

31 January 2013

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

Dear Sir/Madam

**ACTIVITIES REPORT FOR THE QUARTER  
ENDED 31 DECEMBER 2012**

Red Hill Iron has interests in two significant channel iron ore (CID) projects in the West Pilbara of Western Australia, namely the Red Hill Iron Ore Joint Venture Project (RHIOJV) and its wholly owned Pannawonica Project.

**RED HILL IRON ORE JOINT VENTURE (RHIOJV)**

Red Hill Iron's interest in the RHIOJV is currently 40% but will be subject to reduction to 20% on first sales of ore from the RHIOJV area to customers. The Company has no requirement to contribute to the cost of iron ore exploration or development until the RHIOJV commences commercial production. The Company's joint venture partner is responsible for sole funding all such expenditure to this point. Once commercial production commences and product is delivered to customers, the Company may choose either to participate in the joint venture at the 20% level or to convert its interest to a 2% FOB royalty on all RHIOJV production. Red Hill Iron retains the right to take its share of RHIOJV production and to market the resultant tonnage.

The RHIOJV has outlined Ore Reserves of 289 million tonnes @ 57.3% iron (Proved 106 million tonnes, Probable 183 million tonnes). These reserves may be significantly expanded should legal proceedings between Red Hill Iron and its fellow RHIOJV joint venture participant, over ownership of tenements on which the Kens Bore East CID deposit sits, result in a favourable outcome for Red Hill Iron. The Company contends that this area falls within the RHIOJV Project Area and as such forms part of the RHIOJV.

These Reserves together with an additional 70 million tonnes of Reserves to be contributed by another joint venture, in which Red Hill Iron has no interest, constitute the 445 million tonnes Ore Reserves of the West Pilbara Iron Ore Project (WPIOP) Stage One. API Management Pty Ltd (API), the manager of the WPIOP, is in the process of finalising a definitive feasibility study that contemplates mining and comingling of the ore to produce 30 million tonnes of iron ore per annum for shipment via a planned rail link to a proposed port at Anketell Point.

**LEGAL**

As shareholders would be aware the Company initiated proceedings in the Supreme Court of Western Australia against API, its RHIOJV partner, aimed at seeking a determination as to whether or not Red Hill Iron had the right to share in the ownership of the proposed rail and port facilities that are an integral component of WPIOP Stage One. As announced in September 2012, the court dismissed Red Hill Iron's claim and awarded costs against the Company.

The process of determining the level of costs to be paid has reached the stage where, subject to formal execution of Deeds of Settlement between the parties, the matter will be settled for an amount of \$2.05 million. Accordingly Red Hill Iron has made a provision for this liability in its financial statements for the half year ended 31 December 2012. Cash reserves at 31 December amounted to \$1.37 million. The Company has entered into short term bridging finance agreements with companies associated with myself & Joshua

Pitt on normal commercial terms providing for those companies to advance sufficient funds to allow finalisation of the settlement.

Earlier in the year, Red Hill Iron served a writ on API contending that the tenements within which the Kens Bore East deposit is situated fall within the RHIOJV Project Area, as defined within the provisions of the RHIOJV Agreement. These proceedings are ongoing.

## **PANNAWONICA CID PROJECT**

Red Hill Iron owns 100% of the Pannawonica CID Project. Exploration to date has resulted in the delineation of 70 million tonnes of CID Inferred Resources grading 54.1% iron (4.8% alumina). Recent applications for two Mining Leases covering the areas of mineralisation completed the earning requirement under the 2009 Agreement by which Red Hill Iron acquired ownership of the area (refer Red Hill Iron ASX announcement on 17 January 2013).

The Company is planning an infill drilling programme commencing in the first quarter of 2013 aimed at establishing JORC Ore Reserves that would form the basis of a Prefeasibility Study. This drilling programme will also examine the potential to produce higher grade material.

The Pannawonica Project is situated approximately 30 kilometres east of the Northwest Coastal Highway and 100 kilometres south of Cape Preston East, where a new port with iron ore export facilities is being contemplated by third parties. The rail line servicing the Mesa A CID mine passes between the Company's two Mining Leases, and the proposed route for the WPIOP Stage One rail line lies within 10 kilometres of both Mining Leases. The Company is aware of a third party proposal to construct a new ore haul road passing in close proximity to the Pannawonica Project providing a link to a proposed new port at Cape Preston East. The board of Red Hill Iron is encouraged by current and planned infrastructure in the area of Pannawonica CID Project. It is not certain that any of the planned infrastructure will be put in place or whether Red Hill Iron would be able to secure access to any of these transport opportunities or alternatively develop its own transport solution. However, the board believes that there is sufficient encouragement to warrant a timely further appraisal of the Pannawonica Project.

## **RHIOJV ACTIVITIES REPORT**

API, the Operator of the RHIOJV, has supplied the following information for the quarter ended 31 December 2012:-

- **“The 2012-13 programme and budget of \$12m was revised and adopted.**
- **Compliance obligations related to the existing mining environmental approval continued and secondary approvals were progressed.**
- **Extensions of term for tenements E08/1289, E08/1293, E08/1430 and E08/1473 were granted.**
- **Work on a new Mining Reserve continued with planned completion during the June quarter.**

### **WORK COMPLETED DURING QUARTER**

**A revised programme and budget of \$12m was prepared and issued for the FY12/13 (and adopted as an approved programme and budget in December 2012) (FY2011/12 approved programme and budget: \$150.5m).**

**The Department of Water (DoW) issued an amended groundwater licence GWL167780(3) under the Rights in Water and Irrigation Act 1914 (RIWI Act), extending the areas from where groundwater can be abstracted in the project area.**

**Environmental work commenced on the compilation of data necessary for the drafting of a Mining Proposal for mining support facilities and associated infrastructure.**

**The Mine Threatened Fauna Offset Strategy was submitted to the Department of Sustainability, Environment, Water, Population and Communities (SEWPaC) in**

November 2012 in fulfillment of Condition 6 of the Commonwealth environmental approval (EPBC 2009/4706).

In anticipation of advancing finalisation of a Native Title Agreement to support approval of Mining Lease Applications (M08/483 - Cochrane/Jewel, M08/484 - Kens Bore (incorporating Kens Bore, Upper Cane and Cardo Bore East), M08/485 - Cardo Bore West and M47/1472 - Trinity Bore/Catho Well North), the Manager has commenced drafting documents that are reflective of terms discussed with the Native Title Groups at meetings held to date. It is planned that negotiations will be directed toward the finalisation of agreements with the groups by mid 2013.

Applications for Extensions of Term for a further period of two years were granted for E08/1289, E08/1293, E08/1430 and E08/1473.

The area of E47/1693 was reduced by 40% in compliance with the statutory compulsory relinquishments under the Mining Act.

Mining model updates continue to be completed and validated in order to improve resource recovery and optimise planned mining operations under various parameters. A new Mining Reserve is planned for completion in the June quarter.

The Kens Bore hydrogeology model, scenario analysis and reporting is complete. The Cardo Bore East model is under construction with scenario evaluation and reporting expected to be completed during the June quarter.

Flora reports were completed for final review to progress an application to the Office of the Environmental Protection Authority (OEPA) for project footprint amendment relating to the Mt Stuart mine access road alignment. This amendment will be dealt with under section 45C of the Environmental Protection Act 1986 where there is no material change to the project or the associated environmental factors.

Drafting commenced for the Mt Stuart Mine Access Road Mining Proposal (Miscellaneous Licence 08/79) for lodgment under the Mining Act in tandem with the submission that will be made to the OEPA to support the realignment changes under the EP Act.

## **EXPLORATION**

Mapping and sampling programmes were completed at Duck Creek, White Gate and elsewhere across the project area during the quarter. At Duck Creek, the programme concentrated on the identification of buried CID's within the large Duck Creek drainage."

## **COMMENT**

Despite adopting the RHIOJV revised programme and budget the owners of API have apparently not reached agreement on a proposed budget for the overall WPIOP for FY2013. As a result, the dispute between them has been referred to arbitration and the project has moved to minimum expenditure. This has resulted in a number of programs being wound down and/or suspended for the time being and staff numbers have reduced. This development coupled with current uncertainty in iron ore prices may cause delays to the RHIOJV.

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")

**31 December 2012**

### Consolidated statement of cash flows

| Cash flows related to operating activities                      | Current quarter<br>\$A'000 | Year to date<br>( 6 months)<br>\$A'000 |
|-----------------------------------------------------------------|----------------------------|----------------------------------------|
| 1.1 Receipts from product sales and related debtors             | -                          | -                                      |
| 1.2 Payments for (a) exploration & evaluation                   | (41)                       | (77)                                   |
| (b) development                                                 | -                          | -                                      |
| (c) production                                                  | -                          | -                                      |
| (d) administration                                              | (150)                      | (766)                                  |
| 1.3 Dividends received                                          | -                          | -                                      |
| 1.4 Interest and other items of a similar nature received       | 19                         | 46                                     |
| 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>(172)</b>               | <b>(797)</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>(172)</b>               | <b>(797)</b>                           |

+ See chapter 19 for defined terms.

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

|      |                                                            |              |              |
|------|------------------------------------------------------------|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (172)        | (797)        |
|      | <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>                | (172)        | (797)        |
| 1.20 | Cash at beginning of quarter/year to date                  | 1,549        | 2,174        |
| 1.21 | Exchange rate adjustments to item 1.20                     | -            | -            |
| 1.22 | <b>Cash at end of quarter</b>                              | <b>1,377</b> | <b>1,377</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<br>\$A'000 |
|------|------------------------------------------------------------------|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 75                         |
| 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.                                                                                                                                                                                                                                                                             |
| 3.1 & 4.4 | The Company has put in place a bridging financing facility to enable it to meet its short term working capital requirements which include a potential \$2.05 million settlement of legal costs arising from a Supreme Court of Western Australia judgement. The Company anticipates the announcement of a capital raising to provide the Company with additional working capital going forward. |

**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

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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

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+ See chapter 19 for defined terms.

## Financing facilities available

Add notes as necessary for an understanding of the position.

|                                 | Amount available<br>\$A'000 | Amount used<br>\$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities             | 1,000                       | Nil                    |
| 3.2 Credit standby arrangements | -                           | -                      |

## Estimated cash outflows for next quarter

|                                | \$A'000      |
|--------------------------------|--------------|
| 4.1 Exploration and evaluation | 131          |
| 4.2 Development                | -            |
| 4.3 Production                 | -            |
| 4.4 Administration             | 2,204        |
| <b>Total</b>                   | <b>2,335</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<br>\$A'000 | Previous quarter<br>\$A'000 |
|--------------------------------------------------|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                     | 10                         | 14                          |
| 5.2 Deposits at call                             | 567                        | 535                         |
| 5.3 Bank overdraft                               | -                          | -                           |
| 5.4 Other (Term Deposit)                         | 800                        | 1,000                       |
| <b>Total: cash at end of quarter (item 1.22)</b> | <b>1,377</b>               | <b>1,549</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 | <b>P47/1271</b>    | <b>Relinquished</b>           | <b>40%</b>                       | <b>0%</b>                  |
| 6.2 Interests in mining tenements acquired or increased           | <b>None</b>        | <b>None</b>                   |                                  |                            |

+ 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><br><i>(description)</i>                                                                      |                   |                   |                                               |                                                  |
| 7.2 Changes during quarter<br>(a) Increases through issues<br>(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<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs              |                   |                   |                                               |                                                  |
| 7.5 <b>+Convertible debt securities</b><br><i>(description)</i>                                                                |                   |                   |                                               |                                                  |
| 7.6 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted              |                   |                   |                                               |                                                  |
| 7.7 <b>Options</b><br><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><br><i>(totals only)</i>                                                                                 |                   |                   |                                               |                                                  |
| 7.12 <b>Unsecured notes</b><br><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 Ruttledge**  
Company secretary

Date: **31 January 2013**

Print name: **Peter Ruttledge**

## 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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