

BC IRON LIMITED

ABN 21 120 646 924

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013



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Directors' Report

The Directors present their report on the results of the consolidated entity (referred hereafter as the Company) consisting of BC Iron Limited and the entities it controlled at the end of, or during the year ended 30 June 2013.

Principal activity

The principal activities of the Company during the course of the financial year were mining, crushing and export of direct shipping iron ore and mineral exploration, focussing primarily on iron ore deposits near Nullagine, Western Australia.

There has been no significant change in the nature of the Company's activities during the financial year.

Directors

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

Anthony W. Kiernan	Chairman (<i>Non-Executive</i>)
Morgan S. Ball	Managing Director appointed 10 May 2013, previously Finance Director
Andrew M. Haslam	Director (<i>Non-Executive</i>)
Malcolm J. McComas	Director (<i>Non-Executive</i>)
Terrence W. Ransted	Director (<i>Non-Executive</i>)
Michael C. Young	Director (<i>Non-Executive</i>), previously Managing Director
Jamie A. Gibson	Director (<i>Non-Executive</i>) appointed 16 July 2012, resigned 19 December 2012

Directors' qualifications, experience and special responsibilities

Mr Anthony William (Tony) Kiernan LL B

*Chairman (Non-Executive) appointed October 2006
Period of office at September 2013 - 6 years and 11 months
Age 62*

Mr Kiernan, formerly a solicitor, has extensive experience in the management and operation of listed public companies. He is a director of the following entities, which are listed on the Australian Securities Exchange:

- Uranium Equities Limited (since 2003) – Chairman;
- Venturix Resources (since 2010) – Chairman;
- Chalice Gold Mines Ltd (since 2007);
- Liontown Resources Ltd (since 2006);
- South Boulder Mines Ltd (since 2013).

Mr Kiernan has not been a director of any other ASX listed companies during the past three years. Mr Kiernan is a member of the Audit Committee, and Chairman of the Remuneration and Diversity Committees.

Mr Morgan Scott Ball B Com, CA, FFin

Managing Director appointed May 2013, previously Finance Director appointed December 2011

Period of office at September 2013 – 1 year and 9 months

Age 44

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 management roles in a number of significant public companies. Mr Ball was appointed as Managing Director and CEO of BC Iron Limited in May 2013 and prior to this was Finance Director of the Company.

Previously, Mr Ball was CFO and Company Secretary of Indago Resources – an ASX listed company developing the Nyanzaga gold deposit in northern Tanzania. Mr Ball has also held senior commercial roles with WMC Resources, Brambles, P&O and Ernst & Young. Mr Ball is a member of the Finance Sub-Committee of the Council at Presbyterian Ladies College in Perth. Mr Ball has not been a director of any other ASX listed companies during the past three years.

Mr Ball attends committee meetings by invitation.

Mr Andrew Malcolm (Andy) Haslam Grad Dip. Min (Ballarat), GAICD

Director (Non-Executive) appointed September 2011

Period of office at September 2013 – 2 years

Age 54

Mr Haslam is a mining executive with 28 years of operational and executive experience in the Australian mining industry. He is currently Executive General Manager Iron Ore Operations of Mineral Resources Ltd. He was previously Managing Director of ASX listed Territory Resources Ltd and was responsible for managing an iron ore operation exporting 2 million tonnes per annum of DSO Lump and Fines in the Northern Territory to Chinese customers. Prior to this role, he held a number of key operational roles in the mining contracting industry in Australia. Mr Haslam was also Managing Director of Vital Metals from 2008-2009.

Mr Haslam has not been a director of any other ASX listed companies during the past three years. Mr Haslam is a member of the Audit, Risk Management and Remuneration Committees.

Mr Malcolm John McComas BEc, LLB, SF Fin, FAICD

Director (Non-Executive) appointed December 2011

Period of office at September 2013 – 1 year and 9 months

Age 58

Mr McComas has more than 25 years in investment banking with experience in equity and debt finance, acquisitions, divestments and privatisations across a range of industry sectors. He is also a former commercial lawyer. Mr McComas is the principal of McComas Capital, an investment company based in Sydney. Most recently, he was a senior advisor and director of Grant Samuel for 11 years. Prior to that, he was Managing Director of investment banking at County NatWest and its successor organisation, Salomon Smith Barney (now Citigroup) for 10 years and also spent 5 years in various executive roles with Morgan Grenfell (now Deutsche Bank) in Melbourne, Sydney and London.

Mr McComas is a director of the following entities:

- Pharmaxis Limited (Chairman) (since 2003);
- Consolidated Minerals Limited (since 2012);
- Saunders International Limited (since 2012);
- Fitzroy River Corporation Limited (Chairman) (since 2012); and
- Australian Leukaemia & Lymphoma Group (since 2010).

Mr McComas was a director of Ocean Capital Limited, an entity previously listed on the ASX during the past three years. He has not been a director of any other ASX listed companies during the past three years. Mr McComas is Chairman of the Audit Committee.

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

Director (Non-Executive) appointed July 2006

Period of office at September 2013 – 7 years and 2 months

Age 57

Mr Ransted is a geologist and a graduate of the Western Australian Institute of Technology with a Bachelor of Applied Science and 36 years 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. Mr Ransted is Chief Geologist for Alkane Resources Ltd, managing the geological aspects of exploration and development programmes in New South Wales.

Mr Ransted has not been a director of any other ASX listed companies during the past three years. Mr Ransted is Chairman of the Risk Management Committee and a member of the Remuneration Committee.

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

Director (Non-Executive) appointed 10 May 2013, previously Managing Director appointed October 2006

Period of office at September 2013 – 6 years and 11 months

Age 52

Mr Young is a geologist and a graduate of Queens University, Canada, with a Bachelor of Science (Honors) degree in Geological Sciences (1985). Mr Young immigrated to Australia in 1987 and from 1991 he worked for Dominion Mining Limited concentrating on near-mine exploration and resource development work. He then moved to 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 including 18 months at Portman Mining's Koolyanobbing Iron Ore Operations. Mr Young was Exploration Manager at Cazaly Resources from 2003 to 2005 and was a founding director of Bannerman Resources Limited (2005 to 2006). He is a member of the Australian Institute of Geoscientists, the Australasian Institute of Mining and Metallurgy (CP) and is Vice-President of the Association of Mining and Exploration Companies (AMEC). He is also Co-Patron of the St Bartholomew's House Foundation.

Mr Young is a director of the following entities:

- Cassini Resources Ltd (Chairman) (since 2011);
- Energy and Minerals Australia Ltd (Chairman) (since 2013).

Mr Young was a director of Waratah Resources Limited from 2011 to 2012. 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 Jamie Alexander Gibson

Director (Non-Executive) appointed 16 July 2012, resigned 19 December 2012

Mr Gibson has over 20 years investment experience in the Asia Pacific region and over 10 years in the management of listed public companies. Mr Gibson joined Regent Pacific Group (Regent) in April 1996 and was appointed as an Executive Director and Chief Operating Officer of Regent in January 2002. In May 2002, Mr Gibson became Chief Executive Officer of Regent. Mr Gibson has spent most of his professional career with Regent specialising in corporate finance, direct equity investments and structuring emerging market investment products. Prior to joining Regent, he worked at Clifford Chance, Coopers & Lybrand and KPMG. Mr Gibson has a law degree from Edinburgh University.

Mr Gibson was an alternate director of Venturex Resources Limited from March 2013 to June 2013. Mr Gibson has not been a director of any other ASX listed companies during the past three years.

Company Secretaries

The following individuals have acted as Company Secretary during the year:

Ms Anthea Bird B.Com, CPA, MBA, GAICD

Company Secretary appointed May 2013

Ms Bird is a Certified Practising Accountant with over 20 years working for large listed companies in Australia and the United Kingdom. In addition to being Company Secretary, she is also General Manager – Finance for the Company.

Ms Linda Edge B.Com

Company Secretary appointed December 2011

Ms Edge is an Accountant who has held a number of financial roles in the resources industry. In addition to being Company Secretary, she is also Financial Controller for the Company.

Meetings of directors

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

	Board		Audit Committee		Risk Committee		Remuneration Committee		Nomination Committee		Diversity Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
A W Kiernan	16	17	1	2	-	-	3	3	1	1	1	1
M S Ball	16	17	-	-	-	-	-	-	1	1	-	-
A M Haslam	14	17	2	2	3	3	3	3	1	1	-	-
M J McComas	16	17	2	2	-	-	-	-	-	1	-	-
T W Ransted	16	17	-	-	-	3	3	3	1	1	-	-
M C Young	17	17	-	-	3	3	-	-	1	1	1	1
J A Gibson	8	11	-	-	-	-	-	-	-	-	-	-

A – Meetings attended

B – Meetings held whilst a director

Corporate governance

In recognising the need for the high standards of corporate behaviour and accountability, the Directors of BC Iron Limited support and have adhered to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The Company's detailed corporate governance policy statement can be found in the annual report or viewed on the Company's web site at www.bciron.com.au.

Directors' interests and benefits

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

Director	Ordinary shares		Performance rights	
	Direct	Indirect	Direct	Indirect
A W Kiernan	471,765	221,589	-	-
M S Ball	-	181,784	-	69,206
A M Haslam	-	-	-	-
M J McComas	-	33,891	-	-
T W Ransted	-	626,492	-	-
M C Young	150,000	211,564	-	-
Total	621,765	1,275,320	-	69,206

As at the date of this report Mr McComas is a director of Consolidated Minerals Ltd which hold a relevant interest in the Company of 23.1%.

Dividends

In August 2013, the Directors resolved to pay a final fully franked dividend for the year ended 30 June 2013 of 30 cents per share. Combined with the interim fully franked dividend of 5 cents per share paid in March 2013, the Company has in total declared fully franked dividends for the year ended 30 June 2013 of 35 cents per share.

In September 2012, the Directors resolved to pay a full year fully franked dividend for the year ended 30 June 2012 of 15 cents per share. This was paid in October 2012.

Review of results and operations

The operations and results of the Company for the financial year are reviewed below. This review includes information on the financial position of the Company, and its business strategies and prospects for future financial years.

a) Review of Operations

The Company 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 75:25 joint venture with Fortescue Metals Group Limited ("Fortescue").

The Company has had an outstanding year, announcing record production, increasing dividend returns to shareholders, executing a transaction with Fortescue to move to 75% ownership of the NJV and increasing access to infrastructure capacity.

The Company is now set to move into the next phase of development through continuing strong operational performance, an ongoing focus on shareholder return and the measured consideration of business development opportunities.

The Company's primary focus for growth is in the Pilbara region of Western Australia leveraging of its existing operation and knowledge base and its established stakeholder relationships.

Key Company and NJV achievements during the year ended 30 June 2013 include:

- Record NJV production of 5.0 million wet metric tonnes ("wmt") shipped – BC Iron attributable tonnes 3.15 million wmt.
- The NJV has now shipped 9.4 million tonnes ("Mt") over its life and expects to surpass 10Mt during the first quarter of 2013/14.
- Completed the Fortescue transaction in December 2012 paying \$190M to:
 - Increase BC Iron's interest in the NJV from 50% to 75%;
 - Increase NJV access to infrastructure (rail & port) capacity from 5 million tonnes per annum ("Mtpa") to 6Mtpa;

- Increasing BC Iron's attributable iron ore exports 80% from 2.5Mtpa to 4.5Mtpa; and
 - Prepaying for 3.5Mt of rail haulage and port services.
- Achieved the target of ramping up to 6.0Mtpa sustained production rate of iron ore produced and exported in April 2013, ahead of schedule of June 2013.
 - Released initial high level results in relation to the Company's assessment of the potential to beneficiate lower grade ore at the NJV.
 - Declared and paid maiden fully franked full year dividend in relation to financial year ended 30 June 2012 of 15 cents per share.
 - Declared and paid a fully franked interim dividend in relation to the 6 months ended 31 December 2012 of 5 cents per share.
 - Entered into a strategic alliance with Cleveland Mining Limited to assess and acquire early stage iron ore projects in Brazil and entered into a MoU over 3 greenfields opportunities in the region.
 - Following a strong 4th quarter, reduced the Company's debt facility by an additional USD30M ahead of the agreed repayment schedule. This resulted in the Company moving from a net debt position of \$78M at 31 December 2012 to a net cash position of \$35M at 30 June 2013.
 - Completed the financial year with a strong cash balance of \$138.5M after allowing for the additional debt repayment.

Selected Company performance indicators are summarised below:

NJV	2013	2012	2011
Tonnes sold (M wmt) - NJV	5.00	3.55	0.25
Tonnes sold (M wmt) – BC Iron share	3.15	1.78	0.13
Average CFR price realised (USD/dmt)	\$112	\$124	\$161
Reserve tonnes	37.2Mt	41.0Mt	34.7Mt
Resource tonnes	117.7Mt	108.7Mt	102.9Mt
BC Iron			
Revenue	\$325.3m	\$204.5m	\$19.1m
Underlying EBITDA	\$115.3m	\$70.6m	\$1.4m
Underlying NPAT	\$71.4m	\$50.6m	\$1.0m

b) Safety performance

During financial year 2013, three lost time injuries were recorded;

- A cleaner splashed cleaning solution into their right eye, resulting in three days lost time;
- An operator sustained an injury to their ankle when stepping from one level to another, resulting in three days lost time; and
- A maintenance worker fractured their foot when they lost balance carrying a heavy object, resulting in two days lost time.

The lost time injury frequency rate at year end was 3.3.

The Company continues to work closely with its contractors to keep safety a primary focus. The following initiatives were implemented in financial year 2013 under the Company's Safety Strategic Plan:

- A safety perception survey which provided a benchmark insight into the safety culture at the NJV;
- Safety performance audits of our major contractors and their work areas. Training and competency were the most significant areas of improvement during the year;

- A “Healthy Lifestyle” programme and a “Learning from Incidents” programme were launched;
- The NJV Site Safety Committee was established during the year.

The inaugural BC Iron Safety Forum held in May 2013 included presentations from key-note speakers on fatigue management, imminent harmonisation laws and the role of the State Coroner. Significant focus since the forum has been on fatigue management in the workplace.

c) Acquisition of additional 25% of Nullagine Joint Venture

The Company announced on 10 December 2012 that it had entered into an agreement with Fortescue to acquire an additional 25% interest in the NJV. The agreement also included an increase in the capacity available to the NJV on Fortescue rail and port infrastructure from 5 to 6Mtpa for the life of the NJV, and a one off prepayment of rail haulage and port charges for 3.5Mt of the Company’s share of production from the NJV.

The transaction was completed on 18 December 2012 with total consideration paid to Fortescue of \$190M, plus a limited price participation arrangement payable to Fortescue if certain iron ore price conditions are met. The transaction was funded by internal cash, a \$47M underwritten institutional placement (15,579,150 shares at \$3.04) and a USD130M loan facility.

On 10 December 2012 the Company announced a share purchase plan (“SPP”) to raise \$10M from eligible BC Iron shareholders. The SPP closed oversubscribed on 16 January 2013, with the Company issuing 3.2 million shares at \$3.04 on 24 January 2013.

d) Profit after income tax from continuing operations

Profit after income tax from continuing operations for the Company for the financial year ended 30 June 2013 decreased by 3% to \$48.8M (2012: \$50.6M).

This result was impacted by a number of one-off entries such as costs associated with the Fortescue transaction and the write off of exploration expenditure at the Bungaroo tenements. The result was also impacted by non-cash items such as the foreign exchange loss incurred on the Company’s US dollar denominated debt due to a decrease in the AUD/USD exchange rate, and the impairment of the Company’s shareholdings in two ASX listed mining companies.

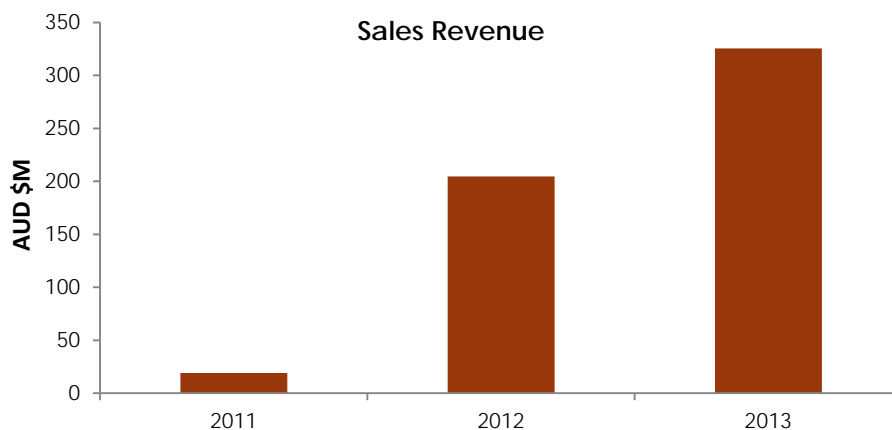
The Company’s underlying profit after income tax for the year ended 30 June 2013 increased by 41% to \$71.4M (2012: \$50.6M) confirming its strong operational performance during financial year 2013 (“FY2013”).

The following table reconciles underlying profit after income tax to statutory profit after income tax:

	30 June 2013
	\$M
Underlying profit after income tax	71.4
Adjust for:	
Writedown of exploration tenements	(1.2)
Unrealised foreign exchange losses	(11.4)
Fortescue transaction costs	(2.3)
Impairment of available-for-sale assets	(7.7)
Statutory profit after income tax	48.8

Revenue

Revenue from continuing operations increased this year by 59%. This was mainly due to a 40% increase in sales tonnes, with 79% attributable to increased production at the NJV, and 21% due to the increase in ownership (6 months of FY2013) of the NJV from 50% to 75%. Realised iron ore price decreased by 10% due to lower USD iron ore price, which was partially offset by lower exchange rates.



Expenses

Total cost of sales increased by 64% in line with increased sales tonnes, with average cost per tonne decreasing by 8% due to effective cost management and fixed costs being spread over increased tonnes. Selling and marketing expenses increased by 60% in line with increased sales tonnes.

The Company's actual free on board ("FOB") cash operating costs for the year were approximately \$38 per tonne, a decrease of 28%. This is attributable to a focus on cost management, fixed costs being spread over increased tonnes, and the impact of the prepayment for rail haulage and port services made as part of the 25% NJV acquisition in December 2012.

Excluding one-off foreign exchange losses, administration expenses have increased by 54%. This increase was mainly due to consulting and legal fees attributable to the acquisition of the additional 25% of the NJV, and an increase in total employee remuneration of 57% due to an increase in employee numbers.

A non-cash foreign exchange loss of \$11.4M for the year has been charged to administration expenses. This loss is attributable to the exchange rate impact on the USD130M loan facility drawn down in December 2012 to fund the acquisition of the additional 25% of the NJV. The AUD/USD exchange rate moved from 1.037 on 31 December 2012 to 0.9133 on 30 June 2013.

Exploration tenements at Bungaroo Creek were relinquished in April 2013 resulting in a write-down of \$1.2M.

An impairment of \$7.7M has been recognised in relation to available-for-sale assets which are fair valued each reporting period. The impairment relates to the Company's strategic investments in two ASX listed mining entities.

Finance costs

Finance costs have increased by 106% due to interest expense and facility fees for the USD130M loan facility drawn down in December 2012 as part of the 25% NJV acquisition.

e) Statement of cash flows

Cash and cash equivalents at 30 June 2013 increased by 49% to \$138.5M (2012: \$92.8M).

Operating cash flows

Cash flow from operating activities decreased by 2% to \$87.2M (2012: \$88.9M). This amount was reduced by the prepayment made to Fortescue for 3.5Mt of rail haulage and port services as part of the 25% NJV acquisition, and the Company's first income tax payment.

Investing cash flows

Cash outflow for investing activities increased by \$125.2M due to the 25% acquisition of the NJV.

Financing cash flows

Cash flow from financing activities increased by \$90.8M. Proceeds from the issue of shares to fund the 25% acquisition of the NJV were \$56.2M, and net debt proceeds were \$66.8M. These were offset by two dividends paid to shareholders of \$21.7M.

Effect of exchange rates

The effect of exchange rates on cash and cash equivalents at 30 June 2013 was an increase of \$8.1M (2012: \$1.6M).

f) Statement of financial position

Current assets

Current assets increased by 74% to \$202.6M (2012: \$116.4M). Cash and cash equivalents increased 49% to \$138.5M (2012: \$92.8M) mainly due to increased sales tonnes. Trade receivables increased by 175% to \$52.9M (2012: \$19.2M) due primarily to the rail haulage and port charges prepaid as part of the acquisition of the additional 25% of NJV.

Inventory increased by 159% to \$11.3M (2012: \$4.4M) due to increased ownership of NJV and the operational decision to build up stockpiles as part of the Company's ongoing business risk management.

Non-current assets

Non-current assets increased by 153% to \$218.9M (2012: \$86.6M) due to the acquisition of the additional 25% of NJV.

Current liabilities

Current liabilities increased by 134% to \$134.1M (2012: \$57.2M). Trade and other payables increased by 77% to \$75.3M (2012: \$42.6M) due to increased ownership of NJV, and increased production at NJV increasing payables to primary contractors. Loans and borrowings increased by \$31.0M reflecting the current portion of the USD130M loan facility drawn down in December 2012.

Non-current liabilities

Non-current liabilities increased by \$56.2M to \$70.4M (2012: \$14.2M). Loans and borrowings increased \$55.7M due to the non-current portion of the USD130M loan facility drawn down in December 2012.

Debt position

The Company's gross debt position at 30 June 2013 was \$103.3M (2012: \$16.7M). In December 2012, the Company's wholly owned subsidiary BC Iron Nullagine Pty Ltd entered into a USD130M amortising term loan facility as part of the funding of the 25% acquisition of the NJV.

A scheduled principal payment of USD18M, along with a voluntary principal payment of USD30M was made by the Company on 28 June 2013. The balance of the loan at 30 June 2013 was USD82M, with twice yearly payments made in June and December.

In December 2012 the Company paid its second instalment of USD5M of USD25M project finance facility in place with Henghou Industries (Hong Kong) Limited ("Henghou"), leaving a balance of USD15M. The facility is due for repayment at the amount of USD5M annually to Henghou over 5 years from December 2011.

Following the Fortescue transaction, the Company reported a net debt position of \$78M at 31 December 2012. However, following very strong operational performance during the second half of FY2013, at 30 June 2013, cash and cash equivalents exceeded debt by \$35M.

g) Dividends

The following dividends have been paid or declared by the Directors since the commencement of the financial year ended 30 June 2013:

	2013	2012
(a) out of the profits for the year ended 30 June 2012 on the fully paid ordinary shares, fully-franked final dividend of 15 cents per share (2011: nil) paid on 2 October 2012.	\$15.6M	Nil
(b) out of profits for the year ended 30 June 2013 and retained earnings on the fully paid ordinary shares:		
(i) fully-franked interim dividend of 5 cents (2012: nil) per share paid on 22 March 2013	\$6.1M	Nil
(ii) fully-franked final dividend of 30 cents (2012: 15 cents) per share to be paid on 24 September 2013	\$37.0M	\$15.6M

h) Corporate

In March 2013, the Company was included in the S&P/ASX 300 Index for the first time.

On 10 May 2013 Michael Young resigned as Managing Director and the Board was pleased to appoint Morgan Ball, the current Finance and Executive Director, as Managing Director.

i) Financial year 2014 outlook and guidance

The NJV is currently running at a throughput rate of approximately 6Mtpa (BC Iron share 4.5Mtpa) with available "sprint capacity" and is forecast to produce 5.8 to 6.2Mt of direct ship ore during financial year 2014 ("FY2014"). The NJV's mine planning generally allows for the operation to run at up to 6.5Mtpa for 9 months of the year, and at 4.5Mtpa for 3 months of the year during the January to March wet season in the Pilbara. Guidance is presented as a range rather than a single number due to the effect on production of unpredictable rainfall in the Pilbara in the wet season, and unseasonal rains in the dry season.

The Company has provided the following guidance to the market in relation to FY2014:

- NJV production of 5.8 to 6.2M wmt, BC Iron share of 4.3 to 4.7M wmt.
- Cost of sales operating costs of between \$46 and \$50 per tonne.
- Actual cash operating costs of \$40 to \$44 per tonne due to the effect of the remainder of the Fortescue prepayment.
- Capital expenditure of approximately \$20M.

As the Company has achieved steady state operations at the NJV, at this stage, it does not anticipate significant variance in future years from the FY2014 guidance in relation to annual production or cost of sales operating costs. The capital expenditure amount is higher in FY2014 than the expected ongoing sustaining capital amount, primarily as a result of the two large grade control drilling campaigns required to prepare for future mining activities at Bonnie East and Warrigal 1 & 2.

j) Other considerations

Iron ore marketing

The Company's *Bonnie Fines* product is marketed by our marketing agent, Fortescue. This relationship gives the Company access to Fortescue's large existing customer base. Demand for *Bonnie Fines* remains very strong with several enquiries received each month.

In addition, our *Bonnie Fines* product is now a well-accepted and well recognised brand at a number of Chinese mills due to its excellent sintering properties.

Sales markets

The Company currently sells its product to customers in China. The Company receives and develops informed marketing and industry information from our marketing agent, Fortescue, our primary off-take partner, Henghou, as well as additional contacts in China to maintain intelligence on both the steel industry and the Chinese economy and its outlook. We consider that the outlook in relation to Chinese demand for iron ore remains robust.

Iron ore price and AUD/USD exchange rate

Commodity prices during the year were impacted by global economic factors, the easing of the Chinese economy and the associated reduction in demand for iron ore. The table below sets out the average headline iron ore price in recent years. The Company expects that iron ore pricing will continue to exhibit volatility on a short term basis.

	2013	2012	2011
	USD/dmt	USD/dmt	USD/dmt
Platts Average CFR 62%	127	151	163

Source: www.platts.com

The Company sells approximately 30% of its *Bonnie Fines* to its off-take partner, Henghou, at an agreed discount to the Platts CFR62 price (after Fe adjustment). The balance of its production is sold at prices aligned to the Platts CFR62 Index (after Fe adjustment) subject to market conditions.

The Company is exposed to fluctuations in the AUD/USD exchange rate as it sells *Bonnie Fines* in US dollars and then converts the sales receipts to Australian dollars as appropriate. The Company does have USD denominated debt and a portion of USD expenses for which it holds USD, and this provides a partial natural hedge.

The AUD/USD exchange rate is also a variable in determining the Company's revenue and profits. The following table summarises the AUD/USD exchange rate over the last three years:

	2013	2012	2011
	\$	\$	\$
AUD/USD (average)	1.0269	1.0323	0.9899
AUD/USD (closing)	0.9133	1.0159	1.0595

Source: www.oanda.com

Debt and interest rates

Following the Fortescue transaction, the Company entered into a USD130M 5 year debt facility with Commonwealth Bank of Australia and Australia and New Zealand Banking Group. This facility is subject to interest based on USD London Interbank Offered Rate ("LIBOR") plus a margin.

The Pilbara Infrastructure ("TPI")

The Company has entered into a comprehensive Rail and Port Services Agreement with Fortescue's infrastructure subsidiary, The Pilbara Infrastructure Pty Ltd. There has been media speculation in relation to a potential partial sale of TPI by Fortescue as well as commentary on the potential third party access regime. The Company's existing agreement with TPI provides appropriate security in relation to the service provided if either of these events occur.

Project Inventory

This is the Project name for the Company's assessment of the potential to beneficiate the lower grade iron ore on the NJV tenure. The Company plans to conduct a pilot plant trial during the second half of calendar year 2013 in relation to assessing whether the lower grade (50-54% Fe) material can be economically upgraded to the *Bonnie Fines* specification via a simple crush and screen process.

Business Development

The Company's approach to new opportunities is centred on:

- Retaining and enhancing its ability to pay dividends; and
- Generating returns for shareholders through dividends and share price appreciation.

BC Iron's immediate focus is on the Pilbara region leveraging off existing knowledge and relationships. The Company may also consider opportunities in other iron ore jurisdictions on a case by case basis.

In August 2012, the Company entered into a strategic alliance with Cleveland Mining Limited to source, acquire and develop new iron ore projects in Brazil. This alliance reflects the Company's prudent approach to entering into a new jurisdiction with an entity that is experienced and operating in the region with an in-country team.

In May 2013, the alliance announced that it had entered into two Memoranda of Understanding ("MoU") to earn the rights to acquire up to 80% of three separate iron ore exploration projects in the Brazilian states of Salvador da Bahia and Minas Gerais. The MoU propose a staged earn-in process linked to appropriate levels of exploration and development assessment for each successive stage. As at the date of this report, the long form documentation associated with the MoU was being negotiated with the vendors.

Environmental regulation

The Company is subject to a number of environmental obligations with respect to its mineral tenements, including: the *Mining Act 1978 (WA)*; *Environmental Protection Act 1986 (WA)*; *Rights in Water and Irrigation Act 1914 (WA)*; *National Greenhouse and Energy Reporting Act 2007 (Cth)*; *Explosives and Dangerous Goods Regulations 1992 (WA)*; and the *Environmental Protection and Biodiversity Conservation Act 1999 (Cth)*. The Company is in full compliance with each of the aforementioned acts.

The Company is also subject to obligations under the *Native Title Act 1993 (Cth)* and the *Aboriginal Heritage Act 1972 (WA)* and has demonstrated full compliance throughout the year.

Significant changes in state of affairs

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

Events subsequent to the reporting date

Since the reporting date, the Directors have declared a fully-franked dividend of 30 cents (2012: 15 cents) per share payable on 24 September 2013. The amount of this dividend will be \$37.0M (2012: \$15.6M). No provision has been made for this dividend in the financial statements as the dividend was not declared or determined by the Directors on or before the end of the financial year.

Subsequent to year end, iron ore prices have improved and in addition, the AUD/USD exchange rate has moved favourably for the Company. However, both of these metrics remain volatile. The iron ore price has experienced considerable volatility in the past 3 years and as such, the duration of any increase in price cannot easily be determined. Price assumptions used in financial models of the Company to determine various accounting and tax values may vary from actual prices received, from time to time. The Company is continuing to manage its cost base to maximise margins and insulate the Company against price fluctuations.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial periods subsequent to the financial year ended 30 June 2013.

Share options and Performance Rights

As at the date of this report, there were 875,000 options over ordinary shares and 331,342 performance rights on issue (875,000 options and 505,588 performance rights at the reporting date). Refer to the Remuneration Report for further details of options and performance rights outstanding.

Date options granted	Expiry date	Exercise price	Number
12 April 2010	19 February 2015	\$1.50	125,000
20 January 2012	31 December 2014	\$3.86	100,000
20 January 2012	31 December 2014	\$4.05	200,000
20 January 2012	31 December 2014	\$4.32	200,000
22 June 2012	30 June 2015	\$3.66	50,000
22 June 2012	30 June 2015	\$3.83	100,000
22 June 2012	30 June 2015	\$4.09	100,000
Total			875,000

Date performance rights granted	Expiry date	Fair value at grant date	Number
31 August 2012	1 September 2019	\$1.42	262,136
20 November 2012	1 November 2019	\$1.80	69,206
Total			331,342

No option or performance rights holder has any right to be provided with any other share issue of the Company by virtue of their current option or performance rights holding. None of the existing options or performance rights is listed on the ASX.

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	Date options exercised	Number exercised	Number of shares issued	Exercise price of option/issue price of share
12 April 2010	8 March 2013	375,000	375,000	\$1.50
9 July 2010	17 May 2013	50,000	50,000	\$2.64
9 July 2010	17 May 2013	50,000	50,000	\$2.39
9 July 2010	12 June 2013	75,000	75,000	\$2.89
Total			550,000	
Weighted average issue price				\$1.87

Shares issued as a result of conversion of performance rights

During or since the end of the financial year, the Company issued ordinary shares as a result of the conversion of performance rights:

Date performance rights granted	Date performance rights converted	Number converted	Number of shares issued
1 December 2011	3 July 2013	174,246	174,246

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 Directors' 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; and
- 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 and Ethical Standards Board, including acting in a management or a decision-making capacity for the Company or acting as advocate for the Company.

For the year ended 30 June 2013, BDO provided non-audit services to the Company in the form of tax compliance in the value of \$50,314 (2012: \$67,143). These services were provided by BDO Corporate Tax (WA) Pty Ltd.

Audited Remuneration Report

The Remuneration Report sets out remuneration information for key management personnel which includes the non-executive directors, the executive directors (comprising the Managing Director and Finance Director) and executive managers who have authority and responsibility for planning, directing and controlling the activities of the Company. This report forms part of the Directors' Report and has been audited in accordance with section 308 (3c) of the *Corporations Act 2001*.

The report covers the following key management personnel:

Executive directors		Non-executive directors	
M S Ball	Managing Director*	A W Kiernan	Chairman
M S Ball	Finance Director	A M Haslam	
M C Young	Managing Director*	M J McComas	
Executive managers		T W Ransted	
B L Duncan	Chief Operations Officer	M C Young*	
		J A Gibson (resigned 19 December 2012)	

**Mr Young resigned as Managing Director on 10 May 2013. He remains on the Board as a non-executive director. Mr Ball was appointed Managing Director effective 10 May 2013.*

Executive remuneration policy

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic and operational objectives and the creation of value for shareholders.

The Board ensures that executive reward satisfies the following key criteria in line with appropriate corporate governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage/alignment of executive compensation;
- Transparency; and
- Prudent capital management.

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

Role of Remuneration Committee

The Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- Non-executive director fees;
- Remuneration levels of executive directors and other key management personnel;
- The executive remuneration framework and operation of any incentive plans; and
- Key performance indicators and performance hurdles for the executive team.

The objective is to ensure that remuneration policies and structures are fair and competitive, and aligned with the long-term interests of the Company. In doing this, the Remuneration Committee seeks advice from independent remuneration consultants when necessary.

The Corporate Governance statement found in the annual report provides further information on the role of the Committee.

Use of remuneration consultants

The Board and Remuneration Committee reviews executive remuneration annually, including assessment of:

- Advice from independent external remuneration consultants;
- Individual and business performance measurement against both internal targets and appropriate external comparatives; and
- General remuneration advice from both internal and independent external sources.

McDonald & Company (Australasia) Pty Ltd provided industry focussed remuneration reports during the year and were paid \$4,750. These reports were used to ascertain market relevance for key management personnel and used to check appropriateness and propose base salaries.

Share trading policy

The trading of shares by all employees is subject to, and conditional upon, compliance with the Company's share trading policy which is available on the Company's website, www.bcion.com.au.

The Company encourages directors and employees to adopt a long-term attitude to their investment in the Company's securities. Consequently, directors and employees may not engage in short-term or speculative trading of the Company's securities. Designated officers are prohibited from trading in financial products issued or created over, or in respect of the Company's securities during a non-trading period.

Voting and comments made at the Company's 2012 Annual General Meeting

The Company received more than 90% of 'yes' votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Executive remuneration framework

Under the executive remuneration policy, the remuneration of executives may comprise of the following:

- Fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- Short term focussed performance bonus designed to reward actual achievement by the individual of performance objectives and Company performance;
- Longer term focussed performance bonus designed to reward overall Company performance on a peer comparative basis that may include deferred cash payments and/or participation in equity based schemes; and
- Statutory superannuation.

Short term incentives

The Board is responsible for assessing short term incentives ("STI") for key management personnel if predefined targets are achieved. Service agreements may establish STIs against key performance indicators ("KPIs") which are assessed by the Board. These KPIs will typically be aligned to specific operating and corporate objectives in relation to each financial year. The Managing Director and key management personnel have a target STI opportunity of 30% of total fixed remuneration. All targets are reviewed annually.

These cash incentives are determined based on financial years and are payable in the following year after the relevant year's financial results have been finalised.

STI awards for the executive team during the 2013 financial year in relation to the 2012 financial year were based on operational performance, safety, leadership and people, and strategic development. These targets were set by the Remuneration Committee and align to the Company's strategic and business objectives. The Remuneration Committee is responsible for assessing whether the KPIs are met. To assist in this assessment, the Committee receives detailed reports on performance from management. This is not verified by any external consultants. The Committee has the discretion to adjust STIs downward in light of unexpected or unintended circumstances.

Long term incentives

Long-term incentives in the form of deferred cash and equities are provided to certain employees at the discretion of the Board. Equities are provided via the Company's Employee Share Options Incentive Scheme (Option plan) and/or the Company's Employee Performance Rights Plan (PR plan), which were approved by shareholders at the 2011 and 2010 annual general meetings respectively. Both the Option and PR plans are designed to provide incentives for executives to deliver long-term shareholder returns.

Under the Option plan, participants may be granted options which only vest after a certain period of time has passed and provided the employees are still employed by the Company at the end of the vesting period. The Company established the PR plan to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance, and rewarding and retaining executives.

A performance right is, in effect, a contractual right to be issued with a fully paid ordinary share in the Company on the satisfaction of certain conditions. The performance rights issued will not vest (and the underlying shares will not be issued) unless certain performance conditions have been satisfied. The grant of performance rights is designed to reward long term sustainable business performance measured by relative total shareholder return ("TSR") performance conditions over a two year period.

The performance conditions will be measured by comparing the Company's TSR with that of a comparator group of companies based on the Argonaut Junior Iron Ore Index over the period from the grant of the performance rights, to the end of the financial year that is 2 years after that date (vesting date). The performance rights will vest depending on the Company's percentile ranking within the comparator group on the relevant vesting date as follows:

BC Iron TSR rank	Performance rights vesting
Below 50th percentile	0%
At 50th percentile	50%
Between 51st and 100th percentile	Between 51% and 100% on a straight line basis

Company performance

The table below shows key financial measures of company performance over the past five years.

		2009	2010	2011	2012	2013
Revenue from continuing operations	\$million	0.4	1.5	19.1	204.5	325.3
Net profit/(loss) after tax	\$million	(1.3)	(1.4)	1.0	50.1	48.8
Basic earnings per share	Cents	(2.2)	(1.7)	1.1	51.1	42.9
Dividends paid per share*	Cents	-	-	-	-	20.0
Share price (last trade day of financial year)	A\$	1.12	1.62	3.05	2.60	3.23

* 2013 dividend payment consists of a full year dividend of 15 cps in relation to financial year 2012 paid in October 2012, and an interim dividend of 5 cps in relation to the 6 months to 31 December 2012 paid in March 2013.

Executive remuneration for financial year

The remuneration table below sets out the remuneration information for the executive directors and executive managers who are considered to be key management personnel of the Company.

	Short-term benefits		Long-term benefits		Post-employment benefits	Share-based payments	Termination benefits	Total	Percentage performance related(c)
	Cash salary	Short-term incentive	Other benefits (a)	Deferred cash benefit	Superannuation	Value of performance rights (b)			
Executive directors									
M S Ball (Managing Director appointed 10 May 2013, previously Finance Director)									
2013	460,111	130,800	4,040	37,125	16,470	124,571	-	773,117	38%
2012	368,705	93,601	1,176	-	22,693	26,166	-	512,341	23%
M C Young (Managing Director resigned 10 May 2013)									
2013	488,351	218,000	28,542	-	16,470	(35,681)	73,387	789,069	23%
2012	491,751	119,541	1,796	-	16,471	35,681	-	665,240	23%
Executive managers									
B L Duncan (Chief Operations Officer)									
2013	338,622	122,625	83,565	38,812	17,891	92,131	-	693,646	37%
2012	291,010	92,982	77,298	-	15,775	27,356	-	504,421	24%

- Other benefits may include vehicles, fuel, travel and insurance.
- Share-based payments referred to above comprise performance rights over ordinary shares in the Company. The performance rights have been valued using a Monte Carlo simulation.
- Percentage performance related is the sum of short-term incentives, deferred cash benefits and share based payments divided by total remuneration, reflecting the actual percentage of remuneration at risk for the year.

Note that short-term incentives and deferred cash benefits are reported in the year in which they are actually paid, but relate to performance in previous reporting periods.

Termination agreement – Mr Young

Mr Young resigned as Managing Director effective 10 May 2013. Agreed terms and conditions of his termination agreement are as follows:

- Termination payment equal to two months base salary plus superannuation to be paid over two months, with final payment made on 10 July 2013;
- Long term incentive attributable to financial year 2011, generally payable on 30 June 2013, to be paid on 10 July 2013; and
- All issued performance rights to lapse.

Short-term incentive payments

For each short term incentive benefit, the percentage of the available bonus that was paid, or that vested, in the current financial year, and the percentage that was forfeited because the service and performance criteria were not met, is set out in the following table. No part of the bonus is payable in future years.

	2013 (relates to FY2012 performance)			2012 (relates to FY 2011 performance)		
	Maximum possible incentive award	Percentage of incentive awarded	Amount of award in cash	Maximum possible incentive award	Percentage of incentive awarded	Amount of award in cash
Executive directors						
M S Ball	\$130,800	100%	130,800	131,832	71%	93,601
M C Young	\$218,000	100%	218,000	170,773	70%	119,541
Executive managers						
B L Duncan	\$122,625	100%	122,625	132,831	70%	92,982

Long-term incentive payments

The long-term incentive plan ("LTIP") is subject to Company performance and consists of two components:

1. Performance rights which may convert to shares in BC Iron; and
2. Deferred cash.

Under the LTIP, an employee's position determines the target percentage of the total fixed remuneration (salary plus statutory superannuation). For executive directors and key management personnel, LTIP is made up of:

- Performance rights – 40% of total fixed remuneration; and
- Deferred cash – 30% of total fixed remuneration.

The deferred cash component is determined by measuring the Company's actual sales volumes and earnings per share against budget on an annual basis. The initial deferred cash component is determined based on the Company's performance for the year ending 30 June, with 50% of the calculated cash component payable on 30 June the following year, and the balance payable on or about the following 30 June (i.e. 2 years after the relevant calculation date).

The performance criteria for financial year 2012 were partially met, and deferred cash was awarded as indicated in the following table for payment on 30 June 2013 and 30 June 2014.

	Performance year	Maximum possible incentive award	Percentage of incentive awarded	Amount of award in cash	Paid 30 June 2013	Payable 10 July 2013	Payable 30 June 2014
Executive directors							
M S Ball	2011/2012	\$99,000	75%	\$74,250	\$37,125	-	\$37,125
M C Young	2011/2012	\$135,000	75%	\$101,250	-	\$50,625	-
Executive managers							
B L Duncan	2011/2012	\$103,500	75%	\$77,625	\$38,812	-	\$38,813

Performance rights

The Employee Performance Rights Plan ("PR Plan") was approved at a shareholder's annual general meeting on 19 November 2010. Under the terms of the PR Plan these long-term incentives are provided to certain employees at the discretion of the Board and linked to long-term shareholder returns.

The terms and conditions of performance rights granted to key management personnel during the year ended 30 June 2013 affecting remuneration in the current or future reporting periods are set out in the following table:

	Grant date	Date to vest	Expiry date	Value per right at grant date	Number granted during the year	Value at grant date	Number vested during the year	Number lapsed during FY 2013
Executive directors								
M S Ball*	20/11/2012	30/06/2014	01/11/2019	\$1.80	69,206	\$124,571	-	-
M C Young	31/08/2012	30/06/2014	01/09/2019	\$1.42	86,508	\$122,841	-	86,508
Executive managers								
B L Duncan	31/08/2012	30/06/2014	01/09/2019	\$1.42	64,881	\$92,131	-	-

*Granted at a later date as were subject to shareholder approval which was obtained at the Company's AGM on 20 November 2012.

A Monte Carlo simulation was used to value the performance rights. The Monte Carlo simulates the returns of the Company in relation to the peer group and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the date granted was 2.68%.

Performance rights issued immediately after 30 June 2011 in the 2011/12 financial year vested at 100% on 30 June 2013. The performance conditions for these rights were measured by comparing the Company's TSR with that of a comparator group of companies based on the Argonaut Junior Iron Ore Index over the period from the grant of the performance rights to the end of the financial year that is 2 years after that date (vesting date), being 30 June 2013. The companies included in the index may change periodically as determined by Argonaut, but are determined when the performance rights are issued.

The companies included in the Argonaut Junior Iron Ore Index for the assessment period were:

- Atlas Iron Limited (ASX: AGO)
- Flinders Mines Limited (ASX: FMS)
- Grange Resources Limited (ASX: GRR)
- Mount Gibson Iron Limited (ASX: MGX)
- Red Hill Iron Limited (ASX: RHI)
- Brockman Mining Limited (ASX: BCK)
- Gindalbie Metals Limited (ASX: GBG)
- Iron Ore Holdings Limited (ASX: IOH)
- Pluton Resources Limited (ASX: PLU)

The table below summarises performance rights issued immediately after 30 June 2011, in financial year 2012 that vested on 30 June 2013.

For the relevant two year period, BC Iron was the best performed Company in the comparator group on a TSR basis, and accordingly, the performance rights were converted to shares on 3 July 2013.

	Grant date*	Date to vest	Value per right at grant date	Number granted during the year	Value at grant date	Number vested during the year	Number lapsed during FY2013
Executive directors							
M S Ball	01/12/2011	30/06/2013	\$1.57	45,361	\$71,216	45,361	-
M C Young	01/12/2011	30/06/2013	\$1.57	61,856	\$97,113	-	61,856
Executive managers							
B L Duncan	01/12/2011	30/06/2013	\$1.57	47,423	\$74,454	47,423	-

*Performance rights issued were determined based on the Company's volume weighted average share price of June 2011 but were not granted until after shareholder approval of the LTIP at the November 2011 AGM.

Options

There were no options issued to key management personnel during the period and no options were converted by key management personnel. There are currently no options on issue to key management personnel.

Service Agreements

The remuneration and other terms of employment for executive directors and key management personnel are covered in formal employment contracts.

Name	Terms/Notice periods/Termination payment
M S Ball (Managing Director)	Base salary inclusive of superannuation of \$573,562 reviewed annually on 31 December (or such other times as agreed), for a fixed term of 3 years. Six months notice by Mr Ball. Twelve months by Company. Termination payment to reflect appropriate notice except in case of summary dismissal.
B L Duncan (Chief Operations Officer)	Base salary inclusive of superannuation \$431,537 reviewed annually on 31 December (or such other times as agreed). One months notice by Mr Duncan. Three months by Company. Termination payment to reflect appropriate notice except in case of summary dismissal.

Non-executive director remuneration

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 are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$700,000 in aggregate and was approved by shareholders at the annual general meeting of 16 November 2011. This amount is separate from any specific tasks the directors or their related entities may take on for the Company. The table below provides details of Board and committee fees for the 2013 and 2012 financial years and current committee membership. The fee levels shown took effect from 1 January of the relevant year.

	2013	2012
Main board		
Chairman – A W Kiernan	125,000	125,000
Members – all non-executive directors	70,000	70,000
Audit Committee		
Chairman – M J McComas	5,000	5,000
Members – A M Haslam, A W Kiernan	5,000	5,000
Risk Committee*		
Chairman – T W Ransted	5,000	5,000
Members – A M Haslam	5,000	5,000
Remuneration Committee		
Chairman – A W Kiernan	5,000	5,000
Members – A M Haslam, T W Ransted	5,000	5,000

* Note that since Mr Young became a non-executive director of the Company, he has been appointed as a member of the Risk Committee.

The fees paid or payable to the non-executive directors in relation to the 2013 financial year are set out below. The Company has no specific performance based remuneration component for non-executive director remuneration.

	Short-term employment benefits		Post-employment benefits		Total
	Salary and fees	Non-monetary benefits	Superannuation		
A W Kiernan (Chairman)					
2013	135,000	-	-		135,000
2012	122,500	-	-		122,500
A M Haslam (Non-executive director) (a)					
2013	85,000	-	-		85,000
2012	58,865	-	-		58,865
M J McComas (Non-executive director) (b)					
2013	75,000	-	-		75,000
2012	38,466	-	-		38,466
T W Ransted (Non-executive director) (c)					
2013	80,000	-	-		80,000
2012	83,695	-	-		83,695
J A Gibson (Non-executive director appointed 16 July 2012, resigned 19 December 2012) (d)					
2013	29,674	-	-		29,674
2012	-	-	-		-
TOTAL					
2013	404,674	-	-		404,674
2012	303,526	-	-		303,526

- a) A M Haslam's fees are paid to Hasbar Pty Ltd.
 b) M J McComas' fees are paid to McComas Capital Pty Ltd.
 c) T W Ransted's fees are paid to Kym Pty Ltd.
 d) J A Gibson's fees were paid to Regent Pacific Group Limited.

Other information

Insurance of officers

During the financial period, the Company incurred premiums of \$81,724 (2012: \$80,847) to insure the directors, company secretaries and officers of the Company. The liability insured is the indemnification of the Company against any legal liability to third parties arising out of any directors or officers duties in their capacity as a director or officer other than indemnification not permitted by law.

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

The Company has entered into indemnity deeds with each director and officer. Under the deeds, the Company indemnifies each director and officer to the maximum extent permitted by law against legal proceedings or claims made against or incurred by the directors or officers in connection with being a director or officer of the Company, or breach by the Company of its obligations under the deed.

Independent audit of Remuneration Report

The Remuneration Report has been audited by BDO. Please see page 66 of this report for BDO's report on the Remuneration Report.

Signed in accordance with a resolution by the Directors.



A W Kiernan
Chairman
Perth, Western Australia
27 August 2013



M S Ball
Managing Director
Perth, Western Australia
27 August 2013

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 Company as at 30 June 2013 and of its performance for the financial year ended 30 June 2013; and
 - ii complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the Company has included in 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 General Manager-Finance required by section 295A of the *Corporations Act 2001 (Cth)*.

This declaration is made in accordance with a resolution of the Directors and is signed on their behalf by:



M S Ball
Managing Director

Perth, Western Australia 27 August 2013.

CONSOLIDATED STATEMENT OF PROFIT AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
Revenue from continuing operations			
Sale of goods	2	323,970,581	202,903,170
Other revenue	2	1,335,054	1,592,239
Total revenue from continuing operations		325,305,635	204,495,409
Other income	3	3,030,398	3,005,482
Cost of sales	4	(189,504,652)	(115,525,733)
Selling and marketing	4	(36,806,064)	(22,981,601)
Administration expenses	5	(19,929,987)	(5,961,443)
Impairment of available-for-sale assets		(7,668,168)	-
Written down exploration leases		(1,186,956)	-
Profit before finance cost and income tax		73,240,206	63,032,114
Finance costs	6	(4,543,616)	(2,202,192)
Profit before income tax		68,696,590	60,829,922
Income tax expense	7	(19,896,246)	(10,278,664)
Profit after income tax from continuing operations		48,800,344	50,551,258
Other comprehensive income/(expense)			
Changes in the fair value of available-for-sale assets		-	(482,000)
Profit for the year attributable to owners of BC Iron Limited		48,800,344	50,069,258
Basic earnings per share (cents per share)	23	42.92	51.09
Diluted earnings per share (cents per share)	23	42.88	50.77

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	2013 \$	2012 \$
Current assets			
Cash and cash equivalents	8	138,487,833	92,816,843
Trade and other receivables	9	52,906,072	19,247,476
Inventory	10	11,253,271	4,351,652
Other financial assets	11	1,031	25,688
Total current assets		202,648,207	116,441,659
Non-current assets			
Plant and equipment	12	73,857,239	49,638,822
Exploration and evaluation assets	13	9,918,420	6,571,769
Mine properties	14	130,153,128	26,821,943
Available-for-sale financial assets	15	1,657,547	3,200,000
Deferred tax assets	7	3,348,740	401,208
Total non-current assets		218,935,074	86,633,742
Total assets		421,583,281	203,075,401
Current liabilities			
Trade and other payables	17	75,291,714	42,551,201
Loans and borrowings	18	35,921,676	4,926,108
Provisions	19	2,041,755	883,034
Tax payable		20,825,312	8,845,288
Total current liabilities		134,080,457	57,205,631
Non-current liabilities			
Trade and other payables	17	157,000	1,175,000
Loans and borrowings	18	67,416,832	11,745,123
Provisions	19	2,835,801	1,305,837
Total non-current liabilities		70,409,633	14,225,960
Total liabilities		204,490,090	71,431,591
Net assets		217,093,191	131,643,810
Shareholders' equity			
Issued capital	20	129,300,436	72,036,766
Reserves	21	13,424,732	12,304,995
Retained earnings	22	74,368,023	47,302,049
Total shareholders' equity		217,093,191	131,643,810

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 2013

	Contributed equity \$	Retained earnings \$	Reserves \$	Total \$
Balance at 1 July 2011	58,250,587	(3,249,209)	12,385,997	67,387,375
Profit for the year	-	50,551,258	-	50,551,258
Other comprehensive income	-	-	(482,000)	(482,000)
Total comprehensive income	-	50,551,258	(482,000)	50,069,258
Transactions with equity holders in their capacity as equity holders				
Options issued	-	-	400,998	400,998
Options exercised	13,786,179	-	-	13,786,179
Dividends paid	-	-	-	-
Balance at 30 June 2012	72,036,766	47,302,049	12,304,995	131,643,810
Balance at 1 July 2012	72,036,766	47,302,049	12,304,995	131,643,810
Profit for the year	-	48,800,344	-	48,800,344
Other comprehensive income	-	-	482,000	482,000
Total comprehensive income	-	48,800,344	482,000	49,282,344
Transactions with equity holders in their capacity as equity holders				
Shares issued net of transaction costs	56,232,920	-	-	56,232,920
Options issued	-	-	-	-
Options exercised	1,030,750	-	637,737	1,668,487
Dividends paid	-	(21,734,370)	-	(21,734,370)
Balance at 30 June 2013	129,300,436	74,368,023	13,424,732	217,093,191

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 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Receipts from customers		322,114,520	192,737,189
Payments to suppliers and employees		(230,311,588)	(106,122,201)
Management fees received		2,946,210	1,431,108
Interest received		2,290,456	850,058
Income tax paid		(9,858,790)	-
Net cash flows from operating activities	29	87,180,808	88,896,154
Cash flows from investing activities			
Payments for mine property and development expenditure		(130,655,884)	(4,233,378)
Payments for plant and equipment		(10,150,655)	(15,438,296)
Payments for available-for-sale assets		(5,643,715)	(3,682,000)
Payments for exploration expenditure		(2,723,426)	(1,938,056)
Refund of security deposit		25,000	1,366,237
Net cash flows used in investing activities		(149,148,680)	(23,925,493)
Cash flows from financing activities			
Proceeds from issue of shares net of costs		56,200,175	13,562,844
Proceeds from borrowings		123,226,202	-
Repayment of borrowings		(56,378,494)	(4,892,846)
Interest and finance costs paid		(1,809,414)	-
Dividends paid		(21,734,370)	-
Net cash flows from financing activities		99,504,099	8,669,998
Net increase/(decrease) in cash and cash equivalents		37,536,227	73,640,659
Cash and cash equivalents at beginning of year		92,816,843	17,536,827
Effect of exchange rate changes on cash and cash equivalents		8,134,763	1,639,357
Cash and cash equivalents at end of year	8	138,487,833	92,816,843

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE 1. CORPORATE INFORMATION

The financial statements for BC Iron Limited for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Directors on 27 August 2013. BC Iron Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. BC Iron Limited and its subsidiaries together are referred to in these financial statements as the 'Company' or the 'consolidated entity'.

The principal activity of BC Iron Limited is exploration and production of iron ore.

a. Basis of preparation

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 financial years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB'), and the *Corporations Act 2001*.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss. The financial report is presented in Australian dollars.

New, revised or amending Accounting Standards and Interpretations adopted

New standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 did not affect any of the amounts recognised in the current period or any prior period, and are not likely to affect future periods.

The Company has adopted *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. This has resulted in changes to the statement of comprehensive income, now being referred to as the statement of profit and other comprehensive income.

The Company has not elected to early adopt any other new or amended Standards or Interpretations that are issued but not yet effective.

b. Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 32.

c. Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of BC Iron Limited as at 30 June 2013 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated on the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of assets transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

A list of controlled entities at year end is contained in note 36.

(ii) Joint ventures

The Company's interests in joint controlled assets are accounted for by recognising its proportionate share of assets, liabilities and expenses. Profit and losses on transactions establishing joint ventures and transactions with joint ventures are eliminated to the extent of the Company's ownership interest until such time as they are realised by the joint ventures on consumption or sale, unless they relate to an unrealised

NOTE 1. Continued

loss that provides evidence of the impairment of an asset transferred. The Company discontinues the use of proportional consolidation from the date it ceases to have joint control.

Details of joint venture operations are set out in Note 31.

d. 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 the Company.

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

e. Revenue recognition

Revenue is measured at the fair value of the gross consideration received or receivable. The Company 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 the Company's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company 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 Company, the quantity and quality of the goods has been determined with reasonable accuracy, the price can be reasonably estimated, and collectability is reasonably assured.

The Company 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.

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 percentage of expensed expenditure. It is recorded on an accrual basis.

Other income

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

f. Income tax

The income tax expense or revenue for the financial 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.

Mineral Resources Rent Tax

On 19 March, 2012, the Australian Government passed through the Senate, the Minerals Resource Rent Tax Act 2012, with application to certain profits arising from the iron ore and coal extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis.

This tax applies to upstream mining operations only, and the effective rate of Minerals Resource Rent Tax is 22.5%. This tax is considered to be an "income tax" for the purposes of AASB 112.

Certain transition measures are contained in the legislation which can give rise to deductions in future years, for Minerals Resource Rent Tax purposes.

Based on modelling and valuations performed on behalf of the Company, a balance of \$9,812,851 (2012: \$8,426,390) was recognised in deferred tax assets.

NOTE 1. Continued

g. Goods and services tax (GST)

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

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

h. Impairment of assets

Assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

i. 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, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

j. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. Trade receivables are due for settlement within 7 days for provisional sales invoices and the final sale invoice adjustment 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 uncollectable are written off. An allowance for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is recognised in profit and loss.

k. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying value, less impairment allowance, of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

l. Plant and equipment

Plant and equipment is stated at historical cost less 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 to 5 years for furniture, computers and equipment, or the life of the mine for plant and equipment.

m. Exploration and evaluation expenditure

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

- i. the area has proven commercially recoverable reserves; or
- ii. exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable 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 Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

NOTE 1. Continued

n. Mine properties

Once a mining project has been established as commercially viable and technically feasible, expenditure other than that on land, buildings, plant and equipment is transferred and capitalised as mine property. Mine property 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.

Mine property 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. Mine property 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 mine property costs is charged on a unit of production basis over the life of economically recoverable reserves once production commences.

Mine property assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, mine property is 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 ("NJV") 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 profit as they are incurred.

o. 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 mine property expenditure and depreciation of 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 of the statement of financial position date, it is included in non-current assets. Quantities are assessed primarily through surveys and volume conversions.

p. Provision for rehabilitation

The mining, extraction and processing activities of the Company 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 rehabilitation standards and techniques. Provisions for the cost of each rehabilitation programme 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 'Mine Property Expenditure' as rehabilitation assets and amortised accordingly.

NOTE 1. Continued

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.

q. Mineral tenements

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

r. Trade and other payables

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

s. 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 24). 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.

t. Interest-bearing loans and 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, in which case they are classified as non-current liabilities.

u. Finance costs

Finance costs are recognised as an expense when incurred, with the exception of interest charges attributable to major projects with substantial development and construction phases which are capitalised.

Finance costs include interest on loans and borrowings (short and long term), loan facility establishment fees, interest on finance leases and unwinding of discount on provisions. Provisions and other payables are discounted to their present value when the time value of money is material. The carrying amount of a provision increases in each period to reflect the passage of time. The increase is recognised as a discount adjustment in finance costs.

v. Foreign currency translation

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

w. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of past events, it is probable 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 30 June 2013. 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 an expense.

x. Employee benefits

Salaries and annual leave

Liabilities for salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for long term incentives to be settled within 24 months of the reporting date are recognised in non-current liabilities.

NOTE 1. Continued

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit method. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

y. 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.

z. Earnings per share

Basic earnings per share is calculated by dividing net profit after income tax attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the financial year.

Diluted earnings per share is calculated using net profit after tax attributable to equity holders of the Company adjusted for 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.

aa. Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Available-for-sale assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, which are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income through the available-for-sale reserve in equity. Cumulative gains or losses previously reported in the available-for-sale reserve are recognised in profit or loss when assets are derecognised or impaired.

Available-for-sale assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

bb. Share-based payments

Share-based remuneration benefits are provided to employees via an employee share option plan and/or an employee performance rights plan. Information relating to these plans is set out in Note 30.

The fair value of share based payments 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 or performance rights.

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.

A Monte Carlo simulation has been used to value the performance rights. The Monte Carlo simulates the returns of the Company in relation to a peer group and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the date granted was 2.68%.

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 of the options and performance rights. The impact of revision to original estimates, if any, is recognised in the profit and loss with a corresponding adjustment to equity.

NOTE 1. Continued

cc. Acquisition of interests in joint operations

When the Company acquires an interest in a joint operation, and the activity of the joint operation constitutes a business as defined in AASB 3 *Business Combinations*, it applies to the extent of its interest, the relevant principles of business combinations accounting in AASB 3. The principles of accounting for business combinations include;

- i. Measuring identifiable assets and liabilities at fair value other than those items for which exceptions are given;
- ii. Recognising acquisition related costs as expenses in the periods in which the costs are incurred and the services received, with the exception of costs to issue debt or equity securities which are recognised in accordance with AASB 132 *Financial Instruments: Presentation*;
- iii. Recognising deferred tax assets and deferred tax liabilities that arise from the initial recognitions of assets and liabilities, except for deferred tax liabilities that arise from the initial recognition of goodwill; and
- iv. Recognising the excess of the consideration transferred over the net of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed, if any, as goodwill.

dd. New and revised Accounting Standards and Interpretations

The following Standards and Interpretations have been issued or amended but are not yet effective and have not been adopted by the Company as at the financial reporting date. The potential effect of these Standards is yet to be fully determined unless indicated. It is not expected that the new or amended Standards will significantly affect the Company's accounting policies, financial position or performance.

Effective for annual reporting periods beginning on or after 1 January 2013 and expected to be initially applied by the Company in the financial year ending 30 June 2014:

AASB 10 Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities, including special purpose entities. It replaces AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of voting rights and when holding less than a majority of voting rights may give control.

When this standard is first adopted, there will be no impact on transactions and balances recognised in the financial statements as the Company does not have any special purpose entities.

AASB 11 Joint Arrangements

AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method.

When this standard is first adopted, there will be no impact on transactions and balances recognised in the financial statements. The NJV has been assessed as a joint operation.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.

AASB 13 Fair Value Measurement

AASB 13 established a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value. It provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets and liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

AASB 119 Employee Benefits

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB2011-12 Amendments to Australian Accounting standards arising from Interpretation 20

This interpretation and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The Interpretation clarifies when production stripping costs should lead to the recognition of an asset and how that asset should be initially and subsequently measured. The Interpretation only deals

NOTE 1. Continued

with waste removal costs that are incurred in surface mining activities during the production phase of the mine. The adoption of the Interpretation and the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

ee. Critical accounting estimates & judgements

The preparation of the Company's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Estimates and assumptions are continuously evaluated and are based on management's experience. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustment to the carrying value of assets or liabilities affected in future periods.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Minerals Resource Rent Tax (MRRT) starting base valuation

The introduction of the MRRT required the Company to determine a market value, at 1 May 2010, of its upstream assets, including mining rights, to the point of delivery of ore to the processing facility. This market value was determined using a discounted cash flow methodology that requires significant judgements and estimates including:

- forecast production profiles;
- forecast future iron ore prices;
- the calculation of an appropriate discount rate for the project;
- expected royalty rates payable to the West Australian State Government; and
- the reserve estimates for the project.

The Company has recognised an MRRT deferred tax asset to the extent that it believes it will be utilised against future MRRT profits.

Capitalisation of exploration and evaluation expenditure

The Company 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 Company.

Mine properties 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.

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. As a result of this assessment, no impairment was deemed necessary.

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 Company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

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

As at 30 June 2013, the carrying value of exploration expenditure is \$9,918,420.

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.

A Monte Carlo simulation has been used to value the performance rights. The Monte Carlo simulates the returns of the Company in relation to a peer group and arrives at a value based on the number of rights that are likely to vest.

Recognition of deferred tax balances relating to tax losses

The Company has recognised deferred tax assets relating to carried forward tax losses to the extent the Company believe the utilisation of these losses against future taxable profits is considered probable. Additionally, future changes to environmental law and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Rehabilitation

The Company'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.

NOTE 1. Continued

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.

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 Company's 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 Profit and Other 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 proven and probable reserves.

Production start date

The Company 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 Company 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 its functional currency as Australian Dollars. The Company 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.

NOTE 2 - REVENUE

	2013 \$	2012 \$
Sale of iron ore	323,970,581	202,903,170
Management fees	1,335,054	1,592,239
Total	325,305,635	204,495,409

NOTE 3 - OTHER INCOME

Interest revenue	3,030,398	1,505,482
Reimbursement of costs by NJV	-	1,500,000
Total	3,030,398	3,005,482

NOTE 4 - OPERATING EXPENSES

Mining and ore dressing	54,385,003	27,564,577
Haulage	79,114,550	54,540,237
Site administration	20,844,194	12,887,102
Depreciation of plant and equipment	10,103,104	4,238,779
Amortisation of mine properties	10,810,563	2,198,516
Royalties	20,797,942	10,995,024
Inventory movement	(6,550,704)	3,101,498
Total	189,504,652	115,525,733

Shipping, marketing and demurrage	36,806,064	22,981,601
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NOTE 5 - ADMINISTRATION EXPENSES

Foreign exchange loss/(gain)	11,373,706	404,038
Consultant and legal fees	2,813,166	628,669
Employee benefits expense	1,454,849	924,101
Depreciation and amortisation	889,264	806,304
Share based payments	637,737	400,998
Stamp duty	431,516	-
Non-executive directors' fees	408,244	330,636
Occupancy related expenses	373,046	353,314
Other	1,548,459	2,113,383
Total	19,929,987	5,961,443

NOTE 6 - FINANCE COSTS

Interest expense on Henghou loan	1,363,383	1,749,833
Interest expense on loan facilities	1,822,164	-
Amortisation of facility fees	594,206	-
Other	763,863	452,359
Total	4,543,616	2,202,192

In November 2009, the NJV secured USD50 million (BC Iron share - USD25 million) in project finance (interest free) from Henghou Industries (Hong Kong) Limited. As part of this facility the Company issued 8 million options to Henghou. This amount was offset against the liability on initial recognition and the liability is discounted using the effective interest rate method. The non-cash effective interest recognised during the year was \$1,363,383 (2012: \$1,749,833). Interest expense on loan facilities and amortisation of facility fees relate to USD130 million debt facility. Refer to Note 18 for further information.

NOTE 7 - INCOME TAXES

	2013 \$	2012 \$
Current tax expense		
Current period	21,501,340	8,845,288
Adjustments for prior periods	834,997	270,085
	<u>22,336,337</u>	<u>9,115,373</u>
Deferred tax expense		
Origination and reversal of temporary differences	(434,998)	1,163,291
Mining resources rent tax	(1,386,461)	-
Adjustments for prior periods	(618,632)	-
	<u>(2,440,091)</u>	<u>1,163,291</u>
Income tax expense reported in statement of profit and other comprehensive income	19,896,246	10,278,664

Reconciliation of effective tax rate

Profit for the period	68,696,590	60,829,922
Income tax using the Company's domestic tax rate of 30 per cent (2012: 30 per cent)	20,608,977	18,248,977
Non deductible expenses	213,067	185,992
Mining resources rent tax temporary difference	(1,386,461)	(8,426,390)
Recognised directly in equity	244,297	-
(Under)/over provided in prior periods	216,366	270,085
Income tax expense reported in statement of profit and other comprehensive income	19,896,246	10,278,664

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
Accrued expenses	-	41,303	-	-	-	41,303
Inventory	-	-	(62,849)	-	(62,849)	-
Available-for-sale financial assets	2,300,450	-	-	-	2,300,450	-
Capitalised exploration expenditure	-	-	(2,975,526)	(1,971,531)	(2,975,526)	(1,971,531)
Mine property, plant and development expenditure	-	-	(12,130,814)	(6,008,396)	(12,130,814)	(6,008,396)
Provisions	1,463,267	462,271	-	-	1,463,267	462,271
Share issue costs in equity	640,026	247,891	-	-	640,026	247,891
Mining resources rent tax	9,812,851	8,426,390	-	-	9,812,851	8,426,390
Other items	4,462,682	261,220	(161,347)	(1,057,940)	4,301,335	(796,720)
Tax assets/(liabilities)	<u>18,679,276</u>	<u>9,439,075</u>	<u>(15,330,536)</u>	<u>(9,037,867)</u>	<u>3,348,740</u>	<u>401,208</u>

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.

NOTE 7 - INCOME TAXES Continued

Movement in deferred tax assets

	Accrued expenses	Available-for-sale assets	Provisions	Share issue costs	MRRT	Other	Total
At 1 July 2012	41,303	-	462,271	247,891	8,426,390	261,220	9,439,075
(Charged)/credited							
- to profit or loss	(41,303)	2,300,450	1,000,996	-	1,386,461	4,201,462	8,848,066
- to other	-	-	-	-	-	-	-
- directly to equity	-	-	-	392,135	-	-	392,135
At 30 June 2013	-	2,300,450	1,463,267	640,026	9,812,851	4,462,682	18,679,276

Movement in deferred tax liabilities

	Inventory	Exploration and evaluation	Mine property, plant & equipment	Other	Total
At 1 July 2012	-	(1,971,531)	(6,008,396)	(1,057,940)	(9,037,867)
(Charged)/credited					
- to profit or loss	(62,849)	(1,003,995)	(6,122,418)	896,593	(6,292,669)
- to other	-	-	-	-	-
- directly to equity	-	-	-	-	-
At 30 June 2013	(62,849)	(2,975,526)	(12,130,814)	(161,347)	(15,330,536)

Mineral resources rent tax ("MRRT")

The Company has an unrecognised MRRT tax benefit of \$113.7 million arising in Australia that is available for offset against future taxable profits. The Company is of the view that the availability of the benefit in its entirety is not probable as it is subject to significant uncertainty. A deferred tax asset of \$9.8 million has been recognised at 30 June 2013.

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 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.

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 for the current year.

NOTE 8 - CASH AND CASH EQUIVALENTS

	2013 \$	2012 \$
Cash at bank and on hand	116,581,991	72,816,843
Cash on deposit	21,905,842	20,000,000
Total	138,487,833	92,816,843

Cash on deposit relates to a term deposit held with a financial institution for one month due to mature on 28 July 2013. Further information can be found at Note 28.

NOTE 9 - TRADE AND OTHER RECEIVABLES

	2013 \$	2012 \$
Trade receivables and prepayments	50,249,891	15,986,721
Interest receivable	201,099	68,497
Receivables due from joint arrangement	362,559	1,096,339
Other receivables	2,092,523	2,095,919
Total	52,906,072	19,247,476

Due to the short-term nature of current receivables, their carrying amount is assumed to approximate their fair value.

As at 30 June 2013 no receivables were past due or impaired (2012: Nil).

Other receivables includes \$2.0M for GST receivable (2012: \$2.1M).

Refer to Note 28 for information on the risk management policy of the Company.

NOTE 10 - INVENTORY

Raw materials	3,471,960	624,780
Iron ore stockpiles	7,781,311	3,726,872
Total inventories at lower of cost and net realisable value	11,253,271	4,351,652

NOTE 11 - OTHER FINANCIAL ASSETS

Security deposits	1,031	25,688
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NOTE 12 - PLANT AND EQUIPMENT

Plant and equipment

Cost	91,516,092	53,695,719
Accumulated depreciation	(18,314,956)	(4,552,911)
Net carrying amount	73,201,136	49,142,808
Net carrying amount at beginning of year	49,142,808	36,924,296
Additions	34,514,152	16,356,698
Reclassified to profit and loss	(525,425)	-
Depreciation expense	(9,930,399)	(4,138,186)
Net carrying amount at end of year	73,201,136	49,142,808

Furniture, equipment and IT equipment

Cost	1,722,571	1,090,344
Accumulated depreciation	(1,066,468)	(594,330)
Net carrying amount	656,103	496,014
Net carrying amount at beginning of year	496,014	485,282
Additions	336,635	288,122
Disposals	(3,841)	-
Depreciation expense	(172,705)	(277,390)
Net carrying amount at end of year	656,103	496,014

NOTE 13 - EXPLORATION AND EVALUATION

	2013 \$	2012 \$
Opening balance	6,571,769	4,349,457
Additions	4,533,607	2,222,312
Unsuccessful exploration expenditure derecognised	(1,186,956)	-
Net carrying amount	9,918,420	6,571,769

Exploration and evaluation expenditure is recorded at historical cost on an area of interest basis. Recovery of these costs is dependent upon the commercial success of future exploration and development or realisation by disposal of the interests therein.

There may exist on the Company's exploration properties, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration and mining restrictions.

The unsuccessful exploration expenditure derecognised relates to five exploration tenements at Bungaroo Creek. Following first pass drilling and analysis, the iron potential was assessed to be low in grade and tonnage with no further plans to explore the remaining areas. Accordingly the tenements were relinquished in April 2013 and the exploration costs incurred derecognised.

NOTE 14 - MINE PROPERTIES

Opening balance	26,821,943	24,974,772
Additions	114,141,748	4,745,630
Amortisation	(10,810,563)	(2,898,459)
Net carrying amount	130,153,128	26,821,943

All expenditure for mine development is included in mine properties. Mine properties are recorded at historical cost.

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. As a result of this assessment, no impairment was deemed necessary.

On 18 December 2012 the Company acquired an additional 25% interest in the NJV. The consideration gave rise to a surplus over the net assets acquired. As part of the fair value allocation an amount has been assigned to mine properties and is included in additions. Refer to Note 31 for further information.

NOTE 15 - AVAILABLE-FOR-SALE ASSETS

Opening balance	3,200,000	-
Equity securities acquired	5,643,715	3,682,000
Revaluation	482,000	(482,000)
Impairment	(7,668,168)	-
Closing balance	1,657,547	3,200,000

Available-for-sale assets relates to two investments in listed securities on the ASX. Both investments have been assessed as impaired as there has been a significant and prolonged decline in value below initial cost.

NOTE 16 - OTHER NON-CURRENT ASSETS

Opening balance	-	1,146,500
Derecognition	-	(1,146,500)
Closing balance	-	-

During financial year ended 30 June 2012, the Group secured non-cash backed bonds in relation to rehabilitation bonds. The outstanding non-cash backed bonds facility at 30 June 2013 was \$2,441,190 (2012: \$1,309,000).

NOTE 17 - TRADE AND OTHER PAYABLES

	2013 \$	2012 \$
Current		
Trade payables and accruals	75,291,714	42,551,201
Total current	75,291,714	42,551,201
Non-current		
Trade payables and accruals	157,000	1,175,000
Total non-current	157,000	1,175,000
Total trade and other payables	75,448,714	43,726,201

Current trade payables are unsecured and payable on supplier credit terms, usually payable within 30 days of recognition. Non-current trade payables relate to an amount of consideration payable to key contractors. These are non-interest bearing and repayable within 24 months. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe (refer to Note 28).

Due to the short-term nature of current and non-current payables, their carrying amount is assumed to approximate their fair value.

NOTE 18 - LOANS AND BORROWINGS

Current		
Secured - loan facility ^(a)	30,447,023	-
Unsecured - Henghou facility ^(b)	5,474,653	4,926,108
Total current	35,921,676	4,926,108
Non-current		
Secured - loan facility ^(a)	58,339,881	-
Unsecured - Henghou facility ^(b)	9,076,951	11,745,123
Total non-current	67,416,832	11,745,123
Total loans and borrowings	103,338,508	16,671,231

a. Secured loan facility

On 18 December 2012, the Company's wholly owned subsidiary BC Iron Nullagine Pty Ltd ("BCIN") entered into a USD130 million amortising term loan facility as part of the funding of the 25% acquisition of the NJV. The loan is secured and the carrying value equals the fair value. The term of the loan is 5 years with a floating interest rate based on USD London Interbank Offered Rate plus a margin.

BCIN has granted a security interest, pursuant to a General Security Deed, in favour of CBA Corporate Services (NSW) Pty Limited ("Security Trustee") over all BCIN's assets and undertaking (including certain mineral tenements) to secure the due and punctual payment of all money which BCIN or the Company is liable to pay in connection with the Syndicated Facility agreement between BCIN, the Company, Commonwealth Bank of Australia (as agent), the Security Trustee and the lenders ("Secured Money").

The Company has granted a security interest, pursuant to a Specific Security Deed, in favour of the Security Trustee in the Company's shares in BCIN, amounts owing to the Company by BCIN and certain mining tenements to secure the Secured Money. The Company has also granted a featherweight security interest in favour of the Security Trustee over all its other present and after acquired assets and undertaking (other than those shares, amounts owing and mineral tenements). The Company is not restricted from dealing with the featherweight collateral, unless a voluntary administrator has been appointed.

The structure of the debt facility allows the Board to consider continued payment of dividends by the Company except in very limited circumstances.

NOTE 18 - LOANS AND BORROWINGS Continued

b. Unsecured Henghou facility

The NJV secured USD50 million (interest free) in project finance with Henghou Industries (Hong Kong) Limited. Henghou made a payment of USD15 million on 17 December 2009 (being USD7.5 million to the Company), a payment of USD15 million on 3 February 2010 (being USD7.5 million to the Company) and a payment of USD20 million on 2 July 2010 (being USD10 million to the Company).

The Company will repay its share of the facility at the amount of USD5 million annually to Henghou over 5 years from December 2011. The second repayment was made during the 2013 financial year. As part of this facility the Company issued 8 million options to Henghou as non-cash consideration. These options were exercised in the 2012 financial year.

The total borrowings above do not agree to the total outstanding loan owing by the Company of USD15 million due to foreign exchange differences and discounting of the loan (as it is interest free). These borrowings are unsecured and the carrying value equals fair value.

NOTE 19 - PROVISIONS

	2013 \$	2012 \$
Current		
Employee benefits	2,041,755	883,034
Total current	2,041,755	883,034
Non-current		
Rehabilitation	2,669,272	1,305,837
Employee benefits	166,529	-
Total non-current	2,835,801	1,305,837
Total provisions	4,877,556	2,188,871

Movement in provisions

Rehabilitation

Carrying amount at beginning of year	1,305,837	920,594
Capitalised to development - additional provision recognised	1,363,435	385,243
Carrying amount at end of year	2,669,272	1,305,837

Employee benefits

The provision for employee benefits represents annual leave, vested long service leave entitlements and incentives accrued by employees.

Rehabilitation

The Company 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 end of the life of the mine. Assumptions, based on the current economic environment, have been made in determining current rehabilitation provisions, which management believes are 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 20 - CONTRIBUTED EQUITY

	2013		2012	
	Number	\$	Number	\$
Share capital				
Ordinary shares - fully paid	123,279,384	129,300,436	103,861,000	72,036,766
Movement in share capital				
At 1 July 2011			94,381,000	58,250,587
Exercise of options 12 August 2011			500,000	962,500
Exercise of options 7 October 2011			200,000	320,000
Exercise of options 21 October 2011			150,000	207,000
Exercise of options 4 November 2011			80,000	110,500
Exercise of options 25 January 2012			400,000	650,000
Exercise of options 27 January 2012			4,444,433	5,999,984
Exercise of options 3 February 2012			3,555,567	5,100,014
Exercise of options 29 February 2012			150,000	210,000
Tax effect of issue costs				226,181
Balance at 30 June 2012			103,861,000	72,036,766
At 1 July 2012	103,861,000	72,036,766		
Capital raising 18 December 2012 @ \$3.04	15,579,150	47,360,616		
Issue costs		(2,131,932)		
Tax effect of issue costs		1,004,965		
Capital raising 24 January 2013 @ \$3.04	3,289,234	9,999,271		
Exercise of options 8 March 2013 @ \$1.50	375,000	562,500		
Exercise of options 17 May 2013 @ \$2.39	50,000	119,500		
Exercise of options 17 May 2013 @ \$2.64	50,000	132,000		
Exercise of options 12 June 2013 @ \$2.89	75,000	216,750		
Balance at 30 June 2013	123,279,384	129,300,436		

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 Company, ordinary shareholders rank after all other shareholders and creditors are fully entitled to any proceeds of liquidations.

b. Capital risk management

The Company'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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company 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 retained earnings.

NOTE 20 - CONTRIBUTED EQUITY Continued

	2013 \$	2012 \$
Net debt to equity		
Total interest bearing debt	103,338,508	16,671,231
Less cash and cash equivalents	138,487,833	92,816,843
Excess of cash over debt	35,149,325	76,145,612
Equity	217,093,191	131,643,810
Net debt as percentage of equity - not applicable as cash and cash equivalent exceeds debt.		
Cash interest cover		
Profit before income tax	68,696,590	60,829,922
Finance costs	4,543,616	2,202,192
Depreciation and amortisation	21,802,931	7,243,599
EBITDA	95,043,137	70,275,713
Net cash interest paid	1,809,414	-
Cash interest cover	53	NA

NOTE 21 - RESERVES

Share based payments reserve

Balance as at 1 July	10,293,793	10,484,712
Share based payments expense	637,737	400,998
Options transferred to options exercised reserve	(709,262)	(591,917)
Balance as at 30 June	10,222,268	10,293,793

Available for sale reserve

Balance as at 1 July	(482,000)	-
Gains and losses on financial instruments recognised in equity	482,000	(482,000)
Balance as at 30 June	-	(482,000)

Options exercised reserve

Balance as at 1 July	2,493,202	1,901,285
Options transferred from share based payments reserve	709,262	591,917
Balance as at 30 June	3,202,464	2,493,202

Total reserves	13,424,732	12,304,995
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Nature and purpose of reserves

The share based payments reserve is used to recognise the fair value of options (not exercised), performance rights 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.

Changes in the fair value and exchange differences arising on translation of investments such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated in a separate available-for-sale reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

NOTE 22 - RETAINED EARNINGS

	2013 \$	2012 \$
Balance as at 1 July	47,302,049	(3,249,209)
Net profit	48,800,344	50,551,258
Dividends paid	(21,734,370)	-
Balance as at 30 June	74,368,023	47,302,049

NOTE 23 - EARNINGS PER SHARE

Earnings per share from continuing operations

Profit after income tax from continuing operations	48,800,344	50,551,258
Interest on convertible options	7,500	24,364
Profit after income tax used in calculating diluted earnings per share	48,807,844	50,575,622

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	113,689,123	98,935,964
Adjustments for calculation of diluted earnings per share:		
Vested share options outstanding at year end	125,000	675,000
Weighted average number of shares used in calculating diluted earnings per share	113,814,123	99,610,964

	Cents	Cents
Basic earnings per share	42.92	51.09
Diluted earnings per share	42.88	50.77

Earnings per share for profit attributable to owners of BC Iron Limited

Profit attributable to the ordinary equity holders of the Company	48,800,344	50,069,258
Interest on convertible options	7,500	24,364
Profit after income tax used in calculating diluted earnings per share	48,807,844	50,093,622

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	113,689,123	98,935,964
Adjustments for calculation of diluted earnings per share:		
Vested share options outstanding at year end	125,000	675,000
Weighted average number of shares used in calculating diluted earnings per share	113,814,123	99,610,964

	Cents	Cents
Basic earnings per share	42.92	50.61
Diluted earnings per share	42.88	50.29

NOTE 24 - COMMITMENTS

	2013 \$	2012 \$
Mining tenement leases		
In order to maintain current rights of tenure to exploration tenements the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the WA State Government and pay tenement lease rents.		
The estimated exploration expenditure commitment for the ensuing year, but not recognised as a liability in the financial statements:		
Within one year	1,008,518	766,661
Greater than one year but not more than five years	5,568,624	4,209,144
More than five years	-	-
	6,577,142	4,975,805
Operating leases - buildings		
The Company has non-cancellable operating leases for offices in West Perth, Western Australia, expiring 31 August 2016 and a storage unit in Maddington, Western Australia, expiring 7 March 2015.		
Within one year	382,542	363,044
Greater than one year but not more than five years	868,677	1,204,217
More than five years	-	-
	1,251,219	1,567,261
Operating leases - vehicles		
The Company has non-cancellable operating leases for vehicles expiring 20 August 2015.		
Within one year	94,087	56,701
Greater than one year but not more than five years	91,992	86,404
More than five years	-	-
	186,079	143,105
Capital commitments		
Within one year	-	3,215,500
Greater than one year but not more than five years	-	1,175,000
More than five years	-	-
	-	4,390,500

NOTE 25 - CONTINGENT LIABILITIES AND ASSETS

The Company is bound to the Minister of Mines in the State of Western Australia to the sum of \$177,099 (2012: \$122,336) security in order to comply with the conditions of the leases for the mining tenements.

NOTE 26 - SEGMENT 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.

	2013 \$	2012 \$
Total segment revenue	325,305,635	204,495,409
EBITDA	111,701,636	68,815,300
Total segment assets	419,925,734	199,875,401
Total segment liabilities	80,326,270	45,915,072
Reconciliation of reportable segment profit or loss		
EBITDA	111,701,636	68,815,300
Interest revenue	3,030,398	1,505,482
Other income	-	-
Unallocated: Interest, depreciation and amortisation	(46,035,444)	(9,490,860)
Profit before income tax	68,696,590	60,829,922
Segment liabilities	80,326,270	45,915,072
Provision for income tax	20,825,312	8,845,288
Loans	103,338,508	16,671,231
Total liabilities per statement of financial position	204,490,090	71,431,591
Segment assets	419,925,734	199,875,401
Available-for-sale financial assets	1,657,547	3,200,000
Total assets per statement of financial position	421,583,281	203,075,401

NOTE 27 - RELATED PARTY TRANSACTIONS

a. Parent entity

BC Iron Limited is the parent entity.

b. Subsidiaries

Interests in subsidiaries are set out in Note 36.

c. Joint ventures

Interests in joint ventures are set out in Note 31.

d. Key management personnel

Disclosures relating to key management personnel are set out in Note 37 and the Remuneration Report in the Directors' Report.

e. Transactions with related parties

	2013 \$	2012 \$
Management fee income from joint arrangement	1,335,054	1,592,239
f. Outstanding balances arising from sales/purchases of goods and services		
Joint arrangement		
Current receivables	756,832	707,740
Current payables	13,117,251	9,781,312
g. Loans to/from related parties		
Loans to joint arrangement	548,167	1,096,339

NOTE 28 - FINANCIAL RISK MANAGEMENT

The Company holds the following financial instruments:

Financial assets

Cash and cash equivalents	138,487,833	92,816,843
Deposits	1,031	25,688
Available-for-sale assets	1,657,547	3,200,000
Trade and other receivables	52,906,072	19,247,476
	193,052,483	115,290,007

Financial liabilities

Trade and other payables	75,448,714	43,726,201
Loans and borrowings	103,338,508	16,671,231
	178,787,222	60,397,432

Market (including foreign exchange, commodity price and interest rate risk), credit and liquidity risks arise in the normal course of the Company's business. Primary responsibility for identification and control of financial risk rests with senior management under directives approved by the Board.

NOTE 28 - FINANCIAL RISK MANAGEMENT Continued

a. Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commitments, assets and liabilities that are denominated in a currency that is not the functional currency in which they are measured. The Company is exposed to foreign exchange risk on cash and equivalents, trade receivables and loans and borrowings. The Company's policy is, where possible, to allow group entities to settle foreign liabilities with the cash generated from their own operations in that currency. The Company's exposure to foreign currency risk at reporting date was as follows:

		2013 \$	2012 \$
Exchange rate at reporting date		0.9133	1.015
Financial assets			
Cash and cash equivalents	AUD	50,407,797	12,621,822
	USD	46,037,441	12,811,149
Trade receivables	AUD	13,946,081	14,548,092
	USD	12,736,956	14,766,313
Financial liabilities			
Loans and borrowings	AUD	106,208,256	19,704,433
	USD	97,000,000	20,000,000

The following table summarises the sensitivity to a reasonably possible change in the USD rate, with all other variables held constant, of the Company's profit before tax due to changes in the carrying value of financial assets and liabilities at reporting date. The impact on equity is the same as the impact on profit before tax.

	Effect on profit before tax 2013 \$	Effect on profit before tax 2012 \$
Increase USD 0.9133 (2012: 1.015) by 5% to 0.9590 (2012: 1.0657)	1,994,520	(355,167)
Decrease USD 0.9133 (2012: 1.015) by 5% to 0.8698 (2012: 0.9666)	(2,093,200)	373,813

(ii) Commodity price risk

The Company's revenue is exposed to commodity price fluctuations, specifically iron ore prices. The Company measures exposure to commodity price risk by monitoring and stress testing the Company's forecast financial position to sustained periods of low iron ore prices on a regular basis.

Trade receivables outstanding at year end are subject to commodity price risk due to potential changes in future iron ore prices. Due to the low value of outstanding amounts at the reporting date, any potential impact is immaterial for the year ended 30 June 2013.

(iii) Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's secured loan facility with a floating interest rate.

The following table summarises the sensitivity of interest bearing liabilities to a reasonably possible change in the London Interbank Offered Rate ("LIBOR") on the Company's profit before tax, with all other variables held constant.

	Effect on profit before tax 2013 \$	Effect on profit before tax 2012 \$
Increase LIBOR 1.5%	(3,228)	NA
Decrease LIBOR 0.5%	1,076	NA

Weighted average USD LIBOR applicable for the financial year was 0.3%. The Henghou unsecured loan facility is not subject to interest rate risk. The impact of interest rates on the Company's financial position are reviewed regularly.

NOTE 28 - FINANCIAL RISK MANAGEMENT Continued

(iv) Price risk

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the balance sheet as available-for-sale.

The price risk for the available-for-sale asset is immaterial in terms of the potential impact on profit or loss or total equity. It has therefore not been included in a sensitivity analysis.

The Company's equity investments are publicly traded on the ASX.

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 Company'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 2013 were received within one month. There is no significant concentration of credit risk, whether through exposure to individual customers, specific industry sectors and regions.

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:

	2013	2012
	\$	\$
Trade receivables		
Counterparties without external credit rating		
Group 1	-	-
Group 2	17,837,257	18,883,210
Group 3	-	-
	<u>17,837,257</u>	<u>18,883,210</u>
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.		
Cash and cash equivalents		
AA-	138,488,864	92,842,531
	<u>138,488,864</u>	<u>92,842,531</u>

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 Company 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 Company has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules.

Financing arrangements

The Company's wholly owned subsidiary BC Iron Nullagine Pty Ltd has an amortising term loan facility denominated in USD. Refer to Note 18 for further information.

The NJV has a USD50 million financing facility (USD25m Company share) with Henghou Industries (Hong Kong) Limited. Refer to Note 18 for further details.

NOTE 28 - FINANCIAL RISK MANAGEMENT Continued

Maturity analysis of financial assets and liabilities

The table below splits the Company's financial liabilities into relevant maturity groupings based on their contractual maturities on all non-derivative financial liabilities and are disclosed at their undiscounted amounts.

	Less than 6 months	6 -12 months	1-5 years	Greater than 5 years	Contractual cash flows	Carrying amount
Year ended 30 June 2013						
Financial liabilities						
Trade and other payables	75,291,714	-	157,000	-	75,448,714	75,448,714
Loans and borrowings	6,525,484	31,300,823	69,376,194	-	107,202,501	103,338,508
Net maturity	81,817,198	31,300,823	69,533,194	-	182,651,215	178,787,222

Year ended 30 June 2012

Financial liabilities						
Trade and other payables	43,434,235	-	1,175,000	-	44,609,235	43,726,201
Loans and borrowings	4,926,108	-	14,778,325	-	19,704,433	16,671,231
Net maturity	48,360,343	-	15,953,325	-	64,313,668	60,397,432

(d) Fair value measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June 2013.

	2013 \$	2012 \$
Available-for-sale financial assets		
Level 1	1,657,547	3,200,000
Level 2	-	-
Level 3	-	-
	1,657,547	3,200,000

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

NOTE 29 - RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2013 \$	2012 \$
Profit for the financial year	48,800,344	50,551,258
Non cash flows in operating profit		
Depreciation and amortisation	21,262,555	6,455,392
Employee benefit - share based payment	637,736	400,998
Release of exploration tenements	1,186,956	-
Impairment of available-for-sale assets	7,668,168	-
Finance costs	4,543,616	-
Other	197,958	-
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	(33,658,596)	(12,099,462)
Decrease/(increase) in inventories	(6,901,619)	4,672,009
Decrease/(increase) in deferred tax assets	(9,240,201)	(1,739,340)
(Decrease)/increase in trade and other payables	31,722,513	28,478,227
(Decrease)/increase in provision for income taxes payable	11,980,024	8,845,288
(Decrease)/increase in deferred tax liabilities	6,292,669	2,946,541
(Decrease)/increase in provisions	2,688,685	385,243
Net cash inflows/(outflows) by operating activities	87,180,808	88,896,154

NOTE 30 - SHARE BASED PAYMENTS

During the 2013, 2012 and 2011 financial years the Company provided share based payments to employees only, whereas in the 2010 financial year they were also granted to consultants and financiers. An employee share option incentive plan was approved at the shareholder's annual general meeting of 16 November 2011, and an employee performance rights plan was approved at the shareholder's annual general meeting of 19 November 2010.

Under the terms of these plans, the Board may offer options and performance rights 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 Company, period of employment, potential contribution to the Company in the future and other factors the Board considers relevant. These long-term incentives are provided to certain employees at the discretion of the Board to deliver long-term shareholder returns. Set out below is a summary of the options and performance rights granted by the Company.

2013 - Options

Grant date	Expiry date	Exercise price	Balance at 1 July 2012	Exercised during the year	Lapsed or forfeited during the year	Balance at 30 June 2013	Vesting date	Vested and exercisable at 30 June 2013
Employee options								
9/07/10	30/06/13	\$2.39	50,000	(50,000)#	-	-	2/11/10	-
9/07/10	30/06/13	\$2.64	50,000	(50,000)#	-	-	15/12/10	-
9/07/10	30/06/13	\$2.89	75,000	(75,000)^	-	-	31/01/11	-
9/07/10	30/06/13	\$3.14	75,000	-	(75,000)	-	31/01/11	-
20/01/12	31/12/14	\$3.86	50,000	-	-	50,000	20/01/12	50,000
20/01/12	31/12/14	\$4.05	100,000	-	-	100,000	16/01/13	100,000
20/01/12	31/12/14	\$4.32	100,000	-	-	100,000	16/01/14	-
20/01/12	31/12/14	\$3.86	50,000	-	-	50,000	20/01/12	50,000
20/01/12	31/12/14	\$4.05	100,000	-	-	100,000	16/01/13	100,000
20/01/12	31/12/14	\$4.32	100,000	-	-	100,000	16/01/14	-
22/06/12	30/06/15	\$3.66	50,000	-	-	50,000	30/06/12	50,000
22/06/12	30/06/15	\$3.83	100,000	-	-	100,000	30/06/13	100,000
22/06/12	30/06/15	\$4.09	100,000	-	-	100,000	30/06/14	-
Others options								
12/04/10	19/02/15	\$1.50	250,000	(250,000)*	-	-	31/12/10	-
12/04/10	19/02/15	\$1.50	250,000	(125,000)*	-	125,000	31/12/10	125,000
Total			1,500,000	(550,000)	(75,000)	875,000		575,000
Weighted average exercise price			\$2.99	\$1.87	\$3.14	\$3.68		\$3.39

* Options exercised on 8 March 2013. Weighted average share price on this day was \$3.82.

Options exercised on 17 May 2013. Weighted average share price on this day was \$3.24.

^ Options exercised on 12 June 2013. Weighted average share price on this day was \$3.18.

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.4 years.

Options granted carry no dividend or voting rights.

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

NOTE 30 - SHARE BASED PAYMENTS Continued

2012 - Options

Grant date	Expiry date	Exercise price	Balance at 1 July 2011	Granted during the year	Exercised during the year	Balance at 30 June 2012	Vesting date	Vested and exercisable at 30 June 2012
Director options								
17/07/08	15/08/11	\$1.85	250,000	-	(250,000)	-	15/02/09	-
17/07/08	15/08/11	\$2.00	250,000	-	(250,000)	-	15/02/10	-
Others								
1/08/09	1/08/12	\$1.40	150,000	-	(150,000)	-	1/08/10	-
12/04/10	19/02/15	\$1.50	250,000	-	-	250,000	31/12/10	250,000
12/04/10	19/02/15	\$1.50	250,000	-	-	250,000	31/12/10	250,000
12/02/10	11/02/12	\$1.35	6,000,000	-	(6,000,000)	-	6/07/10	-
12/02/10	11/02/12	\$1.50	2,000,000	-	(2,000,000)	-	6/07/10	-
Employee options								
1/08/09	1/08/12	\$1.25	30,000	-	(30,000)	-	16/04/09	-
1/08/09	1/08/12	\$1.40	200,000	-	(200,000)	-	1/08/10	-
1/08/09	1/08/12	\$1.60	200,000	-	(200,000)	-	31/01/11	-
5/11/09	5/11/12	\$1.25	100,000	-	(100,000)	-	10/02/10	-
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)	-	31/01/11	-
9/07/10	30/06/13	\$2.39	50,000	-	-	50,000	2/11/10	50,000
9/07/10	30/06/13	\$2.64	50,000	-	-	50,000	15/12/10	50,000
9/07/10	30/06/13	\$2.89	75,000	-	-	75,000	31/01/11	75,000
9/07/10	30/06/13	\$3.14	75,000	-	-	75,000	31/01/11	75,000
20/01/12	31/12/14	\$3.86	-	50,000	-	50,000	20/01/12	50,000
20/01/12	31/12/14	\$4.05	-	100,000	-	100,000	16/01/13	-
20/01/12	31/12/14	\$4.32	-	100,000	-	100,000	16/01/14	-
20/01/12	31/12/14	\$3.86	-	50,000	-	50,000	20/01/12	50,000
20/01/12	31/12/14	\$4.05	-	100,000	-	100,000	16/01/13	-
20/01/12	31/12/14	\$4.32	-	100,000	-	100,000	16/01/14	-
22/06/12	30/06/15	\$3.66	-	50,000	-	50,000	30/06/12	50,000
22/06/12	30/06/15	\$3.83	-	100,000	-	100,000	30/06/13	-
22/06/12	30/06/15	\$4.09	-	100,000	-	100,000	30/06/14	-
Total			10,230,000	750,000	(9,480,000)	1,500,000		900,000
Weighted average exercise price			\$1.46	\$4.05	\$1.43	\$2.99		\$2.25

a. Director option expense

Share options and performance rights have been granted to provide a long-term incentive for directors to deliver long-term shareholder returns.

b. Other option expense

Share options were granted to consultants in 2010 for their services as consideration for the provision of services with respect to broker support and capital raising costs. Options were also issued to Henghou Industries (Hong Kong) Limited in 2010 (refer to Note 18). No options or performance rights were issued to consultants in 2013 (2012: Nil).

c. Employee option expense

Share options and performance rights have been granted to provide long-term incentive for senior employees to deliver long-term shareholder returns. Participation in employee share options and performance rights is at the Board's discretion and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

NOTE 30 - SHARE BASED PAYMENTS Continued

During the year the Company issued share based payments in the form of performance rights to directors and employees as per below.

A Monte Carlo simulation has been used to value the performance rights. The Monte Carlo simulates the returns of the Company in relation to the peer group and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the date granted is 2.68% (2012: 3.06%). Performance rights issued to key management personnel vested during the period. Refer to the Remuneration Report in the Directors' Report for more information.

2013 - Performance rights

Grant date	Expiry date	Granted during the year	Vesting date	Fair value at grant date	Share price on grant date	Life of right	Expected dividends
Director performance rights							
31/08/12	1/09/19	86,508	30/06/14	\$1.42	\$2.35	7 years	0%
20/11/12	1/11/19	69,206	30/06/14	\$1.80	\$3.05	7 years	0%
Employee performance rights							
31/08/12	1/09/19	262,136	30/06/14	\$1.42	\$2.35	7 years	0%

2012 - Performance rights

Grant date	Expiry date	Granted during the year	Vesting date	Fair value at grant date	Share price on grant date	Life of right	Expected dividends
Director performance rights							
1/12/11	16/11/18	61,856	30/06/13	\$1.57	\$2.35	7 years	0%
1/12/11	16/11/18	45,361	30/06/13	\$1.57	\$2.35	7 years	0%
Employee performance rights							
1/12/11	16/11/18	128,885	30/06/13	\$1.57	\$2.35	7 years	0%

No options were issued in financial year 2013.

2012 - Options

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										
20/01/12	31/12/14	\$3.86	50,000	20/01/12	1.02	\$2.69	70%	2.9 years	0%	3.24%
20/01/12	31/12/14	\$4.05	100,000	16/01/13	0.99	\$2.69	70%	2.9 years	0%	3.24%
20/01/12	31/12/14	\$4.32	100,000	16/01/14	0.94	\$2.69	70%	2.9 years	0%	3.24%
20/01/12	31/12/14	\$3.86	50,000	20/01/12	1.02	\$2.69	70%	2.9 years	0%	3.24%
20/01/12	31/12/14	\$4.05	100,000	16/01/13	0.99	\$2.69	70%	2.9 years	0%	3.24%
20/01/12	31/12/14	\$4.32	100,000	16/01/14	0.94	\$2.69	70%	2.9 years	0%	3.24%
22/06/12	30/06/15	\$3.66	50,000	30/06/12	0.60	\$2.50	50%	3 years	0%	2.33%
22/06/12	30/06/15	\$3.83	100,000	30/06/13	0.56	\$2.50	50%	3 years	0%	2.33%
22/06/12	30/06/15	\$4.09	100,000	30/06/14	0.52	\$2.50	50%	3 years	0%	2.33%

d. Expenses arising from share-based payment transactions

Total expenses arising from share-based payments recognised during the financial period as part of employee benefits expense were as follows.

	2013 \$	2012 \$
Director benefits	92,162	61,847
Employee benefits	545,575	339,151
Total	637,737	400,998

NOTE 31 - INTEREST IN JOINT ARRANGEMENT

a. Jointly controlled operations

On 1 January 2010, the Company and Fortescue Metals Group Ltd ("FMG") commenced a 50:50 Joint Venture to develop the Nullagine Iron Ore Project in the East Pilbara of Western Australia.

The Company announced on 10 December 2012 that it had entered into an agreement with FMG to acquire an additional 25% interest in the NJV. As part of the transaction, the Company increased its participating interest in the NJV from 50% to 75%, and made a once-off prepayment of rail haulage and port charges for 3.5 million tonnes (wet) of its share of production from the NJV.

The total consideration paid by the Company to FMG was \$190 million (including the rail and port prepayment), plus a limited price participation arrangement payable to FMG if certain iron ore price conditions are met. This was estimated at \$14.3 million and is included in trade and other payables. At the acquisition date the consideration paid gave rise to a surplus over net assets. As part of the fair value allocation of the assets acquired, this surplus was assigned to mine properties. No goodwill was recognised as part of the transaction.

The total consideration plus associated transaction costs was funded using a combination of cash, USD130 million debt facility (refer Note 18) and \$57 million in equity through an underwritten placement and share purchase plan (refer Note 20).

The Company's interest in the assets and liabilities of the NJV are included in the Consolidated Statement of Financial Position in accordance with accounting policies described in Note 1. The Company has a 75% (2012: 50%) share of the following NJV 100% financial position, excluding loans and borrowings which are recorded at 50% (2012: 50%).

	2013 \$	2012 \$
Current assets		
Cash and cash equivalents	28,109,860	20,208,265
Trade and other receivables	3,371,165	4,619,016
Inventory	15,004,361	8,703,304
Other financial assets	1,375	1,375
Total current assets	46,486,761	33,531,960
Non-current assets		
Plant and equipment	98,044,516	99,059,817
Exploration and evaluation assets	9,784,849	5,688,942
Mine properties	45,531,264	45,529,810
Total non-current assets	153,360,629	150,278,569
Total assets	199,847,390	183,810,529
Current liabilities		
Trade and other payables	57,731,542	55,103,824
Loans and borrowings	-	9,852,219
Provisions	1,551,944	-
Total current liabilities	59,283,486	64,956,043
Non-current liabilities		
Trade and other payables	-	2,350,000
Provisions	3,738,105	2,611,672
Loans and borrowings	2,192,675	31,749,326
Total non-current liabilities	5,930,780	36,710,998
Total liabilities	65,214,266	101,667,041
Net assets	134,633,124	82,143,488

NOTE 31 - INTEREST IN JOINT ARRANGEMENT Continued

b. Mining tenement leases

	2013	2012
	\$	\$
In order to maintain current rights of tenure to exploration tenements the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by the WA State Government and pay tenement lease rents.		
The estimated exploration expenditure commitment for the ensuing year, but not recognised as a liability in the financial statements:		
Within one year	952,337	1,277,702
Greater than one year but not more than five years	5,263,897	6,915,809
More than five years	-	-
	6,216,234	8,193,511

c. Capital commitments

Within one year	-	6,431,000
Greater than one year but not more than five years	-	2,350,000
More than five years	-	-
	-	8,781,000

NOTE 32 - PARENT ENTITY

The following details information related to the parent entity, BC Iron Limited, as at 30 June 2013. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	2013 \$	2012 \$
Current assets		
Cash and cash equivalents	43,874,979	32,072,690
Trade and other receivables	114,617,466	55,393,090
Other financial assets	-	25,000
Total current assets	158,492,445	87,490,780
Non-current assets		
Plant and equipment	323,853	254,637
Exploration and evaluation assets	215,891	1,363,406
Deferred tax assets	966,044	159,594
Other financial assets	16,632,360	16,632,360
Total non-current assets	18,138,148	18,409,997
Total assets	176,630,593	105,900,777
Current liabilities		
Trade and other payables	1,408,705	1,229,259
Provision for income tax	(1,513,405)	8,845,288
Total current liabilities	(104,700)	10,074,547
Non-current liabilities		
Provisions	32,223	-
Total non-current liabilities	32,223	-
Total liabilities	(72,477)	10,074,547
Net assets	176,703,070	95,826,230
Shareholders' equity		
Issued capital	129,300,436	72,036,767
Reserves	4,543,514	3,905,777
Retained earnings	42,859,120	19,883,686
Total shareholders' equity	176,703,070	95,826,230
Other income	49,557,815	31,734,267
Total expenses	(6,328,588)	(4,670,344)
Income tax benefit/(expense)	1,480,577	460,163
Profit for the year	44,709,804	27,524,086
Total comprehensive income for the year	44,709,804	27,524,086

Included in Note 24 are commitments 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 33 - DIVIDENDS

	2013 \$	2012 \$
Dividend paid during the financial year (fully franked at 30 per cent)		
Final franked dividend for 2012: \$0.15 (2011: \$0.00)	15,579,150	-
Interim franked dividend for 2013: \$0.05 (2012: \$0.00)	6,155,220	-
Total dividends paid	21,734,370	-
Dividend declared not recognised as a liability (fully franked at 30 per cent)		
Final franked dividend for 2013: \$0.30 (2012: \$0.15)	37,036,089	15,579,150
Franking credit balance		
Franking credits available for subsequent periods	(21,369,372)	(8,845,288)
Impact on franking credits of dividends proposed	15,872,609	6,676,778

The franking credit balance is based on estimated tax payable for the 2013 financial year.

NOTE 34 - AUDITOR'S REMUNERATION

The auditor of BC Iron Limited is BDO Audit (WA) Pty Ltd.

Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:

Audit or review of financial reports for the Company	99,000	80,000
Amounts received or due and receivable by related entities of BDO Audit (WA) Pty Ltd for:		
Non audit services - tax compliance	50,314	67,143
	149,314	147,143

NOTE 35 - EVENTS AFTER THE REPORTING DATE

A fully franked dividend of 30 cents per share resulting in a dividend payment of \$37,036,089 was declared for a payment date of 24 September 2013. The dividend has not been provided for in the 30 June 2013 full-year financial statements.

NOTE 36 - SUBSIDIARIES

The consolidated financial statements include the financial statements of BC Iron Limited and the subsidiaries listed in the following table:

	Country of incorporation	Functional currency	Beneficial interest	
			2013 %	2012 %
BC Iron Nullagine Pty Ltd	Australia	AUD	100	100
BC Iron (SA) Pty Ltd	Australia	AUD	100	0

NOTE 37 - KEY MANAGEMENT PERSONNEL DISCLOSURE

a. Key management personnel compensation

	2013 \$	2012 \$
Short-term employee benefits	1,874,656	1,537,860
Long-term employee benefits	75,937	-
Termination payments	73,387	-
Share based payments	181,021	89,203
Post-employment benefits	50,831	54,939
	2,255,832	1,682,002

Detailed remuneration disclosures are provided in the remuneration section of the Directors' Report.

b. Equity instrument disclosures relating to key management personnel

The interests of key management personnel in shares, share options and performance rights at the end of the financial period are as follows.

2013 - Shares

	Balance at 1 July 2012	Received during year - exercise of options	Other changes	Balance at 30 June 2013
Directors				
A Kiernan	874,463	-	(181,109)	693,354
M Young	961,564	-	(300,000)	661,564
M Ball	278,000	-	(141,577)	136,423
T Ransted	622,601	-	3,891	626,492
M McComas	30,000	-	3,891	33,891
A Haslam	-	-	-	-
Executives				
B Duncan	1,000	-	-	1,000
Total	2,767,628	-	(614,904)	2,152,724

2012 - Shares

	Balance at 1 July 2011	Received during year - exercise of options	Other changes	Balance at 30 June 2012
Directors				
A Kiernan	1,114,133	-	(239,670)	874,463
M Young	1,273,001	500,000	(811,437)	961,564
M Ball	278,000	-	-	278,000
T Ransted	622,601	-	-	622,601
M McComas	-	-	30,000	30,000
A Haslam	-	-	-	-
Executives				
B Duncan	5,000	-	(4,000)	1,000
Total	3,292,735	500,000	(1,025,107)	2,767,628

No options were issued to key management personnel in financial year 2013.

NOTE 37 - KEY MANAGEMENT PERSONNEL DISCLOSURE Continued

2012 - Options

	Balance at 1 July 2011	Granted as compensation	Exercised	Options lapsed / cancelled	Balance at 30 June 2012	Vested and exercisable at 30 June 2012	Unvested
Directors							
A Kiernan	-	-	-	-	-	-	-
M Young	500,000	-	(500,000)	-	-	-	-
M Ball	-	-	-	-	-	-	-
T Ransted	-	-	-	-	-	-	-
M McComas	-	-	-	-	-	-	-
A Haslam	-	-	-	-	-	-	-
Executives							
B Duncan	-	-	-	-	-	-	-
Total	500,000	-	(500,000)	-	-	-	-

2013 - Performance rights

	Balance at 1 July 2012	Granted as compensation	Converted to shares	Rights lapsed / cancelled	Balance at 30 June 2013	Vested at 30 June 2013	Unvested
Directors							
A Kiernan	-	-	-	-	-	-	-
M Young	61,856	86,508	-	(148,364)	-	-	-
M Ball	45,361	69,206	-	-	114,567	45,361	69,206
T Ransted	-	-	-	-	-	-	-
M McComas	-	-	-	-	-	-	-
A Haslam	-	-	-	-	-	-	-
Executives							
B Duncan	47,423	64,881	-	-	112,304	47,423	64,881
Total	154,640	220,595	-	(148,364)	226,871	92,784	134,087

2012 - Performance rights

	Balance at 1 July 2011	Granted as compensation	Converted to shares	Rights lapsed / cancelled	Balance at 30 June 2012	Vested at 30 June 2012	Unvested
Directors							
A Kiernan	-	-	-	-	-	-	-
M Young	61,856	-	-	-	61,856	-	61,856
M Ball	45,361	-	-	-	45,361	-	45,361
T Ransted	-	-	-	-	-	-	-
M McComas	-	-	-	-	-	-	-
A Haslam	-	-	-	-	-	-	-
Executives							
B Duncan	47,423	-	-	-	47,423	-	47,423
Total	154,640	-	-	-	154,640	-	154,640

c. Other transactions with key management personnel

Disclosures relating to key management personnel are set out below. The following transactions occurred with related parties. Transactions between related parties are on normal commercial terms no more favourable than those available to other parties unless otherwise stated.

	2013 \$	2012 \$
Professional fees paid to A Kiernan (director) for services in excess of normal director duties.	52,500	7,500

An amount of \$17,500 (2012: Nil) was outstanding at the reporting date in relation to transactions with related parties.

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 2013, the consolidated statement of profit and other 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 entities 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 gives a true and fair view and 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 company'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 company'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 2013 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*.


Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of BC Iron Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO


Phillip Murdoch
Director

Perth, Western Australia
Dated this 27th day of August 2013

27 August 2013

The Directors
BC Iron Limited
Level 1, 15 Rheola Street
West Perth WA 6005

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF BC IRON LIMITED

As lead auditor of BC Iron Limited for the year ended 30 June 2013, 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 year.



PHILLIP MURDOCH
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia