

RED HILL IRON LIMITED

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2011

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RED HILL IRON LIMITED

DIRECTORS' REPORT

The directors of Red Hill Iron Limited (RHI or the Company) submit their report for the half year ended 31 December 2011.

DIRECTORS

The names of the Company's directors in office during the half year and until the date of this report are as set out below. Directors were in office for this entire period unless otherwise stated.

Mr Neil Tomkinson	(Executive Chairman)
Mr Joshua Pitt	(Non Executive Director)
Mr Garry Strong	(Non Executive Director)

REVIEW AND RESULTS OF OPERATIONS

The Company's operating loss for the half year ended 31 December 2011 was \$298,765 (2010: \$848,802).

Red Hill Iron Ore Joint Venture (RHIOJV)

During the period the Manager of the Red Hill Iron Ore Joint Venture (RHIOJV) API Management Pty Ltd (API), prepared and delivered a draft Feasibility Study to the participants for their information and input. This Study which was received in December is another step towards development of an iron ore mining and export operation for Stage One of the West Pilbara Iron Ore Project (WPIOP) for which the RHIOJV will provide the major ore source.

A full Feasibility Study is expected to be presented before the end of the financial year. This Study and any development decision will be closely linked to a decision by the WA State Government on the development of the proposed multi user port at Anketell Point in the Pilbara. This decision is expected during the March quarter.

API reported that Commonwealth environmental approval of the Stage 1 Mine and Rail proposal was issued late in 2011 on behalf of the Minister for Sustainability, Environment, Water, Population and Communities. State environmental approval of the Stage 1 Mine and Rail proposal was also issued prior to the end of the period.

The Anketell Port Section 43a Amendment of Proposal/Response to Submissions Report, to accommodate changes to the port layout, was published on 16 November, as requested by the Office of the Environmental Protection Authority (OEPA) and published as the Final PER under the Environment Protection and Biodiversity Conservation Act 1999 on 14 December 2011. The OEPA is undertaking a review of the Section 43a Amendment of Proposal/Response to Submissions Report, which is expected to be completed during the March quarter. Once satisfied that no further information is required, preparation of the EPA Report will commence.

The State Government's review of its overall ports policy announced after the end of the calendar year and a decision on Anketell point coupled with ongoing delays to port and rail tenure processes are impacting on Project schedules and the RHIOJV Feasibility Study.

Mining lease applications were lodged for the RHIOJV mining areas during the half year. A mine exploration camp contract was executed and the Part V Environmental Protection Act 1986 Works Approval for the camp was granted during the period.

The mining contractor selection process has commenced with the drafting of the mine contract tender and scope of work.

Corporate

Proceedings in the Supreme Court of Western Australia seeking a determination as to whether or not Red Hill Iron has rights to share in the ownership of the proposed rail and potential port facilities, which are an integral component of Stage One of the WPIOP, were commenced during the half year and are ongoing.

The Kens Bore East reserves dispute remained unresolved at half year despite lengthy negotiations.

Competent Person Statement

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Doug Stewart, who is a Fellow of The Australasian Institute of Mining and Metallurgy and is an employee of Red Hill Iron Limited. Mr Stewart has sufficient experience which is relevant to the style of mineralisation and types of deposits 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 the report of the matters based on his information in the form and context in which it appears, and has not withdrawn his consent.

RED HILL IRON LIMITED

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration under Section 307C of the Corporations Act 2001 is included in this Interim Financial Report.

Signed in accordance with a resolution of the directors.

A handwritten signature in blue ink that reads "Neil Tomkinson".

Neil Tomkinson
Chairman
Perth, 2 March 2012

RED HILL IRON LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Note	31 December 2011 \$	31 December 2010 \$
Revenue from continuing operations	3	80,880	104,648
Other income		-	50,550
Exploration expenditure		(27,883)	(683,046)
Other expenses	4	<u>(351,762)</u>	<u>(320,954)</u>
Loss before income tax		(298,765)	(848,802)
Income tax expense		<u>-</u>	<u>-</u>
Loss for the half year attributable to the ordinary equity holders of the Company		<u>(298,765)</u>	<u>(848,802)</u>
Other comprehensive income for the period		<u>-</u>	<u>-</u>
Total comprehensive loss attributable to the ordinary equity holders of the Company		<u>(298,765)</u>	<u>(848,802)</u>
Loss per share attributable to the ordinary equity holders of the Company			
Basic loss and diluted loss per share		(0.68) cents	(1.93) cents

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

RED HILL IRON LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	31 December 2011 \$	30 June 2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents		2,732,614	3,062,833
Trade and other receivables		<u>137,142</u>	<u>140,746</u>
Total Current Assets		<u>2,869,756</u>	<u>3,203,579</u>
Non Current Assets			
Exploration assets		10,008,025	10,008,025
Plant and equipment		<u>19,327</u>	<u>23,912</u>
Total Non Current Assets		<u>10,027,352</u>	<u>10,031,937</u>
Total Assets		<u>12,897,108</u>	<u>13,235,516</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		<u>69,822</u>	<u>109,465</u>
Total Current Liabilities		<u>69,822</u>	<u>109,465</u>
Total Liabilities		<u>69,822</u>	<u>109,465</u>
Net Assets		<u><u>12,827,286</u></u>	<u><u>13,126,051</u></u>
EQUITY			
Issued Capital	5	20,776,519	20,776,519
Reserves		285,770	285,770
Accumulated losses		<u>(8,235,003)</u>	<u>(7,936,238)</u>
Total Equity		<u><u>12,827,286</u></u>	<u><u>13,126,051</u></u>

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

RED HILL IRON LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Issued Capital \$	Exercised Option Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2011	20,776,519	285,770	(7,936,238)	13,126,051
Comprehensive loss				
Net loss for the period	-	-	(298,765)	(298,765)
Total comprehensive loss for the period	-	-	(298,765)	(298,765)
Transactions with equity holders in their capacity as equity holders:	-	-	-	-
Balance at 31 December 2011	<u>20,776,519</u>	<u>285,770</u>	<u>(8,235,003)</u>	<u>12,827,286</u>
Balance at 1 July 2010	20,776,519	285,770	(6,705,602)	14,356,687
Comprehensive loss				
Net loss for the period	-	-	(848,802)	(848,802)
Total comprehensive loss for the period	-	-	(848,802)	(848,802)
Transactions with equity holders in their capacity as equity holders:	-	-	-	-
Balance at 31 December 2010	<u>20,776,519</u>	<u>285,770</u>	<u>(7,554,404)</u>	<u>13,507,885</u>

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

RED HILL IRON LIMITED

STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	31 December 2011	31 December 2010
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(413,374)	(388,753)
Payments for exploration expenditure	(8,953)	(660,498)
Payments for security deposits	-	(16,703)
Interest received	91,609	46,902
Other income	-	50,550
	<u>-</u>	<u>50,550</u>
Net cash outflow from operating activities	<u>(330,718)</u>	<u>(968,502)</u>
Cash flows from investing activities		
Proceeds from sale of fixed assets	<u>500</u>	<u>-</u>
Net cash outflow from investing activities	<u>500</u>	<u>-</u>
Cash flows from financing activities		
Net cash inflow from financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(330,218)	(968,502)
Cash and cash equivalents at the beginning of the half year	<u>3,062,832</u>	<u>4,390,939</u>
Cash and cash equivalents at the end of the half year	<u><u>2,732,614</u></u>	<u><u>3,422,437</u></u>

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

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 1 - BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL STATEMENTS

The half year financial statements do not include all notes of the type normally included within the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial statements.

The half year financial statements should be read in conjunction with the annual financial statements of Red Hill Iron Limited as at 30 June 2011.

It is also recommended that the half year financial statements be considered together with any public announcements made by Red Hill Iron Limited during the half year ended 31 December 2011 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half year financial statements are general-purpose financial statements, prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half year financial statements have been prepared on the accruals basis and are based on historical cost.

For the purpose of preparing the half year financial statements, the half year has been treated as a discrete reporting period.

(b) Summary of Significant Accounting Policies

The accounting policies and methods of computation adopted in the preparation of the half year financial statements are consistent with those adopted and disclosed in the Company's annual financial statements for the year ended 30 June 2011 and the corresponding half year reporting period.

NOTE 2 - SEGMENT INFORMATION

The Board of Directors of Red Hill Iron Limited (who are collectively the chief operating decision makers) has determined that the Company has one reportable segment, being mineral exploration within Australia. The Board of Directors monitors the Company based on actual versus budgeted exploration expenditure. This internal reporting framework is the most relevant to assist the Board with making decisions regarding its ongoing exploration activities.

	31 December 2011	30 June 2011
	\$	\$
Reportable segment assets	<u>10,008,025</u>	<u>10,008,025</u>
	31 December 2011	31 December 2010
	\$	\$
Reportable segment loss	<u>(27,883)</u>	<u>(683,046)</u>
Reconciliation of reportable segment loss:		
Reportable segment loss	(27,883)	(683,046)
Other profit	80,880	155,198
Unallocated corporate expenses	<u>(351,762)</u>	<u>(320,954)</u>
Loss before tax	<u>(298,765)</u>	<u>(848,802)</u>

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 3 – REVENUE

	31 December 2011 \$	31 December 2010 \$
Revenue		
Interest income	<u>80,880</u>	<u>104,648</u>

NOTE 4 – EXPENSES

Loss before income tax includes the following specific administration expenses:

Personnel expenses		
Salaries superannuation and associated expenses	<u>73,549</u>	<u>291,185</u>
	73,549	291,185
Less: Expensed to exploration	<u>-</u>	<u>(163,676)</u>
	73,549	127,509
Depreciation	3,953	8,513
Other expenses		
Accounting fees	25,250	24,616
Admin services	4,560	5,003
ASX fees	3,681	3,781
Audit	4,926	4,437
Communication and computing costs	5,952	3,841
Consultants fees	11,875	50,817
Company secretarial	19,590	18,050
Legal fees	135,902	31,959
Operating lease expense	26,709	32,173
Other	<u>35,815</u>	<u>10,255</u>
	<u>351,762</u>	<u>320,954</u>

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 5 – EQUITY – SECURITIES ISSUED

Ordinary Shares Fully Paid

	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	No of Shares	No of Shares	\$	\$
At 1 July	43,915,686	43,915,686	20,776,519	20,776,519
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	43,915,686	43,915,686	20,776,519	20,776,519

NOTE 6 - COMMITMENTS FOR EXPENDITURE

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. Since the last reporting date, there has been no material change to these commitments.

NOTE 7 – RELATED PARTY TRANSACTIONS

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the financial report for the year end 30 June 2011.

NOTE 8 - EVENTS OCCURRING AFTER BALANCE DATE

To the best of the Directors knowledge and belief there have been no material items, transactions or events other than commented on in this report subsequent to 31 December 2011 which, although they do not relate to conditions existing at that date, have not been dealt with in these statements and which would cause reliance on the information shown in these statements to be misleading.

NOTE 9 – CONTINGENT LIABILITIES

Since the last annual reporting date there has been no material change of any contingent liabilities or contingent assets.

RED HILL IRON LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors:

- (a) the financial statements and notes set out in this financial report are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position as at 31 December 2011 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Neil Tomkinson
Chairman

Perth, 2 March 2012

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Red Hill Iron Limited, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Red Hill Iron Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Red Hill Iron Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of XYZ Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the disclosing entity's financial position as at 31 December 20X1 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'C Burton'.

Chris Burton
Director

Perth, Western Australia
Dated this 2nd day of March 2012

2 March 2012

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

Dear Sirs,

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

As lead auditor for the review of Red Hill Iron Limited for the half-year ended 31 December 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Red Hill Iron Limited and the entities it controlled during the period.



Chris Burton
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia