ANNUAL FINANCIAL STATEMENTS
2011

BC Iron Limited
ACN 120 646 924

DIRECTORS' REPORT
for the year ended 30 June 2011

The directors present their report on the results of the consolidated entity (referred hereafter as the Group) consisting of BC Iron Limited and the entities it controlled at the end of, or during the year ended 30 June 2011.

Directors

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

Anthony W. Kiernan	Chairman (*Non-Executive*)
Michael C. Young	Managing Director
Terrence W. Ransted	Director (*Non-Executive*)
Glenn R. Baldwin	Director (*Non-Executive*)
David A.T. Coyne	Alternate Director (*Non-Executive*) to Glenn Baldwin appointed 17 December 2010
Steven J.M. Chadwick	Director (*Non-Executive*) Resigned 13 May 2011

Principal Activity

The principal activities of the Group during the course of the financial year were mineral exploration, development and production, focussing primarily on iron ore deposits near Nullagine, Western Australia. The Groups first ore on ship was achieved in February 2011. There has been no other significant change in the nature of the Group's activities during the financial year.

Operating Results

The net profit / (loss) of the Group for the financial year, after provision for income tax, amounted to $984,525 (2010 ($1,385,383)).

Dividends

No dividends were paid during the financial year and no recommendation is made as to payment of dividends.

Review of Operations

The Group is involved in iron ore production and export, focussing on the Nullagine Iron Ore Joint Venture (NJV) in the Pilbara region of Western Australia, a 50:50 joint venture with the Fortescue Metals Group (Fortescue).

In January 2011, BC Iron achieved a significant and historical milestone when the 'First Ore on Train' was achieved. With this, BC Iron became the first junior mining company to access and utilise a third party owned rail in the Pilbara. This was quickly followed by 'First Ore on Ship' in February 2011 using Fortescue's Herb Elliott Port in Port Hedland. In the year to June 30 2011, BC Iron mined 593,452 tonnes of ore and shipped 253,158 tonnes to customers overseas.

Key achievements during the year ended 30 June 2011 include:

- Signing of an Infrastructure Agreement with the Nyiyaparli People – July 2010, prompting the granting of several miscellaneous tenements providing the final link for the private haul road and access to Fortescue's rail head at Christmas Creek;
- Mining infrastructure construction – commenced August 2010 with the start of haul road construction. The 55km haul road is now near completion with road haulage during August 2011 achieving an annualised rate of greater than 3mtpa;
- Mining and Ore haulage commenced – December 2010;
- Completion of a 200 man camp;
- First Ore On Train – January 2011;
- First Ore On Ship – February 2011; and
- Official Mine Opening ceremony – April 2011.

In July 2010 the NJV received the third and final funding instalment of US$20 million from Henghou Industries (Hong Kong) Limited completing the $50 million commitment.

BC Iron completed an equity placement of gross $18.4m with sophisticated and institutional investors at $2.30 per share in December 2010 for working capital and contingency purposes.

Significant Changes in State of Affairs

Other than the progress documented above, the state of affairs of the Group was not affected by any other significant changes during the year.

Events Subsequent to the Reporting Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial periods subsequent to the financial year ended 30 June 2011.

Likely Developments and Expected Results of Operations

The Group intends to continue production from the Nullagine Iron Ore Project. It will also continue exploration programmes on its existing tenements as well as considering the acquisition of other projects.

Environmental Issues

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

The Group is subject to the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007. The Group has adequate systems in place to ensure compliance with its reporting requirements.

DIRECTORS' QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Mr Anthony William (Tony) Kiernan LL.B

Chairman (Non-Executive)

Mr Kiernan, formerly a solicitor, has extensive experience in the management and operation of listed public companies. He is Chairman of ASX listed Uranium Equities Limited as well as Venturex Resources (since July 2010) and is a director of Chalice Gold Mines Ltd (since February 2007) and Liontown Resources Ltd (since November 2006).

Mr Kiernan has not been a director of any other ASX listed companies during the past three years other than North Queensland Metals Ltd (from January 2007 to July 2008).

Mr Kiernan is a member of the Audit, Remuneration and Diversity Committees.

Michael Charles (Mike) Young BSc (Hon), MAusIMM, MAIG, MSEG

Managing Director

Mr Young is a Geologist and a graduate of Queens University, Canada with a Bachelor of Science (Honours) degree in Geological Sciences (1985). Mr Young immigrated to Australia in 1987 and began working in gold exploration in Southern Cross and Leonora, WA. From 1991, he worked for Dominion Mining Limited concentrating on near-mine exploration and resource development work. He then moved onto work with Mining and Resource Technology/Golder Associates from 1994 to 2003 where he carried out resource modeling and feasibility work on a wide variety of deposits and commodities. These included Century Zinc in Queensland, Escondida Copper in Chile, and Koolyanobbing iron mine in Western Australia. In 2003, he joined Cazaly Resources as Exploration Manager and he was a founding director of Bannerman Resources Limited (February 2005 to April 2006). He is a member of the Australian Institute of Geoscientists, the Australasian Institute of Mining and Metallurgy (CP) and is a councillor of the Association of Mining and Exploration Companies (AMEC). He is also the Co-Patron of the St Bartholomew's House Foundation.

Mr Young has been a director of Warratah Resources Limited since February 2011. Mr Young has not been a director of any other ASX listed companies during the past three years.

Mr Young is a member of the Risk Management and Diversity Committees.

Mr Terrence William (Terry) Ransted B. (App) Sc, MAusIMM, MGSA

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 and has 31 years experience in the mining industry. Mr Ransted commenced his career with Hamersley Exploration Pty Limited exploring for bedded iron ore deposits in the Hamersley region and in the early 1990's was responsible for the onsite management of the drilling, metallurgical sampling, and geological assessment and interpretation for the Yandicoogina Pisolite and Marandoo Iron Ore Projects for Hamersley Iron Pty Ltd. Mr Ransted is Chief Geologist for Alkane Resources Ltd, managing the geological aspects of the exploration and development programs in New South Wales.

Mr Ransted was a non-executive Director of Northern Star Resources Ltd until 4 September 2009. Mr Ransted has not been a director of any other ASX listed companies during the past three years.

Mr Ransted is a member of the Audit, Risk Management and Remuneration Committees.

Mr Glenn Richard Baldwin BEng (Hons)

Director (Non-Executive)

Mr Baldwin is the Chief Executive Officer of Consolidated Minerals Limited, a leading manganese ore producer and also BC Iron's largest shareholder (25%). Prior to joining Consolidated Minerals Limited, Mr Baldwin was an Executive Vice President of Gold Fields Limited from 2007, based in Johannesburg and then Perth. Mr Baldwin has approximately 20 years' experience in the mining industry holding a variety of technical, senior and executive management positions including two previous roles as Chief Operating Officer. He has also spent part of his career in a Project Finance role with an international bank based in South Africa.

Mr Baldwin has not been a director of any other ASX listed companies during the past three years.

Mr David Allan Thomas Coyne BCom, CPA and MAICD

Alternate Director (Non-Executive) to Mr Glenn Baldwin

Mr Coyne has approximately 20 years commercial, financial and accounting experience in mining, oil & gas and steel making work both in Australia and South East Asia. He is currently Chief Financial Officer Australia of Consolidated Minerals Limited. Prior to joining Consolidated Minerals, Mr Coyne held the role of General Manager Corporate Finance and Risk at Macmahon Holdings Limited. Previously, Mr Coyne held responsibility for regional and Australasian business development for the Energy and Chemicals business unit for Kellogg Brown & Root Inc.

Mr Coyne has not been a director of any other ASX listed companies during the past three years.

Mr Coyne is a member of the Audit and Remuneration Committees.

Mr Steven John Micheil Chadwick BAppSc, MAusIMM

Director (Non-Executive) – Resigned 13 May 2011

Mr Chadwick resigned 13 May 2011. He is the Principal of Spectrum Metallurgical Consultants, a Perth based specialist consultancy business to the minerals industry. He is a metallurgical graduate from the WA School of Mines and has 31 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 was a Director of NGM Resources Limited (from January 2010 until October 2010) and is a Director of RMG Ltd (April 2011 to present). Mr Chadwick has not been a director of any other ASX listed companies during the past three years.

Mr Chadwick was a member of the Risk Management Committee.

Mr Morgan Scott Ball B.Com, CA, FFin

Company Secretary

Mr Ball is a Chartered Accountant with over 20 years of Australian and international experience in the resources, logistics and finance industries. He has held various senior finance and commercial roles in a number of significant public companies. Most recently Mr Ball was the CFO and Company Secretary for Indago Resources - a publicly listed exploration company developing the Tusker gold deposit in Tanzania. Prior to this, Mr Ball has held senior commercial roles with WMC Resources, Brambles, P&O and Ernst & Young.

Meetings of Directors

The number of meetings held during the year and the number of meetings attended by each director was as follows:

Director	Board Meetings		Audit Committee		Risk Management Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
A Kiernan	12	12	2	2	n/a	n/a	1	1
M Young	12	12	n/a	n/a	2	2	n/a	n/a
S Chadwick	10	10	n/a	n/a	-	-	n/a	n/a
T Ransted	10	12	2	2	2	2	1	1
D Coyne	6	6	1	1	n/a	n/a	n/a	n/a
G Baldwin	5	12	1	1	n/a	n/a	1	1

A – Meetings attended
B – Meetings held whilst a director

Audit Committee

The Audit Committee comprises David Coyne, Anthony Kiernan and Terrence Ransted.

Risk Management Committee

The Risk Management Committee comprises Terrence Ransted, Michael Young, and Morgan Ball.

Remuneration Committee

The Remuneration Committee is made up of David Coyne, Anthony Kiernan and Terrence Ransted.

Diversity Committee

The Diversity Committee comprises Anthony Kiernan, Michael Young and Linda Edge.

The Group does not have a nomination committee with the full Board carrying out the functions that would otherwise be dealt with by such a committee. No diversity meetings were held during the year.

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 Group's detailed corporate governance policy statement is contained in the additional Supplementary Information section of the annual report and can be viewed on the Group's web site at www.bciron.com.au.

Share Options

As at the date of this report, there were 9,730,000 options over ordinary shares on issue (10,230,000 at the reporting date). Refer to the Remuneration Report for further details of the options outstanding.

No option holder has any right under the options to participate in any other share issue of the Group or any other entity. None of the existing options are listed on ASX Limited.

Shares issued as a result of the exercise of options

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Date Options Granted	Number Vested	Number of Shares Issued	Issue Price of Shares
17/07/2008	500,000	500,000	1.85
17/07/2008	500,000	500,000	2.00
21/08/2008	100,000	100,000	1.25
21/08/2008	200,000	200,000	1.50
21/08/2008	200,000	200,000	2.00
16/04/2009	250,000	250,000	0.65
30/06/2009	250,000	250,000	0.90
1/08/2009	150,000	150,000	1.25
1/08/2009	70,000	70,000	1.25
3/09/2009	100,000	100,000	1.25
3/09/2009	150,000	150,000	1.40
3/09/2009	250,000	250,000	1.60
9/07/2010	50,000	50,000	2.36
9/07/2010	100,000	100,000	2.53
9/07/2010	100,000	100,000	2.77
Total		2,970,000	
Weighted average issue price			1.61

Directors' Interests and Benefits

The relevant interest of each director in the shares and options over shares issued by the Group at the date of this report is as follows:

Director	Number of Ordinary Shares		Number of Options	
	Direct	Indirect	Direct	Indirect
A Kiernan	896,485	217,648	-	-
M Young	1,000,000	211,564	-	-
G Baldwin	-	-	-	-
D Coyne	-	-	-	-
T Ransted	-	622,601	-	-

Whilst Mr Baldwin (a director) and Mr Coyne (alternate director) do not have a relevant interest in the number of shares as per above, Consolidated Minerals Limited has a relevant interest (25%) and they are both as at the date of this report, employees of the Consolidated Minerals Group.

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

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Principles used to determine the nature and amount of remuneration

The objective of the Group'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 Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy for the organisation. Further to this, the Group is currently reviewing its Long Term Incentive Plan structure to ensure that the Group remains an "employer of choice" and to better align the remuneration of key personnel with the long term performance of the Group.

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.

Directors' 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 Group. Directors' remuneration is set out below which includes share and option based payments.

The Group has no specific performance based remuneration component currently built into director remuneration packages.

Senior Executives Renumeration

Under the Senior Executive Remuneration Policy the remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a short term focussed performance bonus designed to reward actual achievement by the individual of performance objectives and Company performance;
- a longer term focussed plan that may include deferred cash payments and / or participation in equity based schemes with thresholds approved by shareholders; and
- statutory superannuation.

Short term incentives

The Board is responsible for assessing short term incentives for key management personnel. Service agreements may establish short-term incentives against key performance indicators which are assessed by the Board. These key performance indicators will typically be aligned to specific operating and corporate objectives in relation to each financial year.

Cash incentives are determined based on financial years and are payable the following year after the year's financial results have been audited and approved by the Board.

Long term incentives

Long-term incentives are provided to certain employees at the discretion of the Board. See section D (Share based compensation) for further information.

Group performance

The following table shows the gross revenue, losses and share price of the Group at the end of the respective financial years.

	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Revenue from continuing operations	$19,087,764	$1,528,290	$402,146	$723,075
Net profit/(loss)	$984,525	($1,385,383)	($1,311,656)	($787,955)
Share price	$3.05	$1.62	$1.12	$1.60

No dividends were paid during this period.

B. Details of remuneration

Details of remuneration of the directors and key management personnel of the Group (as defined by AASB 124 Related Party Disclosures) and executives are set out in the following tables. The key management personnel of the Group include the Directors, the Chief Financial Officer / Company Secretary and the Chief Operating Officer.

	Year	Short-term benefits		Post-employment benefits	Share-based payments	Total
		Director's fees or salary	Bonus	Superannuation	Value of options (a)	
Directors						
Non-Executive						
A Kiernan	**2011**	**80,000**	**-**	**-**	**-**	**80,000**
	2010	79,773	-	-	-	79,773
S Chadwick	**2011**	**34,725**	**-**	**-**	**-**	**34,725**
	2010	36,250	-	-	-	36,250
G Higgo	**2011**	**-**	**-**	**-**	**-**	**-**
	2010	25,847	-	2,326	-	28,173
T Ransted	**2011**	**40,000**	**-**	**-**	**-**	**40,000**
	2010	35,000	-	-	-	35,000
G Baldwin/D Coyne (b)	**2011**	**40,000**	**-**	**-**	**-**	**40,000**
	2010	10,000	-	-	-	10,000
Executive						
M Young	**2011**	**426,360**	**29,167**	**16,653**	**-**	**472,180**
(Managing Director)	2010	350,000	-	31,500	60,405	441,905
Total Directors	**2011**	**621,085**	**29,167**	**16,653**	**-**	**666,904**
	2010	536,870	-	33,826	60,405	631,100
Executives						
S Storm	**2011**	**-**	**-**	**-**	**-**	**-**
(CFO, Company Secretary)	2010	35,693	-	-	180,146	215,839
B Duncan	**2011**	**313,055**	**22,917**	**30,237**	**1,546**	**367,755**
(Chief Operations Officer)	2010	283,750	-	24,771	19,536	328,056
M Ball	**2011**	**299,398**	**21,875**	**28,915**	**68,450**	**418,638**
(CFO, Company Secretary)	2010	181,808	-	16,363	176,553	374,724
Total Executives	**2011**	**612,453**	**44,792**	**59,152**	**69,996**	**786,393**
	2010	501,251	-	41,134	376,235	918,619

(a) The share-based payments referred to above comprise options over ordinary shares in the Group and have been valued based on the Black Scholes option pricing model.

(b) The amounts noted above were paid directly to Consolidated Minerals Pty Ltd. Mr Baldwin is the Chief Executive Officer of Consolidated Minerals Ltd, the ultimate parent entity of Consolidated Minerals Pty Ltd. Mr Baldwin is an employee of Consolidated Minerals, as is Mr Coyne as his alternate.

C. Service Agreements

Mr Michael Young (Managing Director)
Term of Agreement - 2 years commencing 1 July 2009.
Agreement - Base salary, inclusive of statutory superannuation of $443,013 to be reviewed annually on 31 December (or such other times as agreed).
Termination – The Group has the right to terminate the Agreement upon three months notice.

Mr Blair Duncan (Chief Operations Officer)
Term of Agreement - Unspecified.
Agreement - Base salary, inclusive of statutory superannuation of $343,292 to be reviewed annually on 31 December (or such other times as agreed).
Termination – The Group has the right to terminate the Agreement upon three months notice.

Mr Morgan Ball (CFO, Company Secretary)
Term of Agreement - Unspecified.
Agreement - Base salary, inclusive of statutory superannuation of $328,313 to be reviewed annually on 31 December (or such other times as agreed).
Termination – The Group has the right to terminate the Agreement upon six months notice.

D. Share-based compensation

Employee Share Option Plan - An employee share option incentive plan was approved at a shareholder's general meeting on 17 July 2008. Under the terms of the plan the Board may offer options at no more than nominal consideration to employees or directors (the latter subject to shareholder approval) based on a number of criteria, including contribution to the Group, period of employment, potential contribution to the Group in the future and other factors the Board considers relevant.

The terms and conditions of each grant of options affecting remuneration in the current or future reporting periods are set out below:

Grant date	Date vested and exercisable	Number	Expiry date	Exercise price $	Value per option at grant date	Vested %
17-Jul-08	15-Feb-09	250,000	15-Aug-11	1.85	0.48	100
17-Jul-08	15-Feb-10	250,000	15-Aug-11	2.00	0.30	100
01-Aug-09	01-Aug-09	30,000	01-Aug-12	1.25	0.64	100
01-Aug-09	01-Aug-10	200,000	01-Aug-12	1.40	0.62	100
01-Aug-09	01-Aug-10	150,000	01-Aug-12	1.40	0.62	100
01-Aug-09	31-Jan-11	200,000	01-Aug-12	1.60	0.59	100
05-Nov-09	10-Feb-10	100,000	05-Nov-12	1.25	0.65	100
05-Nov-09	05-Nov-10	150,000	05-Nov-12	1.50	0.61	100
05-Nov-09	31-Jan-11	150,000	05-Nov-12	2.00	0.55	100
09-Jul-10	02-Nov-10	50,000	30-Jun-13	2.39	0.64	100
09-Jul-10	15-Dec-10	50,000	30-Jun-13	2.64	0.59	100
09-Jul-10	31-Jan-11	75,000	30-Jun-13	2.89	0.56	100
09-Jul-10	31-Jan-11	75,000	30-Jun-13	3.14	0.52	100
Total		**1,730,000**				
Weighted Average Price				**1.83**	**0.54**	

Options expiring 15 August 2011 have been exercised as at the date of this report.

Options granted during the year

Details of options over ordinary shares in the Group provided as remuneration to each director and executive are set out below.

Name	Number of options granted	Value of options granted $	Number of options vested	Number of options lapsed /cancelled
Directors	**2011**	**2011**	**2011**	**2011**
A Kiernan	-	-	-	-
M Young	-	-	-	-
S Chadwick	-	-	-	-
T Ransted	-	-	-	-
G Baldwin	-	-	-	-
D Coyne	-	-	-	-
Executives				
Blair Duncan	-	-	200,000	-
Morgan Ball	-	-	400,000	-

The fair value of options is calculated at the date of grant using the Black-Scholes Option Pricing Model. The following factors and assumptions were used in determining the fair value of options issued during the prior year. There were no options issued to Directors and Key Management Personnel during the current year.

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
2010 Key Management Personnel							
1/8/09	1/8/12	$0.64	$1.25	$1.05	100%	4.94%	0%
1/8/09	1/8/12	$0.62	$1.40	$1.05	100%	4.94%	0%
1/8/09	1/8/12	$0.59	$1.60	$1.05	100%	4.94%	0%
3/9/09	3/9/12	$0.56	$1.25	$0.97	100%	3.13%	0%
3/9/09	3/9/12	$0.54	$1.40	$0.97	100%	3.13%	0%
3/9/09	3/9/12	$0.52	$1.60	$0.97	100%	3.13%	0%

Details of remuneration: Options

Employee options generally vest and are expensed over the period from the date of grant. The maximum value of options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed. Vesting criteria relates only to service periods.

		Year granted	Vested %	Unvested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
Directors								
M Young	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	2009	100%	-	-	2010	-	-
Executives								
S Storm	**2011**	**2010**	**3%**	**-**	**-**	**2011**	**-**	**-**
	2010	2010	57%	3%	40%	2010-2012	-	-
B Duncan	**2011**	**2009**	**3%**	**-**	**-**	**2011**	**-**	**-**
	2010	2009	97%	3%	-	2010-2011	-	-
M Ball	**2011**	**2010**	**26%**	**-**	**-**	**2011**	**-**	**-**
	2010	2010	74%	26%	-	2010-2012	-	-

Further details relating to options are set out below:

		A Remuneration consisting of options	B Value at reporting date $
Directors			
M Young	**2011**	**-**	**-**
	2010	13.7%	60,405
Specified Executives			
S Storm	**2011**	**-**	**-**
	2010	84.0%	180,146
B Duncan	**2011**	**0.4%**	**1,546**
	2010	6.0%	19,536
M Ball	**2011**	**16.4%**	**68,450**
	2010	49.0%	176,553

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year
B = The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration

Details regarding options exercised during the year are outlined below. There were no executive options granted during the year.

	Date of exercise of options	Number of ordinary shares issued on exercise of options	Value at exercise date $
Directors			
M Young	19/11/2010	250,000	127,500
M Young	19/11/2010	250,000	90,000
Specified Executives			
B Duncan	3/02/2011	100,000	201,000
B Duncan	3/02/2011	200,000	352,000
B Duncan	3/02/2011	200,000	252,000
M Ball	3/02/2011	100,000	201,000
M Ball	3/02/2011	150,000	279,000
M Ball	3/02/2011	250,000	415,000
		1,500,000	1,917,500

End of Audited Remuneration Report

DIRECTORS' REPORT
for the year ended 30 June 2011 continued

Insurance of Officers

During the financial period, BC Iron Limited incurred premiums of $25,000 to insure the directors, secretary and/or officers of the Group. The liability insured is the indemnification of the Group 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 Group has entered into Indemnity Deeds with each Director ("Officers"). Under the Deeds, the Group 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 Group, or breach by the Group 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 attached to the independent auditors report and forms part of the Director's 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:

- 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 Group or acting as advocate for the Group.

The following fees for non-audit services were paid/payable to entities connected to the external auditors during the year ended 30 June 2011:

	$
Taxation services	$44,239

These services were provided by BDO Corporate Tax (WA) Pty Ltd.

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

Dated this 7th day of September 2011.

Michael C Young
Managing Director

DIRECTORS' DECLARATION

for the year ended 30 June 2011

In the opinion of the Directors of BC Iron Limited:

(a) the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 including:

  i. giving a true and fair view of the financial position of the Group as at 30 June 2011 and of its performance for the financial year ended 30 June 2011; and

  ii complying with Accounting Standards and the Corporations Regulations 2001.

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

(c) The company has included to the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

The directors have been given the declarations by the Managing Director 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 and is signed on their behalf by:

Michael C Young
Managing Director
PERTH, 7th September 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2011

	Notes	Consolidated Group 2011 $	Consolidated Group 2010 $
REVENUE FROM CONTINUING OPERATIONS			
Sale of goods		**17,133,674**	-
Other revenue		**1,954,090**	482,998
Total revenue from continuing operations	2	**19,087,764**	482,998
Other income	3	**3,201,156**	1,045,792
Cost of sales	4	**(12,939,720)**	-
Selling and Marketing expenses	4	**(841,889)**	-
Administration expenses	4	**(6,935,451)**	(3,939,726)
Profit/(Loss) before interest and income tax		**1,571,860**	**(2,410,936)**
Interest		**(649,032)**	-
Profit/(Loss) before income tax		**922,828**	(2,410,936)
Income tax benefit	6	**61,697**	1,025,553
Profit/(loss) after tax and total comprehensive income		**984,525**	(1,385,383)
Total comprehensive profit/(loss) for the period attributable to the owners of BC Iron Limited		**984,525**	(1,385,383)
Basic earnings/(loss) per share (cents per share)	20	**1.10**	(1.70)
Diluted earnings per share (cents per share)	20	**1.29**	-

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION for the year ended 30 June 2011

	Notes	Consolidated Group 2011 $	Consolidated Group 2010 $
CURRENT ASSETS			
Cash and cash equivalents	7	**17,536,827**	28,762,976
Trade and other receivables	8	**7,148,015**	2,032,700
Inventory	9	**9,023,661**	1,965,880
Other assets	10	**242,765**	250,436
Total Current Assets		**33,951,268**	33,011,991
NON CURRENT ASSETS			
Plant & equipment	11	**37,409,578**	4,117,490
Exploration and evaluation assets	12	**4,349,457**	3,439,802
Development expenditure	13	**24,974,772**	12,914,138
Deferred Tax Assets	6	**1,608,404**	1,331,918
Other assets	14	**1,146,500**	-
Total Non-Current Assets		**69,488,711**	21,803,348
TOTAL ASSETS		**103,439,979**	54,815,339
CURRENT LIABILITIES			
Trade and other payables	15	**16,131,009**	1,739,897
Loans & Borrowings	16	**4,512,766**	-
Total Current Liabilities		**20,643,775**	1,739,897
NON-CURRENT LIABILITIES			
Loans & Borrowings	16	**14,488,235**	13,954,966
Provisions	17	**920,594**	125,000
Total Non-Current Liabilities		**15,408,829**	14,079,966
TOTAL LIABILITIES		**36,052,604**	15,819,863
NET ASSETS		**67,387,375**	38,995,476
EQUITY			
Contributed Equity	18	**58,250,587**	36,518,762
Reserves	19a	**12,385,997**	6,710,448
Accumulated losses	19b	**(3,249,209)**	(4,233,734)
TOTAL EQUITY		**67,387,375**	38,995,476

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 30 June 2011

	Contributed Equity $	Accumulated Losses $	Share Based Payments Reserve $	Options Exercised Reserve $	Total $
Consolidated Entity					
Balance at 1 July 2009	22,982,385	(2,848,351)	1,303,240	75,680	21,512,954
Profit/(Loss) for the period	-	(1,385,383)	-	-	(1,385,383)
Total comprehensive loss for the period	-	(1,385,383)	-	-	(1,385,383)
Transactions with equity holders in their capacity as equity holders					
Shares issued net of transaction costs	13,536,377	-	-	-	13,536,377
Options issued	-	-	5,331,528	-	5,331,528
Options exercised	-	-	(569,159)	569,159	-
Balance at 30 June 2010	36,518,762	(4,233,734)	6,065,609	644,839	38,995,476
Consolidated Entity					
Balance at 1 July 2010	**36,518,762**	**(4,233,734)**	**6,065,609**	**644,839**	**38,995,476**
Profit/(Loss) for the period	**-**	**984,525**	**-**	**-**	**984,525**
Total comprehensive profit / loss for the period	**-**	**984,525**	**-**	**-**	**984,525**
Transactions with equity holders in their capacity as equity holders					
Shares issued net of transaction costs	**17,898,825**	**-**	**-**	**-**	**17,898,825**
Options issued	**-**	**-**	**5,675,549**	**-**	**5,675,549**
Options exercised	**3,833,000**	**-**	**(1,256,446)**	**1,256,446**	**3,833,000**
Balance at 30 June 2011	**58,250,587**	**(3,249,208)**	**10,484,712**	**1,901,285**	**67,387,375**

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

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 30 June 2011

	Notes	Consolidated Group 2011 $	Consolidated Group 2010 $
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		14,727,114	-
Management fees received		2,737,616	395,479
Payments to suppliers and employees (inclusive of goods and services tax)		(15,575,713)	(2,335,079)
Interest received		1,268,113	855,444
Other - R&D refund		-	207,022
Net cash inflow/(outflow) from operating activities	27	3,157,130	(877,135)
Cash Flows from Investing Activities			
Payment for property, plant & equipment		(31,004,888)	(4,105,362)
Payment for exploration and evaluation expenditure		(1,093,258)	(451,457)
Payment for development expenditure		(12,626,443)	(8,903,154)
Payment for security deposits		(1,134,187)	(148,861)
Cash flows from Joint Venture		-	1,500,000
Net cash outflow from investing activities		(45,858,776)	(12,108,835)
Cash Flows from Financing Activities			
Proceeds from issue of shares		22,233,000	13,674,100
Payments for share issue costs		(715,964)	(722,333)
Proceeds from borrowings		12,169,892	16,760,436
Net cash inflow from financing activities		33,686,928	29,712,203
Net increase/(decrease) in cash and cash equivalents		(9,014,718)	16,726,234
Cash and cash equivalents at the beginning of the year		28,762,976	12,036,742
Effect of exchange rate changes on cash and cash equivalents		(2,211,431)	-
Cash and cash equivalents at the end of the year	7	17,536,827	28,762,976

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

These policies have been consistently applied to all the years presented, unless otherwise stated. BC Iron Limited is a company limited by shares incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange.

(a) Basis of Preparation

These general purpose financial statements have 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.

Compliance with AIFRS ensures that the historical financial information complies with International Financial Reporting Standards.

All amounts are presented in Australian dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention. Cost is based on the fair values of consideration given in exchange for assets.

(b) Principles of Consolidation

i. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2011 and the results of all subsidiaries for the period then ended.

Subsidiaries are all those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries are consistent with the parent.

ii. Joint Ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

Details of the joint venture operations are set out in note 29. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(c) Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of BC Iron Ltd.

The Group operates only in one operating segment being predominantly in the area of mineral exploration, development and production in the Pilbara region, Western Australia.

(d) Revenue Recognition

Revenue is measured at the fair value of the gross consideration received or receivable. BC Iron recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of BC Iron's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. BC Iron bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price can be reasonably estimated, and collectability is reasonably assured.

BC Iron recognises revenue when the risks and rewards transfers to the buyer which is typically the bill of lading date. The sales agreements allow for an adjustment to the sales price based on a survey of the goods by the customer, therefore the recognition of the sales revenue is based on the most recently determined estimate of product specifications.

Additionally, the sales price is determined on a provisional basis at the date of sale and adjustments to the sales price may subsequently occur depending on movements in quoted market or contractual iron ore prices to the date of final pricing. The date of final pricing is typically when a notice of readiness is received when the vessel has arrived at its final destination. Revenue on provisionally priced sales is recognised based on the estimated fair value of the total consideration receivable.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Traded freight
Revenue from freight services is recognised on the bill of lading date of the customer.

Other Revenue
Management fee income from the joint venture has been recognised based on an agreed % of capitalised expenditure during the development phase followed by an agreed % of expensed expenditure during the operating phase. It is based on an accrual basis.

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

(e) Income Tax

The income tax expense or revenue for the financial year 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 statement of financial position 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.

(f) 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 statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the taxation authority.

(g) 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.

(h) Cash and Cash Equivalents

For statement of cash flows 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.

(i) Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Trade receivables are due for settlement at 95% within 7 days and the balance within 60 days. Other receivables are due for settlement no more than 30 days from the date of invoice. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is recognised in profit and loss.

(j) 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 allowance, of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) **Plant and Equipment**

Plant and equipment is stated at historical cost less accumulated 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 over either its expected useful life of 2.5 - 5 years for Furniture, Computers and Equipment or the life of the mine for Plant & Equipment.

(l) **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 reserve.

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. 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 Group 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 Group 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.

(m) **Development Expenditure**

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings and plant and equipment is capitalised under development expenditure. Development expenditure costs include past capitalised exploration and evaluation costs, pre-production development costs, development excavation, development studies and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercial or technically feasible, any accumulated cost in respect of that area is written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated cost written off to the profit or loss to the extent that they will not be recoverable in the future.

Amortisation of carried forward exploration and development costs is charged on a unit of production basis over the life of economically recoverable reserves once production commences.

Development assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, development assets are allocated to cash-generating units to which the development activity relates. The cash generating unit shall not be larger than the area of interest.

Development stripping

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping.

The directly attributable costs (inclusive of an allocation of relevant operational overhead expenditure) are capitalised as development costs. Capitalisation of development stripping costs ceases and amortisation of those capitalised costs commences upon extraction of ore. Amortisation of capitalised development stripping costs is determined on a unit of production basis for each separate area of interest.

Capitalised development and production stripping costs are classified as 'Development Expenditure". Development stripping costs are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

Removal of waste material normally continues throughout the life of a mine. This activity is referred to as production stripping and commences upon extraction of ore.

The Nullagine Iron Ore Joint Venture area of interest has minimal overburden to remove from these mines, therefore production stripping costs for these mines are not deferred but charged to the Statement of Comprehensive Income as they are incurred.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined primarily on the basis of weighted average costs. Cost for raw materials and stores is purchase price and for partly processed and saleable products cost is derived on an absorption costing basis. For this purpose the costs of production include:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- the amortisation of development expenditure and depreciation of property, plant and equipment used in the extraction and processing of ore; and
- production overheads, including attributable mining overheads.

Stockpiles represent ore that has been extracted and is available for further processing. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as incurred. Where the future processing of this ore can be predicted with confidence e.g., because it exceeds the mine's cut off grade, it is valued at the lower of cost and net realisable value. If the ore will not be processed within 12 months after the statement of financial position date it is included within non-current assets. Quantities are assessed primarily through surveys and volume conversions.

(o) Rehabilitation

The mining, extraction and processing activities of BC Iron give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling; removal or treatment of waste materials; land rehabilitation; and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation.

The capitalised cost of rehabilitation activities is recognised in 'Development Expenditure' as rehabilitation assets and amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each statement of financial position date and the costs charged to the profit or loss in line with remaining future cash flows

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added to or deducted from the related rehabilitation asset and amortised accordingly.

(p) Mineral Tenements

The Group'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.

(q) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at fair value and subeqently at amortised cost.

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.

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 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

Borrowings
All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Trade and Other Payables (Continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in AUD, which is BC Iron Limited's functional and presentation currency.

Transactions and balances

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(r) Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) 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.

(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.

Diluted earnings per share earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

(u) Share-Based Payments

Share-based remuneration benefits are provided to employees via an employee share option plan. Information relating to this plan is set out in Note 28.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in 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 a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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 of the option.

The fair value of the options granted is adjusted to reflect market conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable.

The employee benefit expense recognised each period takes in to account the most recent estimate. The impact of revision to original estimates, if any, is recognised in the profit and loss with a corresponding adjustment to equity.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New Accounting Standards and Interpretations

Certain new accounting standards have been published that are not mandatory for 30 June 2011 reporting periods as outlined below. The Group has not applied these in preparing this financial report.

Affected Standard	Title of Affected Standard	Nature of Change	Application Date *	Impact on Initial Application
AASB 9 (issued December 2009)	Financial Instruments	Amends the requirements for classification and measurement of financial assets	1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.
AASB 124 (issued December 2009)	Related Party Disclosures	Clarifies the definition of a related party	1 January 2011	As this a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 2010-6 (AASB 7)	Financial Instruments Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held	1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures.
IFRS 11 (issued May 2011)	Joint Arrangements	Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed). However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, joint ventures will be accounted for in consolidated financial statements using the equity method, rather than the proportionate consolidation method. On 1 July 2012, the initial equity accounted investment will be measured as the aggregate of the net carrying amounts of all assets and liabilities previously accounted for using proportionate consolidation. Any impairment adjustments required on 1 July 2012 will be debited to retained earnings on that date.
IAS 19 (issued June 2011)	Employee Benefits	Main changes include: Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods Subtle amendments to timing for recognition of liabilities for termination benefits Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Critical Accounting Estimates & Judgements

In preparing this Financial Report, the Group 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:

Capitalisation of exploration and evaluation expenditure

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. This better reflects the operating position of the Group.

Development expenditure

Development activities commence after commercial viability and technical feasibility of the project is established. Judgement is applied by management in determining when a project is commercially viable and technically feasible. Any judgements may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of comprehensive income.

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:

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group 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 2011, the carrying value of exploration expenditure is $4,349,457.

Share-based payment transactions

The cost of share-based payments to employees is measured by reference to the fair value of the option instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The cost of share-based payments to financiers is measured by reference to the difference between the nominal value and net present value of the finance facility provided. The net present value is determined based upon a market comparable discount rate applicable to similar size companies within the mining sector.

Development expenditure

Upon reclassification from exploration and evaluation expenditure, the recoverable amount has been estimated as the asset's value in use, using the present value of future cash flows based upon available reserves calculated by the Company's geologists in accordance with industry guidelines, using a discount rate of 11%. As a result of this assessment, no impairment was deemed necessary.

Recognition of deferred tax balances relating to tax losses

The group has recognised deferred tax assets relating to carried forward tax losses to the extent the group believe the utilisation of these losses against future taxable profits is considered probable.

Rehabilitation

BC Iron's accounting policy for the recognition of rehabilitation provisions requires significant estimates in determining the estimated cost for the rehabilitation of disturbed areas at a point in the future. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

Reserve estimates

Reserves are estimates of the amount of product that can be economically and legally extracted from the current mining tenements. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transports costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Critical accounting estimates & judgements (Continued)

Because the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Groups financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows;
- Depreciation and amortisation charges in the Statement of Comprehensive Income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change; and
- The carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

Units of production method

Where the useful life of an asset is directly linked to the extraction of ore from the mine, the asset is depreciated using the units of production method. In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

Production start date

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production stage. Some of the criteria include:

- The level of capital expenditure compared to construction cost estimates;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to process iron ore in saleable form; and
- Ability to sustain ongoing mining and processing of iron ore.

When a mine development project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs relating to mining asset additions or improvements, and mineable reserve development, which are capitalised. It is also at this point that depreciation/amortisation commences.

Functional Currency

The company has defined the functional currency of its group as Australian Dollars. The group operates in Australia and incurs expenses in Australian dollars. In determining this conclusion the company has exercised judgement when reviewing its existing transactions and applying the requirements of AASB 121 The Effects of Changes in Foreign Exchange Rates. The company will monitor this going forward as it moves from an exploration to mining company.

NOTE 2 - REVENUE

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
From Continuing Operations		
Sales Revenue	17,133,674	-
	17,133,674	-
Other Revenue		
Management Fees	1,954,090	482,998
	1,954,090	482,998
	19,087,764	482,998

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011 continued

NOTE 3 - OTHER INCOME

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Other Income		
Interest revenue	1,081,361	1,045,792
Foreign exchange gains/(loss) (net)	2,119,795	-
	3,201,156	1,045,792

NOTE 4 - EXPENSES

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Profit before income tax includes the following specific expenses:		
Cost of Sales		
Mining and Ore Dressing	6,564,880	-
Haulage	5,247,804	-
Site Administration	6,192,172	-
Depreciation/Amortisation	636,596	-
Royalties	608,119	-
Inventory Movement	(6,309,851)	-
Total	12,939,720	-
Selling and Marketing expenses	841,889	-
General & Administration expenses		
Depreciation expense	211,748	91,068
Director's fees	194,724	189,196
Office rent, ancillaries and running costs	1,248,576	797,368
Personnel and support	799,990	452,964
Share registry services and other corporate costs	3,980,765	1,590,906
Share based payments	499,648	818,226
Total	6,935,451	3,939,727

NOTE 5 - AUDITOR'S REMUNERATION

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
During the financial period the following fees were paid or payable for services provided by the auditor:		
(a) Audit services		
BDO Audit (WA) Pty Ltd:		
Audit and review of financial reports under the Corporations Act 2001	44,260	45,650
(b) Non-Audit Services		
Related entities of BDO		
Taxation services	44,239	29,058
Total remuneration of auditors	88,499	74,708

These services were provided by BDO Corporate Tax (WA) Pty Ltd and BDO Audit (WA) Pty Ltd.

The Group has received notification from the Group's auditor that they satisfy 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 6 – INCOME TAXES

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
(a) Income tax benefit		
Current Tax Benefit	-	207,023
Deferred tax expense	61,697	818,530
	61,697	1,025,553
(b) Amounts charged or credited directly to equity		
Capital raising transaction costs	214,789	513,388
(c) Numerical reconciliation of income tax benefit to prima facie tax payable		
Profit/(Loss) from continuing operations before income tax expense	922,828	(2,410,936)
Prima facie tax (expense) / benefit at 30% (2010:30%)	(276,848)	723,281
Non deductible expenses:		
Share-based payments	(149,894)	(245,468)
Other	(43,500)	(3,541)
Deferred tax asset of a prior period now recognised	-	344,258
R & D tax offset payment	172,464	207,023
Prior period adjustments	359,475	-
Income tax benefit	61,697	1,025,553

NOTE 6 – INCOME TAXES (Continued)

	Balances 2011	Balances 2010
(d) Deferred Tax Assets		
Tax Losses	6,162,299	5,073,647
Accrued Expenses	396,351	24,682
Provisions	276,178	67,007
Other timing differences	478,066	260,529
Share issue costs in equity	386,835	365,474
	7,699,729	5,791,339
Less: Deferred Tax Asset not brought to account		-
	7,699,729	5,791,339
Less: offset against Deferred Tax Liabilities	(6,091,325)	(4,459,421)
Net Deferred Tax Asset	1,608,404	1,331,918
Deferred tax assets expected to be recovered within 12 months	6,713,232	5,278,627
Deferred tax assets expected to be recovered after more than 12 months	986,497	512,712
	7,699,729	5,791,339
(e) Deferred Tax Liabilities		
Exploration & Evaluation Asset	1,304,837	1,031,941
Development Expenditure	4,138,281	3,260,234
Plant & Equipment	12,245	12,245
Other timing differences	635,961	155,001
	6,091,325	4,459,421
Less: offset by Deferred Tax Assets	(6,091,325)	(4,459,421)
Net Deferred Tax Liability	-	-

(f) Movements in Deferred Tax Assets

	Tax losses $'000	Accrued Expenses $'000	Provisions $'000	Share issue costs $'000	Other $'000	Total $'000
At 1 July 2009	-	-	-	-	-	-
(Charged)/credited						
- to profit or loss	5,073,647	24,682	67,007	(147,914)	260,529	5,277,951
- to other	-	-	-	-	-	-
comprehensive income						
- directly to equity	-	-	-	513,288	-	513,288
At 30 June 2010	5,073,647	24,682	67,007	365,374	260,529	5,791,239
(Charged)/credited						
- to profit or loss	1,088,652	371,669	209,171	(193,423)	217,632	1,693,601
- to other	-	-	-	-	-	-
comprehensive income						
- directly to equity	-	-	-	214,789	-	214,789
At 30 June 2011	6,162,299	396,351	276,178	386,740	478,161	7,699,729

NOTE 6 – INCOME TAXES (Continued)

(g) Movements in Deferred Tax Liabilities

Movements	Exploration & Evaluation Assets $'000	Development Expenditure $'000	Plant & Equipment $'000	Other $'000	Total $'000
At 1 July 2009	-	-	-	-	-
(Charged)/credited					
- to profit or loss	1,031,941	3,260,234	12,245	155,001	4,459,421
- to other	-	-	-	-	-
comprehensive income					
- directly to equity	-	-	-	-	-
At 30 June 2010	1,031,941	3,260,234	12,245	155,001	4,459,421
(Charged)/credited					
- to profit or loss	**272,896**	**878,047**	**-**	**480,960**	**1,631,904**
- to other	**-**	**-**	**-**	**-**	**-**
comprehensive income					
- directly to equity	**-**	**-**	**-**	**-**	**-**
At 30 June 2011	**1,304,837**	**4,138,281**	**12,245**	**635,961**	**6,091,325**

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 offset.

Tax consolidation legislation

BC Iron Limited and its wholly owned Australian controlled entities have elected to enter into the tax consolidation legislation from 20 May 2009. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, BC Iron Limited.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables, no amounts have been recognised.

The entities entered into a tax funding agreement under which the wholly owned entities fully compensate BC Iron Limited for any current tax payable assumed and are compensated by BC Iron Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to BC Iron Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

NOTE 7 – CASH AND CASH EQUIVALENTS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Cash at Bank and on hand	**17,536,827**	499,429
Cash on Deposit	**-**	28,263,547
	17,536,827	28,762,976

Refer to Note 26 – Financial Risk Management.

NOTE 8 – TRADE AND OTHER RECEIVABLES

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Trade receivables	**4,107,576**	934,322
Interest receivable	**75**	186,238
Prepayments	**122,345**	-
Receivables due from Joint Arrangement (note 25)	**1,096,339**	268,655
Other receivables (GST)	**1,821,679**	643,486
	7,148,014	2,032,700

(a) **Ageing of financial assets past due not impaired**

As at 30 June 2011 and 30 June 2010 there were no financial assets past due not impaired.

(b) **Ageing of impaired financial assets**

As at 30 June 2011 and 30 June 2010 there were no financial assets impaired.

Information about BC Iron's exposure to foreign currency risk and interest rate risk are disclosed in Note 26.

NOTE 9 – INVENTORY

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current Assets		
Raw materials - at cost	**1,739,911**	1,965,880
Iron Ore Stockpiles	**7,283,750**	-
	9,023,661	1,965,880

NOTE 10 – OTHER FINANCIAL ASSETS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current Assets		
Security deposits - corporate cards	**112,340**	96,436
Security deposits - office rent and village	**130,425**	154,000
	242,765	250,436

NOTE 11 – PLANT & EQUIPMENT

Consolidated Entity	Furniture, Computers and Equipment $	Plant & Equipment $	Total $
Year ended 30 June 2011			
At 1 July 2010, net of accumulated depreciation	450,212	3,667,278	4,117,490
Additions	246,818	33,671,745	33,918,563
Disposals	-	-	-
Depreciation charge for the year	(211,748)	(414,727)	(626,474)
At 30 June 2011, net of accumulated depreciation	**485,282**	**36,924,296**	**37,409,578**
At 30 June 2011			
Cost	802,223	37,339,023	38,141,246
Accumulated depreciation	(316,941)	(414,727)	(731,668)
Net carrying amount	**485,282**	**36,924,296**	**37,409,578**
Year ended 30 June 2010			
At 1 July 2009, net of accumulated depreciation	112,828	-	112,828
Additions	438,084	3,667,278	4,105,362
Disposals	(9,631)	-	(9,631)
Depreciation charge for the year	(91,069)	-	(91,069)
At 30 June 2010, net of accumulated depreciation	**450,212**	**3,667,278**	**4,117,490**
At 30 June 2010			
Cost	595,365	3,667,278	4,262,643
Accumulated depreciation	(145,153)	-	(145,153)
Net carrying amount	**450,212**	**3,667,278**	**4,117,490**

NOTE 12 - EXPLORATION & EVALUATION EXPENDITURE

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Exploration and evaluation expenditure costs brought forward in respect of areas of interest		
Opening balance	**3,439,802**	9,877,636
Transfers to development expenditure	**-**	(8,639,354)
Expenditure during financial year	**909,655**	2,201,520
Balance 30 June 2011	**4,349,457**	3,439,802

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 Group'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 13 – DEVELOPMENT EXPENDITURE

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Development expenditure costs brought forward in respect of areas of interest		
Opening balance	**12,914,138**	-
Transfer from exploration & evaluation expenditure	**-**	8,639,354
Expenditure during financial year	**12,304,369**	4,274,784
Amortisation of Development expditure	**(243,734)**	-
Balance 30 June 2011	**24,974,772**	12,914,138

All expenditure for the Mine Development is included in Development Expenditure. Development expenditure is recorded at historical cost.

Upon reclassification from exploration and evaluation expenditure, the recoverable amount has been estimated as the asset's value in use, using the present value of future cash flows based upon available reserves calculated by the Company's geologists in accordance with industry guidelines, using a discount rate of 11%. As a result of this assessment, no impairment was deemed necessary.

NOTE 14 – OTHER NON CURRENT ASSETS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Non Current Assets		
Opening balance	**-**	-
Rehabilitation Asset	**1,146,500**	-
Balance 30 June 2011	**1,146,500**	-

NOTE 15 – TRADE AND OTHER PAYABLES

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Trade payables and accruals	**15,519,037**	1,641,539
Employee benefits	**611,972**	98,358
Balance 30 June 11	**16,131,009**	1,739,897

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

Refer to Note 26 – Financial Risk Management.

NOTE 16 – LOANS AND BORROWINGS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Unsecured		
Loan - Henghou Facility - current	4,512,766	13,954,966
Loan - Henghou Facility - non current	14,488,235	-
Total unsecured borrowings	19,001,001	13,954,966

The NJV secured US$50 million (interest free) in project finance with Henghou Industries (Hong Kong) Limited. Henghou made a payment of US$15 million on 17 December 2009 (being US$7.5 million to the Group), a payment of US$15 million on 3 February 2010 (being US$7.5 million to the Group) and a payment of US$20 million on 2 July 2010 (being US$10 million to the Group). The total borrowings above do not agree to the total loan to the Group of US$25 million due to foreign exchange differences and discounting of the loan as it is interest free.

The Group will repay its share of the facility at the amount of US$5 million annually to Henghou over 5 years from December 2011. As part of this facility BCI issued 8m options to Henghou as non-cash consideration.

These borrowings are unsecured and the carrying value equals fair value.

NOTE 17 – PROVISIONS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Provision for Rehabilitation	920,594	125,000
	920,594	125,000

Movements in provisions

2011	Rehabilitation	Total
Carrying amounts at start of year	125,000	125,000
Charged/(credited) to profit or loss	-	-
Capitalised to Development		
- additional provisions recognised	795,594	795,594
Carrying amounts at end of year	920,594	920,594

2010	Rehabilitation	Total
Carrying amounts at start of year	-	-
Charged/(credited) to profit or loss	-	-
Capitalised to Development		
- additional provisions recognised	125,000	125,000
Carrying amounts at end of year	125,000	125,000

The Group makes provision for the future cost of rehabilitating mine sites on a discounted basis on the development of mines. This provision represents the present value of rehabilitation costs relating to the mine sites, which are expected to be incurred through to the life of the mine. Assumptions, based on the current economic environment, have been made in determining current rehabilitation provisions, which management believes are a reasonable bases upon which to estimate the future liability. These estimates are reviewed at each reporting date to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future iron ore prices, which are inherently uncertain.

NOTE 18 – CONTRIBUTED EQUITY

	Consolidated Entity 2011		Consolidated Entity 2010	
	Number	$	Number	$
Share Capital				
Ordinary shares - Fully paid	94,381,000	58,250,587	83,911,000	36,518,762
Movement in Ordinary Share Capital				
At 1 July	83,911,000	36,518,762	68,846,000	22,982,385
Exercise of options, 1 November 2010	150,000	187,500	-	-
Share placement at $2.30, 18 November 2010	4,000,000	9,200,000	-	-
Exercise of options, 19 November 2010	500,000	962,500	-	-
Share placement at $2.30, 22 December 2010	4,000,000	9,200,000	-	-
Exercise of options, 3 February 2011	1,500,000	1,947,500	-	-
Exercise of options, 16 February 2011	50,000	62,500	-	-
Exercise of options, 9 March 2011	250,000	648,000	-	-
Exercise of options, 19 May 2011	20,000	25,000	-	-
Rights Issue, 27 July 2009	-	-	11,461,000	12,607,100
Exercise of options, 14 August 2009	-	-	250,000	62,500
Exercise of options, 5 October 2009	-	-	254,000	63,500
Exercise of options, 26 November 2009	-	-	30,000	21,600
Exercise of options, 10 December 2009	-	-	2,800,000	725,000
Exercise of options, 11 December 2009	-	-	70,000	50,400
Exercise of options, 6 January 2010	-	-	100,000	72,000
Exercise of options, 9 February 2010	-	-	100,000	72,000
Less: costs of issue	-	(715,964)	-	(651,111)
Tax effect of costs of issue	-	214,789	-	513,388
At 30 June	94,381,000	58,250,587	83,911,000	36,518,762

(a) **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 Group, ordinary shareholders rank after all other shareholders and creditors are fully entitled to any proceeds of liquidations.

(b) **Capital risk management**

The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group defines capital as equity and net debt. Net debt is defined as borrowings less cash and cash equivalents and equity as the sum of share capital, reserves and accumulated losses.

NOTE 18 – CONTRIBUTED EQUITY (Continued)

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Net Equity	67,387,375	38,995,476
Borrowings	19,001,001	13,954,966
Cash	(17,536,827)	(28,762,976)
Net Debt	1,464,174	(14,808,010)
Capital	68,851,549	24,187,467
Gearing Ratio	2%	-61%

NOTE 19 - RESERVES AND ACCUMULATED LOSSES

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
(a) Reserves		
Reserves	12,385,997	6,710,448
Reserves comprise the following:		
Share-based payments reserve		
Balance at start of financial year	6,065,609	1,303,240
Employee option expense	499,648	818,226
Employee option expense capitalised	566,200	241,784
Financier option expense	4,609,701	4,271,518
Options transferred to options exercised reserve	(1,256,446)	(569,159)
Balance at end of the financial year	10,484,712	6,065,609
Options Exercised reserve		
Balance at start of financial year	644,839	75,680
Options transferred from share-based payments reserve	1,256,446	569,159
Balance at end of the financial year	1,901,285	644,839
Total reserves	12,385,997	6,710,448
(b) Accumulated losses	(3,249,209)	(4,233,734)
Accumulated losses comprise the following:		
Balance at start of financial year	(4,233,734)	(2,848,351)
Profit/(loss) for the financial period after related income tax benefit	984,525	(1,385,383)
Balance at end of the financial year	(3,249,209)	(4,233,734)

(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.

The options exercised reserve is used to recognise the fair value of options exercised.

NOTE 20 – PROFIT/ (LOSS) PER SHARE

	Consolidated Entity 2011 Cents	Consolidated Entity 2010 Cents
(a) Basic earnings/(loss)per share	1.10	(1.70)
(b) Diluted earnings per share	1.29	
	$	$
(c) Profit (loss) used in calculating loss per share		
Profit/(loss) attributable to the ordinary equity holders of the Company	984,525	(1,385,383)
(d) Additional profit used in calculating diluted earnings per share	300,266	-
Profit used in calculating diluted earnings per share	1,284,791	
	Number	Number
(e) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the year used in calculations of basic earnings/(loss) per share	89,538,973	81,523,203
(f) Diluted earnings per share denominator		
Vested share options outstanding at 30 June 2011	10,230,000	
Denominator used for the purpose of calculating diluted earnings per share	99,768,973	
Diluted loss per share has not been disclosed in prior year as there were no instruments which were dilutive.		

NOTE 21 – COMMITMENTS

(a) **Mining Tenement Leases**

In order to maintain current rights of tenure to exploration tenements the Group 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:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Within one year	635,327	492,405
Later than one year but less than five years	3,267,806	3,021,620
Later than five years	-	-
	3,903,134	3,514,025

The commitments due within one year amount to $78,027 in respect of tenement lease rentals and $557,300 in exploration and development expenditures. This expenditure comprises 50% of tenement expenditure commitments in relation to the Joint Venture. It will only be incurred should the Group 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 Group leases offices in West Perth, Western Australia, under a non-cancellable operating lease expiring 31st August 2016.

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Commitments for minimum lease payments are:		
Within one year	280,408	200,270
Later than one year but less than five years	1,211,257	33,378
Later than five years	54,489	-
	1,546,154	233,648

NOTE 21 – COMMITMENTS (continued)

(c) **Capital Commitments**

Prior to 30th of June the Group executed a contract (on behalf of NJV) with Watpac Civil and Mining for the construction of the Haul Road. Details of commitments to construction completion are as per below:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Within one year	3,750,000	3,861,896
Later than one year but less than five years	-	-
Later than five years	-	-
	3,750,000	3,861,896

NOTE 22 - KEY MANAGEMENT PERSONNEL DISCLOSURE

(a) **Key management personnel compensation**

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Short-term employee benefits	1,233,539	1,028,120
Post-employment benefits	75,805	74,960
Share-based payments	69,996	436,639
	1,379,340	1,539,719

Detailed remuneration disclosures are provided in the remuneration report in the Directors Report.

(b) **Equity instrument disclosures relating to key management personnel**

The interests of Key Management Personnel in shares and share options at the end of the financial period are as follows:

Consolidated Entity 2011

Number of Shares	Balance at the start of the financial period	Received during the year on the exercise of options	Other changes	Balance at the end of the financial period
Directors				
A Kiernan	1,114,133			1,114,133
M Young	1,273,001	500,000	(500,000)	1,273,001
S Chadwick	533,334		(100,000)	433,334
T Ransted	622,601			622,601
G Baldwin	-			-
D Coyne	-			-
Executives				
M Ball	8,000	500,000	(230,000)	278,000
B Duncan	-	500,000	(495,000)	5,000
	3,551,069	1,500,000	(1,325,000)	3,726,069

NOTE 22 - KEY MANAGEMENT PERSONNEL DISCLOSURE (Continued)

(b) **Equity instrument disclosures relating to key management personnel (Continued)**

Consolidated Entity 2010

Number of Shares	Balance at the start of the financial period	Received during the year on the exercise of options	Other changes	Balance at the end of the financial period
Directors				
A Kiernan	357,976	750,000	6,157	1,114,133
M Young	234,000	1,000,000	39,001	1,273,001
S Chadwick	233,334	500,000	(200,000)	533,334
G Higgo	23,334	-	-	23,334
G Higgo*	-	500,000	-	500,000
T Ransted	190,800	500,000	(68,199)	622,601
G Baldwin	-	-	-	-
Executives				
M Ball	-	-	8,000	8,000
S Storm	-	-	-	-
B Duncan	-	-	-	-
	1,039,444	3,250,000	(215,041)	4,074,403

* - Subsequent to year end, these shares were transferred to the beneficial owner, Consolidated Iron Pty Ltd.

Consolidated Entity 2011

Number of Options	Balance at the start of the financial period	Granted as compensation	Exercised	Options lapsed/ cancelled	Balance at the end of the financial period	Vested and exercisable at 30 June 2011	Unvested
Directors							
A Kiernan	-	-	-	-	-	-	-
M Young	1,000,000	-	(500,000)	-	500,000	500,000	-
S Chadwick	-	-	-	-	-	-	-
T Ransted	-	-	-	-	-	-	-
G Baldwin	-	-	-	-	-	-	-
D Coyne	-	-	-	-	-	-	-
Executives							
M Ball	500,000	-	(500,000)	-	-	-	-
B Duncan	500,000	-	(500,000)	-	-	-	-
	2,000,000	-	(1,500,000)	-	500,000	500,000	-

Consolidated Entity 2010

Number of Options	Balance at the start of the financial year	Granted as compensation	Exercised	Options lapsed/ cancelled	Balance at the end of the financial year	Vested and exercisable at 30 June 2010	Unvested
Directors							
A Kiernan	750,000	-	(750,000)	-	-	-	-
M Young	2,000,000	-	(1,000,000)	-	1,000,000	1,000,000	-
S Chadwick	500,000	-	(500,000)	-	-	-	-
G Higgo*	500,000	-	(500,000)	-	-	-	-
T Ransted	500,000	-	(500,000)	-	-	-	-
G Baldwin	-	-	-	-	-	-	-
Executives							
M Ball	-	500,000	-	-	500,000	100,000	400,000
S Storm	-	500,000	-	200,000	300,000	150,000	150,000
B Duncan	500,000	-	-	-	500,000	300,000	200,000
	4,750,000	1,000,000	(3,250,000)	200,000	2,300,000	1,550,000	750,000

* - Subsequent to year end, these shares were transferred to the beneficial owner, Consolidated Iron Pty Ltd.

NOTE 22 - KEY MANAGEMENT PERSONNEL DISCLOSURE (Continued)

(c) Other transactions with Key Management Personnel

Disclosures relating to key management personnel are set out below. The following transactions occurred with related parties:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Transactions between related parties are on normal commercial terms no more favourable than those available to other parties unless otherwise stated.		
Key Management Personnel		
Professional fees paid to Mr Kiernan, a director, for services in excess of normal director duties.	100,000	45,000
Total	100,000	45,000

There are no amounts outstanding at the reporting date (2010 – Nil) in relation to transactions with related parties.

NOTE 23 – CONTINGENT LIABILITIES AND ASSETS

The Group is bound to the Minister in the State of Western Australia to the sum of $122,500 security in order to comply with the conditions of the leases for the mining tenements.

NOTE 24 - SEGMENTAL INFORMATION

Management has determined that the company has one reportable segment, being mineral exploration, development and production in Western Australia. As the company is focused on mineral exploration, development and production, the Board monitors the company based on actual versus budgeted expenditure incurred by area of interest. This internal reporting framework is the most relevant to assist the Board with making decisions regarding the company and its ongoing activities, while also taking into consideration the results of exploration and development work that has been performed to date.

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Total segment revenue	19,087,764	482,998
Adjusted EBITDA	19,087,764	482,998
Total segment assets	103,439,981	54,815,339
Total segment liabilities	17,051,603	1,864,897
Reconciliation of reportable segment profit or loss		
Adjusted EBITDA	19,087,764	482,998
Interest revenue	1,081,361	1,045,292
Other income	2,119,795	500
Unallocated: Corporate Expenses	(21,366,092)	(3,939,726)
Profit/(Loss) before income tax	922,828	(2,410,936)
Segment liabilities	17,051,603	1,864,897
Deferred Tax Liabilities	-	-
Loans	19,001,001	13,954,966
Total liabilities as per the balance sheet	36,052,604	15,819,863

NOTE 25 – RELATED PARTY TRANSACTIONS

(a) Parent Entities

The parent entity within the group is BC Iron Limited. The parent entity owns 100% of BC Iron Nullagine Pty Ltd. This subsidiary has a 50% participating interest in the Nullagine Iron Ore Joint Venture.

(b) Transactions with related parties

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Management fee income from Joint Arrangement	**1,954,090**	482,998

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Current receivables		
Joint Arrangement	**945,004**	934,322
Current payables	**-**	-

(d) Loans to/from related parties

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Loans to joint arrangement	**1,096,339**	268,655

NOTE 26 - FINANCIAL RISK MANAGEMENT

The Group's activities expose it to the following risks from their use of financial instruments: credit risk, liquidity risk and market risk. This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk.

The Group holds the following financial instruments:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Financial assets		
Cash and cash equivalents	**17,536,827**	28,762,976
Deposits	**242,765**	250,436
Trade and other receivables	**7,148,015**	2,032,700
	24,927,607	31,046,112
Financial liabilities at amortised cost		
Trade and other payables	**16,131,009**	1,739,897
Loans & Borrowings	**19,001,001**	13,954,966
	35,132,010	15,694,863

NOTE 26 - FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk

(i) Foreign exchange risk

BC Iron's policy is, where possible, to allow group entities to settle foreign liabilities with the cash generated from their own operations in that currency. BC Iron is exposed to currency risk on cash reserves and borrowings. The groups' exposure to foreign currency risk, expressed in Australian dollar, was as follows:

		Consolidated Entity 2011 $	Consolidated Entity 2010 $
Exchange Rate	1.059		
Financial Assets			
Cash and cash equivalents	AUD	2,995,584	4,046,596
	USD	3,172,323	3,447,700
Debtors	AUD	3,105,152	-
	USD	3,288,356	-
Financial Liabilities			
Borrowings	AUD	(23,607,177)	(17,605,634)
	USD	(25,000,000)	(15,000,000)
Financial Profit			
Sales Revenue	AUD	17,133,674	-
	USD	18,167,289	-

Sensitivity Analysis

A five per cent strengthening of the US dollar against the Australian dollar at 30 June 2011 on a net basis would have increased the group's pre-tax profit by $38,190 (2010: $645,668) primarily through a lower valuation of BCI's US borrowings. A five per cent benchmark is used by the Group based upon potential forward rate movements of foreign exchange rates.

(ii) Cash flow and fair value interest rate risk

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

As at the reporting date, the Group had the following variable rate deposits and there were no interest rate swap contracts outstanding:

	Consolidated Entity 2011 Weighted average interest rate %	Balance $	Consolidated Entity 2010 Weighted average interest rate %	Balance $
Deposits		242,765		250,436
Other cash available		17,536,827		28,762,976
Net exposure to cash flow interest rate risk	6.8%	17,779,592	3.6%	29,013,412

The group's borrowings are carried at amortised cost. They are therefore not subject to interest rate risk.

The Group analyses its interest rate exposure each time a deposit term expires. The Group aims to maximise interest returns from available funds and at the same time retain operating flexibility through adequate access to funds.

Sensitivity Analysis

If interest rates had been 50 basis points higher or lower than the prevailing rates as at 30 June 2011, with all other variables held constant, there would be an immaterial change in post-tax loss for the year. Equity would not have been impacted (2010 – immaterial impact). 50 basis points benchmark is used by the Group based upon potential forward rate movements of interest rates.

NOTE 26 - FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of "A" are accepted in accordance with ratings guidelines of major global credit rating agencies. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised at the beginning of this note. All receivables at 30 June 2011 were received within two months.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Trade receivables		
Counterparties without external credit rating		
Group 1	3,105,152	-
Group 2	4,042,862	2,032,700
Group 3	-	-
Total trade receivables	7,148,015	2,032,700
Cash at bank and short-term deposits		
AA	17,779,592	29,013,412
	17,779,592	29,013,412

Group 1 – new customers (less than 6 months)
Group 2 – existing customers (more than 6 months) with no defaults in the past.
Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered.

(c) Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash 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 Group under the ASX Listing Rules.

Financing arrangements

On 2 July 2010, the Nullagine Iron Ore Joint Venture received US$20 million (the Group's share is US$10million) being the third and final instalment of funding under the US$50 million financing facility with Henghou Industries (Hong Kong) Limited. Refer Note 16.

Maturity analysis of financial assets and liabilities.

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables. The tables below analyses the Group's maturity based upon their contractual maturities and are disclosed at their undiscounted amounts.

NOTE 26 - FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (Continued)

Consolidated Entity Year ended 30 June 2011

	<6 months	6-12 months	1-5 years	>5 years	Total Contractual Cash flows	Carrying Amount
Financial assets						
Cash & cash equivalents	17,536,827	-	-	-	17,536,827	17,536,827
Deposits	-	242,765	-	-	242,765	242,765
Trade & other receivables	7,148,015	-	-	-	5,929,330	7,148,015
	24,684,842	242,765	-	-	23,708,922	24,927,607
Financial liabilities						
Trade & other payables	16,131,009	-	-	-	16,131,009	16,131,009
Borrowings	4,721,435	-	18,885,742	-	23,607,177	23,607,177
	20,852,444	-	18,885,742	-	39,738,186	39,738,186
Net maturity	**3,832,397**	**242,765**	**(18,885,742)**	**-**	**(16,029,264)**	**(14,810,579)**

Consolidated Entity Year ended 30 June 2010

	<6 months	6-12 months	1-5 years	>5 years	Total Contractual Cash flows	Carrying Amount
Financial assets						
Cash & cash equivalents	28,762,976	-	-	-	28,762,976	28,762,976
Deposits	-	250,436	-	-	250,436	250,436
Trade & other receivables	2,032,700	-	-	-	1,764,046	2,032,700
	30,795,676	250,436	-	-	30,777,457	31,046,112
Financial liabilities						
Trade & other payables	1,739,897	-	-	-	1,739,897	1,739,897
Borrowings	-	-	17,605,634	-	17,605,634	17,605,634
	1,739,897	-	17,605,634	-	19,345,531	19,345,531
Net maturity	**29,055,779**	**250,436**	**(17,605,634)**	**-**	**11,431,927**	**11,700,581**

NOTE 27 – RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Profit/(loss) for the financial year	**984,525**	(1,385,383)
Non cash flows in operating profit/(loss)		
Depreciation	**626,474**	91,068
Movements in provisions	**795,594**	162,836
Employee benefit - shared-based payment	**499,647**	818,226
Changes in operating assets and liabilities		
Decrease / (increase) in trade and other receivables	**(5,115,314)**	(1,553,479)
(Decrease) / increase in trade and other payables	**13,332,327**	989,597
(increase) / decrease in deferred tax assets	**(276,486)**	-
(increase) in inventories	**(7,689,636)**	-
Net cash inflows/(outflows) by operating activities	**3,157,130**	(877,135)

On 12 February 2010, BCI issued 8,000,000 options as non cash consideration for the Henghou loan facility (see Note 16).

NOTE 28 – SHARE-BASED PAYMENTS

During the 2011 financial year the Group provided share based payments to Employees only, whereas in the 2010 financial year they were also granted to Consultants and Financers. An employee share option incentive plan was approved at a shareholder's general meeting on 17 July 2008. Under the terms of the plan the Board may offer options at no more than nominal consideration to employees or directors (the latter subject to shareholder approval) based on a number of criteria, including contribution to the Group, period of employment, potential contribution to the Group in the future and other factors the Board considers relevant.

Set out below is a summary of the options granted by the Group:

2011

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted during the financial period	Exercised during the financial period	Forfeited during the financial period	Balance at end of the financial period	Vesting date	Vested and exercisable at end of financial period
Director options									
17/7/08	15/8/11	$1.85	500,000	-	250,000	-	250,000	15/2/09	250,000
17/7/08	15/8/11	$2.00	500,000	-	250,000	-	250,000	15/2/10	250,000
Others									
1/8/09	1/8/12	$1.25	150,000	-	150,000	-	-	1/8/09	-
1/8/09	1/8/12	$1.40	150,000	-	-	-	150,000	1/8/10	150,000
16/4/09	31/3/12	$0.65	250,000	-	250,000	-	-	16/4/09	-
30/6/09	31/3/12	$0.90	250,000	-	250,000	-	-	30/6/09	-
12/4/10	19/2/15	$1.50	250,000	-	-	-	250,000	1/1/11	250,000
12/4/10	19/2/15	$1.50	250,000	-	-	-	250,000	1/1/11	250,000
12/2/10	11/2/12	$1.35	6,000,000	-	-	-	6,000,000	6/7/10	6,000,000
12/2/10	11/2/12	$1.50	2,000,000	-	-	-	2,000,000	6/7/10	2,000,000
Employee options									
21/8/08	21/8/11	$1.25	100,000	-	100,000	-	-	21/8/08	-
21/8/08	21/8/11	$1.50	200,000	-	200,000	-	-	21/8/08	-
21/8/08	21/8/11	$2.00	200,000	-	200,000	-	-	21/8/08	-
1/8/09	1/8/12	$1.25	100,000	-	70,000	-	30,000	16/4/09	30,000
1/8/09	1/8/12	$1.40	200,000	-	-	-	200,000	1/8/10	200,000
1/8/09	1/8/12	$1.60	200,000	-	-	-	200,000	31/1/11	200,000
3/9/09	3/9/12	$1.25	100,000	-	100,000	-	-	1/8/09	-
3/9/09	3/9/12	$1.40	150,000	-	150,000	-	-	3/9/10	-
3/9/09	3/9/12	$1.60	250,000	-	250,000	-	-	31/1/11	-
5/11/09	5/11/12	$1.25	100,000	-	-	-	100,000	3/12/09	100,000
5/11/09	5/11/12	$1.50	150,000	-	-	-	150,000	5/11/10	150,000
5/11/09	5/11/12	$2.00	150,000	-	-	-	150,000	31/1/11	150,000
9/7/10	30/6/13	$2.36	-	50,000	50,000	-	-	9/7/10	-
9/7/10	30/6/13	$2.53	-	100,000	100,000	-	-	31/1/11	-
9/7/10	30/6/13	$2.77	-	100,000	100,000	-	-	31/1/11	-
9/7/10	30/6/13	$2.39	-	50,000	-	-	50,000	2/11/10	50,000
9/7/10	30/6/13	$2.64	-	50,000	-	-	50,000	15/12/10	50,000
9/7/10	30/6/13	$2.89	-	75,000	-	-	75,000	31/1/11	75,000
9/7/10	30/6/13	$3.14	-	75,000	-	-	75,000	31/1/11	75,000
Weighted average exercise price			**$1.45**	**$2.70**			**$1.46**		**$1.46**

NOTE 28 – SHARE-BASED PAYMENTS (Continued)

2010

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted during the financial period	Exercised during the financial period	Forfeited during the financial period	Balance at end of the financial period	Vesting date	Vested and exercisable at end of financial period
Director options									
16/10/06	15/12/09	$0.25	500,000	-	500,000	-	-	15/12/07	-
16/10/06	15/12/09	$0.30	500,000	-	500,000	-	-	15/12/08	-
16/10/06	15/12/09	$0.25	2,250,000	-	2,250,000	-	-	16/10/06	-
17/7/08	15/8/11	$1.85	500,000	-	-	-	500,000	15/2/09	500,000
17/7/08	15/8/11	$2.00	500,000	-	-	-	500,000	15/2/10	500,000
16/4/09	31/3/12	$0.65	250,000	-	250,000	-	-	16/4/09	-
30/6/09	31/3/12	$0.90	250,000	-	250,000	-	-	30/6/09	-
12/4/10	19/2/15	$1.50	250,000	-	-	-	250,000	1/1/11	250,000
12/4/10	19/2/15	$1.50	250,000	-	-	-	250,000	1/1/11	250,000
12/2/10	11/2/12	$1.35	6,000,000	-	-	-	6,000,000	6/7/10	6,000,000
12/2/10	11/2/12	$1.50	2,000,000	-	-	-	2,000,000	6/7/10	2,000,000
Promoter options									
19/12/06	15/12/09	$0.25	54,000	-	54,000	-	-	19/12/06	-
Others									
16/4/09	31/3/12	$0.65	250,000	-	-	-	250,000	16/4/09	250,000
30/6/09	31/3/12	$0.90	250,000	-	-	-	250,000	30/6/09	250,000
9/11/07	31/8/09	$1.50	25,000	-	-	25,000	-	9/11/07	-
9/11/07	31/8/09	$1.50	50,000	-	-	50,000	-	9/11/07	-
1/6/07	19/2/10	$0.72	100,000	-	100,000	-	-	16/4/09	-
1/6/07	19/2/10	$0.72	200,000	-	200,000	-	-	30/6/09	-
1/8/09	1/8/12	$1.25	-	150,000	-	-	150,000	1/8/09	150,000
1/8/09	1/8/12	$1.40	-	150,000	-	-	150,000	1/8/10	-
1/8/09	1/8/12	$1.60	-	200,000	-	200,000	-	1/8/11	-
12/4/10	19/2/15	$1.50	-	250,000	-	-	250,000	1/1/11	-
12/4/10	19/2/15	$1.50	-	250,000	-	-	250,000	1/1/11	-
12/2/10	11/2/12	$1.35	-	6,000,000	-	-	6,000,000	6/7/10	-
12/2/10	11/2/12	$1.50	-	2,000,000	-	-	2,000,000	6/7/10	-
Employee options									
21/8/08	21/8/11	$1.25	100,000	-	-	-	100,000	21/8/08	100,000
21/8/08	21/8/11	$1.50	200,000	-	-	-	200,000	21/8/08	200,000
21/8/08	21/8/11	$2.00	200,000	-	-	-	200,000	21/8/08	200,000
1/8/09	1/8/12	$1.25	-	100,000	-	-	100,000	1/8/09	100,000
1/8/09	1/8/12	$1.40	-	200,000	-	-	200,000	1/8/10	-
1/8/09	1/8/12	$1.60	-	200,000	-	-	200,000	1/8/11	-
3/9/09	3/9/12	$1.25	-	100,000	-	-	100,000	3/12/09	100,000
3/9/09	3/9/12	$1.40	-	150,000	-	-	150,000	3/9/10	-
3/9/09	3/9/12	$1.60	-	250,000	-	-	250,000	3/9/11	-
5/11/09	5/11/12	$1.25	-	100,000	-	-	100,000	5/2/10	100,000
5/11/09	5/11/12	$1.50	-	150,000	-	-	150,000	5/11/10	-
5/11/09	5/11/12	$2.00	-	150,000	-	-	150,000	5/11/11	-
Weighted average exercise price			**$0.75**	**$1.41**			**$1.45**		**$1.60**

NOTE 28 – SHARE-BASED PAYMENTS (Continued)

The weighted average remaining contractual life of share options outstanding at the end of the financial period was 2 years (2011 –2012 financial years)

Options granted carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

(a) Director option expense

Share options have been granted to provide long-term incentive for Directors to deliver long-term shareholder returns.

(b) Employee option expense

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.

(c) Other option expense

Share options have been granted to Consultants in 2010 for their services as consideration for the provision of services with respect to broker support and capital raising costs.

During the year the Group issued the following share based payments to Directors, Employees, Consultants and Financiers. The fair value at grant date has been independently determined using a Black-Scholes option pricing model that takes into account the following inputs:

2011

Grant date	Expiry date	Exercise price	Granted during the year	Vesting Date	Fair value at grant date of options	Share price on grant date	Expected Volatility	Option life	Expected Dividends	Risk-free interest rate
Employee options										
9/07/2010	30/06/2013	$2.36	50,000	09-Jul-10	$0.64	$1.64	70%	3 years	0%	4.57%
9/07/2010	30/06/2013	$2.53	100,000	31-Jan-11	$0.61	$1.64	70%	3 years	0%	4.57%
9/07/2010	30/06/2013	$2.77	100,000	31-Jan-11	$0.57	$1.64	70%	3 years	0%	4.57%
9/07/2010	30/06/2013	$2.39	50,000	02-Nov-10	$0.64	$1.64	70%	3 years	0%	4.57%
9/07/2010	30/06/2013	$2.64	50,000	15-Dec-10	$0.59	$1.64	70%	3 years	0%	4.57%
9/07/2010	30/06/2013	$2.89	75,000	31-Jan-11	$0.56	$1.64	70%	3 years	0%	4.57%
9/07/2010	30/06/2013	$3.14	75,000	31-Jan-11	$0.52	$1.64	70%	3 years	0%	4.57%

2010

Grant date	Expiry date	Exercise price	Granted during the year	Vesting Date	Fair value at grant date of options	Share price on grant date	Expected Volatility	Option life	Expected Dividends	Risk-free interest rate
Employee options										
01/8/09	01/8/12	$1.25	100,000	01-Aug-09	$0.64	$1.05	100%	3 years	0%	4.94%
01/8/09	01/8/12	$1.40	200,000	01-Aug-10	$0.62	$1.05	100%	3 years	0%	4.94%
01/8/09	01/8/12	$1.60	200,000	01-Aug-11	$0.59	$1.05	100%	3 years	0%	4.94%
05/11/09	05/11/12	$1.25	100,000	10-Feb-10	$0.65	$1.08	100%	3 years	0%	3.13%
05/11/09	05/11/12	$1.50	150,000	05-Nov-10	$0.61	$1.08	100%	3 years	0%	3.13%
05/11/09	05/11/12	$2.00	150,000	05-Nov-11	$0.55	$1.08	100%	3 years	0%	3.13%
Key Management Personnel options										
01/8/09	01/8/12	$1.25	150,000	01-Aug-09	$0.64	$1.05	100%	3 years	0%	4.94%
01/8/09	01/8/12	$1.40	150,000	01-Aug-10	$0.62	$1.05	100%	3 years	0%	4.94%
01/8/09	01/8/12	$1.60	200,000	01-Aug-11	$0.59	$1.05	100%	3 years	0%	4.94%
03/9/09	03/9/12	$1.25	100,000	03-Dec-09	$0.56	$0.97	100%	3 years	0%	3.13%
03/9/09	03/9/12	$1.40	150,000	03-Sep-10	$0.54	$0.97	100%	3 years	0%	3.13%
03/9/09	03/9/12	$1.60	250,000	03-Sep-11	$0.52	$0.97	100%	3 years	0%	3.13%
Other options										
12/4/10	19/2/15	$1.50	250,000	01-Jan-11	$1.62	$2.02	100%	5 years	0%	5.54%
12/4/10	19/2/15	$1.50	250,000	01-Jan-11	$1.62	$2.02	100%	5 years	0%	5.54%

NOTE 28 – SHARE-BASED PAYMENTS (continued)

(d) **Financier Options**

Share Options have been issued to Henghou as part of the borrowing facility. Refer Note 16.

The costs of share-based payments to financiers are measured by reference to the difference between the nominal value and net present value of the finance facility provided. The net present value is determined based upon a market comparable discount rate applicable to similar size companies within the mining sector. The net present value is calculated using the weighted average cost of capital of 11%. The option details are set out below:

2011

Grant date	Expiry date	Exercise price	Granted during the prior year	Vesting period	Cost
Financier					
12-Feb-10	11-Feb-12	$1.35	6,000,000	07-Jul-10	$2,124,846
12-Feb-10	11-Feb-12	$1.50	2,000,000	07-Jul-10	$2,484,855

2010

Grant date	Expiry date	Exercise price	Granted during the prior year	Vesting period	Cost
Financier					
12-Feb-10	11-Feb-12	$1.35	6,000,000	07-Jul-10	$1,776,369
12-Feb-10	11-Feb-12	$1.50	2,000,000	07-Jul-10	$2,495,149

(e) **Expenses arising from share-based payment transactions**

Total expenses arising from share-based payments recognised during the financial period as share based payments expense was:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Director benefits	-	60,405
Employee benefits	491,549	577,675
Consultant benefits	8,099	180,145
Total Share Options expensed	499,648	818,225
Consultant benefits (share options capitalised)	566,201	241,784
Total Share Options	**1,065,849**	**1,060,009**

NOTE 29 – INTEREST IN JOINT ARRANGEMENT

(a) **Jointly controlled assets**

On 1 January 2010, the Group and Fortescue Metals Group commenced a Joint Venture to develop the Nullagine Iron Ore Project in the East Pilbara of Western Australia. The subsidiary, BC Iron Nullagine Pty Ltd has a 50% participating interest in this joint venture. The group's interests in the assets employed in the joint venture are included in the consolidated statement of financial position, in accordance with the accounting policy described in note 1(b). The Group has a 50% share of the following financial information:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
CURRENT ASSETS		
Cash and cash equivalents	15,556,665	18,550,803
Trade and other receivables	3,311,111	1,140,454
Inventory	18,047,326	3,931,759
Other financial assets	24,375	-
Total Current Assets	36,939,477	23,623,016
NON CURRENT ASSETS		
Plant & equipment	74,613,031	7,696,412
Exploration and evaluation assets	3,131,454	1,562,269
Development expenditure	40,592,619	11,771,858
Other assets	2,293,000	-
Total Non-Current Assets	120,630,105	21,030,539
TOTAL ASSETS	157,569,581	44,653,556
CURRENT LIABILITIES		
Loans & Borrowings	9,442,871	-
Trade and other payables	29,347,067	3,922,085
Total Current Liabilities	38,789,937	3,922,085
NON-CURRENT LIABILITIES		
Loans & Borrowings	39,964,162	35,748,577
Provisions	1,841,188	250,000
Total Non-Current Liabilities	41,805,350	35,998,577
TOTAL LIABILITIES	80,595,288	39,920,662
NET ASSETS	76,974,294	4,732,893

NOTE 29 – INTEREST IN JOINT ARRANGEMENT (Continued)

(b) Mining Tenement Leases

In order to maintain current rights of tenure to exploration tenements the Entity 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:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Within one year	1,041,023	815,199
Later than one year but less than five years	5,277,092	4,914,796
Later than five years	-	-
	6,318,116	5,729,996

(c) Capital Commitments

Prior to 30th of June the Joint Arrangement executed a contract with Watpac Civil and Mining for the construction of the Haul Road. Completion commitments are as per below:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
Within one year	7,500,000	7,723,792
Later than one year but less than five years	-	-
Later than five years	-	-
	7,500,000	7,723,792

NOTE 30 - PARENT ENTITY

The following details information related to the parent entity, BC Iron Ltd, as at 30 June 2011. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent Entity 2011 $	Parent Entity 2010 $
CURRENT ASSETS		
Cash and cash equivalents	3,260,137	19,346,835
Trade and other receivables	27,742,409	1,093,643
Other financial assets	230,577	250,436
Total Current Assets	31,233,123	20,690,914
NON CURRENT ASSETS		
Other financial assets	16,632,360	16,632,360
Plant & equipment	248,785	269,284
Exploration and evaluation assets	419,838	294,775
Deferred Tax Assets	6,565,060	5,187,853
Total Non-Current Assets	23,866,043	22,384,272
TOTAL ASSETS	55,099,166	43,075,186
CURRENT LIABILITIES		
Trade and other payables	984,200	8,255,710
Total Current Liabilities	984,200	8,255,710
TOTAL LIABILITIES	984,200	8,255,710
NET ASSETS	54,114,966	34,819,476
EQUITY		
Contributed Equity	58,250,587	36,518,762
Share based payment reserve	1,603,494	1,794,091
Options exercised reserve	1,901,285	644,839
Accumulated losses	(7,640,400)	(4,138,216)
TOTAL EQUITY	54,114,966	34,819,476
Revenue from continuing operations	-	-
Other income	834,933	859,959
Total Expenses	(6,587,685)	(3,113,314)
Income tax benefit	2,250,569	963,490
Profit/(loss) for the year	(3,502,183)	(1,289,865)

Included in the Commitments note 21 are commitment incurred by the parent entity relating to the lease of offices in West Perth, Western Australia, under a non-cancellable operating lease expiring August 2016.

NOTE 31 – EVENTS OCCURING AFTER THE REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in financial periods subsequent to the financial year ended 30 June 2011.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BC IRON LIMITED

Report on the Financial Report

We have audited the accompanying financial report of BC Iron Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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.

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

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*, which has been given to the directors of BC Iron Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) The financial report of BC Iron Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of BC Iron Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Perth, Western Australia
Dated this 7th day of September 2011

DECLARATION OF INDEPENDENCE

for the year ended 30 June 2011

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38 Station Street
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PO Box 700 West Perth WA 6872
Australia

7 September 2011

The Directors
BC Iron Limited
Level 1, 15 Rheola Street
WEST PERTH WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF BC IRON LIMITED

As lead auditor of BC Iron Limited for the period ended 30 June 2011, 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 and the entities it controlled during the period.

Peter Toll
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia