@redhilliron.com.au  
Website: www.redhilliron.com.au

### EXPLORATION OFFICE

Ground Floor  
43 Ventnor Avenue  
West Perth WA 6005  
Tel: (08) 9322 1755  
Fax: (08) 9481 0663  
Email: redhillinfo@redhilliron.com.au



## REVIEW OF OPERATIONS

Red Hill Iron Limited's major assets are a 40% share of the Red Hill Iron Ore Joint Venture (RHIOJV) and a 100% interest in the adjacent Pannawonica Project. The Company's major focus is the husbanding of the Channel Iron Deposit (CID) resources of these assets for potential development.

Red Hill Iron has cash assets of \$4 million and, because the Company's participation in the RHIOJV is currently fully funded by its joint venture partner, your board perceives no need for raising further capital in the foreseeable future.

In April this year the Directors moved to strengthen RHI's management team, as the Company's projects mature, with the appointment of Mr Doug Stewart as Project Manager. Doug has over 40 years experience in the resources sector and as Managing Director of Territory Resources Limited was recently responsible for successfully bringing on stream the Francis Creek iron ore operations in the Northern Territory.

The participants in the RHIOJV are Red Hill Iron and API Management Pty Ltd. (API). API is owned 50% by Aquila Resources Limited and 50% by AMCI (WA) Pty Ltd. The potential of the RHIOJV was recently confirmed when POSCO, the South Korean company which is one of the world's leading steel makers, purchased a significant indirect interest in the project through its acquisition of a 49% stake in AMCI (WA) Pty Ltd.

Red Hill Iron is ideally positioned to benefit from the evolution of the West Pilbara into a major iron ore province as the various planned projects come on stream. The West Pilbara Iron Ore Project (WPIOP), Stage One of which will derive a major component of its production from the RHIOJV, is likely to be the next CID development in the region. Commissioning of the project is planned to be completed within 4 to 5 years. The current total Mineral Resources of the RHIOJV stands at 421.89 million tonnes at 56.6% iron (see table). Red Hill Iron anticipates its 4.5 million tonne share of annual production to be railed for export from a new port to be built at Anketell Point, near Cape Lambert. Other major iron ore developments currently being considered by other parties could well require an annual port capacity for this new port of some 350 million tonnes to rival Port Hedland and Cape Lambert.

The Company's iron ore export aspirations moved a step closer to fruition in March as the State Government gave its approval for a multi-user facility at Anketell Point. Other companies such as Fortescue Mining Group Limited and China Metallurgical Group Corporation have also released conceptual plans to seek access to this new port. The sharing of infrastructure costs with third parties has the potential to significantly improve project economics.

### THE RED HILL IRON ORE JOINT VENTURE AGREEMENT

The terms of the RHIOJV provide particular protection and strength to Red Hill Iron by ensuring flexibility of choice and access to financial support and project funding. The Company's share of the joint venture which is currently 40% will reduce to 20% upon first delivery of ore to customers. Red Hill Iron retains the right to market its share of product.

The funding arrangements of the RHIOJV require API to fund all project costs up until first delivery of ore to customers whereupon Red Hill Iron is to repay its proportion of these costs out of 80% only of its proportion of revenue after deducting operating costs and government royalties, thereby ensuring that 20% of free cash flow will be available for other purposes. Interest accruing on these loans is set at Libor plus 2.5% which is considered a relatively favourable cost of capital for such projects in the current world financial climate.

## REVIEW OF OPERATIONS

### Mineral Resources

The current Mineral Resources of the RHIOJV are set out in the table below:

Red Hill Iron Ore Joint Venture										
Total Mineral Resources – Channel Iron Deposits										
Deposit	Category	Tonnes 000s	Fe %	SiO2 %	Al2O3 %	P %	S %	LOI %	Mn %	MgO %
Catho Well North	Measured	0								
	Indicated	0								
	Inferred	6,010	55.20	7.44	2.81	0.033	0.014	9.87	0.09	0.19
	<b>Total</b>	<b>6,010</b>	<b>55.20</b>	<b>7.44</b>	<b>2.81</b>	<b>0.033</b>	<b>0.014</b>	<b>9.87</b>	<b>0.09</b>	<b>0.19</b>
Cardo Bore East	Measured	0								
	Indicated	38,958	58.77	4.87	3.65	0.076	0.015	6.80	0.06	0.11
	Inferred	5,768	58.43	5.05	3.66	0.074	0.016	7.04	0.05	0.12
	<b>Total</b>	<b>44,726</b>	<b>58.72</b>	<b>4.89</b>	<b>3.65</b>	<b>0.076</b>	<b>0.015</b>	<b>6.83</b>	<b>0.06</b>	<b>0.11</b>
Cardo Bore	Measured	0								
	Indicated	2,673	57.89	5.60	3.55	0.079	0.020	7.43	0.04	0.05
	Inferred	2,882	57.40	5.52	3.69	0.078	0.026	8.12	0.02	0.04
	<b>Total</b>	<b>5,555</b>	<b>57.63</b>	<b>5.56</b>	<b>3.62</b>	<b>0.078</b>	<b>0.023</b>	<b>7.78</b>	<b>0.03</b>	<b>0.04</b>
Cochrane	Measured	0								
	Indicated	32,705	57.31	5.34	4.01	0.078	0.022	8.04	0.01	0.11
	Inferred									
	<b>Total</b>	<b>32,705</b>	<b>57.31</b>	<b>5.34</b>	<b>4.01</b>	<b>0.078</b>	<b>0.022</b>	<b>8.04</b>	<b>0.01</b>	<b>0.11</b>
Jewel	Measured	0								
	Indicated	22,719	56.51	5.85	3.86	0.061	0.024	9.00	0.03	0.06
	Inferred	5,753	56.28	6.10	4.06	0.069	0.023	8.89	0.03	0.06
	<b>Total</b>	<b>28,472</b>	<b>46.46</b>	<b>5.90</b>	<b>3.90</b>	<b>0.063</b>	<b>0.024</b>	<b>8.98</b>	<b>0.03</b>	<b>0.06</b>
Kens Bore	Measured	0								
	Indicated	50,746	56.01	6.42	3.93	0.090	0.010	8.83	0.04	0.11
	Inferred	68,156	57.00	5.28	3.71	0.075	0.012	8.88	0.02	0.10
	<b>Total</b>	<b>118,902</b>	<b>56.58</b>	<b>5.77</b>	<b>3.81</b>	<b>0.081</b>	<b>0.011</b>	<b>8.86</b>	<b>0.03</b>	<b>0.10</b>
Trinity Bore	Measured	18,830	55.73	6.00	3.85	0.098	0.018	9.73	0.03	0.12
	Indicated	54,850	54.53	7.88	3.79	0.047	0.022	9.70	0.03	0.12
	Inferred	32,880	54.12	8.08	4.03	0.057	0.023	9.74	0.04	0.08
	<b>Total</b>	<b>106,560</b>	<b>54.62</b>	<b>7.61</b>	<b>3.87</b>	<b>0.059</b>	<b>0.022</b>	<b>9.72</b>	<b>0.03</b>	<b>0.11</b>
Upper Cane	Measured	56,056	58.17	5.49	3.16	0.080	0.018	7.60	0.02	0.05
	Indicated	22,903	57.83	5.95	3.25	0.076	0.019	7.41	0.03	0.06
	Inferred	0								
	<b>Total</b>	<b>78,959</b>	<b>58.07</b>	<b>5.63</b>	<b>3.19</b>	<b>0.079</b>	<b>0.018</b>	<b>7.55</b>	<b>0.02</b>	<b>0.05</b>
<b>TOTAL</b>	Measured	74,886	57.56	5.62	3.34	0.085	0.018	8.14	0.02	0.06
	Indicated	225,554	56.57	6.24	3.78	0.071	0.020	8.44	0.03	0.09
	Inferred	121,449	56.17	6.18	3.77	0.068	0.016	9.06	0.03	0.10
	<b>Total</b>	<b>421,889</b>	<b>56.63</b>	<b>6.11</b>	<b>3.70</b>	<b>0.072</b>	<b>0.017</b>	<b>8.56</b>	<b>0.03</b>	<b>0.09</b>



## REVIEW OF OPERATIONS

Your Company has the right to elect to exchange its project interest for a 2% FOB royalty on all RHIOJV production at any time up to first delivery of product to customers. This provision allows the Company to cancel all accumulated debt and resort to a simple cash flow should this prove more favourable at that time.

The joint venture agreement also provides that a unanimous vote is required for a decision to mine and your Company will fully evaluate the feasibility of the project before making its voting election. If a participant votes against development then the party voting in favour of development has the right to buy out the other for a consideration based on independent valuation. The consideration is to be 100% of the determined value where the feasibility IRR is less than 15%, and 85% of determined value where the IRR is greater than 15%.

Shareholders will be aware that the Company and API disagree over certain matters pertaining to joint venture assets. Major points of contention include the ownership of port and rail facilities required to service the joint venture and ownership of a tenement area which encompasses the Kens Bore East CID which is contiguous to the Kens Bore mineralization.

### The Red Hill Iron Ore Project

In July 2010, Aquila Resources Limited released information relating to the WPIOP Feasibility Study that is in part pertinent to Red Hill Iron and the RHIOJV. Although this information was later qualified by Aquila, your board is of the opinion that it gives reasonable guidance to the status of the project. The study indicated that a 30 million tonne per annum project to produce a blended channel iron product from ore mined by the RHIOJV and the adjacent Mt Stuart Joint Venture appeared viable based on capital and operating costs as detailed below:

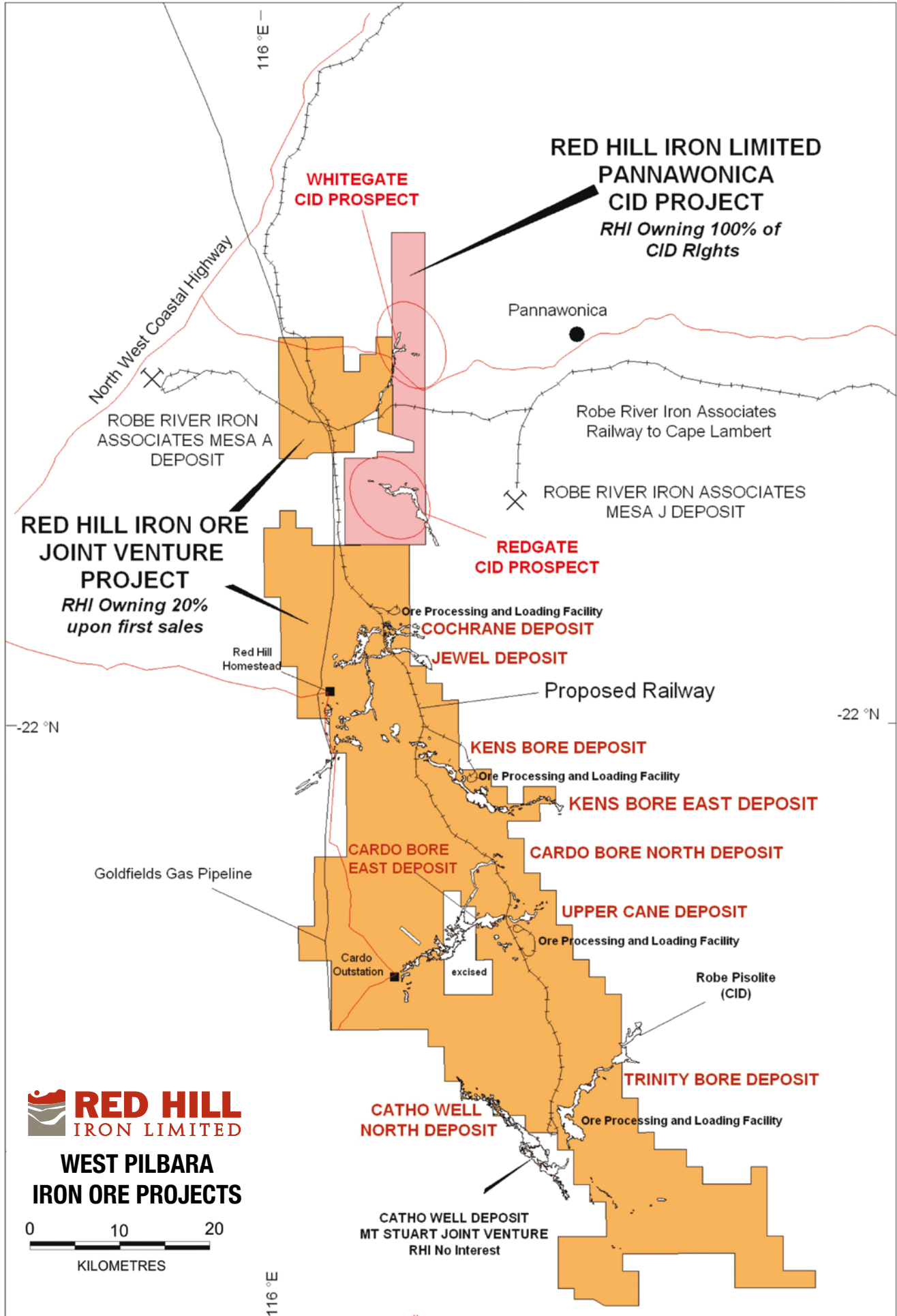
<b>Capital Costs</b>	<b>\$M</b>
Mine, Processing and Infrastructure	1,863
Railway and Rolling Stock	1,695
Port Materials Handling, Jetty and Wharf, Dredging and Infrastructure	1,368
<b>Total Direct Costs</b>	<b>4,926</b>
EPCM	319
Contingency	529
<b>Total Costs</b>	<b>5,774</b>

### Operating Costs

Operating costs for the Project are projected to be \$19.48 per tonne inclusive of rail and port charges but excluding State royalties.

Reserve definition drilling programs have been completed and pit shell design work is being finalized. Ore reserves to JORC standard to support the proposed WPIOP Stage One twelve year development are expected to be ready for release by the end of this calendar year.

Your board anticipates some modest expansion in the tonnage of the Kens Bore resource. It anticipates that the Kens Bore East resource may approximate 10% of total project tonnage and will strenuously argue for its inclusion as a joint venture asset.







## REVIEW OF OPERATIONS

### THE PANNAWONICA PROJECT

In November 2009 Red Hill Iron purchased the CID rights to this project from a private company owned by Mr Mark Creasy. The project area is 150 square kilometres covering two significant paleodrainage systems. The consideration for the purchase was the issue of 2 million ordinary fully paid shares in Red Hill Iron and the payment of \$2 million.

The southern system, which extends over eight kilometres, is known as the Redgate Prospect while the northern system, which has a total extent of six kilometres, is known as the Whitegate Prospect. The first phase drilling on both prospects has been completed with ninety three holes drilled at Whitegate and one hundred and twenty one holes at Redgate for a project total of 6,547 metres drilled .

Significant widths of modest grade CID mineralization were encountered, particularly at Redgate, giving encouragement that the systems contain sizable resource potential. It is clear that the resources will require beneficiation to achieve optimal grades. The Company has recognised the possibility of upgrading the iron content and significantly reducing the alumina and silica content by clay removal using standard crushing and dry processing technology. To this end, a large diameter diamond drilling program is planned to commence shortly to provide bulk samples for petrographic and metallurgical testing as well as specific gravity measurements.

The possibility of demonstrating a viable CID project is enhanced by the fact that mineralization drilled to date occurs almost entirely above the level of the surrounding plain suggesting favourable stripping ratios. The mineralization is almost all above the water table which is important if dry separation techniques are to be contemplated. The mesas lie very close to both the Robe River Iron Associates Pannawonica railway and the route of the proposed RHIOJV project rail corridor to Anketell Point.

### CONCLUSION

Red Hill Iron is unusually well placed being associated with major companies in the common endeavour to establish the West Pilbara as an iron ore province of world significance. Our project is likely to be a front runner in this ambition and the first new producer in the area outside the established Robe River Iron Associates operations. Shareholders can look forward to the inherent value of this enviable position becoming more apparent as the coming year unfolds.

The board would like to thank our small dedicated staff for their ongoing efforts. The efficient manner in which the Pannawonica project has been advanced is particularly commendable.

#### **Compliance Statement**

*The information in this report that relates to Exploration Results or Mineral Resources is based on information compiled by Mr Doug Stewart who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Stewart is a Consultant to the Company. Mr Stewart has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Stewart consents to the inclusion in this report of the matters based on his information in the form and context in which it appears, and has not withdrawn this consent.*



**RED HILL IRON LIMITED  
PANNAWONICA  
CID PROJECT**  
*RHI Owning 100% of  
CID Rights*



**RED HILL**  
IRON LIMITED  
WEST PILBARA  
IRON ORE PROJECTS



116 °E





## 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 2010.

### DIRECTORS

The following persons were directors of the Company during the financial year and up to the date of this report:

Neil Tomkinson

Joshua Pitt

Garry Strong

### 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

During the year the Company made substantial progress towards becoming a diversified producer of iron ore from Channel Iron Deposits (CID) in the West Pilbara region of Western Australia. Progress was made towards the completion of a Feasibility Study for the West Pilbara Iron Ore Project (WPIOP) Stage One. The Red Hill Iron Ore Joint Venture (RHIOJV) provides the majority of resources the subject of that study. Also, the Company began exploration of its wholly owned Pannawonica Project which contains extensive prospective CID mesa systems.

Exploration and feasibility studies continued on the RHIOJV which currently has a CID Mineral Resource of 422 million tonnes of 56.6% iron. The project is managed by API Management Pty Ltd (API), a company controlled by Aquila Resources Limited and AMCI Incorporated. The study anticipates the development of a 30 million tonne per annum mining operation which will involve the construction of 282 kilometres of railway to a deep water port to be constructed at Anketell Point, near Cape Lambert. Red Hill Iron anticipates that, should the project proceed, its share of annual production for at least 12 years will be approximately 4.5 million tonnes. It is anticipated that construction could commence in 2012 with project commissioning in 2014.

Red Hill Iron has a 40% interest in the RHIOJV which will reduce to 20% upon the first delivery of project ore to customers. API is required to lend Red Hill Iron all of its share of project costs, repayable out of 80% of Red Hill Iron's project revenue surpluses. The Company has an option exercisable at any time until first delivery of ore to customers to convert its project interest to a 2% FOB royalty on total project production. The exercise of this option would result in the cancellation of all loans from API.

In November 2009, the Company purchased the CID rights pertaining to a 150 square kilometre portion of Exploration Licence 08/1685 from Zanthus Resources Pty Ltd for a consideration of \$2 million and the issue of 2 million fully paid Red Hill Iron shares. These CID rights form the basis of the Pannawonica Project. The Project is contiguous to the RHIOJV area and approximately 15 kilometres from the Pannawonica operations of Robe River Iron Associates.

A first pass drilling programme has been completed on the Whitegate and Redgate CID targets with a total of 214 holes for a total of 6,547 metres drilled. The program has demonstrated the potential to define large CID resources of modest iron grade with high alumina and silica content. A diamond drilling program is to be instigated in the December quarter to generate core samples for metallurgical study with a view to determining whether CIDs at the Pannawonica Project can be economically beneficiated to a saleable product.

The Company's gold and base metal exploration in the first half of the year resulted in limited success and as a result it was decided to cease gold and base metal exploration.

The operating loss after tax for the year was \$1,154,262 (2009: \$1,369,636).

## DIRECTORS' REPORT

### 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.

### 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. The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the first measurement period 1 July 2009 to 30 June 2010 the directors have assessed that there are no current reporting requirements, but may be required to do so in the future.

### INFORMATION RELATING TO DIRECTORS

#### Neil Tomkinson LLB Hons - Non executive chairman

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), Traka Resources Limited (appointed September 2003), and Pan Pacific Petroleum NL (appointed a director in June 2006 and chairman in December 2008). Mr Tomkinson is an investor in private mineral exploration and in resources in general in Australia.

#### Joshua Pitt BSc, MAusIMM, MAIG - Non executive director

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), Red Metal Limited (appointed July 2003) and Pan Pacific Petroleum (appointed December 2008). Mr Pitt is involved in substantial resource investment.

#### Garry Strong - Non executive director

Mr Strong is a prospector with over forty years experience in gold and basemetal reconnaissance exploration in Australia. He has spent the last 17 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.

### INFORMATION RELATING TO GENERAL MANAGER

#### Timothy Boddington BSc Hons, MAusIMM, MAIG, GSA

Mr Boddington is an exploration geologist with over 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 Ruttledge BSc, CA, FFin

Mr Ruttledge is a Chartered Accountant and a Fellow of The Financial Services Institute of Australia and has over 25 years experience as company secretary of a number of listed mining and exploration companies.



## DIRECTORS' REPORT

### 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	3,525,830	-
J N Pitt	4,499,634	-
G R Strong	1,493,946	-

The relevant interests of Mr Tomkinson and Mr Pitt in the shares of the company are their combined holdings of 8,025,464 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	4	4
J N Pitt	4	4
G R Strong	4	4

### AUDITED REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3c) of the Corporations Act 2001.

#### (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 persons 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 and
- providing recognition for contribution.

The remuneration policy is not linked to the Company's performance and is linked to shareholder wealth only in so far as options over the Company's shares are included in remuneration.

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 over shares 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.

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT (continued)

#### 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 a 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, 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 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:

	Short Term Benefits Salary & Fees \$	Post- employment Benefits Super- annuation \$	Share based payments Options \$	Total \$	Value of options as proportion of remuneration %	Performance Related %
<b>2010</b>						
<b>Directors – non-executive</b>						
N Tomkinson (Chairman)	25,000	2,250	-	27,250	-	-
J N Pitt	27,250	-	-	27,250	-	-
G R Strong	25,470	27,250	-	52,720	-	-
	<u>77,720</u>	<u>29,500</u>	-	<u>107,220</u>	-	-
<b>Other key management personnel</b>						
T D M Boddington (General Manager)	150,000	50,000	-	200,000	-	-
<b>Total key management personnel</b>	<u>227,720</u>	<u>79,500</u>	-	<u>307,220</u>	-	-
<b>Other company executives</b>						
P C Rutledge (Company Secretary)	44,500	-	-	44,500	-	-
D H Stewart (Project Manager)	26,622	2,396	-	29,018	-	-
<b>Total other company executives</b>	<u>71,122</u>	<u>2,396</u>	-	<u>73,518</u>	-	-

# DIRECTORS' REPORT

## AUDITED REMUNERATION REPORT (continued)

	Short Term Benefits Salary & Fees \$	Post- employment Benefits Super- annuation \$	Share based payments Options \$	Total \$	Value of options as proportion of remuneration %	Performance Related %
<b>2009</b>						
<b>Directors – non-executive</b>						
N Tomkinson (Chairman)	25,000	2,250	-	27,250	-	-
J N Pitt	27,250	-	-	27,250	-	-
G R Strong	-	27,250	-	27,250	-	-
	<u>52,250</u>	<u>29,500</u>	<u>-</u>	<u>81,750</u>		
<b>Other key management personnel</b>						
T D M Boddington (General Manager)	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>200,000</u>	-	-
<b>Total key management personnel</b>	<u>152,250</u>	<u>129,500</u>	<u>-</u>	<u>281,750</u>	-	-
<b>Other company executives</b>						
P C Rutledge (Company Secretary)	<u>44,500</u>	<u>-</u>	<u>-</u>	<u>44,500</u>	-	-
<b>Total other company executives</b>	<u>44,500</u>	<u>-</u>	<u>-</u>	<u>44,500</u>	-	-

### (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 and has been extended on a 3 monthly basis thereafter. The salary and superannuation package for Mr Boddington for the year ended 30 June 2010 was \$200,000 (2009: \$200,000). 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 2006.

The terms and conditions of employment of the Project Manager Mr Doug Stewart are set out in a written executive service agreement, the initial term of which is 12 months commencing on 22 April 2010. Either party may terminate the contract without cause on giving 2 months notice. The salary and superannuation package is a retainer of \$10,000 per month with provision for an additional hourly rate to be paid if Mr Stewart's services exceed the retainer level. Mr Stewart received \$29,018 during the year. There are no termination arrangements in respect of Mr Stewart's employment other than the requirement for him to be given 2 months notice.

The fees payable by the Company to Sable Management Pty Ltd for Mr Rutledge's services for the financial year exclusive of GST were \$ 44,500 (2009: \$44,500). 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

## DIRECTORS' REPORT

### AUDITED REMUNERATION REPORT (continued)

Share Option Plan and be granted options to acquire ordinary shares in the Company at the discretion of the board.

Share based payments are generally provided in the form of options vesting immediately. The issue of these options is not linked to past company performance since their principal purpose is to promote continuity of performance and provide additional incentive to the key management personnel to increase shareholder wealth. There is no specific board policy restricting employees from taking action to limit their exposure to risk in relation to share based payments. Nevertheless, in terms of the Company's corporate governance policies, all employees are prohibited from dealing in the Company's securities when they possess inside information and they are obliged to inform the board of any proposed transactions in securities.

No options have been issued to directors or other specified executives during the year ended 30 June 2010.

#### (e) Additional information

##### Share based compensation: Options

##### Employee share schemes

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

No options were issued during the year.

200,000 options were exercised during the year and no options were forfeited during the year.

The audited remuneration report ends here.

### SHARE OPTIONS

Shares issued on the exercise of options:

The following ordinary shares of the Company were issued during the year ended 30 June 2010 on the exercise of options granted under the Employee Option Plan:

Date options granted	Issue price of shares	Number of shares issued
28 November 2006	\$1.10	200,000

### 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.





## DIRECTORS' REPORT

### 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 Audit (WA) Pty Ltd, the company's auditor, did not perform any non-audit services for the Company for the year ended 30 June 2010.

Signed in Perth in accordance with a resolution of directors on 22 September 2010.



Mr N Tomkinson  
Chairman



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38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

22 September 2010

Board of Directors  
Red Hill Iron Limited  
Level 2, 9 Havelock Street  
WEST PERTH WA 6005

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 2010, 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.



**Brad McVeigh**  
Director



**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia



## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 \$	2009 \$
Revenue from continuing operations	4	233,532	463,534
Other income		2,588	29,962
Exploration expenditure		(812,444)	(1,417,476)
Administration expenses	5	<u>(577,938)</u>	<u>(445,656)</u>
<b>Loss before income tax</b>		(1,154,262)	(1,369,636)
Income tax expense	6	<u>-</u>	<u>-</u>
<b>Loss for the year</b>		(1,154,262)	(1,369,636)
<b>Other comprehensive income for the year</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive loss for the year attributable to the ordinary equity holders of the Company</b>		<u>(1,154,262)</u>	<u>(1,369,636)</u>
<b>Loss per share attributable to the ordinary equity holders of the Company</b>			
Basic loss and diluted loss per share	22	(2.69) cents	(3.31) cents

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

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	NOTE	2010 \$	2009 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	4,390,939	7,660,111
Trade and other receivables	8	<u>146,736</u>	<u>96,584</u>
Total Current Assets		<u>4,537,675</u>	<u>7,756,695</u>
<b>Non Current Assets</b>			
Exploration assets	9	10,008,025	102,110
Plant and equipment	10	<u>64,275</u>	<u>83,410</u>
Total Non Current Assets		<u>10,072,300</u>	<u>185,520</u>
Total Assets		<u>14,609,975</u>	<u>7,942,215</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	<u>253,288</u>	<u>134,218</u>
Total Current Liabilities		<u>253,288</u>	<u>134,218</u>
Total Liabilities		<u>253,288</u>	<u>134,218</u>
<b>Net Assets</b>		<u>14,356,687</u>	<u>7,807,997</u>
<b>EQUITY</b>			
Issued Capital	12	20,776,519	13,073,567
Reserves	13	285,770	285,770
Accumulated losses		<u>(6,705,602)</u>	<u>(5,551,340)</u>
<b>Total Equity</b>		<u>14,356,687</u>	<u>7,807,997</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2010

	Issued Capital \$	Share Based Payments Reserve \$	Exercised Option Reserve \$	Accumulated Losses \$	Total Equity \$
<b>2010</b>					
Balance at 1 July 2009	<u>13,073,567</u>	<u>77,200</u>	<u>208,570</u>	<u>(5,551,340)</u>	<u>7,807,997</u>
Net loss for the year	-	-	-	<u>(1,154,262)</u>	<u>(1,154,262)</u>
Total comprehensive income recognised during the year	-	-	-	<u>(1,154,262)</u>	<u>(1,154,262)</u>
Transactions with equity holders in their capacity as equity holders:					
Issue of ordinary fully paid shares, net of issue cost	7,484,962	-	-	-	7,484,962
Exercise of options	217,990	-	-	-	217,990
Transfer on exercise of options	-	<u>(77,200)</u>	<u>77,200</u>	-	-
<b>Balance at 30 June 2010</b>	<u><u>20,776,519</u></u>	<u><u>-</u></u>	<u><u>285,770</u></u>	<u><u>(6,705,602)</u></u>	<u><u>14,356,687</u></u>
<b>2009</b>					
Balance at 1 July 2008	<u>12,775,617</u>	<u>123,585</u>	<u>162,185</u>	<u>(4,181,704)</u>	<u>8,879,683</u>
Net loss for the year	-	-	-	<u>(1,369,636)</u>	<u>(1,369,636)</u>
Total comprehensive income recognised during the year	-	-	-	<u>(1,369,636)</u>	<u>(1,369,636)</u>
Transactions with equity holders in their capacity as equity holders:					
Issue of shares on exercise of options	297,950	-	-	-	297,950
Transfer on exercise of options	-	<u>(46,385)</u>	<u>46,385</u>	-	-
<b>Balance at 30 June 2009</b>	<u><u>13,073,567</u></u>	<u><u>77,200</u></u>	<u><u>208,570</u></u>	<u><u>(5,551,340)</u></u>	<u><u>7,807,997</u></u>

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

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(469,244)	(461,572)
Payments for exploration expenditure		(788,178)	(1,397,142)
Payments for security deposits		(52,000)	-
Interest received		<u>243,213</u>	<u>608,431</u>
Net cash outflow from operating activities	21	<u>(1,066,209)</u>	<u>(1,250,283)</u>
<b>Cash flows from investing activities</b>			
Payments for exploration assets		(2,405,915)	-
Payments for plant and equipment		<u>-</u>	<u>(1,300)</u>
Net cash outflow from investing activities		<u>(2,405,915)</u>	<u>(1,300)</u>
<b>Cash flows from financing activities</b>			
Proceeds from conversion of options		220,000	300,000
Payment for share issue costs		<u>(17,048)</u>	<u>(2,050)</u>
Net cash inflow from financing activities		<u>202,952</u>	<u>297,950</u>
<b>Net decrease in cash and cash equivalents</b>		(3,269,172)	(953,633)
Cash and cash equivalents at the beginning of the year		<u>7,660,111</u>	<u>8,613,744</u>
<b>Cash and cash equivalents at the end of the year</b>	7	<u><u>4,390,939</u></u>	<u><u>7,660,111</u></u>
<b>Non-cash investing activities</b>	21	<u>7,500,000</u>	<u>-</u>

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements are for Red Hill Iron Limited for the year ended 30 June 2010 (“the financial year”). Red Hill Iron Limited is a listed public company, incorporated and domiciled in Australia.

#### (a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting 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 statements 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 group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of exploration and evaluation assets, and plant and equipment. 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.

##### *Financial Statement Presentation*

The company has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the company had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

#### (b) Segment reporting

The Company has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting and requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting to the chief operating decision maker, which has been identified by the company as the members of the board of Directors.

The change in accounting policy only impacts presentation aspects and there is no impact on the measurement of the company's assets and liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(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 effective interest 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 date.

Deferred tax is accounted for using the 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 comprehensive income.

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 statement of comprehensive income except where it relates to items that may be credited directly to equity or comprehensive income, 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.

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 profit or loss.

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.





## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (g) 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 recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

###### *Financial liabilities*

Non-derivative financial liabilities are recognised initially at fair value and subsequently 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 profit or loss.

##### (h) 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 in profit or loss.

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.

##### (i) 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.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of comprehensive income 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 company commencing from the time the asset is held ready for use.

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and Equipment:	5% to 50% straight line.
Motor Vehicles:	5% to 50% straight line.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

#### (j) **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.

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 comprehensive income. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

#### (k) 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.

#### (l) 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.

#### (m) Joint venture agreements

agreements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit.

The joint venture agreements 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(h).

#### (n) 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 statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(p) **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 124	Related Party Disclosures	There will be no financial impact when these amendments are first adopted because these amendments related to additional disclosure requirements only.	1 January 2011
AASB 9	Financial Instruments	The company has not yet determined the extent of the impact of the amendments, if any.	30 June 2014
AASB 2009-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Process:		1 January 2010
	AASB 101 – Presentation of financial statements	Initial adoption will have no impact as the company does not have any current liabilities where the counter party has the option to have the liabilities settled by the issue of equity instruments.	
	AASB 107 – Statement of cash flows	Initial adoption will have no impact as the company only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.	
	AASB 136 – Impairment of assets	There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations.	
Amendments to International Financial Reporting Standards (IFRS)	Amendments to International Financial Reporting Standards		1 January 2011
	IFRS 7 Financial Instruments Disclosures	Initial adoption will have no impact on amounts recognised in financial statements as the amendments result in fewer disclosures only	

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2010

### 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 \$1,300,000 (2009: \$400,000), and bank deposits at call, amounting to \$3,000,000 (2009: \$7,000,000), all mature within 195 days of balance date.

The weighted average rate of interest to which the Company was exposed on its cash assets as at the year end was 5.00% (2009: 3.68%).

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. Whilst this analysis reflects the effect of a 1% decline in interest rates recent Australian Treasury announcements and press reports would indicate a downward movement in interest rates of this magnitude to be unlikely over the next 12 months.

Financial Assets	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
		\$	\$	\$	\$
<b>2010</b>					
Cash & cash equivalents	4,390,939				
Total increase/(decrease)		(43,909)	(43,909)	43,909	43,909
<b>2009</b>					
Cash & cash equivalents	7,660,111				
Total increase/(decrease)		(76,601)	(76,601)	76,601	76,601

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 2 – FINANCIAL RISK MANAGEMENT (continued)

##### Exposure to credit risk

##### Closing carrying amount of cash assets

	2010	2009
	\$	\$
Trade and other receivables	146,735	96,584
Cash & cash equivalents	4,390,939	7,660,111

The carrying amount of the Company's financial assets and liabilities approximates fair value due to their short term maturity. The Company has no financial instruments carried at fair value.

##### Capital management risk

The Company's objective in managing capital which consists primarily of equity 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

Management has determined that the Company has one reportable segment, being mineral exploration within Australia. The board of directors monitors the company based on actual versus budgeted exploration expenditure. This reporting framework is the most relevant to assist the board with making decisions regarding its ongoing exploration activities.

	2010	2009
	\$	\$
Reportable segment assets	<u>10,008,025</u>	<u>102,110</u>
Reportable segment loss	<u>(812,444)</u>	<u>(1,417,476)</u>
Reconciliation of reportable segment loss:		
Reportable segment loss	(812,444)	(1,417,476)
Other profit	236,120	493,496
Unallocated corporate expenses	<u>(577,938)</u>	<u>(445,656)</u>
Loss before tax	<u>(1,154,262)</u>	<u>(1,369,636)</u>



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2010

#### NOTE 4 – REVENUE

	2010	2009
	\$	\$
<b>Revenue</b>		
Interest income	<u>233,532</u>	<u>463,534</u>
	<u>233,532</u>	<u>463,534</u>

#### NOTE 5 – ADMINISTRATIVE EXPENSES

Loss before income tax includes the following specific administration expenses:

Personnel expenses		
Salaries and associated expenses	393,368	312,590
Superannuation	105,640	163,187
Increase /decrease in liability for annual leave	<u>22,797</u>	<u>(3,218)</u>
	521,805	472,559
Less: Capitalised to exploration	<u>(305,002)</u>	<u>(335,261)</u>
	216,803	137,298
Depreciation	19,135	19,020
Other expenses		
Accounting fees	49,620	30,196
Admin services	8,792	16,144
ASX fees	38,404	36,680
Audit	23,368	23,929
Communication costs	6,409	9,452
Operating lease expense	77,048	69,485
Other	<u>138,359</u>	<u>103,452</u>
	<u>577,938</u>	<u>445,656</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 6 – INCOME TAX

	2010	2009
	\$	\$
<b>(a) Income tax</b>		
The components of income tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
	-	-
	<u>-</u>	<u>-</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Operating loss from continuing operations before income tax	<u>(1,154,262)</u>	<u>(1,369,636)</u>
Income tax at the tax rate of 30% (2009: 30%)	(346,276)	(410,890)
Tax effect of amounts which are taxable/(deductible) in calculating taxable income:		
Share issue costs	(10,704)	(9,389)
Tax loss and temporary differences not brought to account	<u>356,983</u>	<u>420,279</u>
Income tax expense	<u>-</u>	<u>-</u>
<b>(c) Deferred tax assets and liabilities not brought to account</b>		
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:		
On income tax account:		
Carried forward losses	4,938,102	1,586,458
Deferred tax liabilities offset	<u>(2,989,900)</u>	<u>4,761</u>
Unrecognised deferred tax assets	<u>1,948,202</u>	<u>1,591,219</u>

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





## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 7 – CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2010	2009
	\$	\$
Cash on hand	200	200
Cash at bank	101,760	260,954
Deposits at call	3,000,000	7,000,000
Bills receivable	<u>1,288,979</u>	<u>398,957</u>
	<u>4,390,939</u>	<u>7,660,111</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 cash flow statement as follows:

Balances as above	<u>4,390,939</u>	<u>7,660,111</u>
Balance per statement of cash flows	<u>4,390,939</u>	<u>7,660,111</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

Security deposits	84,000	32,000
Interest	25,609	35,290
Other	<u>37,127</u>	<u>29,294</u>
	<u>146,736</u>	<u>96,584</u>

Security deposits are held with the bank as security for the Department of Mines and Petroleum Bonds issued by the bank on behalf of the Company.

Interest receivables comprise pro-rata interest receivable at balance date in respect of bills of exchange and deposits at call that are expected to be repaid within 195 days.

No trade and other receivables are considered impaired or are past due.

### NOTE 9 – NON-CURRENT ASSETS - EXPLORATION ASSETS

Carrying amount at beginning of year	102,110	102,110
Acquisition for right to channel iron deposits	<u>9,905,915</u>	<u>-</u>
Carrying amount at end of year	<u>10,008,025</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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 10 – NON-CURRENT ASSETS - PLANT AND EQUIPMENT

	2010 \$	2009 \$
Leasehold improvements – at cost	5,714	5,714
Accumulated depreciation	<u>(5,713)</u>	<u>(5,713)</u>
	<u>1</u>	<u>1</u>
Field equipment – at cost	47,963	47,963
Accumulated depreciation	<u>(24,337)</u>	<u>(17,357)</u>
	<u>23,626</u>	<u>30,606</u>
Office furniture and equipment – at cost	29,211	29,211
Accumulated depreciation	<u>(19,093)</u>	<u>(14,029)</u>
	<u>10,118</u>	<u>15,183</u>
Motor vehicle – at cost	56,580	56,580
Accumulated depreciation	<u>(26,050)</u>	<u>(18,960)</u>
	<u>30,530</u>	<u>37,620</u>
Total plant and equipment	<u>64,275</u>	<u>83,410</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 \$
<b>2010</b>					
Carrying amount at 1 July 2009	1	15,183	30,606	37,620	83,410
Additions during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Depreciation expense	<u>-</u>	<u>(5,065)</u>	<u>(6,980)</u>	<u>(7,090)</u>	<u>(19,135)</u>
Carrying amount at 30 June 2010	<u>1</u>	<u>10,118</u>	<u>23,626</u>	<u>30,530</u>	<u>64,275</u>
<b>2009</b>					
Carrying amount at 1 July 2008	1	20,247	36,170	44,713	101,131
Additions during the year	-	-	1,300	-	1,300
Disposals during the year	-	-	-	-	-
Depreciation expense	<u>-</u>	<u>(5,064)</u>	<u>(6,864)</u>	<u>(7,093)</u>	<u>(19,021)</u>
Carrying amount at 30 June 2009	<u>1</u>	<u>15,183</u>	<u>30,606</u>	<u>37,620</u>	<u>83,410</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 11 – CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2010 \$	2009 \$
Trade creditors and accruals	190,811	100,946
Employee entitlements	<u>62,477</u>	<u>33,272</u>
	<u>253,288</u>	<u>134,218</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 43,915,686 (2009: 41,715,686) ordinary fully paid shares	<u>20,776,519</u>	<u>13,073,567</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.

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

##### Fully Paid Shares

	Details	Number of Ordinary Shares	Issue Price \$	Amount \$
<b>2010</b>				
1 July 2009	Balance	41,715,686		13,073,567
21 October 2009	Exercise of options	200,000	1.10	220,000
	Less cost of share issue	-		(2,010)
22 December 2009	Issue of ordinary fully paid shares	2,000,000	3.75	7,500,000
	Less cost of share issue	<u>-</u>		<u>(15,038)</u>
30 June 2010	Balance	<u>43,915,686</u>		<u>20,776,519</u>
<b>2009</b>				
1 July 2008	Balance	40,715,686		12,775,617
19 November 2008	Exercise of options	1,000,000	0.30	300,000
	Less cost of share issue	<u>-</u>		<u>(2,050)</u>
30 June 2009	Balance	<u>41,715,686</u>		<u>13,073,567</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 12 – EQUITY – ISSUED CAPITAL (continued)

#### (d) Options

At balance date the Company had no unlisted options (2009: 200,000).

#### (e) Movements in options during the last 2 years

	Details	Number of Options	Exercise Price Per Share cents	Grant Date	Expiry Date
<b>2010</b>					
1 July 2009	Balance	200,000	110	28/11/2006	28/11/2009
21 October 2009	Exercise of options	<u>(200,000)</u>			
30 June 2010	Balance	<u>-</u>			
<b>2009</b>					
1 July 2008	Balance	1,200,000			
19 November 2008	Exercise of options	<u>(1,000,000)</u>	30	7/12/2008	6/12/2009
30 June 2009	Balance	<u>200,000</u>			

### NOTE 13 – EQUITY – RESERVES

	2010 \$	2009 \$
Share based payments reserve	-	77,200
Future value option reserve	<u>285,770</u>	<u>208,570</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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation	2010 \$	2009 \$
Short-term employee benefits	227,720	152,250
Post-employment benefits	79,500	129,500
Share-based payments	-	-
	<u>307,220</u>	<u>281,750</u>

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report contained in the Directors' Report accompanying these financial statements.

### (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:

2010	Balance 1 July 2009	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2010
<b>Directors</b>					
N Tomkinson	3,525,830	-	-	-	3,525,830
J N Pitt	4,400,264	-	-	99,370	4,499,634
G R Strong	<u>1,493,946</u>	-	-	-	<u>1,493,946</u>
	<u>9,420,040</u>	-	-	<u>99,370</u>	<u>9,519,410</u>
<b>Other key management personnel</b>					
Mr T D M Boddington	<u>1,919,193</u>	-	-	-	<u>1,919,193</u>
<b>2009</b>					
	Balance 1 July 2008	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2009
<b>Directors</b>					
N Tomkinson	2,954,493	-	-	571,337	3,525,830
J N Pitt	3,467,076	-	-	933,188	4,400,264
G R Strong	<u>1,578,946</u>	-	-	(85,000)	<u>1,493,946</u>
	<u>8,000,515</u>	-	-	<u>1,419,525</u>	<u>9,420,040</u>
<b>Other key management personnel</b>					
Mr T D M Boddington	<u>1,168,193</u>	-	<u>1,000,000</u>	<u>(249,000)</u>	<u>1,919,193</u>

Net changes other relate to shares acquired or sold during the financial year.

No shares are held nominally

Mr Tomkinson's and Mr Pitt's relevant interest in the shares of the company at 30 June 2010 is their combined holdings of 8,025,464 shares.

Subsequent to 30 June 2010 and up to the date of signing the Directors' Report accompanying these financial statements, the directors have acquired no additional ordinary shares.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (c) Option holdings

No options are held by key management personnel at 30 June 2010.

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

#### NOTE 11 – CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2010	2009
	\$	\$
Amounts received, or due and receivable, by BDO Audit (WA) Pty Ltd Auditing or reviewing the accounts of Red Hill Iron Limited	23,368	23,929
Other Services	-	-
	<u>23,368</u>	<u>23,929</u>

### NOTE 16 – CONTINGENCIES

#### Contingent Liabilities

There are no contingent liabilities for termination benefits under service agreements with directors or executives at 30 June 2010.

-The directors are not aware of any other contingent liabilities at 30 June 2010.

### 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 Mines and Petroleum 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.

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.

	2010	2009
	\$	\$
Minimum estimated expenditure requirements	<u>158,077</u>	<u>-</u>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2010

### 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, \$101,392 (2009: \$64,422) 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 \$6,214 (2009: \$5,174) 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.

#### (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:

	2010	2009
	No. of shares	No. of shares
Ordinary shares – fully paid	<u>9,519,410</u>	<u>9,420,040</u>

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 venture agreements as at 30 June 2010:

Name of project	Interest	Activities	Other Parties
West Pilbara – Red Hill Iron Ore	40%	Iron ore exploration	API Management Pty Ltd (60% earning 80%)

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 iron ore 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 iron ore 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 2010, including interest thereon, amounted to \$11,890,000.

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(m).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 20 – EVENTS OCCURRING AFTER BALANCE DATE

There have been no material items, transactions or events subsequent to 30 June 2010 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in these financial statements.

To the best of the directors' knowledge and belief there have been no material items, transactions or events subsequent to 30 June 2010 which, although they do not relate to conditions existing at that date, have not been dealt with in these financial statements and which would cause reliance on the information shown in this report to be misleading.

### NOTE 21 – CASH FLOW INFORMATION

	2010	2009
	\$	\$
<b>Reconciliation of loss after income tax with cash flow from operating activities</b>		
Loss after income tax	(1,154,262)	(1,369,636)
Depreciation	19,135	19,020
Change in operating assets and liabilities:		
Decrease/(Increase) in debtors	9,681	143,949
Increase/(Decrease) in creditors	119,069	3,761
(Increase)/Decrease in GST receivable	(7,832)	(15,377)
(Increase)/Decrease in security deposit	<u>(52,000)</u>	<u>(32,000)</u>
Net cash outflow from operating activities	<u>(1,066,209)</u>	<u>(1,250,283)</u>
Non-cash investing activities	<u>7,500,000</u>	<u>-</u>

### NOTE 22 – LOSS PER SHARE

	Cents	Cents
Basic and diluted loss per share	<u>(2.69)</u>	<u>(3.31)</u>
<b>Reconciliation of loss</b>		
	\$	\$
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 Statement of Comprehensive Income	<u>(1,154,262)</u>	<u>(1,369,636)</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>42,898,653</u>	<u>41,328,323</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.



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 23 – SHARE BASED PAYMENTS

The Company has in previous years granted options to acquire ordinary fully paid shares in the Company to key management personnel and other staff on terms set out in an Employee Share Option Plan, the details of which were set out in the Company's initial public offering prospectus in December 2005. No options have been granted under the plan since the year ended 30 June 2007, and the balance of the options so issued were exercised during this financial year.

A summary of share based payments is set out below:

#### 2010

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during year	Exercised during year	Balance at end of year
28 Nov 2006	28 Nov 2009	\$1.10	200,000	-	200,000	-
			<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>-</u>

The weighted average price at which options were exercised during the year was \$1.10  
There are no options outstanding at the end of the year.

#### 2009

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 2009	\$0.30	1,000,000	-	1,000,000	-
28 Nov 2006	28 Nov 2009	\$1.10	200,000	-	-	200,000
			<u>1,200,000</u>	<u>-</u>	<u>1,000,000</u>	<u>200,000</u>

The weighted average price at which options were exercised during the year was \$0.30  
The weighted average remaining contractual life of options outstanding at the end of the year was 5 months.

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

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2010, comply with section 300A of the Corporations Act 2001.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.
5. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the directors and is signed for and on behalf of the directors by:

A handwritten signature in blue ink, appearing to read "N Tomkinson".

Mr N Tomkinson

Chairman

Perth 22 September 2010



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## 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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### 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 the financial statements comply 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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

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#### Auditor's Opinion

In our opinion:

- (a) the financial report of Red Hill Iron Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (a) 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 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd



**Brad McVeigh**  
Director

Perth, Western Australia  
Dated this 22<sup>nd</sup> day of September 2010



## CORPORATE GOVERNANCE

The Board of Directors of Red Hill Iron Limited (the “Company”) is responsible for monitoring the business affairs of the Company and protecting the rights and interests of shareholders. High standards of corporate governance are essential to give effect to its responsibilities. The Company’s corporate governance arrangements are set and reviewed by the Board on an ad-hoc basis having regard to any changing circumstances of the Company and the best interests of shareholders. They comply with the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (the ‘Principles’) as revised and reissued in August 2007.

This statement outlines the Company’s approach to corporate governance policy for the financial year ended 30 June 2010. Any documents referenced in this statement as being available on the Company’s website can be found on [www.redhilliron.com.au](http://www.redhilliron.com.au).

### 1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### 1.1 Functions reserved for the Board and those delegated to senior executives

The Board’s key objective is the increase of shareholder value by successful exploration for and/or production of minerals. 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. Red Hill Iron’s predominant current interest is in the search for and exploitation of iron ore deposits in the West Pilbara.

The Board is accountable to shareholders for the performance of the Company, and its responsibilities include:

- (a) approval of corporate strategy including annual approval of budget and monitoring performance against the budget;
- (b) determining the capital structure of the Company;
- (c) appointing and determining the duration, remuneration and other terms of appointment of the general manager and other senior management;
- (d) evaluating the performance of the general manager and other senior management;
- (e) approval of financial and other periodic reporting requirements;
- (f) approving the risk management strategy and frameworks and monitoring their effectiveness;
- (g) corporate governance systems and practices within the company;
- (h) approval of investments, corporate acquisitions, new joint ventures; and
- (i) appointment of the external auditors and principal advisors.

Due to the concentration of corporate aim and the small size of the Board all issues are considered by the full Board.

Any new directors, who may be appointed to the Board, will be provided with a letter of appointment including their remuneration details together with copies of Company and Board policies, the Constitution and access to prior Board minutes and papers. New directors will also be advised of their confidentiality and disclosure obligations, share trading policy guidelines, indemnity and insurance arrangements.

The Company has not prepared formal letters of appointment for the existing directors of the Board.

#### *Senior executives*

The role of the General Manager during the year under review has been to manage the Company’s exploration activities on a day to day basis pursuant to authority delegated by the Board and implementation of Board and corporate policy and planning in accordance with approved exploration 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 activities.

#### 1.2 The process for evaluating the performance of senior executives

The Board is responsible for setting the General Manager’s performance objectives and for evaluating his performance against them. The full Board carries out an annual review of the adequacy of his remuneration and participation in share incentive arrangements.

The Board is responsible for the appointment of the Company Secretary, evaluating his performance on an annual basis and determining his remuneration.

### 2. STRUCTURE THE BOARD TO ADD VALUE

#### 2.1 Board members’ independence

The Board is made up of 3 directors only one of whom, Mr G R Strong, is independent in terms of the Relationships affecting Independent Status (the “Categories”) in Recommendation 2.1 of the Principles.

## CORPORATE GOVERNANCE

The remainder of the directors on the Board are not independent within the strict meaning of the Categories because they are associated with a substantial shareholder in the Company as defined in the Corporations Act. However recognizing that approximately 60% of the Company's share capital is held by three non associated substantial shareholders, and having noted that no member of the Board has any association with the two substantial shareholders not represented at Board level, Directors believe that there exists a strong incentive for all Board members to carry out their directorial duties in an independent manner. The Board considers that this, combined with the fact that there is sufficient

independence of view and variety of intellectual input between the directors, achieves the objectives of the Categories and consequently views all directors as independent.

A determination with respect to independence is made by the Board on an annual basis. In addition the Directors are required on an ongoing basis to disclose relevant personal interests and conflicts of interest which may in turn trigger a review of a director's independent status.

### 2.2 Chairman's independence

As detailed above the chairman is considered to be independent and the Board considers that the Board and shareholder structure of the Company ensure that the chairman effectively acts as an independent director

### 2.3 Roles of chairman and chief executive officer

The Company has complied with this Principle - the chief executive officer (equivalent) role is filled by the General Manager.

#### *Role of the Chairman*

The Chairman is responsible for the effective conduct of meetings of directors and general meetings of shareholders. The Chairman is also responsible for settling the agenda for Board meetings with the Company Secretary and General Manager. Any director of the Board may request an item of business to be included on the agenda.

While the General Manager is responsible to the Board as a whole, he also liaises with the Chairman and other Board Members regularly.

The Chairman is the person authorised by the Board to make verbal statements on the Company's behalf.

### 2.4 The Board should establish a nomination committee

No formal procedure governing the appointment of new Directors has been established. The Board considers that it is in the best interests of the Company to determine the criteria for the selection of new directors based on any perceived "gaps" in the skill set of the Board as and when a casual vacancy arises.

Retirement and rotation of directors is governed by the Corporations Act and the constitution of the Company. Each year, one-third of the directors must retire and offer themselves for re-election. Any casual vacancy filled between general meetings will be subject to a shareholder vote at the next Annual General Meeting of the Company.

Re-appointment of directors is not automatic. Shareholders are provided with relevant information on each of the candidates for election or, where applicable, re-election.

### 2.5 Board performance

Due to the size and composition of the Board, the Company does not have a formal process for the performance evaluation of the Board, its committees or individual directors.

Accordingly, no formal performance evaluation for the Board or its members took place in the reporting period.

Directors are encouraged to attend director training and professional development courses, as required, at the Company's expense. New directors will have access to all employees to gain full background on the Company's operations.

All directors have access to company records and information and receive regular detailed financial and operational reports from management. The Chairman and the other non-executive directors regularly consult with the General Manager and the Company Secretary and may consult with and request additional information from any employee.

The Board collectively, and each director individually, has the right to seek independent professional advice at the expense of the Company to assist with the discharge of their duties. While the Chairman's prior approval is required, it may not be unreasonably withheld.



## CORPORATE GOVERNANCE

### *Company Secretary*

The Board is responsible for the appointment of the Company Secretary. The Company Secretary attends all Board meetings and is responsible for providing directors with ongoing guidance and advice on commercial and corporate governance matters. The Company Secretary is also responsible for the preparation of the semi annual and annual accounts.

## 3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

### 3.1 Code of conduct

Due to its size, activities, and the number of employees, the Company has not adopted a formal code of conduct, but is committed to achieving the following objectives:

- (a) ensuring that all of its business affairs are conducted legally, ethically and with integrity;
- (b) ensuring that the Company itself and its joint venturers who act as operators of projects in which the Company has an interest adopt high standards of occupational health and safety, environmental management and ethics;
- (c) managing its legal obligations and the reasonable expectations of stakeholders effectively through the development and implementation of a risk management framework which incorporates these key areas; and
- (d) fostering and maintaining a culture of ownership, care, professional excellence, confidentiality, integrity and freedom from any conflict or perceived conflict of interest in each of the Company's employees and consultants.

### *Director Conflict of Interest*

All directors are required to disclose any actual or potential conflict of interest upon appointment and are required to keep these disclosures to the Board up-to-date.

### 3.2 Trading in company securities

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.

## 4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### 4.1 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 all 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 will be submitted for ratification by shareholders at the next annual general meeting of the Company.

Corporate governance recommendations 4.2 and 4.3 do not apply as there is no audit committee.

## 5. MAKE TIMELY AND BALANCED DISCLOSURE

### 5.1 Compliance with ASX disclosure requirements

Detailed compliance procedures, to ensure timely and balanced disclosure of information in line with the Principles 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.

The Company Secretary is responsible for non-material and standard form disclosures to the market. In addition he is responsible for communications with the ASX.

### *Commentary on Financial Results*

The Company provides commentary in conjunction with its half yearly and yearly results in a clear and objective manner to ensure that shareholders and potential shareholders have access to the information needed to make an informed assessment of the Company's activities and results.

## CORPORATE GOVERNANCE

### 6. RESPECT THE RIGHTS OF SHAREHOLDERS

#### 6.1 Communication with and participation of Shareholders

The Board aims to ensure that shareholders are fully informed by communicating to shareholders through:

- (a) continuous disclosure reporting to the ASX;
- (b) the quarterly, half yearly and annual reports; and
- (c) media releases copies of which are lodged with ASX and placed on the Company's website, [www.redhilliron.com.au](http://www.redhilliron.com.au).

Shareholders are given the option to receive information such as the Annual Report and Notices of Meeting /Explanatory Memoranda in print or electronic form.

Red Hill Iron Limited maintains a website at [www.redhilliron.com.au](http://www.redhilliron.com.au) and complies with the continuous disclosure requirements of the ASX Listing Rules. 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.

### 7. RECOGNISE AND MANAGE RISK

#### 7.1 Oversight and management of material business risks

The Company has a management policy in place for the identification and effective management of risk. The policy caters for the management of risk by the Board and management being principally the risks involved in iron ore, basemetal and gold exploration and potential development.

#### 7.2 Design and implementation of systems to manage material business risks

Management has established a register of business risks and identified the material business risks affecting the Company. To the extent possible in a Company with a very small staff, internal controls are in place to mitigate against any material business risks. Risks of a strategic, financial and operational nature (such as ability to raise capital to fund exploration, commodity price and currency fluctuations, adequate levels of insurance, contract documentation, resourcing, and meeting financial reporting and compliance obligations) are reviewed on a regular basis by the Board as and when applicable.

Potential operational risks involved in running the Company are managed by the Board. Due to the size of the Company, the Board does not consider it practicable to establish a separate committee to focus on these issues.

The Company Secretary, who has overall responsibility for the implementation of the policy, reports to the Board on whether those risks are being managed effectively.

#### 7.3 Compliance with Corporations Act Section 295A

The Board has received a statement in relation to the 2010 full year results from the General Manager and the Company Secretary covering the matters set out in section 295A of the Corporations Act 2001 and in accordance with the terms stipulated in Recommendation 7.3.

### 8. REMUNERATE FAIRLY AND RESPONSIBLY

#### 8.1 Remuneration committee

The Board does not have a separate remuneration committee due to the size of the Board, the Company and the limited number of employees. The full Board carries out the functions of a remuneration committee.

The Board on an annual basis reviews executive remuneration and incentive policies, as well as superannuation arrangements. In addition, the Board reviews and approves the audited remuneration report set out in the Directors' Report. The Board where needed consults external consultants and specialists.

#### 8.2 Distinguishing remuneration structure

Remuneration for non-executive directors is fixed and non-executive directors do not participate in any incentive plans. Non-executive directors do not receive any retirement benefits, except that, as part of their fixed remuneration, they are paid superannuation. For information about non-executive director remuneration practice, please refer to the audited remuneration report set out in the Directors' Report.

*General Manager*

For information about the remuneration of the General Manager, please refer to the audited remuneration report set out in the Directors' Report.





## SHAREHOLDER INFORMATION

AS AT 24 SEPTEMBER 2010

### NUMBER AND DISTRIBUTION OF SHARES

Shares	No of Shares
Ordinary shares fully paid - Listed	<u>43,915,686</u>

Distribution of shares by holding	Shareholders
1 - 1,000	121
1,001 - 5,000	192
5,001 - 10,000	103
10,001 - 100,000	191
100,001 +	<u>39</u>
	<u>646</u>

### MARKETABLE PARCEL

There are 13 holders of less than a marketable parcel of ordinary shares.

### SUBSTANTIAL SHAREHOLDERS

The following shareholders are recorded as substantial shareholders of the Company:

Name	No of Shares	%
Aquila Resources Limited & associates	8,532,731	19.43
AMCI Investments Pty Ltd & FRC Australian Holdings BV	8,082,422	18.40
Wythenshawe Pty Ltd & Warramboe Holdings Pty Ltd	8,375,464	19.07

### VOTING RIGHTS

Subject to any rights or restrictions for the time being attached to any class or classes of shares (at present there are none), at a general meeting every shareholder or class of shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each fully paid share which that member holds or represents and, in respect of partly paid shares, voting rights pro-rata to the amount paid up or credited as paid up on each such share.

Any vendor securities which are or might be in breach of the Australian Securities Exchange Listing Rules or any escrow agreement entered into by the Company shall not be entitled to any votes for as long as the breach exists.

## SHAREHOLDER INFORMATION

AS AT 24 SEPTEMBER 2010

### TWENTY LARGEST SHAREHOLDERS

Shareholders	No of Shares	%
1 Aquila Steel Pty Ltd	5,882,353	13.39
2 UBS Wealth Management Australia Nominees	4,951,210	11.27
3 Wythenshawe Pty Ltd	4,479,634	10.20
4 Rubicon Nominees Pty Ltd	4,051,212	9.22
5 Warramboe Holdings Pty Ltd	3,525,830	8.03
6 Yandal Investments Pty Ltd	2,000,000	4.55
7 T D M Boddington	1,760,393	4.01
8 Aquila Resources Limited	1,143,613	2.60
9 G R Strong <Capricorn A/c>	630,000	1.43
10 G R Strong	630,000	1.43
11 J F G Phillips	626,016	1.43
12 Berne No 132 Nominees Pty Ltd <399949 A/c>	606,522	1.38
13 Rupert Clarke & Co Pty Ltd	600,000	1.37
14 BT X Pty Ltd	584,750	1.33
15 Australian Mineral Investors Pty Ltd	536,513	1.22
16 A & M A Poli <A Poli Superannuation Fund A/c>	500,000	1.14
17 Evergem Pty Ltd	439,617	1.00
18 Maxigold Holdings Pty Ltd <MGR Thomson Super A/c>	434,000	.99
19 AMK Investments (WA) Pty Ltd <AMK Account>	431,048	.98
20 National Nominees Limited	394,922	.90
	34,207,633	77.89



## MINERAL TENEMENT INFORMATION

PROJECT	TENEMENT	TITLE HOLDER	JOINT VENTURER
<b>Red Hill</b>	E08/1227-I	RHI 40% API 60%	API earning 80%
	E08/1283-I	RHI 40% API 60%	API earning 80%
	E08/1289-I	RHI 40% API 60%	API earning 80%
	E08/1293-I	RHI 40% API 60%	API earning 80%
	E08/1294-I	RHI 40% API 60%	API earning 80%
	E08/1295-I	RHI 40% API 60%	API earning 80%
	E08/1430-I	RHI 40% API 60%	API earning 80%
	E08/1473-I	RHI 40% API 60%	API earning 80%
	E08/1514-I	RHI 40% API 60%	API earning 80%
	E08/1516-I	RHI 40% API 60%	API earning 80%
	E08/1537-I	RHI 40% API 60%	API earning 80%
	E47/1141-I	RHI 40% API 60%	API earning 80%
	E47/1693-I	RHI 40% API 60%	API earning 80%
	P47/1271	RHI 40% API 60%	API earning 80%

### NOTES

RHI – Red Hill Iron Limited

API – API Management Pty Ltd

<b>Pannawonica</b>	E08/1685-I	Zanthus Pty Ltd	
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### NOTE

RHI owns 100% of CID rights to a specified number of graticular blocks

[www.redhilliron.com.au](http://www.redhilliron.com.au)

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