

RED HILL IRON LIMITED

ABN 44 114 553 392

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2013

RED HILL IRON LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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 2013.

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 is an explorer and potential exporter of iron ore from mining tenements located in the West Pilbara region.

In its own right, the Company has recently completed a 231 hole reverse circulation drilling programme at its Pannawonica Project designed to enable resources at that location to be brought up to JORC Reserve status. Native Title negotiations are proceeding, which, if successful, will allow the grant of Mining Leases over the Pannawonica Channel Iron Deposits ("CIDs").

Further studies were also carried out on Red Hill Iron's proposed hard rock quarry which is the subject of a Mining Lease Application filed by the Company and situated close by the Pannawonica CIDs.

Activities of the Red Hill Iron Ore Joint Venture ("RHIOJV") have been restrained during the financial year due to the current slowdown in new project funding and the inability of the West Pilbara Iron Ore Project ("WPIOP") participants to agree other than minimal expenditures in relation to overall WPIOP activities, of which the RHIOJV is part.

COMMERCIAL

Red Hill Iron announced on 31 January 2013 a non-renounceable pro-rata 1 for 8 entitlement offer of ordinary fully paid shares to provide ongoing working capital for the company. The issue, which raised \$4,310,000 after expenses, was well supported by shareholders.

During August 2012, a Supreme Court hearing took place at which Red Hill Iron sought a clarification of its contention that it was entitled to share ownership with its joint venture partner, API Management Pty Ltd ("API"), of its proposed port and rail facilities. On 12 September 2012 the Red Hill Iron claim was dismissed, with costs awarded against the Company. After further legal consideration the board of the Company decided not to appeal this decision.

Red Hill Iron has commenced proceedings against 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. These proceedings are continuing with a hearing not likely in calendar year 2013.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the operating results and capital raising, 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

There are no 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 (continued)

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 2012 to 30 June 2013 the directors have assessed that there are no current reporting requirements, but that the Company may be 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.

Executive Director

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 twenty 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.

Non-executive Director

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).

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 twenty five 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	5,005,915	-
J N Pitt	7,765,965	-
G R Strong	1,286,938	-

The relevant interests of Mr Tomkinson and Mr Pitt in the shares of the Company are their combined holdings of 12,771,880 ordinary shares.

DIRECTORS' REPORT (continued)

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	7	7
J N Pitt	7	7
G R Strong	7	7

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, other than the Chairman, is determined by the non-executive directors and the Chairman and comprises a base salary or fee based on the services provided and market rates of remuneration.

The remuneration of the executive chairman is determined by the remainder of the board.

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 N Tomkinson, is the basic fee paid to each of the non-executive directors. It comprises a base salary with superannuation. The remainder of the board reviews the terms of the executive chairman's remuneration on an annual basis.

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (continued)

The remuneration of the executive director, Mr G Strong, consists of the basic fee paid to each of the non-executive directors plus, from the point in time of his appointment as an executive, a set monthly amount to compensate him for his executive services. It is paid in the form of director fees and related superannuation plus a fee for the executive services. The remainder of the board reviews the terms of the executive director's remuneration annually.

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 if 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:

		2013	2012	2011	2010	2009
Revenue and other income	(\$000)	80	153	246	236	493
Net Loss	(\$000)	3,596	1,043	1,231	1,154	1,370
Loss per share	(cents)	7.9	2.4	2.8	2.7	3.3
Share price at year end	(\$)	0.80	1.90	2.18	2.80	2.85

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 a proportion of remuneration	Performance related
	Salary & fees	Super-annuation	Options			
2013	\$	\$	\$	\$	%	%
Directors – executive						
N Tomkinson (Chairman)	25,000	2,250	-	27,250	-	-
G R Strong	75,500	27,250	-	102,750	-	-
Directors – non-executive						
J N Pitt	25,000	2,250	-	27,250	-	-
Total key management personnel	125,500	31,750	-	157,250		
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		

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

DIRECTORS' REPORT (continued)

AUDITED REMUNERATION REPORT (continued)

(c) Service agreements

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 director of the Company is currently entitled to receive an annual fee of \$25,000 plus statutory superannuation for their services as directors.

Executive director

Commencing 1 January 2013, Mr Strong was requested by the other members of the board to take on an executive role overseeing the company's ongoing exploration and evaluation of its Pannawonica CID project. It was agreed that Mr Strong be paid \$7,500 per month plus a field allowance of \$500 per day when attending the project site.

Executive chairman

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 share-based compensation will be issued to directors other than key management personnel.

No options have been issued to, or exercised by, directors or any other key management personnel during the year ended 30 June 2013.

(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 to key management personnel 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 2012 Annual General Meeting

The Company received an overwhelming majority of votes in favour of its remuneration report for the 2012 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.

OPTIONS OVER UNISSUED SHARES

The following options over unissued shares were issued to an employee during the year ended 30 June 2013 under the Employee Share Option Plan:

Date options granted	Issue price of options	Number of options issued
13 April 2013	\$0.9875	500,000

The total number of options over unissued shares at 30 June 2013 was 500,000.

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.

DIRECTORS' REPORT (continued)

PROCEEDINGS ON BEHALF OF THE COMPANY

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

AUDIT COMMITTEE

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

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 2013.

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 26 August 2013.



Mr N Tomkinson
Chairman

26 August 2013

The Board of Directors
Red Hill Iron Limited
Level 2, 9 Havelock Street
West Perth 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 2013, 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

RED HILL IRON LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$	2012 \$
Revenue from continuing operations	4	80,567	149,678
Other income	4	-	3,133
Exploration expenditure		(700,814)	(92,902)
Administration expenses	5	<u>(2,976,046)</u>	<u>(1,103,220)</u>
Loss before income tax		(3,596,293)	(1,043,311)
Income tax expense	6	<u>-</u>	<u>-</u>
Loss for the year		(3,596,293)	(1,043,311)
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive loss for the year attributable to the ordinary equity holders of the Company		<u>(3,596,293)</u>	<u>(1,043,311)</u>
Loss per share attributable to the ordinary equity holders of the Company			
Basic loss and diluted loss per share	22	7.9 cents	2.4 cents

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

RED HILL IRON LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	NOTE	2013 \$	2012 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	2,963,803	2,174,400
Trade and other receivables	8	199,311	150,338
Total Current Assets		3,163,114	2,324,738
Non-Current Assets			
Exploration assets	9	10,008,025	10,008,025
Plant and equipment	10	2,326	12,463
Total Non-Current Assets		10,010,351	10,020,488
Total Assets		13,173,465	12,345,226
LIABILITIES			
Current Liabilities			
Trade and other payables	11	199,939	262,486
Total Current Liabilities		199,939	262,486
Total Liabilities		199,939	262,486
Net Assets		12,973,526	12,082,740
EQUITY			
Issued capital	12	25,086,598	20,776,519
Reserves	13	462,770	285,770
Accumulated losses		(12,575,842)	(8,979,549)
Total Equity		12,973,526	12,082,740

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

RED HILL IRON LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	Issued Capital \$	Share Based Payments Reserve \$	Exercised Option Reserve \$	Accumulated Losses \$	Total Equity \$
2013					
Balance at 1 July 2012	20,776,519	-	285,770	(8,979,549)	12,082,740
Net loss for the year	-	-	-	(3,596,293)	(3,596,293)
Total comprehensive income recognised during the year	-	-	-	(3,596,293)	(3,596,293)
Transactions with equity holders in their capacity as equity holders:					
Issue of ordinary fully paid shares, net of issue cost	4,310,079	-	-	-	4,310,079
Equity settled share based payment transaction	-	177,000	-	-	177,000
Balance at 30 June 2013	25,086,598	177,000	285,770	(12,575,842)	12,973,526
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

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

RED HILL IRON LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$	2012 \$
Cash flows from operating activities			
Payments to suppliers and employees		(2,973,493)	(994,669)
Interest paid		(4,080)	-
Payments for exploration expenditure		(597,767)	(65,734)
Payments for security deposits		(17,690)	(702)
Interest received		72,354	165,354
		<hr/>	<hr/>
Net cash outflow from operating activities	21	(3,520,676)	(895,751)
Cash flows from investing activities			
Proceeds from disposal of plant and equipment		-	7,318
		<hr/>	<hr/>
Net cash inflow from investing activities		-	7,318
Cash flows from financing activities			
Proceeds from borrowings		1,000,000	-
Repayment of borrowings		(1,000,000)	-
Proceeds from issue of shares		4,391,480	-
Payment for share issue costs		(81,401)	-
		<hr/>	<hr/>
Net cash inflow from financing activities		4,310,079	-
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		789,403	(888,433)
Cash and cash equivalents at the beginning of the year		2,174,400	3,062,833
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year	7	<u>2,963,803</u>	<u>2,174,400</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 2013

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 2013 ("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 has satisfied 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 two mining leases, and is currently engaged in resource drilling and native title negotiations in support of the mining lease applications.

(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 2013

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 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 2013

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 accumulated 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 profit or loss 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>
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 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) **Borrowings and borrowing costs**

Borrowings are short term and initially recognised at fair value. There are no transaction costs associated with the borrowings. Interest on borrowings is accrued daily using the effective interest rate method and recognised in profit or loss over the period of the borrowings.

(l) **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 equity. 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.

(m) **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.

(n) **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 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(p) Joint arrangements

The Company's mineral exploration agreements with third parties 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 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 parties to the agreement do not hold any assets other than their title to the mineral tenements and accordingly the company's share of exploration expenditure is accounted for in accordance with the policy set out in Note 1(h).

(q) 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.

(r) 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 a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) New accounting standards and interpretations

The following Australian Accounting Standards have been issued and/or amended and are applicable to the Company but are not yet effective. They have not been adopted in the preparation of the financial statements at reporting date. The Application Date of the standard is for the annual reporting periods beginning on or after the date shown in the table below.

Reference and Title	Nature of change to accounting policy and impact on initial application	Application date
AASB 9 Financial Instruments	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'. The Company's mineral exploration agreements with third parties do not constitute separate legal entities and do not constitute joint arrangements as defined by AASB11. They are contractual agreements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit. Consequently there is not expected to be any impact on amounts recognised in financial statements on initial adoption.	1 July 2013
AASB 12 Disclosure of Interests 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 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. When this standard is adopted for the first time for the year commencing 1 July 2013, 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
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	When this standard is first adopted for the year commencing 1 July 2013, individual key management personnel disclosures relating to reconciliations of their option and shareholding balances, loans, and other transactions and balances, will no longer be presented in the notes to the financial statements under AASB 124. Instead, Regulation 2M.3.03(1) of the Corporations Act 2001 requires that these disclosures be included as part of the audited remuneration report.	1 July 2013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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 119 Employee Benefits	Employee benefits expected to be settled (as opposed to due to be settled under current standards) 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 the end of the 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 1 July 2013 will have no impact on the financial statements.	1 July 2013
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 commencing 1 July 2013, there will be no material impact.	1 July 2013
AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039	Deletes Australian Interpretation 1039 - Substantive enactment of Major Tax Bills in Australia – from the list of mandatory Australian Interpretations to be applied by entities preparing financial statements under the Corporations Act 2001. There will be no impact on first-time adoption of this amendment as the Company does not account for proposed changes in taxation legislation until the relevant Bill has passed through both Houses of Parliament.	1 July 2013
Interpretation 21 Levies	Clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. The Company is not liable to pay any government levies so there will be no impact on the financial statements when this interpretation is first adopted.	1 July 2014

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 \$2,300,000 (2012: \$2,100,000), all mature within 61 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 3.57% (2012: 4.71%).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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. This analysis includes the effect of a 0.5% decline in interest rates as recent Australian Treasury announcements and press reports would indicate a downward movement in interest rates of this magnitude to be likely 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	
		-0.5%	+0.5%	-0.5%	+0.5%
	\$	\$	\$	\$	\$
2013					
Cash & cash equivalents	2,963,803				
Total increase/(decrease)		(14,819)	14,819	(14,819)	14,819
2012					
Cash & cash equivalents	2,174,400				
Total increase/(decrease)		(10,872)	10,872	(10,872)	10,872

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	2013	2012
	\$	\$
Closing carrying amount		
Cash & cash equivalents	2,963,803	2,174,400
Trade and other receivables	199,311	150,338

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.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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 maker, 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.

	2013 \$	2012 \$
Reportable segment assets	10,008,025	10,008,025
Reportable segment liabilities	130,548	27,500
Reportable segment loss	(700,814)	(92,902)
Reconciliation of reportable segment loss:		
Reportable segment loss	(700,814)	(92,902)
Other revenue	80,567	152,811
Unallocated corporate expenses	(2,976,046)	(1,103,220)
Loss before tax	(3,596,293)	(1,043,331)

NOTE 4 – REVENUE

Revenue from continuing operations

Interest income	80,567	149,678
Other income		
Profit on disposal of fixed assets	-	3,133

NOTE 5 – ADMINISTRATION EXPENSES

Loss before income tax includes the following specific administration expenses:

Personnel expenses		
Salaries, directors fees and other employment expenses	177,814	172,783
Superannuation	14,620	14,077
Share based payments	177,000	-
	369,434	186,860
Less: Recharged to exploration expenditure expensed	-	-
	369,434	186,860
Depreciation	4,110	7,263
Other expenses		
Accounting fees	47,355	47,300
Administration services	12,898	9,120
Audit fees	22,614	22,447
Communication costs	6,635	9,973
Operating lease expense	86,618	72,585
Legal expenses	2,291,799	625,772
Listing fees	37,858	37,282
Interest expense	4,080	-
Other	92,645	84,618
	2,976,046	1,103,220

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 5 – ADMINISTRATION EXPENSES – (continued)

Legal expenses include an amount of \$1,863,636 (net of GST) paid in settlement of legal costs arising from the Company's failed Supreme Court action against its joint venture partners.

NOTE 6 – INCOME TAX

	2013 \$	2012 \$
(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	(3,596,293)	(1,043,311)
Prima facie tax benefit at Australian rate of 30% (2012: 30%)	(1,078,888)	(312,993)
Adjusted for tax effect of the following amounts:		
Non-deductible/taxable items	53,100	-
Non-taxable/deductible items	(6,030)	(1,904)
Tax benefits not brought to account	1,031,818	314,897
	<hr/>	<hr/>
Income tax expense/(benefit)	-	-

(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	6,668,397	5,636,246
Deductible temporary differences	6,621	4,490
Taxable temporary differences	(3,008,338)	(3,005,873)
	<hr/>	<hr/>
Unrecognised net deferred tax assets	3,666,680	2,634,862

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 2013

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 has been performed. Even in the event that there was 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

	2013	2012
	\$	\$
Cash at bank and on hand	663,803	74,400
Deposits at call	2,300,000	2,100,000
	<u>2,963,803</u>	<u>2,174,400</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>2,963,803</u>	<u>2,174,400</u>
Balance per statement of cash flows	<u>2,963,803</u>	<u>2,174,400</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	117,690	100,000
Interest receivable	19,768	11,552
Other	61,853	38,786
	<u>199,311</u>	<u>150,338</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 GST.

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.

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 9 – NON-CURRENT ASSETS - EXPLORATION ASSETS

	2013 \$	2012 \$
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

Field equipment – at cost	21,966	21,966
Accumulated depreciation	(19,640)	(16,315)
Total field equipment	<u>2,326</u>	<u>5,651</u>
Office furniture and equipment – at cost	-	21,217
Accumulated depreciation	-	(14,405)
Total office furniture and equipment	<u>-</u>	<u>6,812</u>
Total plant and equipment	<u>2,326</u>	<u>12,463</u>

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

	Office furniture & equipment \$	Field equipment \$	Total \$
2013			
Carrying amount at 1 July 2012	6,812	5,651	12,463
Additions during the year	-	-	-
Disposals during the year	(6,027)	-	(6,027)
Depreciation expense	(785)	(3,325)	(4,110)
Carrying amount at 30 June 2013	<u>-</u>	<u>2,326</u>	<u>2,326</u>
2012			
Carrying amount at 1 July 2011	7,854	16,057	23,912
Additions during the year	-	-	-
Disposals during the year	-	(4,185)	(4,186)
Depreciation expense	(1,042)	(6,221)	(7,263)
Carrying amount at 30 June 2012	<u>6,812</u>	<u>5,651</u>	<u>12,463</u>

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 11 – CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2013 \$	2012 \$
Trade creditors and accruals	187,551	249,403
Employee entitlements	12,388	13,083
	<u>199,939</u>	<u>262,486</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

49,405,037 (2012: 43,915,686) fully paid ordinary shares	<u>25,086,598</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 \$
2013				
1 July 2012	Balance	43,915,686		20,776,519
	Issue of ordinary fully paid shares arising from fully paid underwritten pro-rata entitlement offer	5,489,351	0.80	4,391,480
	Less cost of share issue			(81,401)
		<u>49,405,037</u>		<u>25,086,598</u>
30 June 2013	Balance	<u>49,405,037</u>		<u>25,086,598</u>
2012				
1 July 2011	Balance	43,915,686		20,776,519
	No movement	-		-
30 June 2012	Balance	<u>43,915,686</u>		<u>20,776,519</u>

(d) Options

At balance date the Company had on issue 500,000 unlisted options to acquire ordinary shares (2012: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 12 – EQUITY – ISSUED CAPITAL – (continued)

(e) Movements in options during the last 2 years

	Details	Number of Options	Exercise Price Per Share cents	Grant Date	Expiry Date
2013					
1 July 2012	Balance	-			
	Issue of unlisted options	500,000	0.9875	13 April 2013	08 April 2016
30 June 2013	Balance	500,000			
2012					
1 July 2011	Balance	-			
30 June 2012	Balance	-			

NOTE 13 – EQUITY – RESERVES

	2013 \$	2012 \$
Share based payments reserve	177,000	-
Future value option reserve	285,770	285,770
	<u>462,770</u>	<u>285,770</u>

Nature and purpose of reserves

The share based payments reserve records items recognised as expenses on valuation of options issued to employees.

The future value option reserve arises on the exercise of options when the share based payments reserve attributable to the options being exercised is transferred to this reserve.

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

Short-term employee benefits	125,500	68,500
Post-employment benefits	31,750	31,750
Share-based payments	-	-
	<u>157,250</u>	<u>100,250</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 2013

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:

	Balance 1 July 2012	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2013
2013					
Directors					
N Tomkinson	3,802,197	-	-	1,151,028	4,953,225
J N Pitt	6,126,294	-	-	1,586,074	7,712,368
G R Strong	1,143,946	-	-	142,992	1,286,938
	<hr/>				
	11,072,437	-	-	2,880,094	13,952,531
	<hr/>				
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/>				

There were no shares granted as compensation to key management personnel during the reporting period.

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

No shares are held nominally.

Mr Tomkinson's and Mr Pitt's relevant interest in the shares of the company at 30 June 2013 is their combined holdings of 12,665,593 shares.

Subsequent to 30 June 2013 and up to the date of signing the Directors' Report accompanying these financial statements, the directors have acquired 106,287 additional ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Option holdings

No options are held by key management personnel at 30 June 2013.

NOTE 15 – AUDITOR REMUNERATION

	2013	2012
	\$	\$
Amounts received, or due and receivable, by BDO Audit (WA) Pty Ltd for:		
Auditing the financial report of Red Hill Iron Limited	22,614	22,447
Other services	-	-
	<hr/>	<hr/>
	22,614	22,447
	<hr/>	<hr/>

NOTE 16 – CONTINGENCIES

Contingent Liabilities

There are no contingent liabilities for termination benefits under service agreements with directors or executives at 30 June 2013.

The directors are not aware of any other contingent liabilities at 30 June 2013 other than as noted in Note 19.

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	<hr/>	<hr/>
	3,250	3,253

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

Short term loans

In order to ensure prompt payment of the settlement of legal expenses referred to in Note 5, the Company entered into agreements with companies associated with Directors Mr Tomkinson and Mr Pitt whereby those companies advanced \$1,000,000 to Red Hill Iron on normal commercial terms and conditions. These loans have been repaid including interest of \$4,080.

Office rental, secretarial and administration services

During the financial year the Company paid, pursuant to a sub-lease \$ 60,218 (2012: \$24,424) to Hampton Hill Mining NL, a listed company of which Mr Tomkinson and Mr Pitt 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.

Sub-underwriting of pro-rata entitlement offer of shares

Entities associated with Directors Mr Tomkinson and Mr Pitt entered into an agreement with the underwriter of the Company's pro-rate entitlement offer of shares during the year ("the Offer") to sub-underwrite the Offer to the extent of 4,239,461 new shares. The sub-underwriting agreement, to which no fee was attached, was at arms length and on normal commercial terms and conditions. Arising from this sub-underwriting agreement, the sub-underwriting entities subscribed for 756,276 shares in the Company.

NOTE 19 - MINERAL EXPLORATION AGREEMENTS

The Company has an interest in the following pre-existing mineral exploration agreement as at 30 June 2013:

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.

API has advised that the total expenditure funded on behalf of Red Hill Iron by API to 30 June 2013, including interest thereon, amounted to \$22,053,738.

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(p).

RED HILL IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 20 – EVENTS OCCURRING AFTER BALANCE DATE

There are no 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

	2013 \$	2012 \$
Reconciliation of loss after income tax with cash flow from operating activities		
Loss after income tax	(3,596,293)	(1,043,311)
Depreciation	4,110	7,263
Loss/(Profit) on disposal of non current assets	6,027	(3,132)
Equity based payments	177,000	-
Change in operating assets and liabilities:		
(Increase)/Decrease in debtors	(8,215)	15,677
Increase /(Decrease) in creditors	(62,548)	153,020
(Increase)/Decrease in GST receivable	(23,067)	(25,970)
(Increase)/Decrease in security deposit	(17,690)	702
Net cash outflow from operating activities	<u>(3,520,676)</u>	<u>(895,751)</u>

NOTE 22 – LOSS PER SHARE

	Cents	Cents
Basic and diluted loss per share	<u>7.9</u>	<u>2.4</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 Profit or Loss and Other Comprehensive Income	<u>(3,596,293)</u>	<u>(1,043,311)</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>49,405,037</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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 23 – SHARE BASED PAYMENTS

The Company has established an Employee Share Option Plan, the details of which are set out in the Company's initial public offering prospectus in December 2005. The Company from time to time grants options to acquire ordinary fully paid shares in the Company to management personnel and other staff on terms set out in the plan. The granting of options is at the Directors' discretion and is designed to provide an incentive component in the remuneration package of key personnel. Options granted carry no dividend or voting rights. Each option is exercisable into a fully paid ordinary share of the Company. The exercise price of the options is set at the time of grant with reference to the weighted average price at which the Company's share have been trading on the ASX prior to the decision to grant

2013

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during year	Exercised during year	Vested and exercised at year end
13 April 2013	8 April 2016	0.9875	-	500,000	-	500,000
			-	500,000	-	500,000

The weighted average remaining contractual life of options outstanding at the end of the year was 33 months.

No options expired during the year.

No options were exercised during the year.

The assessed fair value, and hence the cost to the Company, of the options granted during the year ended 30 June 2013 was \$177,000. The fair value has been calculated as at the date of grant using the Black-Scholes model for the valuation of call options. The assumptions used in arriving at the value of the options issued to staff are set out below.

	2013	2012
No of options granted	500,000	-
Grant date	13 April 2013	-
Exercise by	8 April 2016	-
Exercise price per share	\$0.9875	-
Expected average life of the options	3 years	-
Underlying security spot price at time of grant	\$0.79	-
Risk free interest rate	2.81%	-
Expected volatility	75%	-

Historical volatility has been the basis for estimating likely future share price volatility. Actual future volatility may differ from the estimate used.

The expected average life of the options granted in the year ended 30 June 2013 was determined to be 2 years, 1 year less than the term, to take account of the fact that the options are not transferable. The actual life of the options could differ from this estimate if the holder of the options chooses to exercise his options prior to their expiry date.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2013

The directors of the Company declare that:

1. The financial statements, comprising the Statement of Profit or Loss and Other 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 2013 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 26 August 2013

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 2013, the statement of profit or loss and other 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.



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 2013 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 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO


Chris Burton
Director

Perth, Western Australia
Dated this 26th day of August 2013