

31 October 2012

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

Dear Sir/Madam

## **ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2012**

### **RED HILL IRON ORE JOINT VENTURE PROJECT**

In the light of recent developments in the iron ore market, the outcome of the Company's Western Australian Supreme Court litigation over ownership rights to proposed rail & port infrastructure and the recently announced dispute between the owners of a majority share in the Red Hill Iron Ore Joint Venture (RHIOJV), the directors of the Company have set out below a short resumé of the current RHIOJV project situation and their view on potential future outcomes for Red Hill Iron Limited (Red Hill).

#### **History**

Red Hill currently owns a 40% participating interest in the RHIOJV with the balance owned by API Management Pty Ltd (API). In the event that commercial production of RHIOJV ore takes place and Red Hill elects to participate in such production, Red Hill's interest will reduce to 20%. API is owned equally by a wholly owned subsidiary of Aquila Resources Limited (Aquila), and AMCI (IO) Pty Ltd (AMCI), a company controlled by AMCI International AG.

API has announced 375 million tonnes of Ore Reserves of which 289 Mt @ 57.3% iron (Proved 106 Mt, Probable 183 Mt) are RHIOJV reserves and the balance are Kens Bore East reserves (which are the subject of litigation between the parties as detailed below). Current planning is for the RHIOJV to provide the major source of ore for Stage One of API's West Pilbara Iron Ore Project (WPIOP). API's Stage One Feasibility Study (Study) is based on the ores from the RHIOJV being comingled with ore from the adjacent Mt Stuart Joint Venture area to produce a single Channel Iron Deposit (CID) product, using a Central Processing Facility located on the RHIOJV tenements, at a rate of 30 million tonnes per annum combined with a rail connection 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..

Red Hill has no requirement to contribute to the cost of iron ore exploration or development until the RHIOJV commences commercial production. Additionally Red Hill may market its own share of RHIOJV production.

## **RHIOJV Quarterly Activities Report**

The Operator of the RHIOJV, API, has supplied the following information for the quarter ended 30 September 2012:-

### **“HIGHLIGHTS**

- There were no LTIs [*Lost Time Injury incidents*] during the September quarter.
- The Kens Bore aquifer model is currently being constructed and validated; the Cardo Bore East modeling will commence in the current quarter.
- Evaluation of the Kens Bore grade variability programme has commenced.
- Heritage surveys across the resource areas (Kens Bore, Upper Cane and Cardo Bore North) continued;
- An annual environmental report (AER) was completed for E47/1441 (Upper Cane) in accordance with conditions imposed with the development of the bulk sample trial excavation.
- Ground water licences and environmental field work was progressed in accordance with secondary approvals requirements and Environmental approval conditions.
- Preparation of a “Development Proposal” continued.

### **FEASIBILITY STUDIES & APPROVALS**

#### **Stage 1 [WPIOP]**

The Kens Bore aquifer model is currently being constructed and validated. Scenario analysis and a report recommending further field work to test assumptions and evaluate findings is under way. The Cardo Bore East modelling will commence in the current quarter, with follow up validation and scenario modelling to be undertaken.

Data gathered from the Kens Bore grade variability drilling programme is in the process of being evaluated.

Validation of the regularised block models for the Stage 1 - Life of Mine Schedule is continuing.

Progress of Native Title negotiations was confined to developing overarching terms prior to undertaking detailed agreement drafting.

Archaeological site identification heritage survey work for Ken's Bore was closed out (during August) with the scope term concluding, prior to finalisation of the intended coverage of the survey. Further site verification work remains to be completed. Cardo Bore North resource area has been completed (within scope time limitations). Site ID survey work at Upper Cane Resource areas was completed. Reports are yet to be received. The report details of the Site ID surveys will assist identification, planning and implementation of any required excavation work, to confirm there is no significance which will impact the identified iron resources, through quarantining particular areas considered culturally significant.

The Department of Water (DoW) renewed the groundwater licence, GWL172087, under the Right in Water and Irrigation Act 1914 (RIWI Act).

The DoW issued an amended groundwater licence (GWL174510), extending the areas from where groundwater can be abstracted in the mine area.

An annual environmental report (AER) was completed on the 30 September 2012 as required by conditions imposed on tenement E47/1141 as part of the bulk sample excavation pit on the Upper Cane deposit. An assessment of plant recruitment and species diversity in topsoil rehabilitation trials at the Upper Cane deposit was completed. Species identification and analysis of results were incorporated into the Annual Environmental Report required for exploration licence E47/1441.

Bore monitoring (standing water levels) were undertaken at Kens Bore and Mine Access Road, Cardo Bore East, Cardo Bore North, Upper Cane and Red Hill Creek. Data was collated and sent through for final analysis and filing.

Field monitoring for the Northern Quoll and Pilbara Leaf-nosed Bat was undertaken, and monitoring sites re-equipped. The data will inform management and monitoring strategies for these two species of National Environmental Significance and provide baseline information for compliance with Commonwealth approval conditions (EPBC 2009/4706).

The Threatened Fauna Offset Strategy and Threatened Fauna Conservation Plan was progressed as required under Condition 6 of Commonwealth approval decision EPBC 2009/4706.

At the request of the Manager, SEWPaC have approved a change to a condition of approval removing a requirement for DEC to approve a Threatened Fauna Offset Strategy and Threatened Fauna Conservation Plan prior to approval by the Commonwealth Minister for the Environment. This advice and formal change to the condition was received 18 September 2012.

Preparation of a Development Proposal as required by the RHIOJV joint venture agreement towards the next step in reaching a decision to mine for the project continued.

## **EXPLORATION**

No exploration work undertaken.”

*[End of quote]*

Aquila recently announced that the revised Base Case direct capital costs (including Project Management Contractor and contingency) for Stage 1 of the WPIOP had been revised upwards to \$7.4 billion (real July 2012), primarily due to additional costs necessary to comply with the Western Australian State Government's Anketell Port Master Plan, owners' costs and escalation from 2010 to July 2012. Operating costs have increased to \$24.20 per dry metric tonne over the life of the project (primarily due to the decision to use a contract miner).

In the light of the above WPIOP capital and operating cost increases, Red Hill is undertaking a study of potential alternative methods of transporting and marketing its share of RHIOJV production. Current WPIOP cost estimates may lead to Red Hill's participation in sales of ore comingled with Mt Stuart Joint Venture ore utilising the APIJV's proposed rail & port operation becoming economically unacceptable.

## **Red Hill Iron's Options**

Under the terms of the RHIOJV Agreement, API is responsible for sole funding all exploration and development expenditure to the commencement of commercial production (effectively when first deliveries of product are made to customers). Red Hill then has 30 days in which to choose either to participate in the project 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 elects to continue to participate in the RHIOJV mining operation, 20% of all funds expended by API after its election to earn an 80% interest in the RHIOJV, including interest, will become a debt owed by Red Hill. Repayment of this debt is to be made out of 80% of the Company's share of free cash flow after payment of operating costs, any financing payments and other related costs. The balance of free cash flow will be receivable by the Company.

Red Hill's right to choose the manner in which it will share in cash flows derived from the RHIOJV is specifically designed to allow the Company an opportunity, once hard figures are available, 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 on 100% of such production.

## **Technical**

API has recently supplied the following information:-

"The participants in the Australian Premium Iron Joint Venture (**APIJV**) are currently in dispute in relation to the content of a suitable budget for the APIJV. Given that the APIJV is responsible for developing infrastructure critical to the development of the RHIOJV (including port and rail infrastructure) it would be prudent to await the resolution of the issues concerning the APIJV budget before committing to a defined level of expenditure for the RHIOJV.

API has therefore determined that it is no longer appropriate to proceed with the implementation of the Original Budget for the 2012/2013 financial year (presented on 19 June 2012) at this point in time and that budget is hereby withdrawn. API is in the process of preparing a revised budget and will send the revised budget for the 2012/2013 financial year when it is complete.

The revised budget will provide sufficient expenditure (at a minimum) to:

- a. enable the RHIOJV to comply with all statutory and contractual obligations in connection with the RHIOJV; and
- b. meet the minimum statutory expenditure commitments required to maintain the RHIOJV tenements in good standing."

## **Commercial / Legal**

During August 2012 a Supreme Court hearing took place at which Red Hill 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 Red Hill 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 Red Hill 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.

## **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

Red Hill 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 Red Hill apply for one or more mining leases prior to 22 December 2012. Red Hill 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.

Neil Tomkinson

Chairman

### **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.*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

**RED HILL IRON LIMITED**

ABN

**44 114 553 392**

Quarter ended ("current quarter")

**30 September 2012**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date ( 3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(36)	(36)
(b) development	-	-
(c) production	-	-
(d) administration	(616)	(616)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	27	27
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other receipts	-	-
Other payments (Security Deposits)	-	-
<b>Net Operating Cash Flows</b>	<b>(625)</b>	<b>(625)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(625)</b>	<b>(625)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(625)	(625)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	<b>(625)</b>	<b>(625)</b>
1.20	Cash at beginning of quarter/year to date	2,174	2,174
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>1,549</b>	<b>1,549</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	34
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**1.2 d) Administration costs include costs associated with Supreme Court proceedings taken against a joint venture partner.**

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	50
4.2 Development	-
4.3 Production	-
4.4 Administration	120
<b>Total</b>	<b>170</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	14	19
5.2 Deposits at call	535	55
5.3 Bank overdraft	-	-
5.4 Other (Term Deposit)	1,000	2,100
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,549</b>	<b>2,174</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	None		
6.2	Interests in mining tenements acquired or increased	None		

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	<b>43,915,686</b>	<b>43,915,686</b>		<b>Fully Paid</b>
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: **Peter Rutledge**  
Company secretary

Date: **31 October 2012**

Print name: **Peter Rutledge**

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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