

26 October 2006

Company Announcements Office
Australian Stock Exchange
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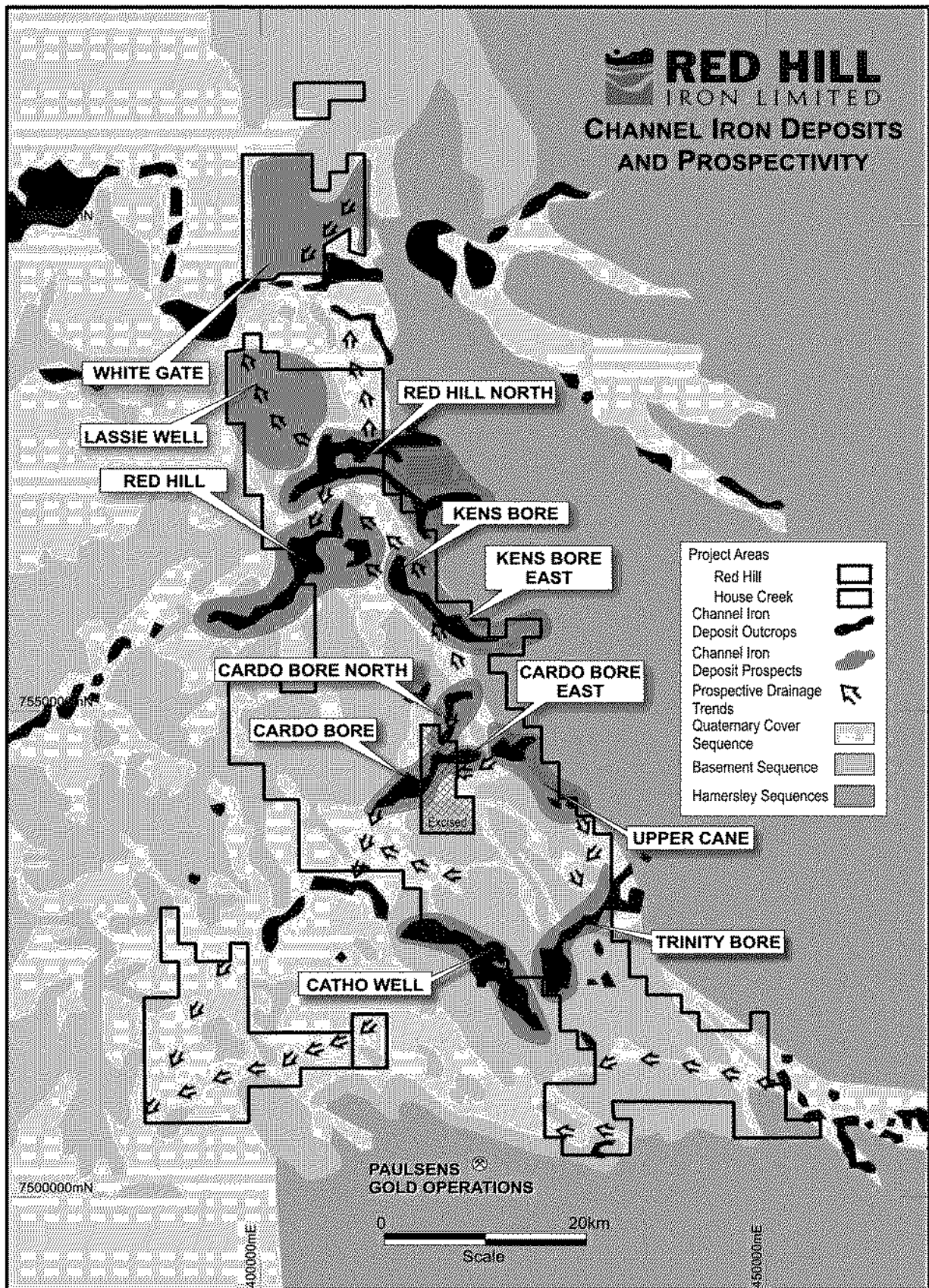
Dear Sir/Madam

**ACTIVITIES REPORT FOR THE QUARTER
ENDED 30 JUNE 2006**

HIGHLIGHTS

Further encouraging iron ore results were obtained from the Cardo Bore East, Red Hill North, and Ken's Bore prospects. Best results include:

- **Cardo Bore East:**
24 metres at 58.66% iron, 2.90% alumina and 5.11% silica from surface in drill hole CBRC133,
20 metres at 61.78% iron, 3.02% alumina and 3.13% silica from 20 metres in drill hole CBRC 146,
- **Red Hill North:**
22 metres at 56.33% iron 4.76% alumina and 5.25% silica from 32 metres in drill hole RNRC 095,
20 metres at 57.05% iron 4.43% alumina and 5.28% silica from 22 metres in drill hole RNRC 074,
- **Ken's Bore:**
22 metres at 57.65% iron 3.75% alumina and 4.74% silica from 2 metres in drill hole KBRC 004,
14 metres at 57.16% iron 3.53% alumina and 4.56% silica from 26 metres in drill hole KBRC 013,



Plan 1 Channel Iron Deposits and Prospects

IRON ORE EXPLORATION

API Management Pty Limited ("API") has met the required expenditure of \$2 million to earn the Initial Interest of 20% in the Iron Ore Rights attaching to the Tenements under the Farm In Agreement. API has exercised its option to sole fund expenditure to a cumulative \$4 million to earn a total 60% Participating Interest in the Project. The election by API has triggered the Formation Date, whereby the parties agree to enter into the Joint Venture Agreement.

API is a company owned in equal proportion by Aquila Resources Limited and AMCI Holdings Inc., an American based group. Under the terms of the joint venture, API may earn a 60% Participating Interest in the Project by expending \$4 million and then may elect to earn a further 20% by providing all iron ore exploration costs and lending Red Hill Iron all of its proportion of any future iron ore mine development costs repayable only out of 80% of Red Hill Iron's share of mine cash flow.

Results have been received from the ongoing RC drilling programme targeting the channel iron deposits at Cardo Bore East, Ken's Bore and Red Hill North.

During the quarter a total of 102 holes for 3,608 metres have been completed on the projects. RC drill programmes are planned for Red Hill North, Ken's Bore, Cardo Bore and Trinity Bore in the next quarter. Results from the main prospects continue to be extremely positive. A number of significant mineralised zones have been identified that could provide potential sources of material for blending. On completion of the current phase of drilling API will commence geological modelling of the deposits with the aim to the finalisation of resource estimates in the first quarter of 2007.

Cardo Bore East

Further in-fill drilling completed at Cardo Bore East during the quarter has defined the limits to the mineralised channel. The channel extends over 2.5 kilometres in length and ranges from 250 metres to 1,000 metres in width, with the thickness of the mineralised zone ranging from 15 to 22 metres.

Table 1: Selected RC drill intercepts from Cardo Bore East

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
CBRC133	0	24	24.00 m @ 58.66 % Fe	2.90	5.11	0.078	0.023	7.56
CBRC134	0	20	20.00 m @ 56.39 % Fe	3.87	7.17	0.069	0.020	7.46
CBRC135	0	20	20.00 m @ 57.21 % Fe	3.56	5.36	0.078	0.020	8.54
CBRC137	0	14	14.00 m @ 58.37 % Fe	3.84	5.15	0.056	0.019	6.87
CBRC138	4	18	14.00 m @ 59.29 % Fe	3.56	3.83	0.061	0.023	7.48
CBRC140	18	32	14.00 m @ 56.04 % Fe	4.33	6.96	0.079	0.007	7.87
CBRC141	10	30	20.00 m @ 58.71 % Fe	3.76	5.31	0.056	0.015	6.42
CBRC142	14	36	22.00 m @ 57.25 % Fe	4.34	5.19	0.059	0.013	7.90
CBRC143	14	38	24.00 m @ 58.50 % Fe	3.74	3.95	0.065	0.018	8.08
CBRC146	20	40	20.00 m @ 61.78 % Fe	3.02	3.13	0.058	0.014	4.85
CBRC147	24	50	26.00 m @ 61.21 % Fe	3.15	3.02	0.078	0.011	5.58
CBRC149	28	44	16.00 m @ 57.44 % Fe	3.83	5.85	0.118	0.001	6.52
CBRC150	30	42	12.00 m @ 61.02 % Fe	3.19	3.27	0.083	0.007	5.69
CBRC155	24	40	16.00 m @ 58.46 % Fe	3.06	3.82	0.164	0.002	7.63
CBRC158	16	30	14.00 m @ 56.50 % Fe	4.46	6.01	0.056	0.027	7.63
CBRC160	4	16	12.00 m @ 56.32 % Fe	3.93	6.56	0.065	0.053	7.76
CBRC161	14	32	18.00 m @ 58.82 % Fe	3.80	4.85	0.063	0.020	6.25
CBRC162	20	38	18.00 m @ 58.14 % Fe	3.36	5.47	0.084	0.009	7.04

Red Hill North

Continued drill evaluation of the Jewel, Cochrane and Farnum prospects has confirmed the presence of significant zones of mineralised CID. Selected intercepts are listed in Table 2 and Table 3 below.

Jewel – The prospect is mineralised over the entire 1.5 kilometre length of the mesa. The main channel is approximately 100 to 150 metres wide. The dominant mineralised zone, approximately 20 metres below surface, ranges from 15 to 20 metres in thickness. Thinner zones of +55% Fe overlay main mineralised zone separated by clay.

Table 2 Selected intercepts from Red Hill North – Jewel prospect

Hole ID	From	To	Intercept	Al2O3%	SiO2%	P%	S%	LOI%
RNRC095	32	54	22.00 m @ 56.33 % Fe	4.76	5.25	0.065	0.018	8.92
RNRC096	30	50	20.00 m @ 56.58 % Fe	4.44	5.01	0.066	0.021	9.16
RNRC097	30	54	24.00 m @ 55.84 % Fe	4.77	5.83	0.059	0.013	9.11
RNRC098	32	50	18.00 m @ 55.36 % Fe	4.78	6.46	0.070	0.012	9.18
RNRC101	32	52	20.00 m @ 56.23 % Fe	4.39	5.73	0.072	0.011	8.96
RNRC102	30	50	20.00 m @ 57.71 % Fe	3.87	5.15	0.071	0.015	7.97
RNRC103	30	50	20.00 m @ 57.05 % Fe	4.28	4.91	0.078	0.017	8.69
RNRC104	28	48	20.00 m @ 58.01 % Fe	3.86	4.23	0.068	0.021	8.40
RNRC128	24	46	22.00 m @ 57.67 % Fe	3.26	5.23	0.072	0.010	8.49
RNRC129	24	44	20.00 m @ 55.66 % Fe	4.05	6.82	0.055	0.027	9.02
RNRC131	22	44	22.00 m @ 57.07 % Fe	3.72	5.55	0.076	0.083	8.71
RNRC132	14	34	20.00 m @ 56.13 % Fe	3.31	7.36	0.066	0.036	8.51
RNRC134	0	16	16.00 m @ 54.44 % Fe	4.61	7.10	0.068	0.049	9.37

Cochrane – Significant mineralisation has been defined along the length of the mesa. The CID ranges up to 20 metres in thickness. The mineralisation is consistent along the 2 to 2.5 kilometre length of the mesa.

Table 3 Selected intercepts from Red Hill North – Cochrane prospect

Hole ID	From	To	Intercept	Al2O3%	SiO2%	P%	S%	LOI%
RNRC072	20	36	16.00 m @ 55.88 % Fe	4.12	7.90	0.065	0.025	7.55
RNRC074	22	42	20.00 m @ 57.05 % Fe	4.43	5.28	0.070	0.024	7.98
RNRC077	22	40	18.00 m @ 56.81 % Fe	4.37	6.33	0.082	0.018	7.25
RNRC084	30	46	16.00 m @ 57.88 % Fe	3.88	4.86	0.059	0.014	7.67
RNRC086	28	46	18.00 m @ 59.44 % Fe	3.35	3.75	0.090	0.020	7.23
RNRC094	28	46	18.00 m @ 57.01 % Fe	4.50	5.10	0.070	0.019	8.10

Farnum - The Farnum mesa trends approximately north-south and is the southwest continuation of the Cochrane channel. The quality of the CID mineralisation along the length of the mesa is highly variable. The northern end of the mesa consists of two zones of strongly mineralised CID. Further drilling is planned at Farnum to test the extension of the Cochrane channel and to close off the channel limits.

Ken's Bore

Results have been received from the initial 13 holes of a larger (65 hole) programme planned to cover the prospect area. Results received are encouraging with average iron grades ranging between 56 to 57%.

Table 4 Selected intercepts from Ken's Bore prospect

Hole ID	From	To	Intercept	Al2O3%	SiO2%	P%	S%	LOI%
KBRC002	22	40	18.00 m @ 55.71 % Fe	4.07	5.32	0.059	0.006	10.40
KBRC003	22	34	12.00 m @ 57.23 % Fe	3.78	4.49	0.072	0.013	9.33
KBRC004	14	36	22.00 m @ 57.65 % Fe	3.75	4.74	0.076	0.014	8.48
KBRC007	0	10	10.00 m @ 56.34 % Fe	4.13	5.39	0.058	0.024	8.99
	26	36	10.00 m @ 57.36 % Fe	3.68	4.00	0.048	0.012	9.85
KBRC008	10	20	10.00 m @ 56.74 % Fe	3.95	5.46	0.062	0.024	9.08
KBRC011	0	12	12.00 m @ 56.10 % Fe	3.52	5.05	0.087	0.027	10.40
KBRC013	26	40	14.00 m @ 57.16 % Fe	3.53	4.56	0.079	0.010	9.76

GOLD & BASE METAL EXPLORATION

The airborne EM (HoistEM) survey of the southern part of the Project Area defined a number of significant conductive targets, possibly representing stratabound base metal mineralisation at unknown depths. Five areas have been selected for drill testing: Snappy Gum, Long Ridge, King Brown, Wedge Tail and Bronze Wing. With the exception of Long Ridge they are all located in fault bound "drop down" structures of Mt McGrath Formation in Cheela Springs Basalt or Duck Creek Dolomite. Diamond drilling of these targets will commence during the December Quarter. This will occur after completion of ground EM which will allow depth modelling of the conductors.

The detailed aeromagnetic/radiometric survey was delayed several times by cattle mustering activities in the area, and should be completed during the December Quarter.

The regional soil geochemical program is ongoing. Approximately 2,000 samples were collected during the quarter. This work has resulted in the identification of two exciting prospects, the **Red Hill gold – copper prospect** and the **Whynot copper – gold prospect**.

The regional bedrock RAB drilling program commenced during the quarter in areas of non outcrop surrounding the Red Hill gold – copper prospect. During the Quarter 61 holes for 2,129 metres were completed. Drilling conditions are difficult and progress is slow. No geochemical results are available at present.

The IP survey of the Red Hill prospect will commence early in the December quarter.

Red Hill gold – copper prospect (Carlin style epithermal gold)

Located in the northern half of the Project Area, this is a north-west trending zone approximately 8.5 kilometres long by 3.5 kilometres wide. The target here is Carlin style gold mineralisation. The area is underlain principally by the Duck Creek Dolomite, and contains the historical Red Hill Copper workings, located in fractures in dolomite. In the west it is overlain by the June Hill Volcanics and Ashburton Formation, whilst to the east it is bound by the major Bitherabooga fault zone and the Mt McGrath Formation. Soil geochemistry over the area has defined a coincident gold-copper-arsenic-antimony

RED HILL IRON LIMITED
GOLD & BASE METAL PROSPECTS

Project Areas

- Red Hill
- House Creek
- Channel
- Iron Deposit
- Turbidites
- Dolomite
- Shales
- Basalts
- Quartzite
- Older rocks

Interpreted Basement Geology

Faults

- YANKS BORE FAULT
- RANDY FAULT
- PARABURDOO HINGE ZONE

Prospects

- WHYNOT COPPER-GOLD PROSPECT
- RED HILL GOLD-COPPER PROSPECT
- SNAPPY GUM EM PROSPECT
- LONG RIDGE EM PROSPECT
- BRONZEWING EM PROSPECT
- WEDGETAIL EM PROSPECT
- KING BROWN EM PROSPECT
- PAULSENS GOLD OPERATIONS

Scale

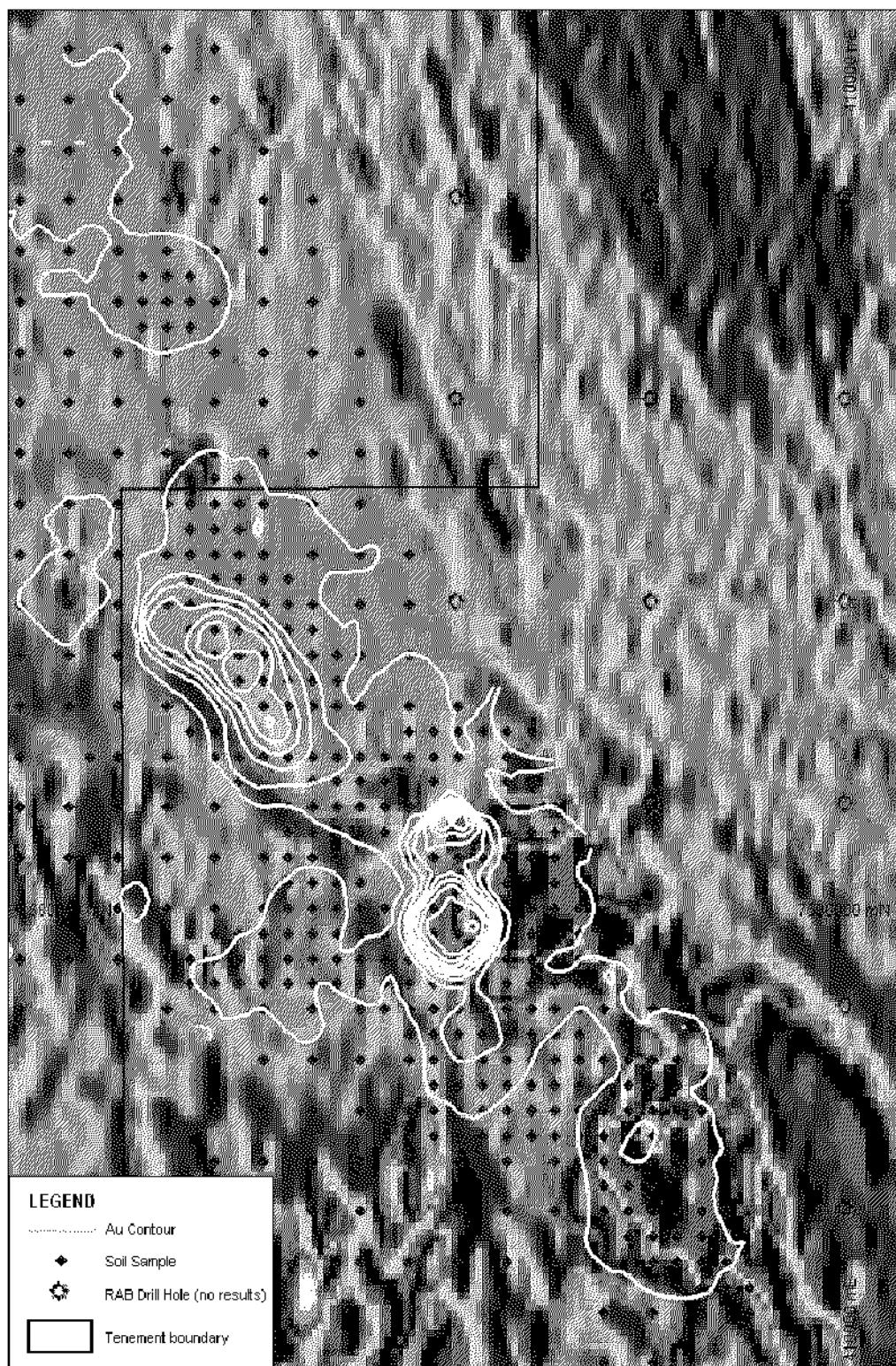
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Coordinates

7600000mN
7550000mN
7500000mN

4000000mE
4500000mE

6

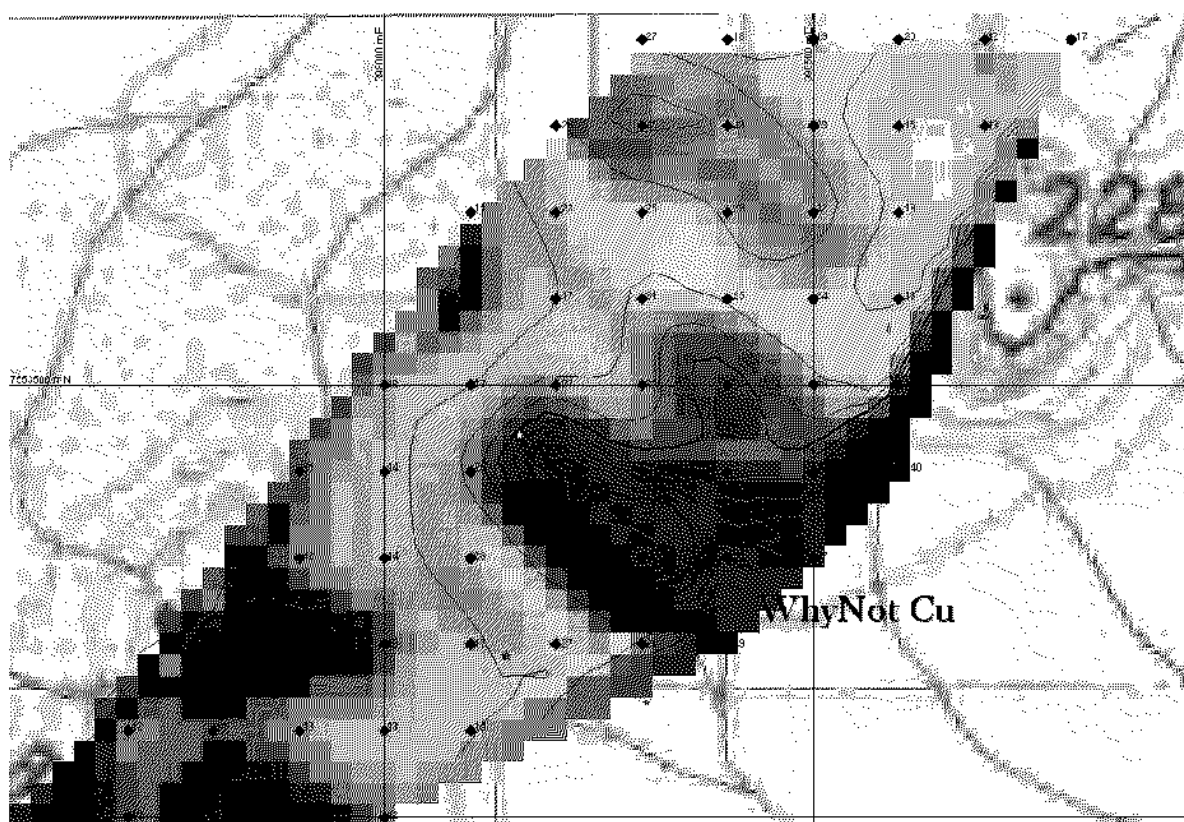


Plan 3 Red Hill Gold Copper prospect Contours of gold in soil geochemical anomaly superimposed onto a magnetic image. The contour interval is 10ppb, with the first contour at 2 ppb.

Whynot copper – gold prospect (Unconformity copper).

The Whynot prospect contains the historical Whynot copper workings, located in the sheared altered metasediments of the major Urandy shear zone where it disappears beneath the unconformity between the Ashburton Formation and the sandstones of the overlying Mt Minnie Formation. A strong zone of alteration has been identified from satellite imagery along this unconformity.

Rock chip samples from the Whynot copper show recorded up to 6% copper and 20 ppm gold, and 0.4% copper and 18 ppm gold from silicified ironstone at the unconformity itself. A soil geochemical survey was conducted over an area of 1400 metres by 600 metres, resulting in the definition of an irregular coincident copper–gold anomaly over approximately 70,000 square metres. Geological mapping, followed by a bedrock drilling program, are planned for this area once the necessary clearances have been obtained.



Plan 4 The Whynot copper–gold prospect showing the copper in soil geochemical anomaly

Yours faithfully

G R Strong
Director

COMPLIANCE STATEMENT

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Tim Boddington who is a Member of The Australasian Institute of Mining and Metallurgy. Mr. Boddington is a full-time employee of the company. Mr. Boddington 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. Boddington consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this announcement, insofar as it relates to iron ore exploration activities, is based on information compiled by Stuart H Tuckey, who is a member of the Australian Institute of Mining and Metallurgy, and who has more than five years experience in the field of activity being reported on. Mr. Tuckey is a full-time employee of API Management Pty Ltd. Mr. Tuckey 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 of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Tuckey consents to the inclusion in the report of the above matters, based on their information in the form and context in which it appears.