

GRANGE RESOURCES LIMITED

ACN 009 132 405

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY STATEMENT

and

PROXY FORM

Date of Meeting: Tuesday 25 May 2021

Time of Meeting: 9.00 am (AEST)

Place of Meeting: Braddon Hall, Burnie Arts & Function Centre
77-79 Wilmot Street
Burnie, Tasmania

This Notice of Annual General Meeting, accompanying Explanatory Memorandum and Proxy Form should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting. Should you wish to discuss any matters referred to in this document, please contact the Company Secretary by telephone on +61 409 374 893.

Independent Expert's Report

Shareholders should carefully consider the Independent Expert's Report set out in Annexure A prepared by Lonergan Edwards & Associates for the purpose of Shareholder approval required under ASX Listing Rule 10.1 for Resolution 3. The Independent Expert's Report comments on the fairness and reasonableness of the entry into a proposed new offtake agreement with Shagang. **The Independent Expert has determined that the entry into the Offtake Agreement under Resolution 3 is fair and reasonable to Shareholders who are not associated with Shagang.**

GRANGE RESOURCES LIMITED

ACN 009 132 405

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Grange Resources Limited (**Grange** or **Company**) will be held at Braddon Hall, Burnie Arts & Function Centre, 77-79 Wilmot Street, Burnie, Tasmania at 9.00 am (AEST) on Tuesday 25 May 2021 for the purposes of transacting the following business.

The Explanatory Memorandum that accompanies and forms part of this Notice of Annual General Meeting describes the various matters to be considered at the Meeting.

The Directors have determined pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Friday 21 May 2021 at 19.00pm (AEST).

Terms used in this Notice of Annual General Meeting will, unless the context otherwise requires, have the same meaning given to them in the glossary as contained in the Explanatory Memorandum.

AGENDA

Item 1 – Financial Statements and Reports

To receive and consider the financial report, the Directors' Report and the Auditor's Report of the Company and its controlled entities for the year ended 31 December 2020.

Item 2 – Resolution 1 – Adoption of Remuneration Report

To consider, and if thought fit, pass, or without amendment, the following resolution as an **advisory ordinary resolution**:

"That the Remuneration Report of the Company for the year ended 31 December 2020 be adopted."

Note: If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive Annual General Meetings, Shareholders will be required to vote at the second of those Annual General Meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director and CEO) must go up for re-election.

Voting Exclusion: In accordance with the Corporations Act 2001 (Cth), the Company will disregard any votes cast on Resolution 1 (in any capacity) by or on behalf of either of the following persons:

- a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report; and
- Closely Related Parties of such members, (collectively referred to as a "Prohibited Voter").

However, the Company will not disregard a vote if the vote is not cast on behalf of a Prohibited Voter and either:

- the Prohibited Voter is appointed as proxy by writing that specifies the way the proxy is to vote on Resolution 1; or
- the Prohibited Voter is the chair of the meeting and the appointment of the chair as proxy:
 - does not specify the way the proxy is to vote on Resolution 1; and
 - expressly authorises the chair to exercise the proxy even though Resolution 1 is connected with the remuneration of a member of the Key Management Personnel for the Company.

If you do not direct the person chairing the meeting how to vote and you are not a Prohibited Voter, but you mark the box on, and submit, the Proxy Form, you authorise the person chairing the meeting to exercise the proxy even though Resolution 1 is connected directly or indirectly with the remuneration of a Key Management Personnel, and you will be taken to have directed the person chairing the meeting to vote in accordance with his stated intention to vote in favour of Resolution 1. If you do not want your vote exercised in favour of this resolution you should direct the person chairing the meeting to vote 'against', or abstain from voting on, Resolution 1. The Company encourages all Shareholders who submit proxies to direct their proxy how to vote on each resolution.

Item 3 – Resolution 2 – Re-election of Dr Michelle Li as Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 14.5, article 10.3 of the Constitution and for all other purposes, Dr Michelle Li, who retires by rotation, and, being eligible and offering herself for re-election, be re-elected as a Director."

Item 4 – Resolution 3 – Approval of Offtake Agreement

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, the entry by the Company's wholly owned subsidiary, Grange Resources (Tasmania) Pty Limited, into an offtake agreement with Shagang (details of which are set out in the Explanatory Memorandum accompanying this Notice of Meeting) is approved under and for the purposes of ASX Listing Rule 10.1 and for all other purposes."

Voting Exclusion: In accordance with the ASX Listing Rules, the Company will disregard any votes cast in favour of Resolution 3 by or on behalf of:

- Shagang and any other person who will obtain a material benefit as a result of the transaction (except a benefit solely by reason of being a holding of ordinary securities in the Company; or
- an associate of that person or those persons.

However, this does not apply to a vote cast in favour of Resolution 3 by:

- a person as proxy or attorney for a person who is entitled to vote on Resolution 3, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on Resolution 3, in accordance with a direction given to the chair to vote on Resolution 3 as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Resolution 3; and
 - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report set out at Annexure A of the Explanatory Memorandum prepared by Loneragan Edwards & Associates for the purpose of Shareholder approval required under ASX Listing Rule 10.1 for Resolution 3. The Independent Expert's Report comments on the fairness and reasonableness of Grange Resources Tasmania's entry into the Offtake Agreement. The Independent Expert has determined that entry into the Offtake Agreement under Resolution 3 is fair and reasonable to Shareholders who are not associated with Shagang.

DATED 23rd DAY OF APRIL 2021

BY ORDER OF THE BOARD

**PIERS LEWIS
COMPANY SECRETARY**

Proxy Instructions

Shareholders are entitled to appoint up to two individuals to act as proxies to attend and vote on their behalf. Where more than one proxy is appointed each proxy may be appointed to represent a specific proportion of the Shareholder's voting rights. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be completed and posted to Advanced Share Registry Limited, PO Box 1156 Nedlands WA 6909. Alternatively you can fax your form to +61 8 9262 3723 not less than 48 hours before the time for holding the Meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

The proxy form must be signed by the Shareholder or his/her attorney duly authorised in writing or, if the Shareholder is a corporation, in a manner permitted by the Corporations Act. The proxy may, but need not, be a Shareholder of the Company.

In the case of Shares jointly held by two or more persons, all joint holders must sign the proxy form.

A proxy form is attached to this Notice of Annual General Meeting.

Corporate Representative

A corporation may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case the Company will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act.

The certificate of appointment must be lodged with the Company and / or the Company's share registry, Advanced Share Registry Limited, before the Meeting or at the registration desk on the day of the Meeting.

Online voting is available by accessing the Advanced Share Registry website and logging in using your HIN/SRN and your Postcode/Country at <https://www.advancedshare.com.au/Investor-Login>. Then click on Online Proxy Voting, and follow the prompts.

Certificates of appointment of corporate representative are available at <https://www.advancedshare.com.au/Investor-Login> or on request by contacting Advanced Share Registry on telephone number on +61 8 9389 8033.

GRANGE RESOURCES LIMITED

ACN 009 132 405

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders of Grange Resources Limited (**Grange** or **Company**) in connection with the business to be conducted at the Meeting to be held at the Braddon Hall, Burnie Arts & Function Centre, 77-79 Wilmot Street, Burnie Tasmania at 9.00am (AEST) on Tuesday 25 May 2021.

The purpose of this Explanatory Memorandum is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the resolutions accompanying the Notice of Annual General Meeting.

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Annual General Meeting.

1. Financial Statements and Reports

The Corporations Act requires the financial report, directors' report and auditor's report to be laid before the Company's Annual General Meeting. There is no requirement in either the Corporations Act or the Constitution for Shareholders to vote on, approve or adopt these reports.

Shareholders will be offered the following opportunities:

- (a) to discuss these reports and ask questions or make comment on these reports and on the business, operations and management of the Company; and
- (b) to ask the auditor questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in relation to the preparation of the financial statements, and the independence of the auditor in relation to the conduct of the audit.

In addition to taking questions at the Annual General Meeting, written questions to the Chairperson of the Annual General Meeting, or to the Company's auditor on the above matters may be submitted no later than five business days before the Annual General Meeting to the Company Secretary at the Company's registered office.

2. Resolution 1 – Adoption of Remuneration Report

The Annual Report for the year ended 31 December 2020 contains the Remuneration Report which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for the key management personnel and each director. A copy of the report is set out on pages 32 to 39 of the Company's Annual Report, which is on the Company's website at www.grangeresources.com.au.

Section 250R(2) of the Corporations Act requires that a resolution to adopt the Remuneration Report be put to shareholders at the Annual General Meeting. Whilst there is a requirement for a formal resolution, the resolution is advisory only and does not bind the Company or its directors. However, the Board will take the outcome of the vote into consideration when considering remuneration policy and practices.

Sections 250U to 250Y of the Corporations Act (among others) give shareholders the opportunity to spill a company's board of directors ("Board spill") if the resolution to approve a company's remuneration report receives "no" votes of 25% or more at two successive Annual General Meetings.

Specifically a 25% or higher "no" vote on the remuneration report resolution at an Annual General Meeting triggers a reporting obligation on a listed company to explain in its next Annual Report how shareholders' concerns are being addressed. If a 25% or higher "no" vote on the subsequent remuneration report occurs at the next Annual General Meeting, a resolution must be put to shareholders (a "spill resolution") that another general meeting be convened to consider the election of certain directors (the "spill meeting"). If the spill resolution is carried by an ordinary majority, the spill meeting must be held within 90 days and all directors that were directors when the 25% "no" vote was passed will cease to hold office immediately before the spill meeting (except for any managing director) and the general meeting will vote on whether those directors should be re-elected.

The Chairperson of the Annual General Meeting will allow a reasonable opportunity for Shareholders to ask questions or make comments on the Remuneration Report.

Directors' Recommendation

The Board recommends that Shareholders vote in favour of Resolution 1.

The Corporations Act prohibits certain persons from voting on this item of business. A voting exclusion statement is set out in the Notice. The Company encourages all Shareholders who submit proxies to direct their proxy how to vote on Resolution 1.

3. Resolution 2 – Re-election of Dr Michelle Li as a Director

Dr Li is required to resign under the Director rotation provisions of article 10.3 of the Constitution. Under these provisions one third of the Directors retire from office at each Annual General Meeting. The retiring Director however, if eligible, may offer herself for re-election.

ASX Listing Rule 14.5 requires an entity which has directors to hold an election of directors at each general meeting.

Therefore, in accordance with the Constitution and ASX Listing Rule 14.5, Dr Li retires and, being eligible, offers herself for re-election.

Dr Li was appointed as non-executive Chairperson on 29 October 2013. Dr Li is a mineral processing engineer and metallurgist with over 20 years' experience in the Australian mining sector. Dr Li's experience includes senior roles at CITIC Pacific, Rio Tinto and Iluka Resources, as well as a senior project role on the Grange Resources Southdown project.

Dr Li has a PhD from the University of Queensland and is currently Non-executive Director of Ardiden Limited and was previously a non-executive Director of Orion Metals Limited and Sherwin Iron Limited.

Directors' Recommendation

The Board, other than Dr Li, recommends that Shareholders vote in favour of Resolution 2.

4. Resolution 3 – Approval of Offtake Agreement

4.1 Background

The Company's wholly owned subsidiary, Grange Resources (Tasmania) Pty Ltd ACN 073 634 581 (previously Goldamere Pty Ltd) ("**Grange Resources Tasmania**"), is party to offtake agreements dated 24 September 2008 with Jiangsu Shagang International Trading Co. Ltd for the sale and purchase of iron ore pellets and iron ore chip, which were previously approved by Shareholders. The offtake agreements with Jiangsu Shagang International Trading Co. Ltd will expire in 2022. Accordingly, the Company has negotiated new long term offtake terms with Shagang that is proposed, subject to Shareholder approval, to come into effect on 1 April 2022.

As a result of those negotiations, Grange Resources Tasmania, is proposing to enter into an offtake agreement with Shagang, under which Grange Resources Tasmania agrees to sell, and

Shagang agrees to buy, Savage River iron ore pellet produced at Grange Resources Tasmania's pellet plant in Tasmania (the "**Offtake Agreement**"). A summary of the material terms of the Offtake Agreement is set out in Schedule 1.

The proposed offtake agreement with Shagang provides long term certainty of sale to approximately 40% of the annual production of iron ore pellets, which will be beneficial to Grange shareholders in circumstances when adverse market conditions prevail. It provides significant value in underpinning the Company's life-of-mine plan and certainty over a significant portion of the operations' future cash flow. Shagang is a major participant in the steel manufacturing sector and through the current offtake arrangements have proven to be a valuable and reliable purchaser of the Company's iron ore pellets.

The terms of the Offtake Agreement have been negotiated on an arm's length basis, are based on industry standard benchmarks and approved by the independent Directors of the Company.

4.2 Reasons for Shareholder approval

ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that a listed company and its child entities must not acquire or agree to acquire a substantial asset from, or dispose of a substantial asset to:

- 10.1.1 a related party;
- 10.1.2 a child entity;
- 10.1.3 a person who is, or was at any time in the six months before the transaction, a substantial (10%+) holder in the company ;
- 10.1.4 an associate of a person referred to in ASX Listing Rules 10.1.1 to 10.1.3; or
- 10.1.5 a person whose relationship with the company or a person referred to in ASX Listing Rules 10.1.1 to 10.1.4 is such that, in ASX's opinion, the issue or agreement should be approved by shareholders,

unless it obtains the approval of its shareholders.

Child entity

Grange Resources Tasmania is a wholly owned subsidiary of the Company and falls within the scope of ASX Listing Rule 10.1 as a child entity of the Company.

Substantial holder

Shagang is an entity to which ASX Listing Rule 10.1.3 applies as it holds an interest in the Company's total issued share capital of 47.9% as at 9 March 2021.

Disposal

Under ASX Guidance Note 24, an offtake agreement entered into by a company as seller to sell a certain amount or percentage of its future mineral production to a party that falls within ASX Listing Rules 10.1.1 – 10.1.5 as a buyer is a disposal of the minerals by the company for the purposes of ASX Listing Rule 10.1.

Substantial asset

Under ASX Listing Rule 10.2, an asset is substantial if its value or the value of the consideration being paid or received by the company for it is 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.

Based on the Company's statutory accounts for the year ended 31 December 2020, the Company's equity interests are \$712.1 million. Accordingly, an asset will be substantial for the purposes of ASX Listing Rule 10.2 if it is valued at \$35.6 million or more. To determine the value of

the minerals being sold pursuant to an offtake agreement, ASX Guidance Note 24 states that ASX will typically look at the total purchase price payable under the agreement over its term (including an option to renew). As noted in paragraphs 5 and 30 of the Independent Expert's Report, the value of the iron ore pellets over the term of the Offtake Agreement is more than 5% of the Company's equity interests.

As such, the Offtake Agreement involves the disposal of a substantial asset. It therefore requires the approval of the Company's Shareholders under ASX Listing Rule 10.1.

Shareholder approval

Resolution 3 seeks the required Shareholder approval of the Offtake Agreement under and for the purposes of ASX Listing Rule 10.1.

If Resolution 3 is passed, Grange Resources Tasmania will be able to enter into the Offtake Agreement.

If Resolution 3 is not passed, Grange Resources Tasmania will not be able to enter into the Offtake Agreement unless Shareholder approval or a waiver from ASX Listing Rule 10.1 is obtained at a future date. In these circumstances, the Company will need to seek alternative offtake partners. There is no guarantee such partners will be forthcoming and if so on what terms. Shareholders should note that if further offtake partners can be found, the terms agreed with those partners may be less favourable to the Company than the terms under the Offtake Agreement.

4.3 Advantages and disadvantages of the Offtake Agreement

The Directors consider that the key advantages of Grange Resources Tasmania's entry into the Offtake Agreement are as follows.

(a) Long term certainty of sale

The proposed offtake agreement provides long term certainty of sale as regards to the approximately 40% of the annual production of iron ore pellets, which will be beneficial to Grange shareholders in circumstances when adverse market conditions prevail.

(b) Underpins the Grange's life-of-mine plan

The certainty of sale also provides management with greater flexibility in and confidence in proceeding with future life-of-mine plans, including significant amendments to or extensions thereof.

(c) Pricing by reference to global market indices

The proposed pricing by reference to global market indices (together with the pricing review mechanism) should ensure Grange receives a price for the sale of iron ore pellets over the long term commensurate with then prevailing market prices.

(d) Low counter-party risk

Shagang is a major participant in the steel manufacturing sector and through the current offtake arrangements have proven to be a valuable and reliable purchaser of the Grange's iron ore pellets.

The Directors consider that the key disadvantages of the Offtake Agreement are as follows.

(a) Limits the potential to diversify customer base

The commitment of a significant percentage of annual production to Shagang limits the extent to which Grange can potentially diversify its customer base.

(b) Certain terms are less favourable

Certain aspects of the proposed new offtake agreement, such as the price penalties being higher, provide Grange with less favourable terms than it has been able to negotiate with other spot and short-term offtake agreement customers. However, the Company regard these differences as reflective of the specific negotiated circumstances, where favourable terms obtained from a particular customer are not always able to be obtained from all customers.

Shareholders should also carefully consider the Independent Expert's Report set out at Annexure A. A summary of the Independent Expert's conclusion is set out at section 4.5 below.

4.4 Technical Information required by ASX Listing Rule 10.5

The following information is provided under and for the purposes of ASX Listing Rule 10.5.

(a) **Entity to whom the Company is disposing of the substantial asset**

The Company's wholly owned subsidiary, Grange Resources Tasmania, is proposing to enter into the Offtake Agreement with Shagang and the substantial assets will be disposed to them.

(b) **Relationship with the Company**

Shagang falls within ASX Listing Rule 10.1.3, being a person who is, or was at any time in the six months before the date of entry into the Offtake Agreement a substantial (10%) holder in the Company.

As at 7 March 2021, Shagang holds 47.9% of the total issued share capital of the Company. Accordingly, Shagang is a substantial holder in the Company.

(c) **Details of asset**

Pursuant to the Offtake Agreement, Shagang will purchase one million dry metric tonnes of Savage River iron ore pellets produced at Grange Resources Tasmania's pellet plant in Tasmania per annum.

(d) **Consideration**

The Company estimates that the consideration to be received under the Offtake Agreement is likely be US\$1.16 billion which equates to an average price of US\$116 per dry metric tonne for all iron ore pellets supplied under the Offtake Agreement.

The consideration estimate is based on the following assumptions:

- 1 million dry metric tonnes of pellet sales to Shagang per annum;
- 10 years; and
- Average price of US\$116 per dry metric tonne.

The Company notes however that the overall consideration to be received under the Offtake Agreement is a function of a number of variables that are currently unable to be quantified including:

- Actual prevailing price of the indices at the time of sale; and
- Price adjustments, if any, due to actual iron ore pellet specifications;

The final price per dry metric tonne under the Offtake Agreement is calculated pursuant to a formula based on the average of:

- the Metal Bulletin 65% Fe Iron Ore Pellet CFR Qingdao weekly index (as published by Metal Bulletin); and

- the average of the Platts 65% Fe CFR North China (as published in the Platts SBB Steel Markets Daily), plus the average of the Weekly CFR China 65% Fe spot assessment pellet premium (as published in the Platts SBB Steel Markets Daily).

Shareholders should note that the pricing mechanism under the Offtake Agreement has been negotiated between the parties on arm's length commercial basis and approved by independent Directors.

(e) **Intended use of funds**

Funds received under the Offtake Agreement will be used for operational costs of production, sustaining capital expenditures and capital investments.

(f) **Timetable for completing the disposal**

If Shareholders approve Resolution 3, the parties will enter into the Offtake Agreement as soon as possible after receiving such approval.

The Offtake Agreement is for a term of 10 years from 1 April 2022 to 31 March 2032.

(g) **Summary of material terms of the Offtake Agreement**

A summary of the material terms of the Offtake Agreement is set out in Schedule 1.

(h) **Voting exclusion statement**

A voting exclusion statement has been provided for Resolution 3 in the Notice.

(i) **Independent expert's report**

Under ASX Listing Rule 10.5.10, a notice of meeting seeking shareholder approval for a transaction pursuant to ASX Listing Rule 10.1 must include a report on the transaction from an independent expert. The report must state the expert's opinion as to whether the transaction is fair and reasonable to the holders of the company's ordinary securities whose votes in favour of the transaction are not to be disregarded.

The report from the Independent Expert is set out in Annexure A. **The Independent Expert has concluded that the terms of the Offtake Agreement are fair and reasonable to Shareholders who are not associated with Shagang.** A summary of the Independent Expert's conclusion is set out at section 4.5 below.

The Independent Expert's Report can be viewed on the Company's website at www.grangeresources.com.au. Shareholders may also request a hard copy of the Independent Expert's Report from the Company, at no cost to the Shareholder. Please contact Piers Lewis at piers.lewis@grangeresources.com.au if you wish to request a hard copy of the Independent Expert's Report.

4.5 **Summary of the Independent Expert's conclusion**

The Independent Expert has concluded that:

(a) **the Offtake Agreement is fair on the basis that:**

- the prices to be received by Grange from the sale of iron ore pellets to Shagang pursuant to the proposed new offtake agreement would be expected to lie within a range of relevant prices reflective of then prevailing market conditions; and**
- nothing has come to the Independent Expert's attention to suggest that the prices and related terms reflect other than the outcome of an arms-length commercial negotiation between the parties;**

(b) **the Offtake Agreement is reasonable on the basis that:**

- (i) pursuant to RG 111, these proposed arrangements and related agreements are “reasonable” if they are fair. Consequently, in our opinion, the proposed new offtake agreement is also reasonable to the Non-Associated Shareholders.
- (c) there are a number of other factors which arise as a result of the Offtake Agreement that should be considered, being:
- (i) the proposed terms of the new agreement include an annual review of the pricing mechanism, with provision for the price mechanism to be determined by an independent third party in the event Grange and Shagang fail to reach agreement on any proposed change. In such circumstances, it is reasonable to expect that an independent third party would make an appropriate adjustment to the proposed price mechanism to reduce the weighting and/or ignore any index that prima facie no longer reflected generally accepted market conditions.

4.6 Directors' Recommendation

The Board recommends that Shareholders vote in favour of Resolution 3. Mr Honglin Zhao and Ms Yan Jia are ineligible to provide a recommendation due to not being independent Director's.

The Corporations Act prohibits certain persons from voting on this item of business. A voting exclusion statement is set out in the Notice. The Company encourages all Shareholders who are eligible to vote on Resolution 3 to and who submit proxies to direct their proxy how to vote on Resolution 3.

Glossary

The following terms and abbreviations used in the Notice of Annual General Meeting and this Explanatory Memorandum have the following meanings:

\$	means Australian Dollars.
AEST	means Australian Eastern Standard time.
Board	means the Board of Directors from time to time.
Closely Related Party	has the meaning given to it in section 9 of the Corporations Act.
Constitution	means the constitution of the Company as amended from time to time.
Company or Grange	means Grange Resources Limited ACN 009 132 405.
Corporations Act	means the Corporations Act 2001 (Cth).
Director	means a Director of the Company from time to time.
Explanatory Memorandum	means this explanatory memorandum.
Grange Resources Tasmania	means Grange Resources (Tasmania) Pty Limited (ACN 073 634 581).
Independent Expert	means Lonergan Edwards & Associates.
Independent Expert's Report	means the report by Lonergan Edwards & Associates included as Annexure A to this Explanatory Memorandum.
Key Management Personnel	means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director of the Company.
Meeting and Annual General Meeting	means the annual general meeting of Shareholders convened by this Notice of Annual General Meeting.
Notice and Notice of Annual General Meeting	means the notice of annual general meeting which accompanies this Explanatory Memorandum.
Offtake Agreement	means the offtake agreement to be entered into between Shagang and Grange Resources Tasmania under which Grange Resources Tasmania agrees to sell and Shagang agrees to buy iron ore pellets produced at Grange Resources Tasmania's pellet plant in Tasmania, the material terms of which are set out in Schedule 1.
Resolution	means a resolution contained in the Notice.
Shagang	means Shagang International (Singapore) Pte Ltd.
Share	means a fully paid ordinary share in the capital of the Company.
Shareholder	means a holder of a Share.

Schedule 1 – Material Terms of the Offtake Agreement

A summary of the material terms of the offtake agreement proposed to be entered into between Grange Resources Tasmania and Shagang is set out below.

1.1 Product

Grange Resources Tasmania will sell, and Shagang will buy, Savage River iron ore pellet produced at Grange Resources Tasmania's pellet plant in Tasmania, which meets the product specifications set out in the Offtake Agreement.

1.2 Quantity

Each year during the term of the Offtake Agreement, Grange Resources Tasmania must sell, and Shagang must buy, 1,000,000 dry metric tonnes of iron ore pellets (plus or minus 10% at Grange's option). Shagang does not have an option to buy additional quantities.

1.3 Term

Shipments under the Offtake Agreement will be delivered for the period beginning on 1 April 2022 and ending at midnight on 31 March 2032 and the Offtake Agreement will apply to such shipments until such time as the parties have fully satisfied their obligations under the Offtake Agreement or the Offtake Agreement is terminated in accordance with its terms (including if Grange Resources Tasmania permanently or indefinitely ceases mining at Savage River).

1.4 Pricing

[The final price per dry metric tonne under the Offtake Agreement is calculated pursuant to a formula based on the average of:

- (a) the Metal Bulletin 65% Fe Iron Ore Pellet CFR Qingdao weekly index (as published by Metal Bulletin); and
- (b) the average of the Platts 65% FE CFR North China (as published in the Platts SBB Steel Markets Daily), plus the average of the Weekly CFR China 65% Fe spot assessment pellet premium (as published in the Platts SBB Steel Markets Daily).

The price of iron ore pellets is to be reviewed:

- (a) annually, at least 90 days prior to the commencement of a contract year; or
- (b) if Grange Resources Tasmania determines, acting reasonably, that based on prevailing market conditions, the price formula is no longer a fair and reasonable mechanism for determining the price of iron ore pellets sold under the Offtake Agreement.

If a shipment of iron ore pellets does not comply with the specifications required under the Offtake Agreement, the price per dry metric tonne of iron pellets will be adjusted for the relevant physical or chemical component that was not compliant.

1.5 Payment

By Documents against Payment (DP) as consistent with existing payment term under the current long term offtake contract.

1.6 Vessels

Grange Resources Tasmania is responsible for the costs of chartering any vessels for shipments of iron ore pellets under the Offtake Agreement.

1.7

Termination

The Offtake Agreement contains termination events that are standard to contracts of this nature, including termination for a material breach of the Offtake Agreement, a persisting force majeure event and a party being affected by an insolvency event.



ONLINE PROXY APPOINTMENT

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Lodge your proxy by scanning the QR code below, and enter your registered postcode.

It is a fast, convenient and a secure way to lodge your vote.

2021 ANNUAL GENERAL MEETING PROXY FORM

I/We being shareholder(s) of Grange Resources Limited and entitled to attend and vote hereby:

APPOINT A PROXY

The Chairperson
of the Meeting

OR



PLEASE NOTE: If you leave the section blank, the Chairperson of the Meeting will be your proxy.

or failing the individual(s) or body corporate(s) named, or if no individual(s) or body corporate(s) named, the Chairperson of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf, including to vote in accordance with the following directions (or, if no directions have been given, and to the extent permitted by law, as the proxy sees fit), at the Annual General Meeting of the Company to be held at **Braddon Hall, Burnie Arts & Function Centre, 77-79 Wilmot Street, Burnie, Tasmania on 25 May 2021 at 9.00 am (AEST)** and at any adjournment or postponement of that Meeting.

Chairperson's voting intentions in relation to undirected proxies: The Chairperson intends to vote all undirected proxies in favour of all Resolutions. In exceptional circumstances, the Chairperson may change his/her voting intentions on any Resolution. In the event this occurs, an ASX announcement will be made immediately disclosing the reasons for the change.

Chairperson authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairperson of the Meeting as my/our proxy (or the Chairperson becomes my/our proxy by default), I/we expressly authorise the Chairperson to exercise my/our proxy on Resolution 1 (except where I/we have indicated a different voting intention below) even though this resolution is connected directly or indirectly with the remuneration of a member(s) of key management personnel, which includes the Chairperson.

VOTING DIRECTIONS

Resolutions

1 Adoption of Remuneration Report

For Against Abstain*

☐ ☐ ☐

2 Re-election of Dr Michelle Li as Director

☐ ☐ ☐

3 Approval of Offtake Agreement

☐ ☐ ☐

* If you mark the Abstain box for a particular Resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, all the shareholder should sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the Corporations Act 2001 (Cth).

Email Address

☐

Please tick here to agree to receive communications sent by the Company via email. This may include meeting notifications, dividend remittance, and selected announcements.

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

CHANGE OF ADDRESS

This form shows your address as it appears on Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes.

APPOINTMENT OF A PROXY

If you wish to appoint the Chairperson as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairperson, please write that person's name in the box in Step 1. A proxy need not be a shareholder of the Company. A proxy may be an individual or a body corporate.

DEFAULT TO THE CHAIRPERSON OF THE MEETING

If you leave Step 1 blank, or if your appointed proxy does not attend the Meeting, then the proxy appointment will automatically default to the Chairperson of the Meeting.

VOTING DIRECTIONS – PROXY APPOINTMENT

You may direct your proxy on how to vote by placing a mark in one of the boxes opposite each resolution of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given resolution, your proxy may vote as they choose to the extent they are permitted by law. If you mark more than one box on a resolution, your vote on that resolution will be invalid.

PROXY VOTING BY KEY MANAGEMENT PERSONNEL

If you wish to appoint a Director (other than the Chairperson) or other member of the Company's key management personnel, or their closely related parties, as your proxy, you must specify how they should vote on Resolution 1, by marking the appropriate box. If you do not, your proxy will not be able to exercise your vote for Resolution 1.

PLEASE NOTE: If you appoint the Chairperson as your proxy (or if they are appointed by default) but do not direct them how to vote on a resolution (that is, you do not complete any of the boxes "For", "Against" or "Abstain" opposite that resolution), the Chairperson may vote as they see fit on that resolution.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning Advanced Share Registry Limited or you may copy this form and return them both together.

To appoint a second proxy you must:

- On each Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- Return both forms together.

COMPLIANCE WITH LISTING RULE 14.11

In accordance with Listing Rule 14.11, if you hold shares on behalf of another person(s) or entity/entities or you are a trustee, nominee, custodian or other fiduciary holder of the shares, you are required to ensure that the person(s) or entity/entities for which you hold the shares are not excluded from voting on resolutions where there is a voting exclusion. Listing Rule 14.11 requires you to receive written confirmation from the person or entity providing the voting instruction to you and you must vote in accordance with the instruction provided.

By lodging your proxy votes, you confirm to the company you are in compliance with Listing Rule 14.11.

CORPORATE REPRESENTATIVES

If a representative of a nominated corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A Corporate Representative Form may be obtained from Advanced Share Registry.

SIGNING INSTRUCTIONS ON THE PROXY FORM

Individual:

Where the holding is in one name, the security holder must sign.

Joint Holding:

Where the holding is in more than one name, all of the security holders should sign.

Power of Attorney:

If you have not already lodged the Power of Attorney with Advanced Share Registry, please attach the original or a certified photocopy of the Power of Attorney to this form when you return it.

Companies:

Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

LODGE YOUR PROXY FORM

This Proxy Form (and any power of attorney under which it is signed) must be received at an address given below by 9.00 am (AEST) on 23 May 2021, being not later than 48 hours before the commencement of the Meeting. Proxy Forms received after that time will not be valid for the scheduled Meeting.



ONLINE PROXY APPOINTMENT

www.advancedshare.com.au/investor-login



BY MAIL

Advanced Share Registry Limited
110 Stirling Hwy, Nedlands WA 6009; or
PO Box 1156, Nedlands WA 6909



BY FAX

+61 8 6370 4203



BY EMAIL

admin@advancedshare.com.au



IN PERSON

Advanced Share Registry Limited
110 Stirling Hwy, Nedlands WA 6009



ALL ENQUIRIES TO

Telephone: +61 8 9389 8033

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Private and Confidential

The Independent Directors
Grange Resources Limited
34a Alexander Street
Burnie TAS 7320

21 April 2021

Subject: Agreements with Jiangsu Shagang Group

Dear Independent Directors

Introduction

- 1 Grange Resources Limited (Grange or the Company) is an iron ore magnetite producer whose principal activities consist of the ownership and operation of the Savage River integrated iron ore mining and pellet production business located in the north-west region of Tasmania. The Savage River magnetite iron ore mine has been in production for over 50 years and is a long life mining asset with a projected mine life beyond 2035.
- 2 At Port Latta, on the north-west coast of Tasmania, Grange owns a downstream pellet plant and port facility producing more than 2 million tonnes of premium quality iron ore pellets annually. Grange has a combination of spot and contracted sales arrangements in place to deliver its pellets to customers throughout Australia and Asia.
- 3 The largest shareholder in Grange is Jiangsu Shagang Group (Shagang), which is China's largest private steel company. Shagang holds 47.93% of the issued ordinary shares in Grange.
- 4 The Company is party to offtake agreements dated 24 September 2008 with Shagang for the sale and purchase of iron ore pellets and iron ore chip¹, which were previously approved by Grange shareholders². These offtake agreements will expire on 31 March 2022. Accordingly, the Company has negotiated new long term offtake terms with Shagang that are proposed (subject to Grange shareholder approval) to come into effect on 1 April 2022.

¹ Iron ore chip sales to Shagang ceased on 1 April 2015.

² The offtake agreements are between Grange Resources (Tasmania) Pty Ltd (a wholly owned subsidiary of Grange) and Jiangsu Shagang International Trade Co Ltd (a wholly owned subsidiary of Shagang).

Authorised Representatives:

Wayne Lonergan • Craig Edwards* • Hung Chu • Martin Hall • Martin Holt* • Grant Kepler* • Julie Planinic* • Nathan Toscan • Jorge Resende

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

Scope

- 5 Grange is listed on the Australian Securities Exchange (ASX) and is therefore subject to the ASX Listing Rules, in particular the rules that apply to related party transactions. The annual level of sales to Shagang pursuant to the offtake agreements has been at a level that has exceeded the related party threshold in the ASX Listing Rules.
- 6 Accordingly, sales to Shagang pursuant to the offtake agreements (both the existing agreements and the amended terms proposed to apply from 1 April 2022) are considered related party transactions under ASX Listing Rule 10.1, and must be approved by way of an ordinary resolution (at a general meeting) by the shareholders in Grange that are not associated with Shagang (Non-Associated Shareholders).
- 7 As noted above, the arrangements that have been in place since September 2008 were previously approved by Grange shareholders. This report therefore considers the proposed terms to apply from 1 April 2022.
- 8 ASX Listing Rule 10.5 requires the notice of general meeting to include a report from an independent expert stating whether the proposed related party transaction is “fair and reasonable” to the Non-Associated Shareholders.
- 9 Accordingly, the Independent Directors of Grange have requested that Lonergan Edwards & Associates Limited (LEA) prepare an independent expert’s report (IER) stating whether, in LEA’s opinion, the proposed new long term offtake terms are fair and reasonable to the Non-Associated Shareholders and the reasons for that opinion.
- 10 LEA is independent of Grange and Shagang and has no involvement with or interest in the offtake agreements other than the preparation of this report.

Summary of opinion

- 11 LEA has concluded that the proposed new long term offtake terms are fair and reasonable to the Non-Associated Shareholders. We have formed this opinion for the reasons set out below.
- 12 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), a proposed related party transaction:
 - (a) is “fair” if the value of the financial benefit (in this case the sale proceeds) to be received by the entity from the related party is equal to or greater than the value of the asset (in this case iron ore pellets produced by Grange) being sold to the related party. This comparison is required to be made assuming an arm’s length transaction between knowledgeable and willing, but not anxious parties
 - (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote to approve the proposed arrangements.
- 13 In the circumstances of the proposed sales by Grange to Shagang pursuant to the revised offtake agreements we have determined that:

- (a) the prices to be received by Grange from the sale of iron ore pellets to Shagang pursuant to the proposed new offtake agreement would be expected to lie within a range of relevant prices reflective of then prevailing market conditions
- (b) nothing has come to our attention to suggest that the prices and related terms reflect other than the outcome of an arms-length commercial negotiation between the parties.

14 Accordingly, in our opinion, the proposed new offtake agreements are fair to the Non-Associated Shareholders based on the guidelines set out in RG 111.

15 Pursuant to RG 111, these proposed arrangements and related agreements are “reasonable” if they are fair. Consequently, in our opinion, the proposed new offtake agreements are also reasonable to the Non-Associated Shareholders.

Summary of advantages and disadvantages

16 In addition, we summarise below the advantages and disadvantages of the proposed new offtake agreements from the perspective of the Grange Non-Associated Shareholders:

Advantages

- (a) the proposed offtake agreements provide long term certainty of sale as regards to approximately 40% of the annual production of iron ore pellets, which prima facie will be beneficial to Grange shareholders in circumstances when adverse market conditions prevail
- (b) prima facie this certainty of sale also provides management with greater flexibility in and confidence in proceeding with future life of mine plans, including significant amendments to or extensions thereof
- (c) the proposed pricing by reference to current global market indices (together with the pricing review mechanism) should ensure that Grange receives a price for the sale of iron ore pellets over the long term commensurate with then prevailing market prices
- (d) Shagang is a major participant in the steel making sector and is therefore considered by Grange to be a low counter-party risk

Disadvantages

- (a) the commitment of a significant percentage of annual production to Shagang limits the extent to which Grange can potentially diversify its customer base
- (b) certain aspects of the proposed new offtake agreement (such as the price penalties being higher) provide Grange with less favourable terms than it has been able to negotiate with other spot and short term offtake agreement customers. However, we regard these differences as reflective of the specific negotiated circumstances, where favourable terms obtained from a particular customer are not always able to be obtained from all customers.

17 On balance, we consider the advantages inherent in the proposed new offtake agreements to outweigh the disadvantages (from the perspective of Grange Non-Associated Shareholders).

General

- 18 In preparing this report we have considered the interests of Grange Non-Associated Shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 19 The ultimate decision whether to approve the proposed new offtake agreements should be based on each Grange shareholder's assessment of their own circumstances. If Grange shareholders are in doubt about the actions they should take in relation to the proposed new offtake agreements or matters dealt with in this report, Grange shareholders should seek independent professional advice.
- 20 For our full opinion on the proposed new offtake agreements and the reasoning behind our opinion, we recommend that Grange shareholders read the remainder of our report.

Yours faithfully



Jorge Resende
Authorised Representative



Martin Holt
Authorised Representative

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I Background to proposed new offtake agreements

21 In 2008 Grange shareholders approved the following:

- (a) a merger with Australian Bulk Minerals (ABM) pursuant to which Grange effectively acquired the Savage River Project
- (b) the continuation of existing offtake agreements between ABM and Shagang.

22 Shagang was one of the vendors of ABM and as the consideration for the acquisition comprised shares in Grange, Shagang became a major shareholder in Grange on completion of the transaction.

23 Two of the existing offtake agreements with Shagang approved by Grange shareholders (in respect of iron ore pellets sales and iron ore chip sales³) had expiry dates in 2022. We set out below sales information pursuant to these offtake agreements for the years ended 31 December 2017 (CY17) to CY20:

Grange – iron ore pellet sales to Shagang		
Calendar year	Volume (tonnes)	Sales revenue (A\$m)
2017	935,449	118.0
2018	1,014,306	149.4
2019	852,489	131.6
2020	1,012,503	182.1

24 As noted above, in recognition of the approaching expiry of the current agreements, Grange management have negotiated the terms of proposed new offtake agreements to take effect from 1 April 2022. A summary of the key terms of the proposed new agreements is set out below:

- (a) Grange will sell and Shagang will buy Savage River iron ore pellet which meets the required product specifications
- (b) the annual quantity is set at 1.0 million dry metric tonnes of iron ore pellets (plus or minus 10% at Grange's option)
- (c) the agreement covers a ten year period from 1 April 2022 to 31 March 2032
- (d) the final price per dry metric tonne is calculated pursuant to a formula based on the average of the below indices over the Quotation Period:
 - (i) the Metal Bulletin 65% Fe Iron Ore Pellet CFR Qingdao weekly index (as published by Metal Bulletin); and
 - (ii) the Platts 65% Fe CFR North China (as published in the Platts SBB Steel Markets Daily) plus the Weekly CFR China 65% Fe spot assessment pellet premium (as published in the Platts SBB Steel Markets Daily)

³ Iron ore chip sales to Shagang ceased on 1 April 2015.

- (e) the price of iron ore pellets is to be reviewed:
- (i) annually, at least 90 days prior to the commencement of a contract year; or
 - (ii) if either party determines, acting reasonably, that based on prevailing market conditions, the price mechanism is no longer a fair and reasonable mechanism for determining the price of iron ore pellets sold under the agreement
- (f) if a shipment of iron ore pellets does not meet the required specifications, the price per dry metric tonne will be adjusted for the relevant physical or chemical component that was not compliant
- (g) payment is to be immediately upon presentation of original documents by Documents against Payment at the presenting bank
- (h) Grange is responsible for the costs of chartering any vessels for shipments of iron ore pellets under the agreement
- (i) the agreement contains termination events that are standard to contracts of this nature.

25 We have been advised that the agreed proposed new terms are the result of a prolonged period of negotiation between Grange and Shagang, that was carried out between the two parties on an arms-length basis.

26 The key differences between the existing and proposed offtake agreements are as follows:

Comparison of existing and proposed offtake agreements		
	Existing contract	Proposed contract
Quantity	0.6 to 2.4 million dry metric tonnes (DMT) p.a. (most years at 1 million DMT p.a.)	1 million DMT p.a. (plus or minus 10% at Grange's option)
Price	Price based on the Metal Bulletin 65% Fe Iron Ore Pellet CFR Qingdao weekly index (as published by Metal Bulletin)	Price based on the average of the Metal Bulletin 65% Fe Iron Ore Pellet CFR Qingdao weekly index (as published by Metal Bulletin); and Platts 65% Fe CFR North China (as published in the Platts SBB Steel Markets Daily) plus the Weekly CFR China 65% Fe spot assessment pellet premium (as published in the Platts SBB Steel Markets Daily)
Price disagreements	No independent expert to adjudicate	Independent expert to adjudicate
Shipping	Free on board pricing including a freight netback adjustment	Cost and freight pricing (no freight netback required)
Term	2009 to 2022	2023 to 2032
Insurance	Not specified	Buyer must effect for each shipment
Dispute resolution	Administered by the Australian Commercial Disputes Centre	Conciliation followed by binding arbitration in Singapore

27 In addition to the offtake agreements with Shagang, Grange has two other offtake agreements in respect of the sale of iron ore pellets. In CY21 sales under offtake agreements comprised 69% of sales by volume. The balance of iron ore pellet sales comprise sales into the spot market.

II Scope of our report

Purpose

ASX Listing Rules

- 28 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to (amongst others) a related party, or a substantial securityholder⁴, or associates of either without the approval of the holders of the entity's ordinary securities. ASX Guidance Note 24 contains an expansive definition of an "asset", which includes inventory produced by the company. Approval is required by resolution at a general meeting.
- 29 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity as set out in the latest accounts provided to the ASX under the ASX Listing Rules.
- 30 As a result of the annual sales of iron ore pellets exceeding 5% of the book value of the equity in Grange as set out in the financial statements given to the ASX for CY20, and Jiangsu Shagang International Trade Co Ltd being considered a related party of Grange by virtue of the fact that it is a subsidiary of Shagang (the largest shareholder in Grange), the proposed new offtake agreements are considered to be related party transactions under ASX Listing Rule 10.1.
- 31 ASX Listing Rule 10.5.10 requires that the notice of general meeting include a report from an independent expert stating whether the proposed transactions are fair and reasonable to the holders of the entity's ordinary securities whose votes are not to be disregarded.

Our engagement

- 32 Given the above, the Independent Directors of Grange have requested that LEA prepare an IER stating whether the proposed new offtake agreements are fair and reasonable to the Non-Associated Shareholders and the reasons for that opinion.
- 33 This report has been prepared by LEA for the benefit of Grange shareholders to assist them in considering the resolution to approve the proposed new offtake agreements. Our report will accompany the Notice of Meeting to be sent to Grange shareholders. The sole purpose of our report is to determine whether, in our opinion, the proposed new offtake agreements are fair and reasonable to the Non-Associated Shareholders. This report should not be used for any other purpose.
- 34 The ultimate decision whether to approve the proposed new offtake agreements should be based on each Grange shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the proposed new offtake agreements or matters dealt with in this report, Grange shareholders should seek independent professional advice.

⁴ A substantial securityholder is a person that holds a relevant interest in the entity of 10% or more (or has held the same at any time in the last six months).

Basis of assessment

- 35 In preparing our report, we have had regard to the Regulatory Guides issued by ASIC, particularly Regulatory Guide 76 – *Related party transactions* and RG 111, as well as the ASX Listing Rules.
- 36 The ASX Listing Rules do not define the meaning of, or describe the test to be applied in determining whether a related party transaction is “fair and reasonable”. We note however, that RG 111 expressly states that the evaluation of a related party transaction should be based upon a separate assessment of “fairness” and “reasonableness”. RG 111 further states that the transaction should not be assessed simply by reference to the advantages and disadvantages of the transaction (as ASIC does not consider this to provide members with sufficient valuation information).
- 37 Pursuant to RG 111, a related party transaction per ASX Listing Rule 10:
- (a) is “fair” if the value of the financial benefit (in this case the sale proceeds) to be received by the entity from the related party is equal to or greater than the value of the asset (in this case iron ore pellets produced by Grange) being sold to the related party. Importantly, the value of the asset being sold is to be determined based upon market value principles (i.e. assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length, noting that any special value that may be derived by a particular “bidder” should not be taken into account⁵)
 - (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote to approve the proposed arrangements.
- 38 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the proposed new offtake agreements are “fair and reasonable” to the Non-Associated Shareholders is to consider:
- (a) the value of the sale proceeds to be received by Grange from the sale of iron ore pellets to Shagang pursuant to the proposed new offtake agreements
 - (b) the value that would be received by Grange if as an alternative the iron ore pellets were sold to other customers of Grange
 - (c) the extent to which (a) and (b) differ in order to assess whether the proposed new offtake agreements are “fair”
 - (d) the implications for Grange if the proposed new offtake agreements were not in place
 - (e) the net benefits inherent in the proposed new offtake agreements
 - (f) the advantages and disadvantages of the proposed new offtake agreements from the perspective of Grange shareholders not associated with Shagang.

⁵ e.g. synergies that are not available to other bidders.

Limitations and reliance on information

- 39 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time, as has been evident by the significant volatility in equity markets in recent times due to the impact of COVID-19.
- 40 Our report is also based upon financial and other information provided by Grange and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 41 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the proposed new offtake agreements. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 42 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the commercial and financial implications of the transactions, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion.
- 43 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 44 In forming our opinion, we have also assumed that the information set out in the Notice of Meeting is complete, accurate and fairly presented in all material respects.

III Profile of Grange

Overview

- 45 Grange owns and operates one of Australia's largest integrated iron ore mining and pellet production businesses, located in the north-west region of Tasmania. The company mines magnetite ore from its Savage River mine that is concentrated and pumped via an 85 kilometre (km) slurry pipeline to its pellet plant and port facility in Port Latta for drying, pelletising and ship loading. The Company is also a majority owner (70%) of the Southdown Magnetite Project, a major magnetite development project located in Western Australia.

History

- 46 Magnetite mineralisation was discovered at Savage River in 1887 by the Tasmanian Government. Exploration of the prospect was first carried out in 1956, including ground and air magnetometer surveys, with diamond drilling undertaken in 1957 and 1959.
- 47 Savage River Mines Limited, a consortium of Australian, Japanese and American interests, began construction of the magnetite mine and related infrastructure in 1965 under a 30 year lease from the Tasmanian Government. This included building an 85 km slurry pipeline from the mine to the pelletising plant at Port Latta. At the time, the pipeline was the largest project of its type in the world.
- 48 Mining and production commenced in 1966, supplying a consortium of Japanese steel mills. During the lease period annual pellet production reached 2.4 million tonnes per annum (Mtpa). Upon completion in 1997, the lease transferred to the Tasmanian Government. ABM⁶ purchased the Savage River Project that same year. ABM commenced site construction work with an ore conveyor built from the pits to the concentrator facility, eliminating a 3 km up-hill truck haul. The crusher was removed from the plant site and reinstalled at the base of the conveyor system and a run-of-mine stockpile area was established.
- 49 In February 2005, Stemcor Pellets Ltd (Stemcor), a subsidiary of international metals trader Stemcor, purchased 100% of the operation. In August 2007, the operation was sold to Ever Green Resources Limited (Ever Green)⁷, with Stemcor retaining a 10% interest. While ABM was under Stemcor ownership a Mine Life Extension Plan was prepared that proposed to extend production by a further 14 years (post 2007), at a rate of 2.5 Mtpa.
- 50 During 2008, ABM merged with Grange, with the merged entity retaining the Grange name. At the time, Grange was an ASX listed company based in Western Australia, with its primary asset the Southdown Magnetite Project. The Southdown Magnetite Project is a large magnetite resource deposit located 90 km northeast of the port of Albany on the south coast of Western Australia. Grange owns 70% of the project, having sold a 30% interest to a subsidiary of Japanese company Sojitz Corporation during 2007.

⁶ At the time, a wholly owned subsidiary of Ivanhoe Capital Corporation.

⁷ A subsidiary of Shagang.

- 51 As a result of the merger of ABM and Grange, Shagang (through its ownership of Ever Green), obtained a 47% interest in the merged entity. Over the following years, Shagang's interest in Grange has increased to almost 48%.
- 52 At present, the Savage River mine has a projected mine life beyond 2035, with flexibility as regards mine development options including:
- (a) continued mining at the North Pit, including mine development with the west wall cut back
 - (b) pre-stripping of waste material from the Centre Pit in preparation for ore supply in 2022. The environmental impact statement for the ultimate design has been prepared and the approval process is underway
 - (c) potential underground mining at the North Pit following the establishment of an exploration decline and associated bulk sample drive. This information will be used for the underground prefeasibility study, which will be completed in the first half of 2021. The results of this study will feed into an overall enterprise optimisation to deliver an updated Life of Mine Plan.

Savage River

- 53 The Savage River mine and concentrator plant are located in north-west Tasmania, approximately 100 km south west from Burnie by road. The terrain is rugged and mountainous and covered with dense rainforest. The pelletising plant and dedicated port facilities at Port Latta are located 70 km north-west of Burnie.
- 54 The mine comprises three principal open pits, the North and Central Pits as well as the South Deposit. An exploration license is also held over Long Plains, another magnetite mineralisation that lies south of the current mine. The mine and concentrating plant are both located in the Savage River valley, with the Savage River flowing through the mine site. A map of mine operations is as follows:

Grange – map of Savage River operations



Port Latta

- 55 Significant investment has been made in process improvements at Port Latta. A complete plant shutdown was undertaken in November 2020 to allow for the installation, commissioning of a new steel pan conveyor. The German-engineered conveyor system is 110-metres long and carries hot pellets from the furnaces out of the plant for stockpiling, which allows the pellets to cool more slowly and improves their strength.
- 56 Grange is also in the process of undertaking a restoration of furnace number four. A revised design for the current furnace configuration has been developed and detailed engineering designs are in progress. The implementation of the new design is planned for the fourth quarter of 2021, with long lead items currently being procured. The redesign will improve airflow and ensure ease of maintenance for the lifecycle of the furnace.
- 57 Other proposed projects at the Port Latta facilities include the change out of the Bentonite Baghouse structure, structural repair works on plant infrastructure and the installation of a sodium hydroxide system that will enhance the performance of the scrubbers.
- 58 In addition, the Tasmanian Government has established a renewable hydrogen industry development funding program to support feasibility studies for large scale renewable hydrogen projects in the state. As part of the program, Grange has been selected to undertake a study to explore the potential use of hydrogen for industrial heating at the plant. This study is to be conducted through 2021.

Mining and processing facilities

- 59 Magnetite iron ore is extracted from open cut pits by conventional drilling, blasting, loading and hauling. The ore is crushed to approximately 200 millimetres and then transported via a 1.6 km overland conveyor belt to a stockpile. At the concentrator plant, the ore is processed through stages of autogenous mill grinding, ball mill grinding and magnetic separation. The resulting concentrate is mixed with water to form a slurry which is pumped 85 km through a pipeline to Port Latta. Transportation time for the slurry is around 13 hours.
- 60 At Port Latta, filtered concentrate is de-watered and formed into small marble-sized balls then heated to over 1,000 degrees Celsius in one of the five vertical shaft pellet furnaces for around four and a half hours. The pellets are screened to remove excess material and are conveyed to a finished product stockpile to cool and await shipment.
- 61 Grange's pellets are shipped from a loading facility at Port Latta, which is dedicated to the exclusive use of Grange. Ore is transported along a 1.8 km conveyer belt to a twin boom ship loading facility located off shore. The port has capacity to load 2,800 tonnes per hour and the facilities can handle ships of up to 80,000 tonnes.

Resources and reserves

- 62 As set out in Grange's mineral resources update dated 31 March 2021, the Savage River deposit contains a resource estimate of 497.5 million tonnes (Mt) at 45.8% DTR⁸ and a magnetite grade of 68.2% and an ore reserve of 107.7 Mt at 47.2% DTR and a magnetite

⁸ Davis Tube Recovery (DTR).

grade of 67.9%. Based on current plans, the Savage River mine has a projected mine life beyond 2030.

Production and sales

- 63 Grange produces high-quality iron ore pellet with low levels of impurities that support reduced environmental impacts for end users. It produces more than 2 Mt of premium quality iron ore pellets annually. The Company has a combination of spot and contracted sales arrangements in place to deliver its pellets to customers throughout the Asia Pacific region.

Southdown Magnetite Project

- 64 Grange is a majority joint venture partner (70%)⁹ in the Southdown Magnetite Project, a major magnetite development project located in Western Australia. The mining leases at the deposit were first acquired in 2003 and a scoping study shortly after confirmed the potential for economic development of the resource. The deposit is approximately 12 km in length and is the largest known premium quality magnetite deposit of its kind in southern Western Australia.
- 65 During 2020, the Project was granted approval under the Environment Protection and Biodiversity Conservation Act 1999. Further technical studies will be undertaken in 2021, including the feasibility of dry processing, which will assist in determining the optimal development options and to explore modifications of the current processing set-up to reduce the initial capital expenditure required. The company continues to seek a strategic investor to assist with development funding.
- 66 The Southdown deposit contains a resource estimate of 1,256.9 Mt at 33.7% DTR and a magnetite grade of 69.5% and an ore reserve of 387.7 Mt at 35.6% DTR. Upon development, the Southdown Magnetite Project has the potential to produce up to 10 Mtpa of premium magnetite concentrate.

Financial performance

- 67 The financial performance of Grange for the four years ended CY20, is set out below:

Grange – statement of financial performance ⁽¹⁾				
	CY17	CY18	CY19	CY20
	\$m	\$m	\$m	\$m
Total revenue	247.9	368.2	368.6	526.3
Operating expenses	(157.4)	(210.8)	(228.6)	(242.5)
EBITDA⁽²⁾	90.5	157.4	140.0	283.8
Depreciation and amortisation	(19.8)	(33.8)	(64.5)	(59.2)
EBIT⁽²⁾	70.6	123.5	75.5	224.6
Net financial income	(3.9)	11.8	6.1	(15.7) ⁽³⁾
Profit before tax	66.8	135.3	81.6	208.9
Income tax expense	(6.0)	(22.4) ⁽⁴⁾	(4.3) ⁽⁴⁾	(5.7) ⁽⁴⁾
Profit after tax	60.7	112.9	77.3	203.2

⁹ The other partner is SRT Australia Pty Ltd, which is jointly owned by Sojitz Corporation and Kobe Steel.

Note:

- 1 Rounding differences exist.
- 2 Earnings before interest and tax (EBIT). Earnings before interest, tax, depreciation and amortisation (EBITDA).
- 3 Includes losses recognised for both financial derivatives and foreign exchange on currency deposits.
- 4 Tax expenses are lower than actual cash tax payments due to the recognition of deferred tax assets.

- 68 As shown above, Grange has maintained profitable operations at the Savage River mine over CY17 to CY20. Given its exposure to iron ore prices, Grange's revenues and profits are impacted by changes in iron ore prices. Accordingly, the significant increase in iron prices in CY20 has had a corresponding impact on the Company's financial performance, with both revenue and profit increasing significantly in this year.

Financial position

- 69 The financial position of Grange as at 31 December 2019 and 31 December 2020 is set out below:

Grange – statement of financial position ⁽¹⁾		
	31 Dec 19 \$m	31 Dec 20 \$m
Debtors and prepayments	58.8	94.5
Inventories	119.8	123.0
Creditors and provisions	(74.1)	(64.5)
Net working capital	104.5	153.0
Mine properties and development	206.3	269.3
Property, plant and equipment	97.8	114.0
Deferred tax assets	32.9	59.3
Receivables (non-current)	8.5	8.5
Right of use assets (net of associated lease liabilities)	-	(0.1)
Provisions (non-current) ⁽²⁾	(62.0)	(72.6)
Total funds employed	387.8	531.4
Cash and cash equivalents	142.1	183.4
Short term managed funds	19.8	19.5
Interest bearing liabilities	(16.8)	(14.0)
Derivative financial instruments (net)	(0.9)	(8.2)
Net cash (or cash equivalents) held	144.2	180.7
Net assets attributable to Grange shareholders	532.1	712.1

Note:

- 1 Rounding differences exist.
- 2 Primarily decommissioning and restoration provisions.

- 70 Grange's net assets are at historically high levels as at 31 December 2020, which is attributable to the significant increase in profitability in CY20 given the related cash flows have largely been retained and reinvested into the business. In this respect we note that:

- (a) the relatively high levels of working capital (in comparison to previous years) predominantly reflect the high prices for iron ore sold in CY20, which has increased the Company's inventory and receivables levels

- (b) the significant increase in total funds employed (aside from increased working capital) is primarily a function of increased capitalised mine property and development expenditure¹⁰ and higher deferred tax assets
- (c) the relatively high levels of net cash (or cash equivalents) provides flexibility as regards the Company's future mine development options.

Share capital and performance

71 As at 12 April 2021, Grange had 1,157.3 million fully paid ordinary shares on issue.

Significant shareholders

72 As at 12 April 2021, the two significant shareholders in Grange were Shagang, which held 47.9% of the Grange shares on issue, and Pacific International Company Pty Ltd, which held 6.6% of the shares on issue.

Share price performance

73 The following chart illustrates the movement in the share price of Grange from 1 July 2018 to 12 April 2021:

Grange – share price history⁽¹⁾
1 July 2018 to 12 April 2021



Note:

1 Based on closing prices.

Source: Bloomberg and LEA analysis.

¹⁰ Which reflects the capitalisation of mine stripping and other development expenditure in areas of interest in which mining of the mineral resource has not yet commenced.

Liquidity in Grange shares

- 74 The liquidity in Grange shares based on trading on the ASX over the 12 month period prior to 12 April 2021 is set out below:

Grange – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
1 month	13 Mar 21	12 Apr 21	57,935	1,157,339	5.0	60.1
3 months	13 Jan 21	12 Apr 21	195,334	1,157,339	16.9	67.5
6 months	13 Oct 20	12 Apr 21	305,193	1,157,339	26.4	52.7
1 year	13 Apr 20	12 Apr 21	505,650	1,157,339	43.7	43.7

Note:

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

- 75 As indicated in the table above, total share turnover in Grange shares has been relatively high, indicating a relatively high level of market liquidity, particularly given Shagang holds approximately 48% of the Grange shares on issue.

IV Evaluation of the new offtake agreements

Basis of evaluation

- 76 As noted above, the ASX Listing Rules do not define the meaning of, or describe the test to be applied in determining whether a related party transaction is “fair and reasonable”. However, RG 111 expressly states that the evaluation of a related party transaction should be based upon a separate assessment of “fairness” and “reasonableness”. RG 111 further states that the transaction should not be assessed simply by reference to the advantages and disadvantages of the transaction (as ASIC does not consider this to provide members with sufficient valuation information).

Fairness

- 77 In our evaluation of the proposed new offtake agreements therefore we have initially considered the fairness of the proposed arrangements. Pursuant to RG 111, a related party transaction per ASX Listing Rule 10 is “fair” if the value of the financial benefit (in this case the sale proceeds) to be received by the entity from the related party is equal to or greater than the value of the asset (in this case iron ore pellets produced by Grange) being sold to the related party.
- 78 In the circumstances of Grange, in forming our view on the value of the iron ore pellets being sold to Shagang, we have had particular regard to the value that could be realised if (in the alternative) Grange sold the production to other customers, either pursuant to offtake agreements or on the spot market.
- 79 As noted in section I above, the price to be received by Grange for the sale of iron ore pellet to Shagang is to be calculated pursuant to a formula based on the average of the below indices over the Quotation Period:
- (a) the Metal Bulletin 65% Fe Iron Ore Pellet CFR Qingdao weekly index (as published by Metal Bulletin); and
 - (b) the Platts 65% Fe CFR North China (as published in the Platts SBB Steel Markets Daily) plus the Weekly CFR China 65% Fe spot assessment pellet premium (as published in the Platts SBB Steel Markets Daily).
- 80 Both the Metal Bulletin and Platts indices seek to reflect a current market price for iron ore pellets. Prima facie therefore we would expect both indices to provide a credible reference point for the pricing of iron ore pellets. Accordingly the sale of iron ore pellets by reference to one or other of the indices, or an average as proposed for the arrangements between Grange and Shagang, should be unlikely to give rise to any significant difference in related sales proceeds received.
- 81 We set out below a comparison of the two indices over the period from 1 January 2018 to 14 April 2021¹¹:

¹¹ Comparable pellet price data prior to this period is not readily available.

Differences in average pellet prices (US\$/DMT)

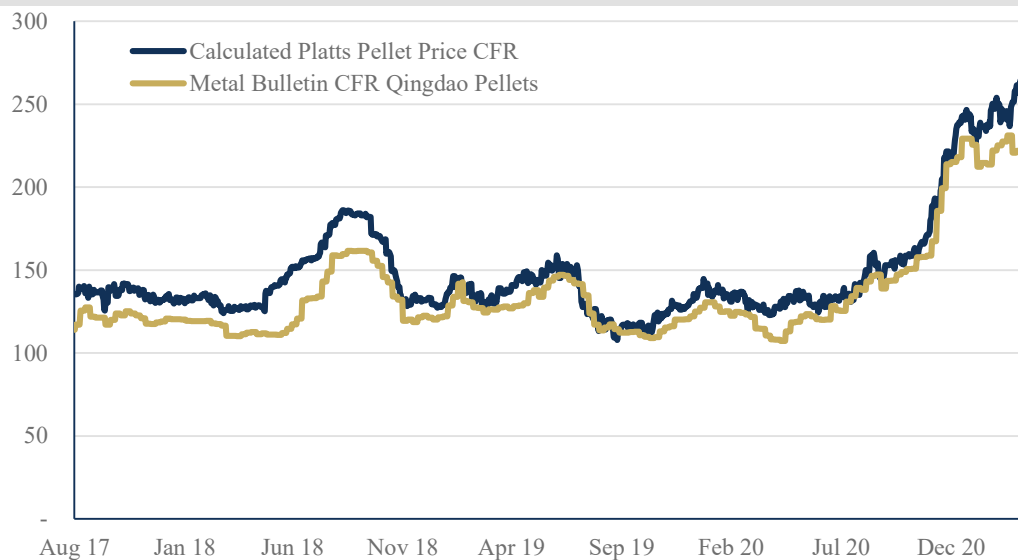
Period	Calculated Platts Pellet Price CFR	Metal Bulletin CFR Qingdao Pellet	Difference	Difference ⁽¹⁾ %
Year to date 2021 (to 14 April 2021)	243.60	222.30	21.29	9.1
Year to 31 December 2020	144.51	134.49	10.01	7.2
Year to 31 December 2019	132.42	125.78	6.65	5.1
Year to 31 December 2018	147.21	128.60	18.61	13.5

Note:

1 Difference percentage is calculated based on the average of the Platts and Metal Bulletin prices.

82 A chart of the above data is as follows:

Differences in average pellet prices (US\$/DMT)



83 In respect of the above, we note that whilst the average prices indicated by the Metal Bulletin index have generally been lower than the corresponding Platts index, for the majority of the period post late 2018 the two indices have generally had a high degree of correlation. However, prior to late 2018 and currently there has been a divergence in the indices. Potential factors that may contribute to a difference between indices include a variance in calculation or the application of methodologies, as well as varying levels of liquidity in the indices at different points in time.

84 Whilst such a difference prevails companies such as Grange pricing the sale of iron ore pellets (in whole or in part) by reference to the Metal Bulletin index are therefore at a comparative disadvantage.

85 However, given the proposed pellet prices to be received by Grange are to be calculated pursuant to a formula based on the average of the Metal Bulletin and Platts indices, the difference between the price to be received compared to the Platts index price is lower than the actual difference between the two indices (based on the historical data above), as shown below:

Applicable pellet prices (US\$/DMT)				
Period	Average of Platts and Metal Bulletin prices		Difference between average price and Platts price	
		Platts prices	US\$/DMT	%
Year to date 2021 (to 14 April 2021)	232.95	243.60	10.65	4.6
Year to 31 December 2020	139.50	144.51	5.01	3.6
Year to 31 December 2019	129.10	132.42	3.32	2.6
Year to 31 December 2018	137.90	147.21	9.31	6.7

- 86 Further, we note that the proposed terms of the new agreement include an annual review of the pricing mechanism, with provision for the price mechanism to be determined by an independent third party in the event Grange and Shagang fail to reach agreement on any proposed change¹². In such circumstances, it is reasonable to expect that an independent third party would make an appropriate adjustment to the proposed price mechanism to reduce the weighting and/or ignore any index (in this case the Metal Bulletin index) that prima facie no longer reflected generally accepted market conditions¹³.
- 87 As also noted in section I above, if a shipment of iron ore pellets does not meet the required specifications, the price per dry metric tonne will be adjusted for the relevant physical or chemical component that was not compliant. Whilst we understand the proposed related testing process is broadly consistent with generally accepted international trade practice in this regard, we understand that any related (price) penalties that may arise are potentially greater than apply to other offtake agreements entered into by the Company.
- 88 In considering the above apparent price negative factors inherent in the proposed offtake agreement with Shagang we have had regard to the following:
- (a) the outcome of the negotiation of any proposed commercial arrangement such as the proposed offtake agreement with Shagang will reflect (inter alia) the negotiating position of the relevant parties
 - (b) as such it would not be expected that all negotiated outcomes would be comparable
 - (c) this situation is similar to assessed valuations of companies / businesses which generally fall within a range (rather than a single-point estimate).
- 89 Having regard to the matters discussed above we have therefore concluded:
- (a) the prices to be received by Grange from the sale of iron ore pellets to Shagang pursuant to the proposed new offtake agreement would be expected to lie within a range of relevant prices reflective of then prevailing market conditions
 - (b) nothing has come to our attention to suggest that the prices and related terms reflect other than the outcome of an arms-length commercial negotiation between the parties.

¹² The implicit benefit to Grange based on these annual price mechanism review terms is not contained in the current offtake agreement with Shagang.

¹³ We would assume that iron ore (pellet) producers would choose to no longer price their product by reference to an index that continued to provide them with significantly lower revenue.

- 90 Based on the above, in our opinion, the proposed new offtake agreements are fair to the Grange Non-Associated Shareholders based on the guidelines set out in RG 111.

Reasonableness

- 91 Pursuant to RG 111, the proposed new offtake agreements are reasonable if they are fair. Consequently, in our opinion, the proposed new offtake agreements are also “reasonable” to the Grange Non-Associated Shareholders.

Summary of advantages and disadvantages

- 92 Whilst we have assessed the proposed new offtake agreements as fair and reasonable (under RG 111), we have also considered the relative advantages and disadvantages inherent in the proposed arrangements. Our observations in this regard are summarised below.

- 93 The advantages of the proposed new offtake agreements from the perspective of the Grange Non-Associated Shareholders include (inter alia):

- (a) the proposed offtake agreements provide long term certainty of sale as regards to approximately 40% of the annual production of iron ore pellets, which prima facie will be beneficial to Grange shareholders in circumstances when adverse market conditions prevail
- (b) prima facie this certainty of sale also provides management with greater flexibility in and confidence in proceeding with future life of mine plans, including significant amendments to or extensions thereof
- (c) the proposed pricing by reference to current global market indices (together with the pricing review mechanism) should ensure that Grange receives a price for the sale of iron ore pellets over the long term commensurate with then prevailing market prices
- (d) Shagang is a major participant in the steel making sector and is therefore considered by Grange to be a low counter-party risk.

- 94 The disadvantages of the proposed new offtake agreements from the perspective of the Grange Non-Associated Shareholders include (inter alia):

- (a) the commitment of a significant percentage of annual production to Shagang limits the extent to which Grange can potentially diversify its customer base
- (b) certain aspects of the proposed new offtake agreement (such as the price penalties being higher) provide Grange with less favourable terms than it has been able to negotiate with other spot and short term offtake agreement customers. However, we regard these differences as reflective of the specific negotiated circumstances, where favourable terms obtained from a particular customer are not always able to be obtained from all customers.

- 95 On balance, we consider the advantages inherent in the proposed new offtake agreements to outweigh the disadvantages (from the perspective of Grange Non-Associated Shareholders).

Transfer pricing considerations

- 96 Whilst LEA does not provide tax advice, and (pursuant to RG 111) transfer pricing considerations are outside of the scope of this IER, we note that (prima facie) our conclusions are not inconsistent with the requirements of a proposed transaction with a related party seeking compliance with the transfer pricing guidelines.
- 97 Specifically in this regard we note that:
- (a) in our opinion, the prices to be received by Grange from the sale of iron ore pellets to Shagang pursuant to the proposed new offtake agreement would be expected to lie within a range of relevant prices reflective of then prevailing market conditions; and
 - (b) nothing has come to our attention to suggest that the prices and related terms reflect other than the outcome of an arms-length commercial negotiation between the parties.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Notice of Meeting to be sent to Grange shareholders in connection with the proposed offtake terms.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$45,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:
- Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Jorge Resende and Mr Martin Holt, who are each authorised representatives of LEA. Mr Resende and Mr Holt have over 20 years and 35 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Grange to accompany the Notice of Meeting to be sent to Grange shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the proposed offtake terms are fair and reasonable to the Non-Associated Shareholders of Grange.

Interests

- 4 At the date of this report, neither LEA, Mr Resende nor Mr Holt have any interest in the outcome of the proposed offtake terms. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Grange agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Grange which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Notice of Meeting.

Appendix C

Glossary

Abbreviation	Definition
ABM	Australian Bulk Minerals
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
CY	Calendar year ended 31 December
DMT	Dry metric tonne
DTR	Davis Tube Recovery
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Ever Green	Ever Green Resources Limited
FSG	Financial Services Guide
Grange	Grange or the Company
IER	Independent expert's report
km	Kilometres
LEA	LonerGAN Edwards & Associates Limited
Mt	Million tonnes
MTPA	Million tonnes per annum
Non-Associated Shareholders	Shareholders in Grange that are not associated with Shagang
RG 111	ASIC Regulatory Guide 111 – <i>Content of expert reports</i>
Shagang	Jiangsu Shagang Group
Stemcore	Stemcor Pellets Ltd, a subsidiary of international metals trader Stemcor
WANOS	Weighted average number of shares outstanding