

7 October 2008

Dear Shareholder

As Chairman of Grange Resources, I want to follow up with you on our recently announced proposal to merge with Australian Bulk Minerals (ABM). This will be a company-transforming event that will catapult Grange into the ranks of Australia's substantial and profitable iron ore producers.

It will turn Grange into the largest magnetite and iron ore pellet producer in Australia.

Like other Australian iron ore companies, Grange's share price has been significantly impacted by the recent market turmoil. Market difficulties have forced some international investors into immediate sales of their shares which has put downward pressure on Grange's price. It is in this type of uncertain and volatile market environment that cash flow generation, access to capital and diversification become increasingly important, particularly for development companies like Grange.

The proposed merger with ABM significantly de-risks Grange as it provides increased certainty, financial capacity and operational expertise for the development of our flagship Southdown iron ore project.

We believe that the outlook for Grange and its shares will be materially enhanced following completion of the proposed merger.

Substantial assets and operational expertise. Grange is acquiring substantial installed infrastructure and equipment from ABM that has a very significant replacement value. ABM has been producing magnetite and pellets for over 30 years and is a cash flow generating project with a potential 25 year mine life remaining. ABM brings to Grange a hugely experienced, proven management team and a successful model in magnetite/pellet production that can be readily applied to Southdown.

Funding benefits and minimal dilution. Once the merger is completed, Grange becomes cash flow positive from 1 July 2008, the effective date of the transaction. With the cash flow from ABM and the strong financial support of ABM's major Chinese shareholders Grange will have an outstanding financial platform from which to develop the Southdown project. This will make us less dependent on having to issue new shares to raise funds at a depressed share price, which would dilute your shareholding in Grange.

Given recent events in global financial markets, the merger is by far and away the most attractive option for Grange shareholders to capture value for their investment with the least amount of dilution.

Diversification. In Grange's case we are taking our investment, the Southdown project, and combining it with ABM's Savage River assets. Because ABM is an established, operating mine with strong cash flow and infrastructure already constructed, its inherent value is much greater than Grange's where the infrastructure is yet to be built and cash flow is a number of years away.

The merger takes away many of the perceived risks with the development of Southdown – especially funding – making Grange more attractive to prospective investors.



With diversification, enhanced scale of operations and market size Grange is expected to become a more attractive target for investors, especially major institutions looking for ways of getting 'pure play' exposure to strong iron ore prices.

We expect that, in time, this merger will result in Grange shares trading in greater volumes than at present, making the market in Grange shares more liquid, effective and less volatile, which is positive for shareholders.

Over the coming weeks, we will send you further information on the merger. This will include an Explanatory Memorandum that will tell you more about ABM and why Grange believes this proposal deserves your support.

Later in the year you will be asked to vote to approve the proposed merger. This is an important event and I urge you to exercise your vote and have a direct say in the future of your Company.

On current expectations, the merger will be completed by Christmas.

The Board of Grange is unanimous in its support for the merger. Aside from being Chairman of Grange, I am also the Company's largest shareholder and I urge you to join me in voting in favour of the merger proposal.

Thank you for your continued support and please feel free to contact us at the Grange office should you have any queries about the merger proposal or the process involved in completing the merger. You will find more information on our website at www.grangeresources.com.au.

Yours sincerely

ANTHONY BOHNENN, Chairman