



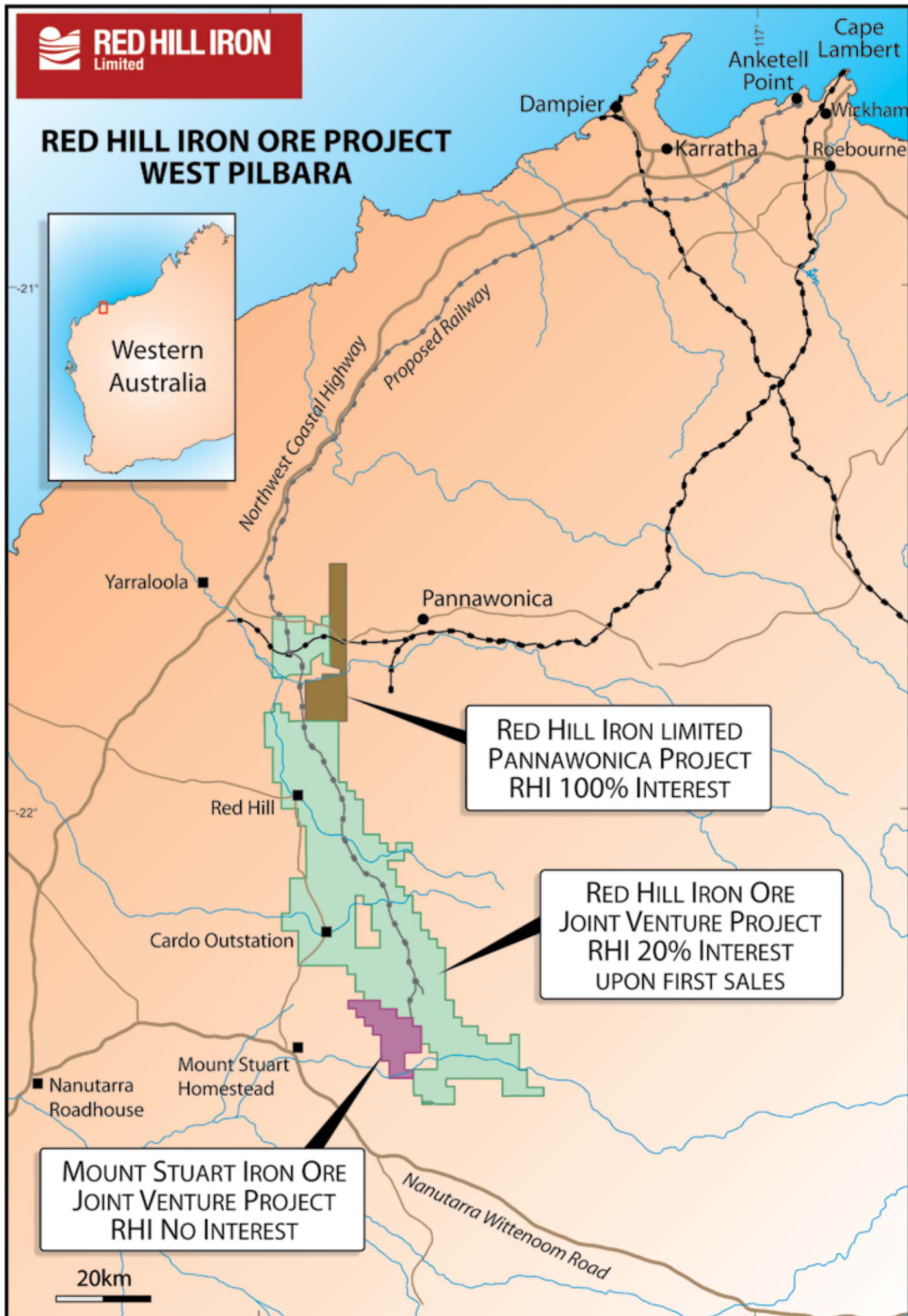
RED HILL IRON
Limited

ABN 44 114 553 392

2012
ANNUAL REPORT



RED HILL IRON ORE PROJECT WEST PILBARA



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CORPORATE DIRECTORY

DIRECTORS

Executive Chairman

Neil Tomkinson

Non Executive Directors

Joshua Pitt

Garry Strong

REGISTERED OFFICE

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West Perth WA 6005

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Fax: (08) 9481 8445

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Website: www.redhilliron.com.au

PROJECT MANAGER

Doug Stewart

COMPANY SECRETARY

Peter Ruttledge

SHARE REGISTRY

Security Transfer Registrars Pty Ltd

770 Canning Highway

Applecross WA 6153

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HOME EXCHANGE

Australian Securities Exchange

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Perth WA 6000

AUDITOR

BDO (WA) Pty Ltd

38 Station Street

Subiaco WA 6008

www.redhilliron.com.au

ASX Code: RHI

OPERATIONS REVIEW

RED HILL IRON ORE JOINT VENTURE PROJECT

Red Hill Iron Limited (RHI) currently owns a 40% participating interest in the Red Hill Iron Ore Joint Venture (RHIOJV) with the balance owned by API Management Pty Ltd (API), the joint venture manager. In the event that commercial sales of RHIOJV ore take place, this interest will reduce to 20% and API's interest will increase to 80%. API is owned equally by a wholly owned subsidiary of Aquila Resources Limited, and AMCI (IO) Pty Ltd, a company controlled by AMCI International AG.

The joint venture will provide the major source of ore for Stage One of the West Pilbara Iron Ore Project (WPIOP). Red Hill Iron's RHIOJV interest is the Company's primary asset.

API has to date announced Ore 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 Resources 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 the RHIOJV 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 Stage One Feasibility Study is based on the ores from the RHIOJV being comingled with Mt Stuart ores to produce a single Channel iron Deposit (CID) product using a Central Processing Facility located on the RHIOJV tenements. The Study is based on a 30 million tonne per annum CID mining operation combined with a rail connection from the project tenements to a proposed port at Anketell Point. A decision on the construction and operation of this port has still to be made by the Western Australian State Government. The parameters used in the Study may be varied before a final project plan is implemented.

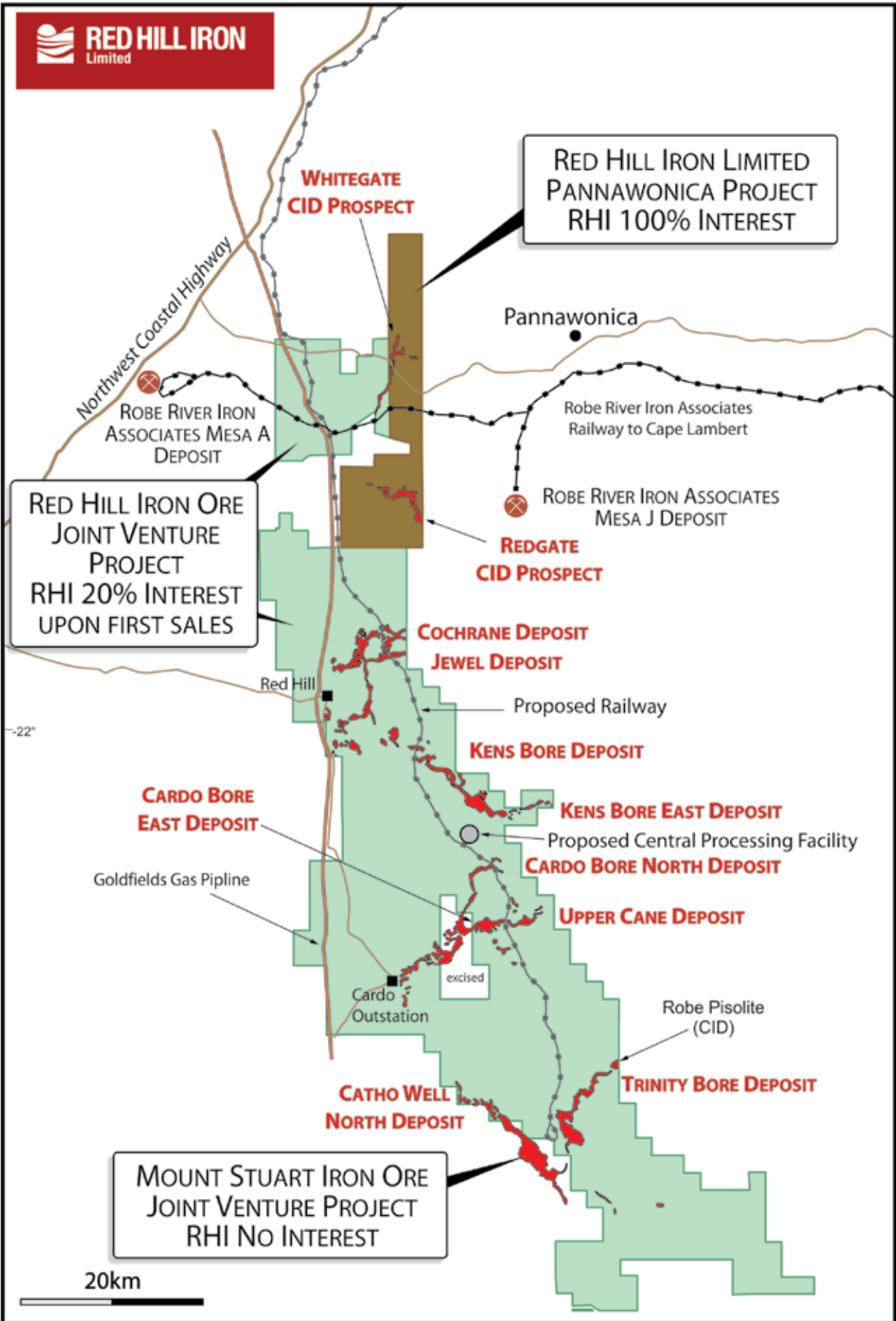
The Company has no requirement to contribute to the cost of iron ore exploration or development until the RHIOJV commences commercial production. Under the terms of the RHIOJV Agreement, API is responsible for sole funding all such expenditure to this point. Once commercial production commences and product from the RHIOJV area is delivered to customers, Red Hill Iron has 30 days in which to choose either to participate in the joint venture at the 20% level and contribute to costs or to convert its interest to a 2% FOB Royalty on all RHIOJV production.

In the event that Red Hill Iron elects to continue to participate in the joint venture, all funds expended by API on RHI's behalf at the 20% level, including interest, will become a debt owed by Red Hill Iron. Repayment is to be made out of 80% of the Company's share of free cash flow after payment of operating costs, scheduled financing payments and other related costs. The balance of free cash flow will be receivable by the Company.

RHI's right to choose either of these routes to share in the cash flows derived by the RHIOJV is designed to allow the Company an opportunity to compare the rewards of direct participation at the 20% level in RHIOJV iron ore production and sale with expected cash flows from a 2% FOB Royalty.



RED HILL IRON
Limited



OPERATIONS REVIEW

Technical

During the year API concentrated on furthering its aim of obtaining approval for the construction of a rail link and a port at the proposed Anketell Point location.

Additionally, engineering works in the mine area progressed and mine planning continued. 21,837 metres of grade variability drilling was completed at the Kens Bore deposit. A groundwater drilling program was carried out at Kens Bore and Cardo Bore East and pump testing was completed.

During the September 2011 quarter, the Department of Mines approved the project management plan for the construction and management of the mining operation. Mining lease applications were lodged on 31 October 2011 and a Miscellaneous Licence for the airstrip and accommodation complex was granted on 22 May 2012.

The Public Environmental Review for the mine and rail received State Government approval on 3 August 2012 subject to conditions. Concurrent with ongoing environmental surveying, the joint venture continued to advance Aboriginal heritage and clearance negotiations with the area's Native Title claimants.

Commercial

On 15 May 2012 API delivered a Feasibility Study to the RHIOJV participants which, on the basis of the cost and revenue assumptions applied at that time, indicated that a 19 million tonne per annum project operating over a 16 year period was technically and economically viable. API then indicated that it would prepare a Development Proposal for consideration by the RHIOJV participants. However, uncertainty in world iron ore prices, coupled with the recent announcement by Aquila Resources Limited that the API joint venture participants had submitted to a dispute resolution process involving arbitration, could result in delaying the project and may incline the joint venture to vary the project parameters.

During August 2012 a Supreme Court hearing took place at which RHI sought a clarification of its contention that it was entitled to share ownership with API of the proposed rail and port facilities. On 12 September 2012 the RHI claim was dismissed with costs awarded against the Company. After further legal consideration the Board has decided not to appeal this decision.

Earlier in the year RHI served a writ on API contending that the Kens Bore East deposit lies within the RHIOJV Project Area, as defined within the provisions of the RHIOJV Agreement, and that therefore the deposit is a joint venture asset. Your company expects to continue with these proceedings after a defence has been filed and after consideration of the overall RHIOJV situation as this unveils during and following the dispute resolution process between Aquila and AMCI referred to above.

OPERATIONS REVIEW

RED HILL IRON PROPOSED NON-FERROUS EXPLORATION IN RHIOJV PROJECT AREA

Following a review of the gold and base metal potential of the RHIOJV project area, Red Hill Iron has decided to reactivate its own exploration activities on the RHIOJV tenements, where the Company retains ownership of 100% of the non-ferrous mineral rights. Substantial programs carried out between 2005 and 2009 outlined some attractive gold targets which, in the light of an improved gold price and the nearby mining success at the Paulsen's gold operations, now justify further appraisal.

PANNAWONICA CID PROJECT

RHI has an agreement with Zanthus Resources Pty Ltd, a subsidiary of Coziron Resources Limited, giving it the rights to the CID resources of the Pannawonica Project with the provision that RHI apply for one or more mining leases prior to 22 December 2012. In the light of current market conditions and the doubt raised by the API dispute resolution process on the overall potential timetable for development of infrastructure in the area, RHI has commenced discussions with Coziron in relation to the continuing arrangements between the parties. The project contains 70 million tonnes of Inferred CID Resources grading 54.1% iron, 4.8% alumina.

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 2012.

DIRECTORS

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

Neil Tomkinson

Joshua Pitt

Garry Strong

PRINCIPAL ACTIVITIES

The principal activity of the Company during the financial year consisted of iron ore exploration. There has been no significant change in the Company's activity 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") continued to focus its entire business activities on furthering its channel iron ore deposit (CID) interests in the West Pilbara of Western Australia. Its primary asset is a 40% (reducing to 20%) share of the Red Hill Iron Ore Joint Venture (RHIOJV) which relates to the iron ore rights over the RHIOJV tenements, near the township of Pannawonica. The Company also owns the CID rights of the Pannawonica Project located on a tenement contiguous to the RHIOJV tenements.

In the year ahead, RHI plans to maintain a similar focus recognizing that the current financial climate influenced by low iron ore prices, high Australian dollar and labour constraints may limit progress with the Company's ambitions to be an iron ore producer and exporter. The Company is, however, in the unusually favourable position of having no exploration or development funding requirements for the advancement of its primary project (its interest in the RHIOJV) and anticipates only minor expenditures.

The operating loss after tax for the year was \$1,043,311 (2011: \$1,230,636). At year end the Company had \$2.17 million net cash.

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 hearing of the Company 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, were concluded, with the Judge dismissing the Company's claims and awarding costs (the amount of which has still to be determined) to the defendant. The Company has reserved its right to appeal the decision.

Other than the matter detailed above 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 Company's future operations or the results of those operations or the state of affairs of the Company.

DIRECTORS' REPORT

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 environmental laws that are not being complied with. 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 2011 to 30 June 2012 the directors have assessed that there are no current reporting requirements, but that the Company may be a required to report in the future.

INFORMATION RELATING TO THE 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 a non-executive director of Hampton Hill Mining NL (appointed January 1997) and the non-executive chairman of 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. Mr Pitt is involved in private mineral exploration and also in substantial resource investments. He is the executive chairman of Hampton Hill Mining NL (appointed a director in January 1997 and chairman in April 2012), and a non-executive director of Traka Resources Limited (appointed July 2003), Red Metal Limited (appointed July 2003) and Pan Pacific Petroleum NL (appointed December 2008).

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.

INFORMATION RELATING TO THE COMPANY SECRETARY

Peter Ruttledge BSc, CA, FFin

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

DIRECTORS' 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	3,852,197	-
J N Pitt	6,294,863	-
G R Strong	1,143,946	-

The relevant interests of Mr Tomkinson and Mr Pitt in the shares of the Company are their combined holdings of 10,147,060 ordinary shares.

DIRECTORS' REPORT

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	3	3
J N Pitt	3	3
G R Strong	3	3

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.

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.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT (continued)

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:

		2012	2011	2010	2009	2008
Revenue and other income	(\$000)	153	246	236	493	625
Net Loss	(\$000)	1,043	1,231	1,154	1,370	1,393
Loss per share	(cents)	2.4	2.8	2.7	3.3	3.5
Share price at year end	(\$)	1.90	2.18	2.80	2.85	6.65

No dividends have been declared during these periods.

(b) Details of remuneration

The key management personnel of the Company are the directors.

The remuneration of key management personnel for the financial year is summarised below:

	Short-term benefits	Post-employment benefits	Share based payments	Total	Value of options as proportion of remuneration	Performance related
	Salary & fees	Super-annuation	Options			
2012	\$	\$	\$	\$	%	%
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	18,500	27,250	-	45,750	-	-
Total key management personnel	68,500	31,750	-	100,250		
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	-	-
	65,678	31,750	-	97,428		
Other key management personnel						
T D M Boddington (General Manager)	102,434	27,469	-	129,903	-	-
Total key management personnel	168,112	59,219	-	227,331		

Mr TDM Boddington resigned on 31 October 2010.

No part of the remuneration of the key management personnel is contingent upon the performance of the Company.

DIRECTORS' REPORT

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

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

(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 or exercised by directors or other specified executives during the year ended 30 June 2012.

(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 Company has not engaged remuneration consultants to make a remuneration recommendation in respect of any of the key management personnel.

Voting and comments at the Company's 2011 Annual General Meeting

The Company received an overwhelming majority of votes in favour of its remuneration report for the 2011 financial year. The Company did not receive any specific comments on its remuneration practices at the AGM or throughout that year.

The audited remuneration report ends here.

SHARES UNDER OPTION

The Company had no share options on issue during the year ended 30 June 2012 (2011: Nil).

INSURANCE OF OFFICERS

During the financial year the Company paid an amount to insure all current 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 other than conduct including a wilful breach of duty to the Company. In accordance with commercial practice the policy prohibits disclosure of the terms of the policy including the limit of liability and the amount of premium paid.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied 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.

DIRECTORS' REPORT

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.

NON-AUDIT SERVICES

BDO Audit (WA) Pty Ltd ("BDO"), the company's auditor, did not perform any non-audit services for the Company for the year ended 30 June 2012.

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. BDO continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in Perth in accordance with a resolution of directors on 27 September 2012.



Mr N Tomkinson

Chairman



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

27 September 2012

The Board of Directors
Red Hill Iron Limited
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 2012, 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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 \$	2011 \$
Revenue from continuing operations	4	149,678	195,670
Other income	4	3,133	50,550
Exploration expenditure		(92,902)	(717,321)
Administration expenses	5	(1,103,220)	(759,535)
Loss before income tax		(1,043,311)	(1,230,636)
Income tax expense	6	-	-
Loss for the year		(1,043,311)	(1,230,636)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year attributable to the ordinary equity holders of the Company		(1,043,311)	(1,230,636)
Loss per share attributable to the ordinary equity holders of the Company			
Basic loss and diluted loss per share	22	2.4 cents	2.8 cents

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	NOTE	2012 \$	2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	2,174,400	3,062,833
Trade and other receivables	8	150,338	140,746
Total Current Assets		2,324,738	3,203,579
Non Current Assets			
Exploration assets	9	10,008,025	10,008,025
Plant and equipment	10	12,463	23,912
Total Non Current Assets		10,020,488	10,031,937
Total Assets		12,345,226	13,235,516
LIABILITIES			
Current Liabilities			
Trade and other payables	11	262,486	109,465
Total Current Liabilities		262,486	109,465
Total Liabilities		262,486	109,465
Net Assets		12,082,740	13,126,051
EQUITY			
Issued Capital	12	20,776,519	20,776,519
Reserves	13	285,770	285,770
Accumulated losses		(8,979,549)	(7,936,238)
Total Equity		12,082,740	13,126,051

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Issued Capital \$	Share Based Payments Reserve \$	Exercised Option Reserve \$	Accumulated Losses \$	Total Equity \$
2012					
Balance at 1 July 2011	20,776,519	-	285,770	(7,936,238)	13,126,051
Net loss for the year	-	-	-	(1,043,311)	(1,043,311)
Total comprehensive income recognised during the year	-	-	-	(1,043,311)	(1,043,311)
Transactions with equity holders in their capacity as equity holders	-	-	-	-	-
Balance at 30 June 2012	20,776,519	-	285,770	(8,979,549)	12,082,740
2011					
Balance at 1 July 2010	20,776,519	-	285,770	(6,705,602)	14,356,687
Net loss for the year	-	-	-	(1,230,636)	(1,230,636)
Total comprehensive income recognised during the year	-	-	-	(1,230,636)	(1,230,636)
Transactions with equity holders in their capacity as equity holders	-	-	-	-	-
Balance at 30 June 2011	20,776,519	-	285,770	(7,936,238)	13,126,051

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 2012

	NOTE	2012 \$	2011 \$
Cash flows from operating activities			
Payments to suppliers and employees		(994,669)	(725,279)
Payments for exploration expenditure		(65,734)	(804,180)
Payments for security deposits		(702)	(16,702)
Interest received		165,354	194,051
		<hr/>	<hr/>
Net cash outflow from operating activities	21	(895,751)	(1,352,110)
Cash flows from investing activities			
Payments for exploration assets		-	-
Proceeds for plant and equipment		7,318	24,004
		<hr/>	<hr/>
Net cash inflow from investing activities		7,318	24,004
Cash flows from financing activities			
There were no cash flows from financing activities		-	-
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(888,433)	(1,328,106)
Cash and cash equivalents at the beginning of the year		3,062,833	4,390,939
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	7	<u>2,174,400</u>	<u>3,062,833</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 2012

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 2012 (“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

Adoption of International Reporting Standards, as adopted in Australia, ensure that the financial statements and notes of the Company 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 and judgements

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 under the relevant standard, the recoverable amount of the asset is determined. The recoverable amount of the asset is the higher of its value in use and its fair value less costs to sell. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and fair value less cost to sell is determined using market rates.

Included as part of the Exploration Assets in the Statement of Financial Position is an amount of \$9,905,915 relating to the Company’s interest in the Pannawonica project. This amount has been carried forward on the basis that the Company intends to satisfy the conditions, required in its agreement with the holder of the project tenement, to secure the Company’s entitlement to the channel iron deposit mineralisation including delineating and applying for a mining lease.

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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>
Leasehold improvements	5% straight line
Office furniture and equipment	5% to 25% straight line
Field equipment	5% to 15% 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) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

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.

(l) Provisions

Provisions for legal claims are recognised when the Company has a present legal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(m) Issued capital

Ordinary shares are classified as equity.

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Loss per share

Basic loss per share

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

Diluted loss per share

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

(o) Joint 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).

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the Statement of Financial Position.

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.

(q) 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.

Lease income from operating leases where the Company is a lessor, is recognised in income on straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

New accounting standards and interpretations - continued

Reference and Title	Nature of change to accounting policy and impact on initial application	Application date
AASB 9 Financial Instruments	Amends the requirement for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. 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 July 2015
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 July 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 July 2013
AASB 119 Employee Benefits	Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not disclosed when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability. The Company does not have any annual leave liabilities and the first adoption of this statement for 30 June 2012 will have no impact on the financial statements.	1 July 2013
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101. There will be no impact on amounts recognised in the financial statements on initial adoption.	1 July 2012

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 2012-5 Annual Improvements to Australian Accounting Standards 2009-2011 Cycle	Non-urgent but necessary changes to IFRS, IAS 16 & IAS 32). When this standard is first adopted for the year ended 30 June 2013, there will be no material impact.	1 July 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 July 2013

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 \$2,100,000 (2011: \$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 4.71% (2011: 5.32%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 2 – FINANCIAL RISK MANAGEMENT (continued)

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 0.5% 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			
		Post tax profit		Equity	
2012	\$	-0.5%	+0.5%	-0.5%	+0.5%
		\$	\$	\$	\$
Cash & cash equivalents	2,174,400				
Total increase/(decrease)		(10,872)	10,872	(10,872)	10,872
2011	\$	-1%	+1%	-1%	+1%
		\$	\$	\$	\$
Cash & cash equivalents	3,062,833				
Total increase/(decrease)		(30,628)	30,628	(30,628)	30,628

Liquidity risk

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

Credit risk

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

Exposure to credit risk

	2012	2011
	\$	\$
Closing carrying amount		
Cash & cash equivalents	2,174,400	3,062,833
Trade and other receivables	150,338	140,746

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3 – SEGMENT INFORMATION

Management has determined that the Company has one reportable segment, being mineral exploration within Australia. The board of directors, which constitutes 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.

	2012 \$	2011 \$
Reportable segment assets	10,008,025	10,008,025
Reportable segment liabilities	27,500	-
Reportable segment loss	(92,902)	(717,321)
Reconciliation of reportable segment loss:		
Reportable segment loss	(92,902)	(717,321)
Other revenue	152,811	246,220
Unallocated corporate expenses	(1,103,220)	(759,535)
Loss before tax	(1,043,331)	(1,230,636)

NOTE 4 – REVENUE

Revenue from continuing operations

Interest income	149,678	195,670
Other income		
Profit on disposal of fixed assets	3,133	50,550

NOTE 5 – ADMINISTRATION EXPENSES

Loss before income tax includes the following specific administration expenses:

Personnel expenses		
Salaries	172,783	456,778
Superannuation	14,077	40,870
	186,860	497,648
Less: Recharged to exploration expenditure expensed	-	(168,079)
	186,860	329,569
Depreciation	7,263	15,158
Other expenses		
Accounting fees	47,300	46,666
Administration services	9,120	9,563
Audit fees	22,447	24,098
Communication costs	9,973	13,089
Operating lease expense	72,585	90,503
Legal expenses	625,772	152,861
Listing fees	37,282	38,076
Other	84,618	39,952
	1,103,220	759,535

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6 – INCOME TAX

	2012 \$	2011 \$
(a) Income tax benefit		
The components of income tax benefit comprise:		
Current tax	-	-
Deferred tax	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
(b) Reconciliation of income tax benefit to prima facie tax payable on accounting loss		
Operating loss before income tax	(1,043,311)	(1,230,636)
Prima facie tax benefit at Australian rate of 30% (2011: 30%)	(312,993)	(369,191)
Adjusted for tax effect of the following amounts:		
Deductible items/non-taxable	(1,904)	(2,864)
(Over)/under provision of prior year	-	292
	<hr/>	<hr/>
	(314,897)	(371,763)
Tax benefits not brought to account	314,897	371,763
	<hr/>	<hr/>
Income tax expense/(benefit)	-	-
	<hr/>	<hr/>
(c) Deferred tax assets and liabilities not brought to account		
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	5,636,246	5,325,591
Deductible temporary differences	4,490	4,950
Taxable temporary differences	(3,005,873)	(3,010,576)
	<hr/>	<hr/>
Unrecognised net deferred tax assets	2,634,862	2,319,965

These benefits will only be obtained if the conditions for deductibility set out in Note1(d) occur.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 6 – INCOME TAX (continued)

(d) Minerals Resource Rent Tax (MRRT)

On 19 March, 2012, the Australian Government passed through the Senate, the *Minerals Resource Rent Tax Act 2012*, with application to certain profits arising from the iron ore and coal extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis.

This tax applies to upstream mining operations only, and the effective rate of Minerals Resource Rent Tax is 22.5%.

This tax is considered to be an “income tax” for the purposes of AASB 112. Certain transition measures are contained in the legislation which can give rise to deductions in future years, for MRRT purposes.

The Company’s iron ore assets are not of a size that is likely to be subject to MRRT and consequently no valuation of the Company’s iron ore assets with a view to calculating a possible impact on deferred tax have been performed. Even in the event that there were an impact on deferred tax assets, the Company does not currently recognise any deferred tax assets –Note 6(c).

NOTE 7 – CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2012 \$	2011 \$
Cash at bank and on hand	74,400	62,833
Deposits at call	2,100,000	3,000,000
	<u>2,174,400</u>	<u>3,062,833</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>2,174,400</u>	<u>3,062,833</u>
Balance per statement of cash flows	<u>2,174,400</u>	<u>3,062,833</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	100,000	100,702
Interest receivable	11,552	27,228
Other	38,786	12,816
	<u>150,338</u>	<u>140,746</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 receivable comprises pro-rata interest receivable at balance date in respect of deposits at call that are expected to be repaid within 45 days.

Other receivables relate to amounts recoverable from the Australian Taxation Office for Goods and Services Tax.

Due to their short term nature, the carrying value of trade and other receivables is equal to their fair value. No trade and other receivables are considered impaired or past due.

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 2012

NOTE 9 – NON-CURRENT ASSETS - EXPLORATION ASSETS

	2012 \$	2011 \$
Carrying amount	10,008,025	10,008,025

Ultimate recoupment of exploration expenditure capitalised on acquisition of tenements and carried forward is dependent upon 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
Accumulated depreciation	-	(5,713)
Total leasehold improvements	-	1
Field equipment – at cost	21,966	46,595
Accumulated depreciation	(16,315)	(30,538)
Total field equipment	5,651	16,057
Office furniture and equipment – at cost	21,217	21,217
Accumulated depreciation	(14,405)	(13,363)
Total office furniture and equipment	6,812	7,854
Total plant and equipment	12,463	23,912

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

	Leasehold improvements \$	Office furniture & equipment \$	Field equipment \$	Motor vehicle \$	Total \$
2012					
Carrying amount at 1 July 2011	1	7,854	16,057	-	23,912
Additions during the year		-	-	-	-
Disposals during the year	(1)	-	(4,185)	-	(4,186)
Depreciation expense		(1,042)	(6,221)	-	(7,263)
Carrying amount at 30 June 2012	-	6,812	5,651	-	12,463
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 11 – CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2012 \$	2011 \$
Trade creditors and accruals	249,403	101,860
Employee entitlements	13,083	7,605
	<u>262,486</u>	<u>109,465</u>

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

NOTE 12 – EQUITY – ISSUED CAPITAL

(a) Share Capital

43,915,686 (2011: 43,915,686) fully paid ordinary shares	<u>20,776,519</u>	<u>20,776,519</u>
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(b) 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") and carry no trade restrictions.

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

Fully Paid Shares

	Details	Number of Ordinary Shares	Issue Price \$	Amount \$
2012				
1 July 2011	Balance	43,915,686		20,776,519
	No movement	-		-
		<u>43,915,686</u>		<u>20,776,519</u>
30 June 2012	Balance	<u>43,915,686</u>		<u>20,776,519</u>
2011				
1 July 2010	Balance	43,915,686		20,776,519
	No movement	-		-
		<u>43,915,686</u>		<u>20,776,519</u>
30 June 2011	Balance	<u>43,915,686</u>		<u>20,776,519</u>

(d) Options

At balance date the Company had no listed or unlisted options (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 13 – EQUITY – RESERVES

	2012	2011
	\$	\$
Future value option reserve	285,770	285,770

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	68,500	168,112
Post-employment benefits	31,750	59,219
Share-based payments	-	-
	<u>100,250</u>	<u>227,331</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 2012

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:

2012	Balance 1 July 2011	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2012
Directors					
N Tomkinson	3,525,830	-	-	276,367	3,802,197
J N Pitt	4,744,880	-	-	1,381,414	6,126,294
G R Strong	1,493,946	-	-	(350,000)	1,143,946
	<hr/>				
	9,764,656	-	-	1,307,781	11,072,437
	<hr/>				
2011	Balance	Received as	Options	Net changes	Balance
	1 July 2010	remuneration	exercised	other	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
	<hr/>				
	9,519,410	-	-	245,246	9,764,656
	<hr/>				
Other key management personnel					
Mr T D M Boddington	1,919,193	-	-	(1,919,193)	-

There were no shares granted as compensation during the reporting period.

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 2012 is their combined holdings of 9,928,491 shares.

Subsequent to 30 June 2012 and up to the date of signing the Directors' Report accompanying these financial statements, the directors have acquired 218,569 additional ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(c) Option holdings

No options are held by key management personnel at 30 June 2012.

NOTE 15 – AUDITOR REMUNERATION

	2012	2011
	\$	\$
Amounts received, or due and receivable, by BDO Audit (WA) Pty Ltd for:		
Auditing the financial report of Red Hill Iron Limited	22,447	24,098
Other services	-	-
	22,447	24,098

NOTE 16 – CONTINGENCIES

Contingent Liabilities

There are no contingent liabilities for termination benefits under service agreements with directors or executives at 30 June 2012.

A contingent liability to pay the defendant's costs has arisen as a consequence of a subsequent event where the Company's Supreme Court claims against the manager of the RHIOJV did not succeed and costs have been awarded to the defendant (refer Note 20). As at the date of finalising these financial statements, the court's decision has only just been handed down, the Company has not determined whether to appeal the decision and there remains a process to be undertaken to determine costs. Consequently, the directors of the Company are unable to reliably quantify these costs and as such have not recorded any amounts in these financial statements. The directors of the Company are of the opinion that the amount, while potentially material, will not unduly impact the operations of the Company and the directors are considering their options based on the judgement handed down on 12 September 2012.

The directors are not aware of any other contingent liabilities at 30 June 2012.

NOTE 17 – 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.

Minimum estimated expenditure requirements	3,253	160,253
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18– RELATED PARTY TRANSACTIONS

(a) Key management personnel

Directors of the Company during the financial year were:

Neil Tomkinson
Joshua Pitt
Garry Strong

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, \$14,999 (2011: \$143,668) to Traka Resources Limited, a listed company of which Mr Pitt and Mr Tomkinson are directors and shareholders, for rental of office space. This agreement is at arms length and on normal commercial terms and conditions.

During the financial year the Company paid, pursuant to a sub-lease \$24,424 (2011: \$4,228) to Hampton Hill Mining NL, a listed company of which Mr Pitt and Mr Tomkinson are directors and shareholders, for rental of office space and administration services. This agreement is at arms length and on normal commercial terms and conditions.

NOTE 19 – INTERESTS IN JOINT VENTURES

The Company has interests in the following mineral exploration joint venture agreements as at 30 June 2012:

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:-

- (a) 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
- (b) 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 2012, including interest thereon, amounted to \$20,730,000.

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(o).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20 – EVENTS OCCURRING AFTER BALANCE DATE

Subsequent to the end of the financial year the hearing of the Company 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, were concluded, with the Judge dismissing the Company's claims and awarding costs (the amount of which has still to be determined) in favour of the defendant. The Company has reserved its right to appeal the decision.

Other than the matter detailed above 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 Company's future operations or the results of those operations or the state of affairs of the Company.

NOTE 21 – CASH FLOW INFORMATION

	2012 \$	2011 \$
Reconciliation of loss after income tax with cash flow from operating activities		
Loss after income tax	(1,043,311)	(1,230,636)
Depreciation	7,263	15,158
Profit on disposal of non current assets	(3,132)	(1,200)
Change in operating assets and liabilities:		
(Increase)/Decrease in debtors	15,677	(1,619)
Increase /(Decrease) in creditors	153,020	(130,592)
(Increase)/Decrease in GST receivable	(25,970)	13,481
(Increase)/Decrease in security deposit	702	(16,702)
Net cash outflow from operating activities	<u>(895,751)</u>	<u>(1,352,110)</u>

NOTE 22 – LOSS PER SHARE

	Cents	Cents
Basic and diluted loss per share	<u>2.4</u>	<u>2.8</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>(1,043,311)</u>	<u>1,230,636</u>
	No. of Shares	No. Of Shares
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted loss per share	<u>43,915,868</u>	<u>43,915,868</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 FOR THE YEAR ENDED 30 JUNE 2012

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 and 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 2012 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 directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.
4. 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 27 September 2012



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Australia

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 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view 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 company'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 opinion.

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*, 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.

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.



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 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) 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 2012. 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.

Opinion

In our opinion, the Remuneration Report of Red Hill Iron Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO


Chris Burton
Director

Perth, Western Australia
Dated this 27th day of September 2012

CORPORATE GOVERNANCE STATEMENT

The board of directors (the “Board”) of Red Hill Iron Limited (“Red Hill Iron” or 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, statutory and regulatory requirements 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 2012. 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, base metals and gold 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 personnel;
- (d) evaluating the performance of the project manager and other senior personnel;
- (e) approval of financial and other periodic reporting requirements;
- (f) approving the risk management strategy and frameworks and monitoring their effectiveness;
- (g) corporate governance systems and practices within the company;
- (h) approval of investments, corporate acquisitions, new joint ventures; and
- (i) appointment of the external auditors and principal advisors.

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

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

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

Senior executives

The Chairman is 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 pursuant to authority delegated by the Board and implement Board and corporate policy and planning in regard to 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 the Chairman is an executive of the Company. However recognizing that approximately 60% of the Company's share capital is held by four non associated substantial shareholders, and having noted that no member of the Board has any association with the three 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. He 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 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 maintain these disclosures to the Board up-to-date.

Trading in company securities

The Company's securities trading policy has been disclosed in accordance with the provisions of the ASX Listing Rules and is published on the Company's website.

3.2 Diversity

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 nevertheless made on the basis of merit.

Due to the fact that the Company has no permanent employees, the Company does not have a formalised diversity policy in place, but the Board is cognisant of the benefits of diversity and will embrace the adoption of such as policy as and then the Company's growth allows.

3.3 Measurable objectives for achieving gender diversity

The Company will establish measurable objectives for achieving gender diversity as and when its workforce reaches a size that justifies such a policy.

3.4 Employee proportions

As at 30 June 2012 the Company had no full time employees. There were no changes to the personnel holding executive positions and the two non-executive board positions all of whom are male.

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.

CORPORATE GOVERNANCE STATEMENT

Additionally, the Board, in line with its overall responsibility to shareholders, annually 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.

Recommendations 4.2 and 4.3 of the Principles do not apply as there is no audit committee.

5. MAKE TIMELY AND BALANCED DISCLOSURE

5.1 Compliance with ASX Listing Rules disclosure requirements

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 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) 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.

The Company has not adopted a formal shareholder communication policy as the Company has been able to communicate effectively with its shareholders in the past and expects to be able to continue to do so. The Company recognises the importance of continuous disclosure to its shareholders and the market and adheres to the Continuous Disclosure requirements of the ASX Listing Rules.

Shareholders are given the option to receive information such as the Annual Report in print or electronic form.

The Company maintains a website at www.redhilliron.com.au. Shareholders can 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 provides for the management of risk by the Board, being principally the risks involved the Company's main business enterprise, namely iron ore, base metal 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.

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 and the Executive Chairman, who have overall responsibility for the implementation of the policy, report to the Board on the effective management of risk.

CORPORATE GOVERNANCE STATEMENT

7.3 Compliance with Corporations Act Section 295A

The Board receives a declaration 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 of the Principles.

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 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 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 directors is fixed and directors do not participate in any incentive plans. Directors do not receive any retirement benefits, except that, as part of their fixed remuneration, they are paid superannuation. For information about 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 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 29 SEPTEMBER 2012

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	106
1,001 - 5,000	152
5,001 - 10,000	77
10,001 - 100,000	127
100,001 +	46
	508

MARKETABLE PARCEL

There are 39 holders of less than a marketable parcel of ordinary shares.

OPTIONS

There are no options on issue

SUBSTANTIAL SHAREHOLDERS

Substantial shareholdings in the Company and relevant percentage interests are set out below:

Name	No of Shares	%
Wythenshawe Pty Ltd and Warramboe Holdings Pty Ltd	10,147,060	23.11
Aquila Resources Limited and associates	8,752,229	19.93
Brisbane Investments I Ltd, Brisbane Investments II Ltd	4,051,210	9.22
Acorn Capital Limited	3,171,212	7.22

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 29 SEPTEMBER 2012

TWENTY LARGEST SHAREHOLDERS

Shareholders	No of Shares	%
1 Wythenshawe Pty Ltd	6,248,176	14.23
2 Penoir Pty Ltd	5,987,353	13.64
3 Warramboe Holdings Pty Ltd	3,852,197	8.77
4 Brisbane Investments I Ltd	2,025,605	4.61
5 Brisbane Investments II Ltd	2,025,605	4.61
6 Yandal Investments Pty Ltd	2,000,000	4.55
7 National Nominees Ltd	1,729,047	3.94
8 T D M Boddington	1,511,393	3.44
9 HSBC Custody Nominees Australia Ltd	1,117,660	2.55
10 Aquila Resources Limited	1,143,613	2.60
11 Australian Mineral Investors Pty Ltd	1,036,513	2.36
12 JP Morgan Nominees Australia	948,392	2.16
13 UBS Wealth Management Australia Nominees	900,000	2.05
14 Flexiplan Management Pty Ltd <Susan Thomas PSF A/c>	829,892	1.89
15 Maxigold Holdings Pty Ltd <MGR Thomson Super A/c>	660,343	1.50
16 Zero Nominees Pty Ltd	654,602	1.49
17 BT X Pty Ltd	584,750	1.33
18 Berne No 132 Nominees Pty Ltd <399949 A/c>	500,000	1.14
19 Rupert Clarke & Co Pty Ltd	500,000	1.14
20 Strong Investments Pty Ltd <Prospectors Super A/c>	450,000	1.03
	<u>34,705,141</u>	<u>79.03</u>

MINERAL TENEMENT INFORMATION

PROJECT	TENEMENT	TITLE INTEREST	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%
	MLA47/1472	RHI 40% API 60%	API earning 80%
	MLA08/483	RHI 40% API 60%	API earning 80%
	MLA08/484	RHI 40% API 60%	API earning 80%
	MLA08/485	RHI 40% API 60%	API earning 80%
	L08/68	RHI 40% API 60%	API earning 80%

NOTES

RHI – Red Hill Iron Limited

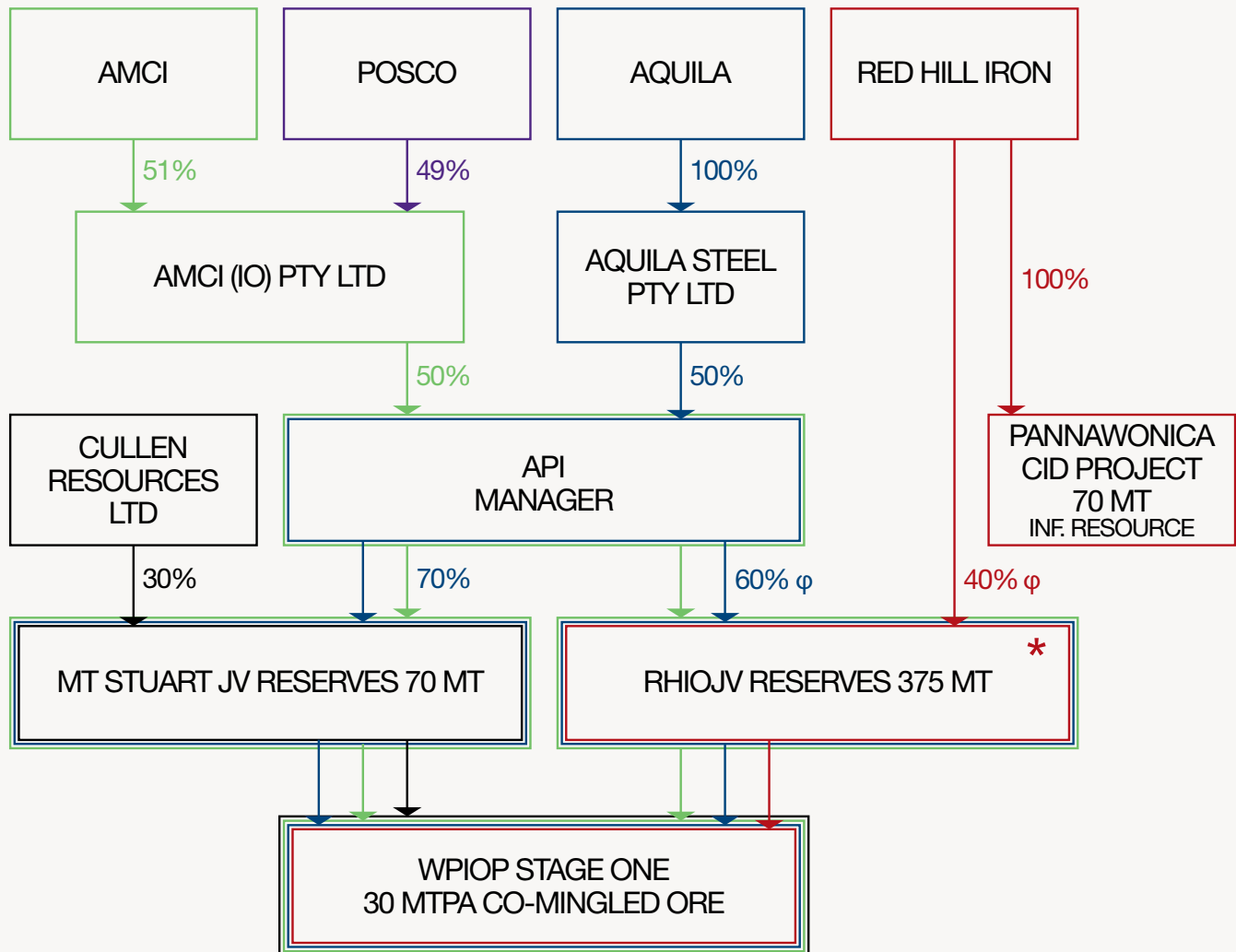
API – API Management Pty Ltd

Pannawonica	E08/1685-I	Zanthus Pty Ltd
	P08/623	RHI100%
	NOTE	
	RHI owns 100% of CID rights to a specified number of graticular blocks	

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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	40.52%
PITT & ASSOCS	23.11%
AQUILA & ASSOCS	19.93%
ACORN CAPITAL GROUP	7.22%
BRISBANE INVESTMENTS I	4.61%
BRISBANE INVESTMENTS II	4.61%



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