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Grange Resources Limited

Australia's leading magnetite producer

REPORT FOR THE QUARTER ENDED 30 JUNE 2012

HIGHLIGHTS

Grange Resources Limited (“Grange” or “the Company”) has delivered another substantial quarter to shareholders. The Savage River operations continue to enjoy strong commodity prices with continued cash generation and the development of the Southdown magnetite project near Albany in Western Australia is under budget and continues to progress on schedule. Highlights for the June Quarter include:

- Continued excellent safety performance at Savage River.
- Cash, term deposits and trade receivables position of A\$232 million and no net debt.
- Pellet prices averaged US\$146.24 per tonne (FOB Port Latta).
- C1 cash operating costs of A\$95.29 per tonne of pellets produced, supporting strong cash margins.
- Grange remains “on track” to produce approximately 2.3 to 2.4 million tonnes of pellets in 2012.
- Year to date costs lower than budgeted.
- Southdown Project definitive feasibility study completed, showing the project to have robust economics.
- Appointment of global specialist, Deutsche Bank, as a corporate advisor to assist in a partial sell down of Grange’s share of Southdown.
- Southdown ore reserve restated with improved confidence levels.
- Advancement of land purchases to secure necessary land for the Southdown mine, slurry pipelines and associated infrastructure.

Grange Managing Director, Mr Russell Clark praised staff for maintaining the discipline required for a safe and productive workplace.

“Grange’s excellent safety performance continues with no Lost Time Incidents (LTIs) recorded for over 23 months and the Total Recordable Injury Frequency Rate (TRIFR) is also well below the industry average,” he said.

“Strong margins continue at Savage River with a reduction in iron ore prices offset by below budget costs and a weaker Australian dollar.”

“Production at Savage River achieved 606,929 tonnes of concentrate, 21 per cent higher than in the corresponding quarter in 2011. Our guidance for the Savage River operations remains at 2.3 to 2.4 million tonnes of pellet production and sales in 2012, with a C1 cost of production of around \$100 per tonne of pellet.”

“The Definitive Feasibility Study (DFS) for our growth project, Southdown, has been completed and shows a robust project. Engineering studies have been further advanced, additional land easements have been acquired and the environmental permit for the desalination plant, the final primary permit, is expected to be approved in the third quarter of 2012.”

“Southdown is well placed from an infrastructure and permitting perspective and continues to show good economics and attractive potential returns. Tightening global credit markets and general economic slowing in Europe and Asia are suggesting that financing this project could be completed by end of the first quarter in 2013. In order to manage the delivery of its equity contribution for the project, Grange has appointed Deutsche Bank as a corporate advisor to assist in the sell down of at least 30 per cent of the project to a strategic partner.”

CASH RESERVES AND FUTURE SALES

Cash, term deposits and trade receivables for Grange as at 30 June 2012 were A\$232 million. Costs of A\$3.9 million were incurred on the Southdown DFS during the quarter (Grange’s share) and a A\$34 million dividend was paid to shareholders (representing 3 cents per share as announced with the full year 2011 results) in April. A deferred consideration payment of A\$2.7 million was made to the previous owners of Savage River during the quarter. The terms of this deferred consideration obligation entitles the previous owners to 2 per cent of the gross receipts of Grange Resources (Tasmania) Pty Ltd from 1 January 2012 to 31 December 2023.

The average price received during the quarter was US\$146.24 per tonne of pellets FOB Port Latta. Total sales revenue for the quarter was A\$62.5 million.

Cash generation at Savage River is forecast to remain strong throughout the next quarter. The Australian dollar weakened in the final weeks of this quarter and unit costs of production are such that healthy margins are expected to remain for Savage River production in spite of lower product prices.

Total debt at the end of the quarter amounted to A\$39.6 million, down from A\$41.7 million at the end of March 2012.

SAVAGE RIVER OPERATIONS

Production and Costs - June Quarter

Grange continues to forecast approximately 2.3 to 2.4 million tonnes of pellet production in 2012.

	Production and Costs June Quarter 2012	Production and Costs June Quarter 2011
Total BCM Mined	3,593,456	4,103,863
Total Ore BCM	474988	510,546
Concentrate Produced (t)	606,929	501,748
Weight Recovery (% DTR)	41.4	32.3
Pellets Produced (t)	585,450	520,785
Pellets Shipped (t)	429,596	517,404
Concentrate Shipped (t)	5,126	40
Pellet Stockpile (t)	284,613	180,856
Concentrate Stockpile (t)	33,411	8,414
“C1” Cost A\$/tonne Pellet Produced¹	95.29	115.14

Note:

1. “C1” costs are the cash costs associated with producing iron ore pellets without allowance for deferred mining and stockpile movements, and also exclude royalties, depreciation and amortisation costs. “C1” costs provide an insight to current margins.

PRODUCTION

Grange’s excellent safety performance was maintained with no LTIs recorded for the seventh consecutive quarter. During the past 24 months the TRIFR has fallen from 22.2 (30 June 2010) to 3.98 (30 June 2012), an 82 per cent reduction.

Mining has continued in the North Pit with improved ore grades and quality when compared to the previous year. Mine production is very much in line with the revised Life of Mine Plan completed in Q4 2011 which formed the basis for the 2012 budget.

The Federal Department of Sustainability, Environment, Water Population and Communities has approved the upstream tailings dam wall raise at Savage River. This decision provides the necessary storage capacity required in 2013 and 2014. An application has been submitted for the construction of additional tailings capacity at South Deposit which will provide sufficient storage for the remainder of the current mine life.

COST MANAGEMENT

Cash costs at Savage River were less than budgeted for the quarter, at A\$55.8 million, exclusive of royalties.

“C1” unit costs (where actual cash costs incurred for the mining and processing operations are used to create unit costs of production) were A\$95.29 per tonne of pellets produced, compared to A\$115.14 per tonne in the corresponding quarter last year. The improved C1 unit costs resulted from improved ore grades and consequent concentrate and pellet production together with a reduction in actual cash costs.

Capital costs for the quarter were A\$10.6 million, primarily for projects at Savage River. The major items related to the purchase of additional mobile mining equipment (Hitachi EX3600 excavator), progress payments for new autogenous mill shells, the construction of a new river intake for the supply of water to the concentrator and the lifting of the main tailings dam walls.

EXPLORATION & DEVELOPMENT

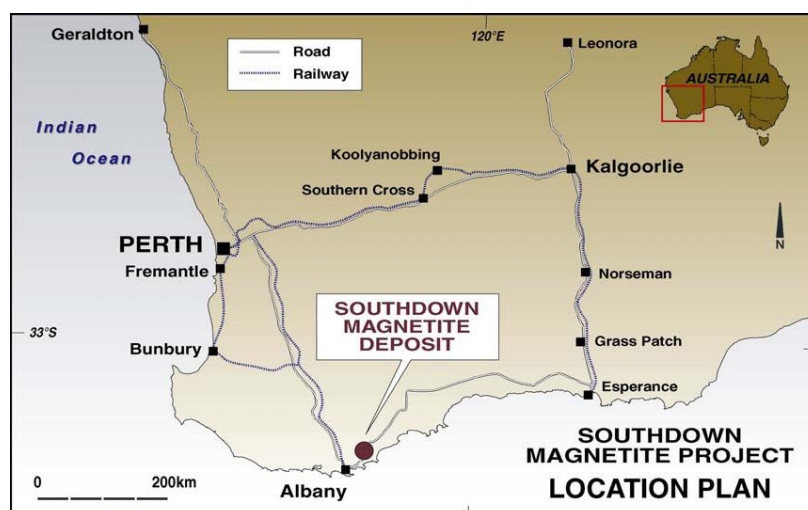
A \$2 million exploration drilling program was completed at Long Plains, a magnetite deposit located approximately 10 kilometres south of the Savage River. A resource model is scheduled to be produced in the third quarter of 2012.

SOUTHDOWN MAGNETITE PROJECT

(Grange 70%, SRT Australia Pty Ltd 30%)

PROJECT OVERVIEW

Located approximately 90 kilometres northeast of the Port of Albany on the south coast of Western Australia, the Southdown magnetite deposit is approximately 12 kilometres in length and represents one of the best premium quality magnetite deposits currently under development in Australia. Southdown is well located, with mineralisation close to surface. Critical infrastructure solutions are in place, including power generation from the Collie area and water supply from a dedicated desalination plant at the nearby coast, and a ready labour force is available in and around Albany.



Location of Southdown Magnetite Project, Albany WA

The Southdown deposit will be mined using standard open pit mining methods, with the magnetite mineralisation being crushed, ground, screened and magnetically separated to produce a magnetite concentrate with iron content in excess of 69 per cent. The necessary environmental permitting for the mine is in place.

The magnetite concentrate will be transported via a buried pipeline approximately 100 kilometres to a concentrate storage facility at the Port of Albany before being loaded onto cape size vessels and shipped to customers or an iron ore pellet plant. Filtered water recovered from the slurry will be pumped back to the mine site for re-use in the concentrator via a return water pipeline buried beside the slurry pipeline.

At the Port of Albany, the construction of a new berth will be required. The Albany Port Authority will provide up to nine hectares of land to accommodate a concentrate storage facility and ship loading infrastructure. Widening and deepening of the existing shipping channel into the Princess Royal Harbour and extending the channel into King George Sound will be required to facilitate the use of cape size vessels. The necessary environmental permitting for the port is in place.

During the quarter Kobe Steel, Japans fourth largest steelmaker, purchased 33% of the Sojitz interest in the project, at the Sojitz project holding company level, which has been renamed SRT Australia Pty Ltd. The introduction of another strategic partner, who will take 1.5 million tonnes per year of offtake, is very positive for the project.

In June 2012, Grange announced that it had appointed Deutsche Bank as corporate advisor to assist with a sell down process of at least 30% of Southdown to interested strategic investor(s). The sell down seeks to support Grange to manage its equity contribution to the project and introduce additional interests and expertise to the project.

RESOURCES AND RESERVES - Southdown

SOUTHDOWN MAGNETITE PROJECT MINERAL RESOURCE ESTIMATE

	As at February 2012	
	Tonnes (Mt)	Grade % DTR
Measured	423.0	37.6
Indicated	87.4	38.4
Inferred	710.6	31.5
Total	1,221.0	34.1

Southdown In Situ Mineral Resource as at February 2012				
Classification	Measured Resources	Indicated Resources	Inferred Resources	Total Resources
Tonnes	423.0	87.4	710.6	1,221.0
DTR	37.6	38.4	31.5	34.1
DTC Fe	69.7	69.7	69.5	69.6
DTC Al ₂ O ₃	1.30	1.23	1.25	1.27
DTC SiO ₂	1.23	1.27	1.45	1.35
DTC P	0.002	0.003	0.003	0.003
DTC S	0.46	0.49	0.63	0.56
DTC Loi	-2.94	-2.97	-2.85	-2.89
DTC CaO	0.165	0.173	0.209	0.19
DTC K ₂ O	0.009	0.008	0.014	0.012
DTC MgO	0.167	0.156	0.171	0.168
DTC Mn	0.036	0.036	0.036	0.036
DTC Na ₂ O	0.04	0.03	0.03	0.04
DTC TiO ₂	0.39	0.34	0.36	0.37
DTC V	0.022	0.017	0.022	0.021

This mineral resource has been defined using geological boundaries and a cut-off grade of 10% DTR (Davis Tube Recovery) and includes minor internal dilution. DTR is a measure of the recoverable magnetic material as determined using a consistent methodology with the Davis Tube apparatus. All drill samples informing the resource estimates have been subjected to Davis Tube analysis. The concentrate material obtained by this process has been analysed by XRF (X-ray Fluorescence) to determine the grade and quality of the product. All reported concentrate grades were weighted by DTR.

SOUTHDOWN MAGNETITE PROJECT ORE RESERVE ESTIMATE

Following a previous announcement of additional mineral resources at Southdown, the mine has had additional modelling and planning undertaken, resulting in a re-statement of ore reserves with a significant increase of Proven Ore tonnes and a consequent reduction in Probable ore tonnes.

	As at May 2012		
	Tonnes (Mt)	Grade % DTR	Concentrate Fe %
Proven Ore	384.6	35.6	69.6
Probable Ore	3.1	41.7	69.9
Total	387.7	35.6	69.6

The table above shows the DTR grades within the designed pit above a 10% DTR cut-off. There is a total of 24.4 Million tonnes @ 22.3% DTR of inferred material inside the designed open pit (see Appendix 1).

The Life of Mine (LOM) schedule based upon the Ore Reserve, inclusive of inferred material inside the designed open pit, yields the following concentrate production and grades:

LOM Production Schedule	
Ore Tonnes dmt	404,425,815
DTR%	34.98
Concentrate dmt	135,841,655
Elements	Grade % in Concentrate
Fe	69.41
SiO ₂	1.28
Al ₂ O ₃	1.36
CaO	0.17
MgO	0.18
TiO ₂	0.47
Na ₂ O	0.04
K ₂ O	0.01
P	0.003
S	0.08
Mn	0.04
V	0.03
LOI	-2.86

ENGINEERING

Tenders for the Engineering, Procurement and Construction (EPC) contracts for the major areas of construction work of the Project were released to the market during the second quarter of 2012. The EPC tender packages included the concentrator, pipelines, Port of Albany materials handling, wharf, seawall and dredging. Site visits with relevant contractors took place in June.

Evaluation of tenders for long lead equipment such as mining equipment and the concentrator is underway, and negotiations for the construction of the desalination plant are well advanced.

Negotiations with Western Power for the construction of the power transmission line and with the Port of Albany for the construction of the wharf and berth have progressed and are well advanced with agreements targeted to be in place by the third quarter of 2012.

Engineering work continues in a number of areas to enhance and further add value to the robustness of Southdown.

ENVIRONMENTAL APPROVALS UPDATE

The Project has the majority of its State Government primary environmental approvals in place. The Commonwealth Government primary environmental approval relating to biodiversity and the necessary secondary approvals are being addressed to be in place in order to commence construction.

State Ministerial Approval of the desalination environmental permit is expected during the third quarter of 2012.

POWER SUPPLY UPDATE

Commercial negotiations continue with Western Power and have made further progress. State environmental approvals for the new transmission line are in place. Western Australia's Economic Regulation Authority has granted the transmission line project a waiver from the regulatory test typically required for Western Australian transmission network projects. Western Power is close to finalising the specific approval conditions with the Federal Department of Sustainability, Environment, Water, Population and Communities. A power supply tender process has been initiated and negotiation with shortlisted parties is underway.

LAND ACQUISITION UPDATE

Significant progress has been made. The pipeline route from the mine site to the Port of Albany has been finalised, with all the necessary easements through private land secured.

FINANCING UPDATE

Standard Chartered Bank, as Financial Advisor for the Southdown Joint Venture, has advised that given the difficult economic climate globally, the debt funding required is unlikely to be secured before the second quarter of 2013. Assuming the necessary financing is in place and the owners approve the project, commissioning of Southdown is now targeted for mid-2015.

CORPORATE

Debt

The Company continues to have no net debt. Total debt has reduced during the quarter, falling to A\$39.6 million (A\$20.5 million owing to a mobile equipment finance lease arrangement, A\$9.1 million owing to the Tasmanian Government for ongoing environmental remediation works at Savage River, and A\$10 million owing on a working capital facility with the Industrial and Commercial Bank of China). The mobile equipment lease will be fully paid out in 2013.

Treasury

Grange remains unhedged and monitors its currency hedging strategy regularly at its monthly treasury meetings. The Australian dollar fluctuated between \$0.9675 and \$1.0453 during the quarter. The weaker Australian dollar has offset lower iron ore prices. A total of US\$118 million was converted to Australian dollars during the quarter at an exchange rate of \$0.9988, to cover the normal operating costs and also build A\$ liquidity reserves at the lower exchange rates.

Securities Information

No shares were issued to employees during the quarter. However 720,510 shares were issued in early July 2012 under the Long Term Incentive Plan being the final vested tranche for performance for the 12 month period ended 30 June 2010.

The Company's Annual General Meeting was held in Perth in May and all resolutions were overwhelmingly passed.

The Company continues to see excellent liquidity in the trading of its shares with the free float increased to over 38%. The number of shareholders on the Register continues to grow and at 30 June 2012 there were over 5,200 shareholders.

-ENDS-

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Appendix 1

ORE RESERVE STATEMENT

Estimation and Reporting of Ore Reserves	
Criteria	Comments
Mineral Resource Estimate for Conversion to Ore Reserves	The Mineral Resource model for Southdown Deposit has been developed by BMGS Perth as part of an ongoing Feasibility Study by Southdown Joint Venture (SDJV). The stated Mineral Resource is inclusive of the Ore Reserve
Study Status	This report is part of a Feasibility Study (FS) that has been completed, July 2012 The information used for estimation and reporting of this Ore Reserve is based upon a Feasibility Study
Cut-off Parameters	A cut-off grade of 10% Davis Tube Concentrate Mass Recovery (DTR) has been used for reporting which is above the marginal cut-off of 9% (DTR)
Mining Factors or Assumptions	Mining will be undertaken by conventional bulk mining methods utilising hydraulic face shovels, dump trucks and drill and blast. The mining block model includes an allowance for likely mining dilution based on a regularisation of the geological model. The regularisation has added approximately 1% tonnage and reduced the DTR by 4%. No mining loss has been allowed for beyond the effects of regularisation. The Ore Reserves are reported within a detailed staged pit design which is based on Whittle open pit optimisation. The optimisation was carried out including Measured and Indicated Mineral Resource categories and using a gross FOB price at Albany of US\$111.07/dmt concentrate. The overall pit slopes used for the design and optimisation are based on geotechnical studies by Mining One

Estimation and Reporting of Ore Reserves	
Criteria	Comments
Metallurgical Factors or Assumptions	<p>The Concentrator comprises primary crushing, primary, secondary and tertiary grinding, magnetic separation and floatation. Concentrate is pumped by a slurry pipeline for drying and ship loading at the Port Albany.</p> <p>The metallurgical recoveries are based on Sulphur DTC assay results with Weight Recovery = $-3.565395 \times (\text{Sulphur DTC}\%)^2 - 1.172886 \times (\text{Sulphur DTC}\%) + 97.952208$ and applied to crusher feed Sulphur DTC as a factor applied to adjust laboratory recovery to production recovery.</p> <p>A production rate of 10.0 Mt/a concentrate FOB Port of Albany.</p>
Cost and Revenue Factors	<p>Costs include allowances for mining, royalties, concentrate production, slurry transport to Albany, concentrate drying and ship loading plus administration in Australia. Pricing assumptions are based on an average for the life of mine of US\$111.07/dmt of Concentrate FOB Albany at an exchange rate US\$:A\$ 1.00</p>
Market Assessment	<p>Grange Resources has an operating mine at Savage River in Tasmania and presently sells Concentrate and Pellet into the Australian and Asian Markets</p>
Other	<p>The Southdown Magnetite Mine has been assessed under Part IV of the Environmental Protection Act 1986 (WA).</p> <p>Environmental applications for the Southdown Magnetite and Kemaman Pellet Plant Project were initially undertaken in 2005 and comprised the following:</p> <p>Southdown Magnetite mine, slurry pipeline to Albany and Albany Port infrastructure works for up to 11 Mt/a product. Ministerial Statement 816 dated 24 November 2009 approved the 6.6 to 7.0 Mt/a Southdown mining project. A further approval was granted under Section 45c of the Environmental Protection Act 1986 to increase production up to 11 Mt/a. Albany Port Authority's Port Expansion Project (dredging the entrance to Princess Royal Harbour and within King George Sound). The WA Minister for Environment issued Ministerial Statement 846 on 18 November 2010 approving the Albany Port Expansion Project.</p> <p>Currently, approval is being sought under Part IV of the Environmental Protection Act 1986 (WA) to construct and operate a desalination plant at Cape Riche, approximately 30 km south of Southdown Magnetite mine. The desalination plant is being assessed at the level of PER (4 Week public review). The EPA has released its report and recommendations on the implementation conditions to the Minister Environment WA.</p> <p>Currently, there are two registered Native Title applications that cover the areas allocated for the Southdown Project in Australia. Consultation with the registered Native Title body, the South West Aboriginal Land and Sea Council (SWALSC), has been ongoing and will continue to feature.</p> <p>An Aboriginal heritage survey of the mine site in 2005/6, revealed a total of seven archaeological sites containing artefacts. All the sites have been identified, recorded and mapped under Section 16 Aboriginal Heritage Act 1972. A Section 18 application under Aboriginal Heritage Act 1972, was submitted for Ministerial consideration. Ministerial consent to disturb the sites was received in January 2012. Follow up Aboriginal Heritage surveys were conducted during 2012 on areas not previously surveyed. A number of sites have been identified which will be the subject of another Section 18 application, planned for submission in July 2012.</p>

Estimation and Reporting of Ore Reserves	
Criteria	Comments
Contributors	<p>The following organisations have contributed information or undertaken work in the reporting of this Ore Reserve:</p> <ul style="list-style-type: none"> • Golder Associates Pty Ltd – Ore Reserve compilation, mine design and mine scheduling. • Mining One Consultants – Open pit geotechnical, stability and infrastructure location • GHD Pty Ltd – Surface geotechnical, environment and infrastructure • MAGJV Southdown (unincorporated joint venture between AMEC Minproc and GHD Pty Ltd) – Metallurgy, process operating and capital costs and infrastructure design. • Grange Resources Ltd – Mine operating capital and operating costs
Classification	<p>All Measured Resources have been converted to Proven Ore Reserves and all Indicated Resources have been converted to Probable Ore Reserves within the ultimate pit design. There is a small amount of Inferred Resources contained within the pit design</p>
Audit /Previous Studies	<p>Snowden (2008) - High Level Review of Grange Resources Southdown Project, February 2008</p> <p>Optiro (2012) – Audit of Ore Resource and Ore Reserve, June 2012</p> <p>SGS Minerals Metallurgy- Review and audit of Davis Tube Recovery with regard to Quality Assurance (QA) and Quality Control (QC), June 2012</p>

COMPLIANCE WITH THE JORC CODE (2004) ASSESSMENT CRITERIA

This Ore Reserves statement has been compiled in accordance with the guidelines defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code - 2004 Edition). This statement should not be read as a standalone document and should be read in conjunction with the Southdown Magnetite Project Feasibility Study.

Competent Person Statements

The information in this report which relates to the Mineral Resources of the Southdown Project is based on information compiled by Mr Michael Everitt who is a full-time employee of Grange Resources Limited and a Member of the Australasian Institute of Mining and Metallurgy. Michael Everitt has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2004). Michael Everitt consents to the inclusion of this information in this statement of Mineral Resources in the form and context in which it appears.

The information in this report which relates to the Ore Reserves of the Southdown Project is based on information compiled by Mr Ross Carpenter who is a full-time employee of Grange Resources Limited and a Member of the Australasian Institute of Mining and Metallurgy. Ross Carpenter has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2004). Ross Carpenter consents to the inclusion of this information in this statement of Ore Reserves in the form and context in which it appears.