



## **REPORT FOR THE QUARTER ENDED 31 DECEMBER 2004**

### **HIGHLIGHTS**

#### **Southdown Magnetite**

- \$13.0 million bankable feasibility study commenced during the quarter and is expected to continue over a period of 12 months.
- Significant thicknesses of magnetite mineralisation intersected by diamond drilling.
- Diamond drilling and resource evaluation continuing.

#### **Mt Windsor Joint Venture**

- 6,451 tonnes (Grange share 1,935 tonnes) of copper concentrate containing 26.89% copper and 0.8 g/t gold produced from the Reward Deeps project.

#### **Red Hill**

- Royalty payments of \$393,249 generated during the quarter.
- 17,311 ounces of gold recovered from the processing of 357,615 tonnes of ore grading 1.59g/t.

#### **Freshwater**

- Royalty payments of \$149,916 generated during the quarter.
- Mining undertaken from the Plutonic East underground mine and the Salmon open pit during the quarter.

#### **Wembley**

- Gleneagle advise resource increase to 568,000tonnes @ 2.3g/t gold for 42,700 contained ounces.
- Pit design work progressing.

#### **Horseshoe Lights**

- Option to purchase agreement entered into with Murchison Copper Mines.

#### **Financial**

- Cash and receivables at the end of the quarter totalling \$9.3 million.
- Stockpiles of copper concentrate from the Reward Deeps Project totalling 2,600 tonnes valued at \$1.70 million after allowing for selling costs.
- The final shipment of copper concentrate from the Reward Deeps Project is expected to be exported from Townsville in June 2005 and is forecast to generate gross revenue in excess of \$8.0 million and \$3.0 million after costs based on the current ore reserves and mining schedule.

## **MINING & EXPLORATION ACTIVITIES**

### **SOUTHDOWN MAGNETITE PROJECT (Grange 100%)**

The Southdown Magnetite Project is located 90km northeast of the Port of Albany on the south coast of Western Australia. The project comprises three granted mining leases covering an area of approximately 1700 hectares on freehold farming property.

#### **Exploration and Resource Evaluation**

Previous drilling programs undertaken in the 1980's identified a significant resource of magnetite mineralisation grading 37.4% magnetite in the western 2km of the mining leases. The deposit dips at 60 to 65 degrees to the south and has been intersected to vertical depths of approximately 170m and remains open at depth. The remaining 4kms of the deposit located on Grange's mining leases have only been tested by a few scattered vertical drill holes.

Grange Resources has completed detailed ground magnetic and gravity surveys over the mineralisation covered by the Company's mining leases and the results confirm the continuity and structure of the deposit over the total 6kms within the mining leases. Drill core from the previous drilling has been relogged and a geological model developed. A mineral resource estimate classified in accordance with the Australian Code for Reporting Identified Mineral Resources and Ore Reserves (JORC, 1999) has been prepared by Golder Associates for the western portion of the resource and was reported in the September 2004 quarterly report to the ASX. This resource is 83.3 million tonnes containing 37.5% magnetite which grades 69.1% Fe.

In October 2004, Grange Resources concluded an agreement with the landowner, which provides access to the property for exploration and an option to purchase the farm property that is covered by the mining leases.

In November 2004, a diamond-drilling programme was initiated and by the end of the year seven holes had been completed in the eastern part of the mining leases. The drilling programme is continuing and as at 25 January 2005 ten holes had been completed. Figure 1 shows the location of the recent and previous drill holes with respect to the interpretation of the ground magnetic survey. Assay results from the recent drilling have not yet been completed, however magnetic susceptibility measurements, which give an indication of the width and grade of magnetite mineralisation, have been made on the drill core and the interpreted results are provided in Table 1.

The recent drilling results confirm that the magnetite resource is continuous over the entire length of the Company's mining leases (6,000m), varies in width from 60m to 100m and extends to a vertical depth of at least 270m. Based on these dimensions and specific gravity measurements from drill core, the target resource of magnetite ore within the Company's mining leases is of the order of 400 million tonnes.

Typical cross sections of the resource and locations of the sections are shown in figures 2 and 3. Section 637570 (figure 2) is located within the area drilled during 1987 and section 641640 (figure 3) is located within the area recently drilled by Grange.

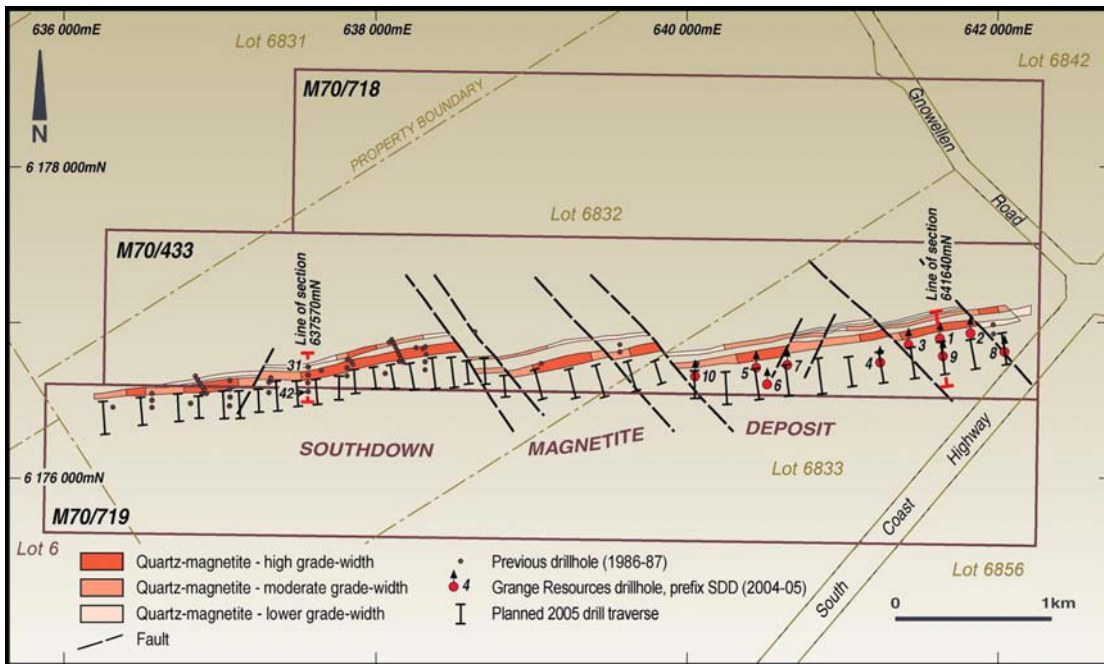


FIGURE 1

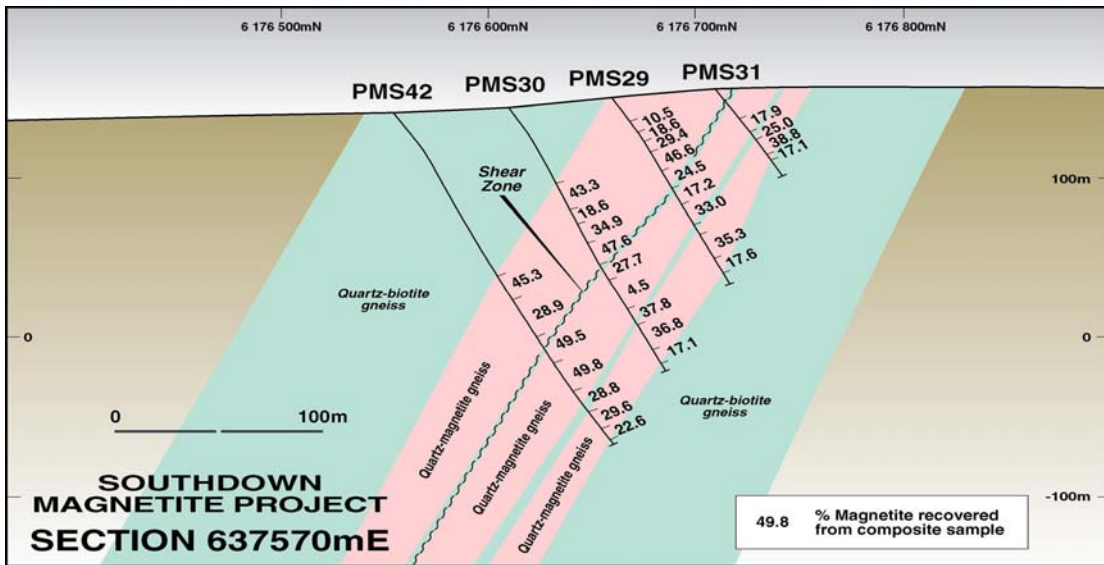


FIGURE 2

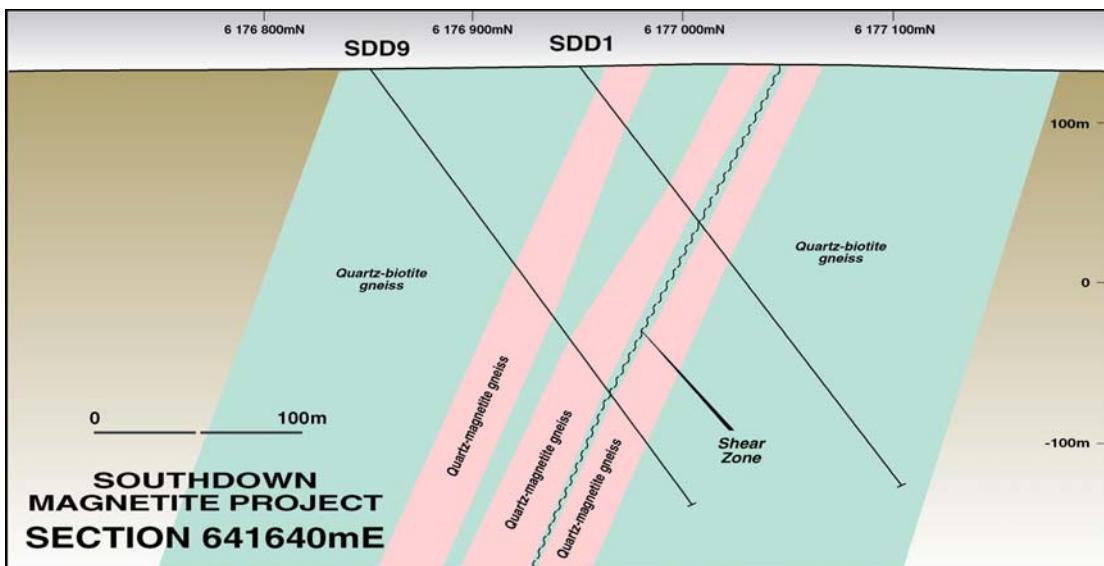


FIGURE 3

<b>TABLE 1</b>								
<b>SOUTHDOWN MAGNETITE PROJECT – DRILLING RESULTS</b>								
<b>SIGNIFICANT INTERSECTIONS OF MAGNETITE MINERALISATION</b>								
<b>Hole No</b>	<b>Easting</b>	<b>Northing</b>	<b>Azimuth</b>	<b>Dip</b>	<b>EoH m</b>	<b>From m</b>	<b>To m</b>	<b>Intersect m</b>
SDD 1	641630	6176952	353	60	303.9	27	46	19
						85	106	21
						120	141	21
SDD 2	641831	6176952	353	60	216.7	43	59	16
						68	91	23
						133	148	15
						164	193	29
SDD 3	641401	6176900	353	60	210.8	79	104	25
						124	143	19
SDD 4	641241	6176769	353	60	315.9	181	226	45
						234	258	24
SDD 5	640426	6176742	353	60	200.7	27	55	28
						65	153	88
SDD 6	640523	6176643	353	60	301.7	157	174	17
						190	260	70
SDD 7	640641	6176723	353	60	226.9	94	120	26
						128	153	25
						176	204	28
SDD 8	642047	6176884	353	60	406.7	226	263	37
						279	306	27
						324	363	39
SDD 9	641643	6176851	353	60	311.7	140	178	38
						194	268	74
SDD 10	640048	6176681	353	60	215	37	113	76
						141	149	8

## **Scoping Study**

In order to estimate the potential economics of developing the Southdown magnetite deposit, Grange Resources has completed a project “scoping study”. This study assumed the following project outline:

### ***Mining and Concentration***

The magnetite ore would be mined at an annual rate of 17.8 million tonnes per year with a stripping ratio of about 2.6:1.0. The grade of the magnetite ore was assumed to be 36.6% based on 1986/7 drilling and Davis Tube test work. Annual production of magnetite concentrate at 69% Fe would be 6.5 million tonnes produced via two stages of magnetic separation. Due to the nature of the magnetite mineralization, primary separation can be made at a relatively coarse particle size (0.2mm), which significantly reduces fine grinding requirements.

### ***Transport***

The magnetite concentrate would be transported to the Port of Albany through a buried slurry pipeline. At the Port, the magnetite concentrate would be dewatered and stockpiled in an enclosed shed awaiting shipment overseas. Recovered water would be returned to the mine site through a return water pipe, also included in the slurry pipeline trench.

### ***Pelletisation***

Magnetite concentrate is the most suitable feed for the production of iron ore pellets due to the exothermic properties of magnetite in conversion to hematite during the pelletisation process. Largely due to the absence of competitive energy in the Albany area, Grange Resources is investigating appropriate sites in South East Asia for the location of a large-scale pellet plant to process the Southdown concentrate.

### ***Markets***

Both pellets for direct reduction and blast furnace use are planned to be produced. The potential markets for direct reduction pellets would be to consumers in Malaysia and Indonesia and markets further away in the Middle East. The potential markets for blast furnace pellets would be to consumers in China, Japan, Korea and Thailand. These markets are currently serviced from very distant suppliers in Brazil and Sweden and having a source of magnetite concentrate from Australia will create comparative shipping freight advantages for the Southdown project.

Demand for high quality pellets for both the direct reduction market and the blast furnace market are expected to remain strong for the foreseeable future. Pellets for blast furnace use will be required to offset the declining quantity and quality of direct charge natural lump ores.

### ***Economics***

Scoping study estimates for operating costs are of the order of US\$32/tonne FOB South East Asia. Project capital is of the order of US\$640million, evenly distributed between the facilities in Australia and South East Asia.

Current, 2004 prices on a delivered basis to South East Asia for direct reduction pellets are estimated to be about US\$68/tonne. Current, 2004 delivered prices for blast furnace pellets into China vary from US\$70 to 100/tonne. Prices for both types of pellets are expected to significantly increase for 2005 sales.

## **Bankable Feasibility Study**

Based on the indicated results of the “scoping study”, the Board of Grange Resources has approved the expenditure of A\$13 million for a bankable feasibility to be undertaken on the development of the Southdown magnetite resource to produce iron ore pellets.

This study is expected to be completed by the end of December 2005, with statutory approvals targeted for March 2006. The study will be funded by internal Grange sources.

**MT WINDSOR JOINT VENTURE**  
**(Grange Resources Limited (“Grange”) 30%**  
**Thalanga Copper Mines Pty Ltd (“TCM”) 70%)**

**Reward Deeps Project**

During the December 2004 quarter 44,945 tonnes of ore grading 4.21% copper were processed through the Thalanga plant for the production of 6,451 tonnes of copper concentrate containing 26.89% copper and 0.8 g/t gold. Copper recovery was 91.54%.

Ore production for the quarter was 72,067 tonnes with the majority of the ore being mined from Lower Reward Deeps and approximately 4,000 tonnes of development ore from Highway South.

Ore production was limited during the quarter due to only one ore draw point being available in the Lower Reward Deeps mine. Development of access drives to intersect the Highway South ore body at 1075mRL and 1105mRL were commenced during October and development headings in ore commenced during December. Stope production from Highway South is scheduled to commence during February 2005

Due to the lack of ore the Thalanga plant remained closed during October and operations were re-started on 1 November 2004 when ore stockpiles had been replenished. At the end of November the plant was again closed due to the collapse of a feed chute. Following repairs the plant was restarted early in January 2005.

A significant rainfall event resulted in the closure of both the mine and the plant on 22 January 2005. The mine is operational again and production is progressively being re-established as access ramps dry out. The plant is expected to re-start in a couple of week’s time as dam water levels fall, access tracks dry out and water quality issues are resolved.

Based on the current ore reserves and mining schedule the Company expects to export its final shipment of approximately 12,000 tonnes of copper concentrate during June 2005 generating revenue in excess of \$8 million. The operation is scheduled to close during May 2005 following the exhaustion of ore reserves.

A summary of the production statistics for the Reward Deeps project for the September 2004 quarter and project to 30 September 2004 is presented in Table 2.

<b>TABLE 2</b>					
<b>MT WINDSOR JOINT VENTURE</b>					
<b>REWARD DEEPS PROJECT – PRODUCTION STATISTICS</b>					
	<b>March 2004 Quarter</b>	<b>June 2004 Quarter</b>	<b>Sept 2004 Quarter</b>	<b>Dec 2004 Quarter</b>	<b>Project to 31 12.04</b>
<b>Ore Mined (tonnes)</b>	187,604	144,058	68,541	72,067	1,294,011
<b>Ore Milled (tonnes)</b>	<b>203,449</b>	<b>153,923</b>	<b>73,717</b>	<b>44,945</b>	<b>1,232,458</b>
Head grade – (Cu %)	2.81	4.61	4.52	4.21	4.24
Copper Recovery (%)	83.46	88.07	90.78	91.54	89.24

<b>Concentrates Produced (t)</b>	<b>19,522</b>	<b>24,585</b>	<b>11,748</b>	<b>6,451</b>	<b>1706,686</b>
<b>Concentrate Grade</b>					
- Copper (%)	24.71	25.43	25.72	26.89	26.40
- Gold (g/t)	0.8	0.8	0.8	0.8	0.8
- Silver (g/t)	17	17	17	17	17

### **RED HILL (Mining Lease M27/57)**

#### **(Placer Dome Asia Pacific (“PDAP”) 100%, Grange 4% Gross Revenue Royalty)**

Grange holds a 4% gross revenue royalty on all production after the first 85,000 ounces of gold produced from the Red Hill mining lease M27/57, which is located approximately 4 km north east of the Kanowna Belle Gold Mine owned and operated by PDAP.

PDAP has advised that mining operations continued at Red Hill during the December 2004 quarter. Total mined ore production from within M27/57 for the quarter was 194,799 tonnes @ 1.94 g/t. A total of 373,120 tonnes was hauled to the Paddington processing plant during the quarter.

A total of 357,615 tonnes at a grade of 1.59g/t was processed during the quarter, producing some 17,311 ounces of recovered gold and generating a royalty payment to Grange of \$393,249. The total gold recovered from M27/57 at Red Hill as at 31 December 2004 is 122,898 ounces.

Total reconciled mined ore production from commencement of mining (February 2003) until 31 December 2004 is 2,311,868 tonnes @ 1.61g/t gold. Total dry tonnes hauled during this period were 2,115,858 tonnes and ore processed 2,095,858 tonnes @ 1.61g/t.

### **FRESHWATER**

#### **(Barrick Gold of Australia Limited (“Barrick”) 100%, Grange - Production Royalty)**

Barrick has advised that mining operations were undertaken at the Plutonic East underground mine and the Salmon open pit during the December 2004 quarter, generating royalty income of \$149,916.

21,891 tonnes at a grade of 7.48g/t gold were mined and processed from Plutonic East generating royalty income of \$88,334. 159,240 tonnes at a grade of 1.43g/t gold were mined and processed from the Salmon open pit generating royalty income of \$61,582.

Two holes designed to improve stope definition and block models were drilled at Plutonic East returning intersections of 1.9m @ 4.82g/t gold and 2.2m @ 8.39g/t gold.

Resource definition drilling was also carried out at the Cod, Perch West and Salmon prospects with 17 RC holes aggregating 965 metres being completed. The most significant assays received during the reporting period from this drilling programme were from Perch West with the following significant intersections being recorded: 2m @ 10.8g/t from 31m in FRC10268, 2m @ 7.5g/t from 46m in FRC 10271 and 2m @ 6.6g/t from 60m in FRC10266.

## **WEMBLEY**

**(Grange 100%, Gleneagle Gold Limited (“Gleneagle”) Earning 80%)**

The Wembley Gold Project is located approximately 65km south east of Gleneagle’s Fortnum Gold Project and comprises one granted mining lease and a mining lease application. Gleneagle is earning an 80% interest in the tenements by spending \$500,000 on exploration.

The central Mining Lease covers the Durack and Outback mineralised zones, on which Gleneagle completed a program of RC drilling in the June 2004 quarter. Gleneagle has advised that the success of this drilling program has lead to an upgrade of the resource by independent consultants Resource Evaluations, resulting in a revised resource of 568,000 tonnes at 2.3g/t for 42,700 ounces (previous resource 557,000 tonnes at 2.18g/t for 39,000 ounces). The resource comprises an indicated resource of 390,000 tonnes at 2.2g/t for 27,600 ounces and an inferred resource of 180,000 tonnes at 2.6g/t for 15,100 ounces.

Pit optimisations have been completed on the revised resource estimate, indicating the potential to develop relatively shallow modest tonnage medium grade open pits based on the Durack and Outback mineralised zones. Pit design work is progressing to further assess the economics of potential open pits at the Wembley Gold Project.

## **HORSESHOE LIGHTS**

**(Grange 100%)**

During the quarter Grange entered into an option to purchase agreement with Murchison Copper Mines Pty Ltd over the Horseshoe Lights project located approximately 140km north of Meekatharra in Western Australia. The option is for a period of six months.

*Unless otherwise stated, technical information in this report on mining activities is based on, and accurately reflects, information compiled by Mr Alex Nutter, a full time employee of Grange Resources Limited who is a member of The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists with more than 5 years experience in the field of activity in which he is reporting.*

## **ALEX NUTTER**

**Technical Director**

## **CORPORATE MATTERS**

### **ISSUE OF SECURITIES**

During the September quarter an employee of the Company exercised 750,000 options issued under the Grange Resources Limited Directors' and Officers' Option Plan and were converted to ordinary shares at an exercise price of \$0.12 per share.

### **CASH POSITION**

During the September quarter, mining operations at the Reward Deeps Project continued however ore production from the Reward Deeps Project was limited during the quarter due to only one ore draw point being available in the Lower Reward Deeps mine. There was no shipment of copper concentrate from the Reward Deeps Project during the December quarter, which contributed to cash flow deficit of \$2.59 million from operating activities. The Company recorded a modest cash flow deficit from investment and financing activities. The resulting cash balance at 31 December 2004 was \$8.78 million.

The Company expects the final shipment of copper concentrate from the Reward Deeps Project to be exported from Townsville in June 2005. The shipment is forecast to generate gross revenue in excess of \$8.0 million and \$3.0 million after costs. These estimates are based on the current ore reserves and mining schedule.

The Company anticipates generating sufficient working capital from its operations to fund the costs associated with the completion of the bankable feasibility study on the Southdown Magnetite Project.

**ALEC PISMIRIS**

Company Secretary

## Appendix 5B

### Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

**Name of entity**

Grange Resources Limited
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**ABN**

80 009 132 405
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**Quarter ended ("current quarter")**

31 December 2004
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**Consolidated statement of cash flows**

	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	380	502
1.2 Payments for		
(a) exploration and evaluation	(346)	(599)
(b) development	-	-
(c) production	-	-
(d) administration	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	187	330
1.5 Interest and other costs of finance paid	(12)	(28)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
1.7(i) Payment to directors and employees	(285)	(571)
1.7(ii) Payment for all other working capital	(2,514)	(7,000)
<b>Net Operating Cash Flows</b>	<b>(2,590)</b>	<b>(7,366)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	(100)	(100)
(b) equity investments	-	-
(c) other fixed assets	(35)	(35)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
1.12(i) Payment for security deposit	(23)	(47)
1.12(ii) Proceeds from release of security deposit	-	-
1.12(iii) Payment for exploration, development and production	-	-
<b>Net investing cash flows</b>	<b>(158)</b>	<b>(182)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,748)</b>	<b>(7,548)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,748)	(7,548)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	90	97
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
1.19(i)	Payment for buy back of shares	-	-
1.19 (ii)	Payment for share issue	-	-
	<b>Net financing cash flows</b>	<b>90</b>	<b>97</b>
	<b>Net increase (decrease) in cash held</b>	<b>(2,658)</b>	<b>(7,451)</b>
1.20	Cash at beginning of quarter/year to date	11,439	16,232
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>8,781</b>	<b>8,781</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	198
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Refer to attachment 1

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,970
4.2 Development	-
<b>Total</b>	<b>1,970</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	398	500
5.2 Deposits at call	8,126	10,685
5.3 Bank overdraft	Nil	Nil
5.4 Other (Cash held with Joint Ventures)	257	254
<b>Total: cash at end of quarter (item 1.22)</b>	<b>8,781</b>	<b>11,439</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	-	-		
7.2 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3 *Ordinary securities	70,519,259	70,519,259		
7.4 Changes during quarter				
(a) Increases through exercise of options	750,000	750,000		
(b) Decreases through returns of capital, buy-backs	-	-		
7.5 *Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through securities matured, converted	-	-		
7.7 Options <i>(description and conversion factor)</i>	4,230,000 4,285,715 4,500,000	- - -	<i>Exercise price</i> 12 cents 50 cents 50 cents	<i>Expiry date</i> 30 June 2007 28 November 2006 30 June 2007
7.8 Issued during quarter <sup>1</sup>				
7.9 Exercised during quarter	750,000	-	12 cents	30 June 2007
7.10 Cancelled during quarter	-	-	-	-
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:            Alec Pismiris  
                              (Company secretary)

Date: 28 January 2005

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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**ATTACHMENT 1 TO APPENDIX 5B**  
**PAYMENTS/LOANS TO DIRECTORS AND RELATED PARTIES AND ASSOCIATES OF DIRECTORS**  
**AND RELATED PARTIES OF GRANGE RESOURCES LIMITED**

Payments and loans during the quarter to directors and related parties, and associates of directors and related parties, of Grange Resources Limited total \$197,584 and include:-

- Directors' fees (inclusive of superannuation) of \$18,250 paid to non-executive directors of the Consolidated Entity.
- Executive directors' salaries (inclusive of superannuation) of \$179,334