



ASX RELEASE – 28 OCTOBER 2014

SEPTEMBER 2014 QUARTERLY ACTIVITIES REPORT

- **Recommended takeover of IOH announced – currently completing compulsory acquisition**
- **0.95M wmt of *Bonnie Fines* shipped for the quarter (BC Iron share 0.65M wmt)**
- **Average realised CFR price of US\$72/dmt, from average CFR 62% Fe price of US\$90/dmt**
- **Ramping back up to 6Mtpa run-rate following operational slowdown**
- **FY15 guidance revised; NJV sales of 5.2-5.6M wmt and total cash costs of \$64-70/wmt (FOB), however expected to operate at previous guidance from November 2014 onwards**
- **Final FY14 dividend of \$0.15/share paid to shareholders**
- **Cash of \$92.1M, before including IOH's cash of \$43.5M as at 30 September 2014**

BC Iron Limited (ASX: BCI) ('BC Iron' or the 'Company') is pleased to present shareholders with the Company's quarterly activities report for the period ended 30 September 2014.

During the quarter, BC Iron announced a recommended off-market takeover offer for Iron Ore Holdings Limited ('IOH'). Compulsory acquisition has commenced of the IOH shares not yet acquired and 100% ownership will be secured during the December 2014 quarter. The transaction will strengthen BC Iron's balance sheet and includes an attractive and complimentary portfolio of iron ore assets in the Pilbara, with growth options beyond the existing life of the Nullagine Joint Venture ('NJV').

NJV operations were slowed during the quarter to implement a number of mining and crushing & screening initiatives to address higher clay content in discrete areas of some of the mesas. Production was affected as anticipated, with the NJV shipping 0.95M wmt for the quarter. BC Iron's share of sales was 0.65M wmt, or 68% of the NJV total. This short-term divergence from BC Iron's 75% interest in NJV production was due to individual off-take commitments and will be realigned by 31 December 2014.

BC Iron has worked through these operational matters and is now ramping up to a 6Mtpa run-rate, expected from November onwards. The Company will endeavour to catch up on missed shipments however this is largely dependent on a favourable wet season. Accordingly, BC Iron has taken a prudent approach and elected to revise its FY15 sales guidance downwards from 5.8-6.2M wmt to 5.2-5.6M wmt. Free on board ('FOB') C1 cash operating costs for the quarter were affected significantly by the reduced production, resulting in FY15 guidance being revised from \$49-53 per wmt to \$55-59 per wmt. FY15 guidance for BC Iron total cash costs is now \$64-70 per wmt (FOB).

Managing Director, Morgan Ball said, "*The issues experienced at the NJV during the quarter had a short-term impact on production and costs, and resulted in the NJV being three and a half shipments below forecast for the quarter. I am pleased with the results of the initiatives implemented at site to overcome these short-term issues and the strategies developed to manage these challenges, should they arise going forward.*"

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“Our focus is on returning NJV production to a 6Mtpa run-rate for the remainder of the financial year, and to operate within the previous C1 cash cost guidance range of \$49-53 per wmt over that period.

“Despite the challenging quarter, we remain in a solid balance sheet position, with BC Iron cash of \$92 million, ensuring we are well placed to manage the business during this period of softer AUD iron ore prices.

“The Iron Ore Holdings transaction will further strengthen our balance sheet, and also provides asset diversification and long life growth options for BC Iron which have the potential to generate significant value.”

BC Iron also concluded the current phase of Project Inventory by estimating a beneficiated shipping ore (‘BSO’) Ore Reserve of 3.9Mt at 54.2% Fe (after yield adjustment) within existing stockpiles and the current direct shipping ore (‘DSO’) pit designs.

The Company announced record financial FY14 results during the quarter, despite challenging industry conditions in the second half of the year. This strong performance was shared with investors through payment of a final fully franked dividend of 15 cents per share, bringing the dividend payout ratio for FY14 to 54% of underlying net profit after tax (‘NPAT’).



1. NULLAGINE JOINT VENTURE ('NJV') – OPERATIONS

Summary Results

BC Iron Nullagine Pty Ltd, a wholly owned subsidiary of BC Iron, is the operator and manager of the NJV, a 75:25 unincorporated joint venture with Fortescue Metals Group Limited ('Fortescue'). The project is located approximately 140km north of Newman in the East Pilbara region of Western Australia.

Key operational statistics for the quarter were as follows (Tables 1 and 2):

TABLE 1: ORE PRODUCTION, HAULAGE & SHIPPING

	Sep Quarter 2014 (Mt)	Jun Quarter 2014 (Mt)	Variance Q-o-Q (%)	Sep Quarter 2013 (Mt)	Variance Y-o-Y (%)
Ore Mined (dry)	0.92	1.73	(47)%	1.61	(43)%
Produced (wet)	0.89	1.73	(48)%	1.66	(46)%
Hauled (wet)	0.75	1.66	(55)%	1.68	(55)%
Railed (wet)	0.76	1.65	(54)%	1.68	(55)%
Shipped (wet)	0.95	1.43	(33)%	1.62	(41)%

TABLE 2: STOCKPILE INVENTORY

	Sep Quarter 2014 (kt wet)	Jun Quarter 2014 (kt wet)
ROM ¹	186	204
MOC Product ² (Site)	91	127
RLF Product ³ (Christmas Creek)	53	77
Port	74	269
Low-grade Stocks (Site)	7,134	5,475

- Notes:
1. Run of Mine ('ROM').
 2. MOC Product – material treated and stockpiled ready for road haulage at Mine Operations Centre.
 3. RLF Product – material ready for rail haulage at the Christmas Creek Rail Loadout Facility ('RLF').



Mining, Crushing & Screening

Mining of ore during the quarter continued at Outcamp 2, Warrigal 3 and Warrigal 4, and commenced at Outcamp 3.

As announced in August 2014, BC Iron identified additional clays in discrete areas of Outcamp 2 and Warrigal 3. The ore with higher clay content is potentially 'sticky' (particularly if moisture is added to the product) and the NJV elected to stockpile a portion of this ore for later blending and/or processing.

BC Iron elected to slow down the rate of production whilst implementing a number of initiatives to manage these clays, including more selective mining of the areas where they have been identified. As a result, mining volumes were below expectations this quarter, with 0.92M dry metric tonnes ('dmt') of DSO mined and hauled to the ROM pad. In addition, 1.69M dmt of low-grade ore was mined and hauled to stockpiles, for later processing and shipping.

During the quarter, 0.89M wmt of *Bonnie Fines* was produced at the NJV's two crushing & screening hubs. A number of temporary changes were made to the crushing & screening process, to manage DSO with a higher clay content (which introduced a yield loss for that material). As the NJV transitions back into mining areas that are less affected by these particular clays, processing has returned to normal at the main Outcamp fixed plant. Two smaller mobile plants retain the ability to manage ore with higher clay content if and when required.

The strategy of selective mining of ores as well as changes in geological procedures was successful in reducing the clay encountered. In conjunction with closer-spaced grade control drilling in certain parts of the mesas, we are confident with our strategy for managing these clays should they arise in the future.

Road Haulage

Road haulage takes place via a private 60km bitumen haul road from the NJV mine site to Fortescue's Christmas Creek RLF where the ore is loaded onto trains for rail haulage to Port Hedland. Haulage activity for the quarter totalled 0.75M wmt, in line with reduced production.

Rail Haulage and Port Services

The Pilbara Infrastructure, a wholly owned subsidiary of Fortescue, provides contract rail haulage and port services to the NJV from the Christmas Creek RLF to the Herb Elliott Port in Port Hedland. During the quarter, the NJV railed 0.76M wmt in line with reduced production.

Shipping

The NJV shipped 0.95M wmt of *Bonnie Fines* product during the quarter on five fully loaded and one part-loaded capesize vessel. BC Iron's share of tonnes shipped for the quarter was 0.65M wmt or 68% of the NJV total. BC Iron's share of sales will be realigned with its 75% NJV interest by 31 December 2014.

Marketing

Iron ore prices continued to decline in the September quarter, with the Platts 62% Fe, CFR North China price ('Platts Price') ending the quarter at a low of US\$78 per dmt. The average Platts Price for the quarter was US\$90 per dmt, down from US\$103 per dmt in the June quarter.



The average CFR sales price achieved for BC Iron's share of *Bonnie Fines* was US\$72 per dmt, and was impacted by the NJV's missed shipments occurring during a period in the quarter when iron ore prices were higher than the quarterly average. There were negligible pricing adjustments recognised from shipments delivered in the June quarter. Discounts for *Bonnie Fines* remained steady during the quarter, but were higher on average than the June quarter.

Notwithstanding the current pricing environment, demand for *Bonnie Fines* remains strong. BC Iron senior management visited China during the quarter to meet with existing and prospective customers. These meetings confirmed the ongoing desirability of *Bonnie Fines* as feedstock for sinter blends, due to its low impurities (particularly silica and phosphorus) and high calcined iron grade.

Operating Costs

The NJV's free on board C1 cash operating costs ('C1 cash costs') for the September quarter were approximately \$69 per wmt shipped and were impacted primarily due to:

- Significantly reduced production during the quarter, which resulted in fixed costs being spread over a lower shipped tonnage (which is the denominator in the C1 cash cost calculation); and
- Short-term operational changes implemented to manage the additional clays, which resulted in increased strip ratios and some processing yield loss.

C1 cash costs are expected to return to the upper end of the previous guidance range of \$49-53 per wmt as production returns to the 6Mtpa run-rate.

FY15 Outlook and Guidance

BC Iron has revised FY15 production and cost guidance to the following:

- NJV sales are expected to be in the range of 5.2-5.6M wmt;
- NJV C1 cash costs are expected to be in the range of \$55-59 per wmt on a FOB basis; and
- BC Iron total cash costs of \$64-70 per wmt on a FOB basis (note: total cash costs include C1 cash costs plus royalties, marketing and corporate costs).

The changes to guidance are as a result of the operational challenges experienced in the September quarter, and the ongoing ramp-up back to full production rates. The ramp-up is nearing completion and from November onwards, the NJV is expected to operate at a rate which implies 5.8-6.2Mtpa for the remainder of FY15, with NJV C1 cash costs at the upper end of previously provided guidance range of \$49-53 per wmt.

BC Iron has also revised its capital expenditure guidance for FY15. BC Iron's share of forecast NJV capital, exploration and grade control drilling expenditure has been reduced from \$23-26M to \$15-18M. The reduction is primarily due to deferral of haul road upgrades and resealing, and construction of new roads to facilitate future mining at Bonnie East.

Forecast non-NJV related capital expenditure and exploration (including Brazil) has also been reduced from \$3-5M to \$1-2M.



2. NJV – RESOURCE DEVELOPMENT AND EXPLORATION

Ore Reserves and Mineral Resources

The NJV's annual Ore Reserves and Mineral Resources statement was released during the quarter. As at 30 June 2014, the NJV had total scheduling inventory available for life of mine planning within current pit designs and existing stockpiles of 35.4Mt at 56.5% Fe, comprising:

- DSO Ore Reserves of 27.7Mt at 56.8% Fe;
- DSO stockpiles of 0.5Mt at 55.6% Fe;
- BSO Ore Reserves and stockpiles of 3.9Mt at 54.2% Fe (after yield adjustment); and
- DSO Inferred Mineral Resources within the current pit designs of 3.3Mt at 57.0% Fe.

For further information, refer to BC Iron's ASX announcement on 27 August 2014 entitled 'NJV Ore Reserves and Mineral Resources', which is available to view at <http://www.bcion.com.au/investors/asx-announcements/2014.html>.

Project Inventory

Project Inventory is the study assessing mine life extensions at the NJV operation, with a current focus on the beneficiation of low-grade (50-55% Fe) material.

The current phase of Project Inventory concluded with the estimation of a BSO Ore Reserve of 3.9Mt at 54.2% Fe (after yield adjustment). The current estimate only considers existing low-grade stockpiles and low-grade material within the current DSO pit designs. Further work is required to evaluate low-grade material just outside the boundaries of the current pit designs and at regional mesas.

Resource Development

Resource development continues to focus on grade control drilling and refining Mineral Resource estimates at mesas which are planned to be mined in the near future. During the quarter, grade control drilling was undertaken at Warrigal 1-2 and Bonnie East. Updated estimates for these mesas and Outcamp 5 are expected to be included in the half year Ore Reserve and Mineral Resource statement.

Exploration

During the quarter, BC Iron completed 323 holes of RC drilling for a total of 5,064 metres. The drilling was completed across a range of prospects and included 27 holes for 651 metres at two previously undrilled mesas within the existing Warrigal mining lease (M46/523). Subject to assay results, mining studies and approvals, these mesas have the potential to add to the existing NJV mine plan.

3. NJV – SUSTAINABILITY

Occupational Health & Safety

No lost time injuries were recorded during the quarter. As at the end of September 2014, the rolling 12 month lost time injury frequency rate was 2.9 (June 2014: 3.9).



Environment

Mining Proposal and Clearing Permit applications have been submitted to the WA Department of Minerals and Petroleum for both Warrigal 1-2 and Outcamp 4-5. The Clearing Permit for Warrigal 1-2 has been granted and final approval of the associated Mining Proposal was received subsequent to the quarter-end. The Mining Proposal Amendment and Clearing Permit in relation to Outcamp 4-5 is still under review with an expectation that assessment will be completed during the current quarter.

Native Title and Heritage

Identified heritage sites exist within the NJV's tenements. Surveys continued at Bonnie East (M46/522) and Warrigal 1 and 2 (M46/523), which included the removal and safe storage of cultural materials in accordance with the wishes of traditional owners and prior Section 18 approvals. An additional Section 18 application was submitted to the State Department of Aboriginal Affairs in respect of Bonnie East. Preliminary archaeological surveys were also undertaken to clear exploration drilling targets and provide access to these areas.

BC Iron held a Monitoring and Liaison Committee meeting during the quarter, with representatives from the Palyku People. BC Iron remains in full compliance with the Mining Agreement.

Community

During the quarter, BC Iron and its major contractors hosted an employment day at the Nullagine town, which saw strong interest and attendance from local community members. BC Iron also presented members of the local football team, the Irrungadji Dockers, with jumpers the Company has sponsored for the Western Desert Football League carnivals.

BC Iron's support of the Nullagine Primary School's vegetable garden and healthy lifestyle program continued, with further lessons and ongoing maintenance of the vegetable garden taking place during the quarter.

4. BRAZIL EXPLORATION PROJECTS

A 50:50 Alliance between BC Iron and Cleveland Mining Company Ltd (ASX: CDG) ('Cleveland') is earning up to an 80% interest in the Bahia and Minas Novas projects in Brazil. The Alliance is targeting itabirite mineralisation ranging from 30-45% Fe that can be beneficiated to a higher-grade product.

During the quarter, the Alliance released results of a first-pass exploration programme (focused on the Bahia Project) and commenced high level studies on potential development concepts for the projects.

In light of the exploration results at Bahia and current market conditions, the Alliance is discussing the proposed way forward at that project with the vendors. At Minas Novas, further field-work is ongoing to adequately test the aeromagnetic targets and exposed iron mineralisation. Planning for further drilling is underway.



5. CORPORATE

Business Development

Consistent with the Company's business development strategy, BC Iron announced a recommended off-market takeover offer for IOH in August 2014. The transaction will create a larger company with an attractive and complimentary portfolio of iron ore assets in the Pilbara region of Western Australia.

IOH's assets include:

- Iron Valley: a near production mine with Ore Reserves of 134.7 Mt at 58.5% Fe, that is expected to generate cash flows via a mine gate sale agreement with Mineral Resources Limited;
- Buckland: a mine-to-port iron ore development project with Ore Reserves of 134.3 Mt at 57.6% Fe, a completed and announced feasibility study, its own proposed infrastructure comprising a haul road and transshipment port at Cape Preston East and all primary tenure and licences secured;
- Other assets: a number of earlier stage iron ore projects and royalties over iron ore projects in the Pilbara; and
- Cash: \$43.5M in cash as at 30 September 2014.

The transaction will secure BC Iron's long-term future in the Pilbara and create a multi-decade growth path beyond the existing life of the NJV. The transaction will also strengthen BC Iron's balance sheet, diversify its asset base and deliver a significant increase in the Company's Ore Reserves and Mineral Resources.

The offer closed on 14 October 2014, with BC Iron achieving acceptances in respect of 93.4% of IOH's shares on issue. Compulsory acquisition is currently being completed to secure 100% ownership of IOH. BC Iron welcomes previous IOH shareholders to the Company.

BC Iron has commenced integration of IOH and an extensive review of its assets. At Iron Valley, BC Iron plans to work with Mineral Resources Limited to ensure Iron Valley is a robust and long term operation. At Buckland, BC Iron plans to consider all mine, infrastructure and financing options for 6-12 months to determine the optimal development and financing path for the project.

Cash and Debt Position

BC Iron's cash balance was \$92.1M as at 30 September 2014. After taking into account IOH's cash as at 30 September 2014 of \$43.5M, this results in a pro-forma BC Iron cash position of \$135.6M (before cash consideration paid to IOH shareholders and transaction costs).

Total debt outstanding was \$57.6M, comprising US\$10M outstanding for the Henghou Facility and approximately US\$40M for the Term Loan Facility with maturity scheduled for December 2016. The next scheduled repayments for both facilities are due in December 2014.



Cash Flows

The Company recorded an operating cash outflow of \$42.0m (pre-tax, unaudited) during the quarter. This result is not characteristic of a typical quarter, as three and a half shipments were not completed as planned due to the operational slowdown. This resulted in materially reduced revenue for the quarter, while cash costs were in line with a typical quarter due to timing of contractor payments.

Operating cash flows were also impacted by BC Iron paying 75% of operating costs despite its share of sales being 68% (which will be realigned by 31 December 2014) and sales receipts of \$12M not yet being received in relation to the quarter's final shipment.

If shipments were completed as planned and adjustments were made for BC Iron's share of sales and outstanding revenue, the Company would have generated a positive pre-tax operating cash flow for the quarter. This highlights that BC Iron remains in a sound position in the current pricing environment.

Other items that contributed to BC Iron's cash movement for the quarter included:

- Dividend payment of \$18.6M in relation to the final dividend for FY14; and
- Tax payment of \$6.1M in relation to the fourth quarter of FY14.

FY14 Results and Dividend

During the quarter, BC Iron released its financial results for the year ended 30 June 2014, which included record revenue of \$471.4M and net profit after tax of \$73.6M. The Company also declared and paid a final FY14 dividend of 15 cents per share (fully franked). BC Iron paid total dividends of 32 cents per share for the FY14 period, which equated to a payout ratio of 54% of net profit after tax.

- ENDS -

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ABOUT BC IRON LIMITED

BC Iron is an iron ore mining and development company with key assets in the Pilbara region of Western Australia, including the Nullagine Joint Venture (NJV), Buckland and Iron Valley. BC Iron is listed on the ASX under the code 'BCI' and is a member of the S&P/ASX 200 Index.

The NJV is an unincorporated 75:25 joint venture with Fortescue Metals Group Limited, which commenced exports in February 2011. The NJV utilises Fortescue's infrastructure at Christmas Creek, 50km south of the Nullagine mine, to rail up to 6Mtpa of ore to Port Hedland from where it is shipped directly to customers overseas.

Buckland is a development project located in the West Pilbara region. It has Ore Reserves of 134.3Mt at 57.6% Fe, a completed and announced feasibility study, its own proposed infrastructure solution comprising a haul road and transshipment port at Cape Preston East, and all primary tenure and licences secured. BC Iron is currently evaluating all options to determine the optimal development and financing path for Buckland.

Iron Valley is a near production mine with Ore Reserves of 134.7Mt at 58.5% Fe, that is being developed and operated by Mineral Resources Limited under a mine gate sale agreement.

BC Iron also has an interest in a number of other earlier stage projects in the Pilbara, royalties over the Koodaideri South and North Marillana tenements, and is earning into two greenfields exploration projects in Brazil via a 50:50 alliance with Cleveland Mining Company Limited.

KEY STATISTICS

Shares on Issue:	191.7 million	
Cash & Equivalents:	\$135.6 million	pro-forma as at 30 September 2014 ¹
Board:	Tony Kiernan	Chairman and Non-Executive Director
	Morgan Ball	Managing Director
	Andy Haslam	Non-Executive Director
	Malcolm McComas	Non-Executive Director
	Brian O'Donnell	Non-Executive Director
	Terry Ransted	Non-Executive Director
	Peter Wilshaw	Non-Executive Director
	Mike Young	Non-Executive Director
	Anthea Bird	Company Secretary
	Linda Edge	Company Secretary
Major Shareholders:	Wroxby Pty Ltd	19.7%

Website: www.bciron.com.au

¹ BC Iron cash of \$92.1M plus IOH cash of \$43.5M (excludes cash consideration paid to IOH shareholders and transaction costs).



Qualifying Statement

This release may include forward-looking statements. These forward-looking statements are based on BC Iron's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of BC Iron Limited, which could cause actual results to differ materially from such statements. BC Iron Limited makes no undertaking to subsequently update the forward-looking statements made in this release to reflect events after the date of this release.