# Grange Resources Limited
**ABN 80 009 132 405**
**and Controlled Entities**

GRANGE RESOURCES

**Australia's leading magnetite producer**

# INTERIM FINANCIAL REPORT

## For the Six Months Ended **31 December 2009**

**Contents**

## DIRECTORS' REPORT

Your directors present their report on the consolidated entity (the "Group") consisting of Grange Resources Limited ("Grange" or "the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2009.

### Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report:

| | |
|---|---|
| Xi Zhiqiang | Chairman |
| Neil Chatfield | Deputy Chairman |
| Russell Clark | Managing Director & Chief Executive Officer |
| Wei Guo | Non-Executive Director |
| Clement Ko | Non-Executive Director |
| Peter Stephens | Non-Executive Director |

Anthony Bohnenn was a director of the Company from the beginning of the half-year until his resignation on 25 November 2009.

### Principal activities

During the six months ended 31 December 2009, the principal activities of the Group were as follows:

- mining, processing and sale of iron ore; and
- the ongoing exploration, evaluation and development of mineral resources, particularly, the Southdown Magnetite Project near Albany, Western Australia.

### Significant changes in the state of affairs

In January 2009, the Company completed the legal acquisition of Ever Green Resources Co., Ltd ("Ever Green"), the ultimate holding company of Australian Bulk Minerals, a privately held company that owned the Savage River operations in north west Tasmania.

Under the terms of AASB 3, *Business Combinations*, Ever Green was deemed to be the accounting acquirer in the business combination. This transaction has therefore been accounted for as a reverse acquisition under AASB3. Accordingly, the consolidated financial statements of the Grange Resources Limited group have been prepared as a continuation of the consolidated financial statements of Ever Green. Ever Green, as the deemed acquirer, has accounted for the acquisition of the Grange Resources Limited group from 2 January 2009. The comparative information from 1 July 2008 to 31 December 2008 presented in the interim financial report is that of Ever Green.

Refer to Note 1(a) of the interim financial statements for further details of the implications arising from the application of AASB 3 and Note 28 for further details of the acquisition.

## Review of operations

The Group is engaged in the production of iron ore pellets from the Savage River operation in Tasmania and the ongoing exploration and evaluation of the Southdown Magnetite Project in Albany, Western Australia.

In January 2009, the Company completed the merger with the privately held Australian Bulk Minerals ("ABM"). The merger with ABM, a privately held company that owned the Savage River operations in north west Tasmania, transformed Grange from a development company into Australia's largest magnetite producer.

Consolidated revenues for the six months ended 31 December 2009 were $111.1 million (2008: $181.2 million) from the sale of 1.2 million tonnes of pellets (2008: 1.1 million tonnes). The reduction in revenues resulted predominately from a 48.3% reduction in benchmark pellet prices to US$72.32 per tonne (2008: US$139.89 per tonne) in April 2009.

The consolidated Group's net profit after tax for the six months ended 31 December 2009 was a $50.0 million (2008: $54.3 million) and included an $84.1 million non-recurring gain from a reduction in the Group's deferred consideration obligation as a result of recent capital restructuring initiatives.

## Exploration and evaluation

At Savage River, two additional magnetite lenses were discovered in an area of pre-stripping. The lenses are located at the northern end of the current open pit. An infill drilling program is being undertaken to test the extent of the mineralisation and to determine the relationship of the lenses to the Main Ore Zone. These discoveries, in a shallow area of the mine, have the potential to increase mine life and reduce operating costs in the next 2 to 3 years. They will also allow access to a greater part of the Main Ore Zone at depth

At Southdown, the Group's magnetite project near Albany in Western Australia, (70:30 joint venture with Sojitz Resources and Technology Pty Ltd), environmental approval for the mine, pipeline and port infrastructure was received from the West Australian Minster for the Environment in October 2009.

In addition, on 18 January 2010, the EPA issued the Environmental Bulletin for the Albany harbour works. The issuing of the permit and bulletin provides the Joint Venture (subject to approval) with the confidence required to complete the feasibility study.

## Restructuring initiatives

During the six month period ended 31 December 2009, the Company completed various restructuring initiatives including:

- One-for-one (1:1) non-renounceable entitlement issue to eligible shareholders resulting in the issue of 495.8 million shares raising $124.3 million (before costs);
- Placement of 99.8 million shares to cornerstone shareholders raising $29.0 million; and
- Restructure of deferred consideration obligations which has reduced the Group's long term obligation by $97.6 million through the placement of 55 million shares and a change in the calculation parameters to a 2% gross receipts royalty from 2012.

## Other significant events

The company also has a 51% ownership interest in the Bukit Ibam magnetite mine in Malaysia. The mine was commissioned during 2009 and suffered a number of start up challenges. These have now been overcome and the plant is operating at capacity. A total of 27,180 tonnes of concentrate was produced during the six months ended 31 December 2009. It is recognised that the scale of these operations is much smaller than the two major assets in Grange (Savage River & Southdown), and it remains the intent of the Company to sell this ownership interest.

In a continuing effort to focus on the core assets of the Company, namely Savage River and Southdown, Grange has recently completed an implementation agreement with Shergar Corporation Limited (Implementation Agreement) to divest its interests in Murchison Copper Mines Pty Ltd. In addition, Grange is in the final stages of divesting a number of Pilbara tenements in Western Australia and its interests in Mt Samuel in the Northern Territory in return for future royalties.

## Outlook

Overall, the Company has completed 2009 as a less complicated and more focused organisation. The divestment of non-core assets, the restructure of onerous ongoing deferred consideration payments at Savage River, leave the Company with a strong balance sheet, no hedged positions, a strong cash balance and the ability to leverage off the widely predicted increase in iron ore prices in April 2010.

Whilst the annual iron ore price negotiations are yet to be completed, current iron ore spot prices are significantly higher than current benchmark prices, leading commodity research analysts to conclude that there will be a significant rise in iron ore benchmark prices in April 2010.

## Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of directors.

Russell Clark
Managing Director & Chief Executive Officer
Perth, Western Australia
25 February 2010

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## Auditor's Independence Declaration

As lead auditor for the review of Grange Resources Limited for the half year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Grange Resources Limited and the entities it controlled during the period.

Tim Goldsmith

Tim Goldsmith
Partner
PricewaterhouseCoopers

Melbourne
25 February 2010

**GRANGE RESOURCES LIMITED**
**ABN 80 009 132 405**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

| | NOTES | Half year ended 31 December 2009 $'000 | 31 December 2008 $'000 |
|---|---|---|---|
| Revenues from mining operations | 3 | **111,077** | 181,153 |
| Cost of sales | 4 | **(147,144)** | (102,859) |
| **Gross profit / (loss) from mining operations** | | **(36,067)** | 78,294 |
| Administration expenses | | **(3,101)** | (678) |
| **Operating profit / (loss) before other income / (expenses)** | | **(39,168)** | 77,616 |
| **Other Income / (expenses)** | | | |
| Restructure of deferred consideration | | **84,106** | - |
| Revaluation of deferred consideration | | **(2,623)** | 144,626 |
| Net gains / (losses) on derivatives | 5 | **-** | (44,521) |
| Impairment losses | 6 | **-** | (80,988) |
| Other income/(expenses) | 7 | **(10)** | (1,318) |
| **Operating profit / (loss) before finance costs** | | **42,305** | 95,415 |
| Finance income | 8 | **11,697** | 925 |
| Finance expenses | 8 | **(7,553)** | (86,912) |
| **Profit / (loss) before tax** | | **46,449** | 9,428 |
| Income tax benefit / (expense) | 9 | **3,566** | 44,879 |
| **Profit / (loss) for the half year** | | **50,015** | 54,307 |
| **Other comprehensive income / (loss)** | | | |
| Exchange differences on translation of foreign operations | | **55** | (8,839) |
| **Total comprehensive income for the half year** | | **50,070** | 45,468 |
| *Profit / (loss) for the half year attributable to* | | | |
| - Owners of Grange Resources Limited | | **50,429** | 49,443 |
| - Non-controlling interests | | **(414)** | 4,864 |
| | | **50,015** | 54,307 |
| *Total comprehensive income/(loss) for the half year attributable to* | | | |
| - Owners of Grange Resources Limited | | **50,484** | 40,604 |
| - Non-controlling interests | | **(414)** | 4,864 |
| | | **50,070** | 45,468 |
| **Earnings per share for profit / (loss) attributable to the ordinary equity holders of Grange Resources Limited** | | | |
| - Basic earnings / (loss) per share (cents per share) | | **5.52** | 14.29 |
| - Diluted earnings / (loss) per share (cents per share) | | **5.52** | 14.29 |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes*

**GRANGE RESOURCES LIMITED**
**ABN 80 009 132 405**
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**AS AT 31 DECEMBER 2009**

| | NOTES | 31 December 2009 $'000 | 30 June 2009 Restated $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | **95,872** | 20,466 |
| Trade and other receivables | 11 | **13,556** | 19,861 |
| Inventories | 12 | **45,173** | 63,887 |
| | | **154,601** | 104,214 |
| Assets classified as held for sale | | **5,618** | 3,688 |
| **Total current assets** | | **160,219** | 107,902 |
| **Non-current assets** | | | |
| Receivables | 13 | **14,376** | 16,138 |
| Property, plant and equipment | 14 | **158,781** | 173,022 |
| Mine properties and development | 15 | **320,216** | 335,534 |
| Exploration and evaluation | 16 | **45,310** | 45,315 |
| Deferred tax assets | 17 | **-** | - |
| **Total non-current assets** | | **538,683** | 570,009 |
| **Total assets** | | **698,902** | 677,911 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **31,643** | 50,529 |
| Borrowings | 19 | **31,930** | 71,442 |
| Deferred consideration | 20 | **5,470** | 29,586 |
| Provisions | 21 | **3,355** | 4,156 |
| | | **72,398** | 155,713 |
| Liabilities classified as held for sale | | **1,920** | 65 |
| **Total current liabilities** | | **74,318** | 155,778 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes*

**GRANGE RESOURCES LIMITED**
**ABN 80 009 132 405**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2009**

| | NOTES | 31 December 2009 $'000 | 30 June 2009 Restated $'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | 22 | **59,982** | 58,484 |
| Deferred consideration | 23 | **33,479** | 144,933 |
| Deferred tax liabilities | 24 | **26,642** | 32,350 |
| Provisions | 25 | **20,824** | 20,781 |
| **Total non-current liabilities** | | **140,927** | 256,548 |
| **Total liabilities** | | **215,245** | 412,326 |
| **Net assets** | | **483,657** | 265,585 |
| **EQUITY** | | | |
| Contributed equity | 26 | **327,902** | 160,198 |
| Reserves | 27 | **2,469** | 2,116 |
| Retained profits / (losses) | | **153,735** | 103,306 |
| **Capital and reserves attributable to owners of Grange Resources Limited** | | **484,106** | 265,620 |
| Non-controlling interests | | **(449)** | (35) |
| **Total equity** | | **483,657** | 265,585 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes*

**GRANGE RESOURCES LIMITED**
**ABN 80 009 132 405**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

| | NOTES | Attributable to owners of Grange Resources Limited | | | | |
|---|---|---|---|---|---|---|
| | | Contributed equity Restated $'000 | Reserves $'000 | Retained earnings Restated $'000 | Non-controlling interests Restated $'000 | TOTAL $'000 |
| **Balance at 1 July 2009** | | **155,334** | **2,116** | **108,170** | **(35)** | **265,585** |
| Prior period restatement | 1 | 4,864 | - | (4,864) | - | - |
| **Restated balance at 1 July 2009** | | **160,198** | **2,116** | **103,306** | **(35)** | **265,585** |
| Profit / (loss) for the half-year | | - | - | 50,429 | (414) | 50,015 |
| Exchange differences on translation of foreign operation | | - | 55 | - | - | 55 |
| Total comprehensive income / (loss) for the half-year | | - | 55 | 50,429 | (414) | 50,070 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Contributions of equity, net of transaction costs | | 167,704 | - | - | - | 167,704 |
| Employee share options and rights | | - | 298 | - | - | 298 |
| | | 167,704 | 298 | - | - | 168,002 |
| **Balance at 31 December 2009** | | **327,902** | **2,469** | **153,735** | **(449)** | **483,657** |
| **Balance at 1 July 2008** | | 447 | 5,410 | 22,125 | 2,215 | 30,197 |
| Profit / (loss) for the half-year | | - | - | 49,443 | 4,864 | 54,307 |
| Exchange differences on translation of foreign operation | | 177 | (9,016) | - | - | (8,839) |
| Total comprehensive income for the half-year | | 177 | (9,016) | 49,443 | 4,864 | 45,468 |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Contributions of equity, net of transaction costs | | - | - | - | - | - |
| Employee share options and rights | | - | - | - | - | - |
| | | - | - | - | - | - |
| **Balance at 31 December 2008** | | 624 | (3,606) | 71,568 | 7,079 | 75,665 |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes*

**GRANGE RESOURCES LIMITED**
**ABN 80 009 132 405**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE HALF YEAR ENDED 31 DECEMBER 2009**

| | NOTES | Half year ended 31 December 2009 $'000 | 31 December 2008 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **116,526** | 169,192 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(109,410)** | (86,132) |
| | | **7,116** | 83,060 |
| Interest received | | **686** | 612 |
| Interest paid | | **(405)** | (1,265) |
| Income taxes paid | | **(169)** | - |
| **Net cash inflow / (outflow) from operating activities** | | **7,228** | 82,407 |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation | | **(512)** | - |
| Payments for property, plant and equipment | | **(3,109)** | (13,886) |
| Proceeds from sale of property, plant and equipment | | **36** | 292 |
| Payments for mine properties and development | | **(6,620)** | (44,074) |
| Proceeds from / (payment of) security deposits | | **-** | (8,500) |
| **Net cash inflow / (outflow) from investing activities** | | **(10,205)** | (66,168) |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of fully paid shares, net of transaction costs | | **150,384** | - |
| Repayment of borrowings | | **(22,824)** | (46,309) |
| Payment of deferred consideration | | **(41,544)** | (1,288) |
| Finance lease payments | | **(6,805)** | (8,111) |
| **Net cash inflow / (outflow) from financing activities** | | **79,211** | (55,708) |
| **Net increase / (decrease) in cash and cash equivalents** | | **76,234** | (39,469) |
| Cash and cash equivalents at beginning of the half year | | **20,466** | 45,945 |
| Effects of exchange rate changes on cash and cash equivalents | | **(828)** | 1,276 |
| **Cash and cash equivalents at end of the half year** | 10 | **95,872** | 7,752 |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes*

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation for the half-year financial report

This general purpose financial report for the interim half year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Grange Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

On 2 January 2009, the Company completed the legal acquisition of Ever Green Resources Co., Ltd ("Ever Green"). Under the terms of AASB 3 *Business Combinations*, Ever Green was deemed to be the accounting acquirer in the business combination. The transaction has therefore been accounted for as a reverse acquisition under AASB 3.

Accordingly, the consolidated financial statements of the Grange Resources Limited group ("Grange") have been prepared as a continuation of the consolidated financial statements of Ever Green. Ever Green, as the deemed acquirer, has accounted for the acquisition of Grange Resources from 2 January 2009. The comparative financial information from 1 July 2008 to 31 December 2008 presented in interim financial statements is that of Ever Green. Refer to Note 28 for further details of the business combination.

The implications of the application of AASB 3 on the financial statements are as follows:

***Statement of Comprehensive Income***

- The 2009 consolidated statement of comprehensive income comprises 6 months of the combined Grange and Ever Green group's.
- The 2008 consolidated statement of comprehensive income comprises 6 months of Ever Green.

***Statement of Financial Position***

- The 31 December 2009 consolidated balance sheet represents the combined position of the Grange and Ever Green group's.
- The 30 June 2009 consolidated balance sheet represents the combined position of the Grange and Ever Green group's.

***Statement of Changes in Equity***

- The 2009 consolidated statement of changes in equity comprises:
    - The equity balance of the combined Grange and Ever Green group at the beginning of the half year reporting period;
    - The comprehensive income and transactions with equity holders of combined Grange and Ever Green group for the half year reporting period;
    - The equity balance of the combined Grange and Ever Green group at the end of the half year reporting period.

- The 2008 consolidated statement of changes in equity comprises:
  - The equity balance of Ever Green at the beginning of the half year reporting period;
  - The comprehensive income and transactions with equity holders of Ever Green for the half year reporting period;
  - The equity balance of Ever Green at the end of the half year reporting period.

The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period, except as set out below:

***Segment Reporting***

The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a 'management approach' under which segment information in presented on the same basis as that used for internal reporting purposes.

***Restatement of Comparative Financial Information***

On 2 January 2009, the Company completed the legal acquisition of Ever Green Resources Co., Ltd ("Ever Green"). The amount attributed to non-controlling interests, which was acquired as part of this transaction, at the date of acquisition was understated by $4.9 million. Accordingly, the comparative financial information has been restated to correct this understatement by increasing share capital and reducing bought forward retained profits. There was no impact on the previously reported net profit or net assets of Grange Resources Limited.

## NOTE 2. SEGMENT INFORMATION

Management has determined and presented operating segments based on the reports reviewed by the Managing Director, who is the Group's chief operating decision maker in terms of allocating resources and assessing performance.

The Group has one reportable segment, being the exploration, evaluation and development of mineral resources and iron ore mining operations. The Managing Director allocates resources and assesses performance, in terms of revenues earned; expenses incurred and assets employed, on a consolidated basis in a manner consistent with that of the presentation in the financial statements.

Exploration, evaluation and development projects (including our Southdown project) are not deemed reportable operating segments at this time as the financial performance of these operations is not separately included in the reports provided to the Managing Director. These projects may become segments when they commence operations in the future.

Revenues from the sales of iron ore are predominately made to two major customers, one based in China and the other in Australia. The following table presents revenues from sales of iron ore based on the geographical location of customers.

| | Revenues from sales of iron ore | |
|---|---|---|
| | **2009** | **2008** |
| | **$'000** | **$'000** |
| Australia | **42,149** | 118,029 |
| China | **66,395** | 63,050 |
| Malaysia | **23** | - |
| **TOTAL** | **108,567** | 181,079 |

## NOTE 3. REVENUES

| | Half year ended 31 December 2009 $'000 | Half year ended 31 December 2008 $'000 |
|---|---|---|
| **Revenues from mining operations** | | |
| Sales of iron ore | **108,567** | 181,079 |
| Other revenue | **2,510** | 74 |
| | **111,077** | 181,153 |

## NOTE 4. COST OF SALES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Mining costs | **54,365** | 59,954 |
| Production costs | **39,762** | 45,071 |
| Government royalties | **3,133** | 6,479 |
| Depreciation and amortisation expense | **25,938** | 29,819 |
| Deferred mining costs expensed / (capitalised) (net) | **4,721** | (44,074) |
| Changes in inventories | **953** | 13,019 |
| Inventory net realisable value adjustment | **15,391** | 146 |
| Foreign exchange gains/(losses) | **2,881** | (7,555) |
| | **147,144** | 102,859 |

## NOTE 5. NET GAINS/(LOSSES) ON DERIVATIVES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Net gains / (loss) on foreign currency derivatives not qualifying as hedges | **-** | (44,521) |
| | **-** | (44,521) |

## NOTE 6. IMPAIRMENT LOSSES

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Property plant and equipment | **-** | (3,988) |
| Mine properties and development | **-** | (66,600) |
| Exploration and evaluation | **-** | (10,400) |
| | **-** | (80,988) |

## NOTE 7. OTHER INCOME / (EXPENSES)

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Net (loss) on disposal of property, plant and equipment | **(10)** | (1,318) |
| | **(10)** | (1,318) |

## NOTE 8. FINANCE INCOME / (EXPENSES)

| | Half year ended 31 December 2009 $'000 | 31 December 2008 $'000 |
|---|---|---|
| **Finance income** | | |
| Interest income received or receivable | | |
| - Other entities | **537** | 925 |
| Exchange gains on foreign currency borrowings | **11,160** | - |
| | **11,697** | 925 |
| **Finance expenses** | | |
| Interest charges paid or payable | | |
| - Other entities | **(522)** | (1,662) |
| Finance lease interest charges paid or payable | **(1,242)** | (1,889) |
| Provisions: unwinding of discount | **(5,036)** | (14,311) |
| Exchange losses on foreign currency borrowings | **-** | (68,702) |
| Other | **(753)** | (348) |
| | **(7,553)** | (86,912) |

## NOTE 9. INCOME TAX EXPENSE / (BENEFIT)

### A. Income tax expense / (benefit)

| | 2009 | 2008 |
|---|---|---|
| Current tax | **-** | - |
| Deferred tax | **(6,221)** | (44,879) |
| Adjustment to current tax of prior periods | **2,655** | - |
| | **(3,566)** | (44,879) |

### B. Numerical reconciliation of income tax expense to prima facie tax payable

| | 2009 | 2008 |
|---|---|---|
| Profit/(loss) from continuing operations before income tax expense | **46,449** | 9,428 |
| Tax at the Australian tax rate of 30% (2008: 30%) | **13,935** | 2,828 |
| *Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:* | | |
| - Restructure of deferred consideration | **(25,232)** | - |
| - Revaluation of deferred consideration | **2,488** | (48,771) |
| - Provisions: unwind of discount | **1,081** | 3,623 |
| - Share based payments expense | **89** | - |
| - Research and development | **-** | (1,224) |
| - Difference in overseas tax rates | **-** | (1,430) |
| - Sundry items | **(406)** | 95 |
| | **(8,045)** | (44,879) |
| Adjustments to current tax of prior periods | **2,655** | - |
| Income tax benefits not recognised | **1,824** | - |
| Income tax expense / (benefit) | **(3,566)** | (44,879) |

## NOTE 10. CASH AND CASH EQUIVALENTS

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Cash at bank and in hand | **95,872** | 20,466 |
| | **95,872** | 20,466 |

## NOTE 11. TRADE AND OTHER RECEIVABLES

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Trade receivables | **5,559** | 10,775 |
| Other receivables | **4,571** | 8,572 |
| Prepayments | **3,189** | 277 |
| Security deposits | **237** | 237 |
| | **13,556** | 19,861 |

## NOTE 12. INVENTORIES

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Stores and spares | **14,915** | 17,286 |
| Ore stockpiles | | |
| - at net realisable value | **13,996** | 17,828 |
| Work-in-progress | | |
| - at cost | **-** | 622 |
| - at net realisable value | **1,015** | - |
| Finished goods | | |
| - at net realisable value | **15,247** | 28,151 |
| | **45,173** | 63,887 |

Write-downs of inventories to net realisable value as an expense during the half year ended 31 December 2009 amounted to $15.4 million (2008: $0.1 million). The write down is a consequence of the planned delivery of pellets into a legacy supply contract during the first three months of 2010. The terms of the contract require the Group to sell 500,000 tonnes of pellets at a price of US$43 per tonne before 31 March 2010. Once delivered the contract will be satisfied in full. This expense has been included in cost of goods sold in the statement of comprehensive income.

## NOTE 13. RECEIVABLES

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Security deposits | **14,376** | 16,138 |
| | **14,376** | 16,138 |

## NOTE 14. PROPERTY, PLANT AND EQUIPMENT

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Land and Buildings | | |
| - At cost | **39,395** | 38,645 |
| - Accumulated depreciation | **(8,834)** | (7,568) |
| | **30,561** | 31,077 |
| Plant and Equipment | | |
| - At cost | **205,792** | 207,317 |
| - Accumulated depreciation | **(78,195)** | (66,153) |
| | **127,597** | 141,164 |
| Office Equipment | | |
| - At cost | **1,720** | 1,698 |
| - Accumulated depreciation | **(1,097)** | (917) |
| | **623** | 781 |
| | **158,781** | 173,022 |

### *(a) Movements in property, plant and equipment*

| | Land and buildings $'000 | Plant and equipment $'000 | Office equipment $'000 | Total $'000 |
|---|---|---|---|---|
| At 1 July 2009 | | | | |
| At cost | 38,645 | 207,317 | 1,698 | 247,660 |
| Accumulated depreciation | (7,568) | (66,153) | (917) | (74,638) |
| | 31,077 | 141,164 | 781 | 173,022 |
| Period ended 31 December 2009 | | | | |
| Opening net book amount | 31,077 | 141,164 | 781 | 173,022 |
| Additions | 750 | 1,138 | 22 | 1,910 |
| Disposals | - | (1,556) | - | (1,556) |
| Depreciation charge | (1,266) | (13,149) | (180) | (14,595) |
| Closing net book amount | 30,561 | 127,597 | 623 | 158,781 |
| At 31 December 2009 | | | | |
| At cost | 39,395 | 205,792 | 1,720 | 246,907 |
| Accumulated depreciation | (8,834) | (78,195) | (1,097) | (88,126) |
| | 30,561 | 127,597 | 623 | 158,781 |

## NOTE 15. MINE PROPERTIES AND DEVELOPMENT

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Mine properties and development (at cost) | **277,529** | 276,115 |
| Accumulated depreciation | **(60,544)** | (48,533) |
| Net book amount | **216,985** | 227,582 |
| Deferred mining costs (net book amount) | **103,231** | 107,952 |
| | **320,216** | 335,534 |

### *(a) Movements in mine, properties and development*

| | | |
|---|---|---|
| Opening net book amount (1 July 2009 / 1 January 2009) | **227,582** | 239,603 |
| Additions | **1,424** | 3,194 |
| Transfers to assets held for sale | **-** | (2,929) |
| Depreciation charge | **(12,021)** | (12,021) |
| Exchange differences | **-** | (265) |
| Closing net book amount (31 December 2009 / 30 June 2009) | **216,985** | 227,582 |

### *(b) Movements in deferred mining costs*

| | | |
|---|---|---|
| Opening net book amount (1 July 2009 / 1 January 2009) | **107,952** | 91,063 |
| Current year expenditure capitalised | **4,325** | 22,531 |
| Amounts transferred to inventories | **(9,046)** | (5,642) |
| Closing net book amount (31 December 2009 / 30 June 2009) | **103,231** | 107,952 |

## NOTE 16. EXPLORATION AND EVALUATION

| | | |
|---|---|---|
| Exploration and evaluation (at cost) | **45,310** | 45,315 |
| | **45,310** | 45,315 |
| *Movement:* | | |
| Opening net book amount (1 July 2009 / 1 January 2009) | **45,315** | 2,500 |
| Acquisition additions | **-** | 40,739 |
| Current year expenditure | **577** | 2,221 |
| Transfer to assets held for sale | **(598)** | - |
| Exchange differences | **16** | (145) |
| Closing net book amount (31 December 2009 / 30 June 2009) | **45,310** | 45,315 |

## NOTE 17. DEFERRED TAX ASSETS

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Inventories | **1,063** | 573 |
| Trade and other payables | **1,298** | 1,062 |
| Employee benefits | **1,028** | 1,176 |
| Deferred consideration | **3,319** | 6,221 |
| Borrowings | **-** | 5,094 |
| Decommissioning and restoration | **5,906** | 5,330 |
| Taxation losses | **12,450** | 271 |
| Other | **-** | 1,125 |
| Total deferred tax assets | **25,064** | 20,852 |
| Set-off against deferred tax liabilities pursuant to set-off provisions (Note 24) | **(25,064)** | (20,852) |
| Net deferred tax assets | **-** | - |

## NOTE 18. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables and accruals | **25,019** | 44,593 |
| Other payables | **6,624** | 5,936 |
| | **31,643** | 50,529 |

## NOTE 19. BORROWINGS (CURRENT)

| | | |
|---|---|---|
| **Secured** | | |
| Bank loans | **21,100** | 50,220 |
| Related party loans | **-** | 9,535 |
| Finance lease liabilities | **10,358** | 11,098 |
| | **31,458** | 70,853 |
| **Unsecured** | | |
| Other | **472** | 589 |
| | **472** | 589 |
| | **31,930** | 71,442 |

The secured bank loan with the Bank of China of $21.1 million will be repaid before 30 June 2010.

## NOTE 20. DEFERRED CONSIDERATION (CURRENT)

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Deferred consideration | **5,470** | 29,586 |
| | **5,470** | 29,586 |
| *Movements:* | | |
| Balance at the beginning of the period (1 July 2009 / 1 January 2009) | **29,586** | 78,842 |
| Payments | **(41,544)** | (53,851) |
| Charged / (credited) to the income statement | | |
| - Restructure of deferred consideration | **(2,363)** | - |
| - Changes in estimate | **(718)** | (3,366) |
| Charged / (credited) to equity through issue of shares | **(1,217)** | - |
| Transfers from non-current balance | **21,726** | 7,961 |
| Balance at the end of the period (31 December 2009 / 30 June 2009) | **5,470** | 29,586 |

The deferred consideration amount of $5.5 million represents a payment owing to Ivanhoe Mines Limited, in accordance with the Head Agreement between Stemcor Pellets Limited and other parties, which was reassigned to the Group as part of a business combination involving Australian Bulk Minerals which completed in August 2007. The payment is due on 31 March 2010 and represents a final amount due and payable in relation to this agreement.

## NOTE 21. PROVISONS (CURRENT)

| | | |
|---|---|---|
| Employee benefits | **2,945** | 3,346 |
| Decommissioning and restoration | **410** | 810 |
| | **3,355** | 4,156 |

Movements in each class of provision during the half year, other than employee benefits, are set out below:

| | | |
|---|---|---|
| Balance at the beginning of the period (1 July 2009 / 1 January 2009) | **810** | - |
| Expenditure | **(300)** | - |
| Transfers to liabilities held for sale | **(100)** | - |
| Transfers from non-current provisions | **-** | 810 |
| Balance at the end of the period (31 December 2009 / 30 June 2009) | **410** | 810 |

## NOTE 22. BORROWINGS (NON-CURRENT)

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| **Secured** | | |
| Bank loans | **11,342** | - |
| Finance lease liabilities | **40,037** | 50,070 |
| | **51,379** | 50,070 |
| **Unsecured** | | |
| Other | **8,603** | 8,414 |
| | **8,603** | 8,414 |
| | **59,982** | 58,484 |

## NOTE 23. DEFERRED CONSIDERATION (NON-CURRENT)

| | | |
|---|---|---|
| Deferred consideration | **33,479** | 144,933 |
| | **33,479** | 144,933 |
| *Movements:* | | |
| Balance at the beginning of the period (1 July 2009 / 1 January 2009) | **144,933** | 141,818 |
| Charged / (credited) to the income statement | | |
| - Restructure of deferred consideration | **(81,743)** | - |
| - Changes in estimate | **3,341** | 2,972 |
| - Unwinding of discount | **4,507** | 8,104 |
| Charged / (credited) to equity through issue of shares | **(15,833)** | - |
| Transfers to current balance | **(21,726)** | (7,961) |
| Balance at the end of the period (31 December 2009 / 30 June 2009) | **33,479** | 144,933 |

The deferred consideration obligation represents a series of payments owing to the previous owners of Australian Bulk Minerals (ABM) and arose from a business combination involving ABM which completed in August 2007. The original terms capped the obligation at 20% of US dollar revenues generated by ABM above a pre-determined price of US$47.50 per tonne of pellets for ore years commencing on 1 April 2010 and ending on 31 March 2022. Capital restructuring initiatives completed in September 2009, which involved the issue of 55 million in Grange, changed the terms of the obligation to a 2% gross receipts royalty from 2012 to 2023 and has reduced the Group's obligation by $97.6 million.

## NOTE 24. DEFERRED TAX LIABILITIES

| | | |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Property, plant and equipment | **8,894** | 8,772 |
| Mine properties and development | **40,880** | 43,274 |
| Exploration and evaluation | **750** | 750 |
| Borrowings | **1,107** | - |
| Other | **75** | 406 |
| Total deferred tax liabilities | **51,706** | 53,202 |
| Set-off against deferred tax assets pursuant to set-off provisions (Note 17) | **(25,064)** | (20,852) |
| Net deferred tax liabilities | **26,642** | 32,350 |

## NOTE 25. PROVISONS (NON-CURRENT)

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Employee benefits | **636** | 575 |
| Decommissioning and restoration | **20,188** | 20,206 |
| | **20,824** | 20,781 |

Movements in each class of provision during the half year, other than employee benefits, are set out below:

| | | |
|---|---|---|
| Balance at the beginning of the period (1 July 2009 / 1 January 2009) | **20,206** | 17,272 |
| Additions | **-** | 3,195 |
| Charged / (credited) to the income statement | | |
| - Unwinding of discount | **529** | 549 |
| Changes in estimate | **1,201** | - |
| Transfers to liabilities held for sale | **(1,748)** | - |
| Transfers to current provisions | **-** | (810) |
| Balance at the end of the period (31 December 2009 / 30 June 2009) | **20,188** | 20,206 |

## NOTE 26. CONTRIBUTED EQUITY

The following table summarises movements of the consolidated contributed equity for the 2009 and 2008 half year reporting periods

| | | Number of shares | $'000 |
|---|---|---|---|
| **1 July 2009 – Opening balance** | | **495,516,250** | **155,334** |
| Prior period restatement (refer Note 1) | | - | 4,864 |
| **1 July 2009 – Restated opening balance** | | **495,516,250** | **160,198** |
| Issue of shares from entitlement offer | (i) | 497,212,283 | 124,303 |
| Issue of shares from capital restructure | (ii) | 55,000,000 | 17,050 |
| Issue of shares to Managing Director | (iii) | 1,000,000 | 270 |
| Issue of shares to cornerstone shareholders | (iv) | 100,049,500 | 29,014 |
| Issue of shares under short term incentive plan | | 319,743 | - |
| Less: Transaction costs arising from share issues | | - | (2,933) |
| **31 December 2009 – Closing balance** | | **1,149,097,776** | **327,902** |
| | | | |
| **1 July 2008 – Opening balance** | | **3,000,000** | **447** |
| Translation difference | | - | 177 |
| **31 December 2008 – Closing balance** | | **3,000,000** | **624** |

(i) In September 2009, the Company completed a one for one non renounceable entitlement issue to eligible shareholders and issued 495,835,993 ordinary shares at an issue price of $0.25 per share and issued 1,376,290 ordinary shares as part satisfaction for advisory services provided for the entitlement issue.

(ii) In September 2009, the Company issued 55,000,000 ordinary shares pursuant to the restructuring of certain payments arising from a pre-acquisition business combination involving Australian Bulk Minerals.

(iii) In December 2009, the Company issued 1,000,000 ordinary shares to the Managing Director in recognition of his role in the completion of the merger between Grange Resources Limited and Ever Green Resources Co., Ltd

(iv) In December 2009, the Company completed a placement of 99,800,000 ordinary shares to its cornerstone shareholders at an issue price of $0.29 per share and also issued 249,500 ordinary shares as part satisfaction of advisory services provided for the entitlement issue and restructure.

## NOTE 27. RESERVES

| | 31 December 2009 $'000 | 30 June 2009 $'000 |
|---|---|---|
| Foreign currency translation reserve | **193** | 138 |
| Share-based payments reserve | **2,276** | 1,978 |
| | **2,469** | 2,116 |

## NOTE 28. BUSINESS COMBINATIONS

### (i) Summary of acquisition

On 2 January 2009, Grange completed the legal acquisition of Ever Green (the ultimate holding company of the Australian Bulk Minerals operations).

Under the terms of AASB 3 *Business Combinations*, Ever Green was deemed to be the accounting acquirer in the business combination. The transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of the Grange Resources Limited Group have been prepared as a continuation of the consolidated financial statements of Ever Green. Ever Green, as the deemed acquirer, has accounted for the acquisition of Grange from 2 January 2009.

Details of the fair value of the assets and liabilities and goodwill are as follows:

| | 2009 $'000 |
|---|---|
| **Purchase consideration:** | |
| 115,318,009 shares (being the number of shares of the legal parent, Grange Resources Limited, before the business combination) multiplied by $0.35 per share | 40,362 |
| Direct costs relating to the acquisition | 14,598 |
| Total purchase consideration | 54,960 |
| Fair value of net identifiable assets acquired (see below) | 54,960 |
| **Goodwill / (Discount on acquisition)** | - |

### (ii) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

| | Acquiree's carrying amount $'000 | Fair value $'000 |
|---|---|---|
| Cash and cash equivalents | 12,793 | 12,793 |
| Trade and other receivables | 5,852 | 3,633 |
| Other assets | 8,018 | - |
| Property, plant and equipment | 6,526 | 6,032 |
| Mine properties and development | 1,594 | 3,194 |
| Exploration and evaluation | 68,051 | 40,739 |
| Trade and other payables | (8,148) | (8,148) |
| Employee benefits | (89) | (89) |
| Decommissioning and restoration | (4,243) | (3,194) |
| **Net assets** | 90,354 | 54,960 |

## NOTE 29. EVENTS OCCURRING AFTER THE REPORTING PERIOD

In February 2010, the company issued 1,333,060 ordinary shares in part satisfaction of strategic advisory services being provided to the Company.

## NOTE 30. DIVIDENDS

Since the end of the previous half year, no amount has been paid or declared by the Company by way of a dividend.

## DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of it's performance for the half year ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

This declaration is made in accordance with a resolution of the directors.

Russell Clark
Managing Director & Chief Executive Officer
Perth, Western Australia
25 February 2010

PRICEWATERHOUSECOOPERS

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## Independent auditor's review report to the members of Grange Resources Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Grange Resources Limited, which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for Grange Resources Limited (the consolidated entity). The consolidated entity comprises both Grange Resources limited (the company) and the entities it controlled during that half-year.

*Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Grange Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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## Independent auditor's review report to the members of Grange Resources Limited (continued)

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Grange Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Goldsmith

Tim Goldsmith
Partner

Melbourne
25 February 2010