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ASX: GRR

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Grange Resources Limited

Australia's leading magnetite producer

RECORD PROFITS AND CASH GENERATION IN 2011

ANNUAL FINANCIAL REPORT FOR YEAR ENDING 31 DECEMBER 2011

HIGHLIGHTS

Grange Resources (ASX:GRR) is proud to deliver its 2011 Annual Financial Report to shareholders, the first full year results since changing its financial year to a calendar year. Although challenging, 2011 was a very successful year, with record profits and cash generation.

Highlights in 2011 included:

- **An exceptional safety performance at Savage River and Southdown. Zero Lost Time Incidents (LTI), and a 48% reduction in Total Recordable Injury Frequency Rate (TRIFR).**
- **Pre-tax profit of $158.1 million, on revenues from mining operations of $410.4 million.**
- **Record full year net profit after tax of $216.6 million.**
- **Net cash inflow from operations of $210.4 million.**
- **Total cash reserves (including term deposits) boosted to $203.1 million as at 31 December, up from $106.4 million as at 31 December 2010. No net debt.**
- **Earnings of 18.8 cents per share.**
- **Inaugural $0.02 dividend paid in October 2011, to be followed by a $0.03 final dividend payable in April 2012.**
- **Successful completion, and under budget delivery, of Phase 1 of the Savage River East Wall remediation, truck fleet rebuild and major concentrator maintenance.**
- **Record throughput at Savage River concentrator.**

- **Pellet production for 2011 totalled 1.98 million tonnes.**
- **Agreed an IODEX based index pricing mechanism with customers which increased the average selling price of pellets by 30% to A$206.02 per tonne (6 months to 31 December 2010 – A$158.47).**
- **Savage River mine life extended by four years to 2030.**
- **Strategic opportunities identified and MOU's signed with Tasmania Mines, Venture Minerals and Shree Minerals.**
- **Southdown Pre-feasibility Study (PFS) completed and Definitive Feasibility Study (DFS) reaching conclusion.**
- **Southdown resource increased to over 1 billion tonnes.**

Commenting on the results for the year Grange Resources Managing Director, Mr Russell Clark, said:

"The year to December 31, 2011 has seen continuing consolidation of Grange. It is now a very profitable organisation with a strong balance sheet, no net debt and all of its products market priced. The payment of an inaugural dividend during the year, with another to be paid in April, is really the measure of the success we have had, as revenue and profits hit record levels."

"At the Savage River operations in Tasmania, the Company produced 1.98 million tonnes of premium quality iron ore pellets in 2011, making it Australia's largest magnetite producer."

"We start the new financial year in a great state, with significant cash reserves and no net debt."

"We have an improved safety record in the Company which has provided the foundations for excellent performance at the sites. Major maintenance at Savage River was undertaken successfully and the East Wall remediation work progressed as planned, such that production levels have now returned to pre-June 2010 levels."

"Grange has continued to develop the Southdown magnetite project in Western Australia, with the project experiencing the benefits of having in-house magnetite expertise at the Tasmanian operations. The project has progressed through PFS and DFS with land access, environmental permitting, mineral resources and engineering work significantly advanced during the year."

Full Year Result:

Grange Resources recorded a consolidated profit after tax of $216.6 million for the year ended 31 December 2011. The result was achieved on pellet sales of 1.7 million tonnes and revenues from mining operations of $410.4 million. Revenues also include $52.1 million associated with sales made under interim pricing arrangements in 2010.

The reduction in pellet sales during 2011 was primarily driven by lower pellet production as a result of lower magnetite grades being mined from remnant ore bodies rather than the main ore zone in the North Pit. The East Wall was "cut back" during the year and mining has now returned to the main ore zone in the North Pit.

The remediation of the East Wall increased costs during the year with a C1* cost of pellet production of A$111.68 per tonne. Phase 1 of the remediation work is now complete and access to the main ore zone of the North Pit was re-established during Q4 2011. Re-establishing this access during Q4 2011 resulted in the C1 unit cost of pellet production returning to lower levels of A$85.73 per tonne. It is important to note that the East Wall remediation program was conducted concurrently with normal mining operations which mined remnant ore bodies and maintained ore supply and pellet production to meet contractual sales obligations.

At 31 December 2011, Grange had $203.1 million in cash and term deposits (31 December 2010 = $106.4 million) and $44.9 million in debt (31 December 2010= $47.0 million), of which $25.6 million relates to a mobile equipment lease facility (31 December 2010= $35.3 million).

With no net debt, and with costs and production at the operation well understood, Grange Resources is well positioned to take advantage of what continues to be a strong iron ore market.

** "C1" costs are the cash costs associated with producing iron ore pellets without allowance for deferred mining and stockpile movements, and also exclude royalties, depreciation and amortisation costs. "C1" costs provide an insight to current margins.*

Safety

Grange Resources' safety performance was sustained with no Lost Time Injuries ("LTI") recorded for the fifth consecutive quarter. In 2011 the Total Recordable Injury Frequency Rate (TRIFR) fell from 9.1 (31 December 2010) to 4.7 (31 December 2011), a 48% improvement. This trend is a credit to our employees and continues to reflect the strong and increased emphasis on safety management at the operations. Grange Resources knows that a safe mine is a productive one.

Production

The Savage River mine and pellet plant have operated for many years and new records at the operations continue to be achieved.

As part of the long term strategic plan, a number of significant activities were completed during the year:

- Phase 1 of the East Wall remediation was completed concurrently with normal mining operations. This has resulted in access to the North Pit being re-established providing access to higher grade ore, such that pellet production is targeted to increase by 15-20% in 2012.
- The truck fleet was rebuilt, the first rebuild since the trucks were commissioned in 2008.

- The concentrator had major maintenance to the AG mills and a Ball Mill was replaced. A new AG mill is being constructed and will be on site and available in Q3 2012.
- The mine life was extended by four years to 2030, with an on-going exploration drilling program at the Long Plains deposit providing potential to extend the life further.

Operations mined a total of 15.6 million BCM of ore and waste, a great achievement given the technical and scheduling complexities associated with the East Wall remediation and the mining of multiple remnant low grade ore bodies on site.

The concentrator milled 3.5% more tonnes than in any previous year of its 40 year history.

The pellet plant has continued to perform well, and produced 1.98 million tonnes of premium quality blast furnace pellets.

Resources and Reserves – Savage River Mine

The following tables show the Mineral Resources and Ore Reserves for the Savage River operations at the end of June 2011.

Savage River Mineral Resources [1]

	As at June 2011		As at June 2010	
	Tonnes (Mt)	Grade %DTR	Tonnes (Mt)	Grade %DTR
Measured	81.4	54.2	86.4	53.8
Indicated	131.5	53.5	131.9	53.5
Inferred	86.9	48.8	87.8	48.9
Total	**299.8**	**52.3**	**306.1**	**52.3**

Savage River Ore Reserves [1]

	As at June 2011		As at June 2010	
	Tonnes (Mt)	Grade %DTR	Tonnes (Mt)	Grade %DTR
Proved	47.6	51.6	50.6	51.1
Probable	66.3	51.4	67.9	51.3
Total	**113.9**	**51.5**	**118.5**	**51.2**

Mining of ore has been focused on lower grade parts of the resource, after the failure of the East Wall in the North Pit during the previous year. This deferred mining some of the high grade reserves, and with some updates to mine designs, has resulted in an extended schedule for mine life.

Southdown Magnetite Project

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

The Southdown magnetite project, situated 90km from the city of Albany in Western Australia, is a joint venture between Grange and Sojitz Resources & Technology Pty Ltd (Sojitz) (70%:30%). The project has 1.2 billion tonnes of high quality resource, which outcrops at the western end of its 12km strike length. The project is advanced and has access to established infrastructure.

During 2011 the following was progressed on the project:

- In March 2011, AMEC Minproc and GHD completed a +/-20% pre-feasibility study for a 10 Mtpa operation at the Southdown project. In the first quarter of 2012, a +/-15% definitive-feasibility study will be completed.
- An $8.3 million resource and geotechnical drilling program, resulting in increased resources and improved resource confidence.
- Ground water drilling for construction water.
- Detailed mine planning.
- Metallurgical test work and pilot plant testing to finalise the process flow sheet.
- Land access.
- Environmental permitting for the desalination permit.
- Secondary approvals.
- Commercial agreements with the Albany Port Authority and Western Power.
- Port and channel design.
- Tenders for major, long lead time, pieces of equipment.

Resources and Reserves – Southdown

Following the completion of an A$8.3 million drilling program during 2011, the Mineral Resources at the Southdown Magnetite Project increased and confidence was significantly enhanced.

Southdown Mineral Resources (2)

	As at February 2012		As at December 2011	
	Tonnes (Mt)	Grade % DTR	Tonnes (Mt)	Grade % DTR
Measured	423	37.6	407	37.1
Indicated	87.4	38.4	40.2	40.2
Inferred	710.6	31.5	250.8	32.5
Total	**1,221**	**34.1**	**698**	**35.7**

The drilling program was undertaken along the full 12 kilometre strike length of the mineralisation and comprised 85 holes for 22,727 metres of drilling. This program delivered a 75% increase in the mineral resource and provides greater confidence in the longevity of the Southdown Project, well beyond the life envisaged in the feasibility studies, which have been focussed on the Western Tenements.

-ENDS-

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Appendix 1: Comparative Income Statement Analysis

Income Statement	12 months to 31 December 2011 Actual (Audited) $'000	12 months to 31 December 2010 Proforma (Unaudited) $'000
Revenues from mining operations	**410,432**	**311,323**
Cost of sales	(252,243)	(223,266)
Gross profit from mining operations	**158,189**	**88,057**
Administration expenses	(6,278)	(6,345)
Operating profit before other income / (expense)	**151,911**	**81,712**
Other income / (expenses)		
Revaluation of deferred consideration	(189)	(23,627)
Reversal of asset impairment	-	64,619
Other income / (expenses)	3,808	3,856
Operating profit before finance costs	**155,530**	**126,560**
Finance income	11,971	5,910
Finance expenses	(9,392)	(9,559)
Profit before tax	**158,109**	122,911
Income tax benefit / (expense)	58,458	(45,457)
Profit for the year	**216,567**	**77,454**

Revenues from mining operations:
Sales of iron ore pellets for the year ended 31 December 2011 were 1.7 million tonnes (2010: 2.3 million tonnes) at an average realised pellet price of A$206.02 per tonne (2010: A$127.68 per tonne). Revenues also include $52.1 million associated with sales made under interim pricing arrangements in 2010.

Cost of sales:
Increase in mining costs as a result of the remediation of the East Wall ($19.5 million), diesel unit prices ($3.5 million) and maintenance activities ($13.2 million) principally as a result of rebuilding 13 x 789C dump trucks. These additional costs increased the unit cost of BCM movements from $5.37 per BCM in 2010 to $8.33 per BCM in 2011. Unit costs were also impacted by a 18% reduction in the weight recovery (42.9% weight recovery in 2010 to 36.4% weight recovery in 2011) which required the concentrator to mill more tonnes whilst

yielding 270k tonnes less concentrate (2.29 million tonnes of concentrate produced in 2010 to 2.02 million tonnes of concentrate produced in 2011)

Revaluation of deferred consideration:
Non-cash revaluation of the Grange Group's deferred consideration obligation which is determined based on a number of assumptions including forward iron ore prices and foreign exchange rates. During 2011, there were modest movements to forward iron ore prices and foreign exchange rates resulting in a revaluation of approximately $189,000.

Reversal of asset impairment:
Non-cash, non-recurring asset impairment reversal of $64.6 million recognised in 2010 following a positive change in estimates used to determine the recoverable amount of assets associated with the Group's operations in Tasmania.

Finance income:
Increase in finance income arising from net foreign exchange gains on USD denominated cash and term deposits of $8.4 million for the year ended 31 December 2011 (2010: $2.9 million).

Income tax expense:
Recognition of a $107.1 million benefit as a result of a merger of the Grange Group's multiple tax consolidated groups on 6 January 2011. This merger benefit is non-cash and will be realised over the remaining life of the Group's operations in Tasmania.

Appendix 2: Mineral Resources and Ore Reserves – Qualifying Statements and Competent Persons Statements

(1) *Qualifying Statement for Savage River*

The resource estimate for the first lens was classified in accordance with the guidelines provided in the JORC Code, 2004. The classification of Mineral Resources was considered appropriate on the basis of drill hole spacing, sample interval, geological interpretation and representativeness of assay data and was based on a number of factors:

- *The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves. The Inferred Mineral Resources are, by definition, additional to the Ore Reserves.*
- *The estimation was constrained within the interpreted geological domain.*
- *The Ordinary Kriging and Inverse Distance interpolation methods were carried out on drilling data composited to 2m*
- *Oxidised material was not included in this statement of Mineral Resources*
- *Tonnages were estimated on a dry basis.*
- *Bulk density for samples taken from diamond drill core has been physically determined by the weight-in-air/weight-in-water method. Samples are unsealed during this process as most material is competent and/or of low porosity.*
- *A lower cut-off grade of 15% DTR was used in the calculation of both the Mineral Resources and Ore Reserves.*
- *The Ore Reserve was calculated using a 1.087 dilution factor and a mining recovery factor of 0.939. These factors are based on periodic reconciliation specific to mining areas.*

The survey surface used for reporting North Pit was the end-of-month June 2011 surface.

(2) *Qualifying Statement for Southdown*

Information on the Mineral Resource estimate for Southdown can be obtained from the ASX release dated 16th February 2012.

Competent person statement:

The information in this release that relates to Exploration Results, Mineral Resources or Ore Reserves in relation to the Savage River Project is based on information compiled by Mr Ben Maynard, who is a Member of The Australasian Institute of Mining and is a full time employee of Grange Resources Limited. Mr Maynard has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Maynard consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

The information in this report which relates to the Mineral Resources of the Southdown Project is based on information compiled by Michael Everitt who is a full-time employee of Grange Resources Limited and a Member of the Australasian Institute of Mining and Metallurgy. Michael Everitt 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). Michael Everitt consents to the inclusion of this information in this statement of Mineral Resources in the form and context in which it appears.