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# Grange Resources Limited

*Australia's leading magnetite producer*

## REPORT FOR THE QUARTER ENDED 31 DECEMBER 2011

### HIGHLIGHTS

Grange Resources is proud to deliver another robust quarter to shareholders after what has been a challenging but ultimately successful year. Savage River has continued to enjoy strong commodity prices with excellent cash generation and the development of the Southdown project near Albany in Western Australia is progressing on schedule and under budget, with the Definitive Feasibility Study (“DFS”) due for completion in the first quarter of 2012.

Highlights for the December Quarter 2011 included:

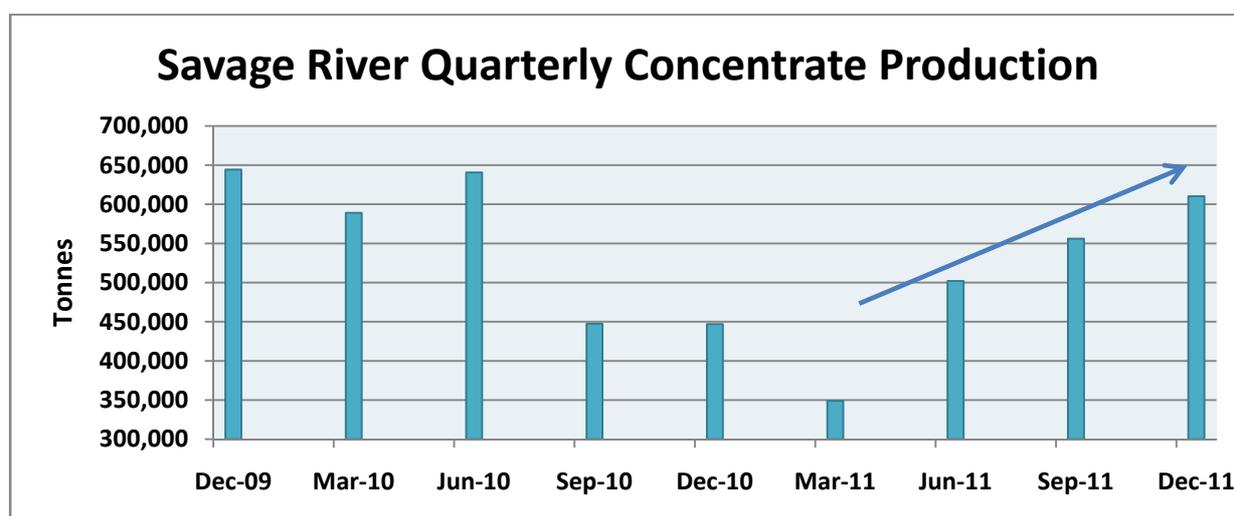
- Continued excellent safety performance at Savage River and Southdown. 17 months of no Lost Time Incidents (LTI) achieved.
- Improved cash, term deposits and trade receivables position of A\$226.7 million and no net debt at the end of the quarter.
- Pellet prices remained strong during the quarter averaging US\$198.9 per tonne.
- Direct operating cost per tonne of pellets produced reduced to A\$89.65 per tonne for the quarter, a 30% reduction on the previous quarter.
- Inaugural two cent dividend paid.
- Highest quarterly concentrate and pellet production for 15 months.
- Savage River production achieved two million tonnes of concentrate in 2011, per previous guidance. Pellet production for the year was 1.98 million tonnes.
- Phase I of Savage River East Wall recovery plan successfully concluded, with production and unit costs returning to “normal” levels.
- Southdown project DFS continues, with completion due first quarter 2012.
- Southdown Mineral Resources increased and confidence improved.

Grange Managing Director, Mr Russell Clark, said “We believe that good safety management results in sustainable and productive operations. Our safety performance at Savage River has been excellent, considerably better than that of the broader Australian mining industry, and is a credit to the hard work that our employees have put into improving the safety culture.”

“Spot prices for iron ore fell during the quarter but due to our contract terms we saw our pellet prices remain robust, averaging US\$198.9 per tonne for the December quarter. In addition, a weakening Australian dollar and the planned reduction in unit costs helped sustain excellent operating margins.”

“As a result of our continued excellent revenue streams, Grange announced its inaugural dividend of two cents per share, paid on 13 October.”

“The Savage River operations continue to perform well with Phase I of the East Wall cut back completed. As previously forecast, we are back mining the main ore body in North Pit and as a result are now seeing higher grades, higher concentrate production and lower unit costs. In fact, the December quarter’s production was the highest achieved in the past 15 months.”



“Production at Savage River achieved two million tonnes of concentrate in 2011, and we are expecting production to be upto 15% higher in 2012 due to improved mining conditions.”

“Direct operating costs per tonne of pellets produced fell by 30% when compared to the previous quarter, and were A\$89.65 per tonne of pellets produced. Now that mining has recommenced in the North Pit, ore grades have increased resulting in greater production and reduced unit costs.”

“In addition to treating our own ore, we have also treated over 19,000 tonnes from the nearby Kara mine (Tasmanian Mines Limited). This has been treated without any adverse effect on the quality of our own production and opens up further opportunities in the future to utilise spare capacity that we have in the pipeline and pellet plant.”

“The DFS for our growth project, Southdown Joint Venture Project, has continued and is due for completion in the first quarter of 2012, for consideration by the owners in the first half of 2012. Engineering studies have been advanced, environmental permitting and land access progressed and we recently announced an improvement in the quantity and confidence of the Resource. This project is well placed from an infrastructure perspective and continues to show good economics and potential returns. Tightening global credit markets are suggesting that financing this project could be completed in the second half of this year.”

## CASH RESERVES AND FUTURE SALES

Cash, term deposits and receivables for Grange as at 31 December 2011 were A\$226.7 million, up from A\$215.6 million at 30 September 2011. Costs of A\$10.6 million were incurred on the Southdown DFS during the quarter (Grange's share). In addition A\$23 million was paid to shareholders as an inaugural interim dividend.

Sales for the quarter continued using an "IODEX" index based pricing mechanism with an additional pellet premium.

The average price received during the December quarter was US\$198.9 per tonne of pellets (FOB Port Latta).

BlueScope Steel ("BlueScope") is a major customer of Grange and contracted to offtake 800,000 tonnes of pellets for the year ending June 30 2012. In October 2011 BlueScope shut down one of its two production blast furnaces, reducing its requirements for pellets as a result. Grange has agreed to extend BlueScope's contract period to 31 December 2012 and has received A\$14.2 million as an advance payment for pellet deliveries over the remaining term of the contract period.

We also note that at the time of issuing this report Grange has shipped a further 235,000 tonnes of pellets, with a sales price averaging US\$176 per tonne, increasing cash reserves significantly.

Cash generation at Savage River is forecast to remain strong throughout the next quarter. Whilst contract iron ore prices have reduced in line with the spot price reduction experienced in October 2011, the Australian dollar has weakened and unit costs of production have also fallen. As a result healthy margins are expected to remain for the Savage River production.

Grange has arranged a A\$20 million working capital facility with the Industrial and Commercial Bank of China Limited ("ICBC"). To date A\$10 million has been drawn down, with total debt at the end of the quarter amounting to A\$44.9 million

## SAVAGE RIVER OPERATIONS

### Production and Costs - December Quarter 2011

Grange produced two million tonnes of concentrate production in 2011, and expects production to be up to 15% higher in 2012 and 2013 due to improved mining conditions.

	<i>Production and Costs December Quarter 2011</i>	<i>Production and Costs December Quarter 2010</i>
<b>Total BCM Mined</b>	4,240,390	3,971,951
<b>Total Ore BCM</b>	531,189	361,781
<b>Concentrate Produced (t)</b>	612,189	447,404
<b>Weight Recovery (% DTR)</b>	41.70	40.29
<b>Pellets Produced (t)</b>	632,143	442,427

<b>Pellets Shipped (t)</b>	474,683	592,855
<b>Concentrate Shipped (t)</b>	10,582	60
<b>Pellet Stockpile (t)</b>	351,376	68,850
<b>Concentrate Stockpile (t)</b>	671	10,562
<b>Direct Operating Cost A\$/tonne Pellet Produced<sup>1</sup></b>	89.65	91.37
<b>“C1” Cost A\$/tonne Pellet Produced<sup>2</sup></b>	85.73	98.05

Note :

1. *Direct operating costs includes all costs associated with producing iron ore pellets including deferred mining and ore stockpile movements but excludes royalties, depreciation and amortisation costs.*
2. *“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

Safety performance was sustained with no Lost Time Injuries (“LTI”) recorded for the fifth consecutive quarter. Over the course of 2011 the Total Recordable Injury Frequency Rate (TRIFR) fell from 9.1 (31 December 2010) to 4.7 (31 December 2011), a 48% improvement.

The remediation cut back of the East Wall is close to complete, and access to the North Pit has been re-established as planned. As a result, ore grades have improved and concentrate and pellet production rates increased proportionately. Pellet production in the December quarter was at an annualised rate of 2.5 million tonnes per year.

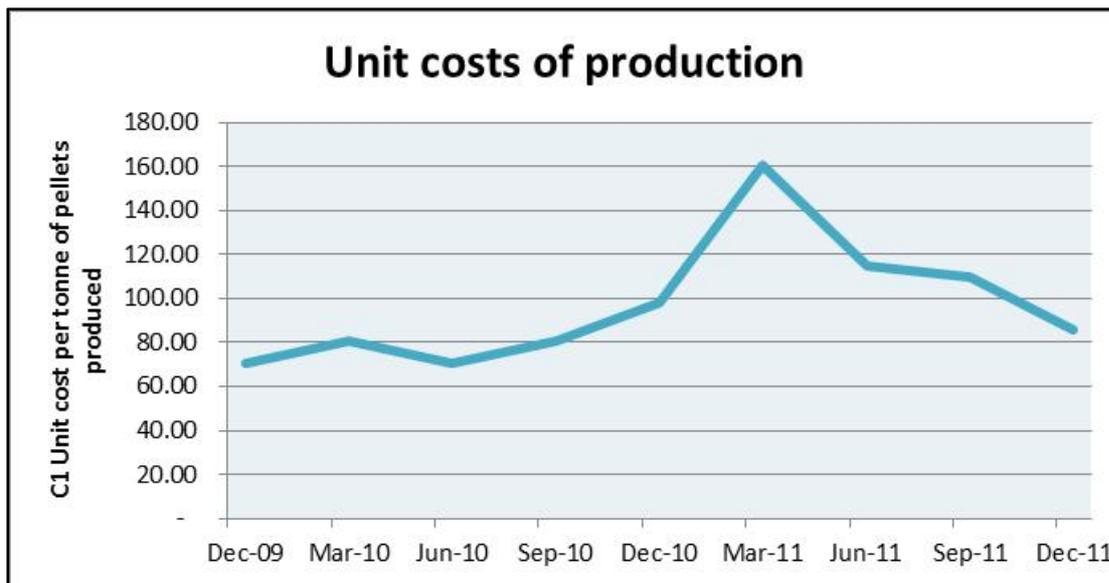
In 2012, mining will occur predominantly in the North Pit, with pellet production forecast to be between 2.3 to 2.4 million tonnes. During 2011, ore stocks were depleted as a result of the East Wall remediation work. During 2012 ore stocks will rise significantly to provide concentrator feed in 2013, when mining activity will be focussed on waste movement associated with planned cutbacks.

## COST MANAGEMENT

In 2011, costs were lower than budgeted with cash costs at Savage River of A\$220.9 million, exclusive of royalties.

Direct operating unit costs (\$ per tonne of pellets produced) in the quarter were A\$89.65 per tonne, 30% lower than in the September 2011 quarter (A\$127.7 per tonne), and are now at levels regarded as sustainable. Direct operating costs include provision of stockpile movements and deferred mining, where stripping (i.e overburden and other waste removal) costs incurred in the development of the mine are capitalised and subsequently amortised based on the current period strip ratio relative to the life of mine ratio.

An alternative way to analyze the costs is from a “C1” perspective – where actual cash costs incurred for the mining and processing operations are used to create unit costs of production.



As a result of Phase I of the East Wall remediation being concluded and access to the North Pit being re-established unit costs have returned to “sustainable” levels, as previously forecast.

Capital costs for the quarter were \$4.8 million, primarily for projects at Savage River. The major items were progress payments for the autogenous mill shell replacement and mill liner handler, drape mesh for the pit walls, and a final payment associated with the phased replacement of 789C truck trays.

## EXPLORATION & DEVELOPMENT- Savage River

A \$2 million exploration drilling program continued at Long Plains during the quarter. Long Plains is a magnetite deposit located approximately 10 kilometres south of the Savage River open pit. The drilling program is expected to be completed in February 2012 and a resource model is scheduled to be produced in the second quarter of 2012.

The mine life at Savage River has been extended from 2026 to 2030. The opening up of the old satellite pits during 2011 whilst the East Wall cut back was taking place has provided the opportunity to include additional reserves in the life of mine plan, extending the life of the operation for another four years. This extended mine life does not include any potential resource found at Long Plains during the current drilling program.

As previously reported, the Memoranda of Understanding (“MOU”) with Shree Minerals and Venture Minerals announced during the quarter have the potential to result in increased production at Savage River of between 200,000 and 300,000 tonnes per annum of magnetite concentrate. In addition Grange treated over 19,000 tonnes of ore from Tasmania Mines Limited’s nearby Kara mine during the quarter, with the expectation that there will be future opportunities.

Further exploration work at Southdown is noted later in this report.

## SOUTHDOWN MAGNETITE PROJECT

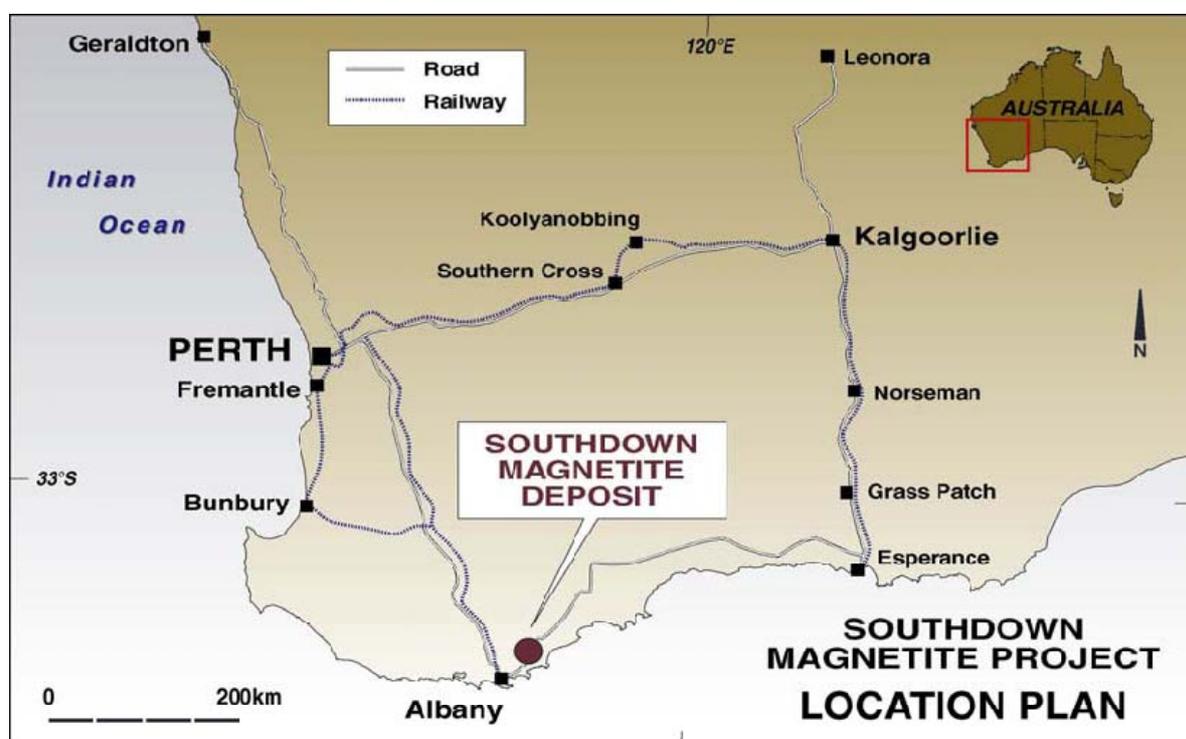
(Southdown; Grange 70%, Sojitz Resources and Technology Pty Ltd 30%)

*Being an operator with extensive experience in magnetite mining and processing, and having cash flow generated from the Savage River operations places Grange in a unique position when compared to other magnetite project developers in Australia. Grange has the systems, processes, intellectual property (IP) and the people that, together, will help minimise the planning and execution risk of the Southdown project.*

The following summary is an update on progress achieved with the Southdown Magnetite Project to date.

### 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. With a location within 100 kilometres of existing port facilities, mineralisation close to surface, power generation available from the Collie area and water supply from a dedicated desalination plant at the nearby coast, critical infrastructure solutions are in place and the deposit is favourably placed for development. In addition, a ready labour force is available in and around Albany so the project will not have to compete for labour out of the Perth market.



Location of Southdown Magnetite Project, Albany WA

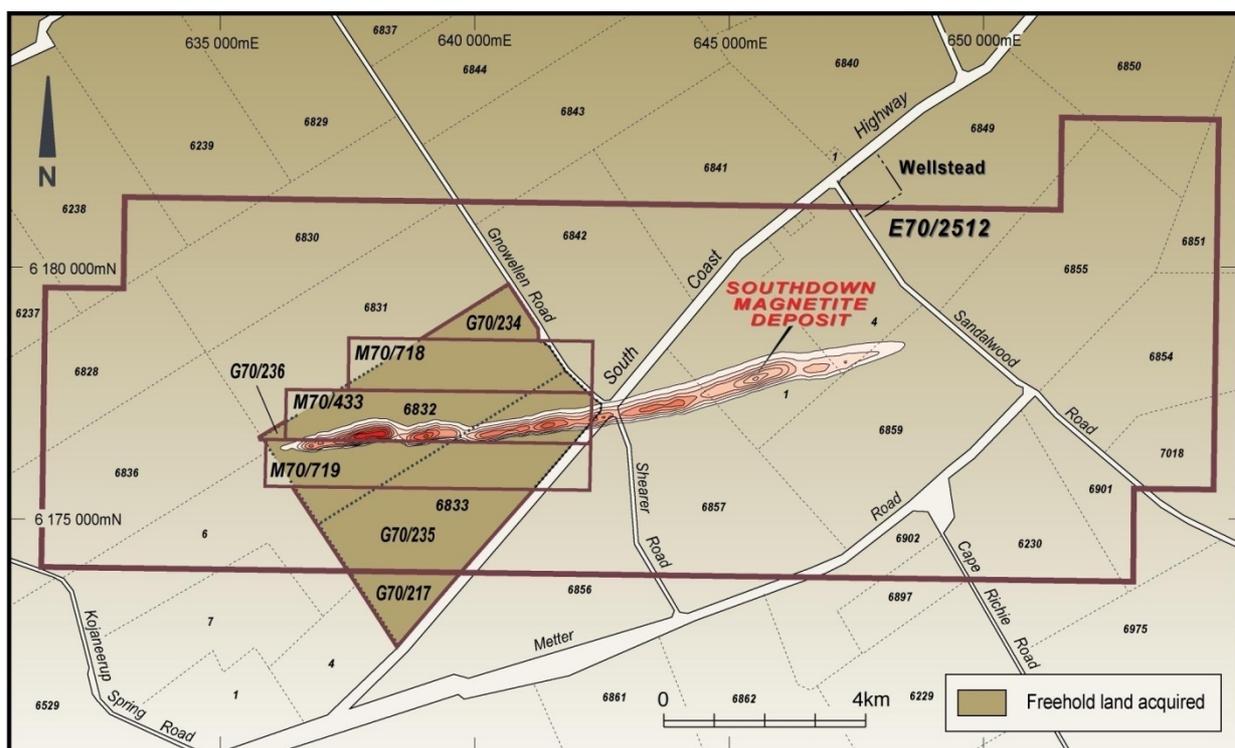
The Southdown magnetite deposit will be mined using standard open pit mining methods with the magnetite mineralisation being crushed, ground, screened and magnetically separated to produce a magnetite concentrate with an iron content in excess of 68 per cent.

The concentrate will be pumped via a buried slurry pipeline, approximately 100 kilometres to a concentrate storage facility at the Port of Albany before being loaded onto cape size vessels and shipped to an iron ore pellet plant that is currently planned to be located in Kemaman, Malaysia. 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 and 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.

## RESOURCES & RESERVES - Southdown

The following diagram shows the orebody location, comprising of the western and eastern tenements. The western portion is covered by a Mining Lease and the eastern portion is covered by an Exploration Licence.



*Southdown orebody location (plan view): western and eastern tenements*

The Southdown deposit occupies the core of a gently east plunging, overturned tight to isoclinal syncline with a steeply south dipping axial surface. The deposit is offset by moderately north-east dipping dextral reverse faults and subsidiary steeply south-east dipping sinistral faults.

Currently the Mineral Resource extends for 8.5 kilometres of the 12 kilometre strike length of the deposit, with variable depths ranging from a surface outcrop in the west, to 480 metres

below surface in the east. The average thickness of the mineralisation is 85 metres, with the deposit increasing in width towards the east as the thicknesses of low-grade and non-mineralised internal geological units increase.

Since the commencement of the DFS in April 2011, an A\$8.3 million geotechnical and resource drilling program has been completed at the project. The western tenements were drilled to improve resource confidence with the expectation of increasing reserves. The Mineral Resources at Southdown have been updated since the 30 September 2011 Quarterly Report. Further details of the Mineral Resource estimate can be found in the Company's ASX announcement dated 11 January 2012.

### **SOUTHDOWN MAGNETITE PROJECT MINERAL RESOURCE ESTIMATE (December 2011)**

<b>Classification</b>	<b>Measured Resources</b>	<b>Indicated Resources</b>	<b>Inferred Resources</b>	<b>Total Resources</b>
Tonnes (Mt)	407.1	40.2	250.8	698
DTRwt%	37.1	40.7	32.5	35.7
DTC Fe%	69.2	69.5	69.1	69.2
DTC SiO <sub>2</sub> %	1.86	1.80	2.02	1.91
DTC Al <sub>2</sub> O <sub>3</sub> %	1.36	1.25	1.31	1.34
DTC S%	0.45	0.43	0.60	0.50
DTC LOI%	-3.03	-3.02	-2.94	-3.00

This mineral resource has been defined using geological boundaries and a cut-off grade of 10wt% DTR ("Davis Tube Recovery") and includes minor internal dilution. All reported concentrate grades were weighted by DTR.

The total Mineral Resource stated above combines an updated estimate of 501Mt at 36.2 wt% DTR for the western tenements completed by Ben Pollard of BM Geological Services, plus 196.9Mt at 34.4 wt% DTR for the eastern tenements from the previous resource estimate completed by James Farrell of Golder Associates Pty Ltd in July 2009 and updated in January 2012. Details of the individual Resource statements can be found in the Company's ASX announcement dated 11 January 2012.

Drilling from the eastern tenements was aimed at an Exploration Target of 300-500Mt of mineralisation with a potential grade of 33-37 wt% DTR. The potential tonnage and grade of the Exploration Target is conceptual in nature, and there is currently insufficient information to define Mineral Resources. Drilling results are being analysed and we expect to advise the results and any changes to resources and reserves to the market during the first quarter of 2012.

*The information in this report which relates to the Mineral Resources of the Southdown Project- Western Tenements is based on information compiled by 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 statement which relates to the Mineral Resources of the Southdown Project – Eastern Tenements is based on information compiled by James Farrell who is a full-time employee of Golder Associates Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. James Farrell 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). James Farrell consents to the inclusion of this information in this statement of Mineral Resources in the form and context in which it appears.*

## ENGINEERING UPDATE

Engineering work for the Definitive Feasibility Study (+/- 15% accuracy) with the MAGJV (AMEC and GHD JV), Ausenco PSI and JFA/SMEC JV is substantially completed and the final study is scheduled for completion in the first quarter of 2012.

Tenders have been received for long lead equipment for the concentrator, mining equipment and for the construction of the desalination plant. These tenders will enhance the robustness of the accuracy of the capital estimate for the study and also assist with the development of front end engineering which is being considered for the next phase of the development.

The Port of Albany marine study has been completed and is currently under review. Commercial agreements with the Port of Albany Authority are in progress and well advanced.

The project has continued to make significant progress and is well positioned to quickly proceed through to the next stages of the development.

## METALLURGICAL TEST WORK UPDATE

Ongoing vendor test work is continuing to enhance and support individual equipment selection.

## ENVIRONMENTAL APPROVALS UPDATE

The Desalination Plant Public Environmental Review ("PER") was released for public review in September 2011. The four week public consultation phases ended in October 2011. All matters related to the PER have been addressed and final submission is awaiting recommendation by the Environmental Protection Authority ("EPA") for approval by the State Minister for the Environment in the second quarter of 2012.

The Commonwealth Department of Sustainability, Environment, Water, Population and Communities ("SEWPaC") determined that the Southdown Project required formal assessment under the *Environment Protection Biodiversity Conservation Act, 1999*. The controlled action assessment commenced during the last quarter.

Work on the secondary approvals is progressing with focus on the mining and works approval submissions.

Seagrass replantation has commenced within the King George Sound as part of the approvals in place for the construction of berth 7 at the Port of Albany.

## POWER SUPPLY UPDATE

Commercial negotiations on an Electricity Transfer Access Contract and Interconnection Works Contract are on-going with Western Power and have made good progress with a number of critical items agreed.

A formal tender for the supply of electricity to the Project was received from a number of proponents. The submissions are currently under review.

## PROJECT FINANCE UPDATE

The Company continues to work with its financial advisor, Standard Chartered Bank, to structure a debt financing plan based on key project risks, including global uncertainties in financial markets.

Grange also anticipates considering a range of equity funding options to fund its Southdown project interest. Asset sales may potentially be one of the elements in the project finance mix. There is no formal asset sale process underway at the present time and funding options will be reviewed following the completion of the definitive feasibility study during 2012.

## CORPORATE

### Debt

The Company continues to have no net debt. Total debt in the Company has increased by A\$6.3 million during the quarter to A\$44.9 million (A\$25.6 million owing on a mobile equipment finance lease arrangement, A\$9.1 million owing to the Tasmanian Government, and A\$10 million owing to the Industrial and Commercial Bank of China Limited).

### Foreign Exchange Management

Grange maintains a 'no hedging' policy as to future USD revenues but manages its AUD expense requirement through a disciplined foreign exchange strategy. This provides for sufficient AUD liquidity on an emerging basis, delivered at an average foreign exchange rate over the month and is benchmarked and monitored at monthly treasury meetings. The Australian dollar fluctuated between US\$1.0752 and US\$0.9386 over the quarter. A total of US\$97 million was converted to Australian dollars during the quarter at an exchange rate of US\$1.0044 taking advantage of the weakening Australian dollar.

### Carbon Price effects

During the quarter, the Company received confirmation from the Minister for Climate Change and Energy Efficiency that the production of magnetite concentrate will be eligible for assistance under the Jobs and Competitiveness Program in the moderately emissions-intensive category.

Grange continues to work with the Department of Climate Change regarding its submission for transitional assistance for the production of iron ore pellets.

## Securities Information

No shares were issued by the Company during the quarter.

The Company continues to see excellent liquidity in the trading of its shares. The number of shareholders on the Register remains stable with approximately 4,700 holders.

The Company announced an inaugural (unfranked) 2 cent per share dividend, which was paid on 13 October 2011.

-ENDS-

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