

BC Iron and Fortescue Agree to vary the NJV Rail and Port Tariff

- Trial arrangement whereby rail and port tariff paid to Fortescue varies according to the iron ore price for the next three months
- Tariff decreases / (increases) by ~US\$0.50/wmt for each US\$1/dmt change in the US\$ CFR 62% Fe price below / (above) US\$56/dmt¹
- Subject to a US\$ CFR 62% Fe floor price of US\$40/dmt¹ and cap price of US\$70/dmt¹
- Based on current spot prices and normal production rates the new arrangement is expected to achieve cost savings of ~ A\$2.3m² for the three month period

BC Iron Limited (ASX:BCI) (“BC Iron” or “the Company”) advises that the Nullagine Joint Venture (“NJV”), a 75:25 joint venture between BC Iron and Fortescue Metals Group Limited (“Fortescue”), has agreed to a three month trial to vary the terms of the rail and port services agreement between the NJV and Fortescue’s subsidiary, The Pilbara Infrastructure Pty Ltd (“TPI”).

The parties have agreed to a new tariff mechanism that will vary the amount paid by the NJV to TPI according to iron ore prices, for a period of three months commencing 1 November 2015 extendable by mutual agreement. The rail and port tariff, which represents a material component of the NJV’s C1 cash costs, will reduce at lower iron ore prices and increase at higher iron ore prices.

The new tariff mechanism agreement is subject to the usual termination provisions.

BC Iron Managing Director, Morgan Ball, said, “*This is a positive outcome for BC Iron and reflects a co-operative approach between Fortescue and BC Iron given the current market environment. The variation to rail and port charges will have the effect of lowering the iron ore price at which BC Iron can continue to generate positive cash flows from the NJV. Although the tariff does increase at higher iron ore prices, BC Iron still retains some exposure to this upside.*”

Fortescue Chief Executive Officer, Nev Power, said, “*We have a strong, long term relationship with BC Iron and welcome the opportunity to trial this innovative new tariff mechanism, which we believe serves both parties well. Today’s announcement is a further example of Fortescue’s willingness to provide access to its world class infrastructure on commercial terms, strengthening our collaborative approach to working with our partners in the Pilbara region.*”

Variation Terms

The rail and port tariff will vary according to iron ore prices, such that it will reduce for months where the average US\$ CFR 62% Fe price is less than US\$56/dmt¹ and increase for months where the average US\$ CFR 62% Fe price is above US\$56/dmt¹. For each US\$1/dmt change in the US\$ CFR 62% Fe price¹, the tariff will vary by ~US\$0.50/wmt.

The new tariff mechanism is subject to floor and cap US\$ CFR 62% Fe prices of US\$40/dmt¹ and US\$70/dmt¹ respectively, with the tariff remaining at the level prevailing at the floor or cap price level (as relevant) outside this range.

The table³ below illustrates the impact of the new three month agreement on C1 cash costs and the cost change in A\$m at selected CFR 62% price scenarios.

	New three month agreement			
	Current	CFR 62% US\$ 52.30/dmt¹	CFR 62% US\$ 50/dmt¹	CFR 62% US\$ 60/dmt¹
C1 Cash Costs (FOB)	A\$42 - 45/wmt	~ A\$39 - 42/wmt	~ A\$38 - 41/wmt	~ A\$45 - 48/wmt
Cost change (BCI share)	n/a	~ Decrease A\$2.3m	~ Decrease A\$3.8m	~ Increase A\$2.5m

Footnotes:

1. US\$ CFR 62% Fe price includes the Pilbara to China cape size freight rate of US\$5.1/wmt converted at 5.5% product moisture.
2. Based on a US\$ CFR 62% price of US\$52.30/dmt, freight rate of US\$5.1/wmt, AUD:USD 0.72 and sales tonnages (wet) of ~ 950kt (BC Iron's share).
3. Based on a freight rate of US\$5.1/wmt, AUD:USD 0.72 and sales tonnages (wet) of ~ 950kt (BC Iron's share).

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FOR FURTHER INFORMATION:

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ABOUT BC IRON LIMITED

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

The NJV is an unincorporated 75:25 joint venture with Fortescue Metals Group Limited (“Fortescue”), 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.

Iron Valley is being 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.

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 and cash equivalents:	A\$71.8 million	as at 30 September 2015
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%

Website: www.bcion.com.au