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BC Iron Limited (ASX code: BCI) has committed to a Feasibility Study on the Nullagine Iron Ore Project in the Pilbara in Western Australia following completion of a Scoping Study. What did those results reveal about the potential economics of the project? What impact does the recent iron ore price settlements have on your project's economics?

MD Mike Young

The scoping study really confirmed what we've believed all long; these orebodies, because they are at surface and outcropping, will be relatively cheap to mine. The projected A\$42 a tonne operating cost and A\$85 million capex cost are also pretty much in line with our expectations. Most importantly, they highlight the economic attractiveness of the project. That operating cost includes truck haulage to Christmas Creek, which is Fortescue's planned operation to the south of Nullagine, and rail haulage and ship loading at Port Hedland.

Obviously the recent iron ore price negotiations has had a significantly positive impact on our project economics and provides us with a real buffer against any potential project cost increases that might occur.

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How will the Feasibility Study outcomes differ from those outlined in the Scoping Study? What will be the key milestones met under the Feasibility Study? How long will it take to complete?

MD Mike Young

The Feasibility Study will stress test the Scoping Study results in much greater detail and the outcomes will really be a mining plan to move forward. We've got people on the ground doing flora and fauna surveys and alongside the Feasibility Study we're also initiating our EPA approvals and our mining agreements with our traditional surface owners. This is a bit unusual, because normally what you do is your Scoping Study first, then your Feasibility Study and then you look at doing your permitting. We're doing as much as we can concurrently so that we can achieve the milestones that we've projected.

The key milestones for us under the Feasibility Study really are securing those permits. They'll be the key things that will determine when we can push the button on the project. Of course, the feasibility study also all depends on the extensive resource drilling currently under way and should all be completed ahead of delivering our Feasibility Study during the first half of next calendar year.

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You have forecast a cash operating cost (including transportation) of A\$42/tonne. Are you confident this can be achieved over the life of the project? How will you manage costs going forward? What about when possible future resource expansions mean trucking distances to the gate increase?

MD Mike Young

The forecast operating cost is like a mine cost. It varies year on year, depending on which pit is being mined, but we're pretty confident we can achieve that over the life of the project and we believe that we've built in enough of a buffer to absorb things like higher fuel prices. As far as possible future expansions go, the furthest distance from the plant would only be around four or five kilometres, so really the incremental cost increase on the trucking distances would be minimal.

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The scoping study outlined a project capital cost estimate of A\$85 million. What are your funding options? Does this include any contingency for additional ore processing capacity above the planned 3-5 Mtpa operation?

MD Mike Young

The current design assumes a starting throughput of 3 Mtpa moving up to 5 Mtpa reasonably quickly. We've designed a plant that could comfortably do 6 Mtpa, and with minimal adjustment could possibly go as high as 8 Mtpa.

Whilst the most likely finding scenario would be a combination of equity and debt, we are currently reviewing all our capital funding options. I'd like to emphasise that we have had no shortage of willing participants to assist us to that end.

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The Company recently commenced a new drilling program at the Nullagine Project to in-fill and upgrade the current Inferred Resource 28Mt at 57.4% Fe at the Outcamp Well and Coongan Well deposits within the Bonnie Creek Channel Iron Deposit. You are also targeting a further 15-25Mt of DSO grade ore (55-58% Fe) at the adjacent Warrigal Well, Bonnie Creek East, and Dandy Well prospects. What progress have you made on this? When will you be in a position to provide a revised resource statement?

MD Mike Young

The drilling is going very well and we've now got two track mounted rigs on site doing 200+ metres a day each. Track-mounted rigs also allow us to move quickly around without excessive earth works, which is important from an environmental and heritage stand point. We've finished the indicated drill out at Coongan Well and we're waiting on those results. We're then going to move up to Warrigal Well and Bonnie Creek East, and finally drill Dandy Well off in the next few months.

As far as a revised resource statement goes, we'd be looking to do that at the second half of this year, most likely during the fourth quarter. It's not something we want to rush; we want to make sure we've got the geology right, as there's going to be a lot of data to go through. We're also doing some test work just to give us an indication of what infill drilling we need to give us some portion of a Measured Resource.

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Fortescue has provided BC Iron with a location for train loading at its proposed Christmas Creek operations. What commitment has Fortescue made to the construction of the rail facilities for BC Iron? Will the completion of this infrastructure link coincide with first expected DSO production from Bonnie Creek? When do you expect to conclude a Commercial Agreement with Fortescue?

MD Mike Young

Before Fortescue can construct an extension of the The Pilbara Infrastructure (TPI) railway to Christmas Creek it needs to go through the procedures set out in the State Agreement. While some requests and been made and approval has been given, a more detailed proposal has been submitted that includes provision for a loading spur that will be to accommodate not just BC Iron's iron ore but any third party ore. Fortescue has scheduled commencement of production from Christmas Creek for the end of calendar 2009, however the railway to Christmas Creek should be completed long before then. The other critical item is the ability of the Port Hedland port to handle the additional material and again, we expect TPI to have these issues sorted by 2009.

Fortescue has not yet finalised the designs for its mining operation at Christmas Creek and a Commercial Agreement needs to be framed in the context of what is actually going to be constructed at the minesite as well as how ore could be efficiently handled through the port's facilities. Once the design for Fortescue's expansion is finalised a Commercial Agreement can be negotiated, which is likely to be in the next few months.

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Amidst record iron ore prices, the world's major producers all have significant expansions planned. If these proceed, is China equipped to process this increased material? Is there a risk of oversupply and a possible downward pressure on future contract prices? What are the options for BC Iron's product?

MD Mike Young

I'll answer the last question first. We've had several meetings with trading houses who basically act between buyers and sellers. As far as options for our product go, we would be targeting medium-sized steel mills in China and preferentially, the more modern ones. We would look to set up commercial arrangements with those mills that are looking for guaranteed quality and quantity and then we would basically deliver into that niche market.

There exists a significant production opportunity in China for our size and type of material and those are the mill relationships we'll be pursuing. This will be critical for us to realise maximum value for our material.

All the signs are that China's domestic consumption will continue to grow. While supply will also increase in an attempt to match this demand, we believe that establishing relationships and delivering our product into this niche market will assist to buffer us against any potential oversupply.

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This announcement was seen as a significant milestone for BC Iron. Can you explain the market's reaction following the announcement?

MD Mike Young

Obviously, the broader volatility in the market has impacted the resources sector as a whole and we have been caught up in that.

The completed Scoping Study has shown the fundamentals of the Nullagine project are excellent and we expect this to be reinforced through the Feasibility Study and supported by our ongoing drilling efforts. Also, we are working hard on our infrastructure solutions through negotiations with FMG but also through our continued involvement in the North West Iron Ore Alliance. Based on our current projections, there is also significant opportunity to improve margins as the projects expands and matures.

We recognise that there are a number of challenges for us ahead and we are ready to face them head on.

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Thank you Mike.

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

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