BC Iron Limited

ACN 120 646 924

Annual Financial Report

For the

Period 10 July 2006 to 30 June 2007

BC Iron Limited

ACN 120 646 924

Directors' Report

The directors present their report on the results of BC Iron Limited ('the Company') for the period 10 July 2006 to 30 June 2007 and the state of affairs at that date.

Directors

The names of directors of the Company in office during the whole of the financial period and up to the date of this report are:

Anthony W. Kiernan	Chairman (*Non-Executive*) (appointed 11 October 2006)
Michael C. Young	Managing Director (appointed 11 October 2006)
Steven J.M. Chadwick	Director (*Non-Executive*) (appointed 10 July 2006)
Garth R. Higgo	Director (*Non-Executive*) (appointed 11 October 2006)
Terrence W. Ransted	Director (*Non-Executive*) (appointed 10 July 2006)
Karen E.V. Brown	Director (*Non-Executive*) (appointed 10 July 2006, resigned 11 October 2006)

Principal Activity

The Company was incorporated on 10 July 2006 and listed on ASX Limited on 15 December 2006.
The Company is involved in mineral exploration and development, focussing primarily on iron ore deposits near Nullagine, Western Australia.

Operating Results

The net loss of the Company for the financial period, after provision for income tax, amounted to $748,739.

Dividends

No dividends were paid during the financial period and no recommendation is made as to dividends.

Review of Operations

The Company is actively exploring for iron ore on its Nullagine Project in Western Australia. After successfully obtaining Heritage approvals and commencing its first pass drilling, the Company discovered several zones of high grade CID iron ore at Outcamp Well and Coongan Well which may prove suitable for direct shipping. Other areas were discovered which may provide an alternative source of direct shipping ore through simple beneficiation. Drilling continues through the December quarter of 2007 and a maiden resource estimate is expected during early 2008.

The Company successfully completed its JV obligations with Consolidated Minerals and Alkane Resources to acquire 100% ownership of the Project.

An MoU with Fortescue Metals Group Limited was entered into which covers future options for the provision of bulk commodity transport services, joint venture and mine gate sales.

More details of the activities of the Company for the financial period together with future prospects are set out in the Review of Operations section of the Annual Report.

Significant Changes in State of Affairs

The Company was incorporated on 10 July 2006 and issued a prospectus dated 8 November 2006 for an initial public offering to raise $6 million. On successful completion of the offer the Company was granted official quotation on ASX Limited on 15 December 2006.

Matters Subsequent to the end of the financial period

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial periods subsequent to the financial period ended 30 June 2007.

Directors' Report - continued

Likely Developments and Expected Results of Operations
The Company intends to continue exploration programmes on its existing tenements, and to acquire further suitable tenements for exploration. Further information on the likely developments in the operations of the Company and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Directors' Qualifications, Experience and Special Responsibilities

Mr Anthony William (Tony) Kiernan LL.B Age 56
Chairman (*Non-Executive*)
Mr Kiernan is a solicitor with extensive experience gained over 35 years in the management and operation of listed public companies. As both a lawyer and general consultant, he has practised and advised extensively in the fields of resources, media and information technology. He is a director of ASX listed companies Uranium Equities Limited (since June 2003), Liontown Resources Ltd (since November 2006), Chalice Gold Mines Ltd (since February 2007), North Queensland Metals Ltd (since January 2007) and Solbec Pharmaceuticals Limited (since March 2004). Mr Kiernan is also a director of a number of non-public entities. He has been a director of Anglicare WA for over 17 years and its Chairman for the last 6 years.
Mr Kiernan is a member of audit committee.

Michael Charles (Mike) Young BSc(Hon), MAusIMM, MAIG, MSEG Age 46
Managing Director
Mr Young is a geologist and a graduate of Queens University, Canada with a Bachelor of Science (Honours) degree in Geological Sciences. After two years of uranium and gold exploration and mining in Canada, he emigrated to Australia in 1987. From 1991, he worked for Dominion Mining Limited and headed the team who pegged the Just-in-Case gold, and Abednego nickel prospects. He then moved onto work with Mining and Resource Technology which became part of Golder Associates from 1994 to 2003. During that time, he carried out resource modelling, due diligence, QA/QC, and feasibility work on a wide variety of deposits and commodities. These included Century Zinc, Escondida Copper in Chile, and Koolyanobbing iron mine at Southern Cross. In 2003 he joined Cazaly Resources as Exploration Manager where he was responsible for exploration and resource development of Cazaly's various projects. He was a founding director of Bannerman Resources Limited (February 2005 to February 2006). Mr Young's experience has a strong focus on exploration, resource definition and development. He is a member of the Australian Institute of Geoscientists, the Australasian Institute of Mining and Metallurgy (CP), and the Society for Economic Geologists.
Mr Young is a member of the risk management committee.

Mr Terrence William (Terry) Ransted B. (App) Sc, MAusIMM, MGSA, Age 51
Director (*Non-Executive*)
Mr Ransted is a geologist and a graduate of the Western Australian Institute of Technology with a Bachelor of Applied Science Degree. He has had 30 years experience in many facets of exploration and regional geological programs and has been involved in various stages of project development from grass roots exploration to mining in a variety of commodities covering differing geological terrains. Of specific relevance, Mr Ransted commenced his career with Hamersley Exploration Pty Limited exploring for bedded iron ore deposits in the Hamersley region and more recently was responsible for the onsite management of the initial feasibility drilling, metallurgical sampling, and geological assessment and interpretation for the Yandicoogina Pisolite Iron Project for Hamersley Iron Pty Ltd and also onsite management of mine development drilling, metallurgical sampling and geological interpretation for the Marandoo Iron Ore Project also for Hamersley Iron Pty Ltd. Mr Ransted is a principal of Multi Metal Consultants Pty Ltd and a non-executive Director of Northern Star Resources Ltd (since May 2000).
Mr Ransted is a member of audit committee.

Directors' Report - continued

Mr Steven John Micheil (Steve) Chadwick BAppSc, MAusIMM Age 53
Director (*Non-Executive*)
Mr Chadwick is the Principal of Spectrum Metallurgical Consultants a Perth, Western Australia based specialist consultancy to the minerals industry. He is a metallurgical graduate from the WA School of Mines and has 30 years experience in the mining industry, incorporating technical, operating and management roles in gold and base metals mining and processing. Mr Chadwick served as Executive Technical Director of ASX listed junior gold company Northern Gold NL from August 1995 to October 2005. Mr Chadwick is a director of several private entities.
Mr Chadwick is a member of the risk management committee.

Mr Garth Reginald Higgo Dip Civil Eng, BCom (Hons), MBA (cum laude) Age 48
Director (*Non-Executive*)
Mr Higgo has held senior positions in civil engineering, banking (treasury and risk management), mining corporate finance and business development. Mr Higgo's career includes senior positions with Kumba Resources Ltd where he was involved in the evaluation of iron ore and copper/zinc projects before he moved to Anglo Platinum Ltd where he headed up the group's joint ventures and was responsible for the negotiation, implementation and management of many large platinum joint ventures. Mr Higgo has a wide experience in international deal making, corporate finance and business administration. Mr Higgo is currently Head of Corporate Development and Strategy for Consolidated Minerals Ltd where he is responsible for business development, corporate finance and group strategy.
Mr Higgo is chairman of the audit and risk management committees.

Company Secretary
COLLESS, Lindsay Arthur, CA, JP (NSW), FAICD Age 62
Mr Colless is a member of the Institute of Chartered Accountants in Australia with 15 years experience in the profession and a further 29 years experience in Commerce, mainly in the mineral and petroleum exploration industry in the capacities of financial controller, company secretary and director. He is a director and/or secretary of a number of public listed companies

Meetings of Directors
During the financial period, eleven (11) meetings of directors were held. There was one (1) Audit.

The Company does not have a Nomination or Remuneration Committee with the full Board carrying out the functions that would otherwise be dealt with by such committees.

The number of meetings attended by each director during the financial period is as follows:

	Number of meetings attended	
Director	Board	Audit Committee
A Kiernan	11	1
M Young	11	n/a
S Chadwick	10	n/a
G Higgo	10	1
T Ransted	11	1
K Brown *	1	n/a

* K Brown resigned 11 October 2006

Audit Committee
The audit committee comprises Mr Garth Higgo, Mr Anthony Kiernan and Mr Terrence Ransted.

Corporate Governance
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of BC Iron Limited support and have adhered to the principles of corporate governance and have established a set of policies and manuals for the purpose of managing this governance. The Company's detailed corporate governance policy statement is contained in the additional Supplementary Information section of the annual report and can be viewed on the Company's web site at www.bciron.com.au.

Directors' Report - continued

Environmental Issues

The Company is subject to environmental regulation in respect to its mineral tenements relating to exploration activity on those tenements. No breaches of any environmental restrictions were recorded during the financial period.

Share Options

Options to take up ordinary shares in the capital of BC Iron Limited granted and still outstanding are as follows:

Unlisted Options - exercisable at 25 cents on or before 15 December 2009

Outstanding as at date of this report	3,750,000
Outstanding at end of the financial period	3,750,000
Granted during the financial period	3,750,000
• vesting on issue	3,250,000
• vesting 15 December 2007	500,000
Exercised during the financial period	Nil

Unlisted Options - exercisable at 30 cents on or before 15 December 2009

Outstanding as at date of this report	500,000
Outstanding at end of the financial period	500,000
Granted during the financial period	500,000
Exercised during the financial period	Nil

Unlisted Options - exercisable at 72 cents on or before 19 February 2010

Outstanding as at date of this report	500,000
Outstanding at end of the financial period	500,000
Granted during the financial period	500,000
• vesting 1 June 2007	100,000
• vesting 16 February 2008	200,000
• vesting 16 February 2009	200,000
Exercised during the financial period	Nil

Unlisted Options – 500,000 granted during the financial period - divided into three classes as follows:

Incentive Option Class	Number	Exercise price	Exercise Dates
Class A	100,000	$0.72	Between 1 June 2007 and 19 February 2010
Class B	200,000	$0.72	Between 16 February 2008 and 19 February 2010
Class C	200,000	$0.72	Between 16 February 2009 and 19 February 2010

No ordinary shares were issued during the financial period on the exercise of options.
No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Directors' Interests and Benefits

Professional fees of $8,813 and re-imbursement of disbursements of $171 totalling $8,984 were paid during the financial period to Multi Metal Consultants Pty Ltd, a company in which Mr Ransted has a substantial financial interest.

Professional fees of $1,827 were paid during the financial period to Christensen Vaughan, a company in which Mr Kiernan is a consultant.

These fees and disbursements exclude benefits included in the aggregate amount of emoluments received or due and receivable by Directors as directors' fees and shown in the financial statements, prepared in accordance with the Corporations Regulations, or the fixed salary of a full-time employee.

Remuneration Report
The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

The information provided within this remuneration report includes remuneration disclosures that are required under Accounting Standard AASB 124 'Related Party Disclosures'. These disclosures have been transferred from the financial report and have been audited.

A *Principles used to determine the nature and amount of remuneration (audited)*
The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders.

The Board ensures that executive reward satisfies the following key criteria for good reward corporate governance practices:

Competitiveness and reasonableness
Acceptability to shareholders
Performance linkage/alignment of executive compensation
Transparency
Capital management

The Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy for the organisation.

Non-executive directors
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman is not present at any discussions relating to determination of his own remuneration.

Director's fees
Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $400,000 in aggregate. This amount is separate from any specific tasks the directors or their related entities may take on for the Company. For example, Multi Metal Consultants Pty Ltd of which Mr Ransted is a principal, has provided some administration and technical services for the Company during the year, separate from Mr Ransted's tasks as a non-executive Director. Directors' remuneration is set out below which includes share and option based payments.

The Company has no performance based remuneration component built into director and executive remuneration packages.

B *Details of remuneration (audited)*
Key management personnel and other executives of the Company

	2007
	$
Directors' income paid or payable or otherwise made available to Directors of the Company	**222,897**

Directors' Report - continued

Remuneration Report - continued

B ***Details of remuneration (audited) - continued***

The details of remunerations of the directors and key management personnel of BC Iron Limited are as follows:

Executive Director of BC Iron Limited

Name	Short-term benefits Cash Salary $	Short-term benefits Cash Fees and Disbursements $	Post-employment benefits Superannuation $	Long-term benefits $	Share-based payment $	Total $
2007						
M Young	**139,141**	**-**	**11,756**		**72,000**	**222,897**

No long term or termination benefits have been paid.

Non-executive Directors of BC Iron Limited

Name	Short-term benefits Directors' Cash Fee $	Short-term benefits Cash Fees and Disbursements $	Post-employment benefits Superannuation $	Long-term benefits $	Share-based payment $	Total $
2007						
A Kiernan	**36,141**	**-**	**-**	**-**	**60,000**	**96,141**
S Chadwick	**25,298**	**-**	**-**	**-**	**40,000**	**65,298**
G Higgo	**25,298**	**-**	**-**	**-**	**40,000**	**65,298**
T Ransted	**25,298**	**-**	**-**	**-**	**40,000**	**65,298**
	112,035	**-**	**-**	**-**	**180,000**	**292,035**

Other key management personnel

Name	Short-term benefits Cash Fee $	Short-term benefits Cash Fees and Disbursements $	Post-employment benefits Superannuation $	Long-term benefits $	Share-based payment $	Total $
L Colless	**42,000(a)**	**-**	**-**	**-**	**-**	**42,000**

(a) Corporate administration, accounting & company secretarial fee paid to Mineral Administration Serivces Pty Ltd, a company with which Mr. Colless is associated.

No long term or termination benefits have been paid.

The share-based payments referred to above comprise options over ordinary shares in the Company issued upon listing of the Company on ASX Limited and have been valued based on the Black and Scholes option pricing model.

C ***Service Agreements (audited)***

YOUNG, Michael (Managing Director)

Term of Agreement - 2 years commencing 15 December 2006.

Agreement - Base salary, inclusive of statutory superannuation of $220,000 to be reviewed on or before 30 December 2007 and annually on 1 July thereafter (or such other times as agreed). Under the terms of the agreement the Company issued 1 million options to Mr Young with exercise prices of $0.25 and $0.30 and vesting dates as detailed below.

Directors' Report - continued

Remuneration Report – continued
C ***Service Agreements (audited) - continued***

Termination – There are no termination benefit provisions on early termination by the Company, provided however in the event that the Company is taken over or enters into a scheme of arrangement whereby 100% of its issued capital is held by one party (or a series of parties associated with each other), and if Mr Young is not offered the position of BC Iron (or the new entity) on terms and conditions no less favourable, then Mr Young has the election, but not the obligation, to terminate his employment agreement with BC Iron and to receive, by way of severance, a payment equal to 12 months salary then applying.

D ***Share-based compensation (audited)***
In the financial period, 3,250,000 unlisted options were granted to Directors of which 1,000,000 options were issued to the Managing Director and 2,250,000 to Non-Executive Directors.

The unlisted options were granted for no consideration as an incentive bonus upon appointment to the Board. The options carry no dividend or voting rights. In relation to the 2,250,000 options issued to Non-Executive Directors these are exercisable at any time. In relation to the 1,000,000 options issued to the Managing Director these are exercisable at the vesting dates listed below. When exercised, each option is convertible into one ordinary share.

The 3,250,000 free (unlisted) options comprise:

Date options granted	Number and Class under option	Issue /Exercise price of shares	Value per option at grant date	Exercise / Expiry Dates
1,000,000 Options, granted to the Managing Director, divided into two classes as follows:				
16 October 2006	500,000 (Tranche 1)	$0.25	$0.080	Between 15 December 2007 and 15 December 2009
16 October 2006	500,000 (Tranche 2)	$0.30	$0.064	Between 15 December 2008 and 15 December 2009
2,250,000 Options, granted to the Non-Executive Directors, as follows:				
16 October 2006	2,250,000	$0.25	$0.08	Between 16 October 2006 and 15 December 2009

Name	Number of options granted	Number of options vested
	2007	2007
Directors of BC Iron Limited		
A Kiernan	750,000	750,000
M Young	1,000,000	-
S Chadwick	500,000	500,000
G Higgo	500,000	500,000
T Ransted	500,000	500,000
Other key management personnel		
Lindsay Colless	-	-

Fair value of options granted on 16 October 2006
The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date ($0.25) and expected price volatility (50%) of the underlying share, the expected dividend yield (nil) and the risk-free interest rate (6.0%) for the term of the option.

There was no active market to determine the share price at the grant date

Directors’ Report - continued

Remuneration Report – continued
E ***Additional information – (unaudited)***

Share –based compensation: Options

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $	E Total of columns B-D $
M Young	32.3%	72,000	-	-	72,000
A Kiernan	62.4%	60,000	-	-	60,000
S Chadwick	61.3%	40,000	-	-	40,000
G Higgo	61.3%	40,000	-	-	40,000
T Randsted	61.3%	40,000	-	-	40,000
L Colless	0.0%	-	-	-	-

Directors' Interests in the Share Capital of the Company as at the date of this report.

Name of Director	Shares Held Directly	Shares Held Indirectly	Options Held Directly	Options Held Indirectly
A Kiernan	180,000	18,000	750,000	-
M Young	209,000	-	1,000,000	-
S Chadwick	-	200,000	500,000	-
G Higgo	20,000	-	500,000	-
T Ransted	50,000	140,800	-	500,000

Insurance of Officers
During the financial period, BC Iron Limited incurred premiums to insure the directors, secretary and/or officers of the Company.

The liability insured is the indemnifaction of the Company against any legal liability to third parties arising out of any Directors or Officers duties in their capacity as a Director or Officer other than indemnification not permitted by law.

No liability has arisen under this indemnity as at the date of this report.

The Company has entered into Indemnity Deeds with each Director and the Company Secretary (“Officers”). Under the Deeds, the Company indemnifies each Officer to the maximum extent permitted by law against legal proceedings or claims made against or incurred by the Officers in connection with being an Officer of the Company, or breach by the Company of its obligations under the Deed.

AUDIT INDEPENDENCE AND NON-AUDIT SERVICES

Auditor’s Independence Declaration

A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out following this report.

Non-audit services
The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

Directors' Report - continued

AUDIT INDEPENDENCE AND NON-AUDIT SERVICES – continued
Non-audit services – continued

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including acting in a management or a decision-making capacity for the Company or acting as advocate for the Company.

During the year the following fees were paid or payable for services provided by the auditor:

	2007 **$**
Audit services	
BDO Kendalls Audit & Assurance (WA) Pty Ltd	
Audit and review of financial reports under the Corporations Act 2001	**25,406**
Non-audit services	
Related entities of BDO Kendalls	
Investigating accountant's report, prospectus dated 8 November 2006	**6,611**

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

Dated this 27th day of September 2007.

On behalf of the Directors

Michael C. Young
Director

BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd
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ABN 79 112 284 787

27 September 2007

The Directors
BC Iron Limited
PO Box 8475
Perth Business Centre
PERTH WA 6849

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF BC IRON LIMITED

As lead auditor of BC 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 BC Iron Limited.

Yours faithfully
BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
Peter Toll

Peter Toll
Director

Directors' Declaration
For The Period 10 July 2006 to 30 June 2007

In the opinion of the Directors of BC Iron Limited:

(a) the financial statements and notes set out on the following pages are in accordance with the Corporations Act 2001 including:

i. giving a true and fair view of the financial position of the Company as at 30 June 2007 and of its performance for the financial period 10 July 2006 to 30 June 2007; and

ii complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements ; 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.

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

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

This declaration is made in accordance with a resolution of the Directors:

Michael C. Young
Director

PERTH, 27th September, 2007.

BC Iron Limited
ACN 120 646 924

Income Statement
For The Period 10 July 2006 to 30 June 2007

	Note	Period to 30 June 2007 $
Revenue from continuing operations		
Interest income		**157,202**
Expenses from continuing operations		
Administration and secretarial services		**(42,235)**
Audit fees	**2**	**(25,406)**
Depreciation expense	**8**	**(19,319)**
Director's fees		**(112,038)**
Employee benefits		**(360,817)**
Insurance		**(29,079)**
Office rent, ancillaries and running		**(65,164)**
Personnel & support		**(114,483)**
Public relations and promotions		**(24,294)**
Share registry services and other corporate costs		**(93,210)**
Other expenses from continuing operations		**(19,896)**
Loss before income tax expense	**3**	**(748,739)**
Income tax expense	**4**	**-**
Loss for the financial period		**(748,739)**
Loss attributable to members of BC Iron Limited		**(748,739)**
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share (cents per share)	**14**	**(2.12c)**

Diluted earnings per share are not disclosed as they are not materially different to basic earnings per share.

The above income statement should be read in conjunction with the accompanying notes.

BC Iron Limited

ACN 120 646 924

Balance Sheet

As at 30 June 2007

	Note	$
Current Assets		
Cash and cash equivalents	**5**	**4,048,810**
Trade and other receivables	**6**	**86,601**
Other financial assets	**7**	**36,788**
Total Current Assets		**4,172,199**
Non-Current Assets		
Plant and equipment	**8**	**110,435**
Exploration and evaluation expenditure	**9**	**922,940**
Total Non-Current Assets		**1,033,375**
Total Assets		**5,205,574**
Current Liabilities		
Trade and other payables	**10**	**178,822**
Total Current Liabilities		**178,821**
Total Liabilities		**178,821**
Net Assets		**5,026,753**
Equity		
Contributed equity	**11**	**5,334,675**
Reserves	**13a**	**440,817**
Accumulated losses	**13b**	**(748,739)**
Total Equity		**5,026,753**

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For The Period 10 July 2006 to 30 June 2007

	$ Period to 30 June 2007 $
Total equity at 10 July 2006	**-**
Loss for the financial period	**(748,739)**
Total recognised income and expense for the financial period	**(748,739)**
Transactions with equity holders in their capacity as equity holders	
Contributions of equity, net of transaction costs	**5,334,675**
Share-based payments	**440,817**
Total equity at 30 June 2007	**5,026,753**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement
For The Period 10 July 2006 to 30 June 2007

	Note	Period to 30 June 2007 $
Cash Flows from Operating Activities		
Payments to suppliers & employees (inclusive of goods and services tax)	20	(353,586)
Interest received		157,202
Net cash outflow from operating activities		(196,384)
Cash Flows from Investing Activities		
Payment for plant & equipment		(129,754)
Payment for exploration and evaluation expenditure		(922,940)
Payment for security deposits		(36,788)
Net cash (outflow) inflow from investing activities		(1,089,482)
Cash Flows from Financing Activities		
Proceeds from issue of shares		5,334,675
Proceeds from borrowings		248,242
Repayment of borrowings		(248,242)
Net cash inflow from financing activities		5,334,675
Net Increase in cash and cash equivalents		4,048,410
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	5	4,048,410

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below.

a. **Basis of preparation**

This general purpose financial report for the reporting period 10 July 2006 to 30 June 2007 has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

b. **Compliance with AIFRSs**

Australian Accounting Standards include equivalents to International Financial Reporting Standards (AIFRS).

c. **Comparatives**

These financial statements cover the period from incorporation; therefore there are no comparative figures.

d. **Segment Reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operation in other economic environments.

e. **Revenue Recognition**

Interest income is recognised on a time proportionate basis using the effective interest method.

f. **Income Tax**

The income tax expense or revenue for the financial period is the tax payable on the current financial period’s taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

g. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with receivables or payables in the balance sheet.

h. **Impairment of Assets**

Assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

i. **Cash and Cash Equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

j. **Trade and Other Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

k. **Fair Value Estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value, less impairment provision, of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

l. **Plant and Equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.

Notes to the Financial Statements

For The Period 10 July 2006 to 30 June 2007

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

m. **Exploration and Evaluation Expenditure**

Expenditure on acquisition, exploration and evaluation relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:

i) the area has proven commercially recoverable reserves; or
ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

At the end of each financial year the Directors assess the carrying value of the exploration expenditure carried forward in respect of each area of interest and where the carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down.

Capitalised exploration expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

n. **Mineral Tenements**

The Company's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decision in what is known generally as the "Mabo" case and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could effect any mining title area whether granted by the State or not.

o. **Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

p. **Employee Benefits**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve (12) months of the reporting date are recognised in other payables and are measured at the amounts expected to be paid when the liability is settled.

q. **Leases**

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised. The Company has no finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating (Refer note 15). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

r. **Contributed Equity**
Ordinary shares are classified as equity.
Costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

s. **Dividends**
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

t. **Earnings per share**
Basic earnings per share is determined by dividing the profit (loss) after income tax attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

u. **Share-based payments**
Where shares or options are issued to employees, including directors, as remuneration for services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

v. **New accounting standards and UIG interpretations**
Certain new accounting standards have been published that are not mandatory for 30 June 2007 reporting periods. The Group has not applied any of the following in preparing this financial report:

Affected Standard	Nature of Change to Accounting Policy	Application *
AASB 7: Financial Instruments: Disclosures	No impact on accounting policy, but will require significant additional disclosures in relation to financial instruments.	1 January 2007
AASB 2005-10: Amendments to Australian Accounting Standards [AASB132, AASB101, AASB114, AASB 117, AASB133, AASB139, AASB4, AASB1023 and AASB1038]	No impact on accounting policy, affects some disclosures for the year ending 30 June 2008.	1 January 2007
AASB 8: Operating Segments	No impact on accounting policy, affects disclosures in relation to operating segments instead of business and geographical segments for the financial report ending 30 June 2010.	1 January 2009
AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB5, AASB6, AASB102, AASB 107, AASB119, AASB127, AASB134, AASB136, AASB 1023 and AASB1038]	No impact on accounting policy, affects disclosures only	1 January 2009
AASB 2007-7: Amendments to Australian Accounting Standards [AASB1, AASB2, AASB4, AASB5, AASB107 and AASB128]	No impact on accounting policy, affects disclosures only	1 July 2007

Notes to the Financial Statements

For The Period 10 July 2006 to 30 June 2007

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - continued

v. **New accounting standards and UIG interpretations - continued**

Affected Standard	Nature of Change to Accounting Policy	Application *
AASB 101: Presentation of Financial Statements	No impact on accounting policy or disclosures	1 January 2007
AASB 2007-1: Amendments to Australian Accounting Standards arising from AASB 11	No impact on the consolidated financial report or the parent entity financial statements	1 March 2007
AASB 2007-4: Amendments to Australian Accounting Standards arising from ED 151 and other amendments	No impact on accounting policy or disclosures	1 July 2007
AASB Interpretation 11: Group and Treasury Share transactions	No impact on accounting policy or disclosures	1 March 2007

* Applicable to reporting periods commencing on or after the given date.

w. **Critical accounting estimates & judgements**

In preparing this Financial Report the Company has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

<u>Capitalisation of exploration and evaluation expenditure</u>

The Group has capitalised significant exploration and evaluation expenditure on the basis either that this is expected to be recouped through future successful development (or alternatively sale) of the Areas of Interest concerned or on the basis that it is not yet possible to assess whether it will be recouped.

ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

<u>Impairment of capitalised exploration and evaluation expenditure</u>

The future recoverability of capitalised exploration and evaluation expenditure is dependent on an number of factors, including whether the Company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

As at 30 June 2007, the carrying value of exploration expenditure is $922,940

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

	Period to 30 June 2007 $
NOTE 2 – AUDITOR'S REMUNERATION	
During the financial period the following fees were paid or payable for services provided by the auditor:	
(a) Audit services	
BDO Kendalls Audit & Assurance (WA) Pty Ltd:	
Audit and review of financial reports under the Corporations Act 2001	**25,406**
(b) Non-audit services	
Related entities of BDO Kendalls	
Investigating accountants report, prospectus dated 8 November 2006	**6,611**
Total remuneration of auditors	**32,017**

The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit.

NOTE 3 - EXPENSES	
Profit before income tax include the following specific expenses:	
Rental expense relating to operating leases	**19,530**

NOTE 4 - INCOME TAXES	
(a) Income Tax Expense	
Current tax	-
Deferred Tax	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable	
Loss from continuing operations before income tax expense	**(748,739)**
Prima facie tax payable at 30%	**(244,622)**
Add tax effect of amounts which are not deductible (taxable) in calculating taxable income:	
Share-based payments	**108,245**
Tax benefit relating to timing differences and tax losses not recognised	**116,377**
	-
(c) Tax losses	
Unused tax losses for which no deferred tax asset has been recognised	**1,273,300**
Potential tax benefit at 30%	**381,990**
(d) Unrecognised temporary differences	
Deferred tax liabilities – Capitalised Exploration	**(276,882)**
Deferred tax assets – Accrued expenses	**11,269**
Deferred tax assets – Revenue tax losses	**381,990**
Net deferred tax asset not recognised	**393,259**
Net deferred tax asset	**116,377**

Deferred tax assets and liabilities have been offset as they relate to income taxes levied by the same taxation authority and there is a legally recognised right to set off.

Notes to the Financial Statements

For The Period 10 July 2006 to 30 June 2007

	Period to 30 June 2007 $
NOTE 5 – CASH AND CASH EQUIVALENTS	
(Current assets)	
Cash at Bank and on hand	**53,789**
Cash on Deposit (at call)	**253,836**
Cash on Deposit – Commercial Bills (maturing within 90 days)	**3,741,185**
	4,048,810

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

Balances as above	**4,048,810**
Balances as per statement of cash flows	**4,048,810**

(a) Cash at bank bears nil interest per annum.
(b) Cash on deposit (at call) bears interest at 6.00% per annum.
(c) Cash on deposit (Commercial Bills) bears interest at an average 6.33% per annum.

NOTE 6 – TRADE AND OTHER RECEIVABLES	
(Current assets)	
Other receivables	**86,601**

NOTE 7 – OTHER FINANCIAL ASSETS	
Security deposits – rent bond	**11,788**
Security deposits – corporate card	**25,000**
	36,788

NOTE 8 – PLANT & EQUIPMENT (Non–current assets)	Furniture, computers & equipment $	Total $
Period 10 July 2006 to 30 June 2007		
Opening net book amount	**-**	**-**
Additions	**129,754**	**129,754**
Depreciation charge	**(19,319)**	**(19,319)**
Closing net book amount	**110,435**	**110,435**
At 30 June 2007		
Cost	**129,754**	**129,754**
Less: Accumulated Depreciation	**(19,319)**	**(19,319)**
Net book value	**110,435**	**110,435**

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

	Period to 30 June 2007 $
NOTE 9 - EXPLORATION & EVALUATION EXPENDITURE	
(Non–current assets)	
Exploration & evaluation expenditure costs brought forward in respect of areas of interest	
Opening balance	-
Expenditure during financial period	**922,940**
Less expensed to profit or loss	-
Balance 30 June 2007	**922,940**

Exploration and evaluation expenditure is recorded at historical cost on an area of interest basis. Recovery of these costs is dependent upon the commercial success of future exploration and development or realisation by disposal of the interests therein.
There may exist on the Company's exploration properties, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration and mining restrictions.

NOTE 10 – TRADE AND OTHER PAYABLES
(Current liabilities)

Trade payables	**165,116**
Other Payables - Employee benefits – accumulated annual leave	**13,706**
	178,822

Trade payables are unsecured and payable on supplier credit terms, usually payable within 30 days of recognition. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 11 – CONTRIBUTED EQUITY

	Period to 30 June 2007	
	Number	**$**
Share Capital		
Ordinary shares - Fully paid	**54,000,000**	**5,334,675**
Movement in ordinary share capital		
At 10 July 2006	-	-
Issue	**54,000,000**	**6,030,001**
Less: costs of issues	-	**(695,326)**
At 30 June 2007	**54,000,000**	**5,334,675**

Terms and conditions of ordinary shares:
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the company, ordinary shareholders rank after all other shareholders and creditors are fully entitled to any proceeds of liquidations.

Notes to the Financial Statements

For The Period 10 July 2006 to 30 June 2007

NOTE 12 –OPTIONS ON ISSUE

	Period to 30 June 2007	
Options	**Number**	**$**
Unlisted options vesting 15/12/2007 expiring 15/12/2009 exercisable at 25 cents each	**500,000**	**40,000**
Movement in these options:		
At 10 July 2006	-	-
Issued 16/10/06	500,000	40,000
At 30 June	500,000	40,000
Unlisted options expiring 15/12/2009 exercisable at 25 cents each	**3,250,000**	**260,000**
Movement in these options:		
At 10 July 2006	-	-
Issued 16/10/06	2,250,000	180,000
Issued 19/12/06	1,000,000	80,000
At 30 June	3,250,000	260,000
Unlisted options vesting 15/12/2008 expiring 15/12/2009 exercisable at 30 cents each	**500,000**	**32,000**
Movement in these options:		
At 10 July 2006	-	-
Issued 16/10/06	500,000	32,000
At 30 June	500,000	32,000
Unlisted employee incentive options expiring 19/02/2010	**500,000**	**108,817**
Movement in these options:		
At 10 July 2006	-	-
Issued	500,000	108,817
At 30 June	500,000	108,817

No options were exercised during the financial period. No options expired during the financial period.

NOTE 13 – RESERVES AND ACCUMULATED LOSSES

	Period to 30 June 2007 $
(a) Reserves	
Share-based payments reserve	440,817
Movement:	
Balance 1 July	-
Employee option expense	360,817
Equity-settled benefits	80,000
Balance 30 June	440,817
(b) Accumulated losses	(748,739)
Movement:	
Balance 1 July	-
Loss for the financial period after related income tax expense	(748,739)
Balance 30 June	(748,739)

(c) Nature and purpose of reserves

The share based payments reserve is used to recognise the fair value of options; options issued to employees but not exercised and equity-settled benefits issued in settlement of share issue costs.

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

	Period to 30 June 2007 Cents
NOTE 14 – EARNINGS / LOSS PER SHARE	
(a) Basic loss per share	
Loss attributable to the ordinary equity holders of the Company	**(2.12)**

	Period to 30 June 2007 $
(b) Earnings used in calculating earnings per share	
Loss attributable to the ordinary equity holders of the Company	**(748,739)**

	Period to 30 June 2007 Number
(c) Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares outstanding during the financial period used in calculation of basic earnings per share	**35,359,551**

NOTE 15 - COMMITMENTS

a) Mining Tenement Leases

In order to maintain current rights of tenure to exploration tenements the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the WA State Government and pay tenement lease rents.

The estimated exploration expenditure commitment for the ensuing year, but not recognised as a liability in the financial statements:

	Period to 30 June 2007 $
Within one year	**556,862**
Later than one year but less than five years	**-**
Later than five years	**-**
	556,862

The commitiments amount to $51,862 in respect of tenement lease rentals and $505,000 in exploration expenditures. This expenditure will only be incurred should the Company retain its existing level of interest in its various exploration areas and provided access to mining tenements is not restricted. These obligations will be fulfilled in the normal course of operations, which may include farm-out, joint venture and direct exploration expenditure.

b) Operating Lease - Buildings

The Company leases offices in West Perth, Western Australia, under a non-cancellable operating lease expiring December 2009 and renewable for a further three years.

Commitments for minimum lease payments are:	
Within one year	**29,333**
Later than one year but less than five years	**46,283**
	75,616

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 16 - KEY MANAGEMENT PERSONNEL DISCLOSURE
a) Directors
The following persons were directors of BC Iron Limited during the financial year:

(i) Chairman – non executive
A Kiernan

(ii) Executive director
M Young

(iii) Non- executive directors
S Chadwick
G Higgo
T Randsted
K Brown

K Brown resigned from the position of non-executive director on 11 October 2006

b) Transactions with key management personnel
Professional fees of $8,813 and re-imbursement of disbursements of $171 totalling $8,984 were paid during the financial period to Multi Metal Consultants Pty Ltd, a company in which Mr Ransted has a substantial financial interest. The services provided were in the normal course of business and at normal commercial rates.
Professional fees of $1,827 were paid during the financial period to Christensen Vaughan, a company in which Mr Kiernan is a consultant. The services provided were in the normal course of business and at normal commercial rates.
These fees and disbursements exclude benefits included in the aggregate amount of emoluments received or due and receivable by Directors as directors' fees and shown in the financial statements, prepared in accordance with the Corporations Regulations, or the fixed salary of a full-time employee.

c) Outstanding balances
The following balances are outstanding at the reporting date in relation to transactions with related parties:
Current payables – Directors' fees

G Higgo	$8,750
S Chadwick	$8,750

d) Directors and Director-Related Entities' Shareholdings
The interests of Directors and their Director related entities in shares and share options at the end of the financial period are as follows:

Name	Balance at the start of the financial period	Issued	Purchased/(Sold)	Balance as the end of the financial period
(1) Shares				
A Kiernan	**-**	**-**	**188,000**	**188,000**
M Young	**-**	**-**	**198,000**	**198,000**
S Chadwick	**-**	**-**	**200,000**	**200,000**
G Higgo	**-**	**-**	**20,000**	**20,000**
T Randsted	**-**	**-**	**190,800**	**190,800**
Total shares	**-**	**-**	**796,800**	**796,800**
(2) Options				
A Kiernan	**-**	**750,000**	**-**	**750,000**
M Young	**-**	**1,000,000**	**-**	**1,000,000**
S Chadwick	**-**	**500,000**	**-**	**500,000**
G Higgo	**-**	**500,000**	**-**	**500,000**
T Ransted	**-**	**500,000**	**-**	**500,000**
Total Options	**-**	**3,250,000**	**-**	**3,250,000**

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 16 - KEY MANAGEMENT PERSONNEL DISCLOSURE - continued

e) Key management personnel compensation

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report within the Directors' Report.

f) Related party transactions

Other than the transactions disclosed above there are no other transactions between related parties that require disclosure.

NOTE 17 – CONTINGENT LIABILITIES AND ASSETS

No contingent liabilities or assets have arisen during the financial period.

NOTE 18 - SEGMENTAL INFORMATION

The Company operates only in one business and geographical segment being predominantly in the area of mineral exploration near Nullagine, Western Australia. The Company considers its business operations in mineral exploration to be its primary reporting function.

NOTE 19 - FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks.

Credit risk

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

Cash flow and fair value interest rate risk

Although the Company has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company monitors interest rates to obtain the best terms and mix of cash flow.

Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables

2007	Average Interest rate	Variable Interest rate at call $	Fixed Interest Rate Maturity Less than 1 year $	Fixed Interest Maturity Greater than 1 year $	Non Interest Bearing $	Total $
Cash	2.21%	53,789	-	-	-	53,789
Deposits	6.25%	253,836	25,000	-	11,788	290,624
Trade Receivables	-	-	-	-	86,601	86,601
Commercial Bills	6.28%	-	3,741,186	-	-	- 3,741,186
Trade Payables	-	-	-	-	178,822	178,822

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 19 - FINANCIAL RISK MANAGEMENT - continued

Liquidity risk
Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules.

Financing arrangements
The Company has no financing facilities available to it.

NOTE 20 – RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Period to 30 June 2007 $
Loss for the financial period	**(748,739)**
Non cash flows in operating Loss	
Depreciation	**19,319**
Movements in provisions	**13,705**
Interest income	**(157,202)**
Employee benefit – share-based payment	**440,817**
Change in operating assets and liabilities	
Decrease (increase) in Trade and other receivables	**(86,601)**
(Decrease) increase in Trade and other payables	**165,115**
Net cash inflow (outflow) by operating activities	**(353,586)**

NOTE 21 – SHARE-BASED PAYMENTS
Employee Option Plan
The employee option plan is designed to provide long –term incentives for senior managers and directors to deliver long term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Set out below is a summary of the options granted during the financial period:

Grant Date	Expiry date	Exercise price	Balance at the start of the year (Number)	Granted during the financial period (Number)	Balance at end of the financial period (Number)	Vested and exercisable at end of financial period (Number)
Director options						
16 Oct2006	15 Dec 2009	**$0.25**	**-**	**500,000**	**500,000**	**-**
16 Oct 2006	15 Dec 2009	**$0.30**	**-**	**500,000**	**500,000**	**-**
16 Oct 2006	15 Dec 2009	**$0.25**	**-**	**2,250,000**	**2,250,000**	**2,250,000**
Promoter options						
19 Dec 2006	15 Dec 2009	**$0.25**	**-**	**1,000,000**	**1,000,000**	**1,000,000**
Employee options						
1 Jun 2007	19 Feb 2010	**$0.72**	**-**	**500,000**	**500,000**	**100,000**
Weighted average exercise price				**$0.30**	**$0.30**	**$0.26**

Notes to the Financial Statements
For The Period 10 July 2006 to 30 June 2007

NOTE 21 – SHARE-BASED PAYMENTS - continued

Options granted carry no dividend or voting rights.
When exercisable, each option is convertible into one ordinary share.
No options expired, were exercised or forfeited during the period covered in the above table.

(A) Director option expense
Fair value of options granted
The assessed fair value at grant date, of options granted on 16 October 2006, for options with an exercise price of $0.25 was $0.08 cents per option. For options with an exercise price of $0.30 the assessed fair value at grant date was $0.064 cents per option.
The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date ($0.25) and expected price volatility (50%) of the underlying share, the expected dividend yield (nil) and the risk-free interest rate (6.0%) for the term of the option.

There was no active market to determine the share price at the grant date.

(B) Employee option expense
Employee share options have been granted to provide long-term incentive for senior employees to deliver long-term shareholder returns. Participation in employee share options is at the Board’s discretion and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

Fair value of options granted
The assessed fair value at grant date, of options granted on 1 June 2007 was $1.088 per option.
The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price ($0.72), the term of the option (1 June 2007 to 19 February 2010), the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date ($1.44) and expected price volatility of the underlying share (102%), the expected dividend yield and the risk-free interest rate (6.25%) for the term of the option.

(C) Expenses arising from share-based payment transactions
Total expenses arising from share-based payments recognised during the financial period as employee benefits expense was:

	2007 **$**
Director benefits (share options)	**252,000**
Employee benefits (share options)	**108,817**
	360,817

(D) Equity-settled share-based payment transactions
On 19 December 2006, 1,000,000 options were issued to DJ Carmichael Pty Limited as part payment for capital raising.
Options granted under the plan carry no dividend or voting rights.
When exercisable, each option is convertible into one ordinary share.

Notes to the Financial Statements

For The Period 10 July 2006 to 30 June 2007

NOTE 21 – SHARE-BASED PAYMENTS - continued

Fair value of options granted

The assessed fair value at grant date, of options granted on 19 December 2006 was $0.079 cents per option.
The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price ($0.12), the term of the option (expiry date 30 September 2008), the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date ($0.14) and expected price volatility of the underlying share (100%), the expected dividend yield and the risk-free interest rate (6.25%) for the term of the option.

(E) Effect on equity arising from share-based payment transactions

Total amount arising from share-based payments recognised during the financial period in equity as an increase in share-based payments reserve and increase in cost of share issue was:

	2007
	$
Equity-settled – Equity; Cost of issue	**80,000**

NOTE 22 – EVENTS OCCURING AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial period ended 30 June 2007.

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT

To the members of BC Iron Limited

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

We have audited the accompanying financial report of BC Iron, 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 company.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001,* the company 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" 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.

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.

BDO Kendalls

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

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

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

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001.*

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

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

BDO Kendalls Audit and Assurance (WA) Pty Ltd

BDO Kendalls
Peter Toll

Peter Toll
Director

Perth, Western Australia
Dated this 27th day of September 2007