

QUARTERLY ACTIVITIES REPORT MARCH 2016 QUARTER



BC IRON
LIMITED

ASX RELEASE – 21 APRIL 2016

MARCH 2016 QUARTERLY ACTIVITIES REPORT

- Iron Valley EBITDA of A\$1.1M from shipments of 1.66M wmt
- Reduced capital and operating cost estimates for a standalone 8 Mtpa mine-to-port operation at the Buckland Project
 - In particular, C1 cash costs have reduced by A\$10/wmt to A\$31.6/wmt (US\$22/wmt¹)
- Evaluation progressing on a proposed 20 Mtpa road and port infrastructure operation to service Buckland and other third parties in the West Pilbara, with preliminary cost estimates indicating low capital intensity and competitive operating costs
- Temporary suspension of operations at the NJV implemented
- Cash balance of A\$23.3M, with debt of A\$2.0M and royalty obligations of A\$7.7M

BC Iron Limited (ASX: BCI) ('BC Iron' or the 'Company') presents its quarterly activities report for the period ended 31 March 2016.

Iron Valley, which is operated by Mineral Resources Limited ('MIN') under an iron ore sales agreement, shipped 1.66M wet metric tonnes ('wmt') during the quarter. This generated EBITDA for BC Iron of A\$1.1M, inclusive of a negative pricing adjustment of A\$0.2M relating to prior periods. MIN is also advancing a range of improvement initiatives that have the potential to improve Iron Valley's economics for both BC Iron and MIN.

BC Iron continues to assess and optimise its 100% owned Buckland mine-to-port development project. During the quarter, revised capital and operating costs were released for a standalone 8 Mtpa mine-to-port operation, with expected C1 cash costs reducing by more than A\$10/wmt to A\$31.6/wmt (US\$22/wmt) and expected capital costs (upfront and deferred) reducing by A\$55M to A\$942M (US\$660M). The significant decrease in C1 cash costs is due to the adoption of an innovative road haulage solution and updated diesel price assumptions. Further work is underway to assess the potential for further capital and operating cost reductions, with the current focus on mining, processing and support services.

BC Iron is also assessing opportunities to fully utilise its potential Cape Preston East port capacity allocation of 20 Mtpa. During the quarter, preliminary capital and operating cost estimates were released for a 20 Mtpa road and port infrastructure operation from a central location in the West Pilbara (160km from Cape Preston East). These estimates indicate low capital intensity and competitive operating costs, which BC Iron expects would underpin attractive access terms for third party users.

Given the progress with improving Buckland's economics, BC Iron has commenced preparations to re-initiate a strategic partner search and plans to begin engaging with potentially interested parties during the June 2016 quarter.

At the Nullagine Joint Venture ('NJV'), which is a joint venture between BC Iron (75%) and Fortescue Metals Group Limited ('Fortescue') (25%), the temporary suspension of operations was implemented

¹ All conversions between Australian dollars and US dollars in relation to Buckland are based on an exchange rate of 0.70.

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during the quarter. BC Iron is considering all of its strategic options in relation to the NJV, which include a potential sale of BC Iron's interest or a potential restart of operations. A restart decision is a Joint Venture decision that requires unanimous approval and will consider factors such as the iron ore price outlook, exchange rates and NJV operating costs. Based on current expectations, a sustainable CFR 62% Fe iron ore price in the mid-US\$50's per dry metric tonne ('dmt') and an Australian dollar exchange rate in the low 0.70's (or similar combination) over the medium term supports a restart of the NJV.

Managing Director Morgan Ball said, *"Iron Valley is generating earnings for BC Iron which are leveraged to an improving iron ore price. We continue to work with Mineral Resources to support the operation and its improvement initiatives."*

"Optimisation work completed at the Buckland Project to date has substantially enhanced the global competitiveness of a standalone 8 Mtpa mine-to-port operation. However, this is only the first step and we believe further improvements will be achieved from work currently underway. A key attraction of the Buckland Project is the potential for BC Iron to also become an infrastructure provider to third parties and we are encouraged by the preliminary work completed on expanding the proposed infrastructure solution to 20 Mtpa."

"In relation to Nullagine, we are considering all the options available to BC Iron. This may include a potential sale of BC Iron's interest to an appropriate party if sufficient value can be realised or a restart of operations if supported by expected medium term market conditions."

1. IRON VALLEY PROJECT

MIN operates Iron Valley under an iron ore sale agreement with BC Iron and the mine is currently being operated as a direct shipping ore ('DSO'), truck haulage operation. During the quarter, MIN shipped 1.66M wmt of Iron Valley ore, generating an EBITDA for BC Iron of A\$1.1M which includes a negative adjustment of A\$0.2M relating to the finalisation of pricing for shipments that departed in prior periods.

BC Iron continues to support MIN by preparing key approvals to facilitate the ongoing operation of Iron Valley and also supports MIN's progress of its Iron Valley improvement initiatives, including the bulk ore transport system ('BOTS'). These initiatives offer potential upside to BC Iron in the future through increased production rates and increased received prices.

2. BUCKLAND PROJECT

Buckland is an iron ore development project located in the West Pilbara region. The base case development concept for the project includes an 8 Mtpa mine at Bungaroo South and an independent infrastructure solution comprising a private haul road and transshipment port at Cape Preston East. BC Iron is also evaluating alternative development concepts that have the potential to fully utilise the Company's potential capacity allocation at Cape Preston East of 20 Mtpa.

Optimisation of the 8 Mtpa Development Concept

During the quarter, BC Iron provided an update on the capital and operating cost reductions that have been achieved to date for the standalone 8 Mtpa development concept.

Expected C1 cash costs have reduced by more than A\$10/wmt to A\$31.6/wmt (US\$22/wmt) as a result of road haulage optimisation studies and updated diesel price assumptions. BC Iron's revised road haulage concept for the Buckland Project envisages increased payloads of 260 tonnes per truck and the adoption of convoy road haulage, an innovative semi-autonomous haulage solution.



Expected total capital costs (upfront and deferred) have reduced by A\$55M to A\$942M (US\$660M). BC Iron sought updated costings from the contractors, vendors and suppliers that provided costings for certain capital works packages in the original feasibility study. The reduction in capital costs that resulted from this exercise was partially offset by allowing for higher specification road crossings that would be required for the convoy road haulage solution.

BC Iron continues to assess opportunities to further reduce expected capital and operating costs and is currently undertaking a detailed assessment of the mining, processing and support services areas. Further updates will be provided to the market as this work is completed.

Infrastructure Expansion Studies

BC Iron's proposed road and port infrastructure has the potential to accommodate tonnages above 8 Mtpa. An expansion of capacity could see it become an attractive solution for other prospective West Pilbara iron ore producers, or facilitate a joint operation with the Australian Premium Iron Joint Venture's ('API') Buckland Hills deposit (which is contiguous with Bungaroo South) and/or development of BC Iron's western satellite deposits (i.e. Rabbit, Rooster and other potential deposits) in conjunction with Bungaroo South.

During the quarter, BC Iron completed preliminary capital and operating cost estimates for a standalone 20 Mtpa road and port infrastructure operation from a central location in the West Pilbara that is approximately 160 kilometres from Cape Preston East.

Capital costs for the logistics related infrastructure are estimated at A\$868M (US\$608M), or a capital intensity of A\$43/dmt of annual throughput. This compares favourably to the capital intensity for developing an infrastructure solution based on a rail and deep water port. BC Iron's proposed road and port infrastructure operating costs are expected to be competitive at A\$13.5/wmt (US\$9.5/wmt). BC Iron believes these capital and operating cost figures can together underpin an attractive access terms for potential third party users.

Other

Due to substantial progress with improving Buckland's economics, BC Iron plans to re-initiate a strategic partner search. Preparations are underway and the Company plans to begin engaging with potentially interested parties during the June 2016 quarter.

Drafting of an agreement with API in relation to co-operatively mining the parties' contiguous Bungaroo South and Buckland Hills deposits continued. This would benefit both parties by providing additional mining inventory up to the tenement boundaries.

The approvals process for Cape Preston East also continues to be progressed as planned.

3. NULLAGINE JOINT VENTURE ('NJV')

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.

BC Iron announced in December 2015 that DSO operations at the NJV would be temporarily suspended due to low iron ore prices. The final DSO shipment departed during the quarter and the temporary suspension is now in effect. 0.38M wmt of Bonnie Fines was shipped, of which BC Iron's share was 0.26M wmt.



The NJV also investigated the potential to sell ore from existing low grade stockpiles to Fortescue. However, the parties have agreed not to proceed at this time. Approximately 10.9M wmt of low grade stockpiles remain at the NJV site for potential future sale, blending or beneficiation.

BC Iron is considering all of its strategic options in relation to the NJV, which include a potential sale of BC Iron's interest or a potential restart of operations. Any sale would need to be executed with an appropriate party and realise sufficient value for BC Iron's shareholders. A restart of operations would need to be supported by market conditions and BC Iron continues to monitor these as well as evaluate opportunities to further lower the NJV's operating cost base. Whilst iron ore prices have improved recently, significant volatility persists. In addition, there have been unfavourable movements in the Australian dollar exchange rate and sea freight rates. Any decision to restart the NJV is a Joint Venture decision that requires unanimous approval and will consider factors such as iron ore price outlook, NJV operating costs and the Australia dollar exchange rate. Based on current expectations, a sustainable iron ore price in the mid-US\$50's per dmt (CFR 62% Fe basis) and an Australian dollar exchange rate in the low 0.70's (or similar combination) over the medium term supports a restart of NJV operations.

No lost time injuries were recorded during the quarter and as at 31 March 2016, the rolling 12 month lost time injury frequency rate was 1.6 (31 December 2015: 3.9).

4. EXPLORATION PROJECTS

BC Iron owns a number of non-iron ore exploration projects located in Western Australia that are prospective for gold, base metals and salt. During the quarter, work was undertaken at the Mt Fraser (base metals and gold) and Peak Hill (gold) projects.

The Mt Fraser project contains several historical copper and gold workings. During the quarter, soil sampling and rock chip sampling was undertaken at a number of identified targets, including at the historical workings. Results received to date are encouraging and BC Iron plans to complete further exploration work.

At Peak Hill, BC Iron completed a heritage survey and initial reconnaissance of identified geophysical targets. Reconnaissance drilling is currently being planned.

5. CORPORATE

Cash and Debt Position

BC Iron's cash balance was A\$23.3M as at 31 March 2016.

During the Quarter, a net cash outflow of A\$13.8M was associated with BC Iron's interest in the NJV. This included revenue and operating costs from the NJV's final shipments, costs associated with implementing the temporary suspension and a net working capital outflow relating to the previous quarter. All material one-off costs associated with the temporary suspension had been paid by the end of the quarter, but certain operational costs were still to be paid in accordance with normal working capital cycles, such as State Government and Native Title royalties for March 2016 quarter shipments.



Other items that contributed to the Company's change in cash position during the quarter include:

- A\$2.2M in positive cash flow from Iron Valley, which includes cash flows related to December 2015 quarter operations and capital expenditure associated with below water table approvals;
- A\$4.8M (or US\$3.5M) repayment of the debt facility with Henghou;
- A\$1.3M repayment of the first instalment of State Government royalties that were rebated as part of the iron ore royalty assistance programme;
- Expensed exploration and evaluation expenditure in relation BC Iron's other projects (including the Buckland Project) of A\$0.5M; and
- A decrease of A\$0.5M on cash held in US dollars, due to an appreciation of the Australian dollar.

Following the US\$3.5M repayment, BC Iron's interest-free and security-free debt facility with NJV offtake partner, Henghou, reduced to US\$1.5M (or A\$2.0M). The final repayment is due by 31 October 2016.

BC Iron's State Government royalty repayment obligation reduced to A\$7.7M, which is repayable over the next six quarters in equal instalments.

Half-Year Financial Results

During the quarter, BC Iron released its financial results for the half-year ended 31 December 2015. The Company's statutory net loss after tax for the half-year was A\$72.9M and its underlying net loss after tax was A\$3.8M after adjusting for non-cash and one-off items. Iron Valley contributed a positive EBITDA of A\$4.5M for the half-year.

Watpac Dispute

In December 2015, BC Iron Nullagine Pty Ltd ('BCIN'), on behalf of the NJV participants, initiated legal proceedings against former mining services contractor, Watpac Civil & Mining Pty Ltd ('Watpac'), seeking damages for failures by Watpac to comply with its obligations under its mining services contract.

In February 2016, Watpac served a defence and counterclaim in these proceedings. The counterclaim seeks A\$52.8M (including GST where applicable) from BCIN, a significant portion of which is for amounts that were not invoiced or claimed by Watpac until after the contract had been terminated.

BCIN disputes the claims made by Watpac in its defence and counterclaim. BCIN will strongly defend these in addition to continuing to pursue Watpac for the breaches of its contractual obligations.

- ENDS -

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Forward-looking Statements

Forward-looking statements can be identified by the use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue' or similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward looking statements. They are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this ASX update. Readers are cautioned not to put undue reliance on forward looking statements.



ABOUT BC IRON LIMITED

BC Iron is an iron ore mining and development company with assets in the Pilbara region of Western Australia, including Iron Valley, Buckland and the Nullagine Joint Venture ("NJV"). BC Iron is listed on the ASX under the code 'BCI'.

Iron Valley is a mine located in the Central Pilbara that is operated by Mineral Resources Limited ("MIN") under an iron ore sale agreement. MIN operates the mine at its cost and purchases Iron Valley product from BC Iron at a price linked to MIN's realised sale price. MIN is currently evaluating a range of initiatives that have the potential to improve the long term viability of Iron Valley and its value to both parties.

Buckland is a development project located in the West Pilbara region. It has Ore Reserves of 134.3 Mt 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.

The NJV is an unincorporated 75:25 joint venture with Fortescue Metals Group Limited ("Fortescue"), which commenced exports in February 2011. The NJV has the capacity to rail and export up to 6Mtpa of ore on Fortescue's infrastructure. Operations are temporarily suspended due to market conditions.

BC Iron also has an interest in a number of other exploration stage projects in the Pilbara and potential royalties over the Koodaideri South and North Marillana tenements.

KEY STATISTICS

Shares on Issue:	196.2 million	
Cash & Equivalents:	A\$23.3 million	as at 31 March 2016
Board:	Tony Kiernan	Chairman and Non-Executive Director
	Morgan Ball	Managing Director
	Martin Bryant	Non-Executive Director
	Andy Haslam	Non-Executive Director
	Brian O'Donnell	Non-Executive Director
	Hayley McNamara	Company Secretary
Major Shareholders:	Wroxby Pty Ltd	19.0%

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