

19 October 2010

ASX: GRR



Grange Resources Limited  
ABN 80 009 132 405  
Level 11, 200 St Georges Terrace  
Perth Western Australia 6000  
PO Box 7025, Cloisters Square  
Perth Western Australia 6850  
T +61 8 9327 7901  
F +61 8 9327 7932  
info@grangeresources.com.au  
www.grangeresources.com.au

## **Grange Resources Limited Australia's leading magnetite producer**

### **REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2010**

#### **HIGHLIGHTS**

- **Significantly improved safety performance at Savage River.**
- **All Iron ore pellet sales completed at an interim price of US\$150 per tonne, a significant price increase on previous quarters. Will be maintained in December quarter.**
- **Southdown Project feasibility study progressing well, with A\$24 million budget approved by JV partners for second half 2010.**
- **Strong cash position of A\$96.9 million, and no net debt at the end of the quarter.**
- **Improvements in productivity and cost control maintained at Savage River.**
- **Disposal of MCM completed, with resultant holdings in Horseshoe metals showing a 25% increase value since issue to Grange.**

Grange Resources Limited ("Grange" or the "Company") is pleased to announce another strong quarter.

Grange Managing Director, Mr Russell Clark, said "This quarter Grange has sold all of its product at index based market prices, as opposed to last year's bench mark pricing, or at set prices agreed to some years ago. As a result, the strong cash flow generation from the Savage River operation is becoming very apparent. The Savage River operation continues to perform well, meeting physical targets as well as seeing its safety performance improve significantly."

"Our growth project, Southdown, is progressing well through feasibility and we have welcomed a number of senior personnel to the project team. The Joint Venture has approved a \$24 million budget to complete the +/- 20% feasibility study this calendar year and we have made significant progress with the permits required for the mine and port."

"Iron ore prices remain strong and we will continue to see the benefits of the cash generation at Savage River as we take the Southdown project to the next stage of development next year."

## COMPANY SUMMARY

Grange Resources Limited is pleased to report a highly successful quarter which has resulted in further strengthening of the Company's balance sheet and reduction of liabilities.

## CASH RESERVES AND FUTURE SALES

The cash reserves of Grange at 30 September 2010 were A\$96.9 million, up from A\$70 million as at 30 June 2010. This is primarily due to all sales being at an interim index based market price of US\$150/tonne. It should be noted also that four second-hand Caterpillar 789 trucks were purchased from cash flow (A\$7.5 million).

Discussions continue with all contracted customers in order to secure agreement to an ongoing sales pricing methodology, based on the iron ore index which is being used by major iron ore suppliers. As the three major suppliers of seaborne export iron ore are all using slightly different pricing methodology, Grange is working with its customers to agree the most appropriate methodology. This will be concluded by the end of 2010.

Sales and revenue over the past three quarters are as follows:

	<b>January - March 2010</b>	<b>April - June 2010</b>	<b>July - September 2010</b>
<b>Pellets Sold '000t</b>	588	581	582
<b>Average Price US\$/t</b>	55	118	150
<b>Average Price A\$/t</b>	61	134	167
<b>Revenue A\$ million</b>	35.7	77.6	97.0

Revenues received at Savage River are forecast to remain strong through the next quarter. All sales are being undertaken at index based market prices, and an interim price of US\$150/tonne has been agreed with customers for the next quarter.

## SAVAGE RIVER OPERATIONS

### Production and Costs - September Quarter

	<b><i>Production and Costs September Quarter 2010</i></b>	<b><i>Production and Costs September Quarter 2009</i></b>
<b>Total BCM Mined</b>	4,055,157	4,349,706
<b>Total Ore BCM</b>	217,167	516,763
<b>Concentrate Produced (t)</b>	610,321	550,681
<b>Weight Recovery (Dry) (% DTR)</b>	39.6	36.6
<b>Pellets Produced (t)</b>	557,779	514,943
<b>Pellets Shipped ( t)</b>	582,148	619,428
<b>Concentrate Shipped (t)</b>	18,073	110
<b>Pellet Stockpile (t)</b>	219,301	175,747
<b>Concentrate Stockpile ( t)</b>	26,285	15,514
<b>Direct Operating Cost A\$/tonne Pellet Produced</b>	78.80	80.26

*Note : Direct operating costs includes all costs associated with producing iron ore pellets including deferred mining and ore stockpile movements but excludes royalties, depreciation and amortisation costs.*

## **Production**

Safety performance saw continuing improvement with only one Lost Time Injury (“LTI”) recorded in the quarter. The Total Recordable Injury Frequency Rate (TRIFR) fell from 22.5 at the beginning of the quarter to 17.0 by the end of it, a 25% improvement.

For the past quarter, ore and waste production was lower than the previous quarter as a result of inclement weather and a smaller fleet of equipment following the planned retirement of older and less productive equipment. Mining rates will increase next quarter with the addition of four Caterpillar 789 trucks to the fleet.

In spite of this, concentrate and pellet production were higher than the corresponding quarter last year.

On 18 June 2010, Grange advised that a rock slide had occurred on the eastern wall of the North Pit at the Savage River mine site. An estimated 140,000 bank cubic metres of material fell onto the pit floor. As a result of the geotechnical controls and standard operating procedures in place, the area had been cleared of personnel and no injuries were sustained.

Grange continues to develop mine plans to remediate the rock slide in order to gain long term access to the Main Ore Zone for the balance of the mine life. A remediation cut back is required and once completed the strip ratio, ore quality and sales volumes will be very predictable. It is expected the final modelling for the new plan will be completed towards the end of November 2010 and will be submitted to Grange’s Board for approval in early December 2010. Further guidance will be provided at that time.

In the interim, Grange is sourcing ore supplies from alternate areas on the mining lease, and has to date managed to use these supplies to replace ore temporarily sterilised by the rock slide. The alternate ore supplies will be used to produce pellets for contracted sales until the East Wall cutback is completed and full access to the Main Ore Zone is re-established. Grange believes it will be able to maintain production of pellets to meet all contracted pellet sales requirements in 2010, 2011 and 2012. Until plans are finalised, however, Grange has notified Force Majeure under all of its sales contracts.

The process of concurrently maintaining supply from alternate ore supply locations and completing the East Wall cutback will see an increase in overall production volumes in 2011 through to early 2012. The planned extra waste movement costs will be capitalised in accordance with accounting standards, and will not affect profit for the year.

## **Cost Management**

In concert with the increased productivity efficiencies and improved safety performance, disciplined operational cost control measures have been instilled which resulted in unit costs (Direct Operating Costs per tonne of pellet produced) reducing by 1.8% for the September Quarter year on year 2009 to 2010.

## **SOUTHDOWN MAGNETITE PROJECT**

**(Southdown: Grange 70%, Sojitz Resources and Technology Pty Ltd 30%)**

*The following summary is an update on progress achieved with the Southdown Magnetite Project to date.*

### **Project Overview**

Located approximately 90 kilometres northeast of the Port of Albany on the south coast of Western Australia (Figure 1), the Southdown Magnetite deposit is approximately 12 km in length and represents one of the best premium quality magnetite deposits currently under development in Australia. With a location within 100km of existing port facilities, an orebody close to surface and a nearby major regional population centre, the deposit is favourably placed for development.

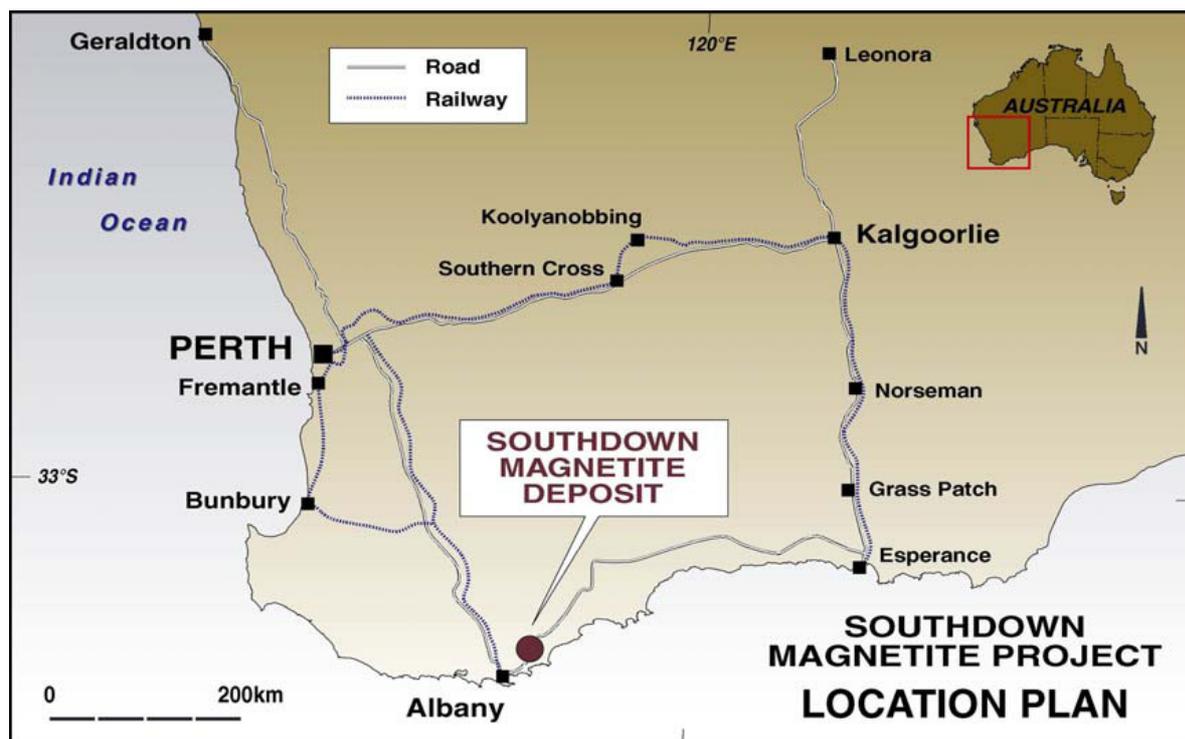


Figure 1: Location of Southdown Magnetite Project, Albany WA

The Southdown Magnetite 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. The magnetite concentrate will be pumped as slurry through a buried pipeline, approximately 100 km to a concentrate storage facility at the Port of Albany before being loaded on to cape size vessels and shipped to an iron ore pellet plant, currently planned to be located in Kemaman, Malaysia. 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 and 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 and Reserves

Grange announced a substantial increase in the *in situ* Mineral Resource at the Southdown Project on 3 July 2009. The Mineral Resource has remained unchanged since then:

Classification	Tonnes (Mt)	Grade (DTC wt%)
Measured	219.7	37.4
Indicated	210.3	38.9
Inferred	224.4	33.4
<b>Total</b>	<b>654.4</b>	<b>36.5</b>

This Mineral Resource has been defined using geological boundaries and a cut-off grade of 10 wt% DTC (Davis Tube Concentrate) and includes minor internal dilution. All reported concentrate grades were weighted by DTC.

### **Competent Persons Statement**

*The information in this report which relates to the Mineral Resources of the Southdown Project is based on information compiled by James Farrell who is a full-time employee of Golder Associates Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. James Farrell 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). James Farrell 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 the above table of Mineral Resources is a summary of the In Situ Mineral Resource Estimate set out in Annexure 1. Full details of assumptions and methodology for the Mineral Resources were contained in the Company's announcement to ASX dated 3 July 2009.*

### **Engineering Update**

Engineering work on the feasibility study (+/- 20% accuracy) is progressing to schedule with expected completion at the end of December 2010.

A number of trade-off studies have been conducted to optimise the Project with the aim of enhancing the capital investment and improving operating conditions. The Concentrator process route has been determined using proven technology in the industry and is comparable to that in operation at Savage River. Further pilot test work will be completed to simulate the selected process route and provide a higher level of confidence prior to finalising the processing circuit. The Engineering work continues to be developed for 10 million tonnes per year of concentrate production and 7 million tonnes per year of pellets.

The team has continued to work with the necessary government agencies to ensure the relevant approvals are in place with substantial progress being achieved this quarter.

### **Mine Planning Update**

The mine design for Southdown has had a significant review and has been optimised for the planned concentrate production of 10 million tonnes per annum. The optimised design has reduced the overall waste volume removed (and hence the stripping ratio). The improved mine design came as a direct result of applying in-house knowledge and experience from Savage River to the Southdown ore body for the first time.

### **Metallurgical Test Work Update**

Metallurgical test work required for the feasibility study is almost complete. Additional Metallurgical drilling is being undertaken and information gained from the test work, combined with operational knowledge accumulated over 40 years at Savage River has resulted in a change to the concentrator flow sheet, such that it is a simpler design and reflects the planned output of 10 million tonnes per annum of high quality concentrate. The new circuit is based on primary crushing, autogenous grinding, fine grinding, magnetic separation and flotation (to remove silica and sulphides) and conventional tails disposal. The drilling program will be completed in mid November and pilot test work will commence soon after.

### **Environmental Approvals**

The Public Environmental Review (PER) for the Southdown mine and pipeline has been completed and environmental approval of the project was received from the West Australian Minister for the Environment in November 2009. Grange is in the final stages of negotiating land offsets for the Carnaby Cockatoo's with the Commonwealth Department of Environment, Water, Heritage and Arts under the Environment Protection Biodiversity Conservation Act, 1999.

Grange has initiated discussions with the EPA with regards the expansion of the project in terms of a production rate increase to 10 Mtpa (previously 6.8 Mtpa). These discussions will be ongoing through the next quarter.

The Albany Port Authority has made application to both the Commonwealth and the West Australian State Government for the expansion of the Albany port and the channel access to the Port.

In June 2010, the Albany Port Authority received Commonwealth approval for the port expansion project.

The Albany Port Authority has also made substantial progress with the State permit application, with the West Australian Environmental Protection Authority (EPA) publishing its Bulletin in January 2009. The Bulletin provided advice and recommendations from the EPA on the proposed development of the Port of Albany. The EPA concluded that it is unlikely that its objectives would be compromised provided there is satisfactory implementation of its recommended conditions and procedures. The EPA has recommended approval of the project to the West Australian Minister for the Environment with those conditions and procedures. The West Australian Minister of the Environment has made a determination on appeals lodged against the project and is in the final stages of Government Department consultation regarding the wording of her final approval. Grange is expecting an announcement from the West Australian Minister of the Environment in the near future.

## **Power and Water**

The HV Power Supply negotiations with Western Power continued during the quarter and an Early Undertakings Contract (EUC) was signed between Grange and Western Power. This will allow Western Power to confirm that the proposed transmission line route from Muja to Wellstead is still the most suitable option. Western Power will also undertake a number of investigations to ensure social, environmental, technical and economic issues have been considered.

In November 2007, Grange announced it had signed an Option Agreement with the Western Australian Water Corporation to supply treated waste water to the project. The agreement provides the project with access to a minimum of 5,000 kilolitres per day of water for the project. Negotiations with the Water Corporation on the Commercial Water Supply Agreement are in the final stages and will be completed by the end of 2010.

The planned increase in production to 10 million tonnes per annum of concentrate will require additional water. Studies are being undertaken to assess the use of a desalination plant, situated near the mine site, to provide the additional water requirements.

## **MURCHISON COPPER MINES ("MCM" – Grange Interest 79.3%)**

During the quarter Grange concluded the sale of its 79.3% share of MCM with Horseshoe Metals Limited ("Horseshoe Metals", ASX code: HOR).

As a result of the sale Grange received 3,922,313 ordinary shares and 1,307,438 \$0.20 listed options (expiring 30 June 2012) in Horseshoe Metals. In addition Horseshoe Metals has paid Grange approximately \$900,000, being debts owed to Grange by MCM. Horseshoe Metals has also put up the necessary bonds for the tenements, releasing \$1,066,500 worth of bonds back to Grange. The funds resulting from this transaction will contribute to cash available to support the Southdown Project feasibility study. At the end of the quarter Horseshoe Metals shares were trading at \$0.25, a 25% premium to their listing price. The value of the Horseshoe securities based on their closing price on ASX on the day immediately preceding the date of this report was \$1.23m.

## **CORPORATE MATTERS**

### **Debt**

The only debt remaining in the Company is US\$38.3 million\_(A\$39.6 million) for the leasing of mobile equipment and a debt to the Tasmanian Government of A\$9.3 million, for the Savage River Rehabilitation Plan (SRRP). Further detail on this can be found in the 2010 annual financial report.

### **Hedge Book**

Grange remains unhedged and monitors its currency hedging strategy regularly at its monthly treasury meetings.

### **Australian Resources Tax Proposals**

Grange has been heavily engaged with the Federal Government as proposals for the implementation of a Mineral Resources Rent Tax (MRRT) have evolved. Grange has argued strongly that magnetite iron ore mining and processing is quite different to hematite iron ore mining and should be exempt from the tax, as are other minerals which require significant processing, such as gold, nickel, copper and other base metals. The Government has maintained that iron ore and coal mining will be subject to the MRRT.

Grange, along with other magnetite producers, has been invited to work with the Policy Transition Group which is assisting the Government with the implementation of the MRRT and will do so early next quarter

### **Issue of Shares**

298,507 shares were issued during the quarter.

A total of 2,334,678 rights to shares will be issued in the December 2010 quarter, as a result of allocations to employees under the long term incentive scheme. A third of these will vest immediately, a third will vest in July 2011 and a third will vest one year later.

### **Share Register**

The Company continues to see excellent liquidity in the trading of its shares. The number of shareholders on the Register has grown steadily from 1,200 in January, 2009. As at 30 September 2010 there were over 3,900 shareholders.

RGL Holdings Limited ("RGL"), Grange's second largest shareholder, sold down approximately 14.4 million shares during the quarter. RGL has advised that it remains committed to its investment in Grange and recognises the benefits of increased liquidity in the stock. It remains a substantial shareholder with a 12.2% holding in Grange.

Nine million (9,000,000) options issued to Rio Tinto as part of an exploration lease purchase at Southdown in 2007 lapsed in September.

In addition to research coverage provided by Petra Capital and Patersons, Grange has had research coverage initiated by Macquarie and Citi during the quarter.

### **Board Changes**

On 30 July 2010, Grange appointed Mr Hong Lin Zhao to the Board as a non executive Director. Mr Zhao is an executive director on the Board of the Jiangsu Shagang Group ("Shagang"), China's largest private steel company. He has 35 years experience and is presently the Commander of Project Development Headquarters with Shagang. Mr Zhao has extensive project management and implementation experience and expertise. Mr Zhao replaced Mr Wei Guo, who resigned from the Grange Board, as a representative of major shareholder, Shagang International Holdings Limited.

### Change in Financial Year

During the quarter Grange advised that it will be changing its financial year to a calendar year, commencing 1 January 2011. As a result the quarter ending 31 December 2010 will be the last in the current, shortened financial year.

### Annual General Meeting

The 2010 AGM will be held in Perth on 26 November 2010. Another AGM will be held in May 2011, following the change in financial year, and annually thereafter.

-ENDS-

For more information, please contact:

**Investors:**

Russell Clark  
Managing Director & CEO  
Grange Resources Limited  
+ 61 8 9327 7901

**Media:**

Shane Murphy  
FD Third Person  
+61 8 9386 1233 / +61 420 945 291  
[shane.murphy@fdthirdperson.com.au](mailto:shane.murphy@fdthirdperson.com.au)

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

### ANNEXURE 1

TABLE 1 SOUTHDOWN MAGNETITE PROJECT IN SITU MINERAL RESOURCE ESTIMATE				
Classification	Measured Resources	Indicated Resources	Inferred Resources	Total Resources
Tonnes (Mt)	219.7	210.3	224.4	654.4
DTC wt%	37.4	38.9	33.4	36.5
DTC Fe%	69.2	69.3	69.1	69.2
DTC SiO <sub>2</sub> %	1.72	1.94	2.07	1.91
DTC Al <sub>2</sub> O <sub>3</sub> %	1.43	1.27	1.29	1.33
DTC S%	0.46	0.40	0.54	0.46
DTC LOI%	-3.04	-3.06	-2.96	-3.02