



**FORGE RESOURCES LTD**  
**ABN 30 139 886 187**

**INTERIM FINANCIAL REPORT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

## CONTENTS

Directors' Report .....	3
Auditor's Independence Declaration .....	15
Directors' Declaration.....	16
Consolidated Statement of Comprehensive Income .....	17
Consolidated Statement of Financial Position .....	18
Consolidated Statement of Changes in Equity .....	19
Consolidated Statement of Cash Flows.....	20
Notes to the Financial Statements .....	21
Independent Auditor's Review Report .....	26

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## DIRECTORS' REPORT

### DIRECTORS' REPORT

The directors submit herewith the financial report of the consolidated group for the half year ended 31 December 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

#### Directors

The names of the directors of the Company during and since the end of the half year are:

Nicholas Curtis	Non-Executive Chairman
Matthew James	Executive Director
Harold Ou Wang	Non-Executive Director
Emmanuel Correia	Non-Executive Director
Michael Wolley	Non-Executive Director

#### Review of Operations

The half year to December 2012 was a defining period for Forge with a high level of activity including:

#### HIGHLIGHTS

- Finalisation of preferred trans-shipment facility location on the Balla Balla coastline and an application for a Miscellaneous Licence tenement from mine to coastline submitted to the WA Department of Mines and Petroleum.
- Achievement of positive results from the initial test work on Balla Balla Magnetite concentrate samples by Laiwu Iron and Steel Group Co. Limited with further test work underway.
- Reported mineralogy of West Eucla Heavy Mineral ilmenite product sample confirmed the ilmenite grains show TIO<sub>2</sub> values tending to be between 50% and 55%, while FeO values tended to be between 45% and 50%.
- Interpretation of airborne geological electromagnetic (EM) survey data in the Fraser Ranges West Eucla Project identified numerous basement anomalies. Three areas of the greatest significance within the project area defined by a cluster of high-order EM anomalies in each area and provide targets for future exploration programs.
- Approval of a drill program for the Mayfield North Loaded Dog Copper-Gold Prospect.

## **DIRECTORS' REPORT**

### **1. CORPORATE**

The Balla Balla Vanadium – Titanium – Magnetite (VTi Magnetite) project remains the primary focus of the Company's activities. The strategic location of the Balla Balla VTi Magnetite project next to the Pilbara coast enables a low-cost export path to be developed via a trans-shipment proposal. The preferred location for the Balla Balla coastal trans-shipment facility has now been selected and the relevant tenements pegged and registered with the Department of Mines and Petroleum. In addition, a visit to China was completed to review test results after potential customers received Balla Balla concentrate samples.

In addition to the Heavy Mineral Sand (HMS) JORC compliant Resource already defined at the Company's Fraser Range West Eucla Project, additional exploration potential for mineralisation in the basement structures within the tenements has been confirmed through an airborne electro-magnetic (EM) survey. Planning is underway for the next steps on exploration of the basement based on the EM results. Process optimisation test work on HMS samples is also underway.

During the quarter the Board made a decision to complete an exploratory drill program at the Mayfield North Loaded Dog Copper-Gold Prospect. This prospect has been developed over the last year and represents the most prospective target within the NSW tenements. All planning activities are complete and drilling shall commence once the seasonal bush fire risk has abated.

These activities are discussed in further detail below.

### **2. BALLA BALLA DEFINITIVE FEASIBILITY STUDY ACTIVITIES**

#### **Trans-shipment Update**

The Balla Balla project is approximately 10km from the Pilbara coastline adjacent to Balla Balla Port Area established in May 2009 by the Western Australia Department of Transport. Forge has previously announced its intention to implement a low impact trans-shipment export solution on the Pilbara coast.

A large number of trans-shipment related studies have been completed this quarter. These studies include: a terrestrial fauna reconnaissance survey and detailed vertebrate, invertebrate and shorebird surveys; mangrove and Benthic Primary Producer Habitat (BPPH) mapping and impact assessment analysis and reporting; regional marine turtle desktop review and subsequent marine turtle and dugong activity aerial surveys; noise and dust modelling technical reports; as well as storm surge modelling. Engineers from the consultant engineering company also undertook a site visit.

Following a detailed analysis of environmental, local stakeholder, known heritage and engineering constraints, Forge identified the preferred location for the trans-shipment export path. This includes a small stockyard and jetty-based loader operation on the coast

## **DIRECTORS' REPORT**

which will enable the magnetite concentrate to be loaded from the stockyards onshore into a self-propelled barge which will sail out to a trans-shipment anchorage point for transfer to Cape-size ocean going vessels (OGV). A Miscellaneous Licence tenement was pegged during the quarter, which would accommodate the required infrastructure from the plant to the proposed jetty.

As the trans-shipment concept is a change to the project approvals received in April 2009, Forge is scheduled to present to the Office of the Environmental Protection Agency next quarter. This presentation will outline the proposal, together with the studies undertaken, to present potential environmental impacts compared to the previously approved transport route and how the perceived issues may be managed with environmental management plans. The outcome of this meeting shall determine what further work may be required for approval of the trans-shipment proposal, along with an anticipated approvals timeline.

### **Definitive Feasibility Study**

The Balla Balla Project JORC compliant Resource is 456 million tonnes at 45% Fe, 0.64% V<sub>2</sub>O<sub>5</sub>, and 13.7% TiO<sub>2</sub>, located on granted mining tenements. The Definitive Feasibility Study (DFS) is based on an onsite processing plant initially producing 6,000,000t pa magnetite concentrate and 280,000tpa ilmenite concentrate as a Phase 1 production. A DFS was completed in 2010 for an expansion to 10,000,000tpa magnetite concentrate and 470,000tpa ilmenite concentrate, plus a 7,000t pa Ferro Vanadium plant and remains an option for the Company.

During the quarter the Definitive Feasibility Study (DFS) engineers and consultants continued to update the Phase 1 DFS following the agreed changes from an optimisation program, including the export path changes, and is targeted to be completed in the March 2013 quarter.

### **Customer Marketing**

Post quarter end the Company announced testing of its Balla Balla VTi Magnetite by China's Laiwu Iron and Steel Group Co. Limited ("Laiwu") is progressing well, with positive results from the initial round of testing.

Forge and Laiwu signed a Letter of Intent in October 2012, which included cooperation on testing processing options to extract additional value from Balla Balla VTi Magnetite concentrate beyond a standard blast furnace blending feed.

Laiwu – within one of the largest iron and steel conglomerates in China – has informed Forge that its test results indicate the Balla Balla VTi Magnetite has good reduction properties required for the processing options and can be used to produce acceptable products at laboratory scale. Laiwu has indicated the results support a decision to advance to the next stage of testing at a semi-industrial scale to understand the efficiency and equipment stability of larger scale operations. Forge and Laiwu will commence planning

## **DIRECTORS' REPORT**

this pilot plant test work.

Laiwu's test work aims to apply processing technology to Balla Balla VTi Magnetite for iron production, ferro-vanadium production, and high titanium content slag production. This processing technology has the potential to significantly increase the value extracted from each tonne of concentrate product by creating credits from the materials beyond the iron content.

### **3. EXPLORATION ACTIVITIES**

#### **3.1 West Eucla, Fraser Ranges**

##### **3.1.1 Basement Exploration Activity**

Fugro Airborne Surveys ("Fugro") completed an airborne TEMPEST Geophysical survey within the Company's Fraser Range West Eucla Project. Fugro's interpretation of the electromagnetic ("EM") survey was completed this quarter and successfully achieved three main objectives of the exploration survey, which were:

- Identification of any discrete EM anomalies within the basement that may be associated with base metals deposits;
- Interpretation of the basement structure to assist in the identification of potential locations for base metal deposits; and
- Mapping of palaeochannels to assist with ongoing Heavy Mineral sands exploration.

West Eucla is located 20km south of Sirius Resources NL's (ASX:SIR) recent Nova nickel-copper discovery and directly south east of Sheffield Resources' (ASX:SFX) Red Bull project within the newly identified Fraser Range Nickel Province in Western Australia, see Figure 1.

These recent Fraser Range discoveries prompted the Company to advance its investigations into the potential of the West Eucla tenements to host primary deposits of base metals and gold.

A relatively shallow cover of transported heavy mineral bearing sediments that overlay the eastern area of the proterozoic Frazer Complex dominates the West Eucla project geology. Therefore the Company utilized a geophysical airborne survey to gain valuable information of the underlying geology and structure. Fugro completed the airborne TEMPEST Geophysical survey on a 400 metre line spacing over the entire project area. There has been no previous exploration of the basement geology.

**DIRECTORS' REPORT**

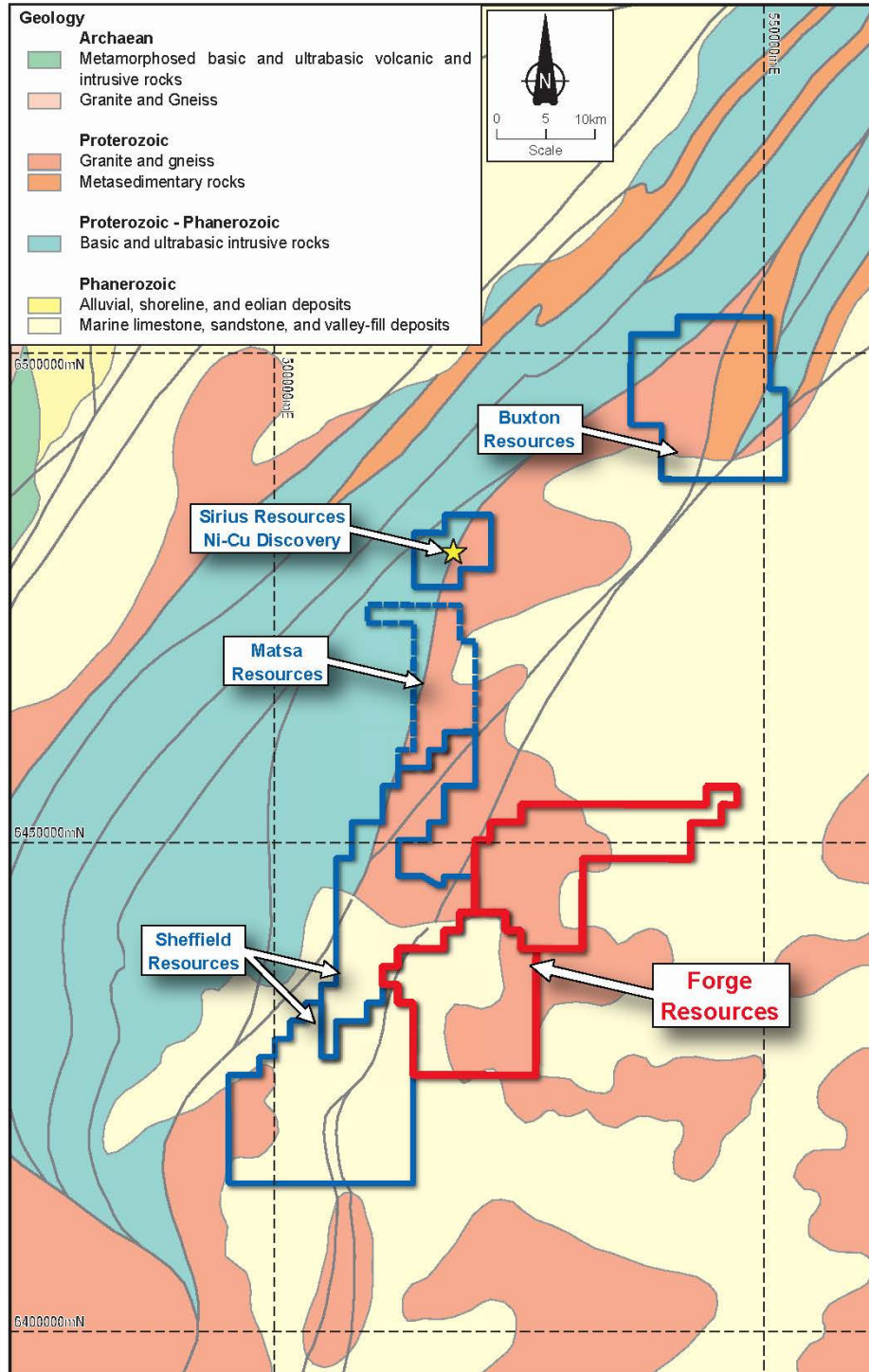


Figure 1. Location of the Forge Resources West Eucla tenements within the context of the Fraser Range tenements holders and Sirius Resources NL's Ni-Cu discovery

## DIRECTORS' REPORT

### Basement EM Anomalies and Structure

The first two objectives of the survey were the identification of discrete EM anomalies within the basement that may be associated with base metals deposits, together with structural interpretation of the basement to assist in the identification of potential locations for base metal deposits.

Furgo identified numerous anomalies, with three areas of the greatest significance within the project area being defined by a cluster of high-order EM anomalies in each area. Figure 2 shows the results of the survey and interpretation. The EM anomalies have been ranked according to the degree of interest and clarity. The red colour indicates an anomaly of greatest interest while the yellow and green coloured anomalies are of secondary interest due to a number of factors that interfere with the data including but not limited to highly saline conductive over burden such as salt lakes.

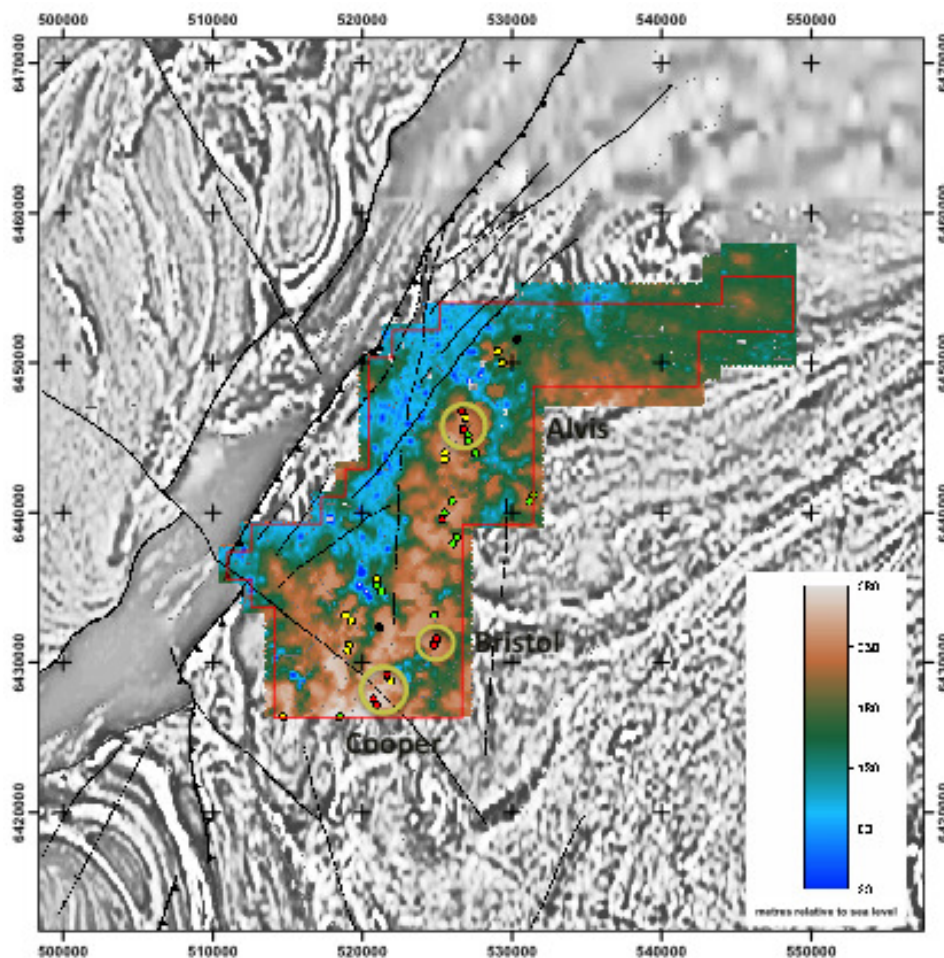


Figure 2. Map showing the interpreted major structures, depth to basement (based on conductivity contrasts) and the location of the ranked EM anomalies



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## **DIRECTORS' REPORT**

The three areas of the greatest significance are marked on the map as Cooper, Bristol and Alvis:

1. The first cluster, Cooper, appears to occur as a line of anomalies that is orientated along an interpreted regional structure, a geological contact between granite / gneiss in the Nornalup Complex and northwest trending faults that is offset by the major faults in the area. This coincidence is compelling. It is these sites where secondary faults intersect the major regional North-South shears that are most prospective for follow-up exploration.
2. The second cluster of anomalies, Bristol, includes the best discrete anomaly modelled from the data. While further detailed work is required, it appears to be a steeply dipping conductor, lying on an interpreted NNE-striking lithological boundary (migmatites and granites of Normalup complex), and associated with a discrete magnetic low.
3. The third cluster, Alvis, is in the north and is orientated in the north to south direction. This is an extensive line of anomalies over a good distance and therefore the consistency from line to line warrants further follow-up investigations.

The Company intends to follow these areas up with ground geophysics to enable higher resolution of these anomalies. The aim will then be to drill test those anomalies that show further potential. While the majority of the tenement area consists of transported overburden, field investigations may show some areas may be suitable for a surface geochemical survey or air-core drilling to the overburden / basement interface. Therefore, additional field investigation reconnaissance shall be completed before this ground geophysics survey is undertaken.

### **3.1.2 Heavy Mineral (HM) Resource Development**

The third objective of the survey was mapping of palaeochannels to assist with Heavy Mineral Sands exploration. Areas of high conductivity related to palaeodrainage features are apparent in the data (blue areas of Figure 2). In these areas the TEMPEST effectiveness in penetrating to the basement is limited, however a good map of the paleochannel and depth has been achieved. The depth is interpreted by the changes in resistivity and the resistive boundary is deemed likely to be a basement horizon. Depths in the centre of the paleochannel are somewhat still unknown, whereas the depths near or on the margins are interpreted with more certainty.

The McLaren Heavy Mineral Deposit is located in what appears to be a meander in the channel. This is consistent with our earlier geological interpretation, however the channel

**DIRECTORS' REPORT**

is far more accurately mapped as a result of this work and therefore any future proposed drilling for the extension of the Heavy Mineral Resource can be targeted with much greater accuracy particularly as this data set is combined with existing accurate topography.

The mineralogical report received during the quarter on the ilmenite sample produced from the bulk sample test work reported SEM analyses confirmed the ilmenite grains show TIO<sub>2</sub> values tending to be between 50 and 55%, while FeO values tended to be between 45 and 50%. A review of all the results from the McLaren Heavy Mineral Sand Deposit, including mineralogy, separation characteristics and the test-work of the 370kg bulk sample from the latest air-core drill program at McLaren was completed towards the end of the quarter.

Following this review, a program has been planned to refine the initial separation test work. These refinements aim to include increased efficiencies in the separation of the valuable heavy mineral and the gangue oxides, which include silica, aluminosilicates and iron oxide. This test program is expected to commence in the next quarter.

**3.2 New South Wales Tenements Overview**

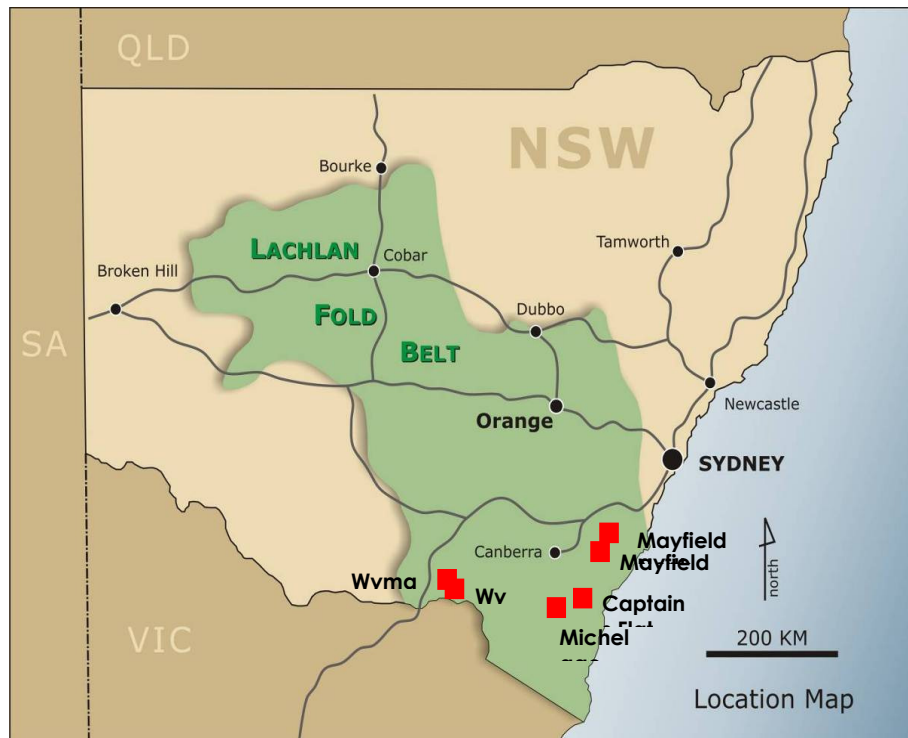


Figure 3: Location of Forge tenements in NSW

## **DIRECTORS' REPORT**

Activities during the last quarter have been focused on obtaining all environmental and other associated consents to enable the completion of several drilling programs on the NSW projects. As a result, all necessary consents have been received by the Company to carry out a drilling program on the Mayfield North Loaded Dog Prospect located near Tarago. Post quarter end Ironbark (ASX:IBG) announced commencement of a deep diamond drill hole at the Captains Flat Jerangle Prospect to which they are farming-in. Details on these and the other NSW projects are outlined in the following sections. The locations of these projects are illustrated on Figure 3.

### **3.2.1 Mayfield North (Forge 100%)**

Following the results of an Induced Polarisation (IP) Survey carried out in 2012, as outlined in the March 2012 Quarterly Report, and the identification of drill targets where particularly strong IP anomalies are coincidence with anomalous rock and soil geochemistry results as outlined in the June 2012 Quarterly Report, the Board has approved the execution of a drilling program at the Loaded Dog Copper-Gold Prospect designed to test these two strong chargeability targets.

In the current quarter the Company received consent from the NSW Department of Mineral Resources upon the submission and evaluation of the Company's Review of Environmental Factors (REF) covering the drilling of six exploration RC holes at the Loaded Dog Prospect.

Quotes obtained from drilling and earthmoving contractors are now being revised with the view to completing the drilling program prior to the end of the next quarter.

### **3.2.2 Captains Flat (Forge 49% reducing to 25%)**

Detailed interpretation of fixed-loop Transient Electro Magnetic (TEM) and ground magnetic surveys have identified extensive and strong bedrock conductors at the Jerangle Prospect. The most recent drill hole (JRDD1101) was strongly mineralised near the top of the modeled electromagnetic (EM) conductor and highlighted the potential for considerable deeper mineralisation at this prospect. Drilling of a 700m diamond drill hole has commenced at the Jerangle Prospect following the receipt of environmental consents from the NSW Department of Mineral Resources, which will target the source of the conductor.

In addition, progressing of the Anembo prospect through mapping, sampling and ground magnetics programs, together with the completion of a diamond drill hole at Vanderbilt Hill is also planned for the following quarters.

Ironbark (ASX: IBG) and NSW Base Metals (a Glencore Limited subsidiary) are jointly earning a 75% interest in the Captains Flat Project from Forge which currently holds a 49% non-contributing interest diluting to 25% subject to Ironbark and NSW Base Metals meeting agreed expenditure commitments.

## **DIRECTORS' REPORT**

### **3.2.3 Wymah and Wymah North (Forge 100%)**

Forge is awaiting the grant of the Wymah North exploration licence application, which is anticipated shortly. At the same time, a program of soil sampling and mapping is set to commence during the next quarter. Both licences are prospective for tin and tungsten and intrusive related gold deposits.

### **3.2.4 Michelago (Forge 100%)**

Following the completion of extensive soil sampling and magnetic surveys within the licence area during 2012, a number of prospects have now reached the stage where a comprehensive drill testing program is warranted.

At the Poveys Road Prospect, the accumulated data has confirmed a strong magnetic lineation over a 2,500 metre strike length. Its relation to base metal mineralisation appears at this stage to be dichotomous with base metal mineralisation being strongly aligned with the magnetic trend at the northern end of the prospect, but appearing to split at the southern end. Accordingly, a 2600 metre drilling program is required to test near surface, down dip or down plunge extensions to identified base metal mineralisation. A planned drilling program covers nine Reverse Circulation (RC) drill holes.

The Company will now consider funding options for the next stage of this project, including joint venture proposals and earn-in structures for Michelago.

### **3.2.5 Mayfield Project (Forge 46.55%)**

Capital Mining Limited (Capital) is the Operator of the Joint Venture over this licence. No significant activity has been recorded during the reporting period.

## **DIRECTORS' REPORT**

### **Competent Persons Statement – West Eucla**

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Paul Benson, who is a member of The Australasian Institute of Mining and Metallurgy. Paul Benson is a consultant to Forge Resources Ltd. Paul Benson has sufficient experience which is relevant to the style of mineralisation and type of deposits 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'. Paul Benson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

### **Competent Persons Statement – NSW Projects**

The review of NSW exploration activities and results contained in this report is based on information compiled by Mr. M Rampe, a director of Harvest Exploration Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. He has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr. Rampe consents to the inclusion of this information in the form and context in which it appears in this report.

## DIRECTORS' REPORT

### Corporate Activity

The capital structure of the Company as at the date of this report is:

Fully Paid Ordinary Shares on issue	80,577,667
Options on issue	33,480,905

### Net Tangible Asset Backing

	31 Dec 2012	30 Jun 2012
Per Ordinary Security (cents per share)	12.27 cents	16.75 cents

In the half year to 31 December 2012, the Company has incurred a loss of \$3,669,787 and experienced net cash outflows of \$3,704,291 as shown in the statement of comprehensive income and statement of cash flows in this financial report. These results are consistent with the Company's strategic objectives and budget estimates.

### Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is included on page 15 for the half year ended 31 December 2012.

Signed in accordance with a resolution of the board of directors.

On behalf of the Directors



**Matthew James**  
**Managing Director**

15 March 2013

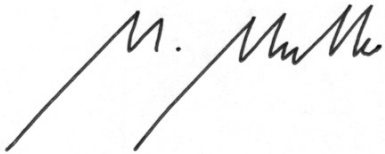
**FORGE RESOURCES LTD**  
**AUDITOR'S INDEPENDENCE DECLARATION**

To the Directors of Forge Resources Ltd:

As lead auditor for the review of Forge Resources Ltd for the half-year ended 31 December 2012 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the Corporations Act 2001 in relation to the review;  
and
- (b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Forge Resources Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'M. Muller'.

**M D Muller**  
**Partner**

**Sydney**  
**13 March 2013**

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**DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 17 to 25 are in accordance with the Corporations Act 2001, including:
  - (a) complying with Accounting Standard AASB 134 Interim Financial Reporting; and
  - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the board of directors.

On behalf of the Directors



**Matthew James**  
**Managing Director**

15 March 2013



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	Note	Half year ended	
		31 December 2012	31 December 2011
		\$	\$
Revenue		138,060	77,745
Consultancy expenses		(696,732)	(385,445)
Directors Remuneration		(40,900)	(47,167)
Legal and compliance fees		(108,053)	(162,206)
Depreciation and amortisation expense		(3,436)	(2,895)
Employee benefits expenses		(487,583)	(298,942)
Occupancy expenses		(94,837)	(92,341)
Professional fees		(39,825)	(17,338)
Interest payable		(2,079,452)	-
Equity-based compensation		(58,101)	(236,596)
Other expenses		(198,928)	(129,923)
<b>Loss before income tax</b>		<b>(3,669,787)</b>	<b>(1,295,108)</b>
Income tax expense		-	-
<b>Loss for the period</b>	2	<b>(3,669,787)</b>	<b>(1,295,108)</b>
<b>Other Comprehensive Income</b>			
Other Comprehensive income for the period net of tax		-	-
<b>Total Comprehensive loss for the period</b>		<b>(3,669,787)</b>	<b>(1,295,108)</b>
<b>Loss per share</b>			
Basic and diluted loss per share		4.55 cents	2.55 cents

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

	Note	31 December 2012 \$	30 June 2012 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		6,016,006	9,720,297
Trade and other receivables		359,251	459,120
Other current assets		126,095	126,095
<b>TOTAL CURRENT ASSETS</b>		<b>6,501,352</b>	<b>10,305,512</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		16,508	16,406
Exploration and evaluation expenditure	3	34,969,361	33,390,109
<b>TOTAL NON-CURRENT ASSETS</b>		<b>34,985,869</b>	<b>33,406,515</b>
<b>TOTAL ASSETS</b>		<b>41,487,221</b>	<b>43,712,027</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	4,044,401	2,666,015
Short term provisions		55,749	47,255
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,100,150</b>	<b>2,713,270</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	10	27,500,000	27,500,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>27,500,000</b>	<b>27,500,000</b>
<b>TOTAL LIABILITIES</b>		<b>31,600,150</b>	<b>30,213,270</b>
<b>NET ASSETS</b>		<b>9,887,071</b>	<b>13,498,757</b>
<b>EQUITY</b>			
Issued capital	5	26,239,259	26,239,259
Reserves	5	1,554,239	1,496,138
Accumulated losses		(17,906,427)	(14,236,640)
<b>TOTAL EQUITY</b>		<b>9,887,071</b>	<b>13,498,757</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	<b>Ordinary Issued Capital</b>	<b>Performance Shares</b>	<b>Accumulated Losses</b>	<b>Share Based Payment Reserve</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance as at 1 July 2011	4,231,631	1,315,200	(1,834,448)	1,887	3,714,270
Loss for the period	-	-	(1,295,108)	-	(1,295,108)
<b>Total comprehensive loss for the period</b>	-	-	(1,295,108)	-	(1,295,108)
Options granted during the period	-	-	-	236,596	236,596
Shares issued during the period	2,951,000	-	-	-	2,951,000
Cost attributed to shares issued during the period	(102,325)	-	-	-	(102,325)
<b>Balance as at 31 December 2011</b>	<b>7,080,306</b>	<b>1,315,200</b>	<b>(3,129,556)</b>	<b>238,483</b>	<b>5,504,433</b>
Balance as at 1 July 2012	26,239,259	-	(14,236,640)	1,496,138	13,498,757
Loss for the period	-	-	(3,669,787)	-	(3,669,787)
<b>Total comprehensive loss for the period</b>	-	-	(3,669,787)	-	(3,669,787)
Options granted during the period	-	-	-	58,101	58,101
<b>Balance as at 31 December 2012</b>	<b>26,239,259</b>	<b>-</b>	<b>(17,906,427)</b>	<b>1,554,239</b>	<b>9,887,071</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	Half year ended	
	31 December 2012	31 December 2011
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	8,918	15,135
Interest received	129,142	63,986
Payments to suppliers and employees	(2,189,208)	(1,127,272)
Net cash outflow in operating activities	(2,051,148)	(1,048,151)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, Plant and equipment expenditure	(3,538)	-
Exploration and evaluation expenditure	(1,649,605)	(548,628)
Net cash outflow from investing activities	(1,653,143)	(548,628)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issues of shares and options	-	2,500,000
Payments relating to capital raising	-	(149,075)
Net cash inflow from financing activities	-	2,350,925
Net increase (decrease) in cash and cash equivalents	(3,704,291)	754,146
Cash and cash equivalents at the beginning of the half-year	9,720,297	2,923,991
<b>Cash and cash equivalents at the end of the half-year</b>	<b>6,016,006</b>	<b>3,678,137</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

These general purpose interim financial statements for the half-year reporting period ended 31 December 2012 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Forge Resources Ltd and its controlled entities (referred to as the consolidated group or the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2012, together with any public announcements made during the following half-year.

**Accounting Policies**

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

**Critical Accounting Estimates and Judgments**

The critical estimates and judgments are consistent with those applied and disclosed in the June 2012 annual report.

In the half year ended 31 December 2012 management reassessed its estimates in respect of:

***Carrying value of exploration expenditure***

The Company performed a detailed review of its exploration tenements at period end to determine whether the related expenditure should continue to be capitalised under AASB 6 or written off to profit or loss.

In reviewing the application of the Group's accounting policy relating to exploration expenditure, management is required to make certain estimates and assumptions about future events or circumstances in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. Following a review of existing exploration expenditure management believes a continuation of the existing accounting policy relating to exploration expenditure should be maintained.

**Going concern basis of accounting**

Notwithstanding the net loss after income tax for the Group during the period ended 31 December 2012 being \$3,669,787 (2011: \$1,295,108), the financial statements have been prepared on a going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

The Directors are managing the Group's cash flows carefully to meet its operational commitments.

The Directors consider that the going concern basis is appropriate for the following reasons. The Group has sufficient working capital to carry out its stated objectives for at least 12 months from the date of this report. If the Group undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, however no allowance for such circumstances has been made in the financial statements.

**NOTE 2: LOSS FOR THE PERIOD**

All revenue and expense items that are relevant in explaining the financial performance for the interim report have been included in the consolidated statement of comprehensive income.

**NOTE 3: EXPLORATION AND EVALUATION EXPENDITURE**

<b>Non-current:</b>	<b>31 December</b>	
	<b>2012</b>	<b>30 June 2012</b>
	<b>\$</b>	<b>\$</b>
Costs carried forward in respect of areas of interest in the following phases:		
Exploration Phase		
Balance at beginning of period	33,390,109	813,622
Tenements acquired	-	31,156,000
Expenditure capitalised	1,579,252	1,420,487
Carrying amount at end of period	<u>34,969,361</u>	<u>33,390,109</u>

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and commercial exploitation of the tenements.

**NOTE 4: OPERATING SEGMENTS**

**Identification of reportable segments**

The consolidated group has identified its operating segment based on the location of its exploration assets.

The consolidated group operates in one business segment being minerals and energy exploration and in one geographic segment being Australia respectively.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

**NOTE 5: ISSUED CAPITAL**

	Note	31 December 2012	30 June 2012
		\$	\$
Ordinary shares	(a)	26,239,259	26,239,259
		<b>31 December 2012</b>	
		<b>Number</b>	<b>\$</b>
<b>(a) Movements in Ordinary shares on issue</b>			
<b>At 1 July 2012 and at 31 December 2012</b>		80,577,667	26,239,259
<b>(b) Options</b>			
		<b>Number</b>	<b>\$</b>
Movements in options on issue			
<b>At 1 July 2012</b>		32,455,905	1,496,138
Options issued		1,025,000	58,101
<b>At 31 December 2012</b>		<b>33,480,905</b>	<b>1,554,239</b>

**NOTE 6: SUBSEQUENT EVENTS**

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group the results of those operations, or the state of affairs of the Group in future financial years.

**NOTE 7: RELATED PARTY TRANSACTIONS**

During the period a sum of \$566,500 was paid to Riverstone Advisory (Riverstone), a firm involved in the provision of merger and acquisition advisory services to the natural resource sector. Riverstone provided management support services including corporate advisory services relating to potential project acquisitions, obtaining of equity and project funding, as well as marketing to and facilitating industry contacts within the Chinese steel/titanium/engineering sectors. Nicholas Curtis and Harold Ou Wang are Directors and shareholders of Riverstone.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

**NOTE 8: JOINT VENTURE**

	<b>31 December</b>	<b>30 June</b>
	<b>2012</b>	<b>2012</b>
	\$	\$
<b>(a) Interest in Joint Venture Operations</b>		
A controlled entity, Forge Resources Swan Pty Ltd, has a 75 % interest in an unincorporated joint venture, whose principal activity is exploration of the Balla Balla asset. This company is the manager of the unincorporated joint venture. The joint venture commenced on 31 May 2012.		
The consolidated group's share of assets employed in the joint venture is:		
<b>NON-CURRENT ASSETS</b>		
Other costs carried forward in respect of areas of interest:		
– exploration development expenditure	1,464,591	247,988
– Tenements	30,655,000	30,655,000
Share of total assets of joint venture	<u>32,119,591</u>	<u>30,902,988</u>
<b>Other Current Liabilities</b>		
Sundry payables and accrued expenses	<u>1,377,347</u>	<u>1,030,000</u>
Share of total liabilities of joint venture	<u>1,377,347</u>	<u>1,030,000</u>
 Net interest in joint venture	 <u>30,742,244</u>	 <u>29,872,988</u>

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. During the six months ended 31 December 2012 the consolidated group's share of the joint venture losses was \$1,051,213 (2011: \$81,877).



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2012</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 9: TRADE AND OTHER PAYABLES</b>		
Interest Payable	2,418,493	339,041
Trade and other payables	1,625,908	2,326,974
Total trade and other payables	4,044,401	2,666,015

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2012</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 10: BORROWINGS</b>		
<b>NON-CURRENT</b>		
Secured liabilities:		
Loans – interest bearing	27,500,000	27,500,000
Total non-current borrowings	27,500,000	27,500,000

The carrying amounts of non-current assets pledged as security are:

Mortgage on interests in Balla Balla mining tenements	27,500,000	27,500,000
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**FORGE RESOURCES LTD****INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Forge Resources Ltd

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Forge Resources Ltd ("the company") which comprises the statement of financial position as at 31 December 2012, 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 information and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

**Directors' Responsibility for the Half-Year Financial Report**

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

**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 a 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 company's financial position as 31 December 2012 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 the company, 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. 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.

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.

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**

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**FORGE RESOURCES LTD**  
**INDEPENDENT AUDITOR'S REVIEW REPORT**  
**(continued)**

**Independence**

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Forge Resources Ltd would be in the same terms if given to the directors as at the time of this independent auditor's review report.

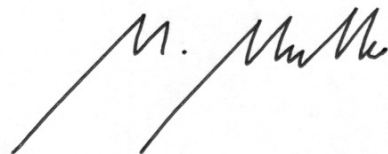
**Conclusion**

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 Forge Resources Ltd 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 2012 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*.

A handwritten signature in black ink that reads 'HLB Mann Judd'.

**HLB MANN JUDD**  
**Chartered Accountants**

A handwritten signature in black ink that reads 'M. Muller'.

**M D Muller**  
**Partner**

**Sydney**  
**15 March 2013**