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BC Iron Limited (ASX: BCI) plans to commence construction at its Nullagine Iron Ore Project in the Pilbara of Western Australia by Christmas 2009. Is this a realistic timetable? What outstanding milestones need to be satisfied to enable you to meet your objective?

**MD Mike Young**

Firstly, I have to stress that this is a really good news story and the progress we've made since listing in December 2006 is nothing short of outstanding. I know it sounds bullish, but it's quite conceivable that we could be on the ground and gearing up to mine towards the end of this year. The development of the Nullagine Project would generate around 100 new jobs, around \$175 million in royalties over the life of the project and significant new investment and other opportunities in the region.

The Feasibility Study is on schedule, we've pegged the Mining Lease and associated miscellaneous leases and we are close to submitting our Mining Plan. But, and it's a very big "but", timing of the start-up is still very much dependent on securing a reasonable and viable rail haulage and port agreement with FMG.

We also have to work through our permitting with the WA Mines Department and finalise our Native Title Agreement, both of which are well underway and progressing well. So, subject to finalising an acceptable haulage and port agreement, we could very well be in construction at Nullagine by the end of this year. That would be enormously significant for our Shareholders and would also provide a multitude of benefits to the region as a whole.

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How advanced are you toward securing your Native Title Agreement with the Traditional Owners?

**MD Mike Young**

We are attending a Working Group Meeting with the Palyku Aboriginal People later in March and our Native Title group knows that BC Iron is committed to generating long-term employment opportunities in the region. In fact, we've started looking at the possibility of running 'bus in – bus out' style of employment to promote employment in local regional communities like Marble Bar, Nullagine, Jiggalong and Newman.

We're also committed to signing up with Andrew Forrest's Australian Employment Covenant and we support Andrew's pledge to provide real indigenous employment opportunities in the Pilbara and across Australia. But we want to take this even further: we want *all* the people in the region to be given a chance at applying for employment at our mine site.

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You have secured an off-take agreement for 25% of future production from Nullagine with Australian-based metals trading group Tennant Metals Pty Ltd. Why has Tennant sought this agreement? What is Tennant's role in assisting you to get your product to market? What about securing other off-take partners for the balance of your production output?

**MD Mike Young**

The off-take deal is very significant as it effectively ticks another important box in terms of progressing the Nullagine Project towards production. This really does demonstrate that we are absolutely serious about moving this project forward as rapidly as possible and Tennant Metals, through this off-take agreement, have given a clear indication that they are 100% behind us in this respect.

Tennant Metals is well known within the Australian mining industry and has a very strong track record in metals trading dating back to 1966. Our agreement is one of the first transactions for their newly established Perth office and is the first third party off-take agreement entered into by BC Iron.

In practical terms, Tennant Metals will act as principal or agent at our option, for the Free on Board sale of 25% of the iron ore produced at Nullagine for a minimum five year period from the commencement of production which, as I say, could be as early as later this year.

Tennant recognised the 'First Class' sintering characteristics of our DSO ore product and this agreement with them strongly reinforces our view that the unique quality of our product means it will have no problem finding a market.

In fact, the recent global downturn has meant that steel mills are now far more discerning about the quality of ore they are purchasing and this places us in a very strong position when negotiating sales contracts.

As part of the off-take agreement, Tennant have the opportunity to increase their share by achieving particular milestones. However, we are currently also in direct discussions with other interested parties and are reviewing these offers on a case-by-case basis.

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The financial crisis has constrained credit availability for large-scale projects, in particular mining projects. What progress have you made toward securing funding for the Nullagine Project? What options have you considered?

**MD Mike Young**

Notwithstanding the difficulties that have been experienced in the capital markets over the past year, when we looked at our original feasibility study we saw that it would be cheaper, and quicker, to start with a lower tonnage operation and eventually ramp up to our planned throughput levels using those early cash flows to fund the expansion of the project.

This approach means that that the Nullagine Project will not require start-up capital on a scale normally seen with most other iron ore projects, both past and present, and this makes it a very attractive development proposition in the current environment. It is a niche project offering a high quality, niche product, and that enables us to differentiate ourselves within capital markets.

As we begin to discuss financing options with interested parties, both in Australia and overseas, it is quite obvious to me that there are plenty of potential investors with capital out there looking for solid projects with low risk. Once we secure a haulage agreement, I think we will be able to deliver just that.

As for the funding options, the metrics of the project finance will depend on the outcome of our discussions with FMG. Once we have some certainty as to the infrastructure route we'll be taking, we can then decide on the funding mechanisms. But as I say, there is a lot of interest coming from investors and customers to provide us with assistance in this area.

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Does the recent deal Fortescue Metals signed with Chinese steel mill Hunan Valin impact your ongoing discussions with FMG? What other bulk transport options do you have in getting your product to market?

**MD Mike Young**

Finalising a suitable haulage agreement with FMG, which makes commercial sense for both parties, remains a key priority for us. In the talks we've had with FMG, the smaller tonnage start-up operation will have less impact on FMG's current infrastructure capacity. The effect would be even less under FMG's expansion plans through their partnership with Hunan Valin. But as capacity increases at Anderson Point, we would also hope to increase our throughput accordingly.

We are also exploring several transport alternatives in the medium-term including road haulage and rail "access" – where you use your own trains on others' railways – with port access via Utah Point which is now slated for completion in mid-2010.

Even longer-term is the North West Iron Ore Alliance's plans for a multi-user, 50 Mtpa berth. The Alliance has just completed the Scoping Study on this and will continue to move forward with this option as well.

The bottom line is that while we have several viable options, a rail haulage and port agreement with FMG remains by far the preferred option in terms of timing and risk.

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What are the key priorities for BC Iron as you move to complete your feasibility study? Where do you see the best opportunities to realise value for shareholders in this current environment?

**MD Mike Young**

As mentioned – and I really can't stress this enough – our most important priority is securing a haulage agreement with FMG; the timing and metrics of our planning hinge on an agreement being finalised. No agreement means we still get the ore to customers but the timing and costs will unavoidably increase. The benefit to the community and the State will be delayed at a critical time in the current economic environment when any new start-up project can only be good for everyone.

Like most listed companies, the present value of BC Iron and the value of the Nullagine Project are totally disconnected. We have seen some pleasing upward movement in the share price in recent weeks, but by any measure, the Company is still significantly under-valued by the market.

This is particularly the case when you take into consideration the recent resource upgrade and the fact that we have just signed up our first long-term off-take deal covering at least a quarter of our future production.

So while the Markets are out of our control, what we can do is to keep delivering on our strategy, adding value to our assets, and building a sustainable business. The best way forward for us is to carefully manage our cash and expenditure to make sure that we can keep moving ahead and get through this complicated period. When the market stabilises and turns, this value disconnect will very quickly disappear and you will see a big value uplift as people recognise that we have a quality resource and the ability to capitalise on it quickly.

We have a plan and it's been essentially the same plan for two years, apart from some variation with key dates and more recently, identifying a \$40 million reduction in the upfront capital outlay required in getting the project underway.. The focus was, and is, to get this deposit up and running; to get our ore to market and to grow the company from there. We have a saleable niche product and a ready-made market. We have enough cash to progress our growth plans through these difficult times and we now have a long-term customer for a significant proportion of our product.

We believe shareholders will be rewarded for their patience and they are encouraging us to proceed with our current plan.

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Thank you, Mike.

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For further information on BC Iron Limited please visit [www.bcion.com.au](http://www.bcion.com.au) or call Mike Young on (08) 9324 3200. For previous Open Briefings by BC Iron Limited, or to receive future Open Briefings by email, please visit [www.corporatefile.com.au](http://www.corporatefile.com.au).

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