BC IRON IS GETTING IT DONE IN THE PILBARA

“In can’t is a four letter word in this office. We have proved numerous times that despite some people saying something is not achievable, we can get it done,” that was just one of the defining statements BC Iron Managing Director delivered when The Pick met with him in his West Perth office recently. And BC Iron (ASX: BCI) has certainly been getting it done.

In just over four years BC Iron transitioned from explorer to producer to become Australia’s newest iron ore exporter.

BC Iron achieved a major milestone of First Ore On Train for the Nullagine Iron Ore Joint Venture (NJV) - BC Iron 50%; Fortescue Metals Group 50% - when its ore was loaded at Fortescue’s rail siding at Christmas Creek, 50km to the south of BC Iron’s project, in January 2011.

This ore was then transported via Fortescue’s rail infrastructure to the Herb Elliott Port, Port Hedland for shipping to international customers with First Ore on Ship in February 2011. First Ore On Train for BC Iron marked a significant event for the Pilbara iron ore industry as it was the first time a junior iron ore miner has been able to transport its ore on a 3rd party’s rail infrastructure in the Pilbara.

And now the Company is well on the way to achieving its next major goal, the NJV production rate of 5 million tonnes of iron ore per annum (Mtpa) by 30 June 2012. And much of this success has been achieved by BC Iron successfully bucking the trend and utilising innovative ideas.

“People said we couldn’t use surface miners, we are and they are working very well. We don’t have open pit blasting at our project. We are considering using conveyors over haul roads. We do like to stretch things a bit.

“People said you can’t bitumenise a 55km road in the middle of the Pilbara, and we did, and it is working very well. People said you can’t do a JV with FMG. We did and it is going very well,” Mike Young told The Pick.

“The other thing that we did was a $4 million test pit which was very important in determining the mining method we were to use and de-risking the project. It was particularly significant when you consider we were a junior with not a whole lot in the bank at the time, and yet we still did a test pit.

“You look at what we have accomplished and a lot of it has been innovative and different. It is about doing things differently, taking chances, making your own luck and working through the processes,” Mike Young said.

With one of those innovations, the bitumenised road linking BC Iron’s Nullagine mine site with the rail siding at Christmas Creek, recently opened the Company is well on track, barring unusually inclement weather, to achieve its export targets.

The Company is gradually increasing its fleet of 67.5 metre long, 4.85 m wide, 4.37 m tall Powertrans Pit Haulers that are capable of transporting a 360 tonne payload of NJV ore, with the fully laden package having a gross mass of approximately 512 tonnes. The quad set-up is capable of travelling at 50kph on the sealed road and brings important cost savings for BC Iron.

BC Iron will eventually have a fleet of eight Powertrans Pit Haulers running 24/7 on the road between the mine and the Christmas Creek rail siding, gradually replacing the ten conventional triple road trains that will be gradually phased out as the Powertrans fleet increases in size.

With the road completed and the Powertrans fleet moving into action, Mike Young said the NJV has hit the production target rate of 3Mtpa and the Company has pressed the button for an expansion to 5Mtpa by 30 June 2012.

“People looking for a safe haven, because we are in tumultuous times, there are good margins in iron ore. Iron ore prices are not going to collapse.

“We have a good product, in a niche market, so we will continue to succeed and we will be making money.”

Mike Young
MANAGING DIRECTOR, BC IRON
"We have just hit one million tonnes exported for the life of the project. We expect two more ships to sail in December, which will take it to one million tonnes for the December half year and we maintain our target of shipping 3.5 million tonnes for the JV for the current financial year at which point we will be running at a rate of 5Mtpa," he said.

"But all things being equal, we have to be mindful that we may be affected by the upcoming wet season in the Pilbara. The bitumenised haul road allows us to haul a bit sooner than we would under a dirt road if it does rain. However, the main reason we bitumenised the road - and this is an important point - is to reduce operating and maintenance costs on the road. But we are still affected by wet weather in other aspects of the operations such as the railhead and the port. If it rains, it rains. The key thing is to protect the road, so our team has developed protocols to do that."

Mike says BC Iron’s relationship with its NJV partner Fortescue is going very well and that they remain an important part of the Company’s growth plans.

"Under our contract with Fortescue, capacity on Fortescue’s infrastructure is capped at 5Mtpa. However, when Fortescue do make the step change to 95Mtpa, we will be in a position to use any spare capacity which is why our mill will have excess capacity built into it during the upgrade. That said, our relationship with Fortescue certainly puts us in a good position for future capacity when they expand past the 95Mtpa mark at Nydinghu and Solomon."

With the NJV Project now up and running strongly, many in the market are asking what is the next growth step for BC Iron?

"We have been pretty active and have looked at quite a few potential acquisition targets. However, we are not just going to run out and buy the first project put on the table."

"We have looked at some iron ore projects, but most iron projects carry a premium on price which is sometimes not justified due to a lack of a clear infrastructure solution. Recent asset sales have been to either existing producers (AGO, RIO) or in the case of Flinders, to a major cashed up company with the balance sheet to build infrastructure."

"It is another clear indication that while iron deposits are plentiful, infrastructure is key."

Mike says the Company has a strategy to target the types of deposits it will aim for. While BC Iron may consider other commodities, iron ore is its strong suite and remains far and away its primary focus.

So what we will be looking at are things like: what stage a project is at; is it greenfields; does it have a resource or reserves; is it operating; and where is it? We are not restricting ourselves on where we may invest and we are considering opportunities in the Pilbara, Australia and internationally.

"Our team’s strengths and its track record revolves around near mine projects and getting projects into production. It is probably safe to assume that our first choice won’t be a greenfields exploration play in the middle of nowhere; but remember, we don’t say ‘can’t’!

"So in terms of growth we have certainly narrowed down our focus a bit, concentrating on iron but we are not going to refrain from looking at other commodities. We have had some negative comments on that, but the important thing about our team’s experience is the realisation that once you get to the mining stage, the approvals process and the mining processes are similar and the commodity type becomes less critical. We have worked on many mines, Escondida copper, Century zinc, many gold mines, uranium, iron ore mines, and a lot of the problems are the same. I like base metals because they do have Chinese exposure, particularly copper, zinc and lead.

"But the important thing is we don’t need to rush into it. We are very cognisant of the value we have created and we will work to protect that. If we happen not to transact for several months, the Company still earns money and, should the Board decide to, may pay dividends. I am sure our shareholders appreciate our strategy."

On the subject of paying dividends, Mike says that the philosophy of the Board is such that dividends are on the table to discuss.

"Personally, I love the model of a mining company that pays dividends to shareholders. They return value to shareholders. You have a shareholder who owns a part of the Company and they deserve some payback. Personally I think there are a lot of pluses to dividends." From an investor point of view, Mike Young says BC Iron is in good shape.

"For people looking for a safe haven, because we are in tumultuous times, there are good margins in iron ore. Iron ore prices are not going to collapse - I was on the record when prices were at $116 of saying they would recover to $150 by the end of the year."

"You look at the fundamentals. China is still a strong market and will remain so."

"We have a good product, in a niche market, so we will continue to succeed and we will be making money."

You can’t ask for more than that if you are looking for a good place to invest.

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