Submission to Senate Select Committee on Fuel and Energy

Ref : Issues relating to the Fuel and Energy Industry, July 15, 2010

Response to question on notice

BC Iron Limited Assessment of MRRT on Nullagine Iron Ore Joint Venture (Project Level)

- Iron Ore 36Mt @ 57%Fe Pisolite DSO – Fines only (65% CaFe)
- Mining at 3 Mtpa ramping to 5 Mtpa with FMG expansion
- Capex approx $70 LOM ($50 start up/$24 sustaining);
- Opex approx $43 / tonne LOM not including SGR/Marketing/Native Title payments
- SGR accounted for as per MRRT Heads of Agreement

Note that the Project is a JV and iron rights are owned 50% by BC Iron Limited and 50% by Fortescue Metals Group Limited

The uncertainty of MRRT definitions creates a wide range of BCIN project NPV values.

BC Iron has summarized the impact of key assumptions in the matrix below.

Preliminary effects of Rent Tax								
	Co Tax	**RSPT**	**MRRT 1**	**MRRT 2**	**MRRT 3**	**MRRT 4**	**MRRT 5**	**MRRT 6**
Headline Rate	0%	40%	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Capital Rate	0%	5%	13%	0%	0%	0%	0%	0%
Starting base A$(m)		74	74	288	288	288	288	288
Port/ rail/ haulage deductible	Y	Y	N	N	N	Y	Y	Y
Marketing fee deductible	Y	Y	N	N	N	N	N	Y
> $50m profit only taxable	NA	NA	N	N	Y	N	Y	Y
Impact NPV vs prevailing tax	0%	-25%	-21%	-20%	-16%	-11%	-7%	-5%
Average tax rate	**~36%**	**~55%**	**~53%**	**~50%**	**~47%**	**~44%**	**~41%**	**~40%**

We assume an average iron price of $A117/ tonne or $US105 and AUD/USD 0.90 over Life of Mine (LOM). ***The tax impact is dependent on commodity price and exchange rate assumptions***

BC Iron is of the opinion that cases MRRT5 and MRRT6 are most likely and most equitable. MRRT1 – 3 are highly prejudicial to companies whose projects are isolated and creates an asymmetrical tax regime.

Items in the HOA that require clarification:

- Value at First Saleable form (at mine gate) – we assume this is the point at which the ore can be physically delivered to an arms length buyer.
- Assumed real headline rate is 22.5% (30% less Extraction Allowance)
- Arms length principles on all transactions pre and **POST** first saleable form means that the ore price used to calculate the assessable MRRT income is 'netback' from FOB net of rail and haulage
- Starting base – project value (assumed 2 x BCI market cap) written off over project life of 10 years achieves a higher NPV than the grossed up book value.
    - Question of how project market value is defined. We assume 2x market cap; what other mechanisms can/will be used?
    - Assume the asset life for depreciation purposes is the JORC reserve life – what happens to changing minelife?
- Deductibility/ treatment of key items?
    - Head office admin
    - Marketing fees
- Is first $50m excluded where greater than $50m, and is there a marginal rate to 22.5% above $50m?
- What is the 'profit'? MRRT assessable Income? EBITDA? NPAT?

This has been prepared on behalf of BC Iron by third party consultants.