

BC Iron Limited

ACN 120 646 924

Half-year Financial Report

31 December 2010

BC Iron Limited

ACN 120 646 924

Directors' Report

The directors present their report together with the consolidated financial statements for the six months ended 31 December 2010 and the review report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

Name

Anthony Kiernan	Chairman (Non-Executive)
Michael Young	Managing Director
Steven Chadwick	Non-Executive
Terrence Ransted	Non-Executive
Glenn Baldwin*	Non-Executive

*David Coyne was appointed alternate Non-Executive Director on 21 December 2010.

Review and Results of Operations

A summary of revenues and results of the Company's operations for the half-year by significant industry segments is as follows:

	Segment Revenue		Segment Result	
	2010	2009	2010	2009
	\$	\$	\$	\$
Minerals exploration - Australia	1,010,322	618	-	-
Total continuing operations	1,010,322	618	-	-
Unallocated expenses: Corporate Expenses			(2,004,596)	(1,822,988)
Other profit			1,686,868	384,675
Profit/(loss) before income tax benefit			692,594	(1,438,313)
Income tax benefit			568,960	-
Loss for the half-year			1,261,554	(1,438,313)
Profit (Loss) attributable to members of BC Iron Limited			1,261,554	(1,438,313)

Activities

Nullagine Iron Ore Project

During the half year ended 31 December 2010, significant progress has been made in the development of the Nullagine Iron Ore Project. This included signing the Nyiyaparli Infrastructure Agreement with the Nyiyaparli People, receipt of the third and final funding instalment of US\$20 million from Henghou Industries (Hong Kong) Limited, the ongoing construction of mine infrastructure and first mining at the Project.

The Company achieved completion of mining approvals, mining start-up, continuation of haul road construction and commencement of ore haulage to Fortescue's Christmas Creek operation via public roads. BC Iron will concentrate on completing construction of the private haul road and ramping up mining activities in anticipation of first shipment of ore as part of the NIOJV objective to deliver 1 million tonnes of iron ore by 30 June 2011.

An equity placement was completed during the period to raise an additional gross \$18.4m with sophisticated and institutional investors at \$2.30 per share for working capital and contingency purposes.

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Directors' Report (cont.)

Corporate

During January 2011, BC Iron received a cash offer from 19.9% shareholder, Regent Pacific Group, to acquire all of the shares in BC Iron not already owned for \$3.30 per share by way of a Scheme of Arrangement. As per ASX announcement dated 21 January 2011, the Directors will unanimously recommend that BC Iron shareholders vote in favour of the Scheme in the absence of a superior proposal and an Independent Expert concluding that the Scheme is in the best interests of shareholders.

Dividends

No dividends have been provided for or paid by the Company during the half-year.

Changes In State Of Affairs

During the half-year there was no significant change in the Company's state of affairs other than that referred to in the half-year financial statements or notes thereto.

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2007 is set out on page 16 and forms part of the directors' report for the six months ended 31 December 2010.

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

Dated this 22nd day of February 2011.

On behalf of the Directors



Michael C. Young
Managing Director

BC Iron Limited

ACN 120 646 924

Directors' Declaration

In the opinion of the directors of BC Iron Limited (the Company):

- a) the financial statements and notes set out on the following pages are in accordance with the Corporations Act 2001 including:
 - i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the six month period ended on that date; and
 - ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Michael C. Young
Managing Director

Perth, 22nd February 2011

BC Iron Limited

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Consolidated statement of comprehensive income

For the 6 months ended 31 December 2010

	Note	Half-year ended 31 Dec 2010 \$	Half-year ended 31 Dec 2009 \$
Revenue from continuing operations			
Management fee income		1,010,322	-
Finance income		566,365	384,675
Other income	2	1,120,503	618
Total revenue from continuing operations		<u>2,697,190</u>	<u>385,293</u>
Depreciation expense		(69,754)	(45,759)
Director's fees		(85,984)	(92,500)
Office rent, ancillaries and running costs		(579,111)	(384,040)
Personnel and support		(464,540)	(339,748)
Public relations and support		(88,731)	(94,155)
Share registry services and other corporate costs		(393,966)	(338,188)
Share based payments		(322,510)	(529,216)
Profit/(Loss) before income tax benefit		692,594	(1,438,313)
Income tax benefit		568,960	-
Profit/(loss) after tax and total comprehensive income	2	<u>1,261,554</u>	<u>(1,438,313)</u>
Total comprehensive profit/(loss) for the period attributable to the owners of BC Iron Limited		<u>1,261,554</u>	<u>(1,438,313)</u>
Basic earnings per share (cents per share)	9	1.48	(1.81)
Diluted earnings per share (cents per share)		1.62	-

The accompanying notes form part of these financial statements

BC Iron Limited

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Consolidated statement of financial position

	Note	31-Dec-10 \$	30-Jun-10 \$
CURRENT ASSETS			
Cash and cash equivalents		39,689,486	28,762,976
Trade and other receivables		3,185,372	2,032,700
Inventory		3,215,880	1,965,880
Other financial assets		220,577	250,436
Total Current Assets		46,311,315	33,011,991
NON CURRENT ASSETS			
Plant & equipment	3	21,577,409	4,117,490
Exploration and evaluation assets	4	3,213,843	3,439,802
Development expenditure	5	22,000,683	12,914,138
Deferred Tax Assets		1,883,795	1,331,918
Other financial assets		1,146,500	-
Total Non-Current Assets		49,822,230	21,803,348
TOTAL ASSETS		96,133,545	54,815,339
CURRENT LIABILITIES			
Trade and other payables		11,908,146	1,739,897
Loans & Borrowings	7	4,485,773	-
Total Current Liabilities		16,393,919	1,739,897
NON-CURRENT LIABILITIES			
Loans & Borrowings	7	14,323,162	13,954,966
Provisions		886,604	125,000
Total Non-Current Liabilities		15,209,766	14,079,966
TOTAL LIABILITIES		31,603,685	15,819,863
NET ASSETS		64,529,860	38,995,476
EQUITY			
Share capital	6	55,293,183	36,518,762
Reserves		12,208,857	6,710,448
Accumulated losses		(2,972,180)	(4,233,734)
TOTAL EQUITY		64,529,860	38,995,476

The accompanying notes form part of these financial statements

BC Iron Limited

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Consolidated Statement of Changes in Equity

For the 6 months ended 31 December 2010

	Contributed Equity \$	Accumulated Losses \$	Share Based Payments Reserve \$	Options Exercised Reserve \$	Total \$
Consolidated Entity					
Balance at 1 July 2009	22,982,385	(2,848,351)	1,303,240	75,680	21,512,954
Loss for the period	-	(1,438,313)	-	-	(1,438,313)
Total comprehensive loss for the period	-	(1,438,313)	-	-	(1,438,313)
Transactions with equity holders in their capacity as equity holders					
Shares issued net of transaction costs	12,878,989	-	-	-	12,878,989
Options to be issued	-	-	968,000	-	968,000
Options issued	-	-	529,216	-	529,216
Options exercised	-	-	(365,136)	365,136	-
Balance at 31 December 2009	35,861,374	(4,286,664)	2,435,320	440,816	34,450,846
Consolidated Entity					
Balance at 1 July 2010	36,518,762	(4,233,734)	6,065,609	644,839	38,995,476
Profit for the period	-	1,261,554	-	-	1,261,554
Total comprehensive profit for the period	-	1,261,554	-	-	1,261,554
Transactions with equity holders in their capacity as equity holders					
Shares issued net of transaction costs	18,774,421	-	-	-	18,774,421
Options issued	-	-	5,498,409	-	5,498,409
Options exercised	-	-	(486,369)	486,369	-
Balance at 31 December 2010	55,293,183	(2,972,180)	11,077,649	1,131,208	64,529,860

The accompanying notes form part of these financial statements

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Consolidated statement of cash flows

for the six months ended 31 December 2010

	Half-year ended 31 Dec 2010	Half-year ended 31 Dec 2009
Note	\$	\$
Cash Flows from Operating Activities		
Management fees received	1,610,683	-
Payments to suppliers and employees (inclusive of goods and services tax)	(1,147,318)	(1,221,848)
Interest received	649,688	303,182
Other - R& D tax offset, GST	532,666	-
Net cash inflow/(outflow) from operating activities	1,645,719	(918,666)
Cash Flows from Investing Activities		
Payment for plant & equipment	(10,587,105)	(133,066)
Payment for exploration and evaluation expenditure	(483,002)	(7,958,664)
Payment for development expenditure	(9,486,997)	-
Payment for security deposits	(1,123,500)	(121,237)
Net cash outflow from investing activities	(21,680,604)	(8,212,967)
Cash Flows from Financing Activities		
Proceeds from issue of shares	19,550,000	12,807,766
Payments for share issue costs	(758,498)	-
Proceeds from borrowings	12,169,892	8,380,819
Net cash inflow from financing activities	30,961,394	21,188,585
Net increase in cash and cash equivalents	10,926,510	12,056,952
Cash and cash equivalents at the beginning of the half year	28,762,976	12,036,742
Cash and cash equivalents at the end of the half year	39,689,486	24,093,694

The accompanying notes form part of these financial statements

BC Iron Limited

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Notes to the condensed interim financial statements

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

BC Iron Limited (the "Company") is a company domiciled in Australia. The consolidated half-year financial statements of the Company as at and for the six months ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled ventures.

The consolidated financial statements of the Group as at and for the year ended 30 June 2010 are available upon request from the Company's registered office at Level 1, 15 Rheola Street, West Perth, WA, 6005 or at www.bcion.com.au.

2. Statement of Compliance

These general purpose interim financial statements for the half-year reporting period ended 31 December 2010 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

These interim financial statements do not include the notes of the type normally included in the annual financial report. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2010 and any public announcements made by BC Iron during the interim reporting period in accordance with continuous disclosure requirements of the Corporations Act 2001.

These consolidated half-year financial statements were approved by the Board of Directors on 22nd February 2011.

3. Significant Accounting policies

The accounting policies applied by the Group in these consolidated half-year financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2010.

4. Estimates

The preparation of half-year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated half-year financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2010.

5. Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 30 June 2010.

NOTE 2 - PROFIT FOR THE HALF-YEAR

Profit for the half-year includes no items that are unusual because of their nature, size or incidence, other than employee benefits expense of \$322,510 (2009: \$529,216) which comprises the share based payments being the valuation of options granted during the six month period in accordance with AASB 2 Share-Based Payments and foreign currency gains of \$1,120,503 (2009: nil) arising on the translation of US dominated assets and liabilities.

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Notes to the condensed interim financial statements

NOTE 3 – PLANT & EQUIPMENT

During the period the group has incurred capital expenditure in relation to the preparation of the Nullagine project as per below.

Consolidated Entity	Furniture, Computers and Equipment \$	Assets under Construction \$	Total \$
Half-Year ended 31 December 2010			
At 1 July 2010, net of accumulated depreciation	450,212	3,667,278	4,117,490
Additions	96,547	17,433,126	17,529,673
Disposals	-	-	-
Depreciation charge for the period	(69,754)	-	(69,754)
At 31 December 2010, net of accumulated depreciation	477,005	21,100,404	21,577,409
Year ended 30 June 2010			
At 1 July 2009, net of accumulated depreciation	112,828	-	112,828
Additions	438,084	3,667,278	4,105,362
Disposals	(9,631)	-	(9,631)
Depreciation charge for the period	(91,069)	-	(91,069)
At 30 June 2010, net of accumulated depreciation	450,212	3,667,278	4,117,490
At 31 December 2010			
Cost	692,641	21,100,404	21,793,045
Accumulated depreciation	(215,636)	-	(215,636)
Net carrying amount	477,005	21,100,404	21,577,409
At 30 June 2010			
Cost	595,365	3,667,278	4,262,643
Accumulated depreciation	(145,153)	-	(145,153)
Net carrying amount	450,212	3,667,278	4,117,490

NOTE 4 - EXPLORATION AND EVALUATION EXPENDITURE

	31-Dec-10 \$	30-Jun-10
Exploration and evaluation expenditure costs brought forward in respect of areas of interest		
Opening balance	3,439,802	9,877,636
Transfers to development expenditure	(256,648)	(8,639,354)
Expenditure during financial period	30,689	2,201,520
Closing balance	3,213,843	3,439,802

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Notes to the condensed interim financial statements

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

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

NOTE 5 – DEVELOPMENT EXPENDITURE

	31-Dec-10	30-Jun-10
	\$	
Development expenditure costs brought forward in respect of areas of interest		
Opening balance	12,914,138	-
Transfer from exploration & evaluation expenditure	256,648	8,639,354
Expenditure during the period	8,829,897	4,274,784
Closing balance	<u>22,000,683</u>	<u>12,914,138</u>

All expenditure for the Mine Development is included in Development Expenditure. Development expenditure is recorded at historical cost. Upon reclassification from exploration and evaluation expenditure, the recoverable amount has been estimated as the asset's value in use, using the present value of future cash flows based upon available reserves calculated by the Company's geologists in accordance with industry guidelines, using a discount rate of 10%. As a result of this assessment, no impairment was deemed necessary.

NOTE 6 – SHARE CAPITAL

	<u>31-Dec-10</u>		<u>30-Jun-10</u>	
	Number	\$	Number	\$
Share Capital				
Ordinary shares - Fully paid	<u>92,561,000</u>	<u>55,293,183</u>	83,911,000	36,518,762
Movement in Ordinary Share Capital				
At 1 July 2010	83,911,000	36,518,762	68,846,000	22,982,385
Exercise of options, 1 November 2010	150,000	187,500		
Share placement, 18 November 2010	4,000,000	9,200,000		
Exercise of options, 19 November 2010	500,000	962,500		
Share placement, 22 December 2010	4,000,000	9,200,000		
Rights Issue, 28 July 2009			11,461,000	12,607,100
Exercise of options, 18 August 2009			250,000	62,500
Exercise of options, 5 October 2009			254,000	63,500
Exercise of options, 26 November 2009			30,000	21,600
Exercise of options, 10 December 2009			2,800,000	725,000
Exercise of options, 11 December 2009			70,000	50,400
Exercise of options, 6 January 2010			100,000	72,000
Exercise of options, 9 February 2010			100,000	72,000
Less: costs of issue		(758,498)		(651,111)
Tax effect of costs of issue		(17,081)		513,388
Closing balance	<u>92,561,000</u>	<u>55,293,183</u>	83,911,000	36,518,762

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Notes to the condensed interim financial statements

NOTE 7 – LOANS AND BORROWINGS

	31-Dec-10	30-Jun-10
	\$	\$
Loan - Henghou Facility - current	4,485,773	-
Loan - Henghou Facility - non current	14,323,162	13,954,966
	<u>18,808,935</u>	<u>13,954,966</u>

The Nullagine Iron Ore Project secured US\$50 million (interest free) in project finance with Henghou Industries (Hong Kong) Limited. Henghou made a payment of US\$15 million on 17 December 2009 (being US\$7.5 million to the Group), a payment of US\$15 million on 3 February 2010 (being US\$7.5 million to the Group) and a payment of US\$20 million on 2 July 2010 (being US\$10 million to the Group). The Group will repay its share of the facility at the amount of US\$5 million annually to Henghou over 5 years from December 2011. US\$5m of the loan balance is classified as a current liability on the statement of financial position as at 31 December 2010. As part of this facility BCI issued 8m options as non-cash interest consideration

NOTE 8 – RECONCILIATION OF CASH

For the purposes of the statement of cash flows, cash includes

	31-Dec-10	30-Jun-10
	\$	\$
Cash at Bank and on hand	22,357,183	499,429
Cash on Deposit	17,332,303	28,263,547
	<u>39,689,486</u>	<u>28,762,976</u>

NOTE 9 – EARNINGS PER SHARE

	Half-year ended 31 Dec 2010 Cents	Half-year ended 31 Dec 2009 Cents
(a) Basic earnings/(loss) per share	1.48	(1.81)
(b) Diluted earnings per share	1.62	
	\$	\$
(c) Profit (loss) used in calculating earnings (loss) per share		
Profit attributable to the ordinary equity holders of the Company	1,261,554	(1,438,313)
(d) Additional profit used in calculating diluted earnings per share	291,143	
Profit used in calculating diluted earnings per share	1,552,697	
	Number	Number
(e) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the year used in calculations of basic earnings/(loss) per share	85,204,478	79,632,120
(e) Diluted earnings per share denominator		
Vested share options outstanding at 31 December 2010	10,600,000	
Denominator used for the purpose of calculating diluted earnings per share	95,804,478	

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Notes to the condensed interim financial statements

NOTE 10 – SUBSEQUENT EVENTS

In January 2011, BC Iron received a cash offer from 19.9% shareholder Regent Pacific, to acquire all of the outstanding BC Iron shares not already owned for \$3.30 per share by way of a Scheme of Arrangement. As per ASX announcement dated 21 January 2011, BC Iron Directors will unanimously recommend that BC Iron shareholders vote in favour of the Scheme in the absence of a superior proposal and an Independent Expert concluding that the Scheme is in the best interests of shareholders.

On 31 January 2011 BC Iron achieved First Ore on Train for the NIOJV through Fortescue's Christmas Creek minesite. This marks the first time a junior iron ore miner has been able to transport iron ore on a third party's rail infrastructure in the Pilbara.

NOTE 11 – CONTINGENT LIABILITIES AND ASSETS

The Group is bound to the Minister in the State of Western Australia to the sum of \$152,000 security in order to comply with the conditions of the leases for the mining tenements.

On 16 December 2009, the Company received notice from Tennant Metals that it disputed BC Iron's termination of its Off-Take Agreement and would be referring the matter to arbitration. BC Iron denies any liability to Tennant Metals.

NOTE 12 – SEGMENT INFORMATION

Management has determined that the company has one reportable segment, being mineral exploration and development in Western Australia. As the company is focused on mineral exploration and development, 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 exploration and development activities, while also taking into consideration the results of exploration and development work that has been performed to date.

	31-Dec-10	31-Dec-09
	\$	
Total segment revenue	1,010,322	-
Adjusted EBITDA	1,010,322	-
Total segment assets	96,133,545	43,156,952
Total segment liabilities	12,794,750	1,293,287
Reconciliation of reportable segment profit or loss		
Adjusted EBITDA	1,010,322	-
Interest revenue	566,365	384,675
Other income	1,120,503	618
Unallocated: Corporate Expenses	(2,004,596)	(1,823,606)
Profit / (Loss) before income tax	692,594	(1,438,313)
	31-Dec-10	30-Jun-10
Segment liabilities	12,794,750	1,864,897
Deferred Tax Liabilities	-	-
Loans	18,808,935	13,954,966
Total liabilities as per statement of financial position	31,603,685	15,819,863



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

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of BC Iron Limited, which comprises the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of BC Iron Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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.

BDO Audit (WA) Pty Ltd ABN 79 112 284 757 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the International BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of BC Iron Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Peter Toll', with the BDO logo above it.

Peter Toll
Director

Signed in Perth, Western Australia
Dated this the 22nd day of February 2011.



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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
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22 February 2011

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

Dear Sirs,

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

As lead auditor of BC Iron Limited for the period ended 31 December 2010, 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 review; and
- any applicable code of professional conduct in relation to the review.

This declaration is in respect of BC Iron Limited and the entities it controlled during the period.

Peter Toll
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia