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ASX: GRR



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# Grange Resources Limited

*Australia's leading magnetite producer*

## REPORT FOR THE QUARTER ENDED 31 MARCH 2012

Grange Resources has delivered another robust quarter to shareholders. The Company's wholly owned Savage River operations have continued to enjoy strong pellet sales, resulting in excellent cash generation. Its Southdown project, under development near Albany in Western Australia, has progressed, with the Definitive Feasibility Study (DFS) due for announcement to the market in April 2012.

### HIGHLIGHTS

Highlights for the March 2012 Quarter include:

- Continued excellent safety performance at Savage River and Southdown. Twenty months of no Lost Time Incidents (LTI) achieved.
- Record monthly pellet sales achieved in January 2012.
- Improved cash, term deposits and trade receivables position of A\$274.2 million and no net debt at the end of the quarter.
- Pellet prices remained strong, averaging US\$172.57 per tonne FOB Port Latta.
- C1 cash operating costs of A\$111.09 per tonne of pellets produced supporting strong cash margins.
- Final three cent dividend declared and payable in April 2012, in addition to the inaugural two cent dividend paid in October 2011.
- Southdown mineral resources increased by 75 per cent to 1.22 billion tonnes.
- Southdown project DFS substantially completed.

Grange Resources Managing Director, Mr Russell Clark, declared the quarter results a success, with consistently positive results being achieved at the Savage River operations and increased confidence at Southdown.

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“Our excellent safety performance at Savage River has been maintained, and with it we continue to see excellent production and costs management at the operations,” Mr Clark said.

“As a result of our excellent revenue streams and the record profit and cash flow announced for the 2011 year, Grange declared a final dividend of three cents per share, to be paid on 27 April 2012. This brings the total dividends attributable to the 2011 year to five cents per share. Grange is one of the better yielding stocks on the ASX.”

“The Savage River operations continue to perform well. Mining being undertaken in the main ore body in the North Pit is producing higher grades, higher concentrate production and lower unit costs when compared to the corresponding quarter last year. The concentrator and pellet plant underwent scheduled annual common equipment shutdowns in February, without incident and accomplished on time and under budget.”

“Production at Savage River achieved 573,625 tonnes of concentrate, 64% higher than in the corresponding quarter in 2011.”

“The DFS for our growth project, the Southdown Joint Venture, has been substantially completed and the results will be announced to the market in late April 2012.”

“The mineral resources at Southdown have increased by 75% since December 2011, and now stand at 1.22 billion tonnes. Engineering studies have been further advanced, additional land easements have been acquired and the environmental permit for the desalination plant has been recommended to the State Minister for the Environment by the Board of the EPA.”

“Southdown is well placed from an infrastructure and permitting 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 2012. Grange is considering a range of financing options for the Southdown project.”

## **CASH RESERVES AND FUTURE SALES**

Cash, term deposits and trade receivables for Grange as at 31 March 2012 increased to A\$274.2 million. Costs of A\$4.1 million were incurred on the Southdown DFS during the quarter (Grange’s share).

Sales continued using an “IODEX” index based pricing mechanism with an additional pellet premium.

The average price received during the quarter was US\$172.57 per tonne of pellets FOB Port Latta. Total sales revenues for the quarter were A\$126.2 million.

Cash generation at Savage River is forecast to remain strong throughout the next quarter. Whilst contract iron ore prices reduced in the March quarter, in line with the spot price reduction experienced in late 2011, the spot price for iron ore has improved. The Australian dollar has weakened in recent weeks and unit costs of production are such that the resultant healthy margins are expected to remain for the Savage River production.

Total debt at the end of the quarter amounting to A\$41.7million, was down from A\$44.9 million at the end of December 2011.

## SAVAGE RIVER OPERATIONS

Concentrate production guidance for the year remains between 2.3 to 2.4 million tonnes.

	<i>Production and Costs March Quarter 2012</i>	<i>Production and Costs March Quarter 2011</i>
<b>Total BCM Mined</b>	4,342,253	4,098,752
<b>Total Ore BCM</b>	490,301	248,221
<b>Concentrate Produced (t)</b>	573,625	349,328
<b>Weight Recovery (% DTR)</b>	43.10	38.10
<b>Pellets Produced (t)</b>	511,630	319,233
<b>Pellets Shipped (t)</b>	732,551	209,798
<b>Concentrate Shipped (t)</b>	18,399	124
<b>Pellet Stockpile (t)</b>	130,126	177,503
<b>Concentrate Stockpile (t)</b>	19,057	41,701
<b>“C1” Cost A\$/tonne Pellet Produced<sup>1</sup></b>	111.09	161.00

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

An excellent safety performance was maintained with no Lost Time Injuries (“LTI”) recorded for the sixth consecutive quarter. During the past 12 months the Total Recordable Injury Frequency Rate (TRIFR) fell from 4.6 (31 March 2011) to 4.2 (31 March 2012), a 15% improvement.

Mining occurred in the North Pit with improved ore grades and quality when compared to the previous year.

## COST MANAGEMENT

Cash costs at Savage River were less than budgeted for the quarter, at A\$56.8 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 \$111.09 per tonne of pellets produced, compared to \$160.81 per tonne in the corresponding quarter last year. The improved C1 unit costs resulted from a shorter annual maintenance shutdown in February, and improved ore grades and consequent concentrate production.

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Capital costs for the quarter were \$4.7 million, primarily for projects at Savage River. The major items related to the purchase of additional ancillary mining equipment, 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 continued at Long Plains, a magnetite deposit located approximately 10 kilometres south of Savage River. The drilling program is expected to be completed in early May 2012. A resource model is scheduled to be produced in the second quarter of 2012 and the updated changes to the operation's overall resource will be reported in the June 2012 Quarterly Report.

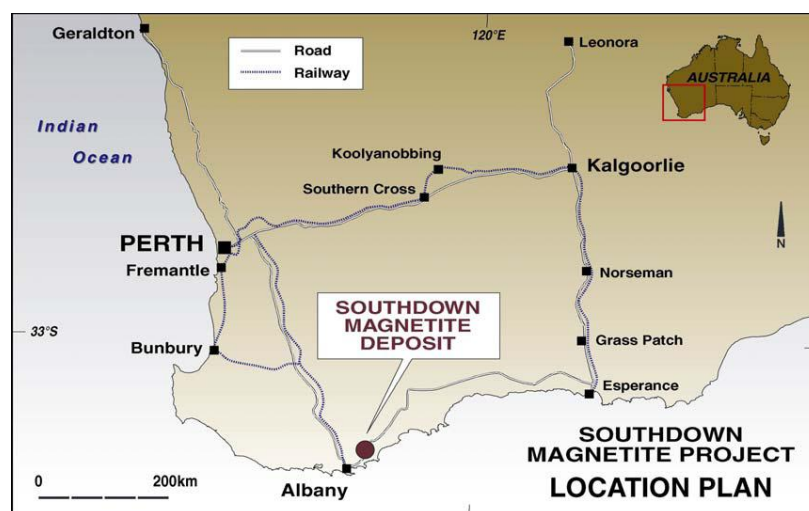
Further exploration work at Southdown is noted later in this report.

## SOUTHDOWN MAGNETITE PROJECT

**(Southdown; Grange 70%, Sojitz Resources and Technology 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, 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 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 an iron content in excess of 68 per cent.

The magnetite concentrate will be pumped via a buried pipeline approximately 100 kilometres to a concentrate storage facility at the Port of Albany before being loaded onto cape size

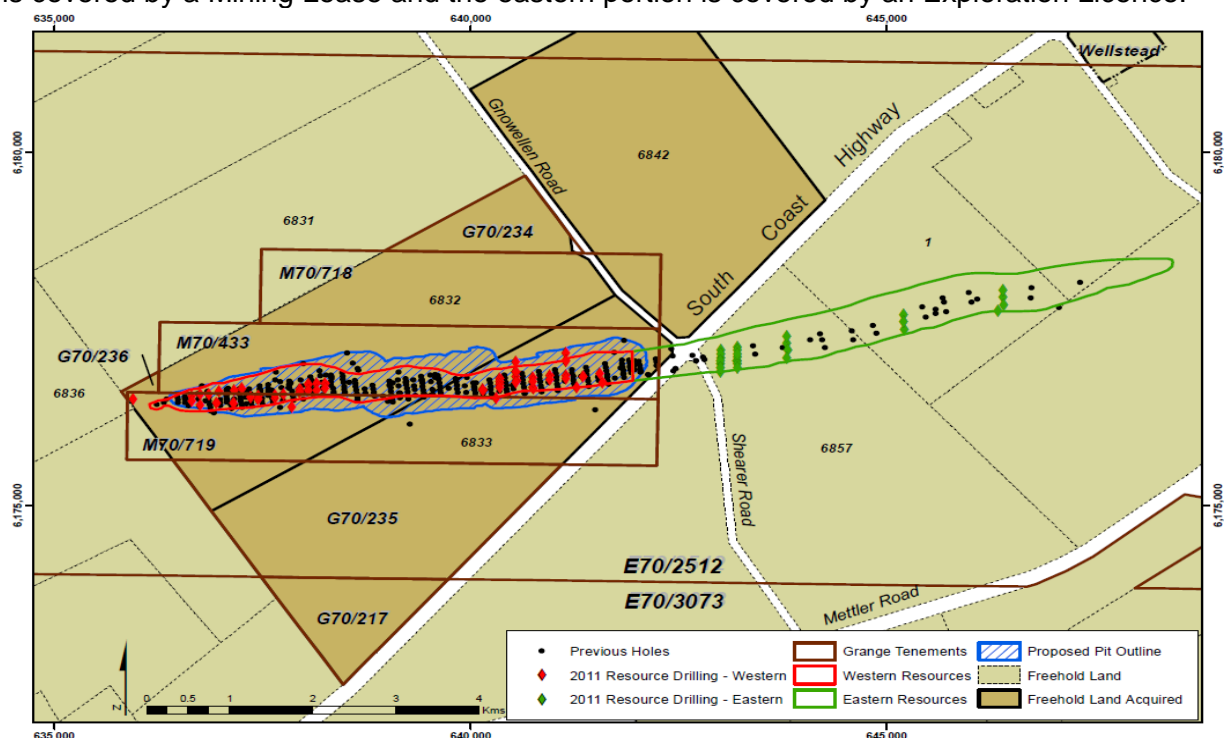
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vessels and shipped to customers or an iron ore pellet plant. Filtered water recovered from the slurry will be pumped back to the mine site for re-use in the concentrator via a return water pipeline buried beside the slurry pipeline.

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.

## RESOURCES & RESERVES

The Southdown resource comprises 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 ore body location (plan view): western and eastern tenements*

The 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.

The mineral resource extends for 11 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. The western tenements were drilled to improve resource confidence with the expectation of improving reserves. The mineral resources at Southdown have been updated since the December 2011 Quarterly Report. Further details of the mineral resource estimate can be found in the announcement to the ASX on 15 February 2012.

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**SOUTHDOWN MAGNETITE PROJECT MINERAL RESOURCE ESTIMATE  
(February 2012)**

	As at December 2011		As at February 2012	
	Tonnes (Mt)	Grade wt% DTR	Tonnes (Mt)	Grade wt% DTR
<b>Measured</b>	407	37.1	423	37.6
<b>Indicated</b>	40.2	40.2	87.4	38.4
<b>Inferred</b>	250.8	32.5	710.6	31.5
<b>Total</b>	<b>698</b>	<b>35.7</b>	<b>1,221</b>	<b>34.1</b>

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.

## ENGINEERING

The DFS is substantially completed. The study results are due to be announced in late April 2012.

Evaluation of tenders for long lead equipment for the concentrator, mining equipment and for the construction of the desalination plant is well advanced. Engineering, Procurement and Construction (EPC) tenders for the major areas of construction work of the project are being prepared and will be released to the market during the second quarter of 2012.

Negotiations with Western Power for the construction of the transmission line and the Port of Albany for the construction of the wharf and berth have progressed.

## ENVIRONMENTAL APPROVALS

In February 2012 the Environmental Protection Authority released its report and recommendation to approve the desalination project. State Ministerial Approval is expected during the second quarter of 2012.

Work on the secondary approvals is progressing, focussing on the mining and works approval submissions. The Environmental Management Plans are in progress and will be reviewed and finalised for stakeholder consultation.

Drafting of the Mining Proposal, Works Approval and Mine Closure Plans are also progressing well and are expected to be finalised for stakeholder consultation in the second half 2012.

The project has all its primary environmental approvals in place while secondary approvals are being addressed to be in place to commence construction.

## POWER SUPPLY

Commercial negotiations on an Electricity Transfer Access Contract and Interconnection Works Contract continued with Western Power and have made good progress.

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## CORPORATE

### DEBT

The Company continues to have no net debt. Total debt in the Company has reduced during the quarter to A\$41.7 million (A\$22.6 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. A total of US\$70 million was converted to Australian dollars during the quarter at an exchange rate of US\$1.0497 compared to the RBA average of US\$1.0555 against the Australian dollar.

### SECURITIES INFORMATION

A total of 829,458 shares were issued to employees under the Long Term Incentive Plan during the quarter, being the first vested tranche of the allotment for the 12 month period ending 31 December 2011 and the second vested tranche of the allotment for the six month period ending 31 December 2010.

The Company continues to see excellent liquidity in the trading of its shares. The number of shareholders on the register continues to grow and at 31 March 2012 there were over 5,100 shareholders. One significant change to the register was Rio Tinto, which sold its total holding of 18 million shares, which in turn were bought by institutional investors. RGL, a substantial shareholder, has also sold approximately 19 million shares on market during the quarter providing additional free float capacity.

The company announced a final (unfranked) 3 cent per share dividend, which will be paid on 27 April 2012, as a cost of \$34.6 million.

-ENDS-

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### **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.*

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