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ASX: GRR



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# Grange Resources Limited

*Australia's most experienced magnetite producer*

**REPORT FOR THE QUARTER ENDED 31 DECEMBER 2012**

## HIGHLIGHTS

Grange Resources (“Grange” or “the Company”) has delivered a solid quarter focussed on protecting shareholder value during a period of operational challenges and volatile market conditions. Highlights for the December 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\$188.4 million. No net debt and lower gearing levels with borrowings reduced to A\$22.9 million.
- Sales of 2.4 million tonnes of iron ore products during 2012.
- Product prices averaged US\$123.84 per tonne (FOB Port Latta) for the quarter. Prices continue to strengthen in line with the recent improvements in 62% Fe iron ore fines prices.
- Successfully addressed operational challenges to achieve 2.1 million tonnes of iron ore concentrate production in 2012.
- Operational redesigns and rescheduling implemented with improved C1 cash operating costs of A\$110.44 per tonne of product produced for the quarter.
- Interim dividend of 1.0 cent per share (unfranked) paid to shareholders on 2 October 2012.
- Timely reassessment of Southdown Project. Announced a significant reduction in project expenditure for 2013.
- Revised the terms of the iron ore pellet sales agreement with Shagang and eliminated the reliance on a single off-take customer.

Grange Managing Director, Mr Richard Mehan said "The Company has met the production and cost objectives established after the difficult third quarter following the July 2012 rock slide and soft pellet prices."

"Trading conditions improved late in the quarter and the company is well placed to take advantage of stronger pellet prices in 2013. A strong emphasis will remain on driving operating costs down given the operational focus on regaining access to high grade ore during the third quarter. "

"Important announcements were made to the market on future sales of Savage River pellets and on the Southdown Magnetite Project in Western Australia. Major customer Shagang has agreed to a one million tonne per annum off-take agreement allowing Grange flexibility to broaden its customer base and take advantage of improving market opportunities."

"Having completed the Definitive Feasibility Study (DFS) on Southdown, together with securing all major primary approvals, the Company announced a major reduction in project expenditure, while continuing to seek new equity partners. Newly committed expenditure for the project in 2013 will be limited to A\$2.5 million."

Mr Mehan also praised staff for maintaining the disciplined management of Grange's safe and productive workplace following another quarter of no Lost Time Injuries.

## CASH RESERVES AND FUTURE SALES

Cash, term deposits and trade receivables for Grange as at 31 December 2012 were A\$188.4 million. Costs of A\$2.2 million were incurred on the Southdown feasibility studies during the quarter (Grange's share) and a deferred consideration payment of A\$1.4 million was made to the previous owners of Savage River during the quarter. In addition, A\$11.6 million was paid to shareholders as an interim dividend during the quarter and A\$11.3 million of borrowings were repaid.

The average price received during the quarter was US\$123.84 per tonne of product sold (FOB Port Latta) reflecting the then prevailing softer global iron ore prices. Savage River pellet prices continue to strengthen in line with recent movements in 62% Fe iron ore fines prices and continue to attract a quality premium. Total sales revenue for the quarter was A\$66.8 million and A\$331.3 million for the year ended 31 December 2012.

During the quarter, Grange announced a revision to its iron ore pellet sales agreement with its major customer, Jiangsu Shagang Trade Co. Ltd ("Shagang"). The annual contracted pellet off-take tonnage to Shagang is now one million tonnes per annum and provides the Company with an opportunity to actively market its iron ore pellets to customers across a number of geographic locations.

Since this announcement in November 2012 the Company has committed to sell 240,000 tonnes of iron ore pellets to new customers with a sales price averaging US\$138.70 per tonne (FOB Port Latta).

## SAVAGE RIVER OPERATIONS

### Production and Costs - December Quarter

Grange produced 2.1 million tonnes of premium 65+% iron ore concentrate in 2012.

|   | Production and<br>Costs<br>December Quarter<br>2012 | Production and<br>Costs<br>December Quarter<br>2011 |
|---|---|---|
| <b>Total BCM Mined</b>                                      | 3,490,008   | 4,240,390   |
| <b>Total Ore BCM</b>  | 435,136   | 531,189   |
| <b>Concentrate Produced (t)</b>                             | 517,581   | 612,189   |
| <b>Weight Recovery (%)</b>                                  | 35.6  | 41.7  |
| <b>Pellets Produced (t)</b>                                 | 496,469   | 632,143   |
| <b>Pellets Shipped (t)</b>                                  | 494,697   | 474,683   |
| <b>Concentrate Shipped (t)</b>                              | 38,228  | 10,582  |
| <b>Pellet Stockpile (t)</b>                                 | 131,223   | 351,376   |
| <b>Concentrate Stockpile (t)</b>                            | 8,777   | 671   |
| <b>“C1” Cost<br/>A\$/tonne Product Produced<sup>1</sup></b> | 110.44  | 88.52   |

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 1.99 (31 December 2012), a 91% reduction.

Operations during the quarter have been executed in accordance with the revised mine plan developed after the July 2012 North Pit wall failure which temporarily delayed access to high grade ore. Whilst increased volumes of lower grade ore were processed from alternative locations, larger than anticipated volumes of higher grade ore were extracted from the North Pit thus delivering stockpile attainment in excess of the revised mine plan.

Capital projects and optimised maintenance opportunities were re-scheduled and brought forward in order to re-balance and de-risk the revised mine plan into the first quarter of 2013. This enabled the completion of major preparatory works for an AG-Mill change-out and the relocation of the slurry pipeline beyond the operational footprint of the life of mine pit shell. While this required a four day shut down across the process plants, this provided an opportunity to undertake required maintenance in advance of the common equipment shutdown scheduled for the first quarter of 2013.

An independent peer review was undertaken as part of the progression towards Federal approval to construct the South Deposit Tails Storage Facility. The Development Proposal and Environmental Management Plan was drafted in preparation for submission to the Tasmanian Environmental Protection Agency in January 2013.

## **COST MANAGEMENT**

C1 cash costs at Savage River were less than budget for the quarter, at A\$57.2 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\$110.44 per tonne of product produced, compared to A\$88.52 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.

Capital costs for the quarter were A\$6.7 million, primarily for projects at Savage River. The major items related to progress payments and pre-installation work for an AG-Mill change-out and the relocation of the slurry pipeline beyond the operational footprint of the life of mine pit shell.

## **SOUTHDOWN MAGNETITE PROJECT**

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

During the quarter the Company announced that it would significantly reduce expenditure on its 70% owned Southdown Magnetite Project due to uncertain market conditions, high development costs and difficult financial markets.

The project has achieved a number of significant milestones including completion of a Definitive Feasibility Study (DFS), delineation to reserve status of a major ore body capable of producing extremely high grade concentrate, cost effective non process infrastructure solutions and all primary environmental approvals. As a result the project is able to quickly move to the development phase when market and cost environments are more favourable.

Planned expenditure for 2013 will total A\$2.5 million (Grange’s share) and result in the Project team being reduced to a small group of six.

The Company continues the process of seeking an equity partner for a strategic share of the Company’s interest in the project.

All tenements, permits and project assets will be maintained in good order during 2013.

## **CORPORATE**

### **DEBT**

The Company continues to have no net debt. Total debt has reduced during the quarter, falling to A\$22.9 million. This is comprised of A\$13.9 million owing to a mobile equipment finance lease arrangement and A\$9 million owing to the Tasmanian Government for ongoing environmental remediation works at Savage River. The working capital facility with Industrial and Commercial Bank of China Limited (“ICBC”) was repaid in October 2012. Final repayments under the mobile equipment lease commenced during the quarter and 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 \$1.0161 and \$1.0550 during the quarter. A total of US\$60 million was converted to Australian dollars during the quarter at an exchange rate of \$1.0387 to cover normal operating costs.

## SECURITIES INFORMATION

No new shares were issued during the quarter.

The Company's share price increased late in the quarter and the Company received and responded to a share price query from the ASX on 31 December 2012. The Company confirmed that all material price sensitive information had been released to the market and that it was not aware of any information which had not been announced to the market that could explain the price movement in its securities on 31 December 2012.

The timely decisions in relation to the Southdown Project as well as the more positive outlook for the iron ore market are being reflected in the share price. Grange is now a pure iron ore stock and Savage River is well placed to achieve good margins and for the market to recognize its value.

The Company continues to see good liquidity in the trading of its shares with the free float remaining over 40% during the quarter. As at 31 December 2012 there were approximately 5,500 shareholders.

-ENDS-

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Or visit [www.grangeresources.com.au](http://www.grangeresources.com.au)