



GRANGE
RESOURCES LIMITED
ABN 80 009 132 405

REPORT FOR THE QUARTER ENDED 31 DECEMBER 2005

HIGHLIGHTS

Southdown Magnetite

- The Southdown/Kemaman bankable feasibility study (BFS) is now being finalised.
- Resource estimate increased to 458Mt grading 37% magnetite for data received to 10 January 2006 with indicated resources increased by 125% to 347Mt grading 38% magnetite.
- First phase resource drilling programme completed with 157 diamond drill holes aggregating 43,000 metres completed.
- In addition to resource holes, 15 diamond drill holes aggregating 4,000 metres completed for geotechnical and metallurgical investigations.
- Resource assay data and metallurgical test work indicates that a relatively uniform and high concentrate grade can be produced at a magnetite recovery of approximately 37%. The expected concentrate grade is 68.6% Fe.
- Pilot plant production of magnetite concentrate completed and 1.5 tonnes of concentrate despatched to Outokumpu (Lurgi) in Germany and 2 tonnes to Kobelco in Japan for pelletising test work.
- Outokumpu has successfully produced good quality pellets with excellent physical and chemical characteristics.
- Grange anticipates new participants will be introduced into the projects during 2006 and is providing specific BFS information to a number of companies who have registered their interest through confidentiality agreements.

Red Hill

- Royalty payments of \$322,985 generated during the quarter.
- 12,541 ounces of gold recovered from the processing of 198,640 tonnes of ore grading 2.11g/t.

Freshwater

- Royalty payments of \$73,332 generated during the quarter.
- Mining undertaken from the Plutonic East underground mine during the quarter.

Wembley

- Pit optimisation and mine design work underway as part of the Fortnum Gold Project feasibility study.

Mt Windsor Joint Venture

- Income of \$1.9 million received representing the final payment for the copper concentrate shipped during May 2005.
- Reconciliation of metal shipments from Reward Deeps generated income of \$0.54 million.
- Rehabilitation of the mine site commenced in November 2005.

New Projects

- Agreement reached with Esperance Mining regarding a joint venture over the Bukit Ibam iron ore mine in Malaysia.

Financial

- Cash and cash assets at the end of the December 2005 quarter totalling \$18.57 million.

PROJECTS, MINING & EXPLORATION ACTIVITIES

SOUTHDOWN MAGNETITE AND MALAYSIAN PELLET PROJECT

(Grange 100%)

BACKGROUND

Grange Resources Ltd acquired the Southdown mining leases in November 2003 and immediately commenced a review of previous exploration work. This led Grange to undertake a new ground magnetic survey and investigate a number of essential development requirements, including a harbour and shipping channel sea floor probing survey at Albany. The results of this work culminated in a prefeasibility "Scoping Study" which considered the following project components:

- Mining at an annual rate of 17.8 million tonnes with a stripping ratio of around 2.6 to 1.0.
- Annual production of magnetite concentrate at 69% Fe of 6.6 million tonnes per annum.
- Transportation of the magnetite concentrate to the Port of Albany via a buried slurry pipeline.
- Establishing a large-scale pellet plant in South East Asia to process the Southdown concentrate into high grade iron ore pellets to produce 6.8 million tonnes of pellets per annum.
- Potential markets for use of pellets in direct reduction and blast furnaces located in the Asian region.
- Assessment of the economics of the project including capital expenditure on infrastructure in Australia and South East Asia.

The key findings from the scoping study included:

- A potentially significant resource was indicated to warrant large scale mining, concentrating and pelletisation operations.
- The mineralisation appeared to be amenable to coarse magnetic separation.
- Close proximity to road and port facilities in Western Australia and Malaysia.
- Competitive mining and processing costs.
- The mining tenements were located on freehold land in Western Australia with no Native Title issues outstanding.
- Two products are proposed namely Direct Reduction ("DR") and Blast Furnace ("BF") pellets.
- Establishment of a pellet plant in Malaysia, near key markets including:
 - Direct Reduction - Malaysia, Indonesia, Middle East; and
 - Blast Furnace – steel producers in China, Japan, South Korea and Taiwan.

Following the completion of the scoping study and some preliminary drilling in late 2004 Grange announced in January 2005 the commencement of a full Bankable Feasibility Study (BFS) for the Southdown Magnetite and Malaysian Pellet Project. Grange targeted the completion of the technical aspects of the study by the end of 2005 with environmental and project approvals targeted for by mid 2006.

During the past year Grange Resources has been undertaking the technical and commercial work necessary to enable the BFS to be prepared. Preliminary results of the study available as at 20 January 2006 are presented below. Completion of the bankable study has fallen approximately 2 months behind schedule due to delays in receiving information and data from several sources.

Grange has engaged the following consultants to assist with the preparation of the BFS:

- ProMet Engineers to undertake and supervise the engineering and metallurgical work, including concentrator, pipelines, ports and pellet plant.
- Golder Associates to undertake the resource estimation, mine planning and scheduling, geotechnical engineering and hydrology.

- Ecologia to undertake environmental studies and prepare the documents necessary for the project approvals process.
- JFA Australia to supervise the work relevant to the Albany Port channel and dredging.
- Rockwater to search for a water supply.
- Perunding Utama to undertake the environmental work in Malaysia.

DEVELOPMENT PLAN

It is proposed to mine the Southdown Magnetite deposit using proven open pit mining methods with the magnetite mineralisation being crushed, ground, screened and then magnetically separated to produce a magnetite concentrate at a planned production rate of 6.6 Mtpa. Coarse production waste (tailings) will be dewatered and deposited as solid tailings while finer material will be deposited in a slurry form into a tailings storage facility. Overburden is to be placed in waste rock dumps.

The magnetite concentrate will be pumped as slurry, approximately 100 km to a concentrate storage facility at the port of Albany before being loaded on to capesize vessels and shipped to an iron ore pellet plant located in Malaysia. Filtered water recovered from the slurry will be pumped back to the mine site for re-use in the concentrator via a return water pipeline buried beside the slurry pipeline.

At Albany Port the construction of a new berth will be required and the Albany Port Authority will provide land to accommodate a concentrate storage facility and ship loading infrastructure. Widening of the existing shipping channel into the Princess Royal Harbour and extending the channel into King George Sound is also proposed to facilitate the access of capesize vessels.

Grange Resources has entered into a Heads of Agreement with subsidiaries of Road Builder (M) Holdings Bhd to secure the future use of infrastructure in Malaysia comprising an existing wharf and 60 hectares of land for the pellet plant at Kemaman on the east coast of peninsular Malaysia. The design capacity of the pellet plant is 6.8 Mtpa.

SOUTHDOWN MAGNETITE PROJECT

The Southdown Magnetite Project is located approximately 90 kilometres northeast of the Port of Albany on the south coast of Western Australia (figure 1).

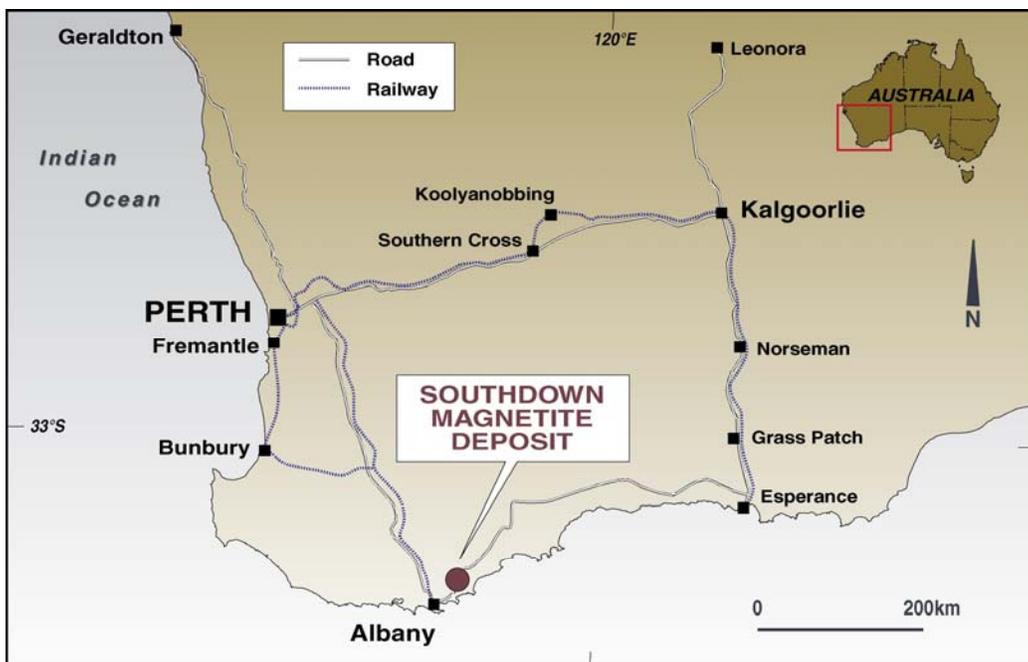


Figure 1: Location of Southdown Magnetite Project, Albany WA

The project comprises three granted mining leases ML70/433, ML70/718 and ML70/719 covering an area of 1700 hectares on freehold farming property (figure 2) over which the Company holds an option to purchase.

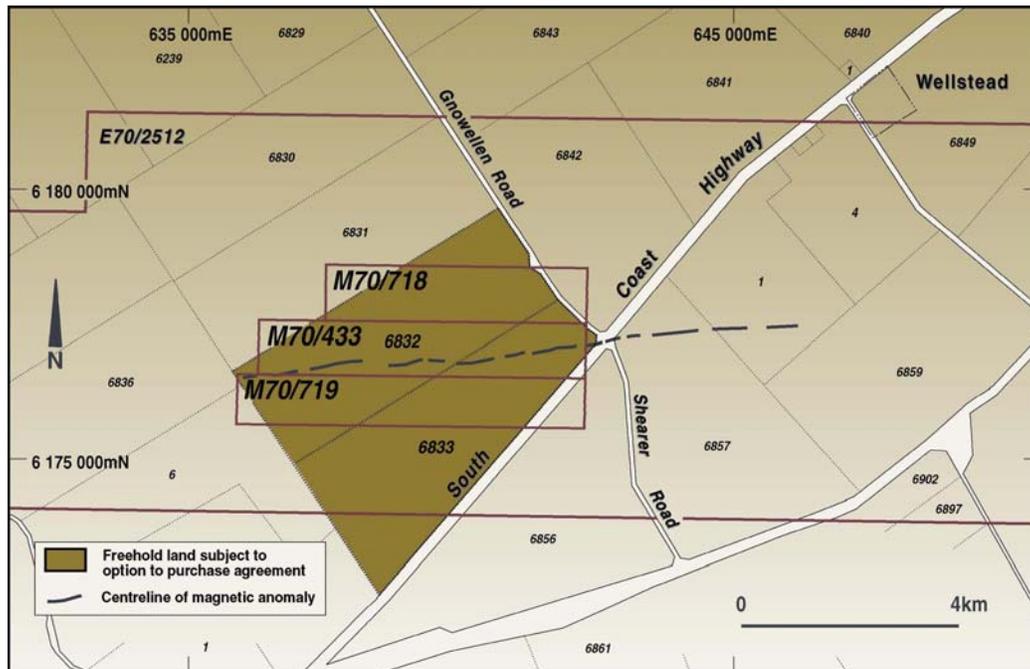


Figure 2: Southdown Mining Leases

Resource Evaluation

The Company's mining leases cover the western portion of a deposit of magnetite mineralisation that was first recognised in the early 1980's. The deposit has a strike length of approximately 13 km and Grange's three mining leases cover the western 6km of the deposit. Previous drilling programmes undertaken in the 1980's identified a significant deposit of magnetite mineralisation (76 Mt grading 37.4% magnetite at a 15% magnetite cut off grade) in the western 2km of the deposit with the rest of the deposit remaining relatively untested by drilling. The eastern section of the deposit is held by Rio Tinto within an exploration license. In late 2004 Rio Tinto undertook an aerial magnetic survey over the entire deposit (figure 3), which indicates an increasing depth of cover over the magnetite mineralisation as the deposit extends from Grange's mining leases further to the east. Diamond drilling to evaluate the nature and extent of the deposit within Rio Tinto's exploration license commenced in October 2005.

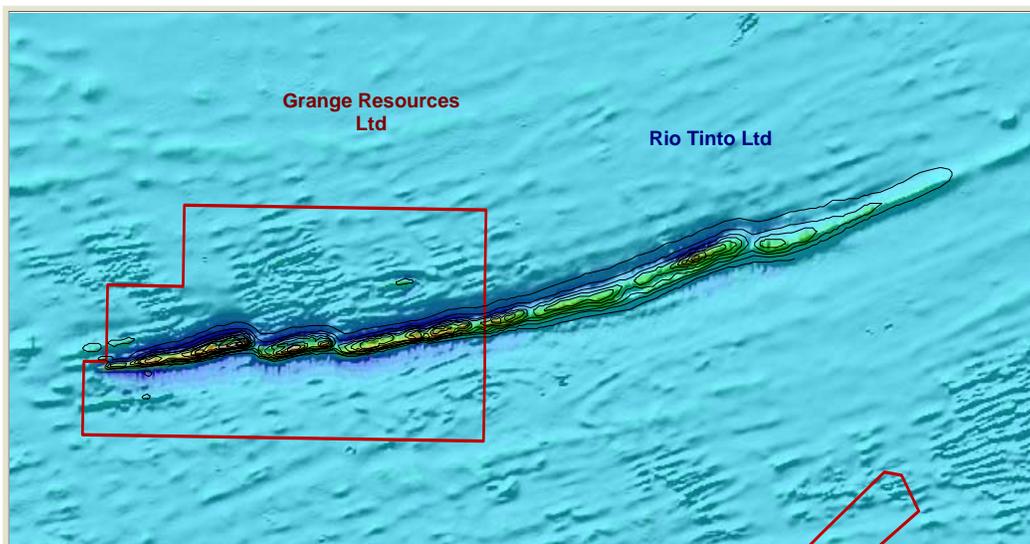


Figure 3: Rio Tinto Aeromagnetic Survey 2004

- *Diamond Drilling*

In November 2004 Grange Resources commenced diamond drilling to evaluate the nature and strike and depth extent of the Southdown magnetite deposit within its mining leases. The resource drilling programme was designed to provide sufficient data to establish a resource that could be classified as Indicated in accordance with the Australasian Code for the Reporting of Identified Mineral Resources and Ore Reserves (JORC Code, 2004). Drill holes were spaced at 50 metres intervals on traverses 200 metres apart along the 6km strike length.

The initial drilling programme was completed during November 2005 by which time 157 resource holes aggregating 43,000 metres had been completed (figure 4). In addition to the resource drill holes, 9 geotechnical holes aggregating 2300 metres and 6 metallurgical holes aggregating 1600 metres were completed. Above average winter rainfall resulted in local flooding and prevented the completion of several resource holes. Plans are in hand to undertake this work during the March 2006 quarter.

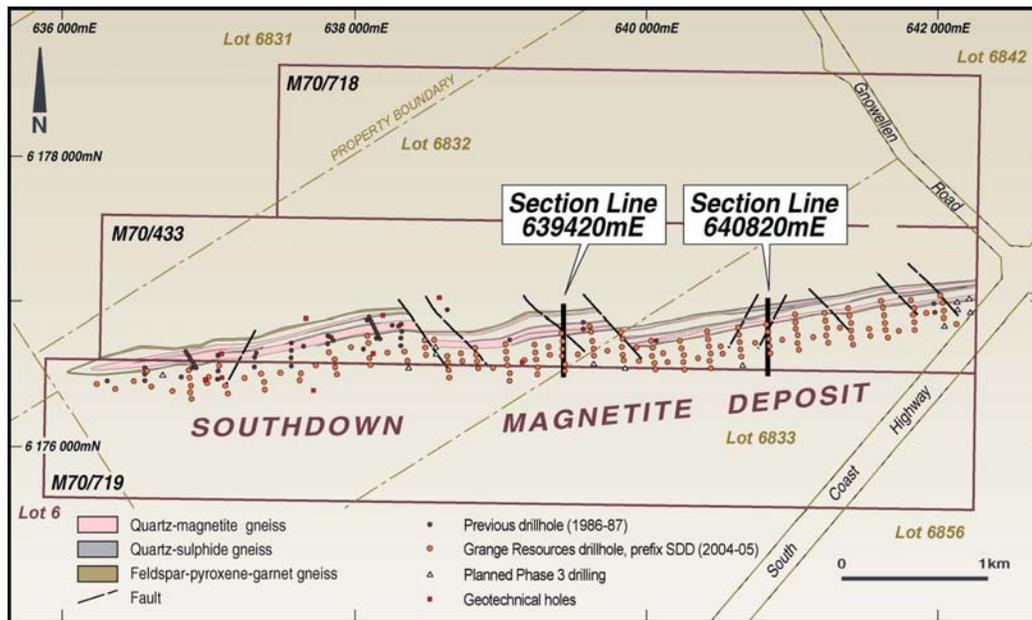


Figure 4: Interpreted Geology and Drill Hole Location Plan

Grange has engaged Golder Associates to prepare a resource model for the Southdown deposit and assist project geologists to ensure that logging and sampling procedures meet JORC quality guidelines. All data is transferred to Golder Associates' Perth office where it is validated and entered into the project database, which is used for resource modelling. Golder Associates are also providing technical advice and input on pit optimisation, mine planning, geotechnical design and pit dewatering and hydrology.

Drill core was cut on site and submitted to the Amdel laboratory in Perth for sample preparation and test work (Davis Tube Recovery) to determine the magnetite content. The magnetic fraction is assayed by X-ray Fluorescence Spectroscopy to determine its iron content and quality. By the end of the initial resource drilling programme 7062 samples from the 157 resource drill holes and 892 samples from 39 drill holes from resampling the 1986/87 drill core had been submitted for analysis.

Interpretation of drilling data indicates that the Southdown deposit consists of a gently east-plunging, overturned tightly folded syncline that is offset by northwest and northeast trending faults (figure 4). The core of the syncline is occupied by intensely metamorphosed quartz-magnetite-clinopyroxene gneiss and garnet-biotite gneiss. The interpreted vertical depth to the keel of the syncline is approximately 50 metres in the western end of the deposit and increases to a vertical depth in excess of 500 metres in the eastern portion of the deposit. The thickness of the deposit ranges from 40 to 110 metres and averages 85 metres. Typical cross sections of the deposit are shown in figures 5 and 6 and the locations of the sections are shown on figure 4.

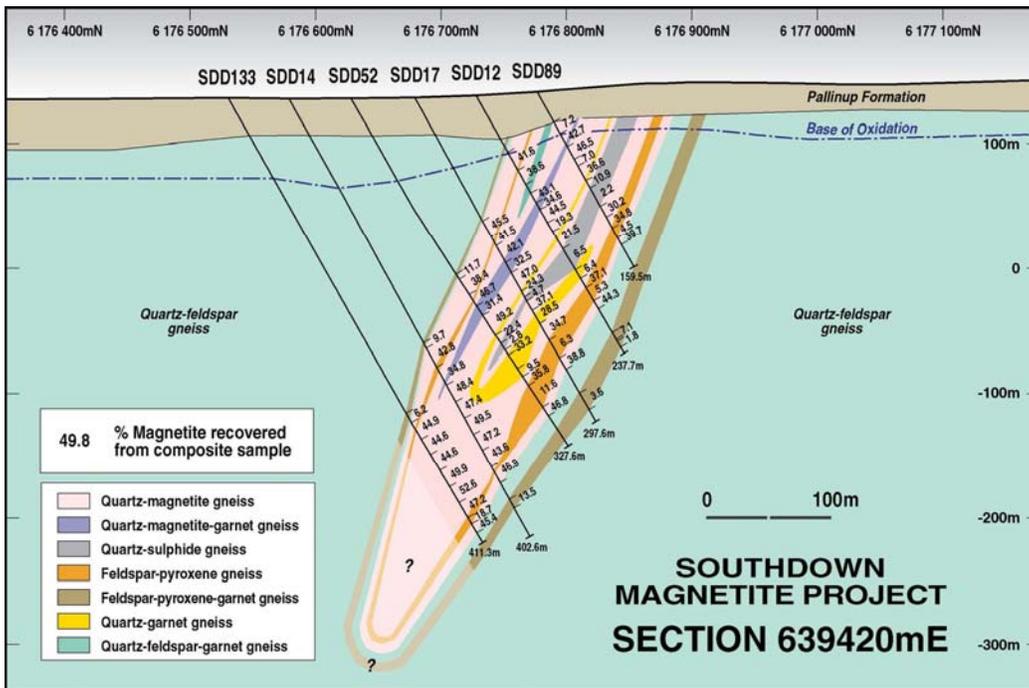


Figure 5: Interpreted Cross Section 639420mE

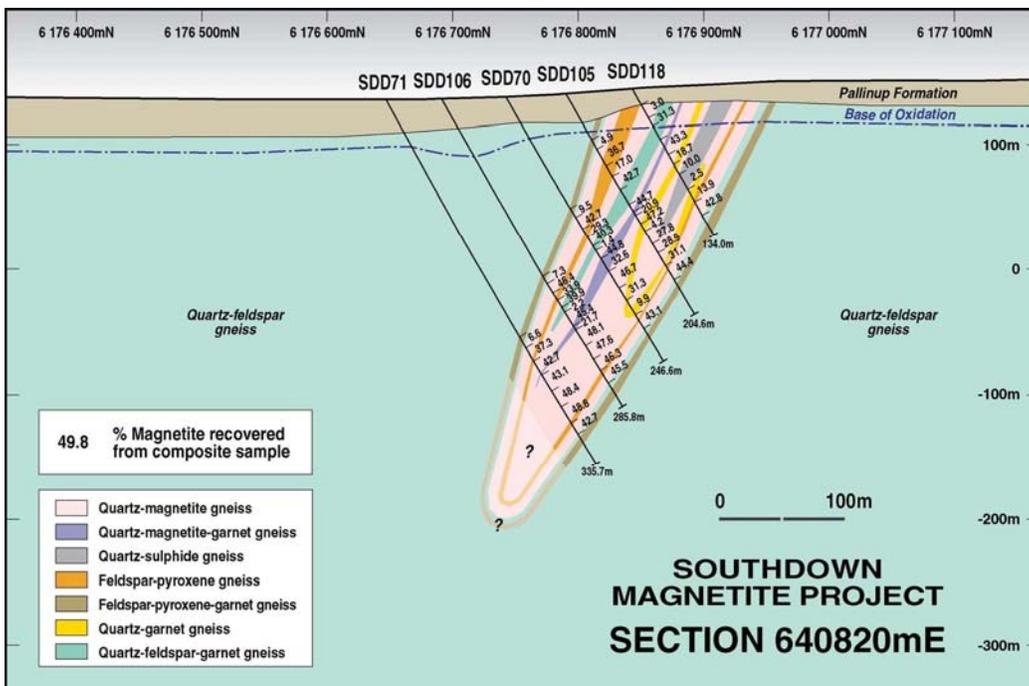


Figure 6: Interpreted Cross Section 640820mE

- *Resource Model*

Golder Associates have completed a resource model using all geological and assay data available as at 10 January 2006 and prepared a mineral resource statement (Table 1). The model was constructed using geological data from 157 diamond drill holes from the Grange drilling programme and 52 diamond drill holes from earlier drilling undertaken in 1986/87. Assay data from 7062 samples from the Grange drill holes and 892 new samples from re-sampling the 1986/87 drill holes were included in the model. The magnetite deposit within the Company's mining leases has a strike length of 6,000 metres and a vertical depth ranging from 50 to 500 metres. The available data has allowed Golder Associates to

estimate the resource contained within 5700 metres of strike with variable depths ranging from 50 to 480 metres below surface. The average thickness of the deposit is 85 metres.

- **Mineral Resource Statement**

The resource estimate (Table 1) was classified in accordance with the Australasian Code for the Reporting of Identified Mineral Resources and Ore Reserves (JORC Code, 2004).

TABLE 1 SOUTHDOWN MAGNETITE PROJECT IN SITU MINERAL RESOURCE ESTIMATE			
Class	Indicated Resource	Inferred Resource	Total
Tonnes (Mt)	347.2	110.8	458.0
DTC wt%	38.1	33.1	36.9
DTC Fe%	69.1	68.9	69.1
DTC SiO ₂ %	1.9	2.0	2.0
DTC Al ₂ O ₃ %	1.4	1.4	1.4
DTC TiO ₂ %	0.37	0.41	0.38
DTC S%	0.44	0.58	0.47
DTC Na ₂ O%	0.05	0.05	0.05
DTC K ₂ O%	0.009	0.009	0.009
DTC P%	0.002	0.002	0.002
DTC MgO%	0.23	0.25	0.24
DTC CaO%	0.17	0.20	0.18
DTC Mn%	0.035	0.035	0.035
DTC V%	0.022	0.023	0.022
DTC LOI%	-2.8	-2.5	-2.7

Notes:

- Estimation method: Block model, Ordinary Kriging using 3m composite data.
- Resources reported below the depth of oxidation (approx 25m) with depths ranging from 50 to 480m below surface.
- Resources reported for 5,700m of strike from deposit strike length of 6,000m.
- The resource was defined using geological boundaries and a nominal cut-off grade of 10 wt% Davis Tube Concentrate (DTC).
- Extrapolation along strike was limited to within 100m of drill holes.
- Extrapolation down and up dip was limited to 25m for Indicated and 50m for Inferred resources.
- In-situ density for the main mineralised unit was assigned to the mineralised domains using a regression of $0.0089 \times \text{DTC wt\%} + 3.181\text{t/m}^3$. This regression was derived from 2690 paired density and DTC wt% values.
- In-situ density for the other mineralised unit was assigned to the mineralised domains using a regression of $0.0077 \times \text{DTC wt\%} + 3.262\text{t/m}^3$. This regression was derived from 530 paired density and DTC wt% values.
- The Ordinary Kriging interpolation method was used for resource estimation of DTC Fe, DTC SiO₂, DTC Al₂O₃, DTC TiO₂, DTC S, DTC Na₂O and DTC K₂O using variogram parameters defined from geostatistical analysis.
- The Inverse Distance Squared interpolation method was used for resource estimation of DTC P, DTC MgO, DTC CaO, DTC Mn, DTC V and DTC LOI, to allow reporting of these additional variables not required to be of the same level of estimation rigour as the other variables.
- Estimations for concentrate grades were weighted by Davis Tube concentrate (DTC) in order to appropriately reflect the relationship between DTC and the DTC assays. Weighting was completed by calculating the accumulation (DTC x DTC assay) and subsequently back calculating the DTC assay estimates by dividing by relevant estimated DTC values.
- Recovery and grade rounded to 1 decimal place (except TiO₂, S, Na₂O, MgO & CaO - 2 decimal places and K₂O, P, Mn & V - 3 decimal places).
- Resources rounded to nearest 100,000 tonnes.

The information in this statement of Mineral Resources is based on information compiled by Richard Gaze who is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient relevant experience to qualify as a Competent Person as defined in the JORC Code (2004). Richard Gaze consents to the inclusion of this information in the form and context in which it appears.

Mine Planning

Preliminary mine planning work has been carried out based on an early version of the geological model that was available as at September 2005. The work was undertaken in order to develop initial mining schedules and a layout for the open pit, waste rock dumps and tailing storage facilities.

Based on the results of the study the Company is confident that the deposit contains sufficient mineralisation to support an open pit mining project producing 6.6 million tonnes per annum of magnetite concentrate for a period of approximately 23 years. The study developed a concept of co-disposal of approximately 50% of the backfill and tailings into the excavated pit.

More detailed mine planning and scheduling is to be undertaken during the March 2006 quarter based on the resource model developed in January 2006. Hydrogeological and geotechnical studies are also being undertaken to provide data for mine design and scheduling.

Metallurgical Test Work

The metallurgical programme has been designed to develop an understanding of the mineralisation and its processing qualities. The metallurgical test work is well advanced however results from many of the programmes are yet to be received. Work undertaken to date has included tests for crushing, grinding, abrasion and magnetic separation and has shown that a relatively uniform and high concentrate grade can be produced at a magnetite recovery of approximately 37%. Work is continuing to provide data to optimise the design of the crushing and grinding circuit.

Metallurgical tests are being carried out on drill core to determine the following factors:

- The major factors to confirm the mass balance for plant design.
- The Bond Work Indices to finalise the likely power demand.
- The assessment of the impact of variable weight recovery on the mass yields in the front part of the plant.
- The likely benefit of dry magnetic separation at coarse sizes.
- The impact of using High Pressure Grinding Rolls on overall grinding requirements
- The crushing work indices to finalise the crusher design.
- The effect of flotation on concentrate quality and sulphur reduction

A 20 tonne bulk sample of mineralisation from drill core has been processed through a pilot plant set up in a metallurgical laboratory in Perth and approximately 6.0 tonnes of magnetite concentrate has been produced for test work on pellet production, slurry characteristics, thickener operation and filtration.

Approximately 1.5 tonnes of concentrate has been forwarded to Outokumpu Technology (Lurgi) in Germany and 2.0 tonnes to Kobelco Corporation in Japan for pelletising test work. Both Outokumpu and Kobelco will produce iron ore pellets from Southdown concentrate in their laboratories and will determine the operating conditions for the future production plant at Kemaman.

Outokumpu has successfully produced good quality pellets from the concentrate with excellent physical and chemical characteristics (Table 2). Pelletising test work by Kobelco is scheduled for the March 2006 quarter.

Parameter	Concentrate	Pellet
Fe%	68.6	66.1
FeO%	28.6	0.5
SiO ₂	2.18	2.53
Al ₂ O ₃	1.47	1.53
CaO	0.20	0.63

MgO	0.25	0.26
TiO ₂	0.38	0.37
Cr ₂ O ₃	0.25	0.24
Na ₂ O/K ₂ O	0.07	0.09
Mn	0.03	0.03
P	0.004	0.004
S	0.75	0.005
LOI	-2.6	-
B4 Basicity	0.12	0.22
B2 Basicity	0.09	0.25
MgO/CaO	1.25	0.41
SiO ₂ /Al ₂ O ₃	1.48	1.65
CCS	-	>250
Abrasion Index	-	<4.0
T. Index	-	>95
%<5mm	-	<3
%>5mm<16mm	-	>93

Flotation tests are being undertaken on samples of the concentrate and results to date show that the sulphur content can readily be reduced from 0.7%S to 0.2%S. Additional pelletising test work on the low sulphur concentrate is planned at Outokumpu's pelletising test facility in Germany during the March 2006 quarter to determine the effects on pellet quality and operating conditions.

Southdown Infrastructure

- *Slurry Pipeline Alignment*

A proposed pipeline will transport the magnetite concentrate in slurry form from the Southdown site into the Albany port area where it will be dewatered in the filter plant prior to stockpiling.

The pipeline alignment affects 55 different landowners including government agencies. An independent valuation of most of the land affected by the pipeline has been completed with land valuation reports currently being finalised. In December 2005 Grange provided affected private landowners with a draft easement option agreement for the pipeline for their consideration. Upon receipt of the land valuation reports, Grange will make an offer of compensation to each affected landowner to secure the pipeline easement.

Pipeline Systems Incorporated (PSI) has been appointed to undertake detailed pipeline designs for the BFS. PSI has undertaken a review of the proposed pipeline route (Figure 7). In principle, there are no major impediments identified that would prevent the construction of the pipeline as planned. Detailed pipeline engineering and costing works have been completed by PSI and are being incorporated into the overall project capital cost estimate.

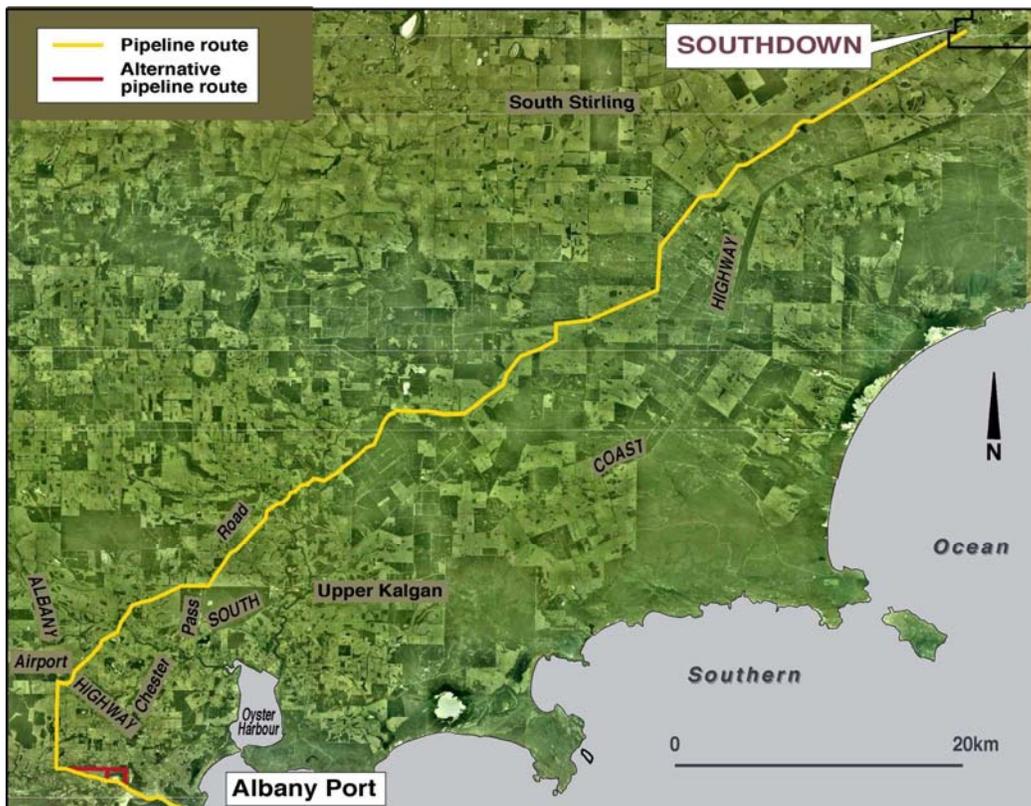


Figure 7: Proposed Slurry Pipeline Route

- *Power Supply*

Grange will require a reliable power supply for the concentrator, slurry pipeline pumps, mine site facilities, concentrate filtration plant at Albany, Albany material handling facilities, and return waterline pumps.

Western Power Networks have completed a study to evaluate the optimum transmission line for the supply of electricity to the Southdown mine and concentrator. A new 220kV transmission line from Muja to Kojonup and then to Southdown is proposed.

Grange has contracted Western Power Networks to obtain the easement for this power line and work is proceeding. In December 2005 an aerial survey of the proposed alignment was completed to allow detailed transmission line design work and capital estimation to occur. Negotiations between Grange and Western Power Networks in respect to the commercial arrangements associated with the construction of the transmission line are on-going.

The Southdown Project will be classed as a contestable customer so Grange will be able to negotiate electricity supply terms and price from market participants. A formal tender process for the provision of power to Southdown will be undertaken once final power requirements are determined.

- *Water Supply*

Process water requirements for the project are currently estimated at between 2.5 and 4.0GI per annum. It is envisaged that the project's water requirements will be met from a combination of groundwater and Albany wastewater.

Groundwater exploration has focussed on an area generally to the north of the Albany Airport. Drilling during the quarter has been successful in identifying a suitable groundwater source. In January 2006 a TEM airborne magnetic survey was completed over the area to assist with further evaluation of the groundwater source during the March 2006 quarter. Grange has also been assessing groundwater

sources in the vicinity of Southdown and the community of Wellstead. Initial results suggest that groundwater sources in this area are limited.

The Water Corporation has agreed the principal terms for Grange to have an option to use a minimum 1.1Gl of wastewater from Albany.

- *Albany Port*

During the quarter the following work has been undertaken in respect to the development of Albany Port to handle the export of Southdown Magnetite concentrate:

- Geotechnical drilling of the proposed berth and reclamation area to determine the under-seabed ground conditions for construction of the new berth (Berth 7) and on-shore facilities.
- Vibrocoreing of the proposed channel to determine the nature of seabed material to be dredged. The results of this work have confirmed that approximately 95% of material to be dredged is fine/medium grain sand.
- Sampling and analysis programme to assess existing benthic habitats that may be impacted by the dredging and the suitability of dredge material for disposal at sea.
- On-going monitoring of sea and weather conditions within King George Sound (KGS) and Princess Royal Harbour (PRH) using automatic current meters, wave rider buoys and a beacon mounted wind anemometer.
- Creation of a hydrodynamic model of KGS and PRH and validation of this model against the actual data recorded from the field meters deployed. Once validation of the model is completed the model will be used to estimate the amount of turbidity that may be created during dredging operations and the likely impacts, if any, to the environment and to commercial and recreational users of KGS and PRH.
- Under keel clearance modelling to ascertain the required channel depth for the likely ship type.
- Port simulations at the Australian Maritime College in Tasmania to determine safety clearances between vessels departing Berth 6 and capesize ships alongside the proposed Berth 7.

On 1 December 2005 Grange and the Albany Port Authority executed a Memorandum of Understanding which formalises the working relationship between the parties up to the time formal Port Charges and Lease Agreements are signed.

Southdown Environmental Approvals

Grange has engaged Ecologia to facilitate the environmental approval process including:

- Liaising with government, public stakeholders and contractors.
- Undertaking environmental impact studies.
- Providing specialist technical advice.
- Preparing environmental documentation required to be submitted to regulatory authorities.

The second season environmental surveys at Southdown and along the pipeline route have been undertaken. These surveys have involved flora and fauna assessments of the potentially impacted areas of development.

The draft Environmental Scoping report was submitted to the EPA on 8th November 2005 and was considered by the EPA Board of Directors on 19th January 2006. Grange is planning to forward the draft Public Environmental Review (PER) document to the EPA by March 2006.

KEMAMAN (MALAYSIA) PELLETT PROJECT

In February 2005, Grange Resources announced that it had entered into a Heads of Agreement with Road Builder (M) Holdings Bhd, a publicly listed Malaysian company, to acquire up to a maximum of 60 hectares of land in an industrial estate adjacent to the port of Kemaman to build a magnetite pellet plant and secure port facilities (West Wharf). The Kemaman Pellet Plant will use concentrate shipped from

the Southdown Magnetite Project to produce high quality iron ore pellets. The Kemaman site was selected as the preferred location for a number of reasons including the following:

- Availability of competitively priced energy supplies including natural gas and electricity.
- Close proximity to potential off-take parties and markets.
- Access to port infrastructure with low operating costs.
- Availability of a skilled construction and operating workforce.
- The potential granting of government incentives including tax benefits and the exemption from import and export duties.
- Ability to expand through the provision of additional pellet plants.

The key components of the Malaysian Pellet Project comprise the following:

- The pellet plant.
- Stockyards for pellets and concentrate with mobile stackers and reclaimers;
- A ship loader (nominally 4,000 tph) capable of loading iron ore pellets into capesize vessels.
- Ship-unloaders (nominally 2,000 tph) capable of unloading magnetite concentrate from capesize vessels.
- Conveyor systems between the ship-unloader and ship loader and the concentrate and pellet stockyards.
- Office, maintenance, laboratory and other facilities as necessary.
- The provision of services from water, natural gas and electricity providers.

Provision has been made in the infrastructure for the future construction of additional pellet plants on the Kemaman site.

- ***Kemaman Pellet Plant***

The Kemaman Pellet Plant facility will be designed for a capacity of 6.8 Mtpa. This capacity achieves the optimum economies of scale for a single pellet plant using existing technology. There are a number of plants operating at this scale around the world.

Kobelco and Outokumpu, who have established technologies, have been appointed to undertake relevant pilot plant testing, engineering and design work on the Pellet Plant facility for the BFS. Representative samples of Southdown concentrate for the pilot plant pelletising test work have been supplied to both Kobelco and Outokumpu. Outokumpu have provided preliminary feedback on pilot plant testing, engineering and design work which is currently being reviewed.

- ***Kemaman West Wharf***

The West Wharf consists of a jetty with a concrete deck approximately 510 metres long by 29 metres wide, sufficient to berth a Capesize and Panamax vessel concurrently. The depth of the berth pocket was originally dredged to 18 metres although parts of the turning basin have not been fully dredged as yet. Under the terms of the Heads of Agreement, Road Builder is required to provide for vessels with a draft of 16m.

- ***Power Supply***

Tenaga Nasional Berhad (TNB) is the national electricity provider for Malaysia. High voltage power is available from a TNB substation immediately next to the pellet plant site. Discussions have been held with TNB regarding the Project's power requirements. TNB have indicated that they would be able to supply power to an agreed location within the pellet plant site via a 132kV line.

- ***Natural Gas Supply***

Natural Gas for the pellet plant is available from the national supplier, Petronas Gas via a pipeline that runs along a road adjacent to the pellet plant site. Meetings have been held with Petronas to discuss the

project's requirements. Petronas Gas would supply the gas to the pellet plant site via a new lateral from the pipeline to a designated supply point on the pellet plant site. In order to commence the supply process, the Project will need to make an application for supply to Petronas Gas.

- *Conveyor Corridor*

Following meetings with the State Government of Terengganu together with the various authorities and infrastructure groups with services in or around the services corridor, the Project has commissioned a survey of the corridor.

Testing of the ground conditions at the Pellet Plant site has been initiated.

A number of engineering consultants and contractors have been appointed to work with Road Builder (M) Holdings Bhd and Promet Engineers to design and cost the Kemaman facilities required for the Project.

Kemaman Environmental Approvals

Perunding Utama Sdn Bhd (PU) has been appointed as the environmental consultants for the Project in Malaysia. An initial meeting and a site inspection was held with PU to commence the environmental work for the Kemaman site during June 2005.

In August 2005 Grange submitted a Project Terms of Reference to the Department of Environment.

The review panel meeting for assessing the Terms of Reference for the detailed Environmental Impact Assessment (DEIA) for the pellet plant at Teluk Kalong Industrial Estate, Kemaman was held on the 14th November 2005.

The final environmental submission is currently being prepared.

PROJECT STRUCTURE

Grange anticipates new participants will be introduced into the projects and is providing specific BFS information to a number of companies that have registered their interest through confidentially agreements. Grange has appointed Azure Capital to assist in the process of determining the most appropriate partners capable of facilitating the financing and development of the project.

RED HILL (Mining Lease M27/57) (Placer Dome Australia Limited ("PDA"), a subsidiary of Barrick, 100%; Grange 4% Gross Revenue Royalty)

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

PDAP has advised that mining and processing operations continued at Red Hill during the December 2005 quarter generating royalty income to Grange of \$322,985.42. Total mined ore production from within M27/57 for the quarter was 437,576 tonnes @ 2.09g/t. A total of 269,865 tonnes was hauled to the Paddington processing plant during the quarter.

A total of 198,640 tonnes at a grade of 2.11g/t was processed during the quarter, producing some 12,553 ounces of recovered gold. The total gold recovered from M27/57 at Red Hill as at 31 December 2005 is 190,848 ounces.

Total reconciled mined ore production from commencement of mining (February 2003) until 31 December 2005 is 3,941,786 tonnes @ 1.72g/t gold. Total ore processed during this period was 3,341,924 tonnes @ 1.68g/t.

FRESHWATER

**(Barrick Gold of Australia Limited ("Barrick") 100%;
Grange - Production Royalty)**

Barrick has advised that mining and processing operations were undertaken at the Plutonic East underground mine during the December 2005 quarter, with 64,925 tonnes at a grade of 4.66g/t gold being mined and processed from the Freshwater section of the mine generating royalty income to Grange of \$73,332.

Barrick reports that during the December quarter most of the tonnes attributed to the Freshwater tenement were mined from the panels 4 & 5 of the PE 1713 EOD longhole stope. Numerous smaller stopes were also mined in the 15 and 16 Levels.

WEMBLEY

(Grange 100%; Gleneagle Gold Limited ("Gleneagle") Earning 80%)

The Wembley Gold Project, located approximately 65km south east of Gleneagle's Fortnum Gold Project, hosts a resource of 568,000 tonnes at 2.3g/t gold (42,700 contained ounces) within the Durack and Outback deposits. The project consists of one granted mining lease and a mining lease application in which Gleneagle is earning an 80% interest by spending \$500,000 on exploration.

Gleneagle has advised that pit optimisation and mine design work is underway on the Wembley Gold Project resource as part of the Fortnum Gold Project feasibility study. It is expected that the results of this work will be available in February 2006.

The results of the pit optimisation work will be used in combination with the recently completed 1:10,000 scale geological mapping and regional aeromagnetic assessment to assist in defining targets to be drilled in the first half of 2006. This drilling will be aimed at testing a series of target zones within an intercalated mafic-sediment package both adjacent to and along strike of the known mineralisation as well as potential for resource extensions adjacent to the defined pit shells.

MT WINDSOR JOINT VENTURE

**(Grange Resources Limited ("Grange") 30%;
Thalanga Copper Mines Pty Ltd ("TCM") 70%)**

Reward Deeps & Highway South Project

Income of approximately \$1.9 million was received during December 2005 this being the final payment for the 5,500 tonnes of copper concentrate shipped in May 2005. The final payment for the 4,600 tonnes of copper concentrate shipped in July 2005 is expected to be received during the March 2006 quarter. The copper pricing for this shipment is January 2006.

Final reconciliation of all metal shipments from production at Reward Deeps and Conviction was finalised during December 2005 and resulted in Grange receiving proceeds of approximately \$0.54 million.

During the December 2005 quarter contracts for the rehabilitation of the mine site were let with earthworks commencing during November 2005. Rehabilitation work and seeding are expected to be completed during the June 2006 quarter following which an environmental monitoring programme will be established.

OTHER PROJECTS

New Projects

Grange Resources is actively pursuing other prospects and projects overseas and within Australia. During the December 2005 quarter Grange reviewed a number of advanced prospects in Malaysia and

Indonesia for exploration and development in joint venture with local groups and companies. The commodities have included iron ore, gold and base metals.

In November 2005, Grange Resources entered into a Memorandum of Understanding, leading to joint venture with Esperance Mining, a Malaysian company, on a Prospecting Permit which covers an area that includes the Bukit Ibam iron ore mine in Pahang State. Grange will earn 51% equity by funding Mining Certificate premiums, mine construction and the construction of a small crushing and screening plant for a total cost to Grange of RM3.0 (A\$1.0) million, over 2 years. The initial objective of the joint venture is to generate early cash flow by producing 20,000 tpm iron ore concentrate, from known resources, for the pipe coating industry locally based at Kuantan Port, on the east coast of Malaysia. Exploration will be undertaken elsewhere within the Permit area to identify further resources that may form the basis of a bigger operation to produce iron ore concentrates for export through port facilities, to be constructed by Grange at Kemaman as part of the Southdown Project.

In 2006, Grange will be working on more opportunities in Malaysia for iron ore and gold.

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

ALEX NUTTER

Technical Director

CORPORATE MATTERS

On 21 November 2005 the Company announced that it had successfully placed 8 million fully paid ordinary shares at \$1.35 per share raising \$10.4 million, after placement expenses. Proceeds of the issue are to be directed towards completion of bankable feasibility study into the Southdown and Kemaman Projects, evaluation of potential new projects and for general working capital purposes.

On 25 November 2005 the company received a notice from a shareholder exercising their right to convert 1,000,000 unlisted options in the company to an equivalent number of fully paid ordinary shares. Proceeds from the conversion equated to \$500,000.

On 9 December 2005 the company received a notice from a shareholder exercising their right to convert 1,000,000 unlisted options in the company to an equivalent number of fully paid ordinary shares. Proceeds from the conversion equated to \$500,000.

Subsequent to the end of the quarter a third tranche of 1 million unlisted options was exercised on the 18 January 2006.

Expenditure during the quarter was largely attributable to the on-going bankable feasibility study on the Southdown Magnetite Project.

The resulting cash and cash assets balance at 31 December 2005 was \$18.57 million.

For further information visit the Grange website at www.grangeresources.com.au or alternatively contact Mark Smith on + 61(8) 9321 1118.

MARK SMITH

Company Secretary

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

Grange Resources Limited

ABN

80 009 132 405

Quarter ended ("current quarter")

31 December 2005

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	3,136	6,901
1.2 Payments for (a) exploration and evaluation	(4,126)	(8,340)
(b) development	-	-
(c) production	-	-
(d) administration	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	140	222
1.5 Interest and other costs of finance paid	(11)	(41)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
1.7(i) Payment to directors and employees	(539)	(840)
1.7(ii) Payment for all other working capital	(1,623)	(3,866)
Net Operating Cash Flows	(3,023)	(5,964)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	(57)	(57)
(c)other fixed assets	-	(153)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	93	93
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
1.12(i) Payment for security deposit	(38)	(221)
1.12(ii) Proceeds from release of security deposit	-	-
1.12(iii) Payment for exploration, development and production	-	-
Net investing cash flows	(2)	(338)
1.13 Total operating and investing cash flows (carried forward)	(3,025)	(6,302)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(3,025)	(6,302)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	11,800	11,800
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
1.19(i)	Payment for buy back of shares	-	-
1.19(ii)	Payment for share issue	(654)	(654)
Net financing cash flows		11,146	11,146
Net increase (decrease) in cash held		8,121	4,844
1.20	Cash at beginning of quarter/year to date	5,462	8,739
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	13,583	13,583

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	180
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Refer to attachment 1

Non-cash financing and investing activities

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

Not Applicable

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

Not Applicable

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	4,316
4.2 Development	-
Total	4,316

Reconciliation of cash

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

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,211	954
5.2 Deposits at call	11,523	3,695
5.3 Bank overdraft	Nil	Nil
5.4 Other (Cash held with Joint Ventures)	849	813
Total: cash at end of quarter (item 1.22)	13,583	5,462

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	-	-		
7.2 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3 *Ordinary securities	92,749,259	92,749,259		
7.4 Changes during quarter				
(a) Increases through exercise of options	-	-		
(b) Increases through issues	-	-		
7.5 *Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through securities matured, converted	-	-		
7.7 Options <i>(description and conversion factor)</i>	2,285,715	-	<i>Exercise price</i> 50 cents	<i>Expiry date</i> 28 November 2006
	1,500,000	-	50 cents	30 June 2007
	1,500,000	-	125 cents	30 June 2007
	1,500,000	-	150 cents	30 June 2008
	1,000,000	-	250 cents	30 June 2011
7.8 Issued during quarter ¹	8,000,000	8,000,000	\$1.35	
7.9 Exercised during quarter	2,000,000	2,000,000	50 cents	28 November 2006
7.10 Cancelled during quarter	-	-	-	-
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

Compliance statement

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

Sign here: Mark Smith
 (Company secretary)

Date: 27 January 2006

Notes

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

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

Payments and loans during the quarter to directors and related parties, and associates of directors and related parties, of Grange Resources Limited total \$180,434 and include:-

- Directors' fees (inclusive of superannuation) of \$40,122 paid to non-executive directors of the Consolidated Entity.
- Executive directors' salaries (inclusive of superannuation) of \$140,312