

8 July 2010

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

Dear Sirs

West Pilbara Iron Ore Project Definitive Feasibility Study Completed

On the 5th June 2010 Aquila Resources Limited released details of a Definitive Feasibility Study ("DFS") for a 30 Mtpa 1st Stage iron ore project in the West Pilbara ("the Project") which was prepared by API Management Pty Ltd (API). The DFS is in part pertinent to the Red Hill Iron Ore Joint Venture (RHIOJV) of which Red Hill Iron Limited is a participant.

The DFS is based on the production of a West Pilbara Fines product arrived at by blending RHIOJV iron ore with a lesser proportion of iron ore derived from the adjacent Mt Stuart Joint Venture, owned by API and Cullen Resources Limited, and then transporting the product via a new rail system for export using a port to be constructed at Anketell Point, near Cape Lambert.

Implications and opportunities of the DFS for Red Hill Iron

Under the terms of the RHIOJV, Red Hill Iron may:

1. either participate in the project earnings stream and repay its proportion of costs out of 80% of its share of surplus revenue - Red Hill Iron currently has a 40% interest in the RHIOJV, reducing to 20% upon the first delivery of iron ore to customers, and API pays all project costs including all capital costs under a loan arrangement;
2. or elect at any time until first delivery of iron ore to customers to convert its interest into a 2% FOB Royalty on all iron ore produced and sold from the area of the RHIOJV; such an election would also trigger the writing off of all debts owed by Red Hill Iron to API.

Red Hill Iron notes that the mine plan developed in the DFS has identified an estimated 12 years production from the Mineable Resource. Red Hill Iron estimates that included in the DFS anticipated production rate of 30 million tonnes per annum is approximately 25 million tonnes of iron ore which will come from the RHIOJV; as a consequence 4.5 million tonnes per annum is expected to be attributed to Red Hill Iron over a 12 year period.

Highlights of the DFS include:

- Technical and financial viability of a 30 Mtpa 1st Stage iron ore project in the West Pilbara
- Estimated NPV₁₀ of \$2.2 billion and IRR of 16.4%
- Estimated Capital Expenditure of \$5.77 billion, including EPCM and contingency costs
- Operating costs of \$19.48 per tonne FOB, excluding royalties, at 30 Mtpa
- Average annual Project EBITDA of \$1.8 billion at 30 Mtpa using iron ore prices and exchange rates as forecast by ©Metalytics Iron Ore Briefing Service
- Construction recommended of a 30 Mtpa mine, 282 km of new rail and a new deep water port facility at Anketell Point.
- Major Project Facilitation status has been granted by the Federal Government whilst the port development was recently approved as a multi-user facility by the State Government
Aquila's Release further indicated that:-
- A Development decision by the Project Participants is scheduled for the September Quarter 2010; and
- Subject to statutory approvals and funding, construction could commence in the March Quarter 2012 with first shipments early in Calendar 2014

Key Observations from the Study

While further details are available in Aquila's announcement, key observations derived from the DFS include:

- **Capital Expenditure**

Area	Capital Cost (\$millions)
Mine, Processing and Infrastructure	1,863
Railway and Rolling Stock	1,695
Port Materials Handling, Jetty & Wharf, Dredging and Infrastructure	1,368
Total Direct Costs	4,926
EPCM	319
Contingency	529
Total Costs	5,774

- **Operating Costs**

Operating costs for the Project are forecast to be \$19.48 per tonne FOB at 30 Mtpa production, excluding State royalties, with production due to commence late in 2013, subject to statutory and Participant approvals.

This cost structure would generate average annual Project earnings before interest, tax, depreciation and amortisation (“EBITDA”) of approximately \$1.8 billion (using nominal iron ore prices and exchange rates estimated by ©Metalytics Iron Ore Briefing) at production levels of 30 Mtpa.

○ **Prices Assumed**

Year ending 30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020+
Nominal FOB Price (USc/dmtu)	142.1	190.7	211.8	220.1	210.5	179.8	156.6	163.3	178.5	168.6	142.7
Exchange Rate (US\$/A\$)	0.88	0.89	0.92	0.90	0.85	0.82	0.80	0.81	0.82	0.81	0.79

Source: ©Metalytics 2010: Iron Ore Briefing Service (22/6/2010), AQA

○ **Financial Analysis**

The Mineral Resources Rent Tax has not been included as its impact has yet to be evaluated. It will be considered once the details of that tax are better understood.

The Project cash flows were subjected to discounted cash flow analysis using a nominal after tax discount factor of 10%. A residual value for the rail and port infrastructure, post the depletion of the Stage 1 Resources, has been included using a Depreciated Optimised Replacement Cost (DORC). The NPV₁₀ was estimated at \$2.2 billion with an IRR of 16.4%.

The study has flagged the potential to reduce capital and operating costs by possibly sharing the port and rail infrastructure, by contractor mining, lease of capital equipment and from third party fees.

Red Hill Iron’s board and management are seeking an opportunity to examine the DFS in detail to determine the impact on Red Hill Iron. The board is confident that iron ore demand will remain strong and the development of a new production hub in the west Pilbara will be well received in the market. The strategy outlined in the study for cost reduction points to further upside in the project value. Red Hill Iron is well positioned to optimise its value through a choice of ways in which to participate in the venture.

Yours faithfully,

Neil Tomkinson
Chairman