ASX RELEASE – 17 MAY 2011

BC IRON RELEASES SUMMARY OF INDEPENDENT EXPERT'S REPORT

Australian iron ore producer **BC Iron Limited** (**BC Iron** or **the Company**) (ASX:BCI) is pleased to advise that its independent expert, KPMG Corporate Finance (Aust) Pty Ltd (**KPMG**), has agreed to the release of a summary of the matters considered by KPMG in arriving at its opinion that the now terminated Scheme of Arrangement (**Scheme**) with Regent Pacific Group Limited (**Regent Pacific**) was not fair and not reasonable, and therefore not in the best interests of BC Iron's shareholders (**Summary Report**).

The Independent Expert's assessed value range for BC Iron (inclusive of a full premium for control and subject to various assumptions) as at the date of its original report (being 9 May 2011) was **$3.80 to $4.13 per share**, as compared to Regent Pacific's offer of $3.30. KPMG retained the services of Golder Associates to assist it in the valuation of the Company's mineral exploration, development and production assets, which make up the majority of this valuation.

The assumptions of KPMG are set out in the Summary Report which is now released.

Background to the KPMG Report

On 21 January 2011, BC Iron announced a Scheme with Regent Pacific offering to acquire all of the existing BC Iron shares not already owned by it for cash consideration of $3.30 per BC Iron share.

At that time, the BC Iron Directors unanimously recommended the Scheme in the absence of a superior proposal and subject to the opinion of an Independent Expert, concluding that the Scheme was in the best interests of BC Iron shareholders. In particular it was noted that BC Iron shareholders should have the opportunity to assess the merits of the Scheme with the benefit of all relevant information.

The Directors of BC Iron then commissioned KPMG to prepare an Independent Expert report in relation to the Scheme. Unfortunately, intervening events resulted in the Independent Expert report being delayed until Regent Pacific reinstated its finance for the Scheme in late April 2011. KPMG were then instructed to refresh and finalise the report which was completed last week.

KPMG formed the opinion that, after having regard to both valuation and other qualitative matters, the Scheme was neither fair nor reasonable and therefore **not in the best interests of the Company's shareholders**.

The Independent Expert's assessed value range for BC Iron of $3.80 to $4.13 per share was inclusive of a full premium for control, was subject to various assumptions and took into account material operational and fiscal developments since the Scheme was first proposed. BC Iron announced on 11 May 2011 that having regard to the conclusion of the Independent Expert, the BC Iron Board withdrew its recommendation of the Scheme and terminated the Scheme. The announcement outlined several material changes including the Nullagine Iron Ore Joint Venture Project (**NIOJV**) having been de-risked, being in production and progressing well. In particular, the NIOJV has recently approved an accelerated timetable for a production ramp up to 5 million tonnes per annum during the first quarter of 2012 that has added value to the Company since the date of the original announcement of the Scheme.

Summary Report

The Independent Expert report was prepared specifically in relation to the Scheme for inclusion in a Scheme Booklet. As the Scheme has been terminated, the report was not subject to normal regulatory review and the Scheme Booklet will no longer be sent to shareholders. This has resulted in the report not being in a form suitable for market release.

However, the Company has determined that it is appropriate, and KMPG has consented, to release a Summary Report, which accompanies this release. The Summary Report outlines KPMG's reasoning and the basis on which it reached its assessed values and opinion.

KPMG notes that a number of considerations applicable to the Scheme no longer apply.

Given the specific purpose for which the Summary Report has been prepared and the fact the Scheme is no longer proceeding, BC Iron notes that the Summary Report is provided solely for general information purposes and that readers are not entitled to place reliance upon its contents, including for making investment decisions in relation to BC Iron.

- ENDS -

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About BC Iron Limited

BC Iron is an iron ore development and mining company with key assets in the Pilbara region of WA. The Company's core asset is the Nullagine Iron Ore Project, a 50/50 joint venture with Fortescue Metals Group Limited. The JV will use Fortescue's infrastructure at Christmas Creek, 50 km south of the Mine, to rail its ore to Port Hedland from where it will be shipped to customers overseas.

Mining commenced in November 2010 and first ore on ship occurred in February 2011 - just over four years from listing on the ASX. The Company plans to export approximately 0.8Mt by mid 2011 at which point BC Iron will be mining at a throughput of 3Mtpa. It expects to have shipped 2.5Mt by end 2011 and will move to a throughput rate of 5Mtpa during the first quarter of calendar year 2012.

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The Directors
BC Iron Limited
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16 May 2011

Dear Sir

Summary of matters considered

1 Introduction

On 21 January 2011, BC Iron Limited (BC Iron or the Company) announced that it had entered into a Scheme Implementation Agreement (SIA) with its then 19.9% shareholder Regent Pacific Group Limited (Regent) and Regent Pilbara Pty Limited[1]. The SIA documented the proposed acquisition by Regent of all of the issued shares and outstanding options in BC Iron to which Regent and its related parties were not already entitled, with the acquisition to be completed by way of Scheme of Arrangement (the Scheme).

Whilst there was no statutory requirement to commission an independent expert report in relation to the Scheme, the SIA set out that the continuing recommendation of the BC Iron Board supporting the Scheme was subject to, amongst other things, an independent expert opining that the Scheme was in the best interests of those shareholders not associated with Regent (non-associated shareholders). Accordingly, KPMG Corporate Finance (Aust) Pty Ltd (KPMG) was appointed to prepare an independent expert report in relation to the Scheme.

On 9 May 2011, KPMG delivered its Independent Expert Report (the Detailed Report) to the Company which set out that, based on market and other conditions prevailing at that date, the Scheme was, in our opinion, not fair and not reasonable and therefore was not in the best interests of the non-associated shareholders. In the normal course, this report would have been provided to the Australian Securities and Investments Commission (ASIC) for review and comment prior to its release to non-associated shareholders as part of a Scheme Booklet.

BC Iron subsequently announced that having regard to our opinion and a specific written opinion from a Senior Counsel on the matter, the BC Iron Board had withdrawn its recommendation in respect of the Scheme and terminated the SIA, effective immediately. Accordingly, ASIC has not completed its standard review procedures in respect of the Detailed Report and the other meeting documentation.

[1] A wholly owned subsidiary of Regent Pacific Group Limited.

Given the termination of the Scheme and announcements already made by the Company to the market, we are advised that it is inappropriate for BC Iron to release the Detailed Report, BC Iron has however requested KPMG to prepare for release to non-associated shareholders a summary of the matters considered by us in forming our opinion as set out in the Detailed Report. KPMG has consented to do so. We note that there is no obligation for ASIC to review this summary of matters considered and it has not done so.

In considering the contents of this summary report readers should note however that given that:

- **the Detailed Report was prepared for a different purpose**
- **the Scheme has now been cancelled**
- **the Detailed Report has not been subject to the standard review procedures of ASIC,**

this summary report has been provided to BC Iron for distribution to non-associated shareholders solely for general information purposes. Accordingly, readers are not entitled to rely upon its contents for any purpose whatsoever, including the making of future investment decisions in relation to BC Iron.

Furthermore, readers of this summary report should also note that given:

- **the Detailed Report was prepared in the context of a proposed transaction that remained on foot at the date of its issue, which is no longer the case**
- **ASIC did not have an opportunity to comments on the Detailed Report as part of the larger Scheme Booklet**
- **our Detailed Report was intended to form part of a larger package of information for a meeting of non-associated shareholders,**

it is not considered appropriate for our Detailed Report to be released separately from the planned full package of meeting information.

2 Summary of the Scheme

The broad terms of the Scheme as they affected non-associated shareholders were that in consideration for the acquisition by Regent of all of the issued capital to which it was not already entitled, non-associated shareholders would receive $3.30 in cash for each fully paid ordinary BC Iron share on issue (the Consideration). The offer also extended to any BC Iron shares issued as a result of the exercise of BC Iron options before the Record Date for the Scheme. Regent was also to make separate offers to acquire all outstanding BC Iron options for a consideration of $3.30 in cash less the exercise price of the respective options.

Completion of the Scheme required the approval of non-associated shareholders and the satisfaction of various conditions precedent, including that an Independent Expert formed the view that the Scheme was in the best interests of non-associated shareholders.

3 Scope of the Detailed Report

The Detailed Report was prepared for inclusion in a Scheme Booklet to accompany a Notice of Meeting convening a Court ordered meeting of shareholders not associated with Regent in accordance with Section 411 of the Corporations Act 2001, as amended (the Act).

Section 412(1) of the Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act includes information that is material to the making of a decision by a member as to whether or not to agree with the relevant proposal.

Part 3 of Schedule 8 of the Corporations Regulations specifies that the explanatory statement to be sent to shareholders must include a report prepared by an expert where either:

- a party to the scheme of arrangement has a shareholding of not less than 30% of the voting shares in the company; or
- the parties to the proposed scheme have a common director(s).

The independent expert report must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

There was no statutory requirement for BC Iron to commission an independent expert as neither of the criteria above is triggered. However, given that such a report was envisaged in the SIA the Directors of BC Iron retained KPMG to prepare an independent expert report as to whether the Scheme was considered to be in the best interests of non-associated shareholders as a whole.

"In the best interests"

Regulatory Guide 111 "Content of expert reports" (RG111) issued by the Australian Securities and Investments Commission (ASIC) indicates the principles and matters which it expects a person preparing an expert report for inclusion in an explanatory statement to consider in determining whether the scheme of arrangement is "in the best interests of the members". With respect to determining the meaning of "in the best interests" paragraphs 111.20 to 111.22 of RG 111 state:

"If an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is in the best interests of the members of the company.

If an expert would conclude that the proposal was 'not fair but reasonable' if it was in the form of a takeover bid ………… it is still open to the expert to also conclude that the scheme is 'in the best interests of the members of the company'……….

If an expert concludes that a scheme proposal is 'not fair and not reasonable', then the expert would conclude that the scheme is not in the best interests of the members of the company".

Accordingly, we were required to consider whether the Consideration offered under the Scheme, being $3.30 in cash, for each fully paid ordinary BC Iron share on issue, reflected a fair consideration. In our opinion any assessment of whether the Scheme was, on balance, in the best interests of non-associated shareholders also required consideration of the other advantages and disadvantages likely to accrue to non-associated shareholders if the Scheme proceeded, with those if it does not.

Accordingly, in the context of our report the Scheme would have been in the best interests of non-associated shareholders as a whole, if non-associated shareholders as a whole had been assessed as being better off if the Scheme proceeded than if it did not.

4 Summary of opinion

The Scheme was not fair and not reasonable and, therefore, was not in the best interests of non-associated shareholders as a whole

In forming this opinion the principal matter we were required to consider was whether the Consideration offered to non-associated shareholders under the Scheme of $3.30 cash per share exceeded the fair market value of a BC Iron share on a 100% control basis as at the date of our Detailed Report, being 9 May 2011. In forming our opinion we had particular regard to the assessment of value of BC Iron's mineral assets completed by Golder Associates Pty Ltd (Golder), the technical specialist retained by us to assist in the valuation of BC Iron's mining, development and exploration assets, which underpinned our assessment of the fair market value of shares in BC Iron. KPMG and Golder, working together, assessed the fair market value of a BC Iron share, inclusive of a full premium for control, to lie in the range of $3.80 to $4.13 and therefore KPMG formed the opinion that the Consideration was not fair

In accordance with RG 111, notwithstanding that the Consideration was considered not fair, the Scheme may still have been considered to be "in the best interests" of non-associated shareholders as a whole, in the event there had been sufficient reasons for non-associated shareholders to support the Scheme in the absence of a superior offer.

Essentially, the key decision for non-associated shareholders in these circumstances would have been whether the opportunity for all non-associated shareholders to receive a certain cash amount of $3.30 per share at that time outweighed the uncertainty surrounding the ability of non-associated shareholders to realise, whether through future dividends and/or exit, an aggregate amount that exceeded, in present value terms, $3.30 at some point in the future. In addition, we believed that non-associated shareholders would have been required to consider whether receipt of a certain cash amount at that time represented adequate compensation for agreeing to accept less than a full premium for control.

In this regard we highlighted that, in the event that the Scheme was not approved, the ability of all existing non-associated shareholders to realise in present value terms an aggregate value in excess of the $3.30 cash being offered by Regent at that time would have been dependent upon, inter alia:

- future equity market sentiment, in particular toward BC Iron

  In the period immediately prior to the announcement of the Scheme, BC Iron's share price performed strongly, significantly outstripping both the Metals and Mining index and the more broader All Ordinaries Index, increasing rapidly from a closing price of $2.17 on 1 December 2010 to a pre-announcement closing high of $3.19 on 17 January 2011.

  In the period subsequent to the announcement of the Scheme on 21 January 2011 to the last trading day prior to the date of our Detailed Report, BC Iron's share price exhibited a significant degree of volatility:

  - closing at a high of $3.28 on 2 February 2011, before trading lower over the period prior to the announcement by Regent that it was seeking to terminate the SIA on 15 March 2011, closing at $2.82 on that date

  - immediately following the announcement that Regent was seeking to terminate the SIA 2011, BC Iron's share price fell sharply, closing at $2.40 on 16 March 2011

  - BC Iron's share price recovered some lost ground over the period to 13 April 2011, closing at $2.78 on that date

  - On 15 April 2011, the 1st trading day following confirmation that Regent had entered into a binding mandate letter for debt finance in relation to the Scheme and that Regent's Board intended to recommend the transaction to its shareholders, the Company's share price rallied, closing at $2.96

  - the Company's share price closed at $2.85 on 6 May 2011.

  BC Iron's share price exhibited a degree of sensitivity to announcements in relation to the Scheme, both positive and negative, and accordingly, we noted that there was a chance that the Company's share price may be adversely impacted in the event that the Scheme is not approved and in the absence of a superior offer. However, given recent announcements made by the Company to ASX in relation to the continuing progress being made towards full production at the Nullagine Project, and the information contained in the Detailed Report and elsewhere in the draft Scheme Booklet, of which our Detailed Report was to form a part, we were not aware of any reason to expect, based on information available at the date of the Detailed Report, that BC Iron's share price should fall materially from prevailing levels at that time in the absence of the Scheme.

  We highlighted however, that we considered there to be some uncertainty as to the extent of any further upside left in the BC Iron share price as traded on the securities exchange of ASX in the absence of the Scheme or a superior alternative offer. In this regard, we noted that our range of assessed fair values for a BC Iron share of between $3.80 and $4.13 represented the full underlying value of BC Iron at the date of the Detailed Report, inclusive of a full premium for control and therefore exceeded the price at which, based on then prevailing market conditions, we would expect a

BC Iron share to have traded on ASX in the absence of the Scheme or similar transaction. This reflects simply that since trading on ASX in the ordinary course represents marginal trades of minority interests and therefore excludes a premium for control.

We also noted that, having regard to the liquidity in BC Iron's stock in the period leading up to the announcement of the Scheme and subsequently, should a large proportion of BC Iron's shareholders wish to exit on market in the short term, this would likely to result in a significant overhang in BC Iron's stock. In these circumstances, in the absence of the Scheme or an alternative offer emerging, this may place downward pressure on BC Iron's share price and limit the ability of a significant number of BC Iron shareholders to exit their investment at a price above $3.30 in the short/medium term.

- future movements in commodity and exchange rate markets

  We noted that our range of assessed values for a BC Iron share has particularly sensitive to movements in the iron ore price and exchange rate assumptions adopted by us. Commodity and exchange rate markets have exhibited a significant degree of volatility in recent times and there is a wide range of views on the part of commodity and market analysts as to future iron ore prices and exchange rates. KPMG's forecast spot commodity price and exchange rate assumptions were determined after consideration of the forecasts of various market analysts, economic commentators and currency forward curves. However, a wide range of assumptions could credibly have been adopted, which would have impacted our assessed fair values either positively or negatively depending upon the view taken.

- the future success of BC Iron's operations

  The underlying value of BC Iron can be expected to change as it moves through its development cycle. Whilst the range of values attributed to BC Iron and, in particular BC Iron's interest in the NIOJV, were considered reasonable at the date of the Detailed Report, the fair value of the Company may increase significantly, or conversely decline in value, depending upon the outcome and timing of future expansion plans, the success of future exploration programmes and any corporate activity and/or asset acquisitions that may be undertaken.

  In this regard approximately $24.8 million of the value ascribed to BC Iron's interest in the Nullagine Project ($0.24 per share) by Golder was based upon an assumption by Golder of the successful future conversion of approximately 51% of existing mineral resources to mining inventory. Furthermore, the final timing for the planned accelerated ramp up in production to 5 million tonnes per annum (Mtpa) (and therefore acceleration of cash flows from that previously contemplated) during the first quarter of 2012 is leveraged, at least in part, to the timing of delivery of the PowerTrans haulage trucks on order, which is outside the control of BC Iron.

- the emergence of an alternative offer from Regent or a third party on more favourable financial terms than that put forward

The directors of BC Iron have, over time, held discussions with various parties in relation to both acquisition and divestment opportunities, however we were informed that the Company was not aware of any alternate formal offers to that put forward by Regent capable of acceptance at the date of the Detailed Report either for the Company as a whole or for individual assets.

Whilst an alternative offer to that put forward by Regent could not be discounted, we noted that, in order to succeed, any offer for BC Iron as a whole by a party other than Regent and Consolidated Minerals Limited (Consolidated Minerals) would likely require the support of both those parties to succeed.

- the future dividend policy of the Company

  The Company has not paid any dividends to date and we were advised that no decision in relation to the future dividend policy of the Company had been made by the Board.

In accordance with RG 111, an offer may still be reasonable notwithstanding it is not fair in the event there are sufficient reasons for non-associated shareholders to support the Scheme in the absence of a superior offer.

Whilst we recognised that there were certain factors that could be attractive to non-associated shareholders, including that Regent's cash offer of $3.30:

- provided certainty to investors in terms of the pre-tax return on investment
- represented a premium to both:
  - the price at which BC Iron shares closed on the day immediately prior to the date of the Detailed Report
  - the highest price at which BC Iron had ever traded in the past,

having regard to the foregoing and also to each of the qualitative advantages and disadvantages set out further below, in our opinion, these were, on balance, not sufficient to conclude that non-associated shareholders should be prepared to accept an amount that does not incorporate an equitable level of control premium.

A further summary of our assessment of the key issues considered in forming our opinion are set out below.

4.1 Assessment of the fairness of the Scheme

The Consideration to be received by non-associated shareholders of $3.30 for each BC Iron share on issue was not fair

We assessed the underlying value of BC Iron, inclusive of a premium for 100% control, to lie in the range of $397.3 million to $432.0 million, or between approximately $3.80 and $4.13 per BC Iron share as summarised in the table below. This compared to the Consideration offered under the Scheme of $3.30 per share. Accordingly, the Consideration was assessed as being not fair.

Table 1: Summary of assessed fair market value of BC Iron, inclusive of a full premium for control

	Assessed values	
	Low $M	**High $M**
50% interest in the Nullagine Iron Ore Joint Venture	366.8	398.7
Other mineral assets	1.5	3.0
Total mineral assets	**368.3**	**401.7**
Add: Cash and cash equivalents	25.0	25.0
Utilisation of tax losses	5.7	5.7
Other net assets	2.0	3.4
Less: Loans and borrowings	(18.8)	(18.8)
Total equity value before options	**382.2**	**417.0**
Proceeds from unlisted options exercised	15.0	15.0
Total equity value diluted	**397.3**	**432.0**
Number of ordinary shares (million)	94.4	94.4
Unlisted options exercised (million)	10.3	10.3
Number of ordinary shares (million) diluted	104.6	104.6
Value per share, inclusive of a full premium for control	**3.80**	**4.13**
Note: Figures may not add exactly due to rounding		

Source: KPMG analysis and Golder report

Our range of assessed values was prepared on a sum of the parts basis and incorporated corporate cost savings that would generally be available to a pool of purchasers. It did not include other strategic or operational benefits unique to Regent associated with control of BC Iron. With respect to an offer for BC Iron we considered it reasonable to expect there to be a premium to reflect the advantages associated with acquiring a pool of assets and other strategic and operational benefits.

Our range of assessed fair values at the date of the Detailed Report represented:

- a premium of between 19% and 30% to the last closing price for a BC Iron share on the day immediately prior to the announcement of the Scheme

- a premium of between 30% and 41% to the volume weighted average trading price (VWAP) for a BC Iron share in the period from 21 January 2011 to 6 May 2011

- a premium of between 33% and 45% to the closing price for a BC Iron share on 6 May 2011

- a premium of between 19% to 63% to the pre-announcement VWAP of BC Iron at various points in the three months prior to the announcement of the Scheme.

Various empirical studies in relation to premia paid in transactions where large parcels of shares to which control may attach have been acquired indicate that control premia typically vary between 25% and 40% for publicly traded shares. We also noted that various recent bids for iron ore companies in the Australian market place have been made at prices representing premia toward or higher (in some instances materially) than this range. We noted however that it was reasonable to expect that the premia offered in these transactions likely included a component for operating synergies and, in some cases, significant special benefits unique to the offeror that are not separately identifiable.

Where little or no operating synergies or special benefits will be realised in a transaction, the simple control premium is likely to be closer to the lower end of observed premia.

It was noted that Regent currently does not have any local representation and, having regard to its current suite of investments, was unlikely to realise any significant direct operational synergies or cost savings as a result of completing the Scheme. Furthermore, with a pre-existing 19.9% interest in the BC Iron, Regent already holds a position of significant influence/blocking stake in the Company in the absence of a transaction. That said, we noted that from a strategic point of view, Regent had publically acknowledged that:

- the acquisition of BC Iron would have established Regent as a relevant player in the Pilbara iron ore market

- the acquisition would have enhanced and diversified Regent's exposure to the suite of natural resources which feeds the China growth story

- the combination of BC Iron's technical and operational expertise in iron ore and Regent's project management and development skills across various asset classes would have positioned the expanded Regent well to progress and/or expand BC Iron's asset base on an accelerated basis.

Regent had also acknowledged that BC Iron's 50% stake in the NIOJV represented an attractive investment, on a "business as usual" basis, and that the transaction would have been earnings accretive in the first full financial year after completion.

Valuation Methodology

The principal asset of BC Iron comprises its 50% interest in the Nullagine Iron Ore Joint Venture (NIOJV) in Western Australia which operates the Nullagine Project. Such assets have limited lives and future profitability and mine life depends upon, amongst other factors, successful mining, a market for the product and the outcome of exploration and development programmes that are inherently unpredictable.

In our experience, the most appropriate method for determining the value of companies similar to BC Iron is on the basis of the fair value of their underlying net assets, with the principal operating assets being valued using the discounted cash flow (DCF) approach.

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of BC Iron's assets, Golder was engaged to prepare an independent technical report providing a valuation of BC Iron's mining, development and exploration assets. We satisfied ourselves as to Golder's qualifications and independence from BC Iron and Regent for the purpose of the valuation.

Golder calculated pre-tax technical values in relation to BC Iron's 50% interest in the NIOJV, which were then adjusted by us to reflect matters not addressed by Golder, including an assessment of income tax and potential Minerals Resource Rent Tax (MRRT) payable based on current information available to the market. KPMG also provided Golder with various macro-economic and other financial inputs for use in its valuation model including iron ore prices, exchange rates, discount rates, inflation and taxation assumptions.

Due to the various uncertainties inherent in the valuation process, Golder determined a range of values within which it considered the value of each of the mineral assets of BC Iron to lie. The valuations ascribed by Golder to the mineral assets of BC Iron were adopted in the Detailed Report.

In respect of the NIOJV, we considered the commercial, operational and financial assumptions used in Golder's cash flow model and based on our enquiries and analysis considered there to be a reasonable basis for their adoption. Golder also confirmed that its valuation report had been prepared in accordance with the requirements of Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports.

It is important to note, however, that the values derived by Golder in respect of the Nullagine Project represented technical values, that is, they assumed the successful exploitation of the Nullagine Project following the resolution of all key operational and development risks in the timeframe contemplated. We noted that they did however reflect a number of important risks, including:

- whilst the terms for the operation of the NIOJV, access to Fortescue Metals port and rail infrastructure and marketing arrangements have been agreed to between the parties by way of binding term sheets, the long form agreements for the port and rail infrastructure and marketing had not been formally executed at the date of the Detailed Report. Notwithstanding these documents awaited execution, we were advised by the Company that the NIOJV had been operating in a highly co-operative spirit and manner.

- the risk associated with not being the owner of the rail and port infrastructure that is critical to the future operation of the Nullagine Project. Any disruption to the Company's port and rail access was considered to have the potential to result in an adverse impact to BC Iron's future cash flow and profitability

- whilst with the commencement of initial mining operations, BC Iron had addressed a significant proportion of the development risks associated with the Nullagine Project, full steady state production had yet to be achieved

- the developmental and timing risk associated with the proposed staged expansion in future production rates. The NIOJV partners have agreed to ramp up production from 3 Mtpa to 5 Mtpa by early 2012. Therefore, the NIOJV has brought forward commissioning of additional PowerTrans haul trucks so that 8 units are expected to be delivered and operational by early 2012. Any delay in achieving the planned ramp up in production in the timeframe contemplated would adversely impact on our range of assessed fair values

- the risk and uncertainty attaching to the future success of exploration programmes underpinning the expansion in mining inventory toward the end of the projected mine life assumed by Golder

- the risk that the final legislation for a MRRT may differ from that assumed.

In addition, we noted that a large proportion of BC Iron's near term production is subject to off-take agreement with Henghou, priced at an agreed discount to the prevailing spot market. We highlighted that this may reduce the corporate attractiveness of BC Iron to any potential industry or downstream buyer.

In considering the foregoing, we considered however that, from our observation of the performance of the NIOJV and based on BC Iron's view that Fortescue Metals has proactively and constructively provided assistance to the Company in accordance with, and in some instances, well beyond that agreed to between the parties, these risks appeared to have been, at least partially, mitigated.

Other assets and liabilities of BC Iron were incorporated in our valuation at assessed values or book values as at 31 March 2011, as discussed later in this section.

Valuation of the Nullagine Iron Ore Joint Venture

Golder valued BC Iron's 50% interest in the reserves and resources forming part of the NIOJV on the basis of DCF analysis as lying in the range of $366.7 million to $398.7 million having regard to its sensitivity analysis around its base case cash flow projections. A summary of the results of Golder's valuation is shown in the table below.

Table 2: Golder's NIOJV valuation

	Low $M	High $M
NPV of ore reserves	345.7	369.5
NPV of mineral resources and exploration targets	21.1	29.2
Total	**366.8**	**398.7**

Source: Golder

Key operational assumptions

Golder's cash flow model was based on BC Iron's own internal modelling, adjusted by Golder where considered appropriate. The principal adjustments made by Golder included:

- the adjustment of BC Iron's cash flows from real to nominal (i.e. inflation adjusted) terms where appropriate
- adoption of the macro-economic assumptions advised to Golder by KPMG, which are discussed further below
- extension of the assumed mine life by six years to reflect a notional future conversion of 51% of resources to mining inventory.
- the inclusion of a rise and fall adjustment to mining, crushing, screening and haulage costs at a rate consistent to the general inflation rates advised by KPMG
- inclusion of an allowance for increased operating costs per tonne in respect of those additional resources assumed to be converted to mining inventory toward the end of the project
- incorporation of a 6% increase to rail and port costs to allow for moisture
- inclusion of the estimated potential cash flow impact of a Mineral Resource Rent Tax based on KPMG's advice

Set out below is a comparison of the key operational assumptions over the period to 2019 (which approximates the current mine life based on existing reserves) and over the period to 2025, being the notational extended mine life.

Table 3: Key operating assumptions

Factors	Assumptions	
	2011 - 2019	2011 - 2027
Mine Life – years	9	15
Full production throughput – Mtpa	5.0	5.0
Total capital cost (nominal) - $M[1]	49.7	78.1
Average cash cost (nominal) - $/t[2]	42.8	53.2
Total ore shipped - Mt	35.6	69.5
Average Fe grade % - fines	56.9	56.7

Note:
1. Total future capital costs (i.e. does not include sunk costs)
2. Administration, marketing and management costs not included

Source: Golder

Economic and financial assumptions

Commodity prices

Commodity pricing assumptions utilised by Golder over the period to 2018, as advised by KPMG, are summarised in the tables below.

Table 4: Summary of iron ore price assumptions

	2011	2012	2013	2014	2015	2016	2017	2018
nominal USc/dmtu								
Fines (FOB)	245	235	205	180	165	150	135	120

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

Subsequent to 2018 we assumed the iron ore price increase by the assumed long-term inflation rate for the United States of 2.5% per annum, such that the real price, is maintained at a constant level.

Selection of appropriate pricing assumptions to include in the forecast cash flows of any asset or business operation is fundamentally a matter of judgement. However, these prices should attempt to reflect those assumptions that purchasers would use in assessing the value of any target company's operations. In selecting appropriate projected commodity prices we considered the expectations of market commentators and broking houses in determining an appropriate benchmark for our pricing assumptions both in the period prior to the date of the Detailed Report and over recent years.

Exchange rates

The exchange rate assumptions adopted in respect of the NIOJV are summarised in the table below.

Table 5: Summary of exchange rate assumptions

	2011	2012	2013	2014	2015
AUD:USD	1.05	0.99	0.95	0.91	0.87

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

The AUD:USD exchange rate was assumed to remain constant post 2015 based on assumed long-term inflation rates in Australia and the United States of 2.5% per annum such that purchasing power parity is maintained. Forecast exchange rates were assessed by us having regard to the then prevailing spot exchange price (in the order of AUD:USD 1.08), the then prevailing forward exchange curve and also forecasts published by various broking houses and economic commentators.

Inflation

Inflation rate assumptions adopted by Golder in the period as advised by KPMG are set out in the table below.

Table 6: Summary of inflation assumptions

	2011	2012	2013	2014	2015
Australia	3.0%	3.0%	3.0%	2.5%	2.5%
United States	2.0%	2.0%	2.3%	2.3%	2.5%

Source: CapitalIQ, brokers' notes, various economic commentaries and KPMG analysis

Australian and United States inflation were determined having regard to the forecasts of a range of brokers and economic commentators. Subsequent to 2015, the rate was assumed to remain constant at 2.5% per annum for both Australia and the United States.

MRRT

The Australian Federal Government recently announced its intention to introduce an MRRT regime applicable to iron ore and coal projects from 1 July 2012. Based on the current structure of the proposed MRRT, the NIOJV would be subject to assessment under this regime.

We considered the potential impact of a MRRT on the NIOJV, based on the current structure of the proposed regime, as set out in various papers released by the Government and the Policy Transition Group and we included the estimated potential impact of this in our valuation of the NIOJV. In the event that the final structure of a MRRT differs significantly from that expected by the market this could have a significant impact upon our range of values, either positively or negatively.

Other assumptions

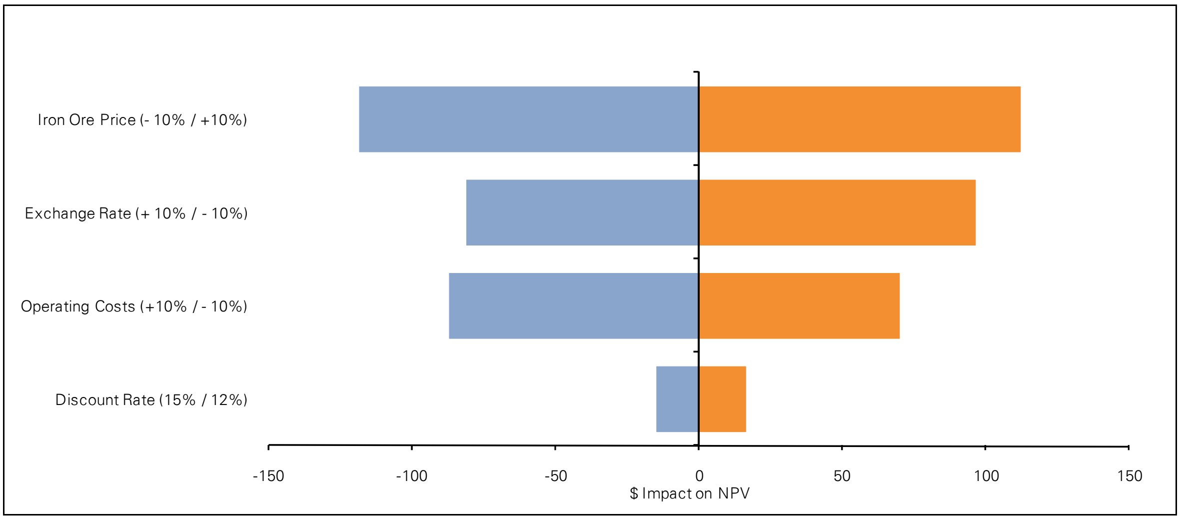
Other key financial and economic assumptions adopted by us in assessing the value of the NIOJV include:

- an Australian corporate tax rate of 30% over the period to 2013, reducing to 29% from then on, reflecting the introduction of a MRRT
- an ungeared, post tax nominal discount rate of 14.0% per annum.

Sensitivity analysis

Golder undertook a sensitivity analysis around its low and high cases for the NIOJV based on a range of operational, commercial, financial and other key assumptions. We have summarised the outcome for the base case in the figure below.

Figure 1: Value Sensitivity



Source: Golder

The sensitivity analysis indicates that the assessed value of the NIOJV is extremely sensitive to movements in the iron ore price and exchange rate, with moderate sensitivity to changes in operating expenditure.

Exploration potential / valuation of other mineral assets

Bungaroo Creek

Golder assessed the value of BC Iron's Bungaroo tenements in the Western Pilbara to be in the range of $1.5 million to $3.0 million.

Other assets

Net assets not valued as part of BC Iron's mining operations comprised cash, non-mining items of plant and equipment and sundry other assets and liabilities. Except as specifically noted below, having regard to their nature and quantum, these assets and liabilities were incorporated in our valuation at net book values as at 31 March 2011.

Cash

We adopted BC Iron's cash holdings of $25.0 million as at 31 March 2011.

Inventories

Iron ore stockpiles were included in Golder's cash flow model. Stores and consumables were valued separately as part of working capital movements.

Working capital

Trade debtors, consumables, and trade creditors, were assumed to be realised and replenished on an ongoing basis over the life of the NIOJV. Working capital movements were calculated after consideration of the ratio of average trade debtors, consumables and trade creditors for various comparable companies in respect of each company's last full financial year to the relevant company's full year operating revenue.

Property, plant and equipment

Items of plant and equipment required for the operation of the NIOJV were incorporated in our valuation of the NIOJV. Non-mining property, plant and equipment was included in other net assets at the Company's written down value as at 31 March 2011.

Off balance sheet items

Management fee income and future corporate overheads

BC Iron's entitlement to recover its indirect or overhead costs incurred in providing corporate, administration and other services to the NIOJV and costs expected to be incurred in relation to corporate overheads (after adjustment for assessed synergies and cost savings available to a pool of purchasers) were valued based on the net present value of the assessed cash flow stream having regard to the development and operational profile determined by Golder as being reasonable.

Tax losses

We assessed the value of BC Iron's revenue tax losses to be approximately $5.7 million after having principal regard to BC Iron's forecast earnings profile and resultant tax payable position arising from its iron ore operations in conjunction with our discount rate determined to be appropriate for BC Iron's operations.

Proceeds from the exercise of options

At the date of the Detailed Report, BC Iron had approximately 10.3 million option on issue, all of which had fully vested. Where our assessed undiluted value of a BC Iron share exceeded the exercise price of the vested options, the options were considered to be 'in-the-money' and therefore we assumed that the relevant holders would seek to maximise their financial position by exercising the options.

As such we included $15.0 million of funds to be received upon exercise of 10.3 million options under both the low and high ends of our range of fair market values. A corresponding increase to the number of shares on issue was also been included in order to derive our diluted equity values

4.2 Assessment of the reasonableness of the Scheme

Advantages

The Consideration represented a premium to recent trading prices for BC Iron shares

The Consideration of $3.30 cash for each BC Iron share represented a premium to BC Iron's historical VWAP in the three months leading up to the announcement of the Scheme as detailed in the table below.

Table 7: Assessment of implied premium of the Consideration to pre-announcement trading prices

Period up to and including 18 January 2011	VWAP $	Consideration $	Premium %
1 day	3.18	3.30	3.8
1 week	3.10	3.30	6.4
1 month	2.93	3.30	12.6
3 months	2.53	3.30	30.4

Source: IRESS and KPMG analysis

The Consideration of $3.30 cash also represented:

- a premium of 13% to the volume weighted average trading price (VWAP) for a BC Iron share in the period from 21 January 2011 to 6 May 2011
- a premium of 16% to the closing price for a BC Iron share on 6 May 2011.

As noted previously, based on the findings of various empirical studies in relation to premia paid in the acquisition transactions where large parcels of shares to which control may attach have been acquired, we consider, on balance, that it is reasonable to expect that successful transactions are typically likely to complete within an acquisition premium range of 25% to 40%, but that this can vary with, in particular, the level of control already held by the offeror and also the level of synergistic benefits expected to be achieved as a result of the transaction.

Furthermore, various recent bids for iron ore companies in the Australian market place have been made at prices representing premia toward the higher end or higher than this range, but, it is reasonable to expect that the premia offered in these recent transactions likely included a component for operating synergies and, in some cases, significant special benefits unique to the offeror that are not separately identifiable.

A number of these companies did not record the rapid increase in share price that BC Iron's share price achieved in the periods leading up to the announcement of the respective offers. As noted previously, in our view there was some uncertainty as to the level of upside remaining in BC Iron's share price in the absence of the Scheme or a similar transaction.

The Consideration offered under the Scheme provided the opportunity for all non-associated shareholders to exit their investment now for a certain cash amount

Pursuant to the terms of the Scheme, non-associated shareholders would have received a fixed consideration of $3.30 per BC Iron share on issue in the event that the Scheme had been approved. This would have provided certainty to shareholders in relation to the pre-tax amount shareholders would receive for their investment and, at the date of the Detailed Report, represented a premium to the highest price at which BC Iron shares had ever traded.

Furthermore, acceptance of the Scheme would have provided an opportunity for all non-associated shareholders to exit their investment at that time at the price offered. It was noted that in the absence of the Scheme or a similar transaction, shareholders wishing to exit their investment would be required to do so through the securities exchange of ASX, which may also incur brokerage fees.

Having regard to the volume of trading in BC Iron shares in the period prior to the announcement of the Scheme, we considered it likely that, should a significant proportion of non-associated shareholders wish to exit their investment in the future, this would be required to be completed over an extended period in order to avoid an overhang in BC Iron's stock.

Disadvantages

Non-associated shareholders would not retain an interest in BC Iron or its assets unless they chose to re-invest the proceeds realised in Regent shares

In the event that the Scheme had been successfully implemented, Regent would have acquired all of the issued shares and options in BC Iron to which it was not already entitled. Accordingly, current non-associated shareholders would no longer have held an interest in the Company or its assets.

As BC Iron's mineral assets continue to be developed and any residual operational matters resolved, the timing and technical risk associated with BC Iron's current cash flow forecasts were reasonably expected to reduce. All other things being equal, this could potentially result in an increase in assessed values. In particular, we noted that:

- production at the Nullagine Project is yet to achieve full ramp-up and steady state operations and that certain key infrastructure, in particular the haul road between the mine and the rail depot at Fortescue Metals Group Limited's (Fortescue Metals) Chichester operations is yet to be completed, although this expected to be achieved in the short term.

- the NIOJV management committee has agreed to an acceleration in production rate to 5 Mtpa in the first quarter of 2012, however the ability to realise the full benefit in cash flow terms of the NIOJV's planned future expansion is leveraged, at least in part, to the timing of delivery of additional PowerTrans haulage trucks to achieve the planned ramp up

- BC Iron is currently undertaking further drilling with the view to converting existing resources to the reserve category, which if successful could reasonably be expected to extend the current mine life of the Nullagine Project. In arriving at its range of assessed technical values for the Nullagine Project, Golder assumed a 51% future conversion of resources to mining inventory.

Conversely, in the event that the above issues are not successfully resolved or take longer to achieve than currently contemplated, we noted that this would have an adverse impact on assessed values.

Given Regent is a publicly listed company on the HKSE, we had regard to the fact that it would have been open to those non-associated shareholders wishing to retain an exposure to the Nullagine Project to re-invest the proceeds realised on completion of the Scheme in Regent. Based on publicly available information, Regent's investment in BC Iron would have represented by far its most significant asset and therefore investing shareholders would have been able to retain significant leverage to BC Iron's assets. We pointed out however that being incorporated in the Cayman Islands and listed on the HKSE, Regent is subject to differing laws and regulations to those applicable to an Australian domiciled listed company. Moreover we had not undertaken any exercise to consider the value of shares in Regent. In addition, reinvesting shareholders would also have been be exposed to upside and downside risks through future movements in foreign exchange rates to the extent any dividends and/or capital returns paid by Regent were made in Hong Kong dollars.

Taxation

In the event that the Scheme had been implemented, non-associated shareholders would have received $3.30 cash for each BC Iron share currently held, which may, depending upon individual non-associated shareholder's taxation position, have given rise to Capital Gains Tax at a time that may not have been advantageous to individual non-associated shareholders. BC Iron shareholders were strongly encouraged to read the outline of the taxation implications of approving the Scheme prepared by BC Iron, which were to be included in the Scheme Booklet and, if in any doubt, should seek their own independent taxation advice regarding the taxation.

Other considerations

Whilst the Company was not aware of any alternate formal offers capable of acceptance at the date of the Detailed Report, the potential for an improved offer could not be discounted

Whilst the directors of BC Iron have over time held discussions with various parties in relation to both acquisition and divestment opportunities, we were informed that the Company was not aware of any alternate formal offers capable of acceptance at the date of the Detailed Report, either for the Company as a whole or for individual assets to that put forward by Regent.

We noted however that, as a result of the terms of the SIA, the Directors had been precluded from actively seeking alternative offers in the market to that put forward by Regent subsequent to the announcement of the Scheme.

We considered that a number of potential impediments existed which may have dampened the prospects of a significant over-bid by a third party emerging, including:

- the terms of the SIA, which provided Regent with a 5-day period in which it had the right to match any competing proposal that may emerge that BC Iron determined to be a superior offer
- a significant portion of BC Iron's medium term production is subject to a pre-existing off-take agreement entered to into with Henghou Industries (Hong Kong) Limited on terms representing a discount to the prevailing spot price at the time of delivery, which may be unattractive to an alternate industry/downstream participant.

However, in our view having regard to:

- the pre-existing shareholding of Consolidated Minerals in BC Iron
- the 50% interest of Fortescue Metals in the NIOJV and the strategic location of the Nullagine Project proximal to Fortescue Metals' existing Christmas Creek project
- BC Iron's advice to the market on 21 January 2011, that all contracts and agreements entered into by the Company and its subsidiaries will be unaffected by any change of control and will remain in full force

an alternative offer from either of these parties could not be discounted. Furthermore, we were aware that at least one other party had expressed interest in acquiring a significant interest in the Company in the past.

We cautioned however that, whilst non-associated shareholders could reject the Scheme in the hope of an alternative transaction emerging or that Regent would increase its offer beyond that put forward, there could be no guarantee as to either outcome eventuating. Furthermore, any offer for BC Iron as a whole would require the support of both Regent and Consolidated Minerals to succeed.

Consolidated Minerals' voting intentions were critical to the outcome of the Scheme and, at the time of our Detailed Report, were uncertain

In order to succeed, the Scheme was required under the Act to receive approval from non-associated shareholders representing 50% in number and 75% of the votes cast by eligible shareholders, in person or by proxy, at the meeting of non-associated shareholders.

Based on information available at the date of the Detailed Report, Consolidated Minerals held approximately 26% of the votes eligible to be cast at any meeting of non-associated shareholders (after reflecting that Regent is unable to vote) and, as such, its voting intentions were critical to the prospects of the Scheme being completed. Having regard to the composition of BC Iron's share register, in our view there was a strong likelihood that the outcome of any vote in relation to the Scheme would have been consistent with the voting of Consolidated Minerals.

Consolidated Minerals had not, at the date of the Detailed Report, indicated its voting intentions and had been reported in the media to be awaiting upon receipt of all relevant information in relation to the meeting of non-associated shareholders, including the Detailed Report, prior to making any decision in relation to its voting intentions.

It was highlighted that the voting intentions of Consolidated Minerals may not have been known prior to the time at which non-associated shareholders were to meet to consider the Scheme.

In the event that the Scheme was not approved, there did not appear to be any compelling reason, in the absence of worsening market conditions, to expect that BC Iron's share price would fall materially

Whilst past trading results provide no guarantee as to future prices and the Company's share price subsequent to the announcement of the Scheme would have reflected factors other than just the terms of the Scheme, including, amongst others, the release of the Company's quarterly and half-yearly reports, announcements around operational matters and commodity and exchange rate movements in general; given announcements made by the Company to ASX to the date of the Detailed Report in relation to the continuing progress being made towards full production at the Nullagine Project, and the information contained in the Detailed Report and elsewhere in the Scheme Booklet to be provided to shareholders, we formed the view that there was no compelling reason to expect, based on information available at the time, that BC Iron's share price should fall materially from the then prevailing levels.

We did, however, note that, to the extent that speculators seeking to take advantage of arbitrage opportunities had acquired shares in the period subsequent to the announcement of the Scheme, those parties may have sought to exit their investment in the event that the Scheme was unsuccessful, which may lead to some volatility in the Company's share price.

Directors' intentions

BC Iron's Directors had previously advised the market, that subject to the opinion of the Independent Expert and in the absence of a superior offer, they unanimously recommend the Scheme to non-associated shareholders.

We noted that, in the event the Independent Expert formed a view that the Scheme was not in the best interests of non-associated shareholders, it was open to the Board, subject to the satisfaction of certain requirements under the SIA, to withdraw its recommendation. However, we were not aware at the time of issue of the Detailed Report whether, in light of our opinion that the Scheme was not in the best interests of the non associated shareholders, the Board intended to withdraw its recommendation of the Scheme to non-associated shareholders.

Other Implications if the Scheme was not approved

If the Scheme was not approved by non-associated shareholders, we noted that amongst other things:

- BC Iron would continue to be listed on ASX

- The Directors of BC Iron anticipated that the business of BC Iron would, in the foreseeable future, continue to be conducted in the manner in which was presently conducted and continue to operate in line with the Board's previously stated objectives

  In this regard we noted that BC Iron had previously indicated that it may consider seeking out potential corporate/asset transactions in order to diversify away from its one project exposure. Whilst a number of potential opportunities had been considered to date, none had been assessed as having an appropriate risk/reward profile having regard to the limited cash reserves of the Company. Our discussions suggested that, in the absence of such a transaction in the future, a divergence of views could emerge as to the appropriate future application of expected free cash flows from participation in the NIOJV

- various costs had been incurred in planning and implementing the Scheme

- the ability of all non-associated shareholders to exit in current dollar terms their investment in the near term at a price at or above the $3.30 cash consideration being offered was uncertain and would be dependent upon a number of factors outside the control of non-associated shareholders both individually and collectively.

5 Other matters

In forming our opinion, we considered the interests of non-associated shareholders as a whole. As is common practice, our advice therefore did not consider the financial situation, objectives or needs of shareholders individually. It was not practical or possible to assess the implications of the Scheme on individual shareholders as we did not know their specific financial circumstances.

The decision of non-associated shareholders as whether or not to approve the Scheme would have been a matter for individual shareholders based on, amongst other things, their tax profile, liquidity preference, investment strategy and tax position. Individual non-associated shareholders were therefore urged to consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolution may have been be influenced by his or her particular circumstances, we recommended that individual non-associated shareholders seek their own independent professional advice.

Our opinion was based solely on prevailing market, economic and other conditions and information available as at the date of the Detailed Report. It was noted that conditions can change over relatively short periods of time and that any subsequent changes in these conditions could impact upon our opinion.

Our report was prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. We recommended residents of foreign jurisdictions who were entitled to receive the Detailed Report and who were uncertain as to the consequences of this seek their own independent professional advice.

6 Limitations and reliance on information

In preparing the Detailed Report and arriving at our opinion, we considered various Company and publicly available information. Nothing in this report should be taken to imply that KPMG verified any information supplied to us, or in any way carried out an audit of the books of account or other records of BC Iron for the purposes of this or the Detailed Report.

Further, we note that an important part of the information base used in forming our opinion comprised of the opinions and judgements of management. In addition, we also had discussions with BC Iron's management in relation to the nature of the Company's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information was evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

We have no reason to believe that any material facts were withheld from us but do not warrant that our inquiries revealed all of the matters which an audit or extensive examination might disclose. The statements in this report are, and the statements and opinions included in Detailed Report were, given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG and Golder included, where available, budgeted/prospective financial information prepared by the management of BC Iron and amended by KPMG and/or Golder where considered appropriate. Whilst KPMG relied upon this budgeted/prospective information in preparing this report, BC Iron remains responsible for all aspects of this budgeted/prospective information. Achievement of budgeted/prospective results is not warranted or guaranteed by KPMG. Budgeted/prospective results are by their nature uncertain and are dependent on a number of future events that cannot be guaranteed. Actual results may vary significantly from the budgeted/prospective results relied on by KPMG. Any variations from budgeted/prospective results may affect our valuation and opinion.

We note that the budgeted/projected results prepared by BC Iron did not include estimates as to the potential impact of any future emissions trading scheme (ETS) or carbon pricing in Australia as the structure of any such ETS/pricing mechanism is unable to be reliably determined at this time.

Yours faithfully

J Hughes

Jason Hughes
Authorised Representative

D Calder

Duncan Calder
Authorised Representative