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ASX: GRR



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# Grange Resources Limited

*Australia's leading magnetite producer*

**REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2012**

## HIGHLIGHTS

Grange Resources (“Grange” or “the Company”) has delivered a solid operating performance to shareholders despite a period of downward movement in global iron ore prices and operational redesigns and rescheduling following the July 2012 rock slide at Savage River. Highlights for the September Quarter include:

- Continued excellent safety performance at Savage River with no Lost Time Injuries recorded since July 2010.
- Cash, term deposits and trade receivables of A\$210.0 million. No net debt and low gearing levels with borrowings of A\$36.6 million.
- Product prices averaged US\$128.07 per tonne (FOB Port Latta). Savage River pellets continue to attract a premium relative to 62% Fe iron ore fines prices.
- C1 cash operating costs of A\$130.47 per tonne of product produced reflect increased costs arising from the July 2012 rock slide at Savage River. Ore was predominantly sourced from alternate locations until a return to the high grade main ore zone in late September 2012.
- Interim dividend of 1.0 cent per share (unfranked) paid to shareholders on 2 October 2012.
- Engineering, procurement and construction (EPC) contracts for major construction works for the Southdown Project were submitted by interested parties.
- Received final major environmental permit for the Southdown Project with the approval of the permit for the desalination plant.

Grange Managing Director, Mr Richard Mehan praised staff for maintaining the disciplined management of Grange's safe and productive workplace.

"Grange's excellent safety performance continues with no Lost Time Incidents (LTIs) recorded for over 2 years and the Total Recordable Injury Frequency Rate (TRIFR) is also well below the industry average" he said.

"Production at Savage River for the quarter was impacted by the rock slide in July which restricted our access to high grade ore, reduced our concentrate and pellet production and increased our C1 cash operating costs".

"Operationally we are recovering well from the rock slide and our access to high grade ore has been re-established which is improving our concentrate and pellet production and reducing our C1 cash operating costs. We remain on target to produce approximately 2.1 million tonnes of iron ore pellets at an annual C1 cash operating cost of approximately A\$110 per tonne of pellets produced".

"At our Southdown Project, all EPC tender packages have been received and are under evaluation. Engineering studies continue and the environmental permit for the desalination plant has been granted".

"The price for traded iron ores dipped steeply in late August. Whilst some recovery is evident through a 30 per cent increase in Platts Iron Ore Index prices since the September market lows, key steel making regions, especially in China and Japan, continue to experience difficulties. Credit markets remain very tight and we continue to work with our advisors on our financing options, including an equity sell-down of the project to a strategic partner".

## **CASH RESERVES AND FUTURE SALES**

Cash, term deposits and trade receivables for Grange as at 30 September 2012 were A\$210 million. Costs of A\$3.1 million were incurred on the Southdown feasibility studies during the quarter (Grange's share) and a deferred consideration payment of A\$1.3 million was made to the previous owners of Savage River during the quarter.

The average price received during the quarter was US\$128.07 per tonne of product sold (FOB Port Latta) and reflects the downward movements in global iron ore prices. Savage River pellets continue to attract a premium relative to 62% Fe iron ore fines prices. Total sales revenue for the quarter was A\$71.0 million.

## SAVAGE RIVER OPERATIONS

### Production and Costs - September Quarter

Grange continues to forecast production of approximately 2.1 million tonnes of premium 65+% iron ore pellets in 2012.

	Production and Costs September Quarter 2012	Production and Costs September Quarter 2011
<b>Total BCM Mined</b>	3,212,056	3,184,680
<b>Total Ore BCM</b>	373,211	402,846
<b>Concentrate Produced (t)</b>	424,622	556,122
<b>Weight Recovery (%)</b>	25.6	34.5
<b>Pellets Produced (t)</b>	410,977	506,143
<b>Pellets Shipped (t)</b>	563,836	494,138
<b>Concentrate Shipped (t)</b>	2,187	60
<b>Pellet Stockpile (t)</b>	128,889	193,386
<b>Concentrate Stockpile (t)</b>	35,777	35,581
<b>“C1” Cost A\$/tonne Product Produced<sup>1</sup></b>	130.47	99.69

Note:

1. “C1” costs are the cash costs associated with producing iron ore products 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 eighth consecutive quarter. During the past 24 months the TRIFR has fallen from 22.2 (30 June 2010) to 1.93 (30 September 2012), a 91 per cent reduction.

Mining recommenced in the main ore zone of the North Pit in September 2012 following a rock slide at Savage River in July 2012 which temporarily sterilised our access to high grade ore and resulted in the processing of lower grade ore which was extracted from alternate locations. Re-establishing access and recommencing mining in the main ore zone during September 2012 has improved our ore grades and will deliver increased concentrate and pellet production during Q4 2012.

A revised mine plan has been developed to line balance production output at approximately 2.24 million tonnes while the rock fall continues to be remediated through 2012 and 2013. Production will then revert to approximately 2.4 million tonnes per annum for the balance of the life of mine.

The Federal Department of Sustainability, Environment, Water Population and Communities (SEWPAC) has approved the upstream tailings dam wall raise at Savage River. This decision provides the necessary storage capacity required in 2013 and 2014.

A proposal for the construction of the South Deposit tailings dam was referred to the Federal Environment Minister (SEWPAC) under the EPBC Act 1999. Following the Federal Ministers decision in September 2012, a Notice of Intent (NOI) was submitted to the Department of Primary Industry, Parks, Water and Environment (DPIPWE) in Tasmania and will require the proposal to be bi-laterally assessed by the Tasmanian Environmental Protection Authority (EPA) and SEWPAC. A final decision on the proposal is anticipated by September 2013.

## COST MANAGEMENT

Cash costs at Savage River were less than budgeted for the quarter, at A\$55.4 million, exclusive of state 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\$130.47 per tonne of product produced, compared to A\$99.69 per tonne in the corresponding quarter last year. The higher C1 unit cost arose from the processing of lower grade ore following the rock slide at Savage River in July 2012 and will improve in Q4 2012 to approximately A\$105 per tonne of product produced with the recommencement of mining operations in the main ore zone during September 2012.

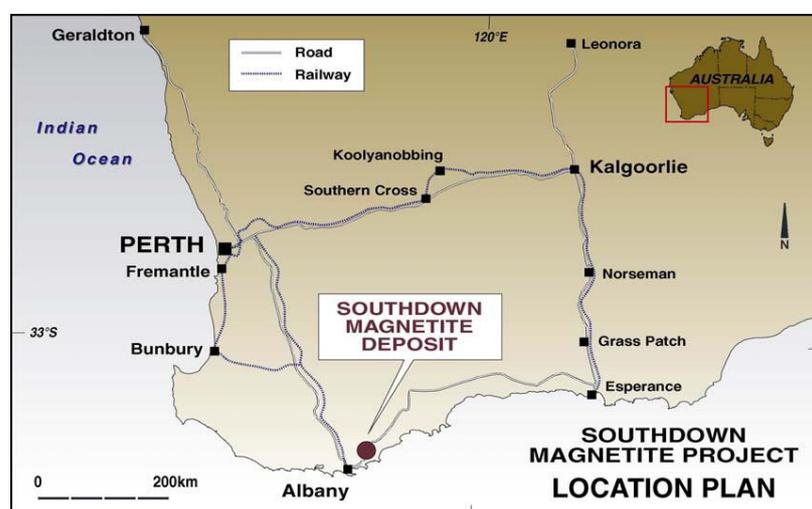
Capital costs for the quarter were A\$5.6 million, primarily for projects at Savage River. The major items related to the final payments for the purchase of additional mobile mining equipment (Hitachi EX3600 excavator) and progress payments for replacement autogenous mill shells.

## 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 evaluation 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.

## ENGINEERING

Tenders for the Engineering, Procurement and Construction (EPC) contracts for the major areas of construction work of the Project were submitted by interested parties during the quarter. The EPC tender packages included the concentrator, pipelines, Port of Albany materials handling, wharf, seawall and dredging.

A comprehensive evaluation of submitted tenders for EPC and long lead equipment items, which were tendered in prior quarters, is underway and will provide an improved level of accuracy regarding the estimated capital costs for the project.

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

## ENVIRONMENTAL APPROVALS UPDATE

The Project now has all the requisite State Government primary environmental approvals in place following the issuance of a permit by the West Australian Minister for Environment and Conservation in July 2012 for the project's desalination plant.

Work continues in relation to the Commonwealth Government's primary environmental approval relating to biodiversity as well as the necessary secondary approvals which are all required to be in place prior to the commencement of construction.

## CORPORATE

### DEBT

The Company continues to have no net debt. Total debt has reduced during the quarter, falling to A\$36.6 million (A\$17.4 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 working capital facility was repaid in October 2012 and 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 \$1.0163 and \$1.0593 during the quarter. The weaker Australian dollar has offset lower iron ore prices. A total of US\$70 million was converted to Australian dollars during the quarter at an exchange rate of \$1.0375, to cover the normal operating costs.

## SECURITIES INFORMATION

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 continues to see excellent liquidity in the trading of its shares with the free float increasing to over 40% during the quarter. The number of shareholders on the Register continues to grow and at 30 September 2012 there were approximately 5,600 shareholders.

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For further information, please contact:

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