SHAW Research

Company Report

16 July, 2007

GRANGE RESOURCES (GRR) Buy

Project go-ahead approaches

Over the past two years Grange Resources (GRR) has advanced the Southdown magnetite and associated Kemaman iron ore pellet project significantly with a completed feasibility, significant infrastructure and agreements in place, and final approvals in progress.

Confidence in the development of the Southdown/Kemaman projects is now rapidly increasing following Sojitz Corporation taking up a 30% JV interest and Patrick Ports signing a MOU relating to the development of product handling infrastructure at Albany.

Given the tightness of iron ore markets we believe the scene is now set for GRR to sign up other JV partners and complete project financing. This would signal project go-ahead and would drive a share price re-rating. We recommend GRR as a Buy with a price target of $3.50ps.

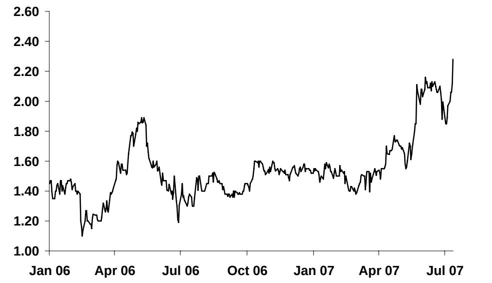
- GRR is to develop an 18mtpa magnetite mine which will produce 6.6mtpa of magnetite concentrate grading 69% Fe over a minimum 22 years based on current resources. Concentrate product will be transported to Albany via a slurry pipeline and then shipped to Malaysia for pelletising into 6.8mtpa of iron ore pellets.
- Total capital cost is estimated at US$1.1 billion, however, this may be reduced through reduced initial production and potential third party ownership of infrastructure. GRR has produced low phosphorous high quality DR grade iron pellets at pilot scale.
- Our modelling shows that, on a 70% basis, the Southdown/Kemaman project has the potential to earn between A$200m and A$250m NPAT per year at full capacity. Assuming project funding on a 50:50 debt:equity basis and output initially at half capacity for first 2.5 years, we value GRR at $3.93ps.
- GRR has a strong strategic position in that it will be the only iron ore company to export out of the Port of Albany and Kemaman which are centrally located to local and regional customers both in South East Asia and the Middle East.
- The iron ore market is ripe for new entrants and vertical integration by steel producers. GRR is in a position to attract the next credible joint venture partner.

YE 30 June	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Magnetite Conc.	0.0	1.7	3.3	3.3	6.6
Magnetite Pellets	0.0	1.7	3.4	3.4	6.8
Revenue	0.0	169.9	327.1	327.1	654.3
Project Profit	-35.1	28.9	105.5	111.8	287.6
EPS (cents)	-9.9	8.9	32.6	34.6	88.9
PE ratio	na	28.1	7.7	7.3	2.8
Project Cashflow	-32.6	52.3	149.7	156.1	373.6
CFPS (cents)	-9.2	16.2	46.3	48.2	115.5
P/CF ratio	na	15.5	5.4	5.2	2.2
Dividend (cps)	0	0	0	0	0

Investment Summary

Share Price $ps	$2.30
Target Price $ps	$3.50
Materials	
www.grangeresources.com.au	
Issued Capital M	110M
Market Cap $M	$253M
Gearing	n/a
Analyst Name	Ted Leschke

Share Price Chart



Year Hi-Lo $ps	$2.29 - $1.30
Avg Monthly Vol (M)	0.3

Shareholders

Shareholders	%
Bohnenn, Anthony	14.0%
RAB Special Situations (Master) Fund	9.4%

Company Activities

GRR is a minerals exploration, development and mining company, focused primarily on growth through the acquisition, development and exploration of resource projects.

Financial & Valuation Assumptions (see full financial analyses on page 3)

We have modelled GRR on a **70% ownership basis** for the Southdown Magnetite Project with full project funding through a combination of equity and debt. This is the most appropriate structure to model until the full development structure is known, thus potential earnings and valuation are determined on a fully diluted basis (expectation of new shares issued). GRR expects to retain between 40% and 50% equity in the project. Most of our operational assumptions are based on a bankable feasibility study completed by GRR which we consider to be conservative. We have made the following assumptions when modeling GRR:

- 22 year project life
- 18mtpa mining rate of ore grading 37% magnetite with a stripping ratio of 2.6:1
- Pre-striping allowing ramp up period to half capacity to be just over one year
- Full capacity achieved 2.5 years post commissioning
- 37% magnetite recovery
- 6.6mt concentrate production grading 69% Fe at full capacity
- 6.8mt pellet production grading 69% Fe at full capacity
- We have assumed long term pellet prices of US$88.5/t (FOB Malaysia)
- Freight differential from Brazil of US$18/t
- Operating costs of US$29/t for magnetite concentrate FOB at Albany
- Sea freight to Malaysia, pelletising and pellet ship loading accounts equates to US$14/t costs
- Capital costs US$1.175 billion
- Sustaining capital expenditure of US$5 million per annum each for the Southdown and Kemaman
- Borrowings of A$579 million
- Share equity raised $579 million raised through 263 million shares at $2.20 per share
- No tax payed in Malaysia for 10 years
- 12% NPV discount rate

Financial & Valuation Discussion

Owing to strong cash flow margins the project has a 5 to 7 year payback period for debt. GRR's debt would peak at A$580 million for a 110% net debt/equity ratio with the project achieving a net cash position by 2015.

We estimate total average cash cost of US$42/t resulting in a healthy operating EBITDA margin of US$67/t (61%) or an operating EBIT margin of US$53/t (49%) using our long term pellet price of US$101/t which includes a US$18/t freight advantage over Brazilian pricing. We forecast earnings to average around the A$250m per year over the life time of the project.

Based on the above assumptions we have calculated an appraised valuation of $3.93ps. This valuation is highly sensitive to the price at which equity is raise and any change to project structure through the introduction of a new JV partners. We intend to reduce our discount rate to 10% once the funding of South/Kemaman is secured. For example a 10% discount rate raises the above valuation to $5.55ps under the current project structure.

Despite operating costs at Southdown being comparable to other producers they could be reduced by using a lower stripping ratio. Capital costs could be reduced at Kemaman by using a Chinese manufactured pellet plant.

GRR currently receives royalty streams from two gold mines run by Placer and Barrack. It is anticipated that these two mines will earn GRR somewhere in the range of A$2-4m per annum over the next 3 years.

GRR's sale of 30% of the Southdown/Kemaman projects will inject $14m and GRR will receive a 3.5% royalty equivalent to $7.9m pa based on our pellet price assumptions for the life of the project.

GRR's Financials & Valuation - assumes 70% project ownership basis with full funding

Grange Resources

July 15, 2007

Share Price	A$	2.28
Listed Shares	M	106.0
Fully Diluted	M	355.9
Mkt Cap.	A$M	241.7
Mkt Cap.- fully diluted*	A$M	811.3

* assumes 50:50 deb:equity ratio

Year end 30 June

Profit & Loss (A$M)	2009	2010	2011	2012	2013	2014
+ Sales	0.0	0.0	169.9	327.1	327.1	654.3
+ Royalties	2.0	0.0	2.0	3.9	3.9	7.9
Total Revenue	2.0	0.0	171.9	331.1	331.1	662.1
+Profit from Associates	0.0	0.0	0.0	0.0	0.0	0.0
-Operating Costs	3.0	10.0	73.4	136.3	136.3	262.5
EBITDA	**-1.0**	**-10.0**	**98.5**	**194.8**	**194.8**	**399.6**
-Depreciation & Amortisat	0.0	0.0	20.9	41.8	41.8	83.5
-Exploration Expensed	2.5	2.5	2.5	2.5	2.5	2.5
EBIT	**-3.5**	**-12.5**	**75.1**	**150.6**	**150.6**	**313.6**
-Net Interest	-0.1	22.7	46.2	45.1	38.8	26.0
Pre-Tax Profit	**-3.4**	**-35.1**	**28.9**	**105.5**	**111.8**	**287.6**
-Tax	0.0	0.0	0.0	0.0	0.0	0.0
-Minorities	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	**-3.4**	**-35.1**	**28.9**	**105.5**	**111.8**	**287.6**
Abnormals	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	**-3.4**	**-35.1**	**28.9**	**105.5**	**111.8**	**287.6**
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	**-1.0**	**-36.1**	**-7.3**	**98.2**	**210.0**	**497.6**

Sensitivity Analysis (A$M	2009	2010	2011	2012	20013	20014
Changes in NPAT for 10% change in:						
Iron Ore Price	0.0	0.0	-8.3	-15.7	-16.5	-32.6
Currency (A$/US$)	0.0	1.2	-5.3	-9.7	-10.3	-25.5

Divisional EBIT (A$M)	2009	2010	2011	2012	2013	2014
Southdown (70%)	0.0	0.0	26.2	40.9	40.9	81.8
Kemaman (70%)	0.0	0.0	59.3	118.2	118.2	236.5
Other	-3.5	-12.5	-10.5	-8.6	-8.6	-4.6
Total	**-3.5**	**-12.5**	**75.1**	**150.6**	**150.6**	**313.6**

Cash Flow (A$M)	2009	2010	2011	2012	2013	2014
Pretax Profit	-3.4	-35.1	28.9	105.5	111.8	287.6
+Depreciation & Amortisa	0.0	0.0	20.9	41.8	41.8	83.5
+Exploration Expensed	2.5	2.5	2.5	2.5	2.5	2.5
-Tax Paid	0.0	0.0	0.0	0.0	0.0	0.0
+ Add back Interest Costs	0.0	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	**-0.9**	**-32.6**	**52.3**	**149.7**	**156.1**	**373.6**
-Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0
- Working capital/Timing	-0.1	-0.2	17.2	15.9	0.0	33.1
-Capex	514.1	514.1	8.8	8.8	8.8	8.8
-Exploration Expenditure	5.0	5.0	5.0	5.0	5.0	5.0
-Acquisitions/Sales	0.0	0.0	0.0	0.0	0.0	0.0
Surplus Cashflow	**-519.8**	**-551.5**	**21.3**	**120.1**	**142.3**	**326.7**
+Dividend Reinvest.	0.0	0.0	0.0	0.0	0.0	0.0
+Equity Raising	259.2	259.2	0.0	0.0	0.0	0.0
-Debt Retirement	-259.2	-259.2	0.0	0.0	150.0	150.0
Increase in Cash	**-1.4**	**-33.1**	**21.3**	**120.1**	**-7.7**	**176.7**

Balance Sheet (A$M)	2009	2010	2011	2012	2013	2014
Cash	34.2	1.2	22.5	142.6	134.9	311.6
Receivables	-0.1	-0.3	17.0	33.1	15.9	33.1
Inventories	4.5	-3.3	5.2	15.0	15.6	37.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
PP&E, Expl & Dev	515.1	1,031.7	1,022.1	991.6	961.1	888.8
Total Assets	**553.8**	**1,029.3**	**1,066.8**	**1,182.2**	**1,127.5**	**1,270.9**
Payables	2.0	-0.2	11.0	21.5	10.3	21.5
Provisions	1.0	10.3	31.3	31.2	29.8	28.8
Tax Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Debt	269.2	528.4	528.4	528.4	378.4	228.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**272.2**	**538.5**	**570.8**	**581.1**	**418.6**	**278.7**
Outside Equity Interest	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder Funds	**281.5**	**490.8**	**496.0**	**601.1**	**708.9**	**992.1**

Ratio Analysis		2009	2010	2011	2012	20013	20014
EPS (fully diluted)	¢	-1.0	-9.9	8.9	32.6	34.6	88.9
PER	x	na	na	28.1	7.7	7.3	2.8
EPS Growth	%	na	na	na	292	7	173
CFPS (fully diluted)	¢	-0.3	-9.2	16.2	46.3	48.2	115.5
PCFR	x	na	na	15.5	5.4	5.2	2.2
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0	0
Payout Ratio	%	0	0	0	0	0	0
Interest Cover	x	-4	-1	2	3	3	9
Gearing: ND/E	%	83	107	112	71	38	na
Gearing: ND/(ND+E)	%	45	52	56	43	28	na
EV/EBITDA	x	na	-134.2	13.4	6.1	5.4	1.8
EBIT Margin	%	na	######	48.6	50.6	50.6	52.7
Return On Assets	%	-0.6	-1.2	7.7	14.0	14.7	27.1
Return On Equity	%	-1.2	-7.2	6.4	19.3	17.3	31.9
Eff Tax rate	%	0.0	0.0	0.0	0.0	0.0	0.0

Assumptions		2009	2010	2011	2012	20013	20014
Spot A$	US$	0.80	0.80	0.80	0.80	0.80	0.80
Interest Rate		5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Fe% price - lump	USc/Fe%	112.9	110.6	101.3	93.5	93.5	93.5
Fe% price - fines	USc/Fe%	88.5	86.7	79.4	73.2	73.2	73.2
Conc price - ex Albany	US$/t	61.0	59.8	54.8	50.5	50.5	50.5
Pellet price - ex Kemaman	US$/t	120.0	118.8	113.7	109.5	109.5	109.5

Reserves Modelled (closing)		2009	2010	2011	2012	20013	20014
Southdown (70%)	mt	383	383	378	369	360	342

Production		2009	2010	2011	2012	20013	20014
Ore Production	mt		0.0	4.5	9.0	9.0	18.0
Magnetite Recovery	mt		37%	37%	37%	37%	37%
Magnetite Conc Grade	mt		69%	69%	69%	69%	69%
Magnetite Conc	mt		0.0	1.7	3.3	3.3	6.6
Magnetite Pellets	mt		0.0	1.7	3.4	3.4	6.8

Unit Analysis		2009	2010	2011	2012	20013	20014
Soutdown Magnetite Conc							
Net Revenue	A$/t conc		74.77	68.44	63.18	63.18	63.18
Total cash costs	A$/t conc		39.53	36.42	36.16	36.16	36.16
EBITDA	A$/t conc		35.25	32.02	27.02	27.02	27.02
Non-cash costs	A$/t conc		9.38	9.38	9.38	9.38	9.38
EBIT	A$/t conc		25.87	22.64	17.64	17.64	17.64
Kemaman Pellets							
Net Revenue	A$/t pellets		75.94	75.75	75.59	75.59	75.59
Total cash costs	A$/t pellets		17.75	17.75	17.75	17.75	17.75
EBITDA	A$/t pellets		58.19	58.00	57.84	57.84	57.84
Non-cash costs	A$/t pellets		8.38	8.38	8.38	8.38	8.38
EBIT	A$/t pellets		49.81	49.62	49.46	49.46	49.46

Appraised Valuation	(A$/share)
Southdown Conc (70%)	0.35
Kamaman Pellet (70%)	2.49
Net Debt/Net Cash - EOP	0.07
Administration	-0.20
Other (tax, interest, etc)	1.02
Franking Credits	0.17
Exploration (risk-adjusted)	0.02
Total	**3.93**
Price/App. Value	0.58

Operations NPV WACC:

Southdown Magnetite & Kemaman Iron Pellet Projects – recent developments
(please see previous report for a full project description)

Sojitz Corporate Joint Venture

GRR has sold 30% of the Southdown magnetite project and Kemaman pelletising project to Sojitz Corp for a 3.5% royalty on Sojitz's 30% share of pellets produced and US$14m ($4m for an initial 10% stake & US$10m on pre-commitment development expenditure for a further 20%). We calculate the discounted value of the deal to GRR to be worth around US$60m.

GRR has given away significant potential value in order to attract a top class JV partner. However, Sojitz will assist in attracting other quality JV partners, brings a strong balance sheet that assists with project funding, and provides expertise in pellet marketing and pellet plant development. It is also a strong vote of confidence in GRR’s iron ore pellet product.

Sojitz is Japan's leading iron pellet trader and has been an equity participant in pellet producing JVs with CVRD in Brazil since 1974. Sojitz has revenues of A$52b, net assets of A$4.9b and a market capitalisation of $5.8b.

Patrick Ports Infrastructure MOU

GRR has signed a Memorandum of Understanding with Patrick Ports on the development of product handling infrastructure relating to the Southdown magnetite project at Albany in WA. The two companies are to investigate an appropriate contractual relationship to allow development, construction and operating of parts of the infrastructure required. Potentially this could result in substantial up-front savings on the current combined A$300 capital cost for this component of the project which includes a filter plant, storage shed, product handling conveyor systems, ship loader and jetty.

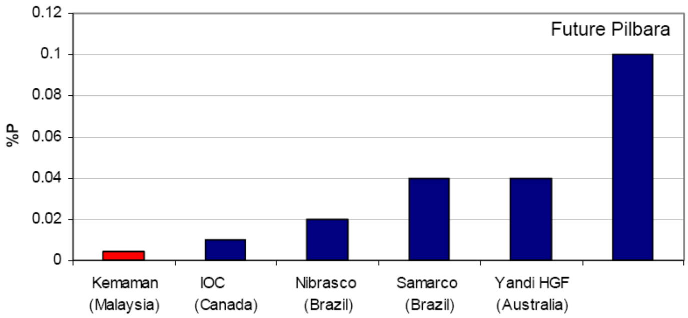
Whilst this agreement is not binding a MOU with Patrick is a strong indication that the Southdown/Kemaman project is steadily moving forward and that GRR is dealing in a serious manner with sold and respectable corporations.

Competitive advantages

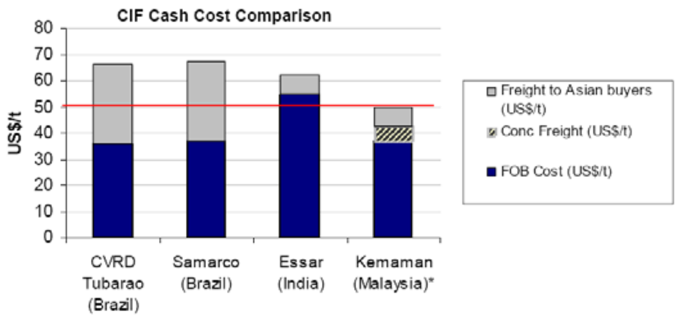
Listed here are the competitive advantages of the Southdown/Kemaman project:

- Development is most advanced of all magnetite projects in Australia
- Completed bankable feasibility study, environmental approvals nearing completion in Australia and complete in Malaysia
- Coarse grained magnetite reduces grinding requirements and provides easier transportation
- Demonstrated high quality product including very low phosphorous levels
- Access to the under utilized Port of Albany with no known iron ore competitors vying for access
- Pelletised iron ore is a premium product so can be shipped economically in smaller quantities to customers
- Ship freight advantage over Brazilian producers equivalent 24 to 29 days sailing days or an average US$18/t
- Lower pelletising cost at Kemaman versus Australia
- Significant investment incentives provide by Malaysian authorities
- Rapidly expanding market for DR pellets in SE Asia and the Gulf Region

GRR’s pellet product has low phosphorous



GRR has a distinct freight advantage



Company Directors

Mr Anthony Bohnenn (Ch)
Mr Geoff Wedlock (MD/CEO)
Mr Alexander Henry Nutter
Mr Hans Rudolf Moser
Mr Richard Krasnoff

Company Activities

Grange Resources Ltd (GRR, formerly Surfboard Limited) is a minerals exploration, development and mining company, focused primarily on growth through the acquisition, development and exploration of resource projects.

Information for Company Activities is sourced from Huntley Investment Information Pty Ltd.

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