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Unit 8,
8 Clive Street
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Date of lodgement: 5-Feb-2008

Title: Open Briefing®. BC Iron. MD Outlines Nullagine Scoping Study

Record of interview:

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BC Iron Limited (ASX code: BCI) has recently commenced a Scoping Study into the Bonnie Creek Channel Iron Deposit (CID) in the Pilbara region of Western Australia. Why have you chosen to fast-track development of the Bonnie Creek project? What are the key milestones ahead?

MD Mike Young

We've decided to accelerate the development of Bonnie Creek because we know we have two prospects there with excellent potential for immediate development and several more currently at the exploration stage which may feed into the operation in the future. The key thing is to get into production sooner rather than later.

The deposits over the whole Nullagine area are pretty widely spaced: for instance, up to 60 kilometres separates Outcamp from Kelly Anne, so the infrastructure requirements over a broad area would bring somewhat higher costs, which is why we've decided to focus our initial efforts at these two deposits. Outcamp is an advanced target, as is Coongan, showing good Fe (iron) grades. It offers the best chance of early profitable development and, once cash flow starts from Bonnie Creek, this will allow us to start looking at our other deposits in the broader area.

The key milestones are obviously the Scoping Study, which we expect to complete by May. This will give us the confidence to move forward with resource drill-outs

at Coongan and Outcamp. Recently, we have received some positive results from Warrigal, located right next door to Outcamp. This could also form part of our accelerated development strategy.

The other milestones for development are the environmental and flora/fauna surveys and the feasibility study. These all take time, but we've taken the approach that the Scoping Study will be positive and commenced field work on those with the assumption that we'll move forward. There are a lot of things you can do concurrently and anything that we can fast track we certainly will.

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You have outlined a preference for the establishment of a DSO (Direct Shipping Ore) operation for the Nullagine Project. Why is this your preferred development option? What about your capital expectations?

MD Mike Young

This is our preferred option because we want to get into a low cost operation as soon as we can. Direct Shipping Ore is whatever the customer will take on the ship, at the specifications that they require. It's hard to put a number around DSO because, until you've done your marketing and talked to customers and decided on a specification, you can't talk specifics. To put it simply, DSO is what the customers will buy.

What it means is that we won't require a beneficiation plant; it will just be simple crushing and screening. This will enable us to keep our capex down. It also means our operating costs will be lower. Another bonus is that a lot of the DSO material at Outcamp and Warrigal is at or near surface, which will further reduce our mining costs.

The amount of capital required for the project really depends on whether we do a mine gate sale with Fortescue, or whether we sell direct to our own customers. For the mining operation itself, we'd be looking at capex in the course of the Scoping Study. But in the first instance, it will be for a simple crushing and screening plant and camp – a basic low cost operation.

This would be similar to what Portman has achieved with Koolyanobbing since the late 90's, which enabled them to operate profitably even when iron prices were around \$30 per tonne. We see a very simple operation – crushing and screening – that is reminiscent of junior gold miners and I think we can emulate that to get up and running fairly cheaply and quickly.

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Part of the Scoping Study at Bonnie Creek will include delivery of a maiden resource estimate. Are you confident this will meet your original grade and tonnage estimates? What are the risks?

MD Mike Young

Obviously there are the usual qualifications in terms of geological and exploration risk which face any exploration company, however, based on the infill drilling that

we've done to date and the diamond drilling I feel comfortable with our earlier tonnage and grade targets.

In terms of risk, it's really a bit of a chicken and egg scenario. Until you actually have a resource model, it's difficult to start talking to potential customers about what specification they need; and until you have specifications, it's difficult to refine your model. We will do a global resource based on geological and iron (Fe) grades, and from there we'll take that model and assess it for the blending options that are open to us.

We've said that Outcamp is going to have 15 to 20 million tonnes of between 55 to 58% Fe-content and we've done enough drilling to give us the confidence we'll get that, so we see very little risk in the resource and it's now just a matter of tightening up our model.

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Can you discuss the results from Shaw River? What are detritals and how would you unlock their potential value in this aspect of the Project?

MD Mike Young

The Shaw River results have defined more iron targets for us. Drilling has indicated that several of the prospects contain medium grade iron ore in the 50 to 55% Fe range. One of the key things about all of the iron CIDs at Nullagine is that we have a high loss on ignition (LOI), which is basically the material in the ore which is burned off during the early part of the steelmaking process. This means that the material has a higher calcined Fe grade. In steelmaking, any crystalline water, carbon dioxide or carbon that's in the ore gets burnt off which inherently upgrades the material – and that's what we refer to as calcined Fe.

This moderate iron grade which we are seeing at Shaw River still has potential, particularly given the current very high levels of demand for iron ore. How much potential it has, we just don't know yet. We haven't finished drilling Shaw River, but in the near-term, we will focus just on the direct shipping material at Outcamp and Bonnie Creek as we see that as the best way of enhancing the value of the company in the short term. As we get more information from our customers as to what they want we'll assess more closely the potential of Shaw River.

The detritals are basically the deposits of iron-rich gravels that occur due to modern day erosion at the bottom of the mesas. They are typically lower grade as there's other material that's washed in, but if they comprise favourable mineralogy and ore characteristics, they can be simply upgraded through screening. Detritals are normally at surface, so they can be free digging, with only moderate capex and operating costs, so there's potential for additional ore feed there. When you consider that they have a relatively higher grade and potentially lower capex requirement than magnetite deposits, they certainly present a future development opportunity for the company.

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What about the exploration and development possibilities across the balance of your Nullagine Project area tenements? Where are the best opportunities to expand your resource footprint?

MD Mike Young

The first target that sticks out is Warrigal Well. We've only done broadly spaced reconnaissance drilled so far, but all the results to date have been very positive. It's also quite thick. Warrigal will certainly be drilled out in the first phase of drilling later this year and is likely to become an advanced target very rapidly.

Because of their proximity to the potential operation, the other prospects we'll look at are Bonnie Creek East and Central. Drilling there has revealed the potential for DSO and despite some of that material being interbedded with clays, several of the mining techniques we're looking at may allow us to easily and cheaply selectively mine these.

We'll return to drilling Shaw River at a later stage, but if we have the manpower, we may do that concurrently by having someone do some mapping and some simple bulk sampling and if that's positive, some drilling.

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What other work is planned for this year? Can you afford to explore and develop simultaneously?

MD Mike Young

The Scoping Study is the first major bit of work we're doing this year. We've secured two drill rigs so once the wet season ends in April we can start doing the resource drill-out at Coongan, Outcamp and also Warrigal. We'll then do some follow-up exploration on the potential for the detritals at Shaw River and possibly those at Nullagine and Bonnie Creek.

In November last year we raised just over \$9 million through the issue of 5.4 million shares at \$1.70 per share and we currently have about \$11 million in the bank. The budget that we put forward for the capital raising assumed that we would be doing a significant amount of infill drilling this year as well as a feasibility study. We can certainly afford our exploration and development through this year, and I believe that, if necessary, we can extend that out at least 18 months before we would need to raise any more money.

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Both BHP-Billiton and Rio Tinto have flagged significant expansion plans for their Pilbara iron ore operations. Fortescue Metals has also accelerated and expanded development of its Cloud Break project. Does this leave room for a junior iron ore player like BC Iron? Is it unreasonable to expect that all of the iron projects currently planned in WA will proceed through to production?

MD Mike Young

Paradoxically, I think that as the super-majors and majors in the iron ore industry get bigger, some of the smaller customers may get squeezed out. I think smaller

customers – particularly the smaller steel mills in China, Malaysia, Indonesia and others throughout Asia – may look at smaller providers like BC Iron to obtain their ore.

Another important success determinant is the relationship. At the junior end, the customer deals directly with the Managing Director. Buying from us means we can deliver a more specific product and the customer can have greater input into what's delivered. This is an important point of difference for smaller niche companies like ours and presents a real opportunity for us to capture market share.

While global demand for iron ore remains strong, realistically it's unlikely that every single project planned in Australia will succeed; however, those located closer to infrastructure development stand a better than average chance of getting up.

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Until recently, Consolidated Minerals (CSM) held a 26.3% stake in BC Iron. With CSM now 100%-owned by unlisted Ukrainian company Palmary, what are the implications for BC Iron going forward under the new ownership structure?

MD Mike Young

I haven't spoken to Palmary directly, but basically their public statements with regard to CSM have been pretty much steady as she goes. We have had no indication from them that there is going to be any change in the short term and we are moving forward with our development plans with the full backing and continued support of the CSM/Palmary group.

It's important that people understand that the shares owned by CSM were actually owned through Consolidated Iron Pty Ltd. Those shares are in escrow and will remain so until 15 December 2008. The only way those shares can come out of escrow is if there is a takeover or a merger, and even then that must happen with the permission of the ASX.

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We've seen significant volatility in global financial and equity markets recently, including a significant sell-down on the Australian market. What is BC Iron's strategy for maintaining shareholder value and delivering on its core objectives in this environment?

MD Mike Young

The challenge is to move perceptions toward being a production company as opposed to an explorer. The future value of the company is now as a potential producer and our strategy is to move forward as we have planned from last year. The recent market volatility will have no effect on that, nor should it. Of course the recent market pull-back is disappointing for our investors, however none of our major shareholders have sold and everyone involved with the company is still very much focused on the underlying value of our assets. In fact, with our strong cash position, it could open up significant opportunities for us to potentially acquire or joint venture into other projects. As a company we need to be responsible, but keep our eyes open for any such opportunities.

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Thank you Mike.

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

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