

# QUARTERLY REPORT

FOR THE PERIOD ENDING 30 SEPTEMBER 2006

## CORPORATE DETAILS

### Board of Directors

Anthony Bohnenn (Chairman)  
Geoff Wedlock (Managing Director)  
Alex Nutter (Technical Director)  
Richard Krasnoff (Non-Executive)  
Hans-Rudolf Moser (Non-Executive)

### Capital Structure

Ordinary Shares	104,661,599
50c Opts 6/07	1,500,000
\$1.25 Opts 6/07	1,500,000
\$1.50 Opts 6/08	1,500,000
\$2.50 Opts 6/11	1,000,000

### Stock Exchange Listing

Australian Stock Exchange  
ASX Code: GRR

### Principal & Registered Office

Level 11  
200 St Georges Terrace  
Perth Western Australia 6000  
Telephone: +618 9321 1118  
Facsimile: +618 9321 1523  
[www.grangeresources.com.au](http://www.grangeresources.com.au)

## DECEMBER QUARTER HIGHLIGHTS

### Southdown Magnetite & Kemaman Pellet Project

- Malaysian Government grants Environmental Approval and a Manufacturing Licence for the Kemaman Pellet Plant.

### Gold Royalties

- Royalty payments from the Red Hill and Freshwater Projects of \$883,728 generated during the quarter.

### Bukit Ibam (Malaysia) Iron Ore Project

- Construction of iron ore processing plant at Bukit Ibam iron ore mine completed. Plant commissioning is expected in 1<sup>st</sup> Quarter 2007.

### Inderapura Coal Project

- Negotiated agreement on the Inderapura Coal Project with Coziron Resources Ltd which was successfully completed in January 2007.

## SOUTHDOWN MAGNETITE & KEMAMAN PELLET PROJECT (Grange 100%)

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

### Overview

Located approximately 90 kilometres northeast of the Port of Albany on the south coast of Western Australia (figure 1), the Southdown Magnetite deposit, represents the largest known magnetite deposit of its kind in the southern portion of Western Australia.

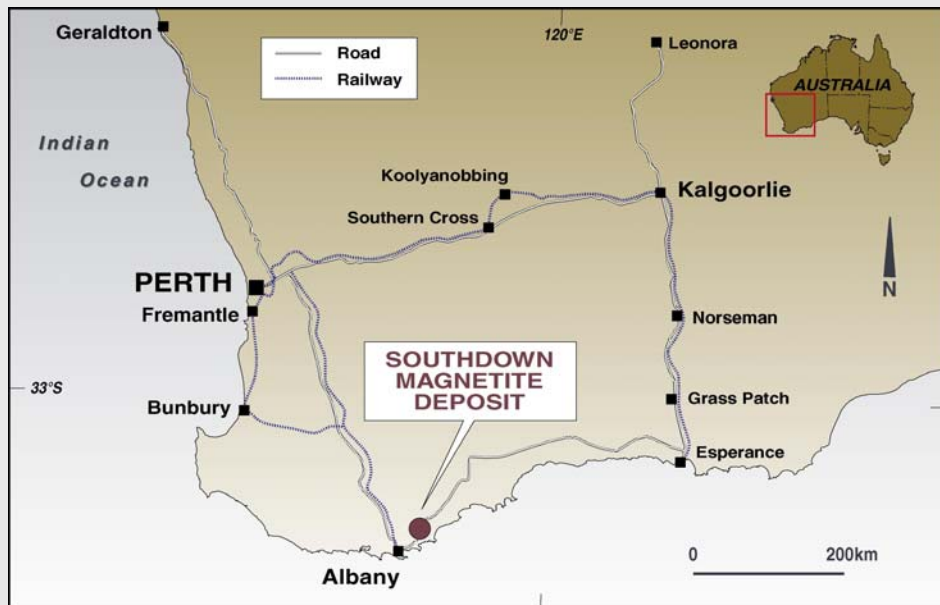


Figure 1: Location of Southdown Magnetite Project, Albany WA

The previously reported resource base is 479.1 million tonnes containing 37.3% magnetite grading 69.2% Fe.

The development plan is 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.

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 capsize vessels and shipped to an iron ore pellet plant located in Kemaman, Malaysia. Filtered water recovered from the slurry will be pumped back to the mine site for re-use in the concentrator via a return water pipeline buried beside the slurry pipeline.

At 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 use of capsize vessels.

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

The magnetite resource within the Grange mining leases is sufficient to support the planned production rate for a period of 22 years. Known extensions to the magnetite deposit within adjacent tenements owned by Rio Tinto could extend the project life.

### *Project Financing and Structuring*

Grange has appointed Azure Capital, a Perth based merchant banking firm, to assist in the process of determining the most appropriate partners capable of facilitating the financing and development of the project.

In March 2006, Grange announced the commencement of an international tender process for joint venture partners. An Information Memorandum has been compiled and an on-line data room established to provide interested parties with relevant information.

The tender process remained in progress at the end of the fourth quarter of 2006. Grange continues to negotiate with a number of significant international companies regarding participation in the project.

### *Project Schedule*

Current indicative timetable for completion of key milestones are:

Timetable	Date
Public Environmental Review (PER) commences (8 week period)	Q1 2007
EPA Bulletin Published (Albany Port & Southdown)	Q2/Q3 2007
Ministerial & Other Approvals (Albany Port & Southdown)	Q3/Q4 2007
Commence Project Construction	Q1 2008
Commence Commissioning	Q4 2009
First Production Year (1 <sup>st</sup> pellets)	2010

### *Bankable Feasibility Study*

The Bankable Feasibility Study into the Project commenced in early 2005.

The technical aspects of the study have largely been completed confirming that a high quality magnetite concentrate can be readily produced suitable for the production of both direct reduction "DR" and blast furnace "BF" pellets.

The preliminary economics confirm the Project's robustness and viability based on NPV and IRR criteria.

Detailed mine planning and a capital and operating cost review on a staged development for the production of 3.5 Mtpa initially with a step up to 6.8 Mtpa of pellets after a number of years is currently being undertaken. Under a staged development, it is anticipated that initial capital costs for both the Australian and Malaysian aspects of the project will be significantly lower although some key infrastructure components such as the slurry pipeline will need to be constructed to the ultimate planned production capacity.

### *Mine Planning*

Detailed mine planning on the base case model of 6.8 Mtpa was completed during the quarter.

### *Metallurgical Test Work*

Grange has initiated further laboratory pellet production to allow in-plant basket tests to be undertaken. These tests are planned to be made at operating Midrex, HYL and other direct reduction facilities.

### *Southdown Infrastructure*

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 proposed pipeline alignment affects 47 different landowners and a number of government agencies. By the end of the quarter easement agreements had been signed by 33 landowners, whilst negotiations remain ongoing with the remaining parties.

The proposed power solution is for Grange to access grid power from a new transmission line to Southdown to be constructed by Western Power Networks. Grange has contracted Western Power Networks to obtain the easement for this transmission line and route selection work is proceeding.

The Albany Port will require the construction of a new berth and the provision of 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.

Design of the Seawall for the reclaimed land at Berth 7 is near completion.

### *Kemaman Infrastructure*

The Kemaman 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 had not been fully dredged. Under the terms of the Heads of Agreement, Road Builder is required to provide port access for vessels with a draft of 16m.

Dredging of the turning basin to ensure that Road Builder meet this requirement has been completed during the December quarter.

### *Environmental Approvals*

Australia The second drafts of the Public Environmental Review (PER) documents (Southdown and Albany Port) were lodged with the EPA for approval during the quarter. The EPA's comments on the Southdown PER were received in late December 2006 and identified only a small number of minor changes. The 3<sup>rd</sup> draft of the Southdown PER will be submitted to the EPA shortly for approval at which point the 8 week public comment phase begins.

EPA comments on the second draft Albany Port PER are expected shortly.

Malaysia Environmental Approval for the Kemaman pellet plant has been received from the Ministry of Natural Resources and Environment. This approval sets out the conditions under which the plant can operate. Grange is pleased that the environmental conditions set for the pellet plant are appropriate for a project of this scale. An appeal has been lodged in respect to one condition relating to material storage areas however Grange is confident that this condition will be amended as requested.

### *Malaysia – Strong support for investment*

Malaysia is one of the most stable countries in the world with a strong mandate to grow its economy by encouraging industry to invest in the country.

A Manufacturing Licence has been issued by the Ministry of International Trade and Industry of Malaysia (MITI). This approval sets out MITI's requirements for the construction and operation of the pellet plant.

This Licence, together with the previous approval of Pioneer Status with its associated package of investment incentives, demonstrates the strong support the Malaysian Government has given to the development of this project.

**RED HILL (Mining Lease M27/57)**  
**(Paddington Gold Pty Limited ("Paddington"), a 100% subsidiary of Link Investments SA.**  
**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 Paddington.

Paddington has advised that mining and processing operations continued at Red Hill during the December 2006 quarter generating royalty income to Grange of \$847,734. Total mined ore production from within M27/57 for the quarter was 199,015 tonnes @ 2.22g/t. A total of 356,345 tonnes was hauled to the Paddington processing plant during the quarter.

A total of 421,310 tonnes at a grade of 2.11g/t was processed during the quarter, producing some 26,601 ounces of recovered gold. The total gold recovered from M27/57 at Red Hill as at 31 December 2006 is 290,767 ounces.

Total mined ore production from commencement of mining (February 2003) until 31 December 2006 is 5,685,510 tonnes @ 1.83g/t gold. Total ore processed during this period was 4,885,308 tonnes @ 1.83g/t gold.

**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 2006 quarter, with 35,994 tonnes at a grade of 4.41 g/t gold being mined and processed from the Freshwater section of the mine generating royalty income to Grange of \$35,994.

Barrick also advised that development drilling of 29 RC holes aggregating 1,440 metres and 8 diamond drill holes aggregating 330 metres was undertaken in the Trout area during the quarter. The aim of the drilling was to continue testing the continuity of the Trout deposit, provide information on structural controls within the mineralised system and provide geotechnical data for a new pit (cut back) design. Barrick advise that the results from this work were encouraging with the best results recording 4m (25m-29m) @ 29.17g/t Au from FRC10484, 4m (14m-18m) @13.48g/t Au from FRC 10481 and 4m (67m-71m) @ 10.88g/t Au from FRC 10487.

No exploration drilling was undertaken during the quarter.

**BUKIT IBAM (MALAYSIA) IRON ORE PROJECT**  
**(Grange Minerals Sdn Bhd earning 51%)**

Grange Minerals Sdn. Bhd., a wholly owned Malaysian subsidiary of Grange Resources, is earning 51% equity in the Bukit Ibam iron ore project, by funding mine development work. Bukit Ibam is located in Pahang State, Malaysia. The mine operated in the late 1960's and produced approximately 22 million tonnes of iron ore before its closure.

Throughout the quarter, work continued on plant construction and mining works to clean up the old open pit area in preparation for mining. Mapping, sampling and a ground magnetic geophysical survey were successfully carried out in the pit area during the quarter. Plant construction was completed in December 2006 and production of iron ore for pipe coating consumers is expected to commence after the current monsoonal season in Q1 2007.

## 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 no field work was completed during the quarter, with the results of drilling completed in the June quarter to be incorporated in an updated resource estimate which will enable the completion of further pit optimisation work.

## OTHER PROJECTS

Grange Minerals Sdn. Bhd., has applied for Exploration Licences in the Malaysian States of Kelantan and Terengganu. The proposed Licence areas contain advanced gold and iron ore prospects. These applications are being processed.

Grange has entered into a conditional agreement with Coziron Resources Ltd regarding the involvement of Grange in a joint venture for the development of the Inderapura coal tenements (KW05191BBI Inderapura and KW05192BBT Tapan) located in West Sumatra, Indonesia.

The agreement is subject to a number of conditions including due diligence satisfactory to Grange being completed. In the event that the conditions are satisfied, Grange will be required to commit to expenditure of \$1 million on project exploration and pre-development activities and the parties will enter into a formal Joint Venture Agreement that will document the agreed arrangements in further detail.

*Unless otherwise stated, the information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Alex Nutter who is a member of The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr Nutter is a full time employee of the company. Mr Nutter has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Nutter consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## ALEX NUTTER

Technical Director

## CORPORATE MATTERS

### Share Issues

During the quarter a total of 9,500,000 fully paid ordinary shares were issued to professional and sophisticated investors at \$1.30 per share raising a net amount of \$11.98 million, after placement expenses.

### Cash Reserves

The cash and cash assets balance of Grange at 31 December 2006 was \$19.8 million.

### Shareholder Information

As at 31 December 2006 Grange had 1,151 shareholders and 104,661,599 shares on issue with the Top 20 shareholders holding 90.65% of the total issued capital.

For further information visit the Grange website at [www.grangeresources.com.au](http://www.grangeresources.com.au) or alternatively contact Neil Marston on +61(8) 9321 1118.

### NEIL MARSTON

Company Secretary