RED HILL
IRON LIMITED
ABN: 44 114 553 392

Exploration Office: Ground Floor, 43 Ventnor Ave, West Perth WA 6005
Registered Office: Level 2, 9 Havelock Street, West Perth WA 6005
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Website: www.redhilliron.com.au

27 September 2007

The Manager
Company Announcement Office
Australian Stock Exchange Limited
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

We attach a copy of the Company's 2007 Financial Report.

Yours faithfully

Peter Ruttledge
Company Secretary

attach.

RED HILL IRON LIMITED

ABN: 44 114 553 392

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2007

DIRECTORS' REPORT

Red Hill Iron Limited ("the Company" or "Red Hill Iron") is an Australian company listed on the Australian Securities 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 year ended 30 June 2007.

DIRECTORS

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

Mr Graham Riley, BJuris LLB, 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 (appointed director on 30 June 1998) and a non-executive director of Adelphi Energy NL (appointed 10 January 2005).

Mr Stanley Macdonald, 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 (appointed 12 April 1991), U308 Limited (appointed 5 October 2005), and Zinc Co Australia Ltd (appointed 24 April 2006).

Mr Garry Strong, 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. Previously he was a director of Golden Grove Mining NL, Aztec Exploration Limited, and Riverina Gold NL.

Mr Joshua Pitt, BSc, MAusIMM, MAIG, 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 than 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 a private exploration syndicate which originally acquired the core tenements purchased by Red Hill Iron. 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 principal activities of the Company during the financial year consisted of base metal, gold and iron ore exploration. There has been no significant change in these activities during the financial year.

OPERATING RESULTS

The operating loss after tax for the year was $1,911,013 (2006: $877,824).

DIVIDENDS

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

DIRECTORS' REPORT (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As a result of API Management Pty Limited (API) earning a 60% participating interest in the Red Hill Project and electing on 29 December 2006 to earn a further 20% participating interest in the project, API had the right within 30 days to subscribe for a placement of 15% of the total shares on issue in the Company, measured after the placement. On 10 January 2007 the Company announced that it had entered into a share subscription agreement with Aquila Steel Pty Ltd (Aquila), a wholly owned subsidiary of Aquila Resources Limited, whereby Aquila would take up the right in lieu of API to subscribe for 5,882,353 ordinary fully paid shares in the Company at the volume weighted average price of 134.35 cents per share. The new shares were allotted on 15 February 2007 resulting in the Company raising $7.9 million in new capital.

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

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

There are no matters or circumstances which have arisen since the end of the financial year that have significantly affected the operations of the Company or the results of those operations or the state of affairs of the Company, nor are there any such matters or circumstances or likely developments which in the view of Directors may significantly affect the future operations or the results of those operations or the state of affairs of the Company.

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

The Company holds tenements in the West Pilbara region of Western Australia covering an area in excess of 2,000 square kilometres. The major focus of the Company is the exploration of the iron ore potential of the Red Hill Project Area in joint venture with API Management Pty Limited, a company 50% owned by Aquila Resources Ltd. This joint venture relates to the assessment and development of iron ore only, the rights to all other metals being retained by the Company. During the year API earned a 60% participating interest in the joint venture and elected to increase its interest to 80% by lending the Company all of its share of exploration and development costs, repayable only from 80% of RHI's share of mine revenues. Red Hill Iron retains an option to convert its ultimate 20% project interest, at any time up to first delivery of product to a customer, to a 2% FOB royalty, thereby cancelling all repayment commitments.

The joint venture has made rapid progress with the drill testing of the numerous channel iron deposit (CID) mesa targets occurring throughout the Project Area. In May 2007, it announced a JORC compliant indicated and inferred resource of 135 million tonnes of CID grading 58.48% iron with 0.075% phosphorus and 3.25% alumina, based on the initial drilling of the Cardo Bore East, Upper Cane, Jewel and Cochrane deposits. A substantial increase in the project resource base is anticipated as a result of the continuing drill program.

Pre-feasibility studies commenced in the December quarter 2006 and involve port option studies, ore transport alternatives and corridor investigations, mine production profiles, environmental and heritage studies, initial metallurgical test work, and preliminary mine scheduling and blending analyses. It is anticipated that these studies will be completed by the end of 2008.

Concurrently, the Company has undertaken an aggressive exploration program for gold and base metals on its West Pilbara tenements. This work is progressing well with some exciting targets being outlined by the soil and bedrock drilling geochemical surveys. The extensive airborne geophysical surveys completed during 2006 defined numerous exploration targets which continue to be followed-up. Reverse circulation drill testing of the Red Hill gold - copper prospect is imminent. It is anticipated that the main thrust of exploration in 2008 will be drill testing the best targets defined by the extensive regional work programs and further testing of the Red Hill gold-copper and Whynot copper-gold prospects.

MEETINGS OF DIRECTORS

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

Director	Meetings of Directors whilst a Director	Number of meetings attended
G D Riley	4	4
J N Pitt	4	4
S A Macdonald	4	4
G R Strong	4	4

DIRECTORS' REPORT (continued)

REMUNERATION REPORT

(a) Remuneration Policy (audited)

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. The remuneration policy is not linked to the Company's performance.

All remuneration paid to directors and other key management personnel is valued at cost to the Company and expensed.

Non-executive directors

Fees paid to the non-executive directors for services as directors are determined by the board (within the overall limit set by shareholders) based on their level of responsibility and with reference to the general level of fees paid by companies of similar size and operations.

The Company operates with a small staff and a non-executive Director can be called upon to undertake work for the Company in addition to his/her services as a Director. Where this occurs 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

The remuneration of the general manager is determined by the board and comprises a base salary with superannuation, the use of a company 4-wheel drive vehicle primarily for accessing the Company's exploration properties, and from time to time the grant of options to acquire shares in the Company. 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 General Manager has been determined by reference to the services provided, experience, length of service and prevailing market rates

The 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.

(b) Service Contracts (audited)

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.

Executives

The terms and conditions of employment of the General Manager, Mr Boddington,are set out in a written employment agreement. The salary and superannuation package for Mr Boddington for the year ended 30 June 2007 was $180,000 (2006:$180,000). 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. Mr Boddington has held this position since the Company's listing on 9 February 2005.

The fees payable by the Company to Sable Management Pty Ltd for Mr Ruttledge's services for the financial year exclusive of GST were $33,242.(2006:$ 24,587). Mr Ruttledge has held this position since the Company's formation on 1 June 2005

DIRECTORS' REPORT (continued)

(c) Remuneration details (audited)

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

2007	Short Term Benefits		Post-employment Benefits	Share based payments	Total
	Salary & Fees	Non-Cash Benefits	Super-annuation	Options	
Directors	$	$	$	$	$
G D Riley	25,000	-	2,250	-	27,250
J N Pitt	27,250	-	-	-	27,250
S A Macdonald	27,250	-	-	-	27,250
G R Strong	30,335	-	27,250	-	57,585
	109,835	-	29,500	-	139,335
Other key management personnel					
T Boddington	140,138	-	39,862	-	180,000
P Ruttledge	33,242	-	-	-	33,242
	173,380	-	39,862	-	213,242

2006	Short Term Benefits		Post-employment Benefits	Share based payments	Total
	Salary & Fees	Non-Cash Benefits	Super-annuation	Options	
Directors	$	$	$	$	$
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
	64,480	-	12,291	-	76,771
Other key management personnel					
T Boddington	65,245	-	5,751	92,770	163,766
P Ruttledge	24,587	-	-	-	24,587
	89,832	-	5,751	92,770	188,353

In addition to directors' fees Mr Strong received $30,335 (2006 $31,355) during the year for general geological and management services rendered to the Company. 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.

DIRECTORS' REPORT (continued)

(d) Share based compensation (audited)

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.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exerciseable	Expiry date	Exercise price	Value per option at grant date
7 December 2005	7 December 2005	6 December 2008	$0.30	$0.0464

Each option is convertible into one ordinary share.

Options granted under the plan carry no dividend or voting rights.

No options have been issued to directors or key management personnel during the year ended 30 June 2007.

Details of the options in the Company provided as remuneration to management personnel of the Company are set out below. Further information on options is set out in Note 13 to the financial statements.

Name	Number of options granted and vested during the year	
	2007	**2006**
Directors		
No options were issued to directors	-	-
Other key management personnel		
T Boddington	-	2,000,000

The fair value of the options issued has been calculated as at the date of grant using the Black-Scholes model for the valuation of call options.

	Other key management Personnel	
	2007	**2006**
Grant date	-	7 December 2005
Exercise by	-	6 December 2008
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 fee 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 cents 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.

DIRECTORS' REPORT (continued)

(e) Additional information (unaudited)

Share based compensation: Options

Further details relating to options are set out below:

Name	Year Granted	% Remuneration consisting of options	Value at grant date	Value of options exercised	Value of options lapsed	Total value
			$	$	$	$
T Boddington	2006	57%	92,770	-	-	92,770

DIRECTORS' BENEFITS

Other than as outlined in Note 13 to the Financial Statements, since 1 July 2006 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 13 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, 2007 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 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	684,742
J N Pitt	2,708,825
S A Macdonald	743,239
G R Strong	1,723,946
	5,860,752

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 Securities 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.

AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration as required by Section 307C of the Corporations Act 2001 is set out on page 8 of this report. BDO Audit & Assurance (WA), the company's auditors, did not perform any non-audit services for the Company for the year ended 30 June 2007.

DIRECTORS' REPORT (continued)

SHARE OPTIONS

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

Options Date Granted	Exercise Price	Expiry Date	Number of Options
7 December 2005	$0.30	6 December 2008	2,000,000
28 November 2006	$1.10	28 November 2009	400,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options:

The following ordinary shares of the Company were issued during the year ended 30 June 2007 on the exercise of options granted under the Employee Option Plan

Date options granted	Issue price of shares	Number of shares issued
28 November 2006	$1.10	200,000

Subsequent to the year end a further 100,000 shares have been issued at $1.10 as a result of the exercise of options.

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.

Signed in Perth in accordance with a resolution of Directors on 26 September 2007

Mr G D Riley
Chairman

BDO Kendalls

BDO Kendalls Audit & Assurance (WA)
128 Hay Street
SUBIACO WA 6008
PO Box 700
WEST PERTH WA 6872
Phone 61 8 9380 8400
Fax 61 8 9380 8499
aa.perth@bdo.com.au
www.bdo.com.au

ABN 90 360 101 594

26 September 2007

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

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF RED HILLI RON LIMITED

As lead auditor of Red Hill Iron Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Red Hill Iron Limited during the year.

Yours faithfully
BDO Kendalls Audit & Assurance (WA) (formerly BDO)

B. McVeigh

BG McVeigh
Partner

CORPORATE GOVERNANCE STATEMENT

Red Hill Iron Limited is a small company with an uncomplicated corporate structure. It adheres to the ten "Essential Corporate Governance Principles" published by the Australian Securities 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 profit and loss 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;

CORPORATE GOVERNANCE STATEMENT (Continued)

(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;

(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 profit and loss 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 of 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 auditor 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 auditor’s 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 have 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 directors’ 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, including 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 STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	2007 $	2006 $
Revenue from continuing operations	2	316,159	82,739
Personnel expenses	3	(441,779)	(160,907)
Exploration expenditure		(1,597,378)	(705,431)
Depreciation expense	8	(15,434)	(1,907)
Other expenses	3	(172,581)	(92,318)
Loss before income tax		(1,911,013)	(877,824)
Income tax expense	4	-	-
Loss attributable to the ordinary equity holders of the Company		(1,911,013)	(877,824)
Loss per share from continuing operations attributable to the ordinary equity holders of the Company			
Basic loss per share	21	5.37 cents	12.24 cents

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

BALANCE SHEETS

AS AT 30 JUNE 2007

	NOTE	2007 $	2006 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	9,405,172	3,128,493
Trade and other receivables	6	164,404	117,777
Total Current Assets		9,569,576	3,246,270
Non Current Assets			
Exploration assets	7	102,110	102,110
Plant and equipment	8	128,020	74,089
Total Non Current Assets		230,130	176,199
Total Assets		9,799,706	3,422,469
LIABILITIES			
Current Liabilities			
Trade and other payables	9	144,517	233,408
Total Current Liabilities		144,517	233,408
Total Liabilities		144,517	233,408
Net Assets		9,655,189	3,189,061
EQUITY			
Contributed equity	10	12,158,256	3,974,115
Reserves	11	285,770	92,770
Accumulated losses		(2,788,837)	(877,824)
Total Equity		9,655,189	3,189,061

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	ISSUED CAPITAL $	ACCUMULATED LOSSES $	RESERVES $	TOTAL EQUITY $
Issued capital on incorporation on 1 June 2005	1	-	-	1
Net loss for the period		(877,824)		(877,824)
Net income and expense recognised during the period		(877,824)		(877,824)
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	-	-	92,770	92,770
Balance at 30 June 2006	3,974,115	(877,824)	92,770	3,189,061
Balance at 1 July 2006	3,974,115	(877,824)	92,770	3,189,061
Net loss for the period		(1,911,013)		(1,911,013)
Net income and expense recognised during the period		(1,911,013)		(1,911,013)
Transactions with equity holders in their capacity as equity holders:				
Issue of ordinary fully paid shares	8,106,941			8,106,941
Equity settled share based payment transactions	77,200	-	193,000	270,200
Balance at 30 June 2007	12,158,256	(2,788,837)	285,770	9,655,189

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	2007 $	2006 $
Cash flows from operating activities			
Payments to suppliers and employees		(404,708)	(128,968)
Payments for exploration expenditure		(1,689,158)	(566,288)
Interest received		255,769	27,739
Net cash outflow from operating activities	20	(1,838,097)	(667,517)
Cash flows from investing activities			
Payments for exploration assets		-	(2,210)
Payments for plant and equipment		(69,365)	(75,995)
Net cash outflow from investing activities		(69,365)	(78,205)
Cash flows from financing activities			
Proceeds from issue of shares		8,184,141	3,874,215
Net cash inflow from financing activities		8,184,141	3,874,215
Net increase/(decrease) in cash and cash equivalents		6,276,679	3,128,493
Cash and cash equivalents at the beginning of the year		3,128,493	-
Cash and cash equivalents at the end of the year	5	9,405,172	3,128,493

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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 to all the years presented unless otherwise stated.

The financial report consists of the financial statements for Red Hill Iron Limited for the year ended 30 June 2007 ("the financial year"). Red Hill Iron Limited is a listed public company, incorporated and domiciled in Australia.

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 IFRS

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

Australian Accounting Standards issued but not yet effective

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

Reference	Affected Standards	Nature of change to accounting policy and impact on accounts	Application date of standard *
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; AASB 1: First-time Adoption of AIFRS; AASB 4: Insurance Contracts; AASB 4: Insurance Contracts; AASB 1023: General Insurance Contracts; and AASB 1038: Life Insurance Contracts	No change to accounting policy required. Therefore no impact on amounts recognised in financial statements.	1 January 2007
New Standard	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required and no impact on amounts recognised in financial statements.	1 January 2007
New Standard	AASB 101 (revised) Presentation of Financial Statements	No change to accounting policy required, and no impact on amounts recognised in financial statements.	1 January 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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.

(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 group 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:

Class of Fixed Asset	*Depreciation Rate*
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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. Impairment losses are recognised in the income statement.

(i) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows

(iii) Retirement benefits obligations

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

(iv) Share based payments

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.

(j) Joint Ventures

The Company's joint ventures do not constitute separate legal entities. They are contractual agreements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit.

The joint ventures are of the type where initially one party contributes tenements with the other party earning a specified percentage by funding exploration activities; thereafter the parties often share exploration and development costs in proportion to their ownership of joint venture assets. The joint ventures do not hold any assets and accordingly the company's share of exploration expenditure is accounted for in accordance with the policy set out in Note 1(e).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Contributed equity

Ordinary shares are classified as equity

Incremental cost directly attributed to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributed to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a buy-back, those instruments are deducted from equity, and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(l) 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.

(m) Comparative figures

When required by accounting standards, comparative figure has been adjusted to conform to changes in presentation for the current financial year.

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 YEAR ENDED 30 JUNE 2007

NOTE 2 – REVENUE

	2007 $	2006 $
Revenue from continuing operations		
Interest income	316,159	82,739
	316,159	82,739

NOTE 3 –EXPENSES

	2007 $	2006 $
Profit before income tax includes the following specific expenses:		
Personnel expenses		
Wages and salaries, including superannuation	142,613	44,467
Other associated personnel expenses	18,822	18,342
Increase in liability for annual leave	10,144	5,328
Equity – settled transactions	270,200	92,770
	441,779	160,907
Other expenses		
Communication cost	6,274	3,514
Office rent	31,687	12,094
Insurance	2,575	5,763
ASX fees	39,621	4,076
Other	92,424	66,871
	172,581	92,318

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 4 – INCOME TAX

	2007 $	2006 $
(a) Income tax		
The components of income tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2007 $	2006 $
Operating loss from continuing operations before income tax	(1,911,013)	(877,824)
Income tax at the tax rate of 30% (2006: 30%)	(573,304)	(263,347)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Interest income accrued	(18,116)	(16,500)
Share issue costs	(4,800)	(3,145)
Provisions	3,043	1,598
Share based payment expense	81,060	27,831
Other non-deductible expenditure	1,950	4,500
Tax loss not brought to account	510,167	249,063
Income tax expense	-	-

(c) 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 the Australian corporate rate of 30% are made up as follows:

Deferred tax assets at 30%

	2007 $	2006 $
On income tax account:		
Carried forward losses	759,230	249,063
Temporary differences	7,839	22,651
	767,069	271,714

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 5 – CURRENT ASSETS - CASH AND CASH EQUIVALENTS	2007	2006
	$	$
Cash on hand	200	200
Cash at bank	134,544	198,118
Bills receivable	9,270,428	2,930,175
	9,405,172	3,128,493

Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	9,405,172	3,128,493
Bank overdrafts	-	
Balance per statement of cash flows	9,405,172	3,128,493

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 5.58% and 6.40% (2006: 5.51% to 5.85%). They mature within 30 days of balance date and have a face value of $9,427,000 (2006: 3,000,000).

Cash at bank has been subject to floating interest rates during the financial year of between 0.05% and 2.65% (2006: 0.05% to 3.00%).

NOTE 6 – CURRENT ASSETS - RECEIVABLES

Interest	115,390	55,000
Other	49,014	62,777
	164,404	117,777

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 7 – NON-CURRENT ASSETS - EXPLORATION AND EVALUATION

Carrying amount at beginning of year	102,110	-
Acquisition of mineral tenements	-	102,110
Carrying amount at end of year	102,110	102,110

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 YEAR ENDED 30 JUNE 2007

NOTE 8 – NON –CURRENT ASSETS - PLANT AND EQUIPMENT

	2007	2006
	$	$
Leasehold improvements – at cost	5,714	5,714
Accumulated depreciation	(381)	(95)
	5,333	5,619
Field equipment – at cost	33,502	27,962
Accumulated depreciation	(4,801)	(637)
	28,701	27,325
Office furniture and equipment – at cost	27,004	17,316
Accumulated depreciation	(3,995)	(601)
	23,009	16,715
Motor vehicle – at cost	79,140	25,004
Accumulated depreciation	(8,163)	(574)
	70,977	24,430
Total plant and equipment	128,020	74,089

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

	Leasehold improvements	Office furniture & equipment	Field equipment	Motor vehicle	Total
	$	$	$	$	$
Carrying amount at 1 July 2005	-	-	-	-	-
Additions during the period	5,714	17,316	27,962	25,004	75,996
Depreciation expense	(95)	(601)	(637)	(574)	(1,907)
Carrying amount at 30 June 2006	5,619	16,715	27,325	24,430	74,089
Additions during the period	-	9,688	5,540	54,137	69,365
Depreciation expense	(286)	(3,394)	(4,164)	(7,590)	(15,434)
Carrying amount at 30 June 2007	5,333	23,009	28,701	70,977	128,020

NOTE 9 – CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2007	2006
	$	$
Trade creditors and accruals	129,045	228,080
Employee entitlements	15,472	5,328
	144,517	233,408

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 10 – CONTRIBUTED EQUITY	**2007**	**2006**
	$	**$**
Paid up capital 39,415,686 (2006: 33,333,333) ordinary fully paid shares	12,158,256	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 fully paid shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote. The ordinary fully paid shares are listed on the Australian Securities Exchange ("ASX") with exception of those shares subject to trading restriction.

(b) Restricted shares

Of the 39,415,686 (2006: 33,333,333) ordinary fully paid shares on issue, 11,973,333 (2006: 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 2 years:

Fully Paid Shares

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
	Pre-reconstruction	1,000		99,901
24/11/2005	Reconstructed by 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)
30/06/2006	Balance	33,333,333		3,974,115
15/02/2007	Share placement	5,882,353	1.3435	7,902,941
09/03/2007	Less cost of share issue	-	-	(16,000)
09/03/2007	Exercise of options	200,000	1.10	220,000
	& transfer from reserves	-		77,200
		39,415,686		12,158,256

(d) Options

The Company has on issue 2,500,000 unlisted options to acquire 2,500,000 ordinary shares, 2,000,000 exercisable on or before 6 December 2008 at 30 cents per share and 500,000 exercisable on or before 28 November 2009 at 1.10 per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 10 – ISSUED CAPITAL (Continued)

(e) Movements in options during the last 2 years

Date	Details	Number of Options	Exercise Price Per Share cents	Grant Date	Expiry Date
07/12/2005	Options issued	2,000,000	30	07/12/2005	06/12/2008
28/11/06	Options issued	700,000	110	28/11/2006	28/11/2009
09/03/2007	Exercise of options	(200,000)	110	28/11/2006	28/11/2009
		2,500,000			

NOTE 11 – RESERVES	2007 $	2006 $
Share based payments reserve	285,770	92,770

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

NOTE 12 – RISK MANAGEMENT

(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 is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 90 days to ensure a balance is maintained between the liquidity of cash assets and interest rate return.

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 5.
(ii) the fixed interest rate applying to bills receivable as set out in Note 5.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 13 – 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 year 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

(b) Key management personnel compensation

	2007 $	2006 $
Short-term employee benefits	249,973	129,725
Post-employment benefits	69,362	18,042
Share-based payments	-	92,770
	319,335	240,537

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transplanted the detailed remunerations disclosures to the Directors' report. The relevant information can be found on pages 3 to 5.

NOTE 13 – KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(c) Shareholdings

The number of ordinary fully paid shares in the Company held directly and indirectly by the Directors and other key management personnel and any movements in these holdings over the year is set out below:

2007	Balance 1 July 2006	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2007
Directors					
G D Riley	605,900	-	-	78,842	684,742
J N Pitt	2,040,000	-	-	138,825	2,178,825
S A Macdonald	743,239	-	-	-	743,239
G R Strong	1,723,946	-	-	-	1,723,946
	5,113,085	-	-	217,667	5,330,752
Other key management personnel					
Mr T Boddington	680,000	-	-	(441,807)	238,193

2006	Balance 1 July 2005	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
	1	-	-	5,113,084	5,113,085
Other key management personnel					
Mr 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 year, and include a subdivision of shares during the year ended 30 June 2006.

* Subsequent to 30 June 2007 Mr Pitt has acquired an additional 530,000 ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 13 – KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(e) Option holdings

The number of options held by key management personnel are set out below:

2007	Balance 1 July 2006	Received as remuneration	Options exercised	Net changes other	Balance 30 June 2007
Other key management personnel					
T Boddington	2,000,000	-	-	-	2,000,000

2006	Balance 1 July 2005	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 year.

NOTE 14 – REMUNERATION OF AUDITORS	2007 $	2006 $
Amounts received, or due and receivable, by auditors for:		
Auditing or reviewing the accounts of Red Hill Iron Limited	18,040	10,000
Other Services		
Investigating Accountant's report for IPO prospectus	-	6,310
	18,040	16,310

NOTE 15 – JOINT VENTURES

The Company has interests in the following mineral exploration joint ventures as at 30 June 2007

Name of project	Interest	Activities	Other Parties
West Pilbara – Red Hill Iron Ore	40%	Iron ore exploration	API Management Pty Ltd (60%) (API earning 80%)
Cullen	0%	Base metal exploration	Cullen Resources Limited (100%) (Red Hill Iron earning 70%)

The Company's joint ventures do not constitute separate legal entities but are contractual agreements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit. Refer note 1(j)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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 in respect of most of the Company's mineral tenements is expected to be paid by the party farming in to the iron ore rights on the Company's tenements in accordance with a farm in agreement.

The Company expects to have some commitments for minimum expenditure requirements and maintenance expenditure in respect of tenements not part of the iron ore joint venture. In addition, during the year the company entered into a base metals exploration farm-in and joint venture agreement as a result of which the Company has expenditure commitments in respect of the mineral tenements covered by that agreement.

The Company expects to have commitments as set out below. These commitments are expected to be fulfilled in the normal course of operations and may be varied from time to time subject to approval by the grantor of titles. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

	2007 $	2006 $
Minimum estimated expenditure requirements	236,101	-

Operating Leases

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

	2007	2006
Within one year	25,918	26,977
Longer than one year, not longer than five years	-	24,729
	25,918	51,706

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

NOTE 17– RELATED PARTIES

(a) Key management personnel

Information on remuneration of Directors is disclosed in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 17– RELATED PARTIES (Continued)

(b) Other transactions with director-related entities

Office rental, secretarial and administration services

During the financial year, the Company paid, pursuant to a sub-lease, $43,711 (2006: $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 year the Company paid $2,165 (2006: $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:

	2007	2006
	No. of shares	No. of shares
Ordinary shares – fully paid	5,330,752	5,113,085

Shares acquired and disposed of by the Directors and during the year are set out in Note 13.

NOTE 18– EVENTS OCCURRING AFTER BALANCE DATE

There have been no material items, transactions or events subsequent to 30 June 2007 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 2007 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 20– CASH FLOW INFORMATION

	2007	2006
	$	$
(a) Reconciliation of loss after income tax with cash flow from operations activities		
Loss after income tax	(1,911,013)	(877,824)
Depreciation	15,434	1,907
Equity based payments	193,000	92,770
Change in operating assets and liabilities:		
(Increase)/Decrease in debtors	(59,291)	(56,099)
Increase/(Decrease) in creditors	12,664	233,407
(Increase)/Decrease in GST receivable	(88,891)	(61,678)
Net cash outflow from operating activities	(1,838,097)	(667,517)

(b) Non-cash financing and investing activities

	2007	2006
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	-	99,901

NOTE 21– EARNINGS PER SHARE

	2007	2006
	Cents	Cents
Basic loss per share	5.37	12.24
Reconciliation of loss	$	$
Loss used in calculating earnings per share	1,911,013	877,824
Net loss for the reporting period	1,911,013	877,824

	2007 No. of Shares	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	35,577,063	7,170,693

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 2007.
The Directors are not aware of any other contingent liabilities at 30 June 2007.

NOTE 23– SHARE BASED PAYMENTS

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

A summary of share based payments is set out below:

2007

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during year	Exercised during year	Balance at end of year
7 Dec 2005	6 Dec 2008	$0.30	2,000,000	-	-	2,000,000
28 Nov 2006	28 Nov 2009	$1.10	-	700,000	200,000	500,000
			2,000,000	700,000	200,000	2,500,000

2006

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during year	Exercised during year	Balance at end of year
7 Dec 2005	6 Dec 2008	$0.30	-	2,000,000	-	2,000,000
			-	2,000,000	-	2,000,000

No options expired during the periods covered by the above tables.

Fair value of options granted

The assessed fair value, and hence the cost to the Company, of the options granted during the year ended 30 June 2007 was $270,200 (2006 $92,770). The fair value has been calculated as at the date of grant using the Black-Scholes model for the valuation of call options. The assumptions used in arriving at the value of the options issued to key management personnel and other staff are set out below.

	2007	2006
No of options granted	700,000	2,000,000
Grant date	28 November 2006	7 December 2005
Exercise by	28 November 2009	6 December 2008
Exercise price per share	$1.10	$0.30
Expected average life of the options	2 years	3 years
Underlying security spot price at time of grant	$1.00	$0.15
Risk fee interest rate	5.88%	5.32%
Expected volatility	70%	69.28%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23– SHARE BASED PAYMENTS (Continued)

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

The expected average life of the options granted in the year ended 30 June 2007 was determined to be 2 years, 1 year less than the term, to take account of the fact that the options are not transferable. The expected average life of the options granted prior to the Company's listing in the year ended 30 June 2006 was determined to be the full term of the options. The actual life of the options could differ from this estimate if the holder of the options chooses to exercise his options prior to their expiry date.

The underlying security spot price of the options granted prior to the Company's listing in the year ended 30 June 2006 was determined by applying a 25% discount to the price of 20 cents per share set for the Company's IPO anticipated at the time of grant of the options.

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 13 to 35 are in accordance with the Corporations Act 2001, including:

(i) comply with Accounting Standards and the Corporations Regulations 2001; and

(ii) giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out in the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by Section 295A of the Corporations Act 2001.

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

Mr G D Riley
Director

Perth, 26 September 2007

BDO Kendalls

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF RED HILL IRON LIMITED

We have audited the accompanying financial report of Red Hill Iron Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the entity.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001,* the entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures,* under the heading "Remuneration Report" in pages 3 to 5 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the entities financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Red Hill Iron Limited on 26 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion the financial report of Red Hill Iron Limited is in accordance with the *Corporations Act 2001*, including:

(a) the financial report of Red Hill Iron Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated/parent financial statements and notes or financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in pages 3 to 5 of the directors' report comply with Accounting Standard AASB 124.

BDO Kendalls Audit & Assurance (WA) (formerly BDO)

BDO Kendalls

BG McVeigh
Partner

Perth, Western Australia
Dated this 26th day of September 2007