

25 October 2006

The Manager
Announcements
Company Announcements Office
Australian Stock Exchange Limited
PO Box H224 Australia Square
SYDNEY NSW 2000

Dear Sir / Madam

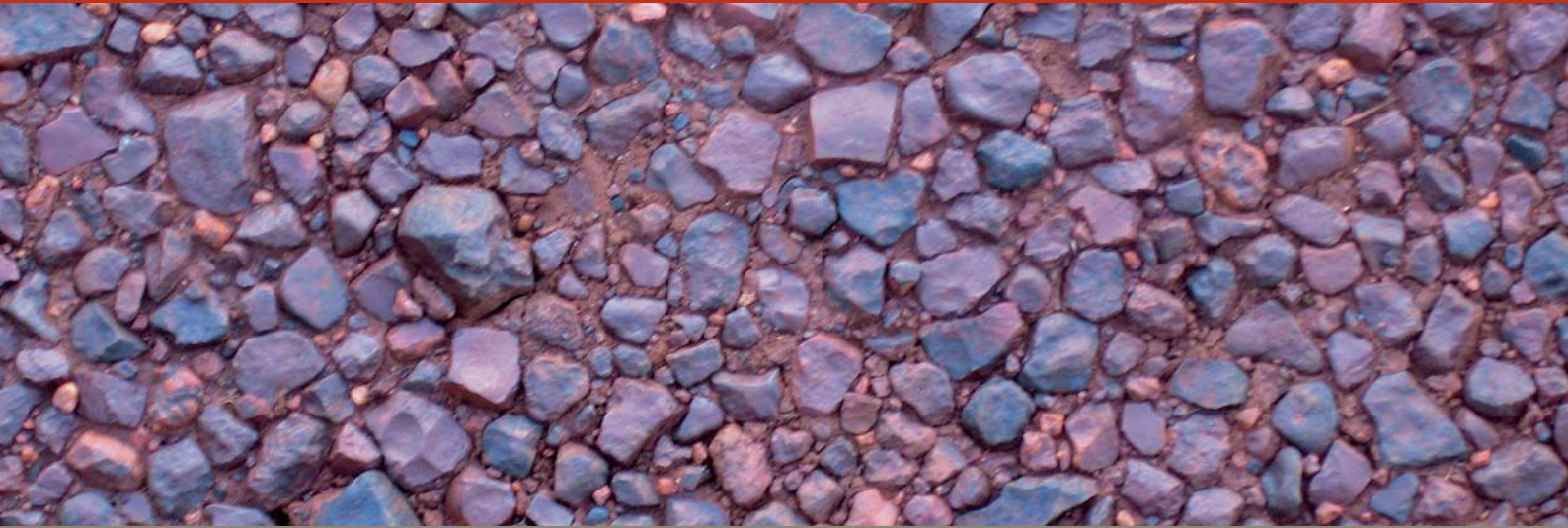
Annual Report 2006

We attach a copy of the 2006 Annual Report forwarded to shareholders.

Yours faithfully

Peter Ruttledge
Company Secretary

ANNUAL REPORT 2006



RED HILL
IRON LIMITED




ABN 44 114 553 392

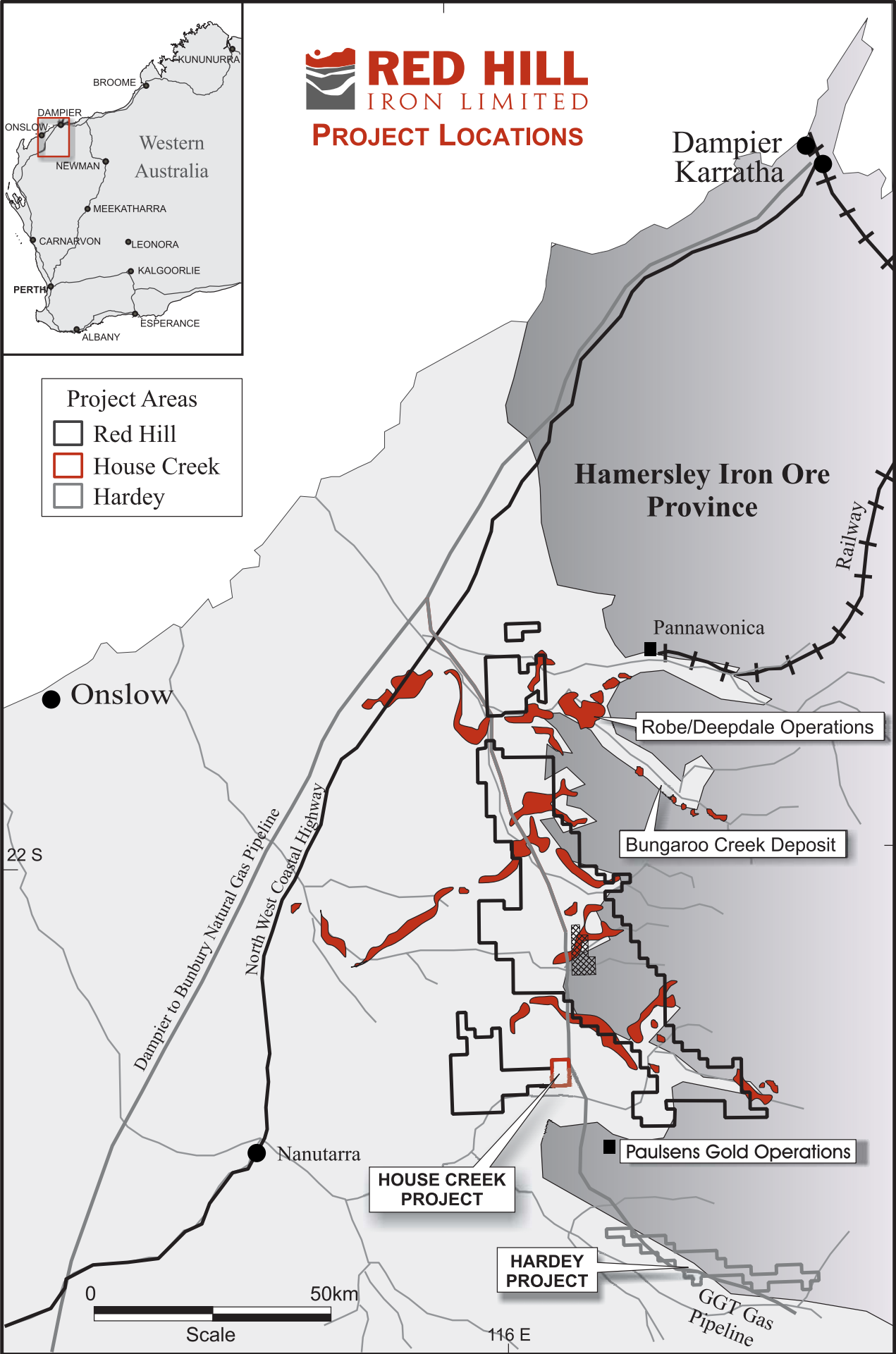


RED HILL
IRON LIMITED
PROJECT LOCATIONS



Project Areas

-  Red Hill
-  House Creek
-  Hardey



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CORPORATE DIRECTORY

DIRECTORS

Non Executive Chairman
Graham Riley

Non Executive Directors

Joshua Pitt
Stanley Macdonald
Garry Strong

GENERAL MANAGER

Tim Boddington

COMPANY SECRETARY

Peter Ruttledge

REGISTERED OFFICE

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HOME EXCHANGE

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2 The Esplanade
Perth WA 6000

AUDITORS

BDO

Chartered Accountants and Advisers
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Perth WA 6000

SHARE REGISTRY

Security Transfer Registrars Pty Ltd

770 Canning Highway
Applecross WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233
Email: registrar@securitytransfer.com.au

CHAIRMAN'S LETTER

Following Red Hill Iron Limited's IPO and listing on the Australian Stock Exchange earlier this year, the Company, through its joint venture with API Management Pty Limited ("API") has been very active in exploring the extensive channel iron deposit ("CID") prospects on our Red Hill tenements, near Pannawonica in the West Pilbara. Over 12,000 metres of drilling has already been completed and rapid progress is being made towards establishing significant resources.

API is a joint venture company 50% owned by Aquila Resources Ltd which is dedicated to the efficient appraisal and early development of its extensive iron ore exploration interests in the West Pilbara. The tenements held by Red Hill Iron are a key component of this strategy and this should ensure a substantial future for our Company based on iron ore.

The gold and base metals rights over the project area are retained by Red Hill Iron Limited and we have been very active in exploring in our own right for these metals. The prospectivity for epithermal gold deposits is considered particularly high.

Initial compilation and interpretive work is being aided by a detailed aeromagnetic survey over the entire project area. Extensive soil and bedrock geochemical surveys are well advanced and an aerial electromagnetic survey has been carried out over much of the southern tenements. Anomalies are being defined and will be tested in the coming year.

The world outlook for resources in general, and iron ore in particular, remains strong and the Company anticipates the continued support of equity markets, notwithstanding the current trend towards an increase in volatility.

I would like to take this opportunity to extend my thanks on behalf of the Company to all employees and contractors who have worked diligently on our behalf over the past year.

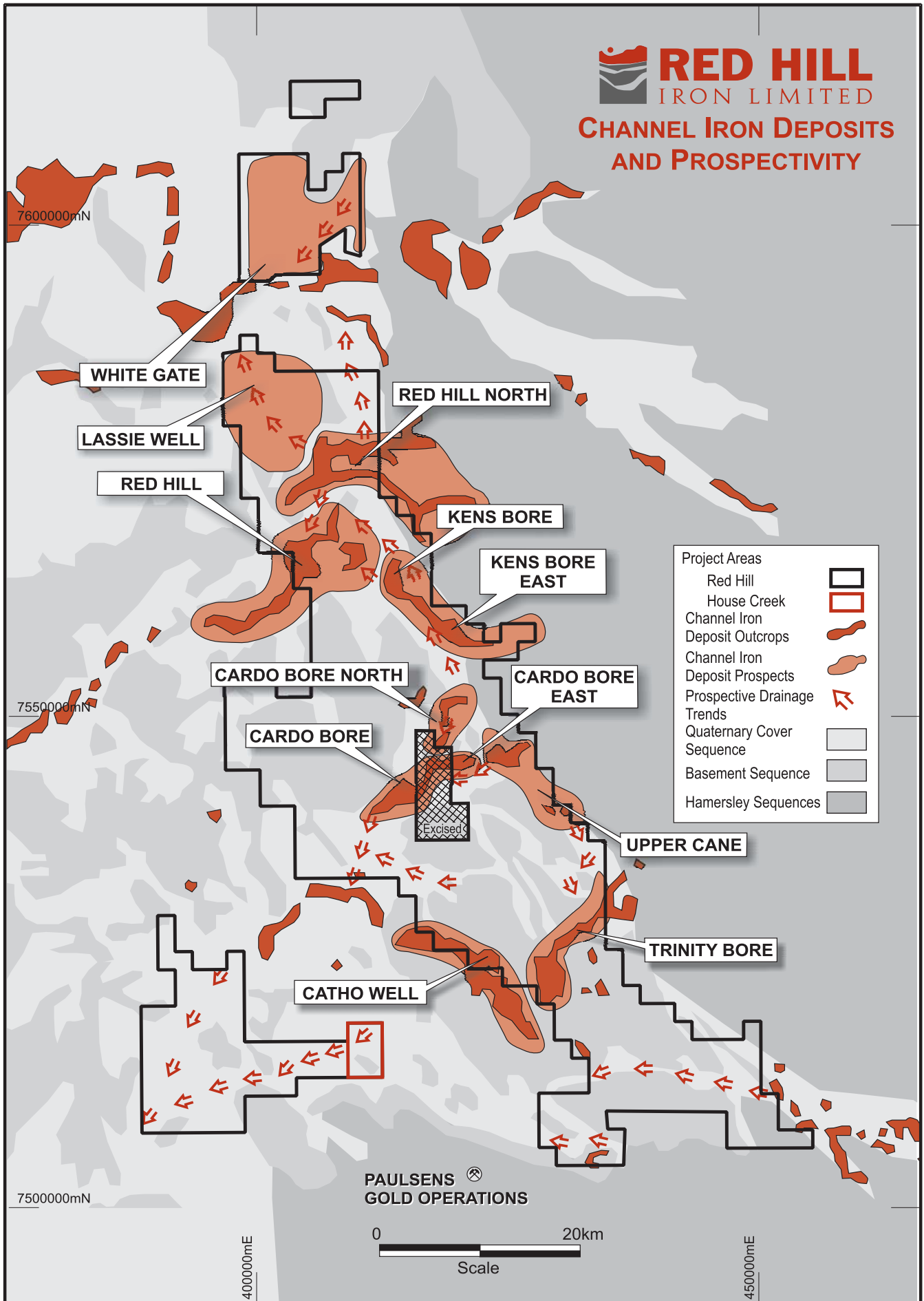
Graham Riley
CHAIRMAN

29 September 2006



RED HILL IRON LIMITED

CHANNEL IRON DEPOSITS AND PROSPECTIVITY



REVIEW OF OPERATIONS

Red Hill Iron Limited controls a large package of tenements in the West Pilbara region of Western Australia prospective for channel iron deposition as well as gold and base metals. The Company has secured funding for the exploration of the tenements for channel iron deposits through an iron ore specific joint venture with API Management Pty Limited. All other minerals on the tenements are retained by the Company and since listing on the ASX in February this year, it has carried out an aggressive exploration program for gold and base metals.

IRON ORE

API Management Pty Limited ("API") is a company owned in equal proportion by Aquila Resources Ltd. and AMCI Inc., an American based group. Under the terms of the joint venture, API may earn a 60% equity in the iron ore rights 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. API had expended in excess of \$1,700,000 to 30 June 2006.

During the reporting year API completed a total of 232 holes for 12,486 metres at four prospects. Drilling continues and zones of channel iron mineralization defined as prospective for economic grade and tonnage potential will be subjected to more intensive follow up drilling. It is anticipated that initial resource statements may be available by the June quarter of 2007.

At the **Cardo Bore East Prospect** a significant zone of channel iron mineralisation has been outlined of over 2.5 kilometres, ranging from 250 metres to 1000 metres in width. Additional drilling is in progress to close off the channel limits.

Table 1: Selected RC drill intercepts from Cardo Bore East:

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
CBRC053	0	18	18.00 m @ 60.02% Fe	2.65	3.65	0.08	0.02	7.35
CBRC054	14	36	22.00 m @ 56.59% Fe	3.88	5.85	0.08	0.01	8.73
CBRC055	18	30	12.00 m @ 55.67% Fe	5.02	8.04	0.08	0.02	6.72
CBRC056	18	36	18.00 m @ 58.53% Fe	3.77	4.45	0.05	0.02	7.49
CBRC060	16	26	10.00 m @ 60.96% Fe	3.06	3.47	0.06	0.02	5.60
CBRC067	22	38	16.00 m @ 58.98% Fe	3.13	3.98	0.13	0.01	7.29
CBRC068	26	42	16.00 m @ 57.97% Fe	3.55	4.51	0.14	0.01	8.00

At **Cardo Bore North Prospect** RC drilling has been conducted at 100 metre to 200 metre intervals along the 6 kilometre length of the CID. Two areas have returned encouraging intersections of channel iron mineralisation. Drill holes completed between the two areas intersected CID material with higher clay content, potentially reflecting the margin of the channel. Additional drilling is planned to test the position of the main channel.

Table 2: Selected RC drill intercepts from Cardo Bore North:

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
CBRC102	16	26	10.00 m @ 58.80% Fe	3.09	4.68	0.11	0.02	7.41
CBRC111	22	38	16.00 m @ 58.35% Fe	3.59	5.52	0.09	0.03	6.84
CBRC112	18	32	14.00 m @ 60.90% Fe	2.39	3.15	0.07	0.02	6.99
CBRC113	22	34	12.00 m @ 60.57% Fe	2.66	3.40	0.07	0.02	7.00
CBRC114	22	34	12.00 m @ 58.93% Fe	2.79	5.09	0.09	0.02	7.42
CBRC121	24	38	14.00 m @ 57.77% Fe	3.59	6.18	0.08	0.02	7.09
CBRC122	28	38	10.00 m @ 57.78% Fe	3.44	6.23	0.09	0.02	6.68
CBRC124	30	40	10.00 m @ 57.78% Fe	3.67	5.29	0.08	0.01	7.77

The **Red Hill North Prospect** is a large area and first pass RC drilling on a 200 by 400 metre pattern has been completed over five zones within the prospect. Two of these zones have returned particularly encouraging results.

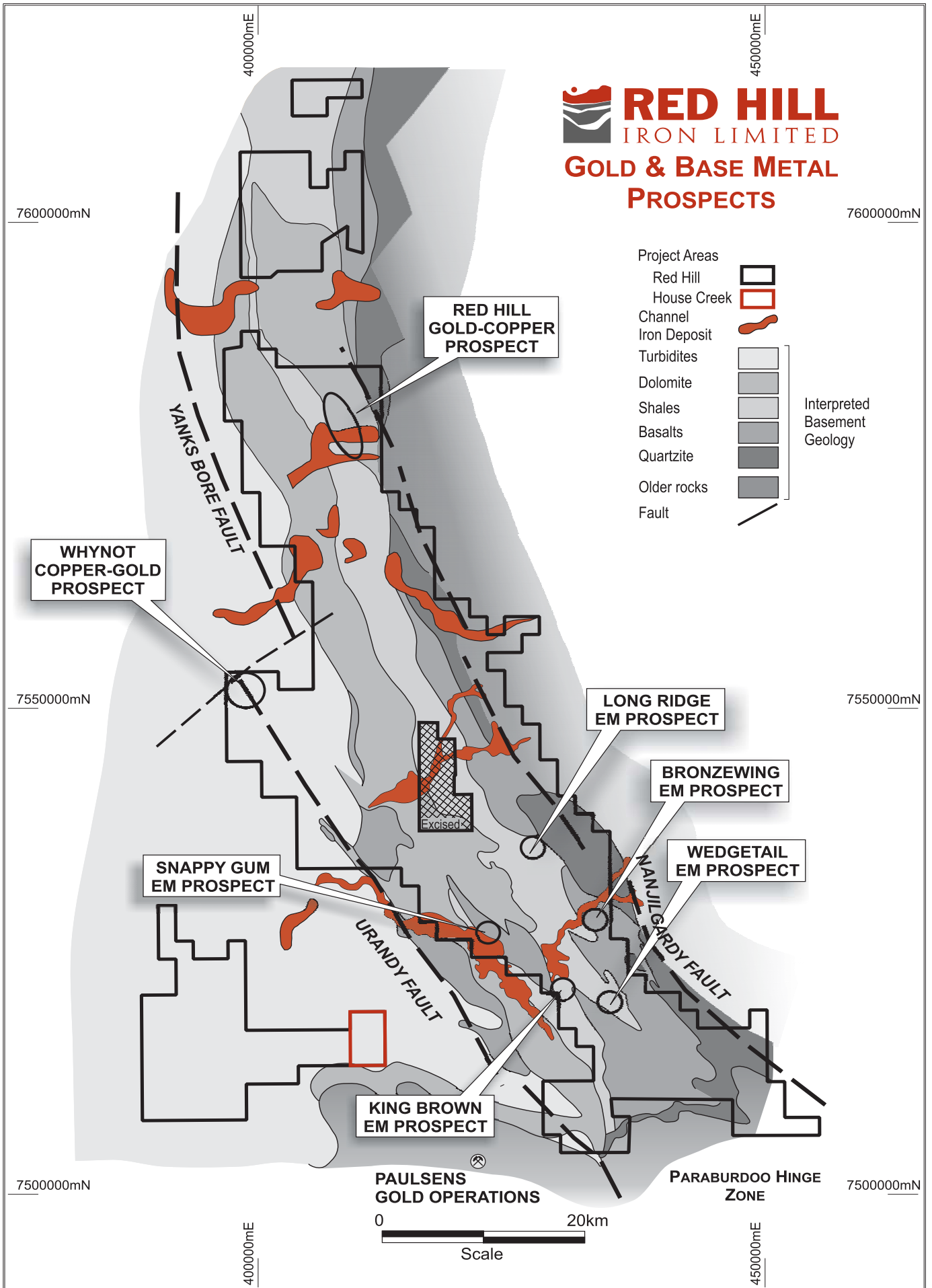


Table 3: Selected RC drill intercepts from Red Hill North:

Hole ID	From	To	Intercept	Al ₂ O ₃ %	SiO ₂ %	P%	S%	LOI%
RNRC043	32	54	22.00 m @ 56.70% Fe	4.30	4.67	0.08	0.02	9.41
RNRC045	28	56	28.00 m @ 57.76% Fe	3.67	4.87	0.09	0.01	8.30
RNRC046	32	52	20.00 m @ 56.48% Fe	4.30	5.47	0.07	0.02	8.85
RNRC049	0	12	12.00 m @ 54.33% Fe	4.42	6.40	0.03	0.02	11.13
	24	44	20.00 m @ 58.65% Fe	2.83	4.70	0.06	0.03	8.28
RNRC053	24	38	14.00 m @ 57.20% Fe	3.49	5.68	0.06	0.02	8.57
RNRC056	12	32	20.00 m @ 58.16% Fe	3.04	4.31	0.11	0.02	8.27
RNRC057	14	34	20.00 m @ 58.01% Fe	2.90	4.84	0.11	0.02	8.73
RNRC062	26	40	14.00 m @ 58.76% Fe	3.93	4.56	0.05	0.02	6.94
RNRC063	20	36	16.00 m @ 58.16% Fe	4.11	4.68	0.06	0.02	7.44

At the **Ken's Bore Prospect** an initial programme of 13 RC drill holes, for a total of 684 metres, was completed. Results are pending.

GOLD AND BASE METALS

The project area covers over 2000 square kilometres extending from north of the Robe River southwards to the Wyloo Dome and secures stratigraphy and structural settings prospective for a range of gold and base metal target styles. Red Hill Iron was encouraged in planning its exploration programs by the substantial exploration efforts that have and are being carried out by Newcrest Mining Limited, Sipa Resources International Limited, Nustar Mining Corporation and others in relation to similar geological sequences to the south and east.

The Company commenced gold and base metal evaluation by compiling all previous work and determining what styles of mineralization could be anticipated. This initial appraisal was aided by the interpretation of geology from remote sensing imagery and it was decided to commission a detailed aerial magnetic survey over the whole project area to allow refined structural interpretations and identify any direct magnetic anomalies.

Prospecting and geological mapping highlighted a series of target areas for immediate attention and confirmed that the main target styles for which the project is prospective are gold deposits of the Carlin style, volcanic and sediment hosted base metal mineralization, and unconformity related copper – gold mineralisation. The Company commenced extensive soil sampling of selected areas on a 200 metre by 200 metre pattern, and has begun a RAB drilling bedrock program on an 800 metre by 800 metre pattern to augment the surface geochemical work where cover is too deep for soil sampling to be effective. An extensive aerial electromagnetic survey designed to identify massive sulphides at depth was carried out in the southern portion of the project where the geology and assaying indicated potential for lead - zinc and copper - zinc sulphide deposits.

The geochemical program is ongoing but has already resulted in the identification of several exciting targets, including the Red Hill and Whynot prospects. At the Red Hill Gold – Copper Prospect, soil sampling conducted over an eight kilometre strike length defined a coincident gold-copper-arsenic-antimony anomaly over 2.5 kilometres, with up to 165 ppb gold in soil being recorded. At the Whynot Copper - Gold Prospect soil sampling was conducted over an area of 1400 metres by 600 metres; results are pending. Rock chip samples from this area recorded up to 6% copper and 20 grams per tonne gold.

The electromagnetic survey defined clusters of five late time anomalies of particular interest in an area 8 kilometres wide and 17 kilometres long, all in favourable geological settings. Reverse circulation drilling at the Long Ridge Prospect will test the peak of a 2 kilometre long anomaly in the highly prospective Mt McGrath Formation. Reverse circulation drilling will also test anomalies at the Bronze Wing, Wedge Tail, Snappy Gum and King Brown Prospects which occur in fault bound troughs of Mt McGrath Formation bound by Cheela Springs Basalt. Field investigations of these prospects indicate that the electromagnetic anomalies have no surface expression.

The soil and bedrock sampling programs are continuing and the Company is progressing with native title discussions and anthropological and environmental studies and hopes to be able to commence the drill testing program within 3 months.

CONCLUSION

Exploration for iron ore resources and for gold and base metals will continue to be advanced at a rapid rate and the potential of the Red Hill Project Area to host economic resources should be much better understood by year end.

Compliance Statement: *The information in this Review of Operations that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Tim Boddington who is a Member of The Australasian Institute of Mining and Metallurgy, and is the General Manager and a full time employee of the Company. Mr Boddington has sufficient experience which is relevant to the styles of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Boddington consents to the inclusion in this report of the matters based on his information in the form and context in which they appear.*

DIRECTORS' REPORT

Red Hill Iron Limited ("the Company") is an Australian company listed on the Australian Stock Exchange Ltd. The registered 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 thirteen months from the Company's incorporation on 1 June 2005 to 30 June 2006 (the "financial period").

DIRECTORS

The names of the Directors of Red Hill Iron Limited during the whole of the financial period and up to the date of this report are:

Mr Graham Riley *BJuris LLB, (Age 54) Chairman – Non-executive*

Mr Riley is a qualified legal practitioner. Following ten years legal practice as a partner of a commercial firm in Perth, Mr Riley has pursued private interests in the resources and exploration sector, where he continues to act in various non-executive capacities. Mr Riley is the Chairman of Giralia Resources NL and a non-executive director of Adelphi Energy NL.

Mr Stanley Macdonald, *(Age 65) Director - Non-executive*

Mr Macdonald has been involved in the mining and exploration industry for over twenty years during which time he has been associated with a number of listed mining companies. He is currently a non-executive director of Giralia Resources NL and U308 Limited.

Mr Garry Strong *(Age 59) Director - Non-executive*

Mr Strong is a prospector with forty years experience in gold and basemetal reconnaissance exploration in Australia. He has spent the last 15 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 Limited. Previously he was a director of Golden Grove Mining NL, Aztec Exploration Limited, and Riverina Gold NL.

Mr Joshua Pitt *Bsc, MAusIMM, (Age 58) Director – Non-executive*

Mr Pitt is a geologist with substantial exploration experience who has for more than thirty years been a director of exploration and mining companies in Australia. He is a non-executive director of Hampton Hill Mining NL, Traka Resources Limited (appointed July 2003) and Red Metal Limited (appointed July 2003). Until its merger with LionOre Mining International Limited Mr Pitt was a director of Dalrymple Resources NL (resigned October 2003) and he was then a non-executive director of LionOre Mining International Limited from November 2003 to May 2005. Mr Pitt is involved in substantial private mineral exploration and also in resource investment.

GENERAL MANAGER

Mr Timothy Boddington *BSc Hons, MAusIMM, MAIG, GSA*

Mr Boddington is an exploration geologist with forty years experience in gold and base metal exploration, including several years spent exploring the Ashburton Trough on behalf of the Guardian Syndicate. He has extensive field experience and has spent a significant amount of time at senior management level directing exploration programs for a number of listed and unlisted companies.

COMPANY SECRETARY

The company secretary is Mr Peter Ruttledge. He holds a Bachelor of Science degree and is a Chartered Accountant and a Fellow of The Financial Services Institute of Australia. Mr Ruttledge has held the position of company secretary for a number of listed companies over the past twenty years.

PRINCIPAL ACTIVITIES

The Company was registered on 1 June 2005 and the principal activities of the Company during the 13 months from incorporation to 30 June 2006 consisted of base metal, gold and iron ore exploration. There has been no significant change in these activities during the financial period.

OPERATING RESULTS

The operating loss after tax for the financial period was \$877,824.

DIRECTORS' REPORT (continued)

DIVIDENDS

No dividends were paid during the financial period and the directors do not recommend the payment of a dividend.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company was registered on 1 June 2005 with one ordinary fully paid share of \$1 and on the same day issued a further 999 ordinary fully paid shares of \$100 each to acquire the tenements comprising the Red Hill project.

On 24 November 2005 following shareholder approval, the Company subdivided its 1,000 ordinary fully paid shares into 13,333,333 fully paid ordinary shares. On 12 December 2005 the Company issued a prospectus for an initial public offer of 20,000,000 ordinary fully paid shares at 20 cents each to raise \$4,000,000 to fund its exploration activities.

The offer closed oversubscribed on 1 February 2006 and the Company was admitted to the official list of the Australian Stock Exchange on 9 February 2006. Trading in the Company's ordinary shares commenced on 14 February 2006.

Other than these changes and the operating results there were no significant changes in the state of affairs of the Company during the financial period.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD AND LIKELY DEVELOPMENTS

There are no matters or circumstances which have arisen since the end of the financial period 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 future operations or the results of those operations or the state of affairs of the Company.

REVIEW OF OPERATIONS

Red Hill Iron Limited was formed with the specific purpose of acquiring the exploration licenses that comprise the Red Hill Project Area, some from private interests known as the Guardian Syndicate and the remainder from Giralia Resources NL.

Subsequently, the Company entered into a farm-in agreement with API Management Pty Limited (API) whereby that company was granted the right to earn an interest exclusively limited to iron ore within the Project Area. The terms of the agreement grant API the right to earn 60% by sole funding project expenditure of \$4,000,000 and a further 20% by lending Red Hill Iron Limited all of its share of exploration and development expenditure repayable only from 80% of the Company's share of mine revenues.

In February 2006, the Company was successful in being granted listing on the ASX. The IPO of the Company involved the raising of \$4,000,000. These funds were required because, although the joint venture with API ensured initial funds for iron ore exploration, the Company was keen to commence intensive exploration for gold and base metals.

API have proceeded to manage an aggressive iron exploration program testing the large set of channel iron deposits (CIDs) that had been identified on the project by the Company. Concurrently, Red Hill Iron Limited has commenced a comprehensive appraisal of the Project Area for metal resources other than iron ore.

The CID exploration to date has involved a major reverse circulation drilling program resulting in some very positive results. It now appears likely that significant tonnage of good quality CID will be defined and the Company is hopeful that a commercial mining operation may be possible and anticipates rapid progress with evaluation.

The gold and base metal exploration is progressing well with some exciting targets being outlined by the soil and bedrock geochemical surveys and by an extensive aerial electromagnetic survey carried out over the southern portion of the project. The whole Project Area has been covered by an aeromagnetic survey that has provided invaluable information for prospect targeting. Reverse circulation drill testing of defined targets is to be carried out as soon as native title and environmental issues allow and a drilling rig can be contracted.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of directors held during the financial period and the number of meetings attended by each director:

Director	Meetings of Directors whilst a Director	Number of Meetings Attended
G D Riley	6	5
J N Pitt	10	10
S A Macdonald	10	9
G R Strong	10	10

DIRECTORS' REPORT (continued)

REMUNERATION REPORT

(a) Remuneration Policy

The objective of the company's remuneration policy for directors and executives is to ensure reward for performance is competitive and appropriate for the results delivered taking into account competitiveness and reasonableness, acceptability to shareholders, and transparency. Fees paid to the non-executive directors for services as directors have been 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 remuneration of the general manager has been determined by the board and comprises a base salary with superannuation and the grant of options to acquire shares in the Company. All remuneration paid to directors and other key management personnel is valued at the cost to the Company and expensed.

(b) Compensation of key management personnel

Non-Executive 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 non-executive Director of the Company is entitled to receive an annual fee of \$25,000 plus statutory superannuation for their services as Directors.

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 provision is made to remunerate the Director 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

Remuneration for the General Manager, Mr Tim Boddington, is by way of a salary inclusive of statutory superannuation payments currently set at \$180,000 per annum, the use of a company 4-wheel drive vehicle primarily for accessing the Company's exploration properties, and from time to time the issue of options to take up fully paid shares in the Company. The terms and conditions of Mr Boddington's employment are set out in a written employment agreement. The non-executive directors review terms of the General Manager's remuneration on an annual basis. The nature and amount of remuneration paid to the Managing Director has been determined by reference to the services provided, experience, length of service and prevailing market rates.

The salary and superannuation package for Mr Boddington for the 5 months from his engagement to 30 June 2006 was \$70,996. In addition, the Company issued 2,000,000 free options to Mr Boddington in December 2005 exercisable within 3 years at 30 cents each. The options were valued at \$92,770 on the date of issue. There are no termination arrangements in respect of Mr Boddington's employment other than the expectation that he would receive 3 months salary in the event of his services being terminated by the Company.

Remuneration of the Company Secretary, Mr Peter Ruttledge is by way of fees paid to Sable Management Pty Ltd, for company secretarial, accounting and administration services provided to the Company, and invoiced on an hourly basis. The directors regularly review the services provided and the hourly rate charged.

The fees payable by the Company to Sable Management Pty Ltd for Mr Ruttledge's services for the financial period exclusive of GST were \$24,587.

DIRECTORS' REPORT (continued)

The remuneration of Directors and other key management personnel for the financial period is summarised below:

Directors	Short Term Benefits			Post-Employment Benefits	Share Based Payments	Total
	Service Payments	Salary	Non-cash Benefits	Super-Annuation	Options	
	\$	\$	\$	\$	\$	\$
G D Riley	-	10,417	-	937	-	11,354
J N Pitt	-	11,354	-	-	-	11,354
S A Macdonald	11,354	-	-	-	-	11,354
G R Strong	31,355	-	-	11,354	-	42,709
	<u>42,709</u>	<u>21,771</u>	<u>-</u>	<u>12,291</u>	<u>-</u>	<u>76,771</u>
Other key management personnel						
General Manager	T Boddington	-	65,245	-	5,751	92,770
Company Secretary	PC Rutledge	24,587	-	-	-	24,587
		<u>24,587</u>	<u>65,245</u>	<u>-</u>	<u>5,751</u>	<u>92,770</u>
						<u>188,353</u>

No part of the remuneration of directors and other key management personnel is contingent on the performance of the Company.

(c) Compensation by Grant of Options

The General Manager and other key management personnel from time to time are entitled to participate in the Red Hill Iron Employee Share Option Plan and be granted options to acquire ordinary shares in the Company, at the discretion of the board. Share based payments are provided as incentives and are not linked to company performance.

Further details pertaining to the grant of options to key management personnel as remuneration during the year are set out below:

Name	% remuneration consisting of options	Value of options at grant date	Value of options exercised	Value of options lapsed	Total Value
T Boddington	57%	92,770	-	-	92,770

The fair value of the options issued during the financial period ended 30 June 2006 has been calculated as at the date of grant using the Black-Scholes model for the valuation of call options, based on the following facts and assumptions:

Management Options

Grant date	7 December 2005
Exercise price per share	30 cents
Expected average life of the options	3 years
Underlying security spot price at time of grant	15 cents
Risk free interest rate	5.32%
Expected volatility	69.28%

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

The underlying security spot price was determined by applying a 25% discount to the price of 20 cent per share set for the Company's IPO anticipated at the time of grant of the options.

DIRECTORS' REPORT (continued)

The expected average life of the options has been estimated as 3 years. The actual life could differ from this estimate if the holder of the options chooses to exercise his options prior to their expiry date.

Further details of the remuneration of Directors and other key management personnel are set out in Note 14 to the Financial Statements.

DIRECTORS' BENEFITS

Other than as outlined in Note 14 to the Financial Statements, since 1 June 2005 no director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or receivable by a Director shown in Note 14 to the Financial Statements), by reason of a contract that the Director, a firm of which he is a member, or an entity in which he has a substantial financial interest, has made (during the year ended 30 June, 2006 or at any other time) with:

- (a) the Company, or
- (b) an entity that the Company controlled or a body corporate that was related to the Company when the contract was made or when the Director received, or became entitled to receive, the benefit.

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS IN THE COMPANY

Shares:

The number of shares held directly and indirectly by the Directors as at the date of this report are set out below:

Directors	Ordinary Shares Fully Paid
G D Riley	664,742
J N Pitt	2,140,000
S A Macdonald	743,239
G R Strong	1,723,946
	<u>3,131,917</u>

Restricted shares: Of the shares set out above, 2,040,000 of Mr Pitt's shares and 1,360,000 of Mr Strong's shares are restricted from trading on the Australian Stock Exchange until 14 February 2008.

Options:

No options have been issued to the Directors

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.

AUDITORS' INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

A copy of the auditors' independence declaration as required by Section 307C of the Corporations Act 2001 is set out on page 14 of this report. BDO Chartered Accountants, the company's auditors, performed the following non-audit services for the Company for the financial period.

Investigating Accountant's report for the prospectus \$6,310

SHARE OPTIONS

Options to take up ordinary fully paid shares in the Company at the date of this report are as follows:

Number of Options	Exercise Price	Expiry Date
2,000,000	\$0.30	6 December 2008

DIRECTORS' REPORT (continued)

ENVIRONMENTAL REGULATIONS

The mining leases, exploration licences and prospecting licences 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 contraventions of these requirements.

INSURANCE OF OFFICERS

During the financial year the Company paid a premium to insure the 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. 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.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of any court 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.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those standards.

STATEMENT PURSUANT TO ASX LISTING RULE 4.10.19

The Company has used the cash on hand at the time of its admission to the official list of the ASX in a way consistent with the Company's business objectives.

Signed in Perth in accordance with a resolution of Directors on 29 September 2006



Mr J N Pitt

Director



Chartered Accountants
& Advisers

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29 September 2006

The Directors
Red Hill Iron Ltd
PO Box 689
WEST PERTH WA 6872

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF RED HILL IRON LTD

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.

Yours faithfully

BDO
Chartered Accountants



BG McVeigh
Partner

CORPORATE GOVERNANCE STATEMENT

Red Hill Iron Limited (“the Company”) is a small company with an uncomplicated corporate structure. It adheres to the ten “Essential Corporate Governance Principles” published by the Australian Stock Exchange Corporate Governance Council and has adopted those of the “Best Practice Recommendations” which its board of Directors “the Board” considers to be appropriate to safeguard shareholder assets and efficiently manage the business, taking into account the inherent and well-understood high-risk nature of the exploration industry.

The following is a summary of the Corporate Governance measures adopted by the Company: -

MANAGEMENT AND GOVERNANCE

Objectives of the Board

The Board’s key objective is the increase of shareholder value by successful exploration. At all times shareholders’ rights and interests are safeguarded by the provision of an appropriate overview of management. The Board meets regularly in the discharge of its responsibilities.

Board Responsibility

The Board focuses the Company’s activities on pursuing exploration opportunities in the mineral resource business, which are judged to have the potential for success without exposing the Company to undue risk. The Board has put in place adequate management control and monitoring systems that include:

- (a) continually reviewing the performance of the Company and its executive, including management and financial performance, overseeing strategy implementation and where necessary ensuring appropriate resources are available. The Board retains the right to replace the Company’s General Manager;
- (b) at regular Board meetings, reviewing, approving and amending where necessary the General Manager’s annual programmes and budgets, the Company’s then current exploration activities and its overall corporate objectives;
- (c) putting in place systems of risk management and legal control mechanisms and ensuring their effectiveness;
- (d) approving and monitoring the progress of major capital expenditure, the management of capital and acquisitions and divestitures;
- (e) maintaining responsibility for the overall financial management of the Company with the ability to approve the appointment (if necessary) of a Financial Officer and to replace the Company Secretary;
- (f) monitoring and approving financial and other reporting;
- (g) supervising the overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities to ensure division of functions remain appropriate to corporate needs;
- (h) liaising with the Company’s external auditors;
- (i) monitoring, and ensuring compliance with all of the Company’s legal obligations, in particular those relating to the maintenance of the Company’s mineral tenements, the environment, native title, cultural heritage and occupational health and safety requirements.

Within the above framework the Board retains the ability to delegate some of its responsibilities; however the size of the Company and the nature of its operations has resulted in delegation being kept to a minimum.

Materiality

The Board has agreed on the following guidelines, which are deemed appropriate for a company of the maturity and size of Red Hill Iron for assessing the materiality of matters:-

- (a) Quantitative materiality
All balance sheet and income statement items in excess of \$5,000 are material.
- (b) Qualitative materiality
The following matters are considered material in a qualitative sense:
 - (i) any matters which impact on the reputation of the Company and/or its Board;
 - (ii) any activities of the Company, its joint venturers, employees or contractors which may involve a breach of legislation or are in the Board’s view outside the ordinary course of its business;
 - (iii) any matter which might negatively affect the Company’s rights to its assets;

CORPORATE GOVERNANCE STATEMENT (continued)

- (iv) any activity of the Company, its joint venturers, employees or contractors which has the capacity to involve a contingent liability that would in the Board's view have a potential material effect on the Company's balance sheet or a similar effect on one or more income statement items.

(c) **Materiality in contracts**

Red Hill Iron Limited is a relatively small company and its Directors consider most contracts entered into by the Company to be material. With the exception of day to day agreements the responsibility for which fall upon the General Manager, all contracts are subjected to review by the Board.

BOARD OF DIRECTORS AND MANAGEMENT

The name, expertise, experience and term of the office of each director is set out in the Directors' Report. The Board is comprised of four non-executive directors, including the Chairman.

Independent Directors

There is one independent director, Mr Garry Strong. The remainder of the directors on the Board are not independent within the strict meaning of the term as set down in the ASX Principles of Good Corporate Governance because they are associated as substantial shareholders or directors of substantial shareholders, as defined in the Corporations Act, and hence are deemed to lack independence. However the make up of the Board is such that, although the majority of the Company's directors are not deemed to be independent, the Board is satisfied that there is sufficient independence of view and variety of intellectual input between directors to mollify any reservations which shareholders might have in this regard.

The Chairman

The Chairman is a non-executive director and is responsible for leadership of the Board and for the efficient organisation and conduct of the Board. He also retains overall responsibility, subject to management input, for communication with shareholders.

Management

The General Manager runs the Company on a day to day basis pursuant to authority delegated by the Board and is responsible for the implementation of Board and corporate policy and planning in accordance with approved programmes and budgets. The General Manager reports to the Board regularly and is under an obligation to make sure that all reports which he presents give a true and fair view of the Company's exploration and other activities and its then current financial status.

Nomination for board positions

The full Board will decide on the choice of any new director(s) upon the creation of any new Board position and/or if any casual vacancy arises. Any decisions taken to appoint new directors will be minuted. The small size of the Company and of the Board does not warrant the appointment of a nomination committee.

Independent professional advice

Each director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required and will not be unreasonably withheld.

ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Board adheres to and is responsible for enforcing the Corporate Code of Conduct set out in this Corporate Governance Statement.

Policy on share trading

The Red Hill Iron Limited Board policy is that directors, officers and employees are prohibited from dealing in the Company's shares when they possess inside information. The Board is to be notified when trading of shares in Red Hill Iron by any Director or officer of the Company occurs. 'Inside information' is information that, if it were generally available, would or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

CORPORATE GOVERNANCE STATEMENT (continued)

INTEGRITY IN FINANCIAL REPORTING

Financial Reports

The General Manager and Company Secretary are required to confirm in writing to the Board that the Company's half year and full year financial reports present a true and fair view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Audit Committee

Red Hill Iron Limited's Directors do not consider that the Company's affairs are of such a size and complexity as to merit the establishment of a separate audit committee. Until this situation changes, the Board will carry out any necessary audit committee functions.

The Board monitors the form and content of the Company's financial statements; it also maintains an overview of the Company's internal financial control and audit system and risk management systems.

Additionally, on an annual basis, the Board, in line with its overall responsibility to shareholders, reviews the performance and independence of the external auditor and the continuation of that appointment. The Board also approves the remuneration and terms of engagement of the external auditor. Any appointment of a new external auditor is submitted for ratification by shareholders at the next annual general meeting of the Company.

TIMELY AND BALANCED DISCLOSURE

Detailed compliance procedures, to ensure timely and balanced disclosure of information in line with ASX Listing Rule disclosure requirements and Continuous Disclosure Guidelines, have been noted and adopted by the Company. The Company Secretary is charged with ensuring that any necessary steps which need to be taken by the Company are brought before the Board for discussion and, subject to amendment, approval.

COMMUNICATION WITH AND PARTICIPATION OF SHAREHOLDERS

Red Hill Iron Limited maintains a website at www.redhilliron.com.au

Red Hill Iron Limited shareholders may find all recent information on the Company under various headings on the Company's website, including latest ASX releases, details of its projects and its Corporate Profile. Shareholders may also request a copy of the Company's ASX recent releases.

The Company invites the external auditors to attend its annual general meeting and to be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditors' report.

RISK MANAGEMENT

Consistent with the compliance systems detailed elsewhere in this statement the Board takes responsibility for the risk management of the Company.

The Board routinely reviews corporate risk and supervises internal compliance and control systems.

The General Manager is responsible to the board for ensuring the systems are complied with and is required annually to make a statement to the board in writing to this effect.

Whilst high priority is given to the management of risk in the Company current and potential investors are reminded that they are investors in a company engaged in exploration activities which by their very nature are high risk and where successful may give rise to high rewards.

PERFORMANCE EVALUATION OF THE BOARD AND INDIVIDUAL EXECUTIVES

The Board conducts regular informal reviews of executive performance including that of the Company Secretary on at least an annual basis.

REMUNERATION OF DIRECTORS AND EXECUTIVES

The Company currently has one full time employee, the General Manager. The full Board carries out an annual review of the adequacy of his remuneration, and participation in share incentive arrangements.

The non-executive directors each are to receive director's fees of \$25,000 per annum, plus statutory superannuation. This is reviewed annually within the overall maximum allowed of \$200,000 per annum. Details of directors' and executives' remuneration are set out in the annual Financial Report in accordance with accounting standards.

CORPORATE GOVERNANCE STATEMENT (continued)

CORPORATE CODE OF CONDUCT AND OBJECTIVES

Red Hill Iron Limited is committed to:

- (a) applying the Company's funds in an efficient manner in the search for mineral resources the quality of which will increase shareholder value
- (b) applying high standards of professional excellence;
- (c) adopting high standards of occupational health and safety, environmental management and ethics;
- (d) fostering and maintaining a culture of ownership, care and professional excellence from the Company's employees; and
- (e) ensuring that all of its business affairs are conducted legally, ethically and with integrity.

Corporate Responsibility

The Company complies with all legislative and common law requirements which affect its business, particularly environmental regulations, native title and cultural heritage laws.

Employment

Red Hill Iron Limited's policy is to employ the best available staff; at this stage in the Company's development all potential employees are subject to full Board scrutiny.

Third Parties

The Company treats third parties in a fair and reasonable manner and does not engage in deceptive practices.

Conflict of Interest

The Board and the executive are obligated to avoid situations of real or apparent conflict of interest between them as individuals and as Directors or employees of the Company. If a situation where a conflict of interest arises the Chairman is to be notified and the matter will then be considered and the appropriate steps taken to avoid a repetition.

Breach of Corporate Governance

Any breach of Corporate Governance is required to be reported directly to the Chairman.

Review of Rules of Corporate Governance

The Board through the Chairman monitors the Company's compliance with the Rules periodically.

INCOME STATEMENT

FOR THE 13 MONTHS ENDED 30 JUNE 2006

	NOTE	2006 \$
Revenue	2	82,739
Personnel expenses	3	(160,907)
Exploration expenditure		(705,431)
Depreciation expense	9	(1,907)
Other expenses	4	(92,318)
		<u>(877,824)</u>
Loss before income tax		
Income tax expense	5	<u>-</u>
Loss attributable to members of the Company		<u>(877,824)</u>
Basic loss per share	21	12.24 cents
Diluted loss per share	21	12.24 cents

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2006

	NOTE	2006 \$
ASSETS		
Current Assets		
Cash and cash equivalents	6	3,128,493
Trade and other receivables	7	117,777
Total Current Assets		<u>3,246,270</u>
Non Current Assets		
Exploration assets	8	102,110
Plant and equipment	9	74,089
Total Non Current Assets		<u>176,199</u>
Total Assets		<u>3,422,469</u>
LIABILITIES		
Current Liabilities		
Trade and other payables	10	233,408
Total Current Liabilities		<u>233,408</u>
Total Liabilities		<u>233,408</u>
Net Assets		<u>3,189,061</u>
EQUITY		
Issued Capital	11	3,974,115
Share-based payments reserve	12	92,770
Accumulated losses		<u>(877,824)</u>
Total Equity		<u>3,189,061</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE 13 MONTHS ENDED 30 JUNE 2006

	ISSUED CAPITAL	ACCUMULATED LOSSES	RESERVES	TOTAL EQUITY
	\$	\$	\$	\$
Issued capital on incorporation on 1 June 2005	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Net loss for the period		<u>(877,824)</u>		<u>(877,824)</u>
Net income and expense recognised during the period		<u>(877,824)</u>		<u>(877,824)</u>
Transactions with equity holders in their capacity as equity holders:				
Issue of ordinary fully paid shares	3,974,114			3,974,114
Equity settled share based payment transactions			<u>92,770</u>	<u>92,770</u>
	<u>3,974,114</u>	<u>-</u>	<u>92,770</u>	<u>4,066,884</u>
Balance at 30 June 2006	<u>3,974,115</u>	<u>(877,824)</u>	<u>92,770</u>	<u>3,189,061</u>

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

CASH FLOW STATEMENT

FOR THE 13 MONTHS ENDED 30 JUNE 2006

	NOTE	2006 \$
Cash flows from operating activities		
Payments to suppliers and employees		(128,968)
Payments for exploration expenditure		(566,288)
Interest received		<u>27,739</u>
Net cash outflow from operating activities	20	<u>(667,517)</u>
Cash flows from investing activities		
Payments for exploration assets		(2,210)
Payments for plant and equipment		<u>(75,995)</u>
Net cash outflow from investing activities		<u>(78,205)</u>
Cash flows from financing activities		
Proceeds from issue of shares	11(c)	3,874,215
Net cash inflow from financing activities		<u>3,874,215</u>
Net increase/(decrease) in cash and cash equivalents		3,128,493
Cash and cash equivalents at the beginning of the year		<u>-</u>
Cash and cash equivalents at the end of the year	6	<u>3,128,493</u>

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied since the Company's incorporation.

The financial report consists of the financial statements for Red Hill Iron Limited for the 13 months from incorporation on 1 June 2005 to 30 June 2006 ("the financial period"). Consequently there are no prior period comparatives presented.

Basis of preparation

This general-purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the financial statements and notes of Red Hill Iron Limited comply with International Financial Reporting Standards (IFRS).

Australian Accounting Standards and amendments issued but not yet effective

The following Australian Accounting Standards have been issued and or amended and are applicable to Red Hill Iron Limited but are not yet effective. They have not been adopted in the preparation of the financial statements at reporting date.

AASB Amendment	Affected Standard	Nature of change to Accounting Policy	Application Date of Standard	Application Date for Company
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-5	AASB1: First time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting AASB 117: Leases AASB 133: Earnings per Share AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 4: Insurance Contracts AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Australian Accounting Standards and amendments issued but not applicable

The following Australian Accounting Standards amendments are not applicable to Red Hill Iron Limited and therefore have no impact.

AASB Amendment	Affected Standard
2005-2	AASB 1023: General Insurance Contracts
2005-4	AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time Adoption of AIFRS, AASB 1023: General Insurance Contracts, AASB 1038: Life Insurance Contracts
2005-9	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation
2005-10	AASB 1023: General Insurance Contracts, AASB 1038: Life Insurance Contracts
2005-12	AASB 1023: General Insurance Contracts, AASB 1038: Life Insurance Contracts
2005-13	AAS 25: "Financial Reporting by Superannuation Plans"

Reporting Basis and Conventions

These financial statements have been prepared on an accruals basis and under the historical cost convention

Accounting Policies

(a) 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 sheet date.

Deferred tax is accounted for using the balance sheet 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 income 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 profit or loss.

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 income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income 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.

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.

(b) Revenue

Interest is brought to account as income over the term of each financial instrument on an accrual accounting basis.

Other revenue is recognised as it accrues.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment (including motor vehicles)

Plant and equipment items are measured on the cost basis less depreciation and impairment losses.

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. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement 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 economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and Equipment (including motor vehicles):	5% to 50% straight line.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) 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.

(e) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure is recorded at historical costs 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:

- (i) it is expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
- (ii) 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.

A provision for unsuccessful exploration and evaluation is created against each area of interest by means of a charge against Income Statement.

The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest that are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged against profit.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(f) 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 indication 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 the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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.

(g) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings 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.

(h) Financial Instruments

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 stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised 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. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(i) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

(j) 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.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(k) Share-based payments

Share-based compensation benefits are provided to employees.

The fair value of options granted to employees is recognised as an employee benefit expense with a corresponding increase in contributed 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.

Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report 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 assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 2 – REVENUE

2006

\$

Revenue from ordinary activities	
Interest income from other persons	82,739
	<u>82,739</u>

NOTE 3 – PERSONNEL EXPENSES

Wages and salaries, including superannuation	44,467
Other associated personnel expenses	18,342
Increase in liability for annual leave	5,328
Equity – settled transactions	92,770
	<u>160,907</u>

NOTE 4 – OTHER EXPENSES

Communication cost	3,514
Office rent	12,094
Insurance	5,763
ASX fees	4,076
Other	66,871
	<u>92,318</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 5 – INCOME TAX

2006

\$

(a) Reconciliation of income tax to operating loss

The prima facie tax attributable to the loss is reconciled to the income tax as follows:

Operating loss before income tax	(877,824)
Income tax calculated at 30%	(263,347)
Add: Tax effect of temporary differences	
Revenue	(16,500)
Capital raising costs	(3,145)
Provisions	1,598
Share based payment expense	27,831
Non-deductible expenditure	4,500
Tax loss not brought to account	249,063
	<hr/>
	-
	<hr/>
Effective tax rate	0%

(b) Deferred tax assets not brought to account

The directors estimate that the potential future income tax assets and liabilities carried forward but not brought to account at year end at a tax rate of 30% are made up as follows:

Deferred tax assets at 30%

On income tax account:	
Carried forward losses	249,063
Temporary differences	22,651
	<hr/>
	271,714

These benefits will only be obtained if the conditions for deductibility set out in note 1a occur.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 6 – CASH AND CASH EQUIVALENTS

2006

\$

Cash on hand	200
Cash at bank	198,118
Bills receivable	2,930,175
	<u>3,128,493</u>

Bills of exchange are generally subject to credit risk in the event of default by the acceptor. However the risk has been mitigated by ensuring that the bills are accepted by banks

Bills on hand at balance date bear interest at a rate between 5.51% and 5.85%. They mature within 30 days of balance date and have a face value of \$3,000,000

Cash at bank has been subject to floating interest rates during the financial period of between 0.05% and 3.00%

NOTE 7 – TRADE AND OTHER RECEIVABLES

Interest	55,000
Other	62,777
	<u>117,777</u>

Interest receivables comprise pro-rata interest receivable at balance date in respect of bills of exchange that are expected to be repaid within 60 days

Other receivables are receivables expected to be repaid within 30 days of balance date.

NOTE 8 – EXPLORATION ASSETS

Carrying amount at 1 June 2005	-
Acquisition of mineral tenements	102,110
Carrying amount at 30 June 2006	<u>102,110</u>

Ultimate recoupment of exploration expenditure capitalised on acquisition of tenements and carried forward is dependent on successful development and commercial exploitation, or alternatively sale, of the respective tenements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 9 – PLANT AND EQUIPMENT

2006

\$

Leasehold improvements – at cost	5,714
Accumulated depreciation	(95)
	<u>5,619</u>
Field equipment – at cost	27,962
Accumulated depreciation	(637)
	<u>27,325</u>
Office furniture and equipment – at cost	17,316
Accumulated depreciation	(601)
	<u>16,715</u>
Motor vehicle – at cost	25,004
Accumulated depreciation	(574)
	<u>24,430</u>
Total plant and equipment	<u>74,089</u>

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

	Leasehold improvements	Office furniture & equipment	Field equipment	Motor vehicle	Total
	\$	\$	\$	\$	\$
Carrying amount at 1 June 2005	-	-	-	-	-
Additions during the period	5,714	17,316	27,96	25,004	75,996
Depreciation expense	(95)	(601)	(637)	(574)	(1,907)
Carrying amount at 30 June 2006	<u>5,619</u>	<u>16,715</u>	<u>27,325</u>	<u>24,430</u>	<u>74,089</u>

NOTE 10 – TRADE AND OTHER PAYABLES

2006

\$

Trade creditors and accruals	228,080
Employee entitlements	5,328
	<u>233,408</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 11 – ISSUED CAPITAL

2006

\$

Paid up capital 33,333,333 ordinary fully paid shares 3,974,115

(a) 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 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 Stock Exchange (“ASX”) with exception of those shares subject to trading restriction.

(b) Restricted shares

Of the 33,333,333 ordinary fully paid shares on issue, 11,973,333 are restricted from trading on the ASX for 24 months from the date of initial quotation to 14 February 2008.

(c) Movements in ordinary share capital during the past 13 months:

Date	Details	Number of Ordinary Shares	Issue Price \$	Amount \$
01/06/2005	Incorporation	1	1.00	1
01/06/2005	Share issue	999	100.00	99,900
	Reconstruction	<u>1,000</u>		<u>99,901</u>
24/11/2005	Subdivision of shares	13,333,333	-	99,901
01/02/2006	Initial public offer	20,000,000	0.20	4,000,000
01/02/2006	Cost of share issue	-	-	(125,786)
		<u>33,333,333</u>		<u>3,974,115</u>

(d) Options

The Company has on issue 2,000,000 unlisted options to acquire 2,000,000 ordinary shares on or before 6 December 2008 at 30 cents per share.

(e) Movements in options during the past 13 months

Date	Details	Number of Options	Exercise Price Per Share cents	Grant Date	Expiry Date
07/12/2005	Options issued	<u>2,000,000</u>	30	07/12/2005	06/12/2008

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 12 – SHARE BASED PAYMENTS RESERVE

2006

\$

Share based payments reserve

92,770

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

NOTE 13 – FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

The credit risk exposure of the Company on financial assets that have been recognised on the balance sheet is generally the carrying amount of those assets.

(b) Interest Rate Risk Exposure

The company's exposure to interest rate risk is comprised of

- (i) the floating interest rates applying to deposits at call as set out in Note 6.
- (ii) the fixed interest rate applying to bills receivable as set out in Note 6.

Other financial assets and liabilities, being trade and other creditors, and other receivables are not interest bearing.

(c) Net Fair Value of Financial Assets and Liabilities

The net fair value of the financial assets and financial liabilities approximates their carrying value.

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Names and positions held of key management personnel

The names of persons who were Directors and other key management personnel of Red Hill Iron Limited at any time during the financial period and the positions they held are as follows:

G D Riley	Chairman – non executive
J N Pitt	Director – non executive
S A Macdonald	Director – non executive
G R Strong	Director – non executive
T Boddington	General Manager

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Key management personnel remuneration

The remuneration of Directors and other key management personnel for the financial period is summarised below:

Directors	Short Term Benefits			Post- Employment Benefits	Share Based Payments Options	Total
	Service Payments	Salary	Non-Cash Benefits	Super- annuation		
	\$	\$	\$	\$	\$	\$
G D Riley	-	10,417	-	937	-	11,354
J N Pitt	-	11,354	-	-	-	11,354
S A Macdonald	11,354	-	-	-	-	11,354
G R Strong	31,355	-	-	11,354	-	42,709
	<u>42,709</u>	<u>21,771</u>	<u>-</u>	<u>12,291</u>	<u>-</u>	<u>76,771</u>
Other key management personnel						
General						
Manager T Boddington	-	65,245	-	5,751	92,770	163,766
	<u>-</u>	<u>65,245</u>	<u>-</u>	<u>5,751</u>	<u>92,770</u>	<u>163,766</u>

In addition to Directors' fees, Mr Strong received \$31,355 during the year for general management services rendered to the Company prior to listing, services relating to the preparation of the Company's IPO prospectus and geological services following listing. These services were provided on an hourly rate and approved by the other non-executive directors.

No part of the remuneration of directors and other key management personnel is contingent on the performance of the Company.

(c) Compensation by grant of options

The General Manager and other key management personnel from time to time are entitled to participate in the Red Hill Iron Limited Employee Share Option Plan and be granted options to acquire ordinary shares in the Company, at the discretion of the Board. Share based payments are provided as incentives and are not linked to company performance.

The fair value of the options paid shares issued during the financial period ended 30 June 2006 has been calculated as at the date of grant using the Black-Scholes model for the valuation of call options, based on the following facts and assumptions:

	Management Options
Grant date	7 December 2005
Exercise price per share	30 cents
Expected average life of the options	3 years
Underlying security spot price at time of grant	15 cents
Risk free interest rate	5.32%
Expected volatility	69.28%

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

The underlying security spot price was determined by applying a 25% discount to the price of 20 cent per share set for the Company's IPO anticipated at the time of grant of the options.

The expected average life of the options has been estimated as 3 years. The actual life could differ from this estimate if the holder of the options chooses to exercise his options prior to their expiry date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 14 – KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Share Holdings

The number of shares held directly and indirectly by the Directors and other key management personnel and the movements in those holdings during the 13 months from incorporation to 30 June 2006 are set out below:

Ordinary shares

	Balance on incorporation	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2006
Directors					
G D Riley	-	-	-	605,900	605,900
J N Pitt	1	-	-	2,039,999	2,040,000
S A Macdonald	-	-	-	743,239	743,239
G R Strong	-	-	-	1,723,946	1,723,946
	<u>1</u>	<u>-</u>	<u>-</u>	<u>5,113,084</u>	<u>5,113,085</u>
Other key management personnel					
T Boddington	-	-	-	680,000	680,000

Restricted shares: Of the shares set out above, 2,040,000 of Mr Pitt's shares and 1,360,000 of Mr Strong's shares are restricted from trading on the ASX until 14 February 2008.

Net changes other relates to shares acquired or sold during the financial period, and includes a sub division of shares during the financial period.

Subsequent to 30 June 2006 Mr Riley acquired an additional 58,842 ordinary shares and Mr Pitt acquired an additional 100,000 ordinary shares.

(e) Option holdings

The number of options held by key management personnel and the movements in those holdings during the 13 month period from incorporation to 30 June 2006 are set out below:

Options

	Balance on incorporation	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2006
Other key management personnel					
T Boddington	-	2,000,000	-	-	2,000,000

No directors have held options at any time during the financial period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 15 – REMUNERATION OF AUDITORS

2006
\$

Amounts received, or due and receivable, by auditors for:

Auditing or reviewing the accounts of Red Hill Iron Limited

10,000

Other Services

Investigating Accountant's report for IPO prospectus

6,310

16,310

NOTE 16 – CAPITAL AND LEASE 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 Industry and Resources for the next financial year 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. Consequently the Company does not expect to have any commitments for minimum expenditure requirements for other maintenance expenditure in respect of its mineral tenements for the next financial year. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

Operating Leases

Commitment for minimum lease payments in relation to a non-cancellable operating lease are payable as follows:

2006

\$

Within one year

26,977

Longer than one year, not longer than five years

24,729

51,706

The above commitments relate to an operating lease in respect of the Company's premises.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 17– RELATED PARTIES

(a) Remuneration and retirement benefits

Information on remuneration of Directors is disclosed in Note 14.

(b) Other transactions of Directors and Director-related entities

Acquisition of mineral tenements

Immediately following incorporation of the Company on 1 June 2005, the Company acquired mineral tenements from entities associated with the directors under arms lengths terms and conditions which included the issue of ordinary shares as consideration for the acquisition:

Director	Related Party	No of Shares	Value	No of Shares
		Pre Subdivision	\$	Post Subdivision
J N Pitt	Wythenshawe Pty Ltd	153	15,300	2,040,000
G R Strong	G R Strong	51	5,100	680,000
	G R Strong <Capricorn Account>	51	5,100	680,000
S A Macdonald and G D Riley	Giralia Resources NL	490	49,000	6,533,333

Mr Pitt is a director and shareholder of Wythenshawe Pty Ltd

Mr Macdonald and Mr Riley are directors of listed company Giralia Resources NL.

Mr Riley was appointed a director of Red Hill Iron Limited within 6 months following the acquisition of tenements from Giralia Resources NL

Office rental, secretarial and administration services

During the financial period the Company paid \$16,588 to Traka Resources Limited, a listed company of which Mr Pitt is a director and shareholder, for rental of office space and secretarial and administration services. Both the office rental and the secretarial and administration services are pursuant to arms length agreements between the companies on normal commercial terms and conditions.

During the financial period the Company paid \$4,624 to Hampton Hill Mining NL, a listed company of which Mr Pitt is a director and shareholder, for administration services determined on arms length basis between the companies on normal commercial terms and conditions.

(c) Transactions of Directors and Director-related entities concerning shares or share options

The aggregate number of shares in the Company held directly, indirectly or beneficially by Directors or their Director-related entities at balance date were as follows:

	2006
	No of Shares
Ordinary shares – fully paid	5,113,085

Shares acquired and disposed of by the Directors during the year are set out in Note 14.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 18– EVENTS OCCURRING AFTER BALANCE DATE

There have been no material items, transactions or events subsequent to 30 June 2006 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

To the best of the Directors' knowledge and belief there have been no material items, transactions or events subsequent to 30 June 2006 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

NOTE 19– SEGMENT INFORMATION

The Company operates predominantly in one industry. The principal activities are basemetal, gold and iron ore exploration and prospecting.

The Company currently operates only in Australia which is a single geographic segment.

NOTE 20 – CASH FLOW INFORMATION

	2006 \$
(a) Reconciliation of loss after income tax with cash flow from operations activities	
Loss from ordinary activities after income tax	(877,824)
Depreciation	1,907
Equity based payments	92,770
Change in operating assets and liabilities:	
(Increase)/Decrease in debtors	(56,099)
Increase/(Decrease) in creditors	233,407
(Increase)/Decrease in GST receivable	(61,678)
Net cash outflow from operating activities	<u>(667,517)</u>
(b) Non-cash financing and investing activities	
Share issue	
Issue of 1,000 ordinary shares on incorporation, later subdivide into 13,333,333 shares, as consideration for the acquisition of mineral tenements	<u>99,901</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 13 MONTHS ENDED 30 JUNE 2006

NOTE 21– EARNINGS PER SHARE

	2006 Cents
Basic loss per share	12.24
Diluted loss per share	12.24
	\$
Reconciliation of loss	
Loss used in calculating earnings per share – basic and diluted	<u>877,824</u>
Net loss for the reporting period	<u>877,824</u>
	2006 No. of Shares
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	<u>7,170,693</u>

The weighted average number of ordinary shares used in calculating basic and diluted earnings per share is derived from the fully paid ordinary shares on issue

NOTE 22– CONTINGENT LIABILITIES

There are no contingent liabilities for termination benefits under service agreements with Directors or executives at 30 June 2006.

The Directors are not aware of any other contingent liabilities at 30 June 2006

NOTE 23– NUMBER OF EMPLOYEES

The Company employed one employee for the financial period

NOTE 24 - COMPANY DETAILS

The registered office of the Company is located at:

Level 2, 9 Havelock Street
West Perth Western Australia 6005

The principal place of business of the Company is located at:

Ground Floor, 43 Ventnor Ave
West Perth Western Australia 6005

DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) the financial statements and notes set out on pages 19 to 39 are in accordance with the Corporations Act 2001, and:
 - (i) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 30 June 2006 and the performance for the year ended on that date of the Company;
- (b) the Chief Executive Officer and the Chief Finance Officer have each declared that:
 - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial statements and notes for the financial year comply with accounting standards; and
 - (iii) the financial statements and notes for the year give a true and fair view;
- (c) 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.

This declaration is made in accordance with a resolution of the directors.

Mr J N Pitt
Director

Perth, 29 September 2006



Chartered Accountants
& Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF RED HILL IRON LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Red Hill Iron Limited (the company), for the period ended 30 June 2006.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion, the financial report of Red Hill Iron Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Recoverability of Exploration Expenditure

Without qualification to the statement expressed above, attention is drawn to the following. As noted in Note 8 ultimate recoupment of exploration expenditure capitalised on acquisition of tenements and carried forward is dependent on successful development and commercial exploitation or alternatively, sale of the respective tenements.

BDO

Chartered Accountants



BG McVeigh

Partner

Perth, Western Australia

Dated this 29th day of September 2006

SHAREHOLDER INFORMATION

AS AT 21 SEPTEMBER 2006

1. Number and Distribution of Equity Securities

	No. listed	No. not listed	Total
Ordinary shares fully paid	<u>21,360,000</u>	<u>11,973,333</u>	<u>33,333,333</u>
Options exercisable at 30 cents expiring 6 Dec 08		<u>2,000,000</u>	<u>2,000,000</u>
Distribution of shares and options by holding		Shareholders	Option Holders
1	-	1,000	28
1,001	-	5,000	121
5,001	-	10,000	122
10,001	-	100,000	326
100,001	+		39
		<u>636</u>	<u>1</u>

2. Marketable parcel

There were 5 holders of less than a marketable parcel of ordinary shares.

3. Employee incentive scheme

The options were issued under an employee incentive scheme.

4. Substantial Shareholders

The following information is extracted from the Company's register of substantial shareholders:

Name	No of Shares	%
Giralia Resources NL	6,533,333	19.60
Warrambo Holdings Pty Ltd	2,345,000	7.04
Wythenshawe Pty Ltd	2,140,000	6.42
G R Strong	1,723,946	5.17

5. Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares (at present there are none), at a general meeting every shareholder or class of shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each fully paid share which that member holds or represents and, in respect of partly paid shares, voting rights pro-rata to the amount paid up or credited as paid up on each such share.

Any vendor securities which are or might be in breach of the Australian Stock Exchange Listing Rules or any escrow agreement entered into by the Company shall not be entitled to any votes for as long as the breach exists.

SHAREHOLDER INFORMATION

AS AT 21 SEPTEMBER 2006 (continued)

6. Twenty Largest Shareholders

		No of Shares	%
1	Giralia Resources NL	6,533,333	19.60
2	Warrambo Holdings P/L	2,345,000	7.04
3	Wythenshawe Pty Ltd	2,140,000	6.42
4	Australian Mineral Investors	862,553	2.59
5	Strong Garry Robert <Capricorn A/c>	730,000	2.19
6	Strong Garry Robert	680,000	2.04
7	I'ons Martin	680,000	2.04
8	Colbern Fiduciary Nominees	677,195	2.03
9	Breamlea Pty Ltd <J&E Macdonald A/c>	618,301	1.85
10	Yandal Investments Pty Ltd	608,193	1.82
11	Satinbrook Pty Ltd	605,900	1.82
12	Westpac Custodian Nominees	536,170	1.61
13	Poli Anthony & Milvia A <The A Poli Superannuation Fund A/c>	500,000	1.50
14	Boddington Timothy DM	480,000	1.44
15	ANZ Nominees Limited	450,315	1.35
16	Creekwood Nominees P/L	372,305	1.12
17	Macdonald Stanley Allan	370,934	1.11
18	Der La Noble Corporation	325,000	.98
19	J P Morgan Nominees Australia	318,572	.96
20	Phillips Julian Francis Gordon	316,941	.95
		<u>20,150,712</u>	<u>60.45</u>

7. Largest Option Holder

	Boddington Timothy DM	<u>2,000,000</u>	<u>100.00</u>
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MINERAL TENEMENT INFORMATION

PROJECT	TENEMENT	PERCENT HOLDING	NOTES	TITLE HOLDER	JOINT VENTURER
Red Hill	08/1227-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1283-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1289-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1293-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1294-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1295-1	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1301-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1430-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1473-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	ELA08/1503	100%	(2)(3)	Giralia Resources NL	API Management Pty Limited earning 60%
	ELA08/1514	100%	(2)	Giralia Resources NL	API Management Pty Limited earning 60%
	E08/1516-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E08/1537-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E47/0982-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	E47/1141-I	100%	(1)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	ELA47/1693	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	PLA08/0508	100%		Red Hill Iron Limited	API Management Pty Limited earning 60%
	PLA08/0509	100%		Red Hill Iron Limited	API Management Pty Limited earning 60%
	PLA08/0510	100%		Red Hill Iron Limited	API Management Pty Limited earning 60%
	PLA08/0511	100%		Red Hill Iron Limited	API Management Pty Limited earning 60%
	PLA47/1271	100%		Red Hill Iron Limited	API Management Pty Limited earning 60%
	MLA47/1346	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	MLA47/1347	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	MLA47/1348	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	MLA47/1349	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%
	MLA47/1350	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%
MLA47/1351	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%	
MLA47/1352	100%	(4)	Red Hill Iron Limited	API Management Pty Limited earning 60%	
House Well	ELA08/1636	100%		Red Hill Iron Limited	
Hardey	ELA08/1618	100%		Red Hill Iron Limited	
	ELA08/1701	100%		Red Hill Iron Limited	

Notes

- 1 Suffix –“I” denotes Ministerial approval to explore for iron
- 2 ELA08/1503, EL08/1514 to be transferred to Red Hill Iron Limited upon grant
- 3 ELA08/1503 second in time to previous competitor applications
- 4 ELA08/1693 lies over E47/982, part of E08/1227, ex ELA47/1409, ex ELA47/1492 and MLA47/1346 to MLA47/1352

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