

17 October 2011

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

Dear Sir/Madam

Annual Report

Attached is the Red Hill Iron Limited 2011 Annual Report.

Yours faithfully

P.C.Ruttledge
Company Secretary



RED HILL IRON Limited

ABN 44 114 553 392

2011
ANNUAL REPORT



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DIRECTORS AND MANAGEMENT

Executive Chairman

Neil Tomkinson

Non-executive Directors

Joshua Pitt

Gary Strong

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

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Applecross WA 6153

Tel: (08) 9315 2333

Fax: (08) 9315 2233

Email: registrar@securitytransfer.com.au

REGISTERED OFFICE

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West Perth WA 6005

Tel: (08) 9481 8627

Fax: (08) 9481 8445

Email: redhillinfo@redhilliron.com.au

www.redhilliron.com.au

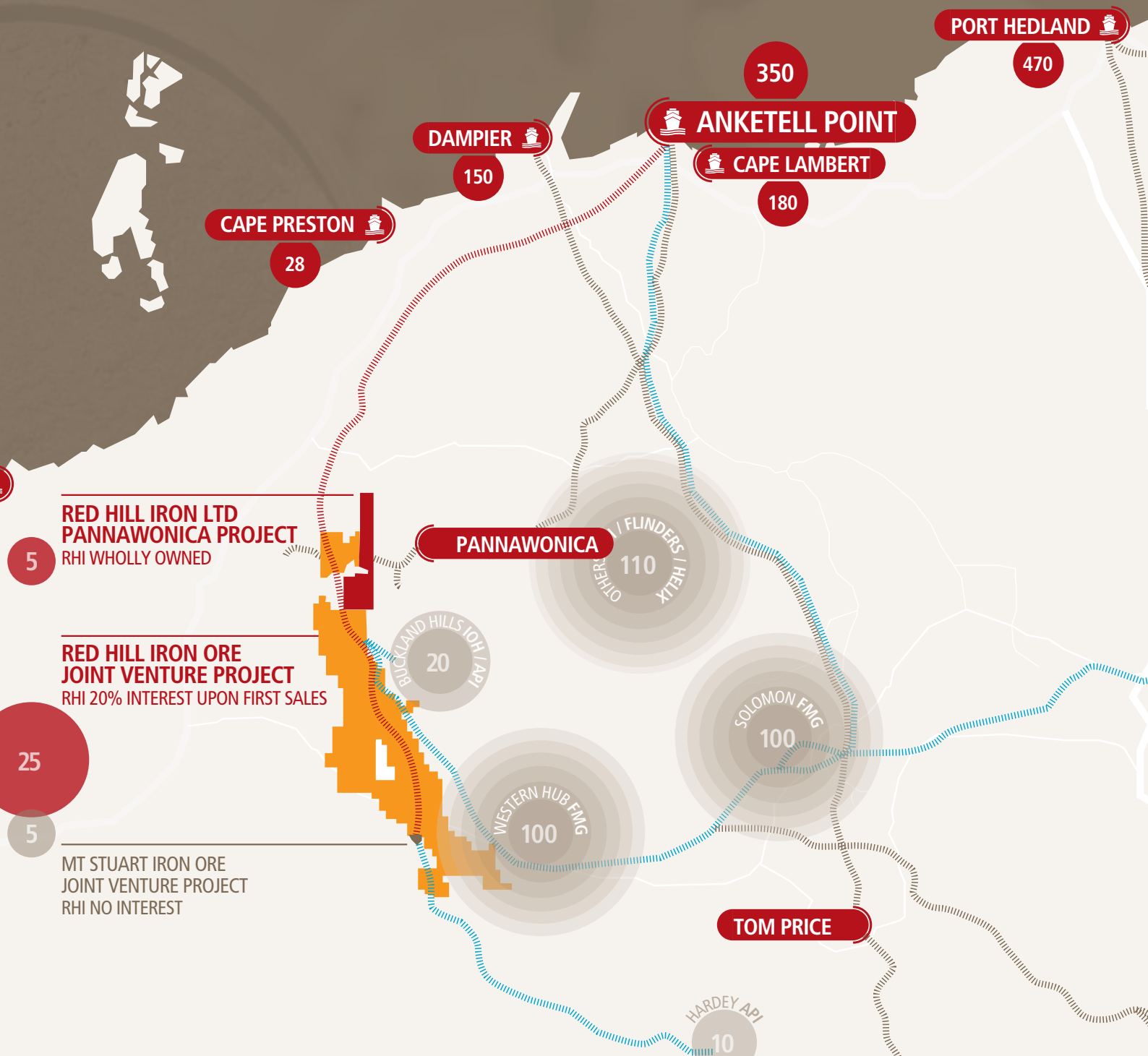
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ONSLOW 

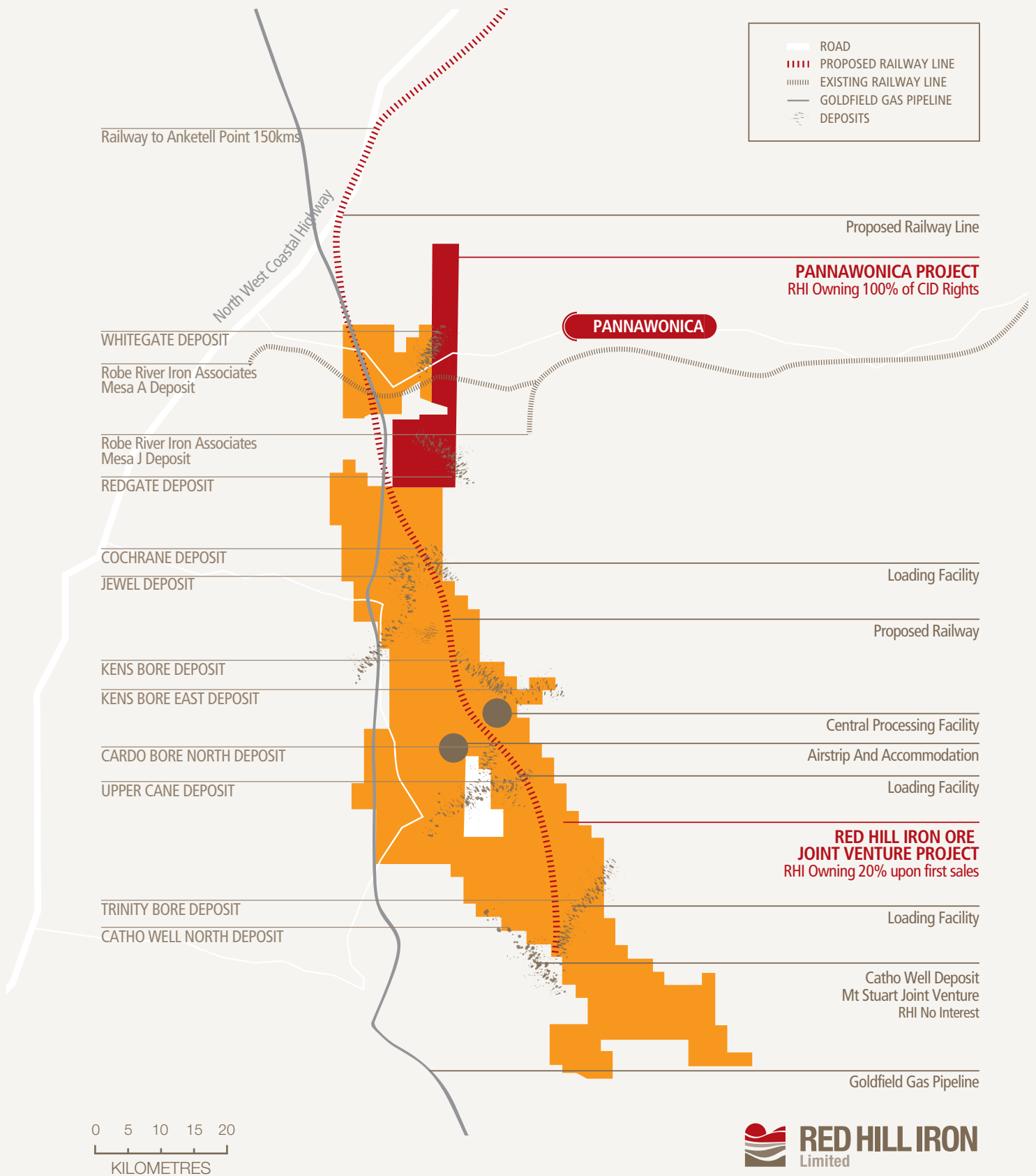


Red Hill Iron Limited (RHI) was formed in 2005 with the purpose of acquiring and evaluating its extensive tenement holdings that cover much of the western margin of the Hamersley Province of the West Pilbara region of Western Australia.

- PROPOSED RAILWAY LINE
- WEST PILBARA RAIL CORRIDORS
- EXISTING RAILWAY LINE
- SHIPPING PORT
- ANTICIPATED ANNUAL PRODUCTION (MILLION TONNES)
- ANTICIPATED ANNUAL SHIPPING TONNAGE (MILLION TONNES)



WEST PILBARA IRON ORE PROJECTS



OPERATIONS REVIEW

In the year under review significant progress was made towards development of an iron ore mining and export operation in the West Pilbara by the Red Hill Iron Ore Joint Venture (RHIOJV) which is managed by API Management Pty Ltd (API)*. The joint venture will provide the major ore source for Stage One of the West Pilbara Iron Ore Project (WPIOP) and Red Hill Iron's participating interest is the Company's primary asset.

Despite two disputes between the joint venturers which are explained later in this Review, the RHIOJV should progress rapidly as evidenced by the proposed 2011-2012 mine site annual budget of \$150 million. Delivery of first product is anticipated in 2014-2015 through a new port to be constructed at Anketell Point, near Cape Lambert.

The successful implementation of this project would provide the impetus for a major expansion of iron ore mining in the West Pilbara commencing with a 30 million tonne per year Channel Iron Deposit (CID) mining operation combined with a rail connection from the project tenements to Anketell Point. The project appears robust and now awaits a mandate from the Western Australian State Government on the construction of the new port. The Government is currently reviewing its options for port development with a decision due possibly before the end of 2011.

Continued exploration during the year resulted in the definition of proved and probable CID reserves. API has announced reserves of 445 million tonnes @ 57.1% iron for Stage One of the WPIOP (Proved 165.7 Mt, Probable 279.4 Mt.) from the previously announced Mineral Resource of 687 million tonnes @ 56.6% iron. These reserves include 70 million tonnes @ 54.8% iron attributable to the Mt Stuart JV in which RHI has no participating interest. The balance of 375 million tonnes of reserves comprises RHIOJV's 289 Mt @ 57.3% iron (Proved 106 Mt, Probable 183 Mt) and the Kens Bore East reserves which Red Hill Iron contends form part of the RHIOJV. The plan for Stage One is to process and comingle the ores to produce a single CID product using a Central Processing Facility located on the RHIOJV tenements (refer to chart at the back of this report).

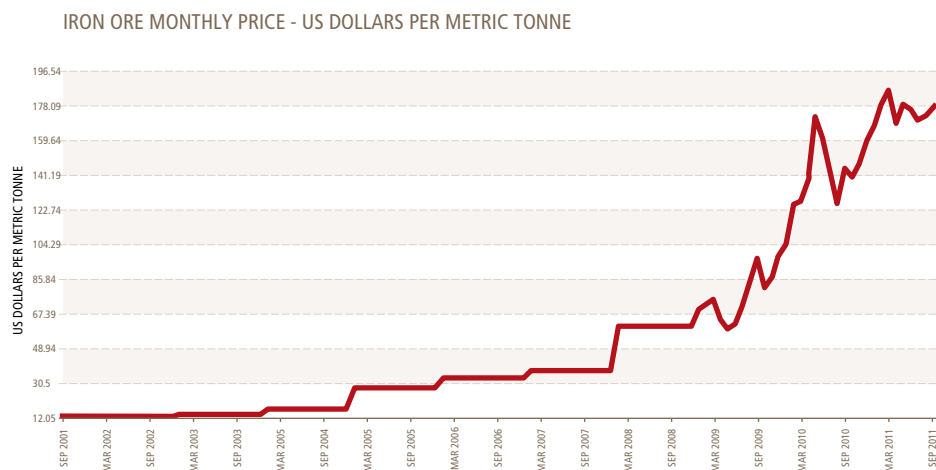
Red Hill Iron's interest in the RHIOJV which is currently 40% will reduce to 20% when the first delivery of ore to customers is achieved. Importantly, Red Hill Iron is free to market its share of production, which will be in the region of 5 million tonnes per annum, for up to 15 years.

The Company has no requirement to contribute to the cost of exploration or development until the project is in commercial production. Under the terms of the RHIOJV Agreement API is responsible for sole funding all such expenditure. Once product from the RHIOJV area is first delivered to customers Red Hill Iron has 30 days in which to elect either to participate in the joint venture and contribute to costs or convert its interest to a 2% FOB Royalty. If Red Hill Iron elects to continue to participate in the joint venture all sole funding expended by API, including interest at Libor plus 2.5%, will become a debt owed by Red Hill Iron. Repayment is to be made out of 80% only of the Company's share of free cash flow from the project after payment of operating costs, scheduled financing payments and other related costs. The balance of free cash will be receivable by the Company.

At any time until first delivery of ore to customers the Company has a Royalty Option whereby it can exchange its joint venture interest for a 2% FOB Royalty on all ore produced from the RHIOJV tenements. If Red Hill Iron exercises this option all loans from API will be cancelled.

API is currently carrying out a Feasibility Study which is slated to be completed in Quarter 4, 2011. This study, which Red Hill Iron voted against at the joint venture Management Committee Meeting at which it was approved, does not, in Red Hill Iron's view, comply with the provisions of the RHIOJV documentation because it does not include in its scope a study of the actual cost of providing the rail and port facilities necessary to facilitate export of the RHIOJV product. Inclusion of these costings is necessary, Red Hill Iron argues, because it believes that the proposed development of port and rail facilities falls under the ambit of the RHIOJV Agreement. This contention is the subject of a dispute between the parties which is currently unresolved. Red Hill Iron has commenced proceedings in the Supreme Court of Western Australia and the matter is likely to come before the Court before year's end.

As mentioned above, the Kens Bore East reserves constitute a point of further disagreement. Red Hill Iron's view that these reserves are an asset of the RHIOJV is not accepted by API and the matter remains unresolved despite lengthy negotiations. Failure to reach a resolution will lead to the courts being asked to rule on the rights of the parties to the ownership of these valuable reserves.



Source: International Monetary Fund 2011

THE PANNAWONICA CID PROJECT

Red Hill Iron continued exploration on its wholly owned Pannawonica Project which is contiguous to the RHIOJV area and approximately 15 kilometres from the mining operations of the Robe River Associates.

The project has inferred CID resources of 70 million tonnes grading 54.1% iron and 4.8% alumina using a 52% iron cut off.

A three hole diamond drill program was completed early in the year which provided core for comprehensive metallurgical testing. Although the resources are somewhat inferior to current CID market specifications Red Hill Iron is confident that a commercially viable product can be developed. The Company will now seek Mining Leases to secure tenure and has an ultimate goal of marketing some 5 million tonnes per year of product from the project.

SUMMARY

The new port at Anketell Point when fully expanded is anticipated to provide some 350 million annual tonnes of shipping capacity adding some 30% to the iron ore export capacity of the entire Pilbara. As currently proposed the rail route will extend down the western flank of the Hamersley Province and has the potential to provide a transport option for many presently stranded deposits, in addition to the WPIOP Stage One ores. This development will provide significant business opportunities for the owners of the rail and port facilities.

Your Company has a significant inventory of channel iron in the West Pilbara comprising 75 million tonnes of proved and probable reserves (assuming the inclusion of the Kens Bore East reserves) through its participation in the RHIOJV and 70 million tonnes of inferred resources at Pannawonica. Red Hill Iron will market its RHIOJV product share from project commencement date and hopes to be marketing significant additional tonnes from Pannawonica somewhat later.

Red Hill Iron is intent on ensuring it retains the full benefits that its participation in the RHIOJV provides.

**API Management Pty Ltd is a participant in the RHIOJV and is its Manager. API is also the Manager of the Australian Premium Iron Joint Venture the proponent of the WPIOP. The issued share capital of API is owned as to 50% by Aquila Steel Pty Ltd, a wholly owned subsidiary of ASX listed Aquila Resources Limited, and as to 50% by AMCI (IO) Pty Ltd which is owned 51% by AMCI Incorporated and 49% by Posco of Korea, the world's fourth largest steelmaker.*

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.

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, Western Australia.

The directors of the Company present their report on the Company for the year ended 30 June 2011.

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 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

Red Hill Iron Limited (RHI) owns 40% of the Red Hill Iron Ore Joint Venture (RHIOJV) assets the extent and nature of which are presently the subject of dispute between the project participants. Two Dispute Notices have been issued by RHI relating to the RHIOJV. The first involves the Kens Bore East Ore Reserves which RHI contends are an asset of the RHIOJV. The second involves the rail and port facilities (planned for Anketell Point) a requirement for project product transshipment to market. Neither dispute had been resolved at the time of this report.

Continued exploration during the year resulted in the definition of proven and probable reserves for the RHIOJV of 375 million tonnes (inclusive of the Kens Bore East reserves under dispute). A feasibility study has recently been approved which envisages the RHIOJV providing the majority of resources for a 30 million tonne per year operation as Stage One of the West Pilbara Iron Ore Project. RHI voted against the approval of this study because in its view the scope of the study does not comply with the requirements of any feasibility study to be carried out in accordance with the RHIOJV documentation.

The funding for RHI's share of project development costs will be provided by way of loan finance provided or arranged by API. The loan arrangements provide that RHI's interest in the RHIOJV will reduce to 20% upon the first delivery of product to customers with loans repayable only out of 80% of any future RHI project revenue surpluses. RHI 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 RHIOJV production which would have the effect of cancelling all loans.

The Company continued exploration of its wholly owned Pannawonica Project completing a three hole diamond drill program and comprehensive metallurgical testing of the core. A 70 million tonne inferred CID resource grading 54.1% iron and 4.8% alumina has been established. The project is contiguous with the RHIOJV area and approximately 15 kilometres from the Pannawonica operations of Robe River and Associates.

The operating loss after tax for the year was \$1,230,636 (2010: \$1,154,262). At year end RHI had \$3.06 million net cash.

DIRECTORS' REPORT (continued)

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

Subsequent to the end of the financial year the Company commenced proceedings in the Supreme Court of Western Australia against API Management Pty Ltd, the manager of and participant in the RHIOJV, in respect of the dispute over rail and port infrastructure.

There are no other 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 mineral tenements 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 period 1 July 2010 to 30 June 2011 the directors have assessed that there are no current reporting requirements, but there may be a requirement to report in the future.

INFORMATION RELATING TO DIRECTORS

Executive Chairman

Neil Tomkinson LLB Hons

Mr Tomkinson, who has been Chairman of the Company since April 2008 was appointed Executive Chairman on 31 August 2011. 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.

Non-executive Directors

Joshua Pitt BSc, MAusIMM, MAIG

Mr Pitt is a geologist with extensive exploration experience who has for more than thirty years been a director of exploration and mining companies in Australia. He is a non-executive director of Hampton Hill Mining NL (appointed January 1997), Traka Resources Limited (appointed July 2003), Red Metal Limited (appointed July 2003) and Pan Pacific Petroleum (appointed December 2008). Mr Pitt is involved in substantial resource investment.

Garry Strong

Mr Strong is a prospector with over forty years experience in gold and base metal reconnaissance exploration in Australia. He has spent the last 18 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.

DIRECTORS' REPORT (continued)

INFORMATION RELATING TO COMPANY SECRETARY

Peter Rutledge BSc, CA, FFin

Mr Rutledge 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' 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	3,565,597	-
J N Pitt	4,825,321	-
G R Strong	1,493,946	-

The relevant interests of Mr Tomkinson and Mr Pitt in the shares of the Company is the sum of their holdings of 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	5	5
J N Pitt	5	5
G R Strong	5	5

The Company does not have any committees.

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.

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (continued)

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.

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

Non-executive directors

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

The Company operates with a small staff and a non-executive director can be called upon to undertake work for the Company in addition to his/her services as a director. Where this occurs the director may be remunerated 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 Executive Chairman, Mr Neil Tomkinson, is the basic fee paid to each of the non-executive directors. It is comprised of a base salary with superannuation. The non-executive directors review terms of the Executive chairman's remuneration on an annual basis.

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.

Company Performance

It is not possible at this time to evaluate the Company's financial performance using generally accepted measures such as profitability and total shareholder return as the Company is an exploration company with no significant revenue stream. This assessment will be developed as and when the Company moves from explorer to producer.

The table below shows the gross revenue, losses and loss per share for the last five years for the Company:

		2011	2010	2009	2008	2007
Revenue and other income	(\$000)	246	236	493	625	316
Net Loss	(\$000)	1,231	1,154	1,370	1,393	1,911
Loss per share	(cents)	2.8	2.7	3.3	3.5	5.4
Share price at year end	(\$)	2.18	2.80	2.85	6.65	2.75

No dividends have been declared during these periods.

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (continued)

(b) Details of remuneration

The key management personnel of the Company are the directors.

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

	Salary & fees for services	Post-employment Benefits Super-annuation	Share based payments Options	Total	Value of options as proportion of remuneration	Performance Related
2011	\$	\$	\$	\$	%	%
Directors – executive						
N Tomkinson (Chairman)	25,000	2,250	-	27,250	-	-
Directors – non-executive						
J N Pitt	25,000	2,250	-	27,250	-	-
G R Strong	15,678	27,250	-	42,928	-	-
	<u>65,678</u>	<u>31,750</u>	<u>-</u>	<u>97,428</u>		
Other key management personnel						
T D M Boddington (General Manager)	102,434	27,469	-	129,903	-	-
Total key management personnel	<u>168,112</u>	<u>59,219</u>	<u>-</u>	<u>227,331</u>	-	-
Other company executives						
P C Ruttledge (Company Secretary)	46,400	-	-	46,400	-	-
D H Stewart (Project Manager)	112,125	10,091	-	122,216	-	-
Total other company executives	<u>158,525</u>	<u>10,091</u>	<u>-</u>	<u>168,616</u>		

Mr TDM Boddington resigned on 31 December 2010.

The remuneration of the project manager and the former general manager have been determined by the board and comprise in each case a base salary with superannuation. The board reviews the terms of the remuneration of these executives annually. The nature and amount of remuneration paid to these executives has been determined by reference to the services provided, experience, length of service and prevailing market rates.

	Salary & fees for services	Post-employment Benefits Super-annuation	Share based payments Options	Total	Value of options as proportion of remuneration	Performance Related
2010	\$	\$	\$	\$	%	%
Directors – non-executive						
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>-</u>	<u>107,220</u>		
Other key management personnel						
T D M Boddington (General Manager)	150,000	50,000	-	200,000	-	-
Total key management personnel	<u>227,720</u>	<u>79,500</u>	<u>-</u>	<u>307,220</u>		
Other company executives						
P C Ruttledge (Company Secretary)	44,500	-	-	44,500	-	-
D H Stewart (Project Manager)	26,622	2,396	-	29,018	-	-
Total other company executives	<u>71,122</u>	<u>2,396</u>	<u>-</u>	<u>73,518</u>		

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (continued)

(c) Service agreements

Non-executive directors

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

Executives

The terms and conditions of employment of the former general manager, Mr Boddington, were 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 2011 was \$200,000 (2010: \$200,000). There were no termination arrangements in respect of Mr Boddington's employment.

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 between \$5,000 and \$10,000 per month, depending of his hours of service with provision for an additional hourly rate to be paid if Mr Stewart's services exceed the retainer level. Mr Stewart received \$122,216 (2010: \$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.

There is no separate service agreement for the Chairman on his appointment as Executive Chairman.

The fees payable by the Company to Sable Management Pty Ltd for Mr Ruttledge's services for the financial year exclusive of GST were \$46,400 (2010: \$44,500). There is no formal agreement in place. Mr Ruttledge has held this position since the Company's formation on 1 June 2005.

d) Share based compensation

Currently the board does not anticipate that any employees will be granted options to acquire ordinary shares in the Company.

No options have been issued to directors or other specified executives during the year ended 30 June 2011.

(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.

The audited remuneration report ends here.

SHARE OPTIONS

The Company had no share options on issue during the year ended 30 June 2011.

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.

DIRECTORS' REPORT (continued)

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to any court pursuant to section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for a purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not party to any such proceedings during the year.

AUDIT COMMITTEE

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

AUDITOR'S INDEPENDENCE DECLARATION

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

NON-AUDIT SERVICES

BDO Audit (WA) Pty Ltd, the company's auditor, did not perform any non-audit services for the Company for the year ended 30 June 2011.

Signed in Perth in accordance with a resolution of directors on 16 September 2011.



Mr N Tomkinson
Chairman



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

16 September 2011

Red Hill Iron Limited
The Board of Directors
Level 2, 9 Havelock Street
West Perth, WA, 6005

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF
RED HILL IRON LIMITED**

As lead auditor of Red Hill Iron Limited for the year ended 30 June 2011, 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.

Chris Burton
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	2011 \$	2010 \$
Revenue from continuing operations	4	195,670	233,532
Other income		50,550	2,588
Exploration expenditure		(717,321)	(812,444)
Administration expenses	5	<u>(759,535)</u>	<u>(577,938)</u>
Loss before income tax		(1,230,636)	(1,154,262)
Income tax expense	6	<u>-</u>	<u>-</u>
Loss for the year		(1,230,636)	(1,154,262)
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive loss for the year attributable to the ordinary equity holders of the Company		<u>(1,230,636)</u>	<u>(1,154,262)</u>
Loss per share attributable to the ordinary equity holders of the Company			
Basic loss and diluted loss per share	22	(2.80) cents	(2.69) cents

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	NOTE	2011 \$	2010 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,062,833	4,390,939
Trade and other receivables	8	<u>140,746</u>	<u>146,736</u>
Total Current Assets		<u>3,203,579</u>	<u>4,537,675</u>
Non Current Assets			
Exploration assets	9	10,008,025	10,008,025
Plant and equipment	10	<u>23,912</u>	<u>64,275</u>
Total Non Current Assets		<u>10,031,937</u>	<u>10,072,300</u>
Total Assets		<u>13,235,516</u>	<u>14,609,975</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	11	<u>109,465</u>	<u>253,288</u>
Total Current Liabilities		<u>109,465</u>	<u>253,288</u>
Total Liabilities		<u>109,465</u>	<u>253,288</u>
Net Assets		<u>13,126,051</u>	<u>14,356,687</u>
EQUITY			
Issued Capital	12	20,776,519	20,776,519
Reserves	13	285,770	285,770
Accumulated losses		<u>(7,936,238)</u>	<u>(6,705,602)</u>
Total Equity		<u>13,126,051</u>	<u>14,356,687</u>

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

STATEMENT OF CHANGES OF EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Share Based Payments Reserve	Exercised Option Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$	\$
2011					
Balance at 1 July 2010	<u>20,776,519</u>	<u>-</u>	<u>285,770</u>	<u>(6,705,602)</u>	<u>14,356,687</u>
Net loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,230,636)</u>	<u>(1,230,636)</u>
Total comprehensive income recognised during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,230,636)</u>	<u>(1,230,636)</u>
Transactions with equity holders in their capacity as equity holders	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 30 June 2011	<u>20,776,519</u>	<u>-</u>	<u>285,770</u>	<u>(7,936,238)</u>	<u>13,126,051</u>
2010					
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>-</u>	<u>-</u>	<u>-</u>	<u>(1,154,262)</u>	<u>(1,154,262)</u>
Total comprehensive income recognised during the year	<u>-</u>	<u>-</u>	<u>-</u>	<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
Issue of shares on exercise of options	217,990	-	-	-	217,990
Transfer on exercise of options	<u>-</u>	<u>(77,200)</u>	<u>77,200</u>	<u>-</u>	<u>-</u>
Balance at 30 June 2010	<u>20,776,519</u>	<u>-</u>	<u>285,770</u>	<u>(6,705,602)</u>	<u>14,356,687</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 2011

	NOTE	2011 \$	2010 \$
Cash flows from operating activities			
Payments to suppliers and employees		(725,279)	(469,244)
Payments for exploration expenditure		(804,180)	(788,178)
Payments for security deposits		(16,702)	(52,000)
Interest received		194,051	243,213
		<u> </u>	<u> </u>
Net cash outflow from operating activities	21	<u>(1,352,110)</u>	<u>(1,066,209)</u>
Cash flows from investing activities			
Payments for exploration assets		-	(2,405,915)
Proceeds for plant and equipment		24,004	-
		<u> </u>	<u> </u>
Net cash outflow from investing activities		<u>24,004</u>	<u>(2,405,915)</u>
Cash flows from financing activities			
Proceeds from conversion of options		-	220,000
Payment for share issue costs		-	(17,048)
		<u> </u>	<u> </u>
Net cash inflow from financing activities		<u>-</u>	<u>202,952</u>
Net decrease in cash and cash equivalents		(1,328,106)	(3,269,172)
Cash and cash equivalents at the beginning of the year		<u>4,390,939</u>	<u>7,660,111</u>
Cash and cash equivalents at the end of the year	7	<u><u>3,062,833</u></u>	<u><u>4,390,939</u></u>
Non-cash investing activities	21	<u><u>-</u></u>	<u><u>7,500,000</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 2011

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 2011 (“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 Company assesses impairment at each reporting date by evaluating conditions specific to the Company 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.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the members of the board of Directors.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Impairment

At each reporting date the Company assesses for impairment expenditure on acquisition of each area of interest that is to be carried forward to ensure that the carrying amount of the exploration and evaluation expenditure does not exceed its recoverable amount. Any resulting provision for impairment is recognised as a charge to the profit or loss.

(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 2011

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.

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 2011

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

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

The joint 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 2011

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 and Title	Nature of change to accounting policy and impact on initial application	Application date
AASB 9 Financial Instruments	Replaces the requirements of AASB 139 for classification and measurement of financial assets. The requirements have generally been carried forward unchanged from AASB 139 into AASB 9. These include the requirements relating to: <ul style="list-style-type: none"> • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. The Company does not have any financial liabilities measured at fair value through profit or loss. So there will be no impact on amounts recognised in the financial statements on initial adoption.	1 January 2013
AASB 124 Related Party Disclosures	Additional disclosure requirements only so there will be no impact on amounts recognised in the financial statements on initial adoption.	1 January 2011
AASB 2010-4 Amendments to Australian Accounting Standards:	Not urgent but necessary changes to IFRSs as a result of IASB's 2009 annual improvements project.	1 January 2011
AASB 7 Financial Instruments: Disclosures	Deletes various disclosures. There will be no impact on amounts recognised in the financial statements on initial adoption.	
AASB 101 Presentation of Financial Statements	Deletes various disclosures. Detailed reconciliation of each item of other comprehensive income to be included in the statement of changes in equity or in the notes. There will be no impact as the Company has always included a detailed reconciliation in the Statement of changes in equity.	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards and interpretations - continued

Reference and Title	Nature of change to accounting policy and impact on initial application	Application date
AASB 2010-6 Amendments to Australian Accounting Standards	Additional disclosures required for entities that transfer financial assets. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.	1 January 2011
AASB 11 Joint Arrangements	Joint arrangements to be classified as either 'joint operations' or 'joint ventures'. Due to the recent release of this standard, the Company has yet to conduct a detailed analysis of the differences between the current treatment of joint arrangements and those required by AASB 11.	1 January 2013
AASB 12 Disclosure of Interest in Other Entities	Combines existing disclosures from IAS 27, IAS 28 and IAS 31. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.	1 January 2013
AASB 13 Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value on financial and non-financial items recognised at fair value in the financial statements. Due to the recent release of this standard, the Company has yet to assess the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013. Additional disclosures will be required about fair values.	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. When this standard is first adopted there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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.

Bank deposits at call, amounting to \$3,000,000 (2010: \$3,000,000), all mature within 45 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 5.32% (2010: 5.00%).

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 includes 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
	\$	\$	\$	\$	\$
2011					
Cash & cash equivalents	3,062,833				
Total increase/(decrease)		(30,628)	(30,628)	30,628	30,628
2010					
Cash & cash equivalents	4,390,939				
Total increase/(decrease)		(43,909)	(43,909)	43,909	43,909

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 2011

NOTE 2 – FINANCIAL RISK MANAGEMENT (continued)

Exposure to credit risk

Closing carrying amount of cash assets

	2011 \$	2010 \$
Trade and other receivables	140,746	146,736
Cash & cash equivalents	3,062,833	4,390,939

Fair value estimates

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 of equity capital and reserves less accumulated losses to date, 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, who are the chief operating decision makers, 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.

	2011 \$	2010 \$
Reportable segment assets	<u>10,008,025</u>	<u>10,008,025</u>
Reportable segment loss	<u>(717,321)</u>	<u>(812,444)</u>
Reconciliation of reportable segment loss:		
Reportable segment loss	(717,321)	(812,444)
Other profit	246,220	236,120
Unallocated corporate expenses	<u>(759,535)</u>	<u>(577,938)</u>
Loss before tax	<u>(1,230,636)</u>	<u>(1,154,262)</u>

NOTE 4 – REVENUE

	2011 \$	2010 \$
Revenue		
Interest income	<u>195,670</u>	<u>233,532</u>
	<u>195,670</u>	<u>233,532</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5 – ADMINISTRATION EXPENSES

	2011	2010
	\$	\$
Loss before income tax includes the following specific administration expenses:		
Personnel expenses		
Salaries and associated expenses	457,392	393,368
Superannuation	40,870	105,640
Increase /decrease in liability for annual leave	(614)	22,797
	<u>497,648</u>	<u>521,805</u>
Less: Capitalised to exploration	(168,079)	(305,002)
	<u>329,569</u>	<u>216,803</u>
Depreciation	15,158	19,135
Other expenses		
Accounting fees	46,666	49,620
Admin services	9,563	8,792
ASX fees	38,076	38,404
Audit	24,098	23,368
Communication costs	13,089	6,409
Operating lease expense	90,503	77,048
Legal expenses	152,861	62,782
Other	39,952	75,577
	<u>759,535</u>	<u>577,938</u>

NOTE 6 – INCOME TAX

(a) Income tax expense/(benefit)

The components of income tax expense/(benefit) comprise:

Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>

(b) Reconciliation of income tax expense/(benefit to prima facie tax payable on accounting profit/(loss))

Operating profit/(loss) before income tax	<u>(1,230,636)</u>	<u>(1,154,262)</u>
Prima facie tax payable/(benefit) at Australian rate of 30% (2010: 30%)	(369,191)	(346,276)
Adjusted for tax effect of the following amounts:		
Share issue costs put to equity	(2,864)	(10,704)
(Over)/Under provision of prior year	292	-
Tax benefits not brought to account	<u>371,763</u>	<u>356,983</u>
Income tax expense/(benefit)	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 6 – INCOME TAX (continued)

(c) Deferred tax assets and liabilities not brought to account	2011	2010
	\$	\$
The directors estimate that the potential deferred 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 tax losses	5,325,591	4,938,102
Deductible temporary differences	4,950	20,190
Taxable temporary differences	<u>(3,010,576)</u>	<u>(3,010,090)</u>
Unrecognised net deferred tax assets	<u>2,319,965</u>	<u>1,948,202</u>

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

NOTE 7 – CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash on hand	200	200
Cash at bank	62,633	101,760
Deposits at call	3,000,000	3,000,000
Bills receivable	<u>-</u>	<u>1,288,979</u>
	<u>3,062,833</u>	<u>4,390,939</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>3,062,833</u>	<u>4,390,939</u>
Balance per statement of cash flows	<u>3,062,833</u>	<u>4,390,939</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	100,702	84,000
Interest	27,228	25,609
Other	<u>12,816</u>	<u>37,127</u>
	<u>140,746</u>	<u>146,736</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 deposits at call that are expected to be repaid within 45 days.

Due to their short term nature, the carrying value of trade and other receivables is equal to their fair value.

Information about the company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in Note 2.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9 – NON-CURRENT ASSETS – EXPLORATION ASSETS

	2011 \$	2010 \$
Carrying amount at beginning of year	10,008,025	102,110
Acquisition of right to channel iron deposits	<u>-</u>	<u>9,905,915</u>
Carrying amount at end of year	<u>10,008,025</u>	<u>10,008,025</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.

NOTE 10 – NON-CURRENT ASSETS – PLANT AND EQUIPMENT

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	46,595	47,963
Accumulated depreciation	<u>(30,538)</u>	<u>(24,337)</u>
	<u>16,057</u>	<u>23,626</u>
Office furniture and equipment – at cost	21,217	29,211
Accumulated depreciation	<u>(13,363)</u>	<u>(19,093)</u>
	<u>7,854</u>	<u>10,118</u>
Motor vehicle – at cost	-	56,580
Accumulated depreciation	<u>-</u>	<u>(26,050)</u>
	<u>-</u>	<u>30,530</u>
Total plant and equipment	<u>23,912</u>	<u>64,275</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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

NOTE 10 – NON-CURRENT ASSETS – PLANT AND EQUIPMENT (continued).

	Leasehold improvements	Office furniture & equipment	Field equipment	Motor vehicle	Total
	\$	\$	\$	\$	\$
2011					
Carrying amount at 1 July 2010	1	10,118	23,626	30,530	64,275
Additions during the year	-	-	-	-	-
Disposals during the year	-	-	(619)	(24,586)	(25,205)
Depreciation expense	-	(2,264)	(6,950)	(5,944)	(15,158)
Carrying amount at 30 June 2011	1	7,854	16,057	-	23,912
2010					
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	-	(5,065)	(6,980)	(7,090)	(19,135)
Carrying amount at 30 June 2010	1	10,118	23,626	30,530	64,275
				2011	2010
				\$	\$
Trade creditors and accruals				101,860	190,811
Employee entitlements				7,605	62,477
				<u>109,465</u>	<u>253,288</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 (2010: 43,915,686) ordinary fully paid shares	<u>20,776,519</u>	<u>20,776,519</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").

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 12 – EQUITY – ISSUED CAPITAL (continued).

(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 \$
2011				
1 July 2010	Balance	<u>43,915,686</u>		<u>20,776,519</u>
30 June 2011	Balance	<u>43,915,686</u>		<u>20,776,519</u>
2010				
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	-		(15,038)
30 June 2010	Balance	<u>43,915,686</u>		<u>20,776,519</u>

(d) Options

At balance date the Company had no unlisted options (2010: Nil).

(e) Movements in options during the last 2 years

	Details	Number of Options	Exercise Price Per Share cents	Grant Date	Expiry Date
2011					
1 July 2010	Balance	<u>-</u>			
30 June 2011	Balance	<u>-</u>			
2010					
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>			

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 13 – EQUITY – RESERVES

	2011 \$	2010 \$
Future value option reserve	<u>285,770</u>	<u>285,770</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.

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

Short-term employee benefits	168,112	227,720
Post-employment benefits	59,219	79,500
Share-based payments	<u>-</u>	<u>-</u>
	<u>227,331</u>	<u>307,220</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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (continued).

(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:

2011	Balance 1 July 2010	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2011
Directors					
N Tomkinson	3,525,830	-	-	-	3,525,830
J N Pitt	4,499,634	-	-	245,246	4,744,880
G R Strong	1,493,946	-	-	-	1,493,946
	<u>9,519,410</u>	<u>-</u>	<u>-</u>	<u>245,246</u>	<u>9,764,656</u>
Other key management personnel					
Mr T D M Boddington	1,919,193	-	-	(1,919,193)	-
	<u>1,919,193</u>	<u>-</u>	<u>-</u>	<u>(1,919,193)</u>	<u>-</u>
2010					
	Balance 1 July 2009	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2010
Directors					
N Tomkinson	3,525,830	-	-	-	3,525,830
J N Pitt	4,400,264	-	-	99,370	4,499,634
G R Strong	1,493,946	-	-	-	1,493,946
	<u>9,420,040</u>	<u>-</u>	<u>-</u>	<u>99,370</u>	<u>9,519,410</u>
Other key management personnel					
Mr T D M Boddington	1,919,193	-	-	-	1,919,193
	<u>1,919,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,919,193</u>

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

Mr TDM Boddington resigned on 31 December 2010.

No shares are held nominally.

Mr Tomkinson's and Mr Pitt's relevant interest in the shares of the company at 30 June 2011 is their combined holdings of 8,270,710 shares.

Subsequent to 30 June 2011 and up to the date of signing the Directors' Report accompanying these financial statements, the directors have acquired 120,208 additional ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Option holdings

No options are held by key management personnel at 30 June 2011.

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

NOTE 15 – AUDITOR REMUNERATION

	2011	2010
	\$	\$
Amounts received, or due and receivable, by BDO Audit (WA) Pty Ltd		
Auditing or reviewing the accounts of Red Hill Iron Limited	24,098	23,368
Other Services	-	-
	<u>24,098</u>	<u>23,368</u>

NOTE 16 – CONTINGENCIES

Contingent Liabilities

There are no contingent liabilities for termination benefits under service agreements with directors or executives at 30 June 2011.

The directors are not aware of any other contingent liabilities at 30 June 2011.

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.

	2011	2010
	\$	\$
Minimum estimated expenditure requirements	<u>160,253</u>	<u>158,077</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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, \$143,668 (2010: \$101,392) 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 \$4,228 (2010: \$6,214) 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:

	2011	2010
	No. of shares	No. of shares
Ordinary shares – fully paid	<u>9,764,656</u>	<u>9,519,410</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 2011:

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 2011, including interest thereon, amounted to \$15,955,000.

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 2011

NOTE 20 – EVENTS OCCURRING AFTER BALANCE DATE

Subsequent to the end of the financial year the Company commenced proceedings in the Supreme Court of Western Australia against API Management Pty Ltd, the manager of and participant in the RHIOJV, in respect of the dispute over rail and port infrastructure.

There have been no other material items, transactions or events subsequent to 30 June 2011 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 2011 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

	2011 \$	2010 \$
Reconciliation of loss after income tax with cash flow from operating activities		
Loss after income tax	(1,230,636)	(1,154,262)
Depreciation	15,158	19,135
Loss on disposal of non current assets	(1,200)	-
Change in operating assets and liabilities:		
(Increase)/Decrease in debtors	(1,619)	9,681
(Decrease)/Increase in creditors	(130,592)	119,069
Decrease/(Increase) in GST receivable	13,481	(7,832)
(Increase)/Decrease in security deposit	<u>(16,702)</u>	<u>(52,000)</u>
Net cash outflow from operating activities	<u>(1,352,110)</u>	<u>(1,066,209)</u>
Non-cash investing activities	<u>-</u>	<u>7,500,000</u>

NOTE 22 – LOSS PER SHARE

	Cents	Cents
Basic and diluted loss per share	<u>(2.80)</u>	<u>(2.69)</u>
Reconciliation of loss	\$	\$
The loss used in calculating basic and diluted loss per share is equal to the loss attributable to ordinary equity holders of the Company in the Statement of Comprehensive Income	<u>(1,230,636)</u>	<u>(1,154,262)</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>43,915,868</u>	<u>42,898,653</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.

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 2011 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 in the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2011, 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:



Mr N Tomkinson

Chairman

Perth 16 September 2011



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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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



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 22nd day of September 2010

CORPORATE GOVERNANCE STATEMENT

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 all 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 all shareholders. They comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition (the 'Principles').

This statement outlines the Company's approach to corporate governance policy for the financial year ended 30 June 2011. Any documents referenced in this statement as being available on the Company's website can be found on 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 development of its iron ore resources held in the Red Hill Iron Ore Joint Venture and the continuing 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 project manager and other senior management;
- (d) evaluating the performance of the project 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) maintaining 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 members of the Board.

Senior executives

The board has recently appointed the Chairman as the chief executive officer of the Company.

The role of the Project Manager during the year under review has been to manage the Company's interest in the Red Hill Iron Ore project on a day to day basis pursuant to authority delegated by the Board and implementation of Board and corporate policy and planning in this project. The Project 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 project interests.

1.2 The process for evaluating the performance of senior executives

The Board is responsible for setting the Project 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 Executive Chairman's performance is evaluated by the rest of the board. The Executive Chairman has elected with the board's consent to receive no additional remuneration to that of the non-executive board members.

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

CORPORATE GOVERNANCE STATEMENT

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.

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, and recently the Chairman has been appointed Executive Chairman. 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 non-executive 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

Following the appointment of the Chairman as the Company's chief executive he can no longer be considered to be independent. Nevertheless 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 no longer complies with this Principle, in that the role of the chief executive officer is filled by the chairman.

Role of the Chairman

The Chairman is responsible for the day to day running of the Company, 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. Any director of the Board may request an item of business to be included on the agenda.

While the Project 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

Due to the size of the Company and the composition of the board, a nomination committee has not been established. 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 non-executive directors regularly consult with the Project Manager and the Company Secretary and may consult with and request additional information from any employee.

CORPORATE GOVERNANCE STATEMENT

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.

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 Diversity

During the year the Company considered its approach to diversity in the context of the new diversity requirements set out in the ASX Principles and Recommendations, which are required to be reported on with respect to the financial year commencing 1 July 2011 onwards.

The company believes in creating fair and equal access for employees to all employment opportunities and that a diverse workforce will provide the broadest and most effective talent pool. All appointments are, however, made on the basis of merit.

Due to its size, however, the Company does not currently have a formalised diversity policy in place. The Board believes non-compliance by the Company with this Principle will not be detrimental to the Company.

3.3 Securities trading policy

The Company's securities trading policy was announced to the ASX on 29 December 2010. The policy is published on the Company's website.

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.

CORPORATE GOVERNANCE STATEMENT

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.

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.

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 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 practical 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 2011 full year results from the Executive Chairman 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.

CORPORATE GOVERNANCE STATEMENT

8. REMUNERATE FAIRLY AND RESPONSIBLY

8.1 Remuneration committee

The Board does not have a separate remuneration committee due to the small size of the Board and 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, reference can be made to the audited remuneration report set out in the Directors' Report. The Chairman receives the same remuneration as the non-executive directors.

Project Manager

For information about the remuneration of the Project Manager, reference can be made to the audited remuneration report set out in the Directors' Report.

SHAREHOLDER INFORMATION

AS AT 26 SEPTEMBER 2011

NUMBER AND DISTRIBUTION OF SHARES

Shares	No. of shares
Ordinary shares fully paid	43,915,686

Distribution of shares by holding	No of shareholders
1 - 1,000	110
1,001 - 5,000	167
5,001 - 10,000	97
10,001 - 100,000	168
100,001 +	42
	584

MARKETABLE PARCEL

There are 22 holders of less than a marketable parcel of ordinary shares.

OPTIONS

There are no options on issue

SUBSTANTIAL SHAREHOLDERS

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

Name	No of Shares	%
Wythenshawe Pty Ltd and Warramboe Holdings Pty Ltd	8,823,242	20.09
Aquila Resources Limited and associates	8,752,229	19.93
Brisbane Investments I Ltd, Brisbane Investments II Ltd , and FRC Australian Holdings BV	8,102,422	18.45

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 26 SEPTEMBER 2011

TWENTY LARGEST SHAREHOLDERS

Shareholders	No of Shares	%
1 Penoir Pty Ltd	5,987,353	13.64
2 Wythenshawe Pty Ltd	4,960,958	11.30
3 Rubicon Nominees Pty Ltd	4,051,212	9.22
4 Warramboe Holdings Pty Ltd	3,565,597	8.12
5 Brisbane Investments I Ltd	2,025,605	4.61
6 Brisbane Investments II Ltd	2,025,605	4.61
7 Yandal Investments Pty Ltd	2,000,000	4.55
8 T D M Boddington	1,730,393	3.94
9 Aquila Resources Limited	1,143,613	2.60
10 Australian Mineral Investors Pty Ltd	1,036,513	2.36
11 UBS Wealth Management Australia Nominees	900,000	2.05
12 BT X Pty Ltd	584,750	1.33
13 AMK Investments (WA) Pty Ltd <AMK Account>	564,000	1.29
14 Rupert Clarke & Co Pty Ltd	550,000	1.25
15 G R Strong	530,000	1.21
16 Maxigold Holdings Pty Ltd <MGR Thomson Super A/c>	502,922	1.15
17 Berne No 132 Nominees Pty Ltd <399949 A/c>	500,000	1.14
18 Strong Investments Pty Ltd <Prospectors Super A/c>	435,000	0.99
19 J F G Phillips	429,280	0.98
20 Zero Nominees Pty Ltd	405,247	0.92
	<u>33,928,048</u>	<u>77.26</u>

MINERAL TENEMENT INFORMATION

PROJECT	TENEMENT	TITLE HOLDER	JOINT VENTURER
Red Hill	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%
	E08/1516-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

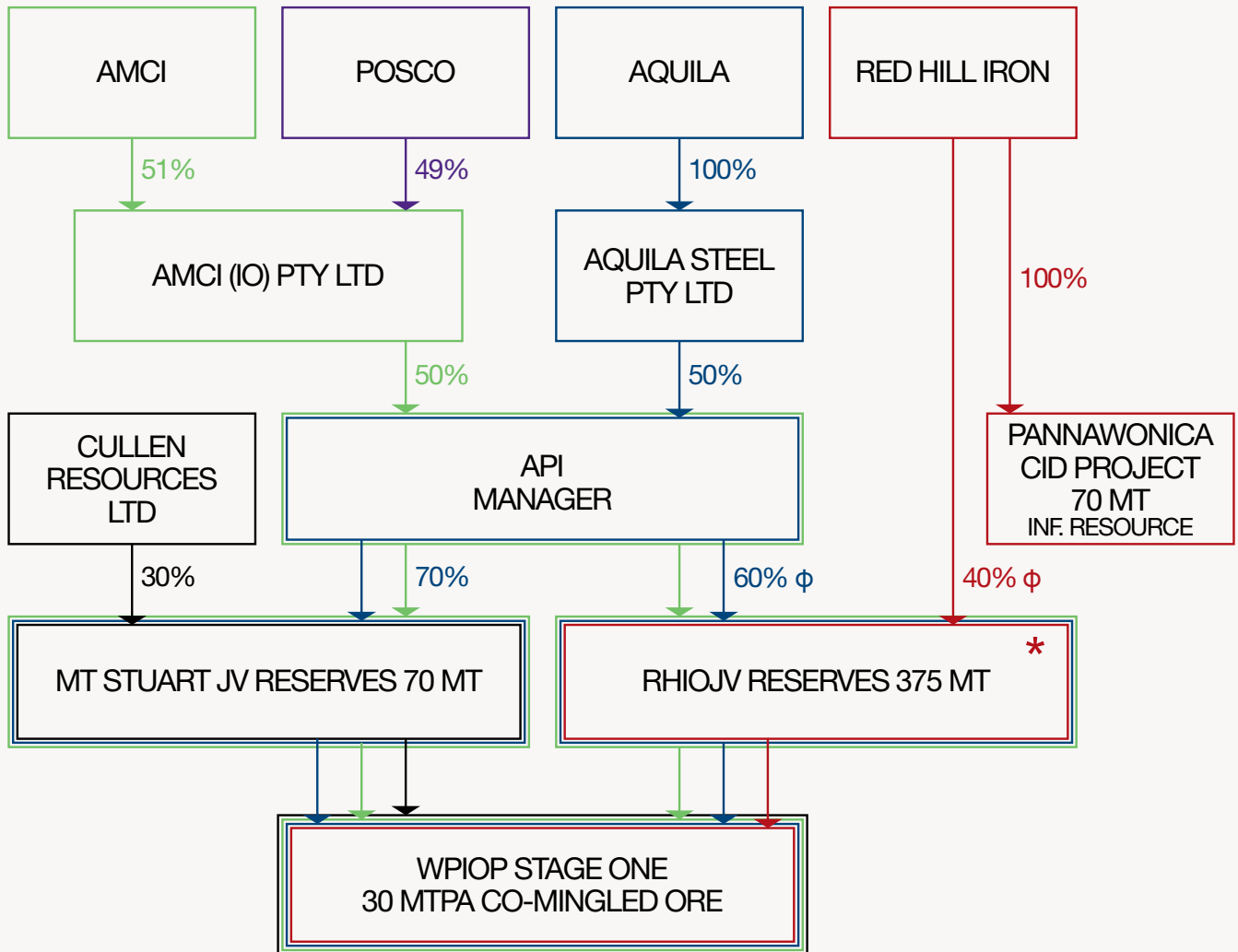
API – API Management Pty Ltd

Pannawonica	E08/1685-I	Zanthus Pty Ltd
	PLA 08/623	RHI100%

NOTE

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

WEST PILBARA IRON ORE PROJECT: STAGE 1



* Assumes Kens Bore East deposit is a RHIOJV asset.

φ The API interest will increase from 60% to 80% with the RHI interest reducing from 40% to 20% at first production delivery to customers.

RED HILL IRON SHAREHOLDING

PUBLIC	41.6%
PITT & ASSOCS	20.1%
AQUILA & ASSOCS	19.9%
FRC AUSTRALIAN	9.2%
BRISBANE INVESTMENTS I	4.6%
BRISBANE INVESTMENTS II	4.6%



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