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Grange Resources Limited's Southdown Magnetite Project is forecast to produce 6.5 million tonnes of magnetite concentrate per annum, according to your June 2005 Quarterly report. Assuming your development plan is successful, what are the key logistical parameters at Southdown?

MD Geoff Wedlock

Southdown is about 90km from Albany, on the South West highway, between Albany and Esperance. The deposit was discovered in 1983 and we maintain 6 km of tenements along the 12km magnetic anomaly. Rio Tinto has an exploration license right around us, including the other 6km of strike length. It's all freehold farming country and we've entered into option agreements to acquire the land covering the mining lease.

To date we've drilled about 115 holes out of our program of 137 holes. This is designed to achieve our target of an indicated resource of about 400 million tonnes. As of June 30, we have an inferred resource of 279 million tonnes grading 37% magnetite over 4.8 kilometres of the 6 kilometres in tenements under Grange.

Our feasibility study is determining the project's power and water supply infrastructure and the changes required to the Port of Albany to allow Southdown concentrates to be exported in Capesize vessels. Construction of a slurry pipeline from the mine to Albany is the optimum transport option, with wastewater returned to the mine via a separate pipeline.

We expect first concentrate production from Southdown in late 2008. At 6.5 million tonnes per annum of magnetite concentrate at 69% Fe our target resource will provide a mine life of around 22 years and longer if the total resource was available.

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In a recent briefing you said Grange will spend A\$13.7 million on a bankable feasibility study on the Southdown Magnetite Project. When do you expect this to be completed? What are the most important milestones in the plan?

MD Geoff Wedlock

We are on track with our bankable feasibility study schedule, which we are funding from internal sources, and expect the technical aspects of the study to be completed by December 2005. We also plan to submit our Environmental Plan to the Western Australian government by November this year and target approval by June 2006. We are also seeking approval to construct a pellet plant at Kemaman in Malaysia. The environmental approvals for this are likely to be received in December this year.

The next step in the feasibility study is to undertake the production of 4 tonnes of magnetite concentrate from 12 tonnes of drill core in a laboratory scale pilot plant. The concentrate will then be processed using two different technologies to examine the optimum production of pellets. Two tonnes will be sent to Kobelco in Japan, where they use a grate kiln technology and 1.5 tonnes sent to Outokumpu / Lurgi in Germany, where they use a straight grate technology, similar to that used in Brazil. They'll seek to determine the best conditions for maximising pellet production. We will then quantify the construction materials needed and build up a cost model to determine the operating and capital costs associated with each technology. The balance of the pilot plant concentrate will be tested to determine the design of the concentrator, slurry pipeline and filter plants.

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There have been very few iron-ore projects start up in the last twenty years outside of those developed by the three main producers, BHP, Rio Tinto and CVRD. What returns have you targeted from the Southdown Magnetite Project and what key assumptions underpin your estimates?

MD Geoff Wedlock

Iron ore is relatively common throughout the world, however its development usually depends on the availability of suitable infrastructure, particularly transport to deep water ports. The cost of providing the required infrastructure has been a major barrier to entry for new iron ore producers, and new developments have been the preserve of the major producers, who already have existing infrastructure and have access to the large capital required to augment new capacity.

For the development of Southdown we have a competitive distance to the Port of Albany, a modest capital cost for a slurry pipeline and relatively low costs for the deepening of Albany harbour and channel. For a long term iron ore project, the infrastructure costs are very competitive.

Based on our preliminary scoping studies and assumptions used for future (2009) pellet prices of US\$73 per tonne (FOB Kemaman), an exchange rate of US\$0.75, a capital cost of US\$800 million and cash operating costs of US\$33 per tonne (FOB Kemaman) we forecast a nominal return on investment, around 25%. This forecast will be updated on the completion of our bankable feasibility study.

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As you proceed, is there a possibility that shareholders will suffer significant dilution?

MD Geoff Wedlock

While the final structure of the project has not been determined as yet, it is likely to involve the introduction of new equity participants, probably in an unincorporated joint venture. Grange could retain around a one third interest, with our share being funded on a debt and equity basis. The level of debt would be optimal for risk but would limit the requirement for the issue of shares for the equity portion.

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What are the capital cost estimates for the Southdown Magnetite project and the Kemaman plant?

MD Geoff Wedlock

Combined, the present estimated total capital cost is US\$800M for both projects. This will be refined from the results of the bankable feasibility study. There may also be opportunities for certain parts of the project infrastructure to be provided by third parties, such as power supply and the Albany harbour and shipping developments.

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How does Grange intend to finance this development? What role would you like Grange to play once the mine and plant becomes operational?

MD Geoff Wedlock

Obviously, a very important step is the project finance and structure. Clearly a project of this magnitude is outside the capabilities of Grange alone. At present, we are examining a number of options as to how we will proceed, but all are likely to include significant new partners coming into the project. We have appointed Burnvoir Corporate Finance to assist Grange in this process and information on the project has been provided to a number of interested parties. Grange is funding the feasibility study from internal sources, but will obviously need to raise both debt and equity for its share of the project.

Grange remains open to the final structure and management arrangements for the project, however it can offer considerable experience in iron project development.

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What type of partner are you seeking?

MD Geoff Wedlock

Ideally, we want partners with a strong desire to develop Southdown and Kemaman. We see Southdown being attractive to existing pellet consumers who will get certainty of competitive raw material costs through a joint venture interest in the project.

Other consumers, who are not joint venture partners should be attracted to a regional supply of pellets compared to buying from distant sources such as Brazil and Chile.

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What is the scope of works required to handle the Southdown concentrate at the Albany port? Who is responsible for providing the capital needed to upgrade the port? Do you have a timetable on when the agreements will be signed?

MD Geoff Wedlock

Grange is in discussion with the Albany Port Authority regarding an upgrade of the port facilities to handle larger shipping capacity. At the port we need to dredge the existing channel and extensions to about 8kms. The dredging is a critical feature of the project and involves taking the channel depth from 12.3m to 15.0m. If you can't load a big ship, you're not going to be competitive in the long term. Whether Grange does it or the Port Authority is yet to be finalised. The dredging is practically all sand and will be deposited offshore in deep water, where the environmental impact is minimal.

The slurry pipeline from the Southdown mine will come out of the ground at the port facility, put into a thickener, then through the filter plant and into a storage shed. The shed can stockpile about 300,000 tonnes a year. From here the concentrate will be shipped to the Kemaman pellet plant in Malaysia.

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What annual production do you anticipate from the Kemaman Pellet Plant? What type of pellets are you producing? Why is the location of the pellet plant in Malaysia preferable to Australia?

MD Geoff Wedlock

The Southdown concentrate is made into Direct Reduction and Blast Furnace pellets at Kemaman. We anticipate production at 6.8 million tonnes of iron ore pellets per annum.

The infrastructure at Kemaman is largely in place. There is 270 kilovolt power transmission line to a substation adjacent to our site, a gas pipeline, water pipeline and fibre optic cable. The current loading wharf would require only minor modification to enable docking of the larger Cape vessels. There is provision for a second berth also.

Kemaman is on the east coast of Malaysia, in an area that was set up for industrial development many years ago. We have fresh water available at low cost. There is a lime plant within pumping distance from where we want to build our plant, so we could take the lime either as slurry or in dry form.

Transport is about 9 days from Albany to Kemaman. From Brazil it would take more than 30 days. We will make pellets at Kemaman and then have to ship only a short distance to fulfill orders. This is a significant cost saving. Along with the growing Asian market, we are also well-positioned to tap into markets in India and the Middle East.

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Why is your annual pellet production higher than the annual concentrate production from Southdown?

MD Geoff Wedlock

When magnetite is fired in the pellet plant, it is converted to hematite which increases its mass. There is also the addition of lime for pellet fluxing.

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What are the dynamics of the iron ore pellet market? What are the advantages of pellet-form iron ore products?

MD Geoff Wedlock

Pellet demand has been steadily increasing since 2001, at about 5 to 6 million tonnes a year. Since 1997, there have been few new pellet plants built. The pellets imported into Asia don't come from the Pilbara, there are no pellets made there, they mainly come from Brazil and Canada. These are distant sources with higher transport economies of scale.

With the significant increase in the price of coking coal, there is a growing trend to new gas based iron making, particularly in those countries with natural gas resources such as Malaysia, Indonesia and the Middle East. For traditional blast furnace steel makers, pellets offer a premium direct charge feedstock without the attendant need for new sinter plant capacity which is both expensive and associated with major environmental issues. The alternative direct charge feedstock of lump ore is in long term decline in both quality and quantity

We would expect both lower capital and operating costs in Malaysia compared to Australia. There are also very significant investment incentives for developments such as a pellet plant in the Kemaman area. These include at least 10 years tax holiday.

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Southdown and Kemaman both require environmental approvals to proceed. Could you explain the scope of the approvals process? Will there be any financial costs incurred by Grange? Have you made any contingency plans should environmental approval not be achieved?

MD Geoff Wedlock

In Australia we expect to meet the requirements of a Public Environmental Review under West Australian legislation. This process is expected to commence in November 2005 with finalisation and approval by June 2006. In Malaysia, there is a similar process which has already commenced and is expected to be completed

by January 2006. While we expect environmental approval to be achieved, the timing can sometimes be variable. We believe that our schedule is reasonable.

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Are you examining any other opportunities?

MD Geoff Wedlock

Southdown and Kemaman are our primary focus. We do have other mining and exploration leases in Australia, and we are assessing their potential. Also, because of the time we're spending in Malaysia, we are looking at prospective exploration and mining projects in Malaysia and Indonesia..

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From July 30 2004, Grange's share price rose almost 300% to a high of A\$1.88 at March 16 2005. Since then, the share price has fallen 64% to A\$0.675. Grange's market capitalisation is now around A\$56 million. What were the key drivers behind these share price swings?

MD Geoff Wedlock

The share price swings are changes in market sentiment for iron ore projects. Earlier this year there was very strong sentiment and market interest following the 71.5% increase in iron ore prices for 2005 shipments. More recently sentiment has changed with some reports suggesting a fall off in demand for iron ore and reduced prices in the coming year. Interestingly, reduced demand has not occurred and in fact Chinese imports have increased and some forecasters are now expecting a push for even higher iron ore prices for 2006.

We have a very long term project with the typical iron ore development characteristics; reasonable lead time, large initial capital requirements, but long term strong cash flows. The bankable feasibility study is progressing to plan and is indicating an attractive long term investment opportunity for Grange and its future partners.

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Thank you Geoff.

For more information about GRR, visit <http://www.grangeresources.com.au/> or call Geoff Wedlock on (+61 8) 9321 1118

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