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BC Iron Limited (ASX code: BCI) is developing the Nullagine Iron Ore Project which comprises the Bonnie Creek, Shaw River and Nullagine River palaeochannels. What have been the key milestones in your development of the project to date?

**MD Mike Young**

Certainly the exploration success we've had to date has been a significant milestone. For example, intersections from the Outcamp Well Prospect are in the order of nine metres at better than 57% iron from surface with low silica and alumina. Assays like that are on par with the Yandicoogina Channel Iron Deposits (CID) near Newman.

So with the drilling only half completed, the results so far indicate that we have the potential to develop Direct Shipping Ore (DSO) from Outcamp and Coongan Well, and possibly upgrade material from several other areas.

We've also recently secured 100% ownership of our tenements after meeting expenditure obligations with our joint venture partners Alkane Resources and Consolidated Minerals.

Considering some setbacks relating to weather and logistical issues with Heritage Surveys, I'm pretty happy with where we're at right now. Our share price growth since listing in December last is reflective of the market endorsing and supporting the programs we set out in our prospectus.

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The Company has entered into a non-binding Memorandum of Understanding (MoU) with Fortescue Metals Group. What are the main agreements and objectives under the MoU? Why was it important for BCI to pursue this agreement? What are your obligations?

### **MD Mike Young**

Fortescue is developing extensive rail and port facilities as part of its Cloud Break and Christmas Creek projects. Our prospects lie between 14 and 70 kilometres from the Cloud Break railhead and, given our proximity to that project, and the fact that iron ore is all about the movement of bulk material, it was very important to have this MoU bedded down fairly early in the process, even though we're still at the reconnaissance exploration stage.

Being aligned with Fortescue is seen by some as unconventional; however, Fortescue has been very helpful and supportive and there is compelling logic in being associated with them. An important part of the MoU, and something that is often understated, is that it opens the door to other options, such as future joint venture opportunities and potential mine gate sales.

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Iron ore mineralogy within the Nullagine project area is defined as being CIDs, which have traditionally made up less than 20% of iron ore output from the Pilbara. How do they differ from the more commonly exploited bedded iron ore deposits in the region? Why have they been historically overlooked as an ore source?

### **MD Mike Young**

Despite being having been mined by Rio and BHP for more than 10 years, CIDs traditionally contributed only a minor amount to the Pilbara exports. This is because they are lower grade than the traditional premium haematite deposits. When iron prices are low there simply isn't any margin in CIDs, however, driven by increasing global demand and higher iron prices, this has and will continue to change significantly. CIDs now make up about half of all the iron ore shipped from the Pilbara.

CIDs differ from bedded iron ores in that the predominant mineral is goethite. Goethite is basically an iron oxide that has water in its crystal structure and is commonly referred to as a hydrous iron oxide. Most channel deposits, including those at Yandicoogina and Robe River, produce mainly a fines product. The iron content is lower due to crystalline water, however, fines require agglomeration or "sintering" to turn the fines into lump for the steel making process. This process requires heat and that drives the water off the goethite and literally upgrades the ore to grades that are comparable to the high grade haematites. The amount of water and other volatiles lost in this process is measured as Loss on Ignition or "LOI", which is reported in our ASX releases. We also calculate the 'upgraded' iron value, which is called calcined iron grade. The higher the LOI, the higher the calcined iron grade. The Nullagine CIDs have a much higher average LOI than most other CID deposits, so our upgrade is also that much higher.

The sintering process is a normal part of steel making and with CIDs occurring predominantly at surface, mining costs are lower. Processing costs are also low

and the customer receives good quality ore with low contaminants at a lower price. All of these factors make CID ores attractive to both buyers and sellers.

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The Nullagine Project is located in a remote part of Western Australia. What are some of the logistical considerations necessary before a mining operation could successfully commence in this region? Will there be any transport and accessibility issues as Fortescue ramps up its production levels? How will you overcome these challenges?

**MD Mike Young**

Paradoxically, we're less remote than a lot of our peers. By that, I mean that we are right next door to a major infrastructure project. Fortescue has come forward saying that they'll assist any third parties and, given that they're looking to eventually ramp up their own production to 200 million tonnes per annum, we believe the capacity on the railway will move in line with expansions to production output from the broader area.

We certainly won't be monopolising their schedule. More than likely we will be dovetailing into their production with a view to delivering ore to the port in a timely fashion. Our discussions with Fortescue have not revealed the likelihood of any logistical issues that will impact us adversely and they've certainly developed the port in such a way that any expansion will be relatively easy.

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Direct Shipping Ores traditionally contain greater than 60% Fe (iron) content. What are your estimations of the grade potential at Nullagine? Will you need to consider beneficiation? What are the benefits to BC Iron of producing Direct Shipping Ore?

**MD Mike Young**

The grade of CID ore is typically around 56 to 58% Fe content. That's what's currently coming out of Yandicoogina and Robe River. What makes these ores "direct shipping" is that they have very low contaminant grades for aluminium, silica, sulphur and phosphorus, and therefore require no treatment prior to shipping. We also have several areas of "sub-DSO" material, which we think may be amenable to upgrade by simple beneficiation, but we haven't started that investigation yet because instead we're concentrating on DSO targets.

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You have commenced a scoping study for the Outcamp Prospect, located in the eastern section of the Bonnie Creek CID system. What has your current exploration revealed about the quality and extent of the potential resource at Outcamp? What is the size and scope of your planned study program? When will you be in a position to quantify a JORC resource for this area?

**MD Mike Young**

We hope to put out a resource estimate around late December-early January on Outcamp, and Coongan Well. We had hoped to drill out Outcamp and Coongan Well to an inferred category this month, however there was an issue with securing a rig. This problem has been addressed with a drill rig secured for the end of September.

In fact, the delay in the drilling program has really been a blessing in disguise as it has allowed us to step back and reconsider the entire project. By putting the scoping study on hold we can expand it to include the results from the Shaw River area, not just Outcamp and Coongan. Once we have assessed the potential of the entire project, we'll move into a third party scoping study early next year.

We'll also continue our in-house investigations, led by our strong board who all have considerable experience in project development. We will continue to have discussions with contractors and metallurgists as we get the data lined up ahead of the commencement of the scoping study.

At Outcamp and Coongan Well, we've a combined exploration target of 20 to 30 million tonnes of direct shipping ore, with grades averaging between 56 and 58% Fe. A lot of material can be added to that if we can show that upgrading sub-DSO material is economic.

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What is your timetable for completion of the Bankable Feasibility Study (BFS) at Bonnie Creek? How will you fund your effort? What are your options?

**MD Mike Young**

Assuming we can secure rigs and people, the timing for completion of the BFS is toward the end of 2009. In terms of funding, we currently have A\$4 million in cash, which will fund our exploration effort for the next six months. Beyond that, we have a number of options available; from bringing in equity partners to various combinations of debt and/or equity. Unlike the Mid-West iron ore projects and the magnetite miners in the Pilbara, we don't require a large equity partner to fund a large infrastructure project.

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Your largest single shareholder is Consolidated Minerals (ASX code: CSM) with a 27.7% interest. If there was to be a change of ownership of CSM, would that have any impact on your plans?

**MD Mike Young**

What is happening at ConsMin is out of our control. We are a separately listed and managed entity with a very clear objective; to explore and develop iron ore in the Pilbara.

CSM's share interest is in escrow until December 2009, so the only change that could occur to their shareholding is if a new CSM decided they wanted to acquire more of BC Iron.

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Why have you chosen to first develop the prospect furthest away from the proposed Fortescue railway line?

**MD Mike Young**

We haven't chosen to develop either prospect yet. Outcamp was the first one drilled because of logistical problems following Cyclone George in March this year. In fact, if you look at the first 183 holes we drilled, they were actually

drilled in the order in which we could access the drill sites. There was no plan to drill Outcamp first. We certainly would have liked to have drilled Shaw River first for exactly that reason, but as it turned out, following Cyclone George we just drilled what we could reach first.

It's worth repeating that with the scoping study, we are going to look at the entire project rather than just focus on Outcamp and Coongan Well.

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In your prospectus, you outlined a potential "Exploration Target" at Bonnie Creek of between 200 and 600 Mt of CIDs. More recently you identified an exploration target of between 15 and 20 Mt at grades of 56 to 58% Fe. How do they differ and how does an "Exploration Target" differ from an Inferred (JORC) Resource? What is the likelihood of you reaching your original prospectus target? What work remains toward identifying a JORC-compliant Resource?

**MD Mike Young**

Exploration Target is a JORC Code term and is used by companies to define a conceptual target where there has been insufficient drilling to define a resource, and where it is uncertain that further exploration will result in a resource estimate.

The exploration target quoted in the prospectus was a conceptual target based on mapping surface exposures. As we only had assay information from surface samples, it was sensible to not assign an overall grade to the figures quoted.

Since the prospectus, we've drilled over five thousand metres of RC and spent a great deal of time on the ground. We now have much more information and as the knowledge base grows, we'll continue to update our estimates as we move towards quantifying and defining a high quality resource.

The more recently quoted Exploration Target uses the same terminology but is a different target to the one quoted in the Prospectus. It is specific to Outcamp Well and is based on RC drilling, which is currently too broadly spaced to be used in an Inferred Resource estimate.

We aim to complete the required infill drilling during the next two quarters and anticipate having a resource estimate around the end of the year.

As for achieving the targets set out in the prospectus, there is still a long way to go as we have only completed drilling on less than half of the total CID target length of 90 km. Furthermore, a significant amount of low-grade material has been found that returns assays of better than 50% Fe, which may be amenable to upgrading but is not included in the Outcamp target figures. But until the beneficiation test work is conducted, it is premature to estimate the quantity of any upgrade product. Plus, it is sensible to focus our efforts on the higher quality prospects with the best chances of producing DSO.

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Several large scale iron ore projects are planned in Western Australia over the next 5-10 years. Is there room for them all? What is the point of difference with the Nullagine Project?

**MD Mike Young**

Our mining costs will certainly be lower than most and compared to the magnetite projects we would have much higher margins. The material just needs to be crushed, screened and shipped. We don't have large infrastructure needs, in fact, 20 years ago, we'd be mining this in six to twelve months.

Also, our team certainly has the depth of knowledge and experience and importantly, the drive to move it forward as quickly as we can.

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What are the immediate priorities for the company?

**MD Mike Young**

The immediate priority is to finish the reconnaissance drilling program. For the next stage we will drill out the Shaw River targets, which will involve helicopter-supported diamond drilling.

Looking forward, iron ore prices are expected to remain strong, and within the timeframe in which we'd like to bring the Nullagine Project into production.

We really want to determine the prospectivity of the entire project and then move into a scoping study, which would allow us to define the targets and the order in which they should be followed up.

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Thank you Mike.

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For further information on BC Iron Limited visit [www.bciron.com.au](http://www.bciron.com.au) or call Mike Young on (08) 9324 3200.

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*The information relating to the terms "exploration target" and "direct shipping ore" should not be misunderstood or misconstrued as an estimate of Mineral Resources and Reserves as defined by the JORC Code (2004) and therefore the terms have not been used in this context. It is uncertain if further exploration or feasibility study will result in the determination of a Mineral Resource or Mining Reserve.*

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