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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 2011**

## HIGHLIGHTS

- Continued excellent safety performance at Savage River.
- Strong cash and receivables position of \$156.2 million and no net debt at the end of the quarter.
- \$70 million invoiced for previous sales at interim prices.
- Pricing mechanism agreed with major customers, ending interim pricing mechanism.
- Record pellet prices experienced during the quarter, and forecast to continue.
- Company remains “on track” to produce 2 million tonnes of pellets in 2011.
- Major concentrator and pellet plant maintenance shutdown completed ahead of schedule and under budget.
- East wall recovery plan proceeding on schedule.
- Year to date costs lower than budgeted.
- \$2.3 million cash inflow from sale of Horseshoe Metals holdings.
- Southdown project pre-feasibility study completed, with a report to the market expected within a month.

Grange Resources Limited (“Grange” or the “Company”) is pleased to announce another solid quarter, positioning the Company for sustainable cash generation at Savage River and the further development of the Southdown project near Albany in Western Australia.

Grange Managing Director, Mr Russell Clark, said “Our excellent safety performance continues with no lost time (LTI) or medically treated injuries (MTI) occurring during the last two quarters.”

“As previously advised, Grange has agreed an IODEX based index pricing mechanism for pellet sales to its two major customers, Shagang and BlueScope Steel. The agreed pricing mechanism has been applied to all shipments priced at interim prices for the 2010 Iron Ore Year from 1 April 2010 to the end of March 2011, resulting in \$70 million being invoiced to our customers at the end of March. We will continue to see strong cash flows in the next quarter with pellet prices currently in excess of US\$200 per tonne.”

“Our guidance for the Savage River operations remains at 2 million tonnes of pellet production and sales in 2011.”

“The Savage River operations continue to perform with the east wall cut back progressing per the plan, and a major planned maintenance shut in the concentrator and pellet plant completed ahead of schedule and under budget. Ore stockpiles have been replenished during the shut, contracted pellet sales have been met and the rebuild program for the truck fleet is also on track. Costs incurred for the quarter were less than budget, contributing further to the improved cash position.”

“The pre-feasibility study for our growth project, Southdown, has been completed and is under final review by the owners. The study is in an advanced state with major permits, mining leases, reserves and resources all in place and metallurgical testing and process flow sheets finalised. We look forward to advising the results to the market within the next month. The Grange Board has approved us moving into the next phase, the definitive feasibility study (DFS), which is due for completion by the end of the year.”

“Importantly, we now have the funds in place required for Grange’s contribution to the DFS, and for the capital requirements at Savage River. Iron ore prices remain strong and we forecast to see continued strong cash generation at Savage River, which further strengthen our ability to fund Southdown.”

## **CASH RESERVES AND FUTURE SALES**

Cash and receivables for Grange at 31 March 2011 were A\$156.2 million, up from A\$122.6 million as at 31 December 2010. A total of \$3.0 million was incurred on the Southdown PFS during the quarter (Grange’s share).

Sales for the quarter continued at an interim “IODEX” index based market price of US\$150/tonne. However, a pricing mechanism was agreed with the two major customers at the end of the quarter resulting in US\$70 million being invoiced for shipments priced at interim prices to the end of March 2011. The agreed pricing mechanism adopts the Platts Iron Ore Index price (“Platts IODEX”) which is published daily for a 62% Fe, iron ore fines product and is quoted on a US\$ per dry metric tonne CFR North China basis. The price to be paid by BlueScope and Shagang for Savage River pellets will be based on the Platts IODEX and will be adjusted for the higher iron content of the Savage River pellets (65% Fe). The price will be converted to an FOB price per dry metric tonne by adjusting it for shipping freight costs. Finally, the price will include a pellet premium.

Revenues received at Savage River are forecast to remain strong through the next quarter, with pellet prices of over \$200 per tonne in April.

## SAVAGE RIVER OPERATIONS

### Production and Costs - March Quarter

This quarter is not representative of a “normal” quarter and Grange continues to forecast approximately 2.2 million tonnes of concentrate production in 2011, rising to approximately 2.5 million tonnes in 2012 and 2013.

|  | <i>Production and<br/>Costs<br/>March Quarter<br/>2011</i> | <i>Production and<br/>Costs<br/>March Quarter<br/>2010</i> |
|--|--|--|
| <b>Total BCM Mined</b>                                 | 4,098,752  | 5,266,898  |
| <b>Total Ore BCM</b>                                   | 248,221  | 321,566  |
| <b>Concentrate Produced (t)</b>                        | 349,328  | 589,213  |
| <b>Weight Recovery (Dry) (% DTR)</b>                   | 38.10  | 45.37  |
| <b>Pellets Produced (t)</b>                            | 319,233  | 565,851  |
| <b>Pellets Shipped ( t)</b>                            | 209,798  | 590,690  |
| <b>Concentrate Shipped (t)</b>                         | 124  | 23   |
| <b>Pellet Stockpile (t)</b>                            | 177,503  | 191,617  |
| <b>Concentrate Stockpile ( t)</b>                      | 41,701   | 14,939   |
| <b>Direct Operating Cost A\$/tonne Pellet Produced</b> | 98.63  | 56.89  |

*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 continued improvement with no Lost Time Injuries (“LTI”) or Medically Treated Injuries (MTI) recorded for the second consecutive quarter. The Total Recordable Injury Frequency Rate (TRIFR) fell from 9.1 at the beginning of the quarter to 4.6 by the end of it, a 50% improvement.

Grange has continued the remediation cut back of the east wall, always required but being brought forward from 2012/13 as a result of the wall failure that occurred in June 2010. Longer ore haulage distances and truck rebuilds have contributed to an increase in mining costs for the quarter.

An extensive scheduled annual maintenance shutdown was undertaken in both the concentrator and pellet plant. Major works in the concentrator included the replacement of a ball mill and a major welding repair to one of the AG mills. At the pellet plant a large slew bearing was replaced on the ship loader. As a result, the concentrator ran for approximately two of the three months in the quarter, reducing concentrate production which in turn reduced pellet production.

***The shutdown was completed safely, ahead of schedule and under budget, and both plants are now operating at full capacity.***

## **COST MANAGEMENT**

For the year to date, costs are lower than budgeted and are forecast to remain so. Grange forecasts operating expenditure at Savage River this year of approximately \$220 million.

Unit costs for the quarter were higher than the previous quarter as a result of the truck rebuild program and the running costs of additional equipment in the fleet.

## **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.*

Being an operator with extensive experience in magnetite mining and processing, and having cash flow generated for the Savage River places Grange in a unique position when compared to other magnetite developers in Australia. Grange has the systems, processes, intellectual property (IP) and the people that, together, will help minimise the execution risk of the Southdown project.

## **PROJECT OVERVIEW**

Located approximately 90km northeast of the Port of Albany on the south coast of Western Australia (Figure 1), the Southdown Magnetite deposit is approximately 12km 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 ore body close to surface and a nearby major regional population centre, the deposit is favourably placed for development.

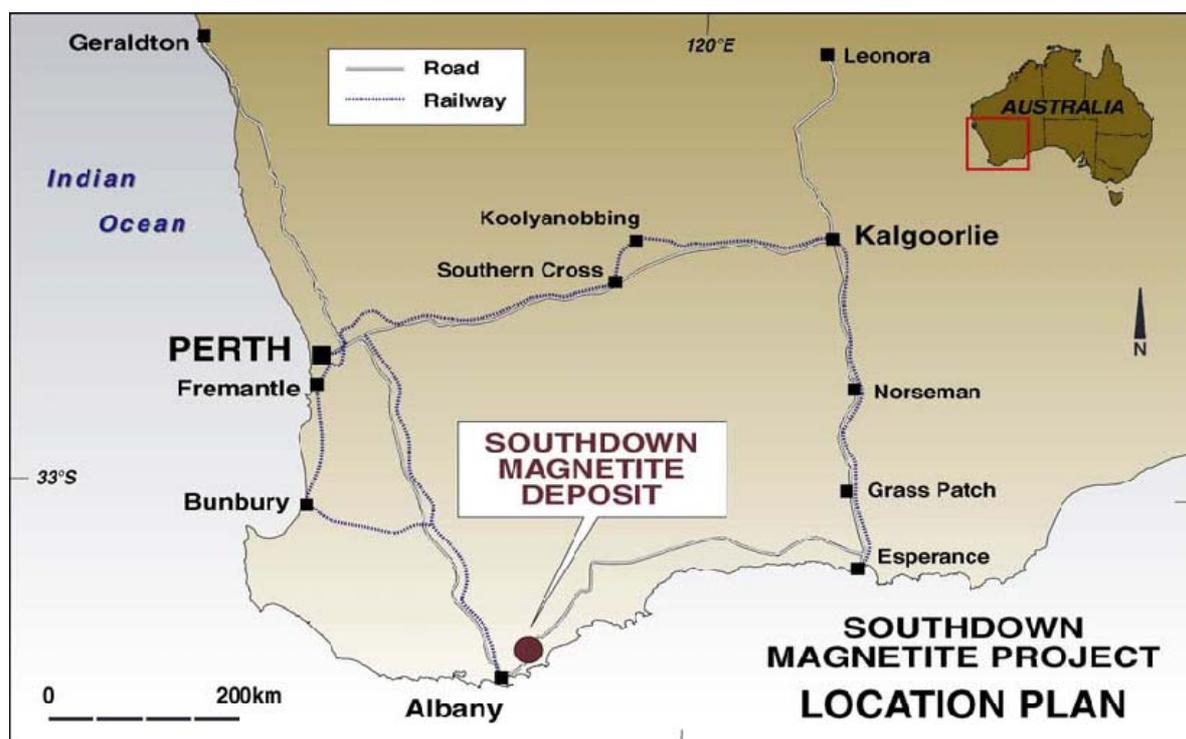


Figure 1: Location of Southdown Magnetite Project, Albany WA

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 concentrate will be pumped as slurry through a buried pipeline, approximately 100km to a concentrate storage facility at the Port of Albany before being loaded onto 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 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.

*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 is a summary of the 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 the ASX dated 3 July 2009.*

## ENGINEERING UPDATE

Engineering work on the pre-feasibility study (+/- 20% accuracy) was completed on schedule and the market will be advised of the outcome within the next month.

A number of trade-off studies and value engineering have been conducted by the Owners team to optimise the project with the aim of enhancing the capital investment and improving operating conditions and a number of opportunities remain, which will be explored in greater detail during the definitive feasibility study (DFS).

The project has continued to make significant progress and is well positioned to proceed through the next stages of the development. Resources and reserves are in place. Major permits for the mine and port have been approved. Metallurgical test work has been completed and the process route for the concentrator has been finalised. Land tenure required for the project is advanced, and the route for the power line has the required easements

The Grange Board has approved Grange moving into the next stage of the project, the DFS, which is expected to be completed by the end of 2011.

## METALLURGICAL TEST WORK UPDATE

Metallurgical test work required for the feasibility study has been completed. Additional metallurgical drilling was undertaken in 2010 and information gained from the test work has been used to further optimise and finalise the flow sheet.

## 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 negotiating land offsets for the Carnaby Cockatoos with the Commonwealth Department of Sustainability, Environment, Water, Population and Communities under the Environment Protection Biodiversity Conservation Act, 1999 and expects to progress these in the first quarter of 2011 as conservation reports on the proposed offset land become available.

Grange has submitted a request to the Environmental Protection Authority ("EPA") to alter the existing mine permit to allow a production rate increase to 10 million tonnes per annum (previously 6.8 million tonnes per annum). Approval on the alteration is expected in the second quarter of 2011.

The Albany Port Authority 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.

In November 2010, the West Australian Minister of the Environment approved the environmental permit allowing the expansion of the Albany Port, encompassing the building of a new berth suitable for cape sized vessels and the widening and deepening of the channel into the Port to allow passage of these bigger ships.

The planned increase in production to 10 million tonnes per annum of concentrate will require additional water. It's proposed to use a desalination plant, situated near the mine site, to provide the additional water requirements. An environmental permit application is being finalised for submission to the EPA in with the expectation that this permit could be approved by the end of 2011.

## POWER SUPPLY

Western Power continues to make good progress on the HV Transmission Line from Collie to the mine site with work being concentrated on social, environmental, technical and economic issues. Preliminary discussions were held jointly with Western Power and the Economic Regulation Authority of WA ("ERA") to obtain guidance on the ERA approach to the principles of the proposed agreement between Western Power and the Southdown Joint Venture with regards the building of the transmission line, final ownership and potential use by third parties.

A number of electricity providers were approached and requested to submit non-binding proposals to supply energy for the project. Preliminary reviews were concluded and have been incorporated in the Pre-feasibility study.

## CORPORATE

### Debt

The Company continues to have no net debt. Total debt in the Company has reduced during the quarter, falling to A\$43.3 million (A\$32.4 million owing on a mobile equipment finance lease arrangement, A\$9.2 million owing to the Tasmanian Government, and A\$1.6 million owing on an insurance premium financing arrangement).

### Hedge Book

Grange remains unhedged and monitors its currency hedging strategy regularly at its monthly treasury meetings. The strengthening Australian dollar experienced over the quarter was offset by a strengthening iron ore price. A total of US\$65 million was converted to Australian dollars during the quarter at an exchange rate of \$0.995, to cover operating costs in Australian dollars.

## Securities Information

A total of 769,321 shares were issued to employees under the Long Term Incentive Plan during the quarter and relate to performance for the year ended 30 June 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 2011 there were approximately 4,200 shareholders.

Grange sold down its shareholding in Horseshoe Metals Limited (“Horseshoe”) during the quarter, realising \$2.3 million in proceeds, a gain of \$1.5 million since Grange acquired the holding last year as a result of floating the Murchison Copper assets. Grange ceased being a substantial shareholder in Horseshoe on 9 March 2011.

## Annual General Meeting

The 2011 AGM will be held in Perth on Tuesday 10 May. The earlier date this year reflects the change in the financial year to a calendar year.

-ENDS-

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## ANNEXURE 1

| TABLE 1<br>SOUTHDOWN MAGNETITE PROJECT<br>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           |