GRANGE RESOURCES

Australia's leading magnetite producer

2011 Annual REPORT

Grange Resources Limited

BOARD OF DIRECTORS

Zhiqiang Xi
Non-executive Chairman

Neil Chatfield
Non-executive Deputy Chairman

Russell Clark
Managing Director

Clement Ko
Non-executive Director

John Hoon
Non-executive Director

Honglin Zhao
Executive Director

COMPANY SECRETARY

Pauline Carr

REGISTERED OFFICE

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SHARE REGISTRY

Computershare Investor Services Pty Ltd
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PERTH WA 6000

AUDITORS

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SOUTHBANK VIC 3006

SOLICITORS

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STOCK EXCHANGE

Grange Resources Limited is listed on the ASX Limited (ASX Code: GRR) and the "OTC" Markets in Berlin, Munich, Stuttgart and Frankfurt in Germany (Code: WKN. 917447)

WEBSITE

www.grangeresources.com.au

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Front cover left: Bryanna Graham, Grade Control Technician at Savage River.
Back cover centre: Mark Gleeson, Process Operator at Port Latta.

About Grange

OUR BUSINESS

Grange Resources Limited (Grange), ASX Code: GRR, is Australia's leading magnetite producer with a market capitalisation of approximately A$773 million as of 1 March 2012.

Grange's operations consist principally of owning and operating the Savage River integrated iron ore mining and pellet production business located in the north-west region of Tasmania. The Savage River magnetite iron ore mine is a long life mining asset set to continue operation to 2030, with potential to further extend the mine life. At Port Latta, on the northwest coast of Tasmania, Grange owns a pellet plant and port facility producing approximately 2.3-2.4 million tonnes of premium quality iron ore pellets annually, with plans to increase annual production to 2.7 million tonnes. Supply contracts are in place to deliver these pellets to major steel producers in Australia and China.

In addition, Grange is a majority joint venture partner investing in a major magnetite development project at Southdown, near Albany in Western Australia. The Southdown development project is forecast to supply over four times the amount of iron ore from Savage River, at an annual production rate of 10 million tonnes of premium magnetite concentrate. The current joint venture project model includes plans to ship part of this concentrate to a dedicated pelletising facility to be built in Malaysia.

OUR VISION

We will produce high quality steel making raw materials economically and effectively. Our operations will be efficient, flexible, and stakeholder focused.

OUR VALUES

At Grange we ALL will...

- Work safely
- Lead and act with fairness, integrity, trust and respect
- Be responsible and accountable for our actions
- Utilise our resources efficiently and effectively
- Engage with stakeholders and proactively manage our impact on their environment
- Work together openly and transparently
- Promote an environment in which our people can develop and prosper

Operational & Financial Highlights

In 2011 we delivered on price, revenue and costs … and our focus on safety will be unrelenting.

OPERATIONAL HIGHLIGHTS

- An exceptional safety performance at Savage River and Southdown. Zero Lost Time Incidents (LTI), and a 48% reduction in Total Recordable Injury Frequency Rate (TRIFR).
- Successful completion, and under budget delivery, of Phase 1 of the Savage River East Wall remediation, truck fleet rebuild and major concentrator maintenance.
- Record throughput at Savage River concentrator.
- Pellet production for 2011 totalled 1.98 million tonnes and contractual sales obligations were met.
- Savage River mine life extended by four years to 2030.
- Strategic opportunities identified and MOU's signed with Tasmania Mines, Venture Minerals and Shree Minerals.
- Southdown Pre-feasibility Study (PFS) completed and Definitive Feasibility Study (DFS) reaching conclusion.
- Southdown resource increased to over 1.2 billion tonnes.

FINANCIAL HIGHLIGHTS

- Pre-tax profit on $158.1 million, on revenues from mining operations of $410.4 million.
- Record full year net profit after tax of $216.6 million.
- Net cash inflow from operations of $210.4 million.
- Total cash reserves (including terms deposits) boosted to $203.1 million as at 31 December 2011, up from $106.4 million as at 31 December 2010.
- No net debt.
- Earnings of 18.8 cents per share.
- Inaugural $0.02 dividend paid in October 2011, to be followed by a $0.03 final dividend payable in April 2012.
- Agreed an IODEX based index pricing mechanism with customers. The average selling price of pellets increased by 30% to A$206.02 per tonne (6 months to 31 December 2010 – A$158.47).

Above: Terry Abbot, Driller, Savage River.
Right: Aaron John and Nathan Jago, Mill Operators, Savage River.

Investment Merits

INVESTMENT MERITS

- Savage River - a quality long life low cost producer generating significant cash flow
- Growth through the Southdown project is progressing closer to fruition
- We have the in house skills, systems, capability and discipline to deliver Southdown's potential
- High yield dividend stream commenced in 2011

Magnetite Facts

Magnetite: The Key Statistics

- Magnetite ore – Fe_3O_4
- Magnetite is easy to identify
  - It is a black, opaque, submetallic to metallic mineral with a hardness rating of between 5.5 and 6.5 on the Mohs scale
  - It is often found in the form of isometric crystals
  - Its magnetic properties are distinctive. It is one of just a few minerals that are attracted to a magnet. It is the most magnetic mineral found in nature
- Pure magnetite is 72.4% iron
- Generally occurs as low-grade 25-40% iron ore
- Requires downstream value add processing to separate the magnetite
- Magnetic properties allow high grade concentrates to be produced
- Fine powder concentrates need agglomeration for Blast Furnace and Direct Reduction plants
- Pelletisation is common – originally developed in North America
  - Oxidation of the magnetite can provide 60% of the thermal energy needed for pelletisation
  - Reduces energy costs and CO_2 emissions
  - Magnetite concentrate production is prevalent in North America, China, and the C.I.S and Europe
- Can also be added to sinter feed blends – common in China
- Direct Reduction plants require high-grade feed – upwards of 66% iron
- New markets are opening up for high-purity concentrates as premium feedstock for making both Blast Furnace and Direct Reduction Pellets
  - greater generation of pellet feed fines (particularly in Brazil)
  - more investment in new high quality pellet plants at the front end of steel mills
- In 2008, world raw iron ore production was 2.2 billion tonnes
  - Of this, 360 million tonnes was converted into iron ore pellets
  - Australia produced 4.3 million tonnes of pellets

Magnetite: The Under Estimated Iron Ore

Magnetite is one of the most common oxide minerals and also one of the most common iron minerals. It is an important ore of iron and is found in igneous, metamorphic and sedimentary rocks.

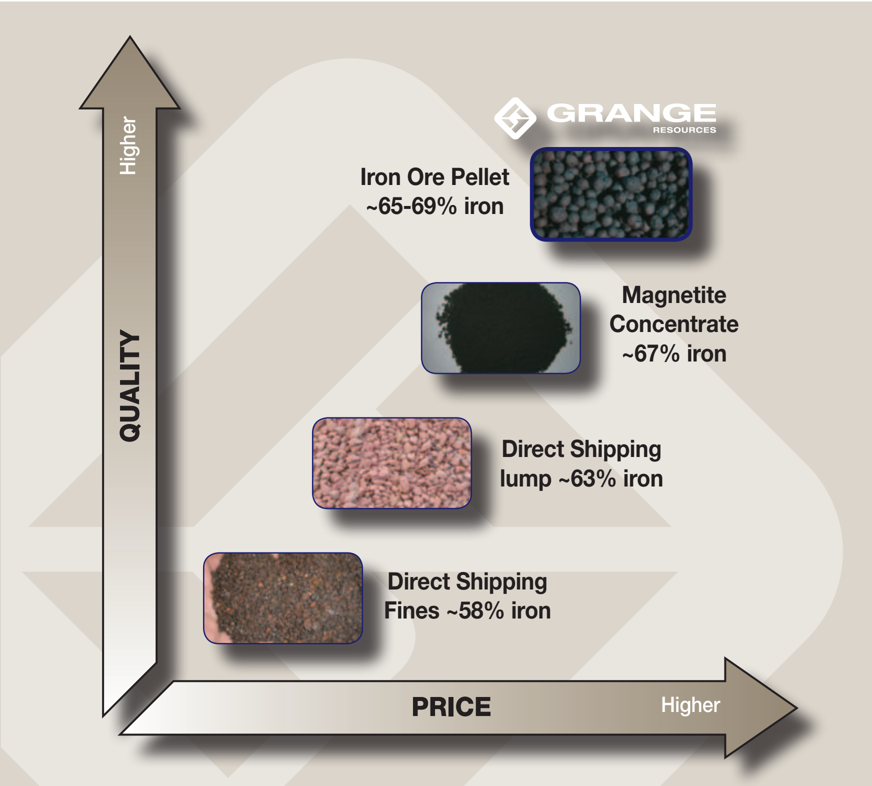
It can also be abundant in sediments.

The name magnetite is thought to be derived from the ancient locality Magnesia near Macedonia. According to Pliny, the name was derived from that of a shepherd named Magnes who first discovered magnetite on Mount Ida while pasturing his flock, when pieces of magnetite (lodestone) clung to the metal nails in his shoes.

Magnetite has been used for thousands of years as amulets and talismans. It was said to give protection from enchantments and evil spirits, and to provide invulnerability to soldiers. It was also said to attract power, favour and love, and to guard against unfaithfulness.

Magnetite and the Iron Ore Industry

Magnetite is a naturally occurring ore commonly refined into an iron ore concentrate and used for steel production. Iron ore makes up about five per cent of the Earth's crust and most commonly occurs in the form of haematite or magnetite.



Magnetite – The premium iron ore

Most of the magnetite mined now is used as an ore of iron. Iron liberated from magnetite ore is usually used to make concentrate or pellets which are used to make steel.

The Australian iron ore industry has traditionally been based on the mining, production and export of hematite ores, also referred to as 'Direct Shipping Ore' (DSO). Approximately 96 per cent of Australian iron ore production comes from DSO. While magnetite is an emerging industry in Australia, globally it accounts for approximately 50 per cent of iron ore production.

Magnetite to Iron

Smelting magnetite to iron involves agglomeration or 'clumping together' of the magnetite concentrate, and thermal treatment to produce iron ore pellets. The pellets can be used directly in a blast furnace or at direct reduction iron-making plants.

Magnetite concentrate has internal thermal energy meaning less energy is required, compared to hematite, in the pelletising process which in turn results in less carbon dioxide emissions. The blast furnace chemically reduces iron oxide into liquid iron called 'hot metal'. The iron ore and reducing agents (coke, coal and limestone) are combined. Pre-heated air is blown at the bottom of the combination for up to eight hours. The final product is a liquid which is drained, and eventually refined to produce steel.

The Magnetite Business

Mining magnetite ore is a high volume business. It is capital intensive and requires downstream processing infrastructure including a beneficiation plant, a pellet plant and port facilities.

As can be seen from the following graphic, magnetite products command a value premium above hematite ore products such as fines and lump. This premium is derived on two fronts, through additional iron content, and a quality premium.

China is currently the largest consumer of iron ore, with growing demand being driven by the urbanisation of China's immense population.

In recent years there has been considerable interest from Chinese steel manufacturers in taking strategic positions in Australian iron ore mining companies. In particular there has been interest in existing and potential magnetite producers such as Grange in order to acquire iron ore feed for their operations.

The growth in Chinese demand, and its understanding of the use of magnetite-based iron ore products has seen a significant change in the value accrued to both magnetite concentrate and pellets, and the methodology used for determining that value.

Until April 2010, iron ore prices were traditionally decided in closed-door negotiations between the small handful of "key" miners and steel makers which dominated both spot and contract markets. Traditionally, the first agreement on price reached between these two groups set a benchmark price that was followed by the rest of the industry for a 12 month period.

This benchmark system broke down in 2010 with pricing moving to short term index-based mechanisms. Given that most other commodities already have a mature market-based pricing system, it was natural for iron ore to follow suit. This has seen magnetite product pricing change so that it is now based on the transparent 62% Fe Iron Ore Index, with premiums being paid for increased iron ore content and pellet manufacture.

Chairman's Report

Zhiqiang Xi, *Chairman*

Grange has just completed its first "calendar year" financial reporting period as a result of moving its financial reporting year to a calendar basis commencing 1 January 2011. As a result this Annual Report covers the 12 month period from 1 January to 31 December 2011.

Financial Results

Grange recorded a consolidated profit after tax of $216.6 million for the 12 month period ended 31 December 2011. This result was achieved on revenues from mining operations of $410.4 million during the 12 month period ended 31 December 2011 and included $52.1 million associated with sales made under interim pricing arrangements in 2010.

The past 12 months have been challenging but ultimately very successful for Grange. The Company has increased its cash reserves and further strengthened its balance sheet, whilst at the same time funding its share of the Southdown Definitive Feasibility Study ("DFS") and paying an inaugural dividend to shareholders. Whilst we have seen large fluctuations in the price of iron ore this year, and in US foreign exchange rates, the average price received for our premium blast furnace pellets was a significant improvement on that achieved in 2010, and we continued to see excellent demand and cash margins.

The markets have been challenging this year. The intrinsic value of Grange was recognised early in the year when the market capitalisation of the company reached $1 billion. Unfortunately, market perception of the European and US economies and a perceived softening of the Chinese economy have slashed the prices of many resource equity stocks. Despite adding further value to our balance sheet over the year, our share price reflects the broader lack of confidence in the stock market.

We were very pleased to announce an inaugural dividend of $0.02 per share following the half year results, and take great delight in compounding that with a further $0.03 dividend, payable in April 2012, following the announcement of our 2011 full year results.

Our marketing efforts have been maintained, and we are very pleased that JP Morgan, UBS, Bell Potter, RBS and RBS Morgans have joined Merrill Lynch, Macquarie, Citi, Petra Capital and Patersons as organisations now providing research analysis on Grange. All have target prices significantly higher than $0.56 cents per share, the closing share price on the last trading day of 2011, 30 December.

Operational Highlights

During the last 12 months the excellent safety performance at Grange's operations has continued. No LTI's occurred during the period, and the total recordable injury frequency rate (TRIFR) went from 9.1 at the beginning of the year to 4.7 at the end, a 48% improvement. This improvement is a credit to all our employees and is representative of the culture change that has been undertaken over the past three years. Underlying the statistics is the improvement in planning and process management that have been instilled across the organisation, and which have resulted in better operational metrics across the business.

In June 2010 we reported the failure of the East Wall of the Savage River open pit, which occurred without injury as a result of the excellent monitoring and response processes in place. This wall failure has hampered production efforts during the past 12 months, while we cut back the East Wall to regain access to the North Pit. Ore was accessed from other areas of the mine and contracted deliveries of pellets were maintained but, as forecasted, we saw a reduction in production of concentrate for the year to around two million tonnes and a corresponding increase in the unit cost of production. What is very pleasing is that, following a year of intense planning and execution, the cut back is just

Aaron John and Nathan Jago,
Mill Operators,
Savage River.

Chairman's Report *(cont.)*

about complete and access to the high grade North Pit has been re-established. Production rates in November and December improved and we look to increase the production of pellets in 2012 by between 15% to 20%, with a corresponding reduction in unit costs.

We have also seen the feasibility study for the Southdown Magnetite project advance significantly. The Pre-Feasibility Study ("PFS") was completed in March 2011, indicating a capital cost of the Australian based project of just under $2.6 billion. Following a successful review of the PFS, the Joint Venture partners agreed to fund the definitive feasibility study (DFS) which will be brought to a conclusion in the first quarter of 2012. The project continues to show good returns and we have seen engineering, geology, environmental, land access and commercial agreements with Western Power and the Albany Port Authority all progress during the year, a credit to our small project team and the engineering companies supporting them.

MRRT

The Minerals Resource Rent Tax (MRRT) passed through Parliament in March 2012 and despite the best efforts of the magnetite producers and developers to have magnetite exempted from the tax, all coal and iron ore producers will be affected. We have been successful in having magnetite more broadly recognised as a new industry and the "taxing point" adjusted so that the downstream "value adding" operations are unaffected by the tax. As a result the financial burden is expected to be minimal, though we will incur an unnecessary and additional administrative workload.

Carbon Pricing

In addition to the MRRT, the Federal Government introduced a carbon pricing mechanism into Parliament. This mechanism will take effect from 1 July 2012 and is effectively a tax on carbon emissions. As an iron ore mining and pellet producing company our energy requirements are significant. Grange has been successful in having the production of concentrate and iron ore pellets recognised as moderately emissions intensive trade exposed activities which will reduce our overall exposure to the tax.


Matt Anderson, Mine Superintendent, Savage River.

Board

The Board remained unchanged during 2011. In November, the Board formed a Health, Safety and Environment Committee to oversee the governance of the company's safety and environment programs. As part of the Board meeting calendar, Board meetings were held in Tasmania and Albany, Western Australia, to ensure the Board members are meeting with management and local stakeholders and that they have a good "on the ground" understanding of the projects we have.

Outlook

During 2012 the primary focus at Savage River is to increase production of concentrate and pellets from the 2011 levels, to reduce unit costs and maintain good margins for our products.

Iron ore prices are forecast to remain strong during 2012, though at levels less than were experienced on average through 2011. As a result we expect to see the Savage River operations continuing to provide the necessary cash flow to fund dividends, pay for sustainable capital purchases in Tasmania and further advance the Southdown project.

Over the longer term, the Grange Board remains confident that the fundamentals of the iron ore markets are sound with prices expected to remain high for a number of years, compared to historical levels.

The Southdown Project DFS review will be completed by the owners during the first quarter of 2012. Funding of this project, both from a debt and equity perspective, is one of the clear objectives for 2012 and a number of options are being considered to achieve this successfully.

Thank you

On behalf of Grange's Board of Directors, I would like to thank all of Grange's shareholders for their continuing support. I would also like to thank our Managing Director and CEO, Mr Russell Clark, the management team and all of our employees for their commitment to making the company stronger day by day, and in particular for achieving the levels of safety that have never previously been seen at Savage River.

Zhiqiang Xi
Chairman

Managing Director's Review

Russell Clark, *Managing Director*

Grange has continued to strengthen its balance sheet over the past twelve months, significantly increasing its cash reserves, whilst working through the recovery plan for the East Wall slip that occurred at Savage River in June 2010. The Southdown pre-feasibility study ("PFS") was successfully completed and the definitive feasibility study ("DFS"), fully funded from operational cash flow, will be completed in the first quarter of 2012.

In 2012 we will see increased production at Savage River, with a corresponding reduction in unit costs, and we will be considering the Southdown DFS and will continue to work on those aspects of the project that can provide greater certainty around cost and timeline for its development. The Joint Venture Partners will continue to work on developing the best package to finance what remains a significant and positive development opportunity for the south west of Western Australia.

The Grange team is capable and with over 44 years experience in the magnetite business, we have the in house expertise and systems to significantly reduce execution risk that comes with the delivery of large projects.

Operational Performance - Savage River

As the Chairman has noted, the safety performance at Grange's operations over the past twelve months has continued to improve, with over twelve months without a lost time incident (LTI). The better lag measure of Total Recordable Injury Frequency Rate (TRIFR) improved by 48% and is at a level significantly better than the Australian mining industry average. We believe that a strong and healthy safety culture leads to productive and cost effective operations, as planning and execution are core aspects of both.

Throughout 2011 considerable effort was put into executing the remediation of the east wall of the North Pit which contains the main ore zone at Savage River, whilst at the same time mining ore from multiple remnant ore bodies in order to maintain pellet production to meet our contracted obligations in full and on time. The mine plan developed post the wall failure in 2010, which was approved by WorkSafe Tasmania, scheduled an accelerated cut-back of the East Wall, ultimately allowing us to regain access to the main ore zone in North Pit in Q4 2011. The cut back was achieved successfully, resulting in higher grade ore being available to the concentrator from Q4 2011 and for the balance of the life of mine. The remnant ore sources mined in 2011 were of lower grade than the average seen in the main ore zone, resulting in lower production, and were challenging to mine at times.

In 2011 Grange developed a new Life of Mine Plan (LOMP) base model which encompasses a "mine to metal" strategy which focuses on multiple ore sources in order to reduce the incumbent risk inherent in the historic reliance on a single ore source from main ore zone in North Pit. This LOMP involves redeveloping previously closed deposits at South Deposit and Centre Pit South, as well as continuing to explore the opportunities for additional ore supply from Long Plains. This LOMP strategy together with the potential of external supply will secure ore supply to support a build up from 2.4mtpa to 2.7mtpa of concentrate production in the coming years. This revised LOMP strategy has also extended the mine life until 2030.

The LOM strategy also continues to incorporate a "managed and mitigated" risk strategy around deliberately driving the core processing line at the Savage River Concentrator – specifically, the Autogenous Mills - until they fail, rather than adopting a planned production shut to replace them before failure. Replacement mill shells have been ordered and the first shell will arrive on site in September 2012. Over the last three years significant improvements have been made in the concentrator resulting in greater throughput and reliability. We have continued to focus on initiatives to reduce the legacy cost structures and have continued to target a continuous improvement program to drive further cost reductions in the Supply Chain and Maintenance functions. Additionally, we have extended the proactive management of asset lifecycle risks through an active condition monitoring campaign.

In October 2011 we commenced drilling the Long Plains magnetite deposit, approximately 10 kilometres from the main mining operations and expect to announce resources for that deposit in the second quarter of 2012. A resource of 10 million tonnes is being targeted which, if achieved, has the potential to extend the mine life beyond 2030.

The mobile equipment fleet performed well during the year with a highlight being that 17 of the Caterpillar 789 trucks purchased in 2008 underwent their first major rebuild. The rebuild program was achieved on time and under budget, and positions the fleet to perform well in 2012. We also saw significant tyre life improvement, critical in a world where tyre availability is becoming limited and tyre costs are increasing.

The Port Latta pellet plant also performed well. As a result of the East Wall slip, we have force majeure notices in place with our customers and with our major suppliers, primarily as a precaution. All contracted shipments were made. BlueScope Steel ("BlueScope"), one of our major customers and contracted to offtake 800,000 tonnes of pellets for the year ending 30 June 2012, shut down one of its two blast furnaces in October 2011, reducing the need for pellet feedstock. We reached a commercial agreement with BlueScope which extended to contracted period in which to offtake 800,000 tonnes of pellets to 31 December 2012. In return for extending the contract period we received a $14.2 million advance payment for the remaining contracted pellet deliveries over the remaining term of the contract.

During the year we entered into Memoranda of Understanding ("MOU") with Shree Minerals, Tasmanian Mines and Venture Minerals, three companies that have relatively close development projects which contain deposits of magnetite which could potentially be processed through Grange's infrastructure at Savage River and Port Latta.

We see potential to increase the overall production at Savage River by 200,000 tonnes to a total of three million tonnes of concentrate if the appropriate synergies with these projects can be found.

Costs

Operational costs are under continuous scrutiny and total expenditure from the operations have remained at well managed levels. Reduced production over the past twelve months, as a result of the rescheduling required by the East Wall slip, saw unit costs of pellet production increase proportionately in the first three quarters of 2011. This was expected and was highlighted in my report last year. As access to the North Pit ore was re-established in the final quarter of 2011, production levels increased and C1 unit costs of pellet production fell to below $100 per tonne, a significant reduction on the previous two quarters.

During the next 12 months overall expenditure at Savage River is expected to be at similar levels to 2011, with CPI increases offsetting "one off" expenses experienced in 2011. Pellet production will increase from 1.98 million tonnes in 2011 to between 2.3 to 2.4 million tonnes in 2012, reducing unit costs of pellet production significantly.

Our strategy has been to establish an operation that will predictably deliver profitably for the remainder of its life. High iron ore prices have provided the cash to make the necessary investments, particularly the East Wall cut back, the truck rebuilds and the new AG mill shells. As and when the prices fluctuate, the Savage River operations are positioned to remain profitable and a net producer of cash.

Revenues

During 2011 Grange received an average pellet price of A$206.02 per tonne of blast furnace pellets. A total of 1.7 million tonnes of pellets were sold during 2011. As a result of pre-determined shipping schedules and increased production rates in the last two months of the year, pellet stockpile levels were high at year end and were reduced significantly in the first month of 2012, bolstering cash reserves further.

In March 2011, agreement was reached with our customers, on a pricing mechanism designed to replace the Benchmark system that was in place prior to April 2010. As a result of this agreement, we received $52.1 million, being the difference between what was paid for shipments in 2010 under an interim pricing agreement and what was due using the agreed pricing mechanism.

Iron ore prices for 62% Fe Fines fell significantly in October 2011 with softening in both the European and Chinese markets. Grange was somewhat protected from the fall due to the pricing mechanism which has a three month lag in it. Prices in 2012 are expected to be weaker than were experienced in 2011, but Grange will also have a reduced unit cost of pellet production with overall production expected to increase by 15% to 20%. Margins are expected to remain healthy in 2012.

The company sold its shares and options in Horseshoe Metals Limited when the share price of the stock rallied, realising a gain of $1.5 million. This was in line with the broader strategy of exiting non-core investments.

Matt Anderson, Mine Superitendent and Jamie Donoghue, Truck Driver, Savage River.

Managing Director's Review *(cont.)*

Southdown Project

Grange and its joint venture partner, Sojitz, have advanced the Southdown project significantly over the past twelve months. This is a project designed to produce 10 million tonnes per annum of high grade magnetite concentrate to be exported from the port of Albany in Western Australia. Following review of the pre-feasibility study, the Joint Venture partners agreed to fund the definitive feasibility study and to appoint Standard Chartered as the financial advisor for project debt. The DFS is due to be completed in the first quarter of 2012, for consideration by the Joint Venture partners.

Highlights of the work undertaken in 2011 include:

- A drilling program that has increased both the quantity and quality of the resources. Ore reserves have also been increased.
- A metallurgical testing program was completed, allowing finalisation of the processing flow sheet.
- Application and processing of the environmental permit required to use desalinated water from the nearby coast for the project. The permit is expected to be approved in the first half of 2012.
- Significant progress made on secondary environmental approvals required for the project.
- Increased levels of engineering for all aspects of the development, firming up price estimates and quantity take-offs.
- Manufacturer pricing of major plants items (mills, ship loader, crushers, desalination plant, mobile fleet) undertaken to improve "budget" pricing used in the PFS.
- Re-designing the mine, using revised geological and geotechnical information.
- Significant progress made on commercial agreements with Western Power and the Albany Port Authority.
- Significant progress made on further land acquisition and rights of way for the slurry pipeline route to Albany.

Following the definitive feasibility study review, it is expected that the Project team will move into the next stage of the project, involving firming up engineering and building scopes of work for firm pricing ahead of contract award. Every effort is being made to minimise exposure to variations once a decision to proceed has been made.

The operations at Savage River provide Grange with a distinct advantage over its magnetite peers in that we have the cash flow, systems and expertise in place to design and bring the Southdown project into production quickly, significantly reducing the execution risk that comes with large projects.

As the DFS approaches completion, we are working with Standard Chartered to find the appropriate debt funding solution for the project. Grange will also be looking at a number of options available to raise the required equity funding. This could include a combination of using existing cash reserves, selling down portions of existing assets and raising equity on the stock market.

Investor Relations

The market has maintained its interest in Grange Resources, recognising that it is Australia's leading magnetite producer. The share price peaked in January 2011 when the Company had a market capitalisation of $1 billion. Following a general market trend in the remainder of the year, we have seen the value of Grange shares fall in line with the broader investment community's concerns over the economic stability of Europe and the USA, and more recently its perceptions of a softening in the Chinese economy. The fundamental earning capacity of Grange remains strong.

Market research on the company has also grown in 2011 with RBS, RBS Morgans, JP Morgan, UBS and Bell Potter all producing analyst research on the stock, with target prices ranging from $0.68 to $1.06, well above the closing price of $0.56 at the end of the year.. Ten investment banks now provide coverage of the Grange stock.

We continue to engage with analysts and investors and have had site visits to both Savage River and Southdown during 2011. These types of visits will continue in 2012.

Thank you

I would like to extend my thanks to all of Grange's employees for their commitment to improving the safety performance at the operations, and for putting in place and executing the plans that will ensure sustainable, predictable production in the future, both at Savage River and at Southdown.

To Grange's customers, thank you for your ongoing support. The success of your business is fundamental to us continuing to deliver a premium product to you.

To our Chairman and Board of Directors, your guidance, support and availability is greatly appreciated.

And finally, I would like to thank the Grange's shareholders for your support during the year.

Russell Clark
Managing Director

Review of Operations

SAVAGE RIVER AND PORT LATTA OPERATIONS

OVERVIEW

The Savage River iron ore mine in north west Tasmania has been in operation for almost 44 years. The mine is an open cut operation which produces an iron ore concentrate by means of magnetic separation. The concentrate is pumped through an 83 km pipeline to Port Latta on the north west coast where the majority of it is pelletised and exported to customers in Asia or sold to customers in other parts of Australia. A relatively small quantity of magnetite concentrate is sold for use in the Australian coal washing industry.

MINING OPERATIONS

During 2011, mining operations were focussed on the remediation of the East Wall of North Pit to restore access to the Main Ore Zone in North Pit. This involved continuous, detailed planning and execution to schedule as we worked our way from the top to the bottom of the east wall. Innovations with remote equipment, cast blasting, drape meshing and monitoring have enabled us to safely clean the wall to regain access to the main ore zone at the base of North Pit.

During this time production and ore supply was sustained from lower grade remnant ore bodies of the Savage River reserve. These areas included ROM Pit, Centre Pit East and a small satellite pit called Sprent and were all well south of the main North Pit operating areas. This adversely affected movement rates, but also deferred mining some of the high grade reserves.

Phase 1 of the East Wall remediation was successfully completed and access to the Main Ore Zone has been restored. During the fourth quarter of 2011, the Life of Mine Plan (LOMP) for 2012 was updated. With the progress that was made on the remediation the mine schedule has been changed to incorporate a strategy to develop multiple ore sources. The updated mine schedule has an increased mine life to 2030, resulting from redesign and the deferral of Main Ore Zone mining during 2011.

While movement rates were lower due to the work on the East Wall, they increased significantly during the fourth quarter of 2011 as access to the North Pit was re-established.

Review of Operations *(cont.)*

Truck Driver Jordan Bonde,
Savage River.

PELLET PRODUCTION AND SALES

Pellet production for the year ended 31 December 2011 was 1.98 million tonnes with the lower annualised production rate arising as a result of the June 2010 rock slide at Savage River which temporarily affected ore supply. Pellet sales were 1.7 million tonnes.

During the year the average price received for iron ore pellets was A206.02 per tonne, a 30% increase from A$158.47 per tonne for the six month period ended 31 December 2010. In March 2011, agreement was reached with customers, on a pricing mechanism designed to replace the Benchmark system that was in place prior to April 2010. As a result of this agreement, we received $52.1 million, being the difference between what was paid for shipments in 2010 under an interim pricing agreement and what was due using the agreed pricing mechanism.

Grange forecasts production of approximately 2.3 to 2.4 million tonnes of concentrate in 2012 and will be able to maintain pellet production to meet all contracted sales requirements during this period.

Unit costs rose during 2011 primarily as a result of the reduced pellet production. Regaining access to the main ore zone in the North Pit during the final quarter of 2011 resulted in production levels increasing and C1 unit costs of pellet production falling to below A$90 per tonne.

	12 Months December 2011	12 Months December 2010	6 Months December 2010
PRODUCTION STATISTICS			
Mine - Volumes ('000)			
Waste Mined (BCM)	13,935	15,935	7,448
Ore Mined (BCM)	1,693	1,214	579
Total Mined (BCM)	15,628	17,149	8,027
Strip Ratio (Ore To Waste)	8:1	13:1	13:1
Concentrator - Volumes ('000)			
Ore Crushed (t)	5,766	5,752	2,909
Ore Milled (t) (wet)	5,840	5,621	2,791
Weight recovery (dry) (%DTR)	36.4%	42.8%	39.9%
Concentrate Produced (t)	2,019	2,288	1,058
Pellet Plant - Volumes ('000)			
Pellets Produced (t)	1,978	2,205	1,000
Concentrate Stockpile (t)	1	11	11
Pellet Stockpile (t)	351	69	69
Sales - Volumes ('000)			
Pellets (t)	1,696	2,344	1,175
Concentrate (t)	11	18	18
Chips (t)	66	84	37
Total Sales Volume (t)	1,773	2,446	1,230
SALES REVENUE, CASH OPERATING COSTS (C1) AND OPERATING MARGIN			
SALES REVENUE			
Sales of Iron Ore (A$)	$410,432	$311,145	$193,334
Average Pellet Price Received (A$/t)	$206.02	$127.68	$158.47
CASH OPERATING COSTS (C1)			
Cash Operating Costs (C1) (A$/t) *	$111.68	$81.20	$88.20
Operating Margin (A$/t)	$94.34	$46.48	$70.27

* *Cash Operating Costs (C1) are the cash costs associated with producing iron ore pellets without allowance for deferred mining and stockpile movements, and also exclude royalties, depreciation and amortisation costs.*

MINERAL RESOURCES AND ORE RESERVES

SAVAGE RIVER OPERATIONS

The following tables show the Mineral Resources and Ore Reserves for the Savage River operations as at 30 June 2011. Mining of ore has been focused on lower grade parts of the resource, after the failure of the East Wall in the North Pit during the previous year. This deferred mining some of the high grade reserves, and with some updates to mine designs, has resulted in an extended schedule for mine life.

Mineral Resources and Ore Reserves are categorised in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code, 2004). Estimated Measured and Indicated Mineral Resources include those Mineral Resources modified to produce the estimated Ore Reserves. Mineral Resources which are not included in the Ore Reserves did not meet the required economic viability hurdle at the time of last review.

Mineral Resources

A summary of the total Mineral Resources for Savage River as at 30 June 2011 is as follows:

	As at June 2011		As at June 2010	
	Tonnes (Mt)	Grade %DTR	Tonnes (Mt)	Grade %DTR
Measured	81.4	54.2	86.4	53.8
Indicated	131.5	53.5	131.9	53.5
Inferred	86.9	48.8	87.8	48.9
Total	299.8	52.3	306.1	52.3

Ore Reserve

A summary of the ore reserve for Savage River as at 30 June 2011 is as follows:

	As at June 2011		As at June 2010	
	Tonnes (Mt)	Grade %DTR	Tonnes (Mt)	Grade %DTR
Proved	47.6	51.6	50.6	51.1
Probable	66.3	51.4	67.9	51.3
Total	113.9	51.5	118.5	51.2

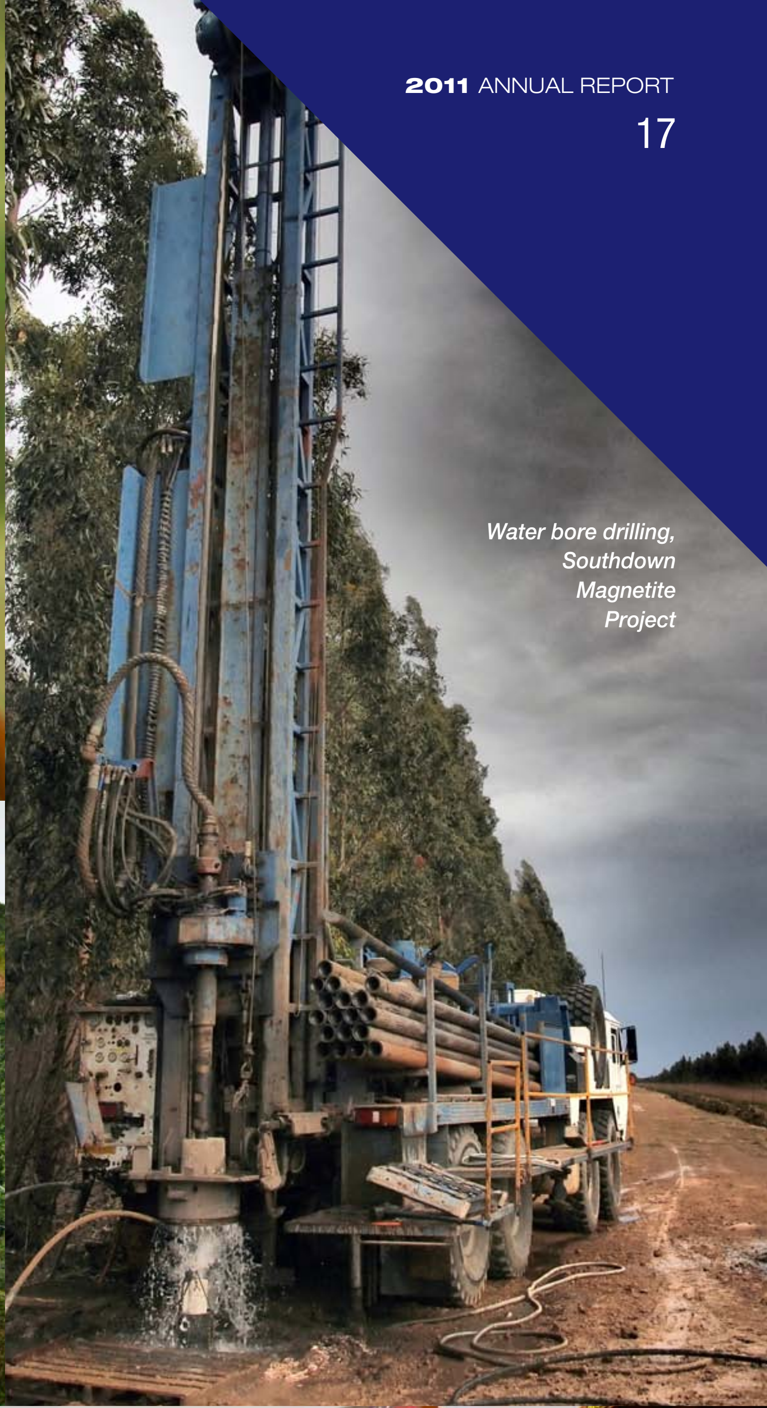
The information in this release that relates to Exploration Results or Mineral Resources in relation to the Savage River Project is based on information compiled by Mr Ben Maynard, who is a Member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Grange Resources Limited. Mr Maynard has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Maynard consents to the inclusion in the release of the matters based on his information in the form and context in which it appears.

The classification of Mineral Resources was considered appropriate on the basis of drill hole spacing, sample interval, geological interpretation and representativeness of assay data and was based on a number of factors:

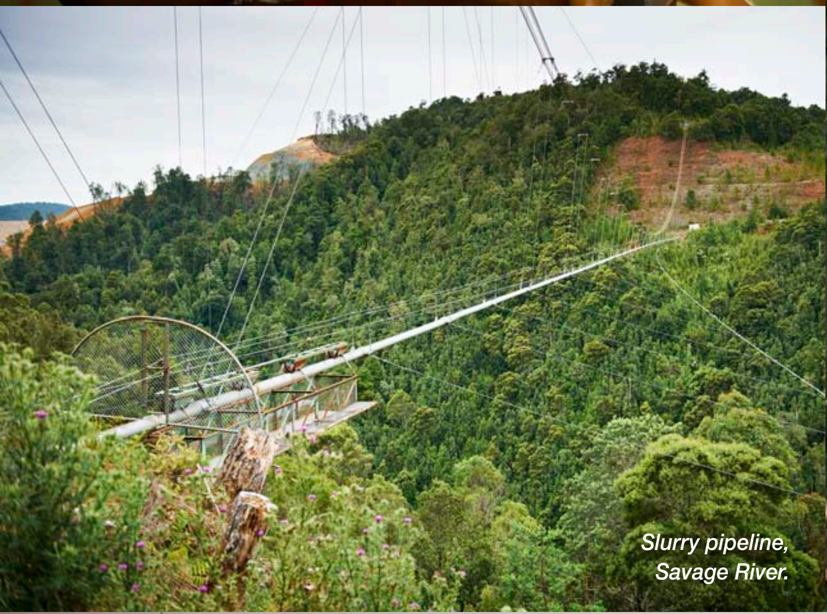
- The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves. The Inferred Mineral Resources are, by definition, additional to the Ore Reserves
- The estimation was constrained within the interpreted geological domain
- The Ordinary Kriging and Inverse Distance interpolation methods were carried out on drilling data composited to 2 metres
- Oxidised material was not included in this statement of Mineral Resources
- Tonnages were estimated on a dry basis
- Bulk density for samples taken from diamond drill core has been physically determined by the weight-in-air/ weight-in-water method. Samples are unsealed during this process as most material is competent and/or of low porosity
- A lower cut-off grade of 15% DTR was used in the calculation of both the Mineral Resources and Ore Reserves
- The Ore Reserve was calculated using a 1.087 dilution factor and a mining recovery factor of 0.939. These factors are based on periodic reconciliation specific to mining areas

The survey surface used for reporting North Pit was the end-of-month June 2011 surface.

Michael Hayward, Mobile Maintenance Mechanic, Savage River.



Water bore drilling, Southdown Magnetite Project



Slurry pipeline, Savage River.

Mining fleet haul trucks, Savage River.

Review of Operations *(cont.)*

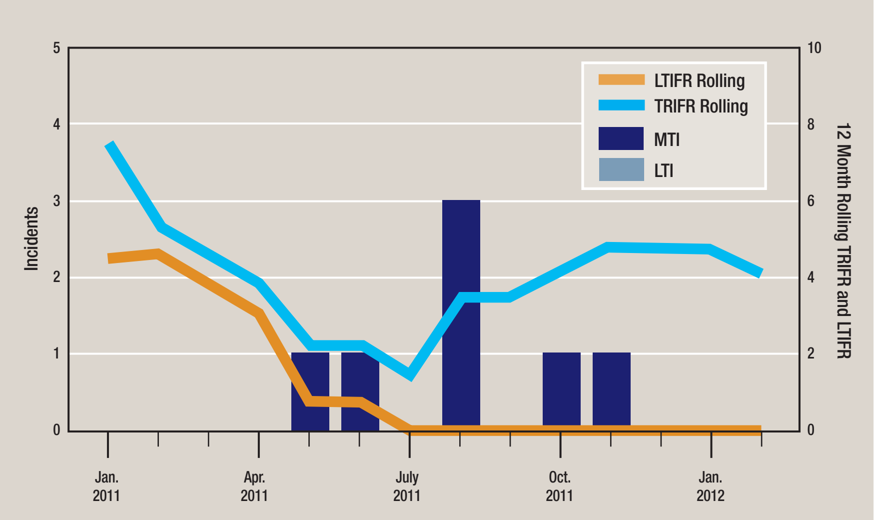
HEALTH AND SAFETY

OVERVIEW

Grange Resources operations utilises the Grange Management System (GMS) which is an integrated management system which contains our Safety, Environment Management and Social Responsibility (SEMS) system including:

- Enterprise Risk Strategies
- Safety Risk Management Journey Guidance
- Plan Do Check Act (PDCA) continuous improvement model
- Major Hazard Standards and Principal Hazard Management Plans
- Leadership and Behaviour Processes

The SEMS is aligned to ISO 14001 Environmental & OHSAS 18001 Management Systems Standards and is applicable to any existing and future national or international operation.



2011 Savage River safety performance.

MISSION STATEMENT

To drive a continuous improvement culture involving all managers, supervisors, employees and contractors eliminating all injury and disease through effective management systems, integrated risk management practices, risk aware culture and safety leadership.

Mike Darby, Process Superintendent, Port Latta.

SAFETY PRINCIPLES

To achieve superior health and safety performance we believe

- All serious injuries and diseases are preventable
- All hazards can be identified and their risks managed
- No task is so important that it cannot be done safely
- Working safely is a condition of employment
- Every person is accountable for their own and the safety of those around them
- Every employee must have and maintain the necessary skills to work safely
- Acceptance of substandard practice will not be tolerated
- Safety and health performance can always be improved

SAFETY PERFORMANCE

Safety performance at Grange's operations over the course of 2011 saw the Total Recordable Injury Frequency Rate (TRIFR) fall from 9.1 (31 December 2010) to 4.7 (31 December 2011), a 48% improvement. This improving trend continues to reflect the strong and increased emphasis on safety management at the operations. We know that a safe mine is a productive one.

ENVIRONMENTAL LEGISLATIVE APPROVAL

Grange obtained environmental and planning approval in 1997 and 1998 allowing it to operate under the Tasmanian Land Use Planning and Approvals Act 1993 (LUPA), the Tasmanian Environmental Management and Pollution Control Act 1994 (EMPCA), the Tasmanian Goldamere Pty Ltd (Agreement) Act 1996 (Goldamere Act) and the Tasmanian Mineral Resources Development Act 1995. This approval covers an expected 15 to 20 year mine and processing life using open-cut mining at Savage River, gangue removal at Savage River and pelletising beneficiation at Port Latta.

GOLDAMERE ACT

The Goldamere Act overrides all other Tasmanian legislation with respect to Grange's operations. The Goldamere Act limits Grange's liability for remediation of contamination, under Tasmanian law, to damage caused by Grange's operations, and indemnifies Grange for certain environmental liabilities arising from past operations. Where pollution is caused or might be caused by previous operations and that pollution may be impacting on Grange's operations or discharges, Grange is indemnified against that pollution. Grange is required to operate to Best Practice Environmental Management (BPEM).

PLANNING APPROVALS

Grange obtained planning approval subject to a series of environmental permit conditions on 29 January 1997. Planning approval was issued by the Waratah Wynyard Council for Savage River and by the Circular Head Council for Port Latta. The approvals were conditional on the provision of an Environmental Management Plan (EMP) incorporating a Rehabilitation Plan (ERP) prior to the commencement of operations. Various other studies were also required.

ENVIRONMENTAL MANAGEMENT PLANS

The EMP incorporating the ERP and study results were approved by the (then) Department of Environment Parks, Heritage and the Arts and operations commenced in October 1997. The latest revision of the approval documents occurred on 6 October 2000 when Environmental Protection Notices (EPN) 248/2 and 302/2 were issued to replace the environmental permit conditions for Savage River and Port Latta respectively.

Approvals are required from the Department of Primary Industries, Parks, Water and the Environment (DPIPWE) and relevant Councils for major infrastructure developments and operational expansions and changes. These approvals are in the form of approved EMP amendments and reflect changing operational circumstances, an increasing knowledge base and include approvals designed to extend operations, amend management plans and provide for dumping and treatment facilities.

An amendment to the EMP was approved for an extension of mine and pelletising operations in early 2007 to approve the Mine Life Extension Plan.

EMPs and ERPs must be resubmitted every three years from 2001, the latest was submitted in December 2010 and the next revision is expected in December 2013. The revised EMP reflects the BPEM and current mine planning and focus on closure requirements and rehabilitation. The development of significant new projects such as a new pit will require additional planning approval and at a minimum an EMP amendment approval followed by issuance of an EPN from the EPA.

GOLDAMERE AGREEMENT

The Goldamere Agreement (which forms part of the Goldamere Act) provides a framework for Grange to repay the Tasmanian Government for the purchase of the mine through remediation works. Significant variations to the Goldamere Agreement were signed on 4 October 2000 and 10 September 2002 following extensive negotiations. The amended Goldamere Agreement provides a framework for Grange to co-manage the Savage River Rehabilitation Project (SRRP) and carry out contracted works in lieu of paying the purchase price of the operation to the Government. The agreement also allows Grange to integrate its rehabilitation obligations with those of the State under the SRRP.

SAVAGE RIVER REHABILITATION PROJECT (SRRP)

Grange representatives meet with representatives from DPIPWE on a monthly basis to develop and implement remediation works at Savage River. Grange has contracted with the SRRP for works including construction, treatment and management and development of waste rock dump covers, acid pipelines and other remediation projects. The SRRP objective is to capture and treat 65% of the site's copper load to remove the possibility of an acutely toxic aquatic environment. The scope of works to meet this objective has been completed and costed to feasibility level.

A strategic plan outlining the works required to achieve the objective and repay Grange's purchase price debt has been approved by the Tasmanian Environment Protection Authority and is being implemented by the SRRP committee. This plan is being updated in 2012 to reflect the long term risks and Grange's latest mining plan. Recent (2008) biological surveys have shown improvement in aquatic biota within and downstream of the mining lease.

Review of Operations *(cont.)*

PRINCIPAL ENVIRONMENTAL ISSUES

Actions taken by Grange to ensure BPEM (as defined by approved EMPs and EPNs and subsequent amendments) include:

- Upgrading air emissions from furnaces at Port Latta with emphasis on reducing Ground Level Concentrations of sulphur dioxide (SO_2) and fugitive dust from site, and also preventing acid burns. Since 2002, operation of an acid burn forecasting system has successfully managed this issue. Longer-term operation may necessitate construction of a 70 metre stack to disperse furnace emissions. Air emissions models are being reworked to ensure success prior to detailed engineering and construction of a stack to disperse furnace emissions.
- Water, tailings and waste rock management at Savage River, including: development of waste rock dumps which exclude oxygen to minimise the formation of acid mine drainage and utilisation of these dumps to form seals on old waste rock dumps; subaqueous tailings deposition and maintenance of saturated tailings; providing a centralised water treatment system using a disused pit to reduce turbidity from mine runoff. Grange is in compliance with requirements and appropriate management and monitoring systems are in place.

Additionally, internal (non-legislative) water quality objectives for emissions to Savage River and air quality objectives for Port Latta have been implemented.

REHABILITATION PLANS

Grange has a $2.2 million financial assurance lodged with of Department of Environment, Parks, Heritage and the Arts. The original ERP and ERPs from 2001 onwards require forecasting of potential environmental harm should the operation cease during the period of the ERP (notionally three years). The financial assurance was based on the cost estimates to mitigate the potential environmental harm based on the submitted and approved 2007 EMP review.

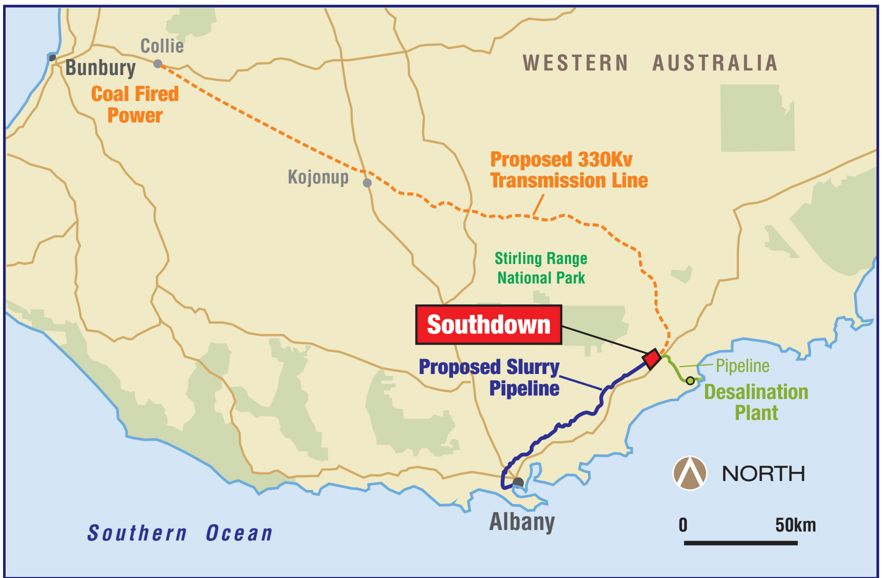
Liability for rehabilitation is not limited to the financial assurance. Grange is required to plan for closure and departure on completion of the mining plan. Principal issues in respect of the closure include maintenance, the deposit of tailings, future use of infrastructure and a five year monitoring and maintenance plan.

Mark Gleason, Process Operator and Mike Darby, Process Superintendent, Port Latta.

Review of Operations *(cont.)*

SOUTHDOWN MAGNETITE PROJECT

Through a joint venture between Grange Resources Ltd (70%) and Sojitz Resources and Technology Pty Ltd (30%), the Southdown Project aims to export 10 million tonnes per year of magnetite concentrate to Asian steel markets. The mine site is near the south coast of Western Australia approximately 90 km northeast of Albany. As planned, a definitive feasibility study for the integrated mine, pipeline and port greenfields development is being completed to prepare the project for financing. The study has shown robust project economics with costs tightly defined to an accuracy of +/-15%.



Southdown Magnetite Project near Western Australia's south coast.

STRONG PROJECT FUNDAMENTALS ...

A well defined resource

Following the completion of an A$8.3 million drilling program, the mineral resources have been increased by 75 per cent to 1.2 billion tonnes(Grange ASX Announcement 16 February 2012).

Easy to extract

The 12 kilometre long 85 metre thick ore body lies close to the surface and can be readily extracted with conventional open pit mining equipment.

Strong market demand and pricing outlook

The global iron ore demand is forecast to grow 50% by 2015 and to double by 2030 (studies by market analysts, CRU and AME).The demand for high quality magnetite concentrate like the Southdown product is forecast to grow even faster, and earn a significant price premium over direct shipping hematite ore. The backing of Shagang, one of China's largest integrated steel makers, and Sojitz, an established Japanese trading conglomerate, ensures good market support through direct offtake agreements, long term contracts, and spot market sales.

Proven mining and processing operation

The Southdown ore, concentrator process and slurry pipeline arrangement are very similar to Grange's Savage River operation, which has proved itself to be a reliable, low cost operation over more than 40 years.

Close to existing infrastructure

Southdown will use the existing port of Albany, draw its process water from a seawater desalination plant, and its power from an extension to Western Power's electricity grid. In addition the South Coast Highway runs directly past the project site, providing excellent access and transport.

Approvals in place

Mine and Port environmental approvals have been granted, and most other approvals are already in place.

Review of Operations *(cont.)*

Four times larger than Savage River ...

At full production, Southdown will export more than four times Grange's current output from the Savage River mine in Tasmania. At 10 Mt per annum, it represents a world scale operation for sustainable supply to the global steelmaking industry. The scale of the operation places Southdown very competitively on the global iron ore industry cost curve, providing strong protection from any future market downturns.

The current feasibility study focuses only on the western exploration area of the Southdown deposit which supports a mine life of 14 to 16 years. Additional resources to the east of the South Coast Highway may well support an extended mine life and will be actively investigated as the project moves forward.

Unlike any other Australian resource company, Grange can draw on the experience, skills and systems from successfully operating the Savage River mine to drive a safe, reliable, low cost performance at Southdown.

PROJECT UPDATE

The feasibility study, conducted through 2011, investigated and advanced every area of the project to prove its overall viability and develop accurate cost estimates.

Geology and Resource

The Southdown magnetite deposit is a long, thin, near-surface, continuous ore body. It extends over 12 kilometres, with depths varying from 50 metres in the west to 480 metres in the east.

The deposit has been drilled and evaluated since its initial discovery in 1983, including an extensive program of resource drilling during 2011 for the feasibility study. A resource model update was completed in December 2011 for the deposit, significantly increasing the quality and confidence in the resource. The Southdown resource now exceeds 1.2 billion tonnes.

Conventional Mining

Targeted concentrate production rates require a material movement in the mine of up to 110 Mt per annum by conventional drill, blast, load, haul mining methods. The final proposed pit is six kilometres long,one kilometre wide and about 370 metres deep. The mining operation will draw heavily on Grange's existing capability as Australia's largest commercial producer of magnetite concentrate, to assist with startup and ongoing operations.

Ore crushing and concentration

Southdown ore will be processed to increase the iron content from around 30% to 69%. Extensive metallurgical test work including pilot plant trials have been conducted since 2004. The process includes crushing, grinding, classification and magnetic separation. The concentrate is further upgraded using hydro separation to remove fine silica, and flotation to remove sulphur impurities.

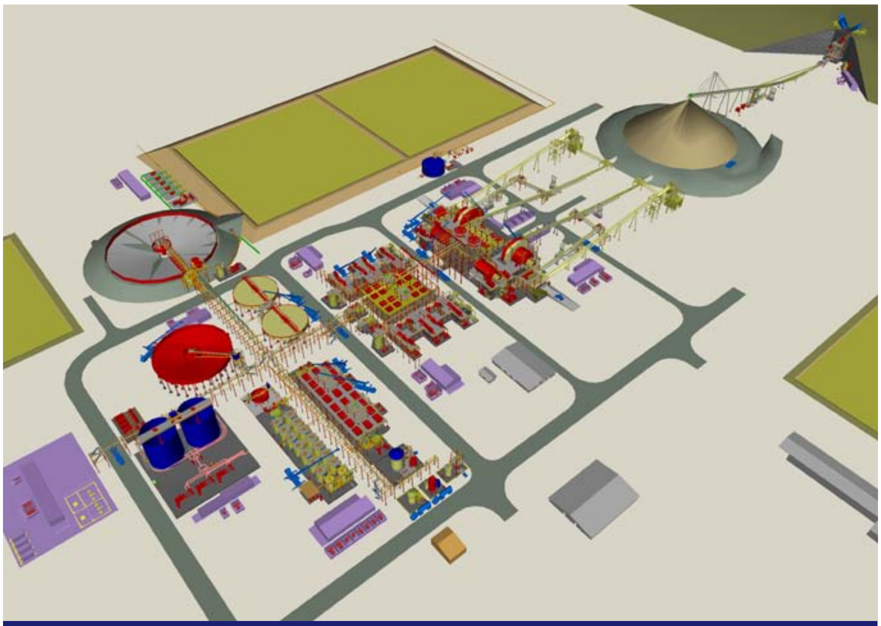
Two dams will store tailings from the operation – one for the cleaner magnetic separator tailings, the other a dedicated sulphide pond for tailings from the flotation circuit.

Pumping the concentrate slurry 100 km to the port

Final magnetite concentrate is thickened and transported through a 100 km pipeline to the Port of Albany, where it will be filtered and stored for loading onto ships. A second pipeline will return the filtered water back to the mine site so it can be used again in the process. Both pipelines are buried.

Trebling Albany's port capacity

A concentrate export facility will be built on 7 Ha of reclaimed land at Albany Port, immediately east of the existing woodchip terminal site. It will incorporate a filtration plant, storage shed, new berth and ship loading facility. Deepening and widening a 9.5 kilometre approach channel will enable 200,000 tonne cape size ships to use the port. Whilst minimal dust generation is expected because of the high moisture content of the concentrate, the shed will be fully enclosed, under negative pressure and fitted with a dust extraction plant.



Perspective of Southdown concentrator and separation plant.

Albany Port showing the proposed new Southdown facility

The development would more than treble Albany's current port capacity from 4 Mt to 14 Mt, giving it significant critical mass to potentially reduce unit costs of tug operators, stevedores and other port suppliers. The design has been developed in close consultation with the Albany Port Authority and in line with the Public Environmental Review approved in November 2010.

A new source of water and power supply

A seawater desalination plant will be constructed 25 km from the mine to supply the plant with 12 GL per annum of water. The tailings dams at the mine will capture and recycle a further 2.8 GL per annum of water. Power for the mine site will be provided by a new 278 kilometre 330kv transmission line from Muja to Southdown, to be built by Western Power.

Operations planning and workforce

The Southdown operation will be modelled on Grange's existing Savage River operation in Tasmania. It will operate on a 24/7 basis for 365 days per year, employing a permanent workforce of around 600. Employees will be recruited from the Albany region wherever possible and trained in the operation and maintenance of the processing operations.

An office complex will be developed in Albany to support the Southdown mine and port activities.

Construction planning & schedule

A construction workforce peaking at around 2,000 people will be required. The project will engage an experienced construction management company to coordinate a series of fixed price contracts to minimise risk and the number of interfaces. The 33 month project schedule targets projects approval in the first quarter of 2013 and first ore on ship by 2015.

Land access and tenure, statutory approvals, Native Title consultations and commercial agreements are all well advanced and are in line with the project schedule.

A major boost to the local economy

The Southdown project will focus on local employment and training to staff its operation. This will avoid the need and cost of a fly-in-fly-out workforce and will insulate the project from the Western Australian resources boom. It has been estimated that for every direct job provided at Southdown, a further three jobs will be generated in the regional economy.

Aside from long term employment, the project will treble the capacity of Albany Port and open it up for much larger ships. Through the expanded port and the new power transmission line, Southdown will contribute valuable infrastructure to support and encourage further economic development in the region. The Southdown Joint Venture is working alongside the community, including traditional owners of the land, to ensure a safe and environmentally responsible project.

Grange is Australia's proven, safe, reliable, low cost producer of magnetite concentrate. Through over 40 years at Savage River, Grange has been a major long term contributor to the Tasmanian economy. Now, through the Southdown project, it will add valuable economic diversity to the Great Southern Region of Western Australia.

Review of Operations *(cont.)*

SOUTHDOWN MAGNETITE PROJECT

Mineral Resources Estimate

The mineral resource estimate for the Southdown Project is as follows:

	As at February 2012		As at December 2011	
	Tonnes (Mt)	Grade %DTR	Tonnes (Mt)	Grade %DTR
Measured	423.0	37.6	407.0	37.1
Indicated	87.4	38.4	40.2	40.2
Inferred	710.6	31.5	250.8	32.5
Total	1,221.0	34.1	698.0	35.7

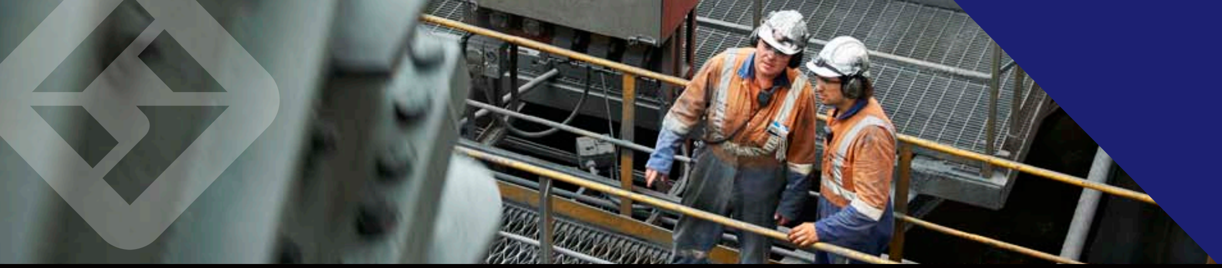
During 2011, a drilling program was undertaken along the full 12 kilometre strike length of the mineralisation and comprised 85 holes for 22,727 metres of drilling. The resource on the western tenements (figure 1) was updated and reported 11 January 2012. With the receipt of further analytical results the resource on the eastern tenements was updated and reported 16 February 2012. This drilling program delivered a 75% increase in the mineral resource.

This Mineral Resource was completed by Ben Pollard of BMGS Perth Pty Ltd and has been defined using geological boundaries and a cut-off grade of 10 wt% DTR (Davis Tube Recovery) and includes minor internal dilution.

Southdown - 2011 drilling relative to the Southdown Mineral Resource.

The total Mineral Resource at February 2012 stated above combines an updated estimate of 511Mt at 36.6 wt% DTR for the western tenements, plus 709.8Mt at 32.3 wt% DTR for the eastern tenements. The eastern tenements Mineral Resource has increased by 512Mt based on the additional analytical results from the 2011 drilling program. Further details of the total Mineral Resource are provided in the ASX announcement dated 16 February 2012.

The information in this report which relates to the Mineral Resources of the Southdown Project is based on information compiled by Michael Everitt who is a full-time employee of Grange Resources Limited and a Member of the Australasian Institute of Mining and Metallurgy. Michael Everitt has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2004). Michael Everitt consents to the inclusion of this information in this statement of Mineral Resources in the form and context in which it appears.



Corporate Governance Statement

Grange is committed to creating and building sustainable value for shareholders and protecting stakeholder interests. The Company recognises that high standards of corporate governance are essential to achieving that objective.

The Board has the responsibility for ensuring Grange is properly managed so as to protect and enhance shareholders' interests in a manner that is consistent with the Company's responsibility to meet its obligations to all stakeholders. For this reason, the Board is committed to applying appropriate standards of corporate governance across the organisation.

As part of its commitment to enhancing its corporate governance, and as a listed company, the Board has adopted relevant practices which are consistent with the Australian Securities Exchange ("ASX") Corporate Governance Principles.

Details of the Company's corporate governance practices are included below and also on the Company's website www.grangeresources.com.au. This facilitates transparency about Grange's corporate governance practices and assists shareholders and other stakeholders make informed judgments.

Grange considers that its governance practices comply with the majority of the ASX Best Practice Recommendations.

ROLE OF THE BOARD

The Company's Constitution vests management and control of the business and the Company's affairs in the Board.

The Board's primary role is to enhance shareholder value. It is responsible for providing a leadership role and for providing overall stewardship of the organisation. The Board oversees Grange's strategic direction and the conduct of business activities by the management team for the benefit of Grange shareholders.

Board Functions

Specific accountabilities and responsibilities of the Board include:

- Developing long-term objectives and strategy in conjunction with management;
- Reviewing and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Reviewing and approving policies, goals, targets and budgets;
- Defining and setting performance expectations for the Company and monitoring actual performance;
- Appointing and reviewing the performance of the Managing Director and senior management;
- Assuring itself that there are effective health, safety, environmental and operational procedures in place;
- Ensuring that there is effective budgeting and financial supervision and that appropriate audit arrangements are in place;
- Satisfying itself there are effective reporting systems that will assure the Board that proper financial, operational, compliance, risk management and internal control processes are in place and functioning appropriately;
- Satisfying itself that the annual financial statements of the Company fairly and accurately set out the financial position at year end, and the financial performance during the year;
- Assuring itself that the Company has adopted a Code of Corporate Ethics and that Company practice is consistent with that Code;
- Reporting to and advising shareholders;
- Practicing and exhibiting the Company's values; and
- Having an awareness of the statutory obligations imposed on Board members and ensuring there are appropriate standards of corporate governance.

The Board has a charter, a copy of which is located on the Company's website.

Management Functions

The Company has established the functions that are reserved for management. Management is responsible, on a shared basis with and subject to the approval of the Board, for developing strategy, and is directly responsible for implementing the strategies into the Company's business activities. Management is also responsible for safeguarding the Company's assets, maximizing the utilization of available resources and for creating wealth for Grange's shareholders.

COMPOSITION OF BOARD

The Board aims to have a mix of relevant skills, industry and geographic knowledge together with expertise to carry out its duties and meet its objectives including high levels of:

- Finance / accounting expertise;
- Operational and technical expertise;
- Large project management and implementation expertise;
- Australian resources industry expertise; and
- Iron ore marketing and trading expertise.

The Remuneration and Nomination Committee periodically considers the skill and experience mix of the Board and undertakes a gap analysis. Directors are elected for a three year period and retire by rotation in accordance with the Company's Constitution. Professional intermediaries are used to identify and assess suitable candidates for independent vacancies. New directors are provided with an extensive induction program which includes a range of relevant Company and Board information including company values and culture, meetings with senior management and site visits to familiarise them with the operations of the Company.

The Board has a non-executive Chairman and the roles of the Chief Executive Officer are undertaken by different individuals. The Board is comprised of six Directors - two executive Directors and four non-executive Directors.

Of the four non-executive Directors, two Directors are not considered to be independent. The Board therefore has equal numbers of independent and non independent Directors.

The non independent Directors, as defined under Recommendation 2 of the ASX Best Practice Recommendations (Principles), include Zhiqiang Xi (representative of major shareholder Shagang International Holdings Limited) and Clement Ko (representative of substantial shareholder Pacific International Holdings Co. Pty Ltd). Zhiqiang Xi also acts as Chairman.

The Board is mindful of the Principles and the preference for Boards to have a majority of independent Directors. The Board will continue to monitor and review its composition, but at this stage does not believe substantive changes will deliver greater shareholder value than the existing Board structure. The Board reviews the independence status of each director throughout the year.

Director	Independent	Non-Executive	Term in Office
Zhiqiang Xi	No – employed by major shareholder	Yes	3 years
Neil Chatfield	Yes	Yes	3 years
Russell Clark	No – Managing Director	No	3 years & 9 months
John Hoon	Yes	Yes	19 months
Honglin Zhao	No – Executive Director	No	18 months
Clement Ko	No – substantial shareholder	Yes	3 years

EVALUATION OF THE BOARD, COMMITTEES AND SENIOR MANAGEMENT

The performance of the Board and its Committees is conducted on a periodic basis. Senior management are reviewed and evaluated annually. In particular, the assessment of senior management is conducted by reference to short term and long term key performance indicators which are agreed at the start of each financial year. The evaluation of the Board is overseen by the Remuneration and Nomination Committee and Board members are required to complete questionnaires providing feedback on the Board's performance. The review process for the Committees is undertaken by way of regular feedback from the Board during the year. A formal assessment of the Board was conducted in the second half of 2011.

The CEO's performance is evaluated annually by the Remuneration and Nomination Committee against a range of key performance indicators and targets. The Committee makes a recommendation to the Board on the CEO's remuneration which is based on both performance and external market data. The CEO has a current position description and a letter of appointment which describes his term of office, duties, rights and responsibilities and entitlements on termination.

BOARD COMMITTEES

Audit Committee

The Company has a formally established Audit Committee with a written charter, a copy of which is available on the Company's website.

The Audit Committee consists of Mr John Hoon (Committee Chairman), Mr Neil Chatfield and Zhiqiang Xi, all of whom are non-executive Directors. A majority of the Committee (including the Committee Chairman) is independent. Each member of the Audit Committee must be appropriately financially literate and at least one member of the Audit Committee will have extensive financial or accounting expertise.

The Audit Committee assists the Board to meet its oversight responsibilities in relation to Grange's financial reporting, legal and regulatory requirements, internal control and risk management systems and internal and external audit functions.

It is responsible for ensuring that the integrity of the Company's financial records is maintained and that the Company is exposed to minimum financial risk. It reviews:

- Grange's financial reporting principles and policies, controls and procedures;
- the effectiveness of Grange's internal control systems;
- the integrity of Grange's financial statements and the independent audit thereof, and Grange's compliance with legal and regulatory requirements in relation thereto.

It undertakes a broad review, monitors compliance, and makes recommendations to the Board in respect of the Company's accounting, compliance and risk affairs. It also reviews the appointment and performance of the external auditors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee's overall role is to ensure that Grange's remuneration policies and practices are consistent with the Company's goals and objectives.

The Committee is responsible for the oversight of Grange's remuneration strategy and overall policy. It makes recommendations to the Board on all aspects of appointment, remuneration and termination pertaining to the CEO/Managing Director and reviews the appointment, remuneration or termination of senior executives.

In addition to considering the performance of the Managing Director and the performance and succession planning his direct reports, the Committee monitors external remuneration trends and market conditions and selects and appoints external remuneration advisers as required.

The Committee oversees the Company's diversity policy and corporate governance practices in relation to remuneration. It is also responsible for making recommendations on non-executive director remuneration and addressing relevant remuneration issues generally.

In addition to its remuneration responsibilities the Committee undertakes Board nomination and appointment functions. It assesses the skills required by the Board, prepares and reviews the Board's succession plan and implements processes to identify and recruit suitable candidates for appointment as non-executive directors.

The Remuneration and Nomination Committee has three members and presently comprises Mr Neil Chatfield (Committee Chairman), Mr John Hoon and Mr Zhiqiang Xi, all of whom are non-executive Directors. A majority of the Committee (including the Committee Chairman) is independent.

There are no executive Directors on the Committee. The Committee seeks input from the Managing Director and senior executives on selected Company remuneration matters. No senior executive is involved in deciding their own remuneration. Executive remuneration is a mix of fixed and performance based remuneration and external remuneration advisers are consulted.

During the year the Committee adopted the following guidelines for engaging and dealing with remuneration consultants:

- the consultant/consultancy should have a database from which to draw data on market practice in relation to remuneration of key management personnel ("KMP") in relevant comparator companies;
- the consultant/consultancy should have significant relevant experience in advising on KMP remuneration;
- the individual consultants who are advising the company should have significant relevant experience in advising on KMP remuneration;
- the consultant/consultancy should be engaged by and report directly to Board or the Remuneration and Nominations committee;
- any interaction between management and the consultant/consultancy should be authorised by the Board or Remuneration and Nominations Committee and should be limited to receiving input to allow the consultant to undertake the work commission by the board or remuneration committee; and
- If interviews or working sessions involve management then a representative of the Board or Remuneration and Nominations Committee may attend.

Further details are contained in the Remuneration Report section of the Annual Report. The Committee has a written charter a copy of which is available on the Company's website.

Health, Safety and Environment Committee

During the year the Board established a dedicated Health, Safety and Environment Committee. The Committee's role is to assist the Board discharge its environmental and workplace health and safety role and obligations. The Committee provides the Board with additional resources to monitor and review key issues in this area. The Committee has a written charter a copy of which is available on the Company's website. Specific duties of the Health, Safety and Environment Committee include:

- Reviewing the strategic plans and targets covering health, safety and the environment;
- Monitoring safety and environmental performance together with action plans to improve performance and / or remedy specific issues;
- Ensuring the consistency of standards, policies and practices across the Company's operations;
- Monitoring the implementation of new, and the effectiveness of established, health, safety and the environment risk management systems at Company locations;
- Reviewing the findings of investigations into major incidents;
- Consideration of audit reports into health, safety and the environment systems, processes and resources and recommending appropriate measures to the Board; and
- Reviewing compliance with legislation and internal policy as well as the Company's readiness for impending legislation.

The Committee is comprised of a majority of non-executive directors. The members of the Health, Safety and Environment Committee are: Mr Neil Chatfield (Committee Chairman), Mr John Hoon, Mr Zhiqiang Xi, all of whom are non-executive Directors, and Managing Director, Mr Russell Clark.

The Committee will meet at least three times a year and at least two of these meetings will be at site and incorporate an inspection of the operations. The heads of Company operations are invited to attend all Committee meetings.

INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

All Directors have the right of access to all relevant Company information, to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice concerning any aspect of the Company's operations or undertakings at the Company's expense.

CODE OF CONDUCT

The Board acknowledges its responsibility to set the ethical tone and standards of the Company. Accordingly it has clarified the standards of ethical and professional behaviour required of Directors, employees and contractors through the establishment of a Code of Conduct.

The Code of Conduct requires all Directors, employees and contractors to conduct business with the highest ethical standards, including compliance with the law, and to report or avoid conflict of interest situations. Compliance with the Code of Conduct is mandatory with breaches taken seriously. A copy of the Code of Conduct is located on the Company's website.

DIVERSITY

Philosophy and Policy

Grange recognises that our employees are our most valuable resource and the means by which we will achieve safe, sustainable, cost effective production. Diversity is one of many elements which helps create sustainable value for our shareholders.

Corporate Governance Statement *(cont.)*

Grange takes a broad and all encompassing view of diversity. Diversity is about accepting, respecting and understanding that each person is unique.

In 2011 the Board approved a Diversity Policy. The policy highlights that an individual's differences can be along the lines of race, cultural background, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs or other ideologies.

Diversity can also include an extensive range of individual characteristics and experiences such as communication styles, career path, educational background, family responsibilities and marital status which may influence personal perspectives.

The policy details how Grange supports diversity in its work place. This includes:

- Undertaking recruitment of employees at all levels from as diverse a pool of qualified candidates as reasonably possible;
- Recruiting and selecting on the basis of merit (skills, qualifications, abilities and achievements);
- Providing fair and equal access to employees so that no one person or group of people is treated any less favourably or more favourably than others;
- Providing a positive and safe work environment that promotes job satisfaction and one in which all employees feel they are valued, treated fairly and recognised for their contribution;
- Treating all employees fairy and with respect and dignity as detailed in the Company's values and the Code of Business Ethics and Conduct and Fair Treatment Policy;
- Maintaining a comprehensive range of contemporary policies as part of the "Grange Cares" program covering recruitment, behaviour at work, fair treatment, performance as well as training and personal development;
- Reinforcing a performance oriented and merit based organisational culture in which remuneration practices reward and retain employees equally based on performance and potential regardless of gender;
- Providing training and personal development plans to maximise safety awareness, job performance and productivity, and the opportunity for promotion;
- Complying with anti discrimination and equal employment legislation;
- Initiating and supporting actions in our communities which foster diversity and equal opportunities; and
- Integrating Board approved diversity targets into business and workforce planning.

In addition the policy also explains how the Board demonstrates its commitment to diversity. This includes:

- Using professional intermediaries to source suitably qualified candidates for Board positions;
- Providing translation services and other administrative arrangements to accommodate non English speaking Board members;
- Assuming responsibility for establishing and reviewing measurable diversity targets (with the assistance of the Remuneration and Nominations Committee);
- Reporting on gender participation in the Annual Report each year; and
- Annually reviewing the Diversity Policy.

A copy of the Policy is on the Company's website.

Gender Participation

While the Company does not presently have any women on the Board the Board does however have cultural diversity with three of the six directors being of overseas origin. When the Board next recruits for an independent non-executive director vacancy it plans to instruct the professional intermediary to include at least one woman on the list of potential candidates.

The Company defines executives as those professional or senior managerial team members which report directly to the Managing Director. Of the four executives reporting directly to the Managing Director as at 31 December 2011, one (25%) is a woman. The Company conducts performance based reviews at least annually of all employees and monitors the number of women progressing through its professional and technical ranks.

As at 31 December 2011 the number of women in the Company's workforce was 59. This represents an overall participation rate of 9.8%. Women comprise 5% of operations/maintenance roles, 22% of administration/supervisory roles and 16% of senior professional roles/managerial roles.

In early 2012 the Company established measurable diversity objectives. In developing its objectives the Board considered the location and nature of the Company's operations. At present the bulk of the Company's employees are based at Grange's Tasmanian operations. Both are mature and established operations and by mining industry standards have a stable workforce with limited turnover. Accordingly the Company aims to have women comprising 25% of senior professional / managerial roles and to increase the overall proportion of women in the workforce to 12% by 2015. In addition the Company will also put in place additional diversity data capture mechanisms during 2012.

The Board will review progress against these targets at regular intervals. Subject to a decision to proceed with the development of the Southdown project in Western Australia and the commencement of operations there, it is anticipated that there will be opportunities to further increase the participation of women in future years.

TRADING IN COMPANY SECURITIES BY DIRECTORS AND SENIOR EXECUTIVES

To safeguard against insider trading, the Company's Securities Dealing Policy prohibits employees and Directors from trading in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

The policy describes what constitutes insider trading, the penalties for undertaking such activities and makes recommendations on when employees should not trade in the Company's securities.

The policy also notes designated "blackout" periods during which Directors and employees are not allowed to trade. The Company Secretary advises employees and Directors of the commencement and conclusion of all blackout periods. Before commencing any trade, a Director must first obtain approval of the Chairman and senior management must advise the Company Secretary.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company.

CONTINUOUS DISCLOSURE

The Company is committed to providing relevant up-to-date information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules and the Corporations Act 2001.

The Board has implemented a Continuous Disclosure and Market Communication Policy to ensure that information considered material by the Company is immediately reported to the ASX.

Other information such as Company presentations are also disclosed to the ASX and are on the Company's website.

Grange applies the following guiding principles for market communications:

- Grange will not disclose price sensitive information to an external party except where that information has previously been disclosed to the market generally.
- Timely and accurate information must be provided equally to all shareholders and market participants.
- Information must be disseminated by channels prescribed by laws and other channels which Grange considers to be fair, timely and cost-efficient.

The Company's website provides access to all current and historical information, including ASX announcements, financial reports and other releases.

SHAREHOLDER COMMUNICATION

In adopting a Continuous Disclosure and Market Communication Policy, the Board ensures that shareholders are provided with up-to-date information.

Communication to shareholders is facilitated by the production of the annual report, quarterly and half yearly reports, public announcements and the posting of all ASX announcements and other information (including copies of all investor presentations) on the Company's website. The website contains seven years of historical ASX announcements to facilitate research by investors and shareholders.

Shareholders are encouraged to attend and participate in the Annual General Meeting (AGM) of the Company. Shareholders may raise questions at the AGM and the external auditor is in attendance at such meetings to address any questions in relation to the conduct of the audit.

RISK MANAGEMENT

The Board acknowledges that risk management is a core component of Director and executive duties and an essential element of good governance. The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. A summary of the Company's Risk Management Policy is available on the Company's website.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management by benchmarking the Company's performance to the Australia/New Zealand Standard on Risk Management.

The Chief Executive Officer and Chief Financial Officer have provided a written statement to the Board that:

- their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- that the Company's risk management and internal compliance and control system is operating effectively in all material respects.

REMUNERATE FAIRLY AND RESPONSIBLY

The Company's Remuneration and Nomination Committee meets the enhanced requirements of the ASX's Corporate Governance Principles and Recommendations released in June 2010.

The CEO's and senior executives' remuneration packages are in accordance with the ASX's Corporate Governance Principles and Recommendations containing a balance of fixed and incentive pay reflecting both short term and long term incentives which reflect the Company's core performance requirements. Further details are contained within the Remuneration Report.

Non-executive Directors are remunerated by way of fixed cash fees which are inclusive of the superannuation guarantee. They do not receive bonus payments nor are they provided with retirement benefits other than superannuation. Further details are contained within the Remuneration Report.

ASX BEST PRACTICE RECOMMENDATIONS

The adjacent table lists each of the ASX Best Practice Recommendations applicable to the Company as at the date of its financial year end, being 31 December 2011, and whether the Company was in compliance with the recommendations at that date. Where the Company considers that it is divergent from these recommendations, or that it is not practical to comply, there is an explanation of the Company's reasons set out following the table.

Corporate Governance Statement *(cont.)*

	Principle / Recommendation	Complied	Note
1	**Lay Solid Foundations for Management and Oversight**		
1.1	Establish and disclose the functions reserved to the Board and those delegated to management.	✔	
1.2	Disclose the process for evaluating the performance of senior executives.	✔	
2	**Structure the Board to Add Value**		
2.1	A majority of the Board should be independent directors.	✘	1
2.2	The chair should be an independent director.	✘	1
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	✔	
2.4	The Board should establish a nomination committee.	✔	
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	✔	
3	**Promote Ethical and Responsible Decision Making**		
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✔	
3.2	Establish and disclose a policy concerning diversity.	✔	
3.3	Disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	✔	
3.4	Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✔	
4	**Safeguard Integrity in Financial Reporting**		
4.1	The Board should establish an Audit Committee.	✔	
4.2	The Audit Committee should be structured so that it: • consists of only non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the Board; and • has at least three members.	✔	
4.3	The Audit Committee should have a formal charter.	✔	
5	**Make Timely and Balanced Disclosure**		
5.1	Establish and disclose written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	✔	
6	**Respect the Rights of Shareholders**		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	✔	

	Principle / Recommendation	Complied	Note
7	**Recognise and Manage Risk**		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✔	
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	✔	
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✔	
8	**Remunerate Fairly and Responsibly**		
8.1	The Board should establish a remuneration committee.	✔	
8.2	The remuneration committee should be structured so that it: • consists of a majority of independent directors; • is chaired by an independent chair; and • has at least three members.	✔	
8.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✔	

Note 1: Principle 2 - Structure the Board to Add Value

The Company is not in compliance with recommendations 2.1 and 2.2 of the ASX Best Practice Recommendations. A majority of the Board are not considered to be independent when considered in accordance with the criteria set out in recommendation 2.1 (it presently has equal numbers of independent and non-independent non-executive directors), nor is the Chair an independent Director in accordance with these criteria.

Following the merger with privately held Australian Bulk Minerals (ABM) on 2 January 2009, the shareholders of ABM had the right to appoint four Directors to the Board of which one would be appointed Chair. Prior to the merger, the Company was not in compliance with recommendations 2.1 and 2.2 as the majority of the Board were not considered to be independent, nor was the Chair considered an independent Director.

Despite the Company not being in compliance with these Best Practice Recommendations, the Board believe that the individuals on the Board can and do make quality and independent judgements in the best interests of the Company and other stakeholders.

GRANGE RESOURCES

Australia's leading magnetite producer

Financial REPORT

For the Year Ended 31 December 2011

These financial statements are the consolidated financial statement of the consolidated entity consisting of Grange Resources Limited and its subsidiaries. The financial statements are presented in Australian currency.

Grange Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 11, QBE House, 200 St Georges Terrace,
PERTH Western Australia 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 33 to 35.

All press releases, financial reports and other information are available on our website:
www.grangeresources.com.au

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Directors' Report

The 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 year ended 31 December 2011.

During the prior reporting period the Company received confirmation from the Australian Securities and Investments Commission ("ASIC"), of a change in its financial year end date from 30 June to 31 December. This change means that the prior reporting period was a transitional one from 1 July 2010 to 31 December 2010 (i.e. six months). Reporting periods are now prepared for a twelve month period from 1 January to 31 December. Due to the difference in the duration of the reporting periods presented in the financial statements, the amounts presented in the Statement of Comprehensive Income and the Statement of Cash Flows are not entirely comparable.

DIRECTORS

The following persons were Directors of the Company during the whole of the 12 month financial year ended 31 December 2011 and up to the date of this report:

Zhiqiang Xi	Clement Ko
Neil Chatfield	John Hoon
Russell Clark	Honglin Zhao

Information on Directors

Zhiqiang Xi, *Age 56*

Non-executive Chairman; Member of the Audit; Remuneration and Nomination; and Health Safety and Environment Committees

Mr Xi has more than six years experience in overseas project implementation. He set up a trading subsidiary of Baosteel in Australia in 1995 and presided over the company for four years. He was involved in commercial and trading affairs at Baosteel before he joined Shagang in January 2008. He was also involved in finalising the documents of Baosteel's two major overseas mining joint ventures with Hamersley and CVRD respectively.

Neil Chatfield FCPA, FAICD, *Age 57*

Deputy Non-executive Chairman; Chairman of Remuneration and Nomination Committee; and Health, Safety and Environment Committee; Member of the Audit Committee

Mr Chatfield is an experienced executive and Non-executive Director and has over 30 years experience in the resources and transport sectors. He has extensive experience in financial management, capital markets, mergers and acquisitions and risk management. Mr Chatfield is currently a Non-executive Director of Seek Limited (since 2005), Non-executive Director of Whitehaven Coal (since 2007), Transurban Group (since 2009) and Non-executive chairman of Virgin Australia Holdings Limited (since June 2007) Mr Chatfield was previously an executive Director of Toll Holdings Limited from 1998 to September 2008.

Russell St John Clark BSc, Grad Dip, ARSM, MIMM, MAusIMM, CE, FAICD, JP *Age 54*

Managing Director and Chief Executive Officer; Member of the Health, Safety and Environment Committee

Mr Clark was appointed as Managing Director of Grange on 6 March 2008. Mr. Clark holds a Mining Engineering degree (BSc Hons) from the Royal School of Mines, London, UK and a Graduate Diploma from the Securities Institute of Australia. In addition he has undertaken a number of Executive Development programs in Australia and the USA. Prior to joining Grange, Mr Clark worked for Renison Goldfields for over 18 years and with Newmont for 8½ years. He has over 34 years of mining experience in Africa, Papua New Guinea, USA and throughout Australia, in technical, project management, general management and executive positions.

Honglin Zhao, *Age 58*

Executive Director

Mr Zhao was an executive Director on the Board of the Jiangsu Shagang Group ("Shagang"), China's largest private steel company. He has 35 years experience in the industry and was most recently the Commander of Project Development Headquarters with Shagang. Mr Zhao has extensive project management and implementation experience and expertise.

John Hoon BA (Hons.), MBA, CA, FCPA, ACIS, CFP, GAICD, *Age 52*

Non-executive Director; Chairman of Audit Committee, Member of the Remuneration and Nomination Committee; and Health Safety and Environment Committee

Mr Hoon has a strong background in financial and audit matters and has an extensive Australian and South East Asian business network across a wide range of sectors. He was previously a Director of Bao Australia Pty Ltd, a subsidiary of China Shanghai Baosteel Corporation which is one of the largest listed companies in China and which has numerous joint ventures with Australian mining companies. In addition Mr Hoon, together with his associates, successfully founded and established Navitas Limited, an Australian listed company providing private business and English language education. Mr Hoon was appointed a Non-executive Director of Drake Resources Limited in 2011.

Clement Ko LLB, MBA, *Age 48*

Non-executive Director

Mr Ko is the Chairman and sole shareholder of Pacific Minerals Limited, the sole member of Pacific International Co Pty Ltd (one of the current shareholders of Grange). Prior to founding Pacific Minerals Limited, Mr Ko worked for BHP Billiton (China) Ltd as a senior regional marketing manager. Mr Ko has more than 20 years of experience in the mining sector with extensive experience in marketing and sales.

Grange Resource Board of Directors

Left to right: John Hoon, Honglin Zhao, Zhiqiang Xi, Russell Clark, Neil Chatfield, Pauline Carr (Company Secretary) and Clement Ko.

Company Secretary

The Company Secretary is Ms Pauline Carr BEc, MBA, FCIS, FAICD.

Ms Carr is a qualified chartered secretary and experienced executive with over 25 years management and commercial experience in the resources industry with both Australian and international companies. In addition she has over 15 years comprehensive hands on company secretarial, compliance and governance experience with listed company boards. She also provides governance, management support, risk management and business improvement consultancy services to organisations in a range of sectors.

PRINCIPAL ACTIVITIES

During the period, the principal continuing activities of the group consisted of:

- the mining, processing and sale of iron ore; and
- the ongoing exploration, evaluation and development of mineral resources particularly, the Southdown Magnetite and Kemaman Pellet Plant Project.

DIVIDENDS

During the financial year an interim ordinary unfranked dividend of 2 cents per fully paid share (2010: NIL) was declared for the year ended 31 December 2011. This interim dividend, which totalled $23.1 million, was paid on 13 October 2011. The interim dividend was declared NIL conduit foreign income.

In addition to the above dividend, since the end of the financial year the directors have recommended the payment of a final ordinary unfranked dividend of $34.6 million (3 cents per fully paid share) for the year ended 31 December 2011. This final dividend was declared NIL conduit foreign income and will be paid on 27 April 2012.

REVIEW OF OPERATIONS

Key Highlights

- An exceptional safety performance at Savage River and Southdown. Zero Lost Time Incidents (LTI), and a 48% reduction in Total Recordable Injury Frequency Rate (TRIFR).
- Pre-tax profit of $158.1 million, on revenues from mining operations of $410.4 million.
- Record full year net profit after tax of $216.6 million.
- Net cash inflow from operations of $210.4 million.
- Total cash reserves (including term deposits) boosted to $203.1 million as at 31 December, up from $106.4 million as at 31 December 2010. No net debt.
- Earnings of 18.8 cents per share.
- Inaugural $0.02 dividend paid in October 2011, to be followed by a $0.03 final dividend payable in April 2012.
- Successful completion, and under budget delivery, of Phase 1 of the Savage River East Wall remediation, truck fleet rebuild and major concentrator maintenance.
- Record throughput at Savage River concentrator.
- Pellet production for 2011 totalled 1.98 million tonnes.
- Agreed an IODEX based index pricing mechanism with customers which increased the average selling price of pellets by 30% to A$206.02 per tonne (6 months to 31 December 2010 – A$158.47).
- Savage River mine life extended by 4 years to 2030.
- Strategic opportunities identified and MOU's signed with Tasmania Mines, Venture Minerals and Shree Minerals.
- Southdown Pre-feasibility Study (PFS) completed and Definitive Feasibility Study (DFS) reaching conclusion.
- Southdown resource increased to over 1 billion tonnes.

Review of results

Full year result

Grange recorded a consolidated profit after tax of $216.6 million for the year ended 31 December 2011. The result was achieved on pellet sales of 1.7 million tonnes and revenues from mining operations of $410.4 million. Revenues also include $52.1 million associated with sales made under interim pricing arrangements in 2010.

The reduction in pellet sales during 2011 was primarily driven by lower pellet production as a result of lower magnetite grades being mined from remnant ore bodies rather than the main ore zone in the North pit where the wall failure occurred in June 2010. The East Wall was "cut back" during the year and mining has now returned to the main ore zone in the North pit.

The remediation of the East Wall increased costs during the year with a C1 cost of pellet production of A$111.68 per tonne. Phase I of the remediation work is now complete and access to the main ore zone of the North pit was re-established during Q4 2012. Re-establishing this access during Q4 2012 resulted in the C1 unit cost of pellet production returning to lower levels of A$85.73 per tonne. It is important to note that the East Wall remediation program was conducted concurrently to normal mining operations which mined remnant ore bodies and maintained ore supply and pellet production to meet contractual sales obligations.

At 31 December 2011, Grange has $203.1 million in cash and term deposits (31 December 2010 = $106.4 million) and $44.9 million in debt (31 December 2010 = $47.0 million), of which $25.6 million relates to a mobile equipment lease facility (31 December 2010 = $35.3 million).

With no net debt, and with costs and production at the operation well understood, Grange is well positioned to take advantage of what continues to be a strong iron ore market.

Safety performance

Safety performance was sustained with no Lost Time Injuries ("LTI") recorded for the fifth consecutive quarter. In 2011 the Total Recordable Injury Frequency Rate (TRIFR) fell from 9.1 (31 December 2010) to 4.7 (31 December 2011), a 48% improvement. This trend is a credit to our employees and continues to reflect the strong and increased emphasis on safety management at the operations. We know that a safe mine is a productive one.

Production

The Savage River mine and pellet plant have operated for many years and new records at the operations continue to be achieved.

As part of the long term strategic plan, a number of significant activities were completed during the year:

- Phase 1 of the East Wall remediation was completed concurrently with normal mining operations. This has resulted in access to the North Pit being re-established providing access to higher grade ore, such that pellet production is targeted to increase by 15-20% in 2012.
- The truck fleet was rebuilt, the first rebuild since the trucks were commissioned in 2008.
- The concentrator had major maintenance to the AG mills and a Ball Mill was replaced. A new AG mill is being constructed and will be on site and available in Q3 2012.
- The mine life was extended by four years to 2030, with an on-going exploration drilling program at the Long Plains deposit providing potential to extend the life further.

Operations mined a total of 15.6 million BCM of ore and waste, a great achievement given the technical and scheduling complexities associated with the concurrent East Wall remediation and the mining of multiple remnant low grade bodies on site.

The concentrator milled 3.5% more tonnes than in any previous year of its 40 year history.

The pellet plant has continued to perform well, and produced 1.97 million tonnes of premium quality blast furnace pellets.

Southdown Magnetite Project

The Southdown magnetite project, situated 90km from the city of Albany in Western Australia, is a joint venture between Grange and Sojitz Resources & Technology Pty Ltd (Sojitz) (70%:30%). The project has 1.2 billion tonnes of high quality resource, which outcrops at the western end of its 12km strike length. The project is advanced and has access to established infrastructure.

During 2011 the following was progressed on the project:

- In March 2011, AMEC Minproc and GHD completed a +/-20% pre-feasibility study for a 10 Mtpa operation at the Southdown project. In the first quarter of 2012, a +/-15% definitive-feasibility study will be completed.
- An $8.3 million resource and geotechnical drilling program, resulting in increased resources and improved resource confidence.
- Ground water drilling for construction water.
- Detailed mine planning.
- Metallurgical test work and pilot plant testing to finalise the process flow sheet.

- Land access.
- Environmental permitting for the desalination permit.
- Secondary approvals.
- Commercial agreements with the Albany Port Authority and Western Power.
- Port and channel design.
- Tenders for major, long lead time, pieces of equipment.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group that occurred during the year ended 31 December 2011. Commentary on the overall state of affairs of the Group is set out in the Review of Operations.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Except as discussed above, no other matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Specific details of the likely developments in the operations of the Company, prospects and business strategies and their expected results in future financial periods have not been included in this report as inclusion of such information is likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL REGULATION

The mining and exploration tenements held by the Group contain environmental requirements and conditions that the entities must comply with in the course of normal operations. These conditions and regulations cover the management of the storage of hazardous materials and rehabilitation of mine sites.

The Group is subject to significant environmental legislation and regulation in respect of its mining, processing and exploration activities as set out below:

Savage River and Port Latta Operations

The Group obtained approvals to operate in 1996 and 1997 under the Land Use Planning and Approvals Act (LUPA) and the Environmental Management and Pollution Control Act (EMPCA) as well as the Goldamere Act and Mineral Resources Development Act. The land use permit conditions for Savage River and Port Latta are contained in Environmental Protection Notices 248/2 and 302/2 respectively. The currently approved Environmental Management Plans were submitted for Savage River and Port Latta on 21 December 2010. The extension of the project's life was approved by the Department of Tourism, Arts and the Environment on 12 March 2007 and together with the Goldamere Act and the Environmental Protection Notices, is the basis for the management of all environmental aspects of the mining leases. The Group has been relieved of any environmental obligation in relation to contamination, pollutants or pollution caused by operations prior to the date of the Goldamere Agreement (December 1996).

During the financial period there were no major breaches of licence conditions.

Southdown Joint Venture

The Southdown Joint Venture is seeking approvals through the Western Australian and Commonwealth processes and is well advanced. The Southdown Joint Venture has not been responsible for any activities which would cause a breach of environmental legislation.

Mount Windsor Joint Venture

The Group is a junior partner (30%) in the Mt Windsor project in North Queensland which is now being rehabilitated for future lease relinquishment. The Transitional Environment Program required by the Queensland Department of Environment and Resource Management has been largely completed with re-seeding works and ground water model calibration outstanding. The Queensland Department of Environment and Resource Management has expressed its satisfaction with the program. A comprehensive plan has been developed and instigated to manage the leases with relinquishment expected in 2016.

National Greenhouse and Energy Reporting Act 2007

The National Greenhouse and Energy Reporting Act 2007 requires the Group to report its annual greenhouse gas emissions and energy use by 31 October each year. The Group has implemented systems and processes for the collection and calculation of the data required and has submitted its annual reports to the Greenhouse and Energy Data Officer by 31 October each year.

Energy Efficiency Opportunities Act 2006

Following a decision by the Delegate of the Secretary to the Department, Grange Resources Limited was officially registered under section 13 of the Energy Efficiency Opportunities Act 2006. Annual investigation and reporting programs under the legislation have been implemented. The Group submitted its first annual government report prior to 31 December 2011. The Group's first annual public report is available on the Grange website in the reports section.

Clean Energy Act 2011

On 8 November 2011, the Senate passed the Clean Energy Act and related legislation. This act sets up a carbon pricing mechanism and deals with the assistance for emissions-intensive through the Jobs and Competitiveness Program. The Group has commenced preparation for the introduction of the Clean Energy Act and related legislation from 1 July 2012 and has received confirmation that it will receive assistance through the Jobs and Competitiveness Project for the emissions-intensive trade-exposed activities of Production of Iron Ore Pellets and Production of Magnetite Concentrate in the moderately emissions-intensive category.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2011, and the numbers of meetings attended by each Director were:

	Directors' meetings		Meetings of Committees					
			Audit		Remuneration		Health, Safety & Environment (1)	
Name	A	B	A	B	A	B	A	B
Z Xi	12	12	9	9	5	5	1	1
N Chatfield	12	12	9	9	5	5	1	1
R Clark	12	12	-	-	-	-	1	1
C Ko	11	12	-	-	-	-	-	-
J Hoon	11	12	9	9	5	5	1	1
H Zhao	12	12	-	-	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year ended 31 December 2011

(1) During the year the Board established a dedicated Health, Safety and Environment Committee.

INTERESTS IN THE SHARES, RIGHTS AND OPTIONS OF THE COMPANY

The relevant interest of each Director in the share capital and options of the Company as at the date of this report is:

	Number of Fully Paid Ordinary Shares			
Director	Beneficial	Non-Beneficial	Rights	Options
Z Xi (1)	-	-	-	-
N Chatfield	20,000	-	-	-
R Clark	1,823,159	-	578,670	4,500,000
C Ko (2)	90,385,520	673,093,717	-	-
J Hoon	-	-	-	-
H Zhao (1)	-	-	-	-

(1) Z Xi is a full time employee of the Shagang Group and H Zhao was a Director on the Board of the Jiangsu Shagang Group, ultimate shareholder of Shagang International Holdings Limited. Shagang International Holdings Limited and its subsidiaries hold 539,982,558 ordinary fully paid shares in the Company as at the date of this report.

(2) Shagang International Holdings Limited and RGL Holdings Co. Ltd are associates of Pacific International Co. Pty Ltd. Mr Ko holds 100% of Pacific International Business Limited which is the holding company of Pacific International Co. Pty Ltd. The non-beneficial holdings represent those shares held by Shagang International and RGL Holdings.

REMUNERATION REPORT

This remuneration report sets out remuneration information for Non-executive Directors; Executive Directors, other key management personnel and the five highest remunerated executives of the Group and the Company.

Principles Used to Determine the Nature and Amount of Remuneration

(i) Remuneration Philosophy

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality executive team by remunerating Directors and executives fairly and appropriately with reference to relevant market conditions. To assist in achieving this objective, the Board attempts to link the nature and amount of executives' emoluments to the Company's performance. The outcome of the remuneration structure is:

- the retention and motivation of key executives;
- attraction of quality personnel with appropriate expertise; and
- performance incentives that allow executives to share the rewards of the success of Grange.

(ii) Remuneration Structure

Using external remuneration sector comparative data, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

The performance of the Company largely depends upon the quality of its Directors and executives. To prosper the Company must be able to attract, motivate and retain highly skilled Directors and executives. To achieve this, the Company adheres to the following principles in formulating its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives.

Non-executive Directors

Fees and payments to Non-executive Directors reflect the responsibilities and demands made on them. Non-executive Directors' fees and payments are reviewed annually by the Board. The Board also considers comparative market data and if required the advice of independent remuneration consultants to ensure Non-executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of Non-executive Directors based on comparative roles in the external market.

Directors' Fees

The current remuneration was last reviewed with effect from 1 November 2011. The Chairman's remuneration is inclusive of committee fees while other Non-executive Directors who chair a Committee receive additional yearly fees. The Deputy Chairman is also entitled to receive an additional yearly fee.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $800,000 per annum and was approved by shareholders at the Annual General Meeting on 26 November 2010.

The following annual fees (inclusive of superannuation) have applied:

	From 1 November 2011	From 1 July 2010 to 31 October 2011
Board of Directors		
Chairman [1]	$150,000	$130,000
Deputy chairman	$85,000	$85,000
Non-executive Director	$75,000	$75,000
Audit Committee		
Chairman	$15,000	$15,000
Committee member	$10,000	$10,000
Remuneration and Nomination Committee		
Chairman	$15,000	$15,000
Committee member	$5,000	$5,000
Health, Safety and Environment Committee [2]		
Chairman	$15,000	-
Committee Member	$10,000	-

(1) The Chairman is not paid any additional amounts for Committee membership.

(2) During the year the Board established a dedicated Health, Safety and Environment Committee.

Options to Non-Executive Directors

In May 2008, shareholders approved the issue of 1.8 million options to Non-executive Directors to act as an incentive for these Directors to align themselves with the Company's strategic plan focusing on optimising performance with the benefits flowing through to enhanced shareholder returns. These options expired on 6 March 2012. None of the current Non-executive Directors have been awarded options in the Company and the Company does not have a specific option plan in relation to the issue of options to Non-executive Directors. From time to time the Company will also look at industry practice when determining whether options should form part of the Non-executive Directors' remuneration.

Executive Pay

Objective

The Group aims to reward executives with a level and combination of remuneration commensurate with their position and responsibilities within the Group so as to:

- reward executives for Group and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and components of executive remuneration, the Remuneration and Nomination Committee considers recommendations from senior executives which are based upon the prevailing labour market conditions. In addition, independent advice is sought from external consultants as needed in the form of reports detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation and non-monetary benefits)
- Variable remuneration
    - short term incentive
    - long term incentive

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out on page 42.

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee. The process consists of a review of Group and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Remuneration and Nomination Committee has access to external consultants' advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen is optimal for the recipient without creating any undue cost for the Group.

Variable Remuneration – Short Term Incentive ("STI")

Objective

The objective of the STI is to link the achievement of the Company's annual operational targets (usually reflected in the approved budgets) and an individual's personal targets with the remuneration received by the staff members responsible for meeting those targets. Payments are made as a cash incentive payable after the financial statements have been audited and released to the Australian Securities Exchange ("ASX"). 50% of the STI for an employee relates to company performance goals and 50% relates to personal performance goals.

Variable Remuneration - Long Term Incentive ("LTI") - Rights and Options

Objective

a) Rights to Grange Shares

The Board will review regularly and reserves the right to vary from time to time the appropriate hurdles and vesting periods for Rights to Grange shares.

The objective for the issue of Rights under the LTI program is to reward selected senior employees in a manner that aligns this element of their remuneration package with the creation of long term shareholder wealth while at the same time securing the employee's tenure with the Company over the longer term. The LTI grants Rights to the Company's shares to selected senior employees, and these Rights vest in several equal tranches over the timeframe stipulated in the LTI Plan (currently they vest in three equal tranches over 24 months). 50% of the LTI for an employee relates to company performance goals and 50% relates to personal performance goals. Rights are allocated using a share price that is based on the volume weighted average price of the Company's shares. For the year ended 31 December 2011 the share price is based on the volume weighted average price of the Company's shares for the first two months of the performance period (i.e. the volume weighted average price of the Company's shares from 1 January 2011 to 28 February 2011 will be used).

b) Options to Grange Shares

The objective of issuing Options under the LTI program is to provide a mechanism for the Company to selectively reward senior employees for having gone the "extra mile" in dealing with exceptional, unplanned or unexpected issues or circumstances which have impacted the business. The Board of Directors, based on the Managing Director's recommendation, may discretionally grant the options via the LTI plan processes, and these options vest in over the timeframe stipulated in the LTI Plan from time to time. A maximum number of Options per individual issue has been specified and approved for each job grade in the grade structure matrix. The exercise price of options issued will be equal to a 20% premium on the weighted average price of the Company's shares in the last three months before the financial period begins. The Company did not issue any options to employees in the 12 months ending 31 December 2011.

(iii) Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee to assist in establishing policies and practices which enables the Company to attract and retain capable Directors and employees, reward employees fairly and responsibly and meet the Board's oversight responsibilities in relation to corporate governance practices.

The Remuneration and Nomination Committee is composed of Mr Neil Chatfield (Committee Chairman), Mr John Hoon and Mr Zhiqiang Xi, all of whom are Non-executive Directors.

The responsibilities and functions for the Remuneration and Nomination Committee include reviewing and making recommendations on the following:

- Equity based executive and employee incentive plans;
- Recruitment, retention, succession planning, performance measurement and termination policies and procedures for Non-executive Directors, the Managing Director, any other executive Director and the Company Secretary;
- The remuneration of the Managing Director; Chief Operating Officer and Chief Financial Officer;
- Periodically assessing the skills required by the Board;
- Recommend processes to evaluate the performance of the Board, its Committees and individual Directors; and
- Reviewing governance arrangements pertaining to remuneration matters.

The Charter and Remuneration strategies are reviewed regularly.

The Managing Director is the conduit between the Board and Grange's staff, and as such leads and manages the implementation of the approved people and performance strategies and ensures the policies and processes are "alive" in business operations. The Managing Director attends meetings of the Remuneration and Nomination Committee by invitation and is required to report on and discuss senior management and staff performance and incentive rewards, the various elements of the administration of the remuneration and performance policies and packages and related people and performance matters as well as succession planning.

Details of Remuneration

Details of the remuneration of the Directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the five highest paid executives of Grange Resources Limited and the Grange Resources Limited group are set out in the following tables:

The key management personnel of the Group are the Directors of Grange Resources Limited (see page 32) and the following executives:

Name	Position
Wayne Bould	Chief Operating Officer
David Corr	Chief Financial Officer
Fernando Moutinho	Project Director – Southdown
Craig Ferrier	Chief Financial Officer (until 6 March 2011)

Amounts of remuneration

Table 1: Remuneration for the year ended 31 December 2011

	Short-term employee benefits				Post employment benefits	Long term benefits		Long-term incentive (LTI)		
	Salary & fees $	Non-monetary benefits $	Short-term incentive (STI) [3][4] $	Other $	Super-annuation $	Long service leave $	Termination benefits $	Rights [4][5] $	Options $	Total $
Non-Executive Directors										
X Zhiqiang	133,333	-	-	-	-	-	-	-	-	133,333
N Chatfield	112,500	-	-	-	-	-	-	-	-	112,500
C Ko	75,000	-	-	-	-	-	-	-	-	75,000
J Hoon	88,685	-	-	-	7,982	-	-	-	-	96,667
Sub-total Non-Executive Directors	**409,518**	**-**	**-**	**-**	**7,982**	**-**	**-**	**-**	**-**	**417,500**
Executive Directors										
R Clark	566,972	-	86,625	-	51,027	6,320	-	226,809	-	937,753
H Zhao	412,844	27,385	-	-	37,156	1,036	-	-	-	478,421
Other Key Management Personnel										
W Bould	339,632	49,175	36,553	-	28,645	3,980	-	109,348	-	567,333
D Corr [1]	224,847	-	8,798	-	20,008	1,744	-	14,660	-	270,057
F Moutinho	375,357	-	20,000	-	65,690	1,212	-	-	-	462,259
C Ferrier [2]	72,095	-	-	-	2,861	-	130,457	-	-	205,413
Sub-total Key Management Personnel	**1,991,747**	**76,560**	**151,976**	**-**	**205,387**	**14,292**	**130,457**	**350,817**	**-**	**2,921,236**
TOTAL	**2,401,265**	**76,560**	**151,976**	**-**	**213,369**	**14,292**	**130,457**	**350,817**	**-**	**3,338,736**

(1) D Corr was appointed Chief Financial Officer on 1 April 2011. Remuneration disclosures include amounts received as Financial Controller from 1 January 2011 to 31 March 2011.

(2) C Ferrier ceased employment with the company on 6 March 2011.

(3) Represents amounts awarded to key management personnel for the six month period ended 31 December 2010.

(4) As at the date of this report, the Remuneration and Nomination Committee is still reviewing variable remuneration entitlements for the year ended 31 December 2011. Variable remuneration amounts awarded to key management personnel for the year ended 31 December 2011 will be disclosed during the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement.

(5) Represents amounts expensed through the Company's income statement for rights issued under the Company's Long Term Incentive Scheme. These amounts are recognised in the Company's income statement over the vesting period in accordance with AASB 2, Share Based Payments.

Table 2: Remuneration for the six month period ended 31 December 2010

	Short-term employee benefits				Post employment benefits	Long term benefits		Long-term incentive (LTI)		
	Salary & fees $	Non-monetary benefits $	Short-term incentive (STI) [5] $	Other $	Super-annuation $	Long service leave $	Termination benefits $	Rights [5][6] $	Options $	Total $
Non-Executive Directors										
X Zhiqiang	65,000	-	-	-	-	-	-	-	-	65,000
N Chatfield	54,381	-	-	-	619	-	-	-	-	55,000
C Ko	37,500	-	-	-	-	-	-	-	-	37,500
J Hoon	43,578	-	-	-	3,922	-	-	-	-	47,500
W Guo [1]	5,000	-	-	-	-	-	-	-	-	5,000
Sub-total Non-Executive Directors	**205,459**	**-**	**-**	**-**	**4,541**	**-**	**-**	**-**	**-**	**210,000**
Executive Directors										
R Clark	275,230	-	-	-	24,770	2,435	-	47,006	-	349,441
H Zhao [2]	59,404	9,952	-	-	3,096	33	-	-	-	72,485
Other Key Management Personnel										
W Bould	167,551	9,015	-	-	15,934	2,086	-	20,085	-	214,671
C Ferrier [3]	108,167	-	-	-	4,894	98	-	-	-	113,159
F Moutinho [4]	151,795	-	-	-	13,636	144	-	-	-	165,575
D Corr	89,832	-	-	-	8,096	557	-	1,948	-	100,433
R Carpenter [8]	122,821	-	-	400,000 [7]	11,054	7,990	-	2,343	-	544,208
Sub-total Key Management Personnel	**974,800**	**18,967**	**-**	**400,000**	**81,480**	**13,343**	**-**	**71,382**	**-**	**1,559,972**
TOTAL	**1,180,259**	**18,967**	**-**	**400,000**	**86,021**	**13,343**	**-**	**71,382**	**-**	**1,769,972**

(1) W Guo resigned as a Director on 30 July 2010.

(2) H Zhao was appointed a Non-Executive Director on 30 July 2010 and as an Executive Director on 1 December 2010. Remuneration disclosures include amounts received since his appointment as a Non-executive Director on 30 July 2010.

(3) C Ferrier commenced employment with the Company on 6 September 2010.

(4) F Moutinho commenced employment with the Company on 16 August 2010.

(5) As at the date of this report, the Remuneration and Nomination Committee is still reviewing variable remuneration entitlements for the six month period ended 31 December 2010. Variable remuneration amounts awarded to key management personnel for the six month period ended 31 December 2010 will be disclosed during the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement.

(6) Represents amounts expensed through the Company's income statement for rights issued under the Company's Long Term Incentive Scheme for the year ended 30 June 2010 which were approved for issue by the Remuneration and Nomination Committee in September 2010. These amounts are recognised in the Company's income statement over the vesting period in accordance with AASB 2, Share Based Payments.

(7) Other payments to R Carpenter relate to a retention payment of $400,000 paid in accordance with a scheme established by Australian Bulk Minerals Limited.

(8) R Carpenter ceased to be classified as key management personnel of the Group on 1 January 2011.

Table 3: Relative proportions linked to performance

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed Remuneration		At Risk - STI		At Risk - LTI	
Name	Dec-11	Dec-10	Dec-11	Dec-10	Dec-11	Dec-10
Executive Director						
R Clark	50%	50%	16%	16%	34%	34%
H Zhao	83%	100%	17%	-	-	-
Other Key Management Personnel						
W Bould	59%	59%	12%	12%	29%	29%
D Corr	74%	81%	11%	8%	15%	11%
F Moutinho	77%	100%	23%	-	-	-
C Ferrier (1)	-	77%	-	8%	-	15%
R Carpenter (2)	-	81%	-	8%	-	11%

(1) C Ferrier ceased employment with the company on 6 March 2011.

(2) R Carpenter ceased to be classified as key management personnel of the Group on 1 January 2011.

Service Agreements

On appointment to the Board, all Non-executive Directors enter into a service agreement with the Company. The agreement summarises the Board policies and terms, including compensation, relevant to the office of Director.

Remuneration and other terms of employment for the Managing Director, and the other key management personnel are formalised in service agreements. Each of the agreements provide for the provision of performance related variable remuneration and other benefits.

In 2011, the Company renewed its Employment Agreement with its Managing Director, Mr Russell Clark. The contract provides for an annual review of the Managing Director's remuneration. In undertaking the review the Board is required to consider the following:

(a) the Managing Director's individual performance, as determined by the Board;

(b) the performance of the Company, as determined by the Board; and

(c) Market conditions, taking into account the remuneration of Managing Directors in similar companies.

Under the agreement, in the event Mr Clark is terminated by the Company with notice or resigns with requisite notice, providing he abides by the good leaver provisions contained in the agreement, he will be paid nine months salary and superannuation in addition to all unpaid salary, notice and leave entitlements. He will also receive a pro-rata of the maximum annual dollar value of both the short term incentive and long term incentive payments which would otherwise be distributed to him following the next annual performance and remuneration review. Any unvested options or rights would also vest as and when they fall due provided the good leaver provisions are also met.

In the event of illegal acts or serious breaches the Company may terminate the Managing Director without notice. In such instances payment to Mr Clark would be limited to unpaid salary and leave entitlements.

All contracts with other key management personnel of the consolidated Grange Group are ongoing and provide for termination of employment at any time by giving three months notice or by the Company paying an amount equivalent to three months remuneration in lieu of notice.

Share-based Compensation

Under the Grange Resources Limited Long Term Incentive Plan (the Plan), the Board may, from time to time grant options or rights, or both, to eligible employees. The Plan is designed to provide long term incentives for executives to deliver long term shareholders returns. Under the Plan, participants are granted options or rights which only vest if certain timing or performance conditions are met. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

Rights to Grange shares

The number of rights in shares in the Company offered to each Director of Grange Resources Limited and other key management personnel of the Group including their personally related parties, are set out below:

31 December 2011

	Balance 1 January 2011	Granted as remuneration	Issued on vesting of rights	Balance 31 December 2011	Vested	Unvested
Directors of Grange Resources Limited						
R Clark	1,067,650	334,179	(823,159)	578,670	-	578,670
Other Key Management Personnel						
W Bould	456,192	168,603	(360,329)	264,466	-	264,466
D Corr	44,239	24,769	(37,748)	31,260	-	31,260

31 December 2010

	Balance 1 July 2010	Granted as remuneration	Issued on vesting of rights	Balance 31 December 2010	Vested	Unvested
Directors of Grange Resources Limited						
R Clark	-	1,067,650	-	1,067,650	355,883	711,767
Other Key Management Personnel						
W Bould	-	456,192	-	456,192	152,064	304,128
D Corr	-	44,239	-	44,239	14,746	29,493
R Carpenter (1)	-	53,212	-	53,212	17,737	35,475

(1) R Carpenter ceased to be classified as key management personnel of the Group on 1 January 2011.

As at the date of this report, the Remuneration and Nomination Committee is still reviewing variable remuneration entitlements for the year ended 31 December 2011. Rights awarded to key management personnel for the year ended 31 December 2011 will be disclosed during the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement.

Options to Grange shares

The key terms and conditions of each grant of options affecting Directors and other key management personnel as at 31 December 2011 were as follows:

Name	Grant Date	Options	Exercise Price	Fair Value per Option at Grant Date	Vesting Date	Expiry Date
Director Options						
R Clark	28-Nov-08	1,500,000	$1.9215	$0.48	2-Jan-09	6-Mar-12
		1,500,000	$2.8715	$0.34	2-Jan-09	6-Mar-12
		1,500,000	$3.3715	$0.27	2-Jan-09	6-Mar-12
Other Key Management Personnel Options						
W Bould	14-Jul-08	150,000	$1.9215	$0.54	2-Jan-09	1-May-12
		150,000	$2.8715	$0.39	2-Jan-09	1-May-12
		150,000	$3.3715	$0.30	2-Jan-09	1-May-12

Options granted under the Plan carry no dividend or voting rights.

There were no options issued to Directors or key management personnel of the Group during the year ended 31 December 2011.

Shares under option

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
14 July 2008	1 May 2012	$1.92	150,000
14 July 2008	1 May 2012	$2.87	150,000
14 July 2008	1 May 2012	$3.37	150,000
14 July 2008	30 June 2012	$1.92	75,000
15 July 2008	30 June 2012	$1.92	100,000
28 November 2008	6 March 2012	$1.92	2,100,000
28 November 2008	6 March 2012	$2.87	2,100,000
28 November 2008	6 March 2012	$3.37	2,100,000
16 June 2009	1 October 2012	$2.37	65,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Insurance of Officers

During the financial period, the Company has paid premiums in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all Directors and Officers of the Group to the extent permitted under the Corporations Act 2001. The policy conditions preclude the Group from any detailed disclosures.

Indemnity of Auditors

The Company has entered into an agreement to indemnify their auditor, PricewaterhouseCoopers, against any claims or liabilities (including legal costs) asserted by third parties arising out of their services as auditor of the Company, where the liabilities arise as a direct result of the Company's breach of its obligations to the Auditors, unless prohibited by the Corporations Act 2001.

Non-audit Services

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the period are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Company's Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
(a) PwC - Australia		
Audit and review of financial reports	**230**	230
Other assurance services	**65**	5
Taxation services		
Taxation compliance	**212**	81
Taxation consulting and advice	**1,648**	432
Other services	**220**	98
Total remuneration of PwC - Australia	**2,375**	846
(b) Related practices of PwC - Australia		
Audit and review of financial reports	**62**	-
Taxation compliance	**15**	-
Total remuneration of related practices of PwC - Australia	**77**	-

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 46.

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. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

PwC continues in office in accordance with section 327 of the Corporations Act 2001.

The report is made in accordance with a resolution of Directors.

Russell Clark
Managing Director
Perth, Western Australia

28 February 2012

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Grange Resources Limited for the year ended 31 December 2011, 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 audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Debbie Smith
Partner
PricewaterhouseCoopers

Melbourne
28 February 2012

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Statement of Comprehensive Income

For The Year Ended 31 December 2011

	Notes	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Revenues from mining operations	*5*	**410,432**	193,334
Cost of sales	*6*	**(252,243)**	(129,823)
Gross profit from mining operations		**158,189**	63,511
Administration expenses		**(6,278)**	(3,054)
Operating profit before other income / (expense)		**151,911**	60,457
Other income / (expenses)			
Revaluation of deferred consideration	*22, 25*	**(189)**	(6,678)
Reversal of asset impairment	*7*	**-**	64,619
Other income / (expenses)	*8*	**3,808**	3,855
Operating profit before finance costs		**155,530**	122,253
Finance income	*9*	**11,971**	7,388
Finance expenses	*9*	**(9,392)**	(4,537)
Profit before tax		**158,109**	125,104
Income tax benefit / (expense)	*10*	**58,458**	(39,863)
Profit for the period		**216,567**	85,241
Other comprehensive income			
Exchange differences on translation of foreign operations		**-**	(226)
Total comprehensive income for the period		**216,567**	85,015
Profit / (loss) attributable to:			
- Owners of Grange Resources Limited		**216,567**	85,241
		216,567	85,241
Total comprehensive income / (loss) attributable to:			
- Owners of Grange Resources Limited		**216,567**	85,015
		216,567	85,015

Earnings per share for profit / (loss) attributable to the ordinary equity holders of Grange Resources Limited

	Note	12 months to 31 December 2011	6 months to 31 December 2010
Basic earnings / (loss) per share (cents per share)	*40*	**18.78**	7.40
Diluted earnings / (loss) per share (cents per share)	*40*	**18.76**	7.40

The above statements of comprehensive income should be read in conjunction with the accompanying notes

Statement of Financial Position

As at 31 December 2011

	Notes	31 December 2011 $'000	31 December 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	*11*	**172,269**	91,922
Trade and other receivables	*12*	**51,009**	39,309
Inventories	*13*	**68,178**	35,921
Available-for-sale financial assets	*14*	**-**	984
Total current assets		**291,456**	168,136
Non-current assets			
Receivables	*15*	**20,716**	13,768
Property, plant and equipment	*16*	**169,378**	161,694
Mine properties and development	*17*	**378,520**	395,737
Exploration and evaluation	*18*	**96,561**	60,573
Deferred tax assets	*19*	**-**	-
Total non-current assets		**665,175**	631,772
Total assets		**956,631**	799,908
LIABILITIES			
Current liabilities			
Trade and other payables	*20*	**49,424**	35,602
Borrowings	*21*	**22,047**	13,134
Deferred consideration	*22*	**10,387**	-
Current tax liability		**4,695**	-
Provisions	*23*	**5,202**	3,208
Total current liabilities		**91,755**	51,944
Non-current liabilities			
Borrowings	*24*	**22,839**	33,860
Deferred consideration	*25*	**54,965**	59,269
Deferred tax liabilities	*26*	**8,948**	72,102
Provisions	*27*	**20,825**	19,674
Total non-current liabilities		**107,577**	184,905
Total liabilities		**199,332**	236,849
Net assets		**757,299**	563,059
EQUITY			
Contributed equity	*28*	**329,577**	328,912
Reserves	*29*	**3,041**	2,955
Retained profits / (losses)	*30*	**424,681**	231,192
Capital and reserves attributable to owners of Grange Resources Limited		**757,299**	563,059
Total equity		**757,299**	563,059

The above statements of financial position should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the Year Ended 31 December 2011

Consolidated	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Non-controlling interests $'000	TOTAL $'000
Balance at 1 January 2011	**328,912**	**2,955**	**231,192**	**-**	**563,059**
Profit for the year	-	-	216,567	-	216,567
Total comprehensive income / (loss) for the year	-	-	216,567	-	216,567
Transactions with owners in their capacity as owners					
Dividends paid			(23,078)		(23,078)
Employee share options and rights	665	86	-	-	751
	665	86	(23,078)	-	(22,327)
Balance at 31 December 2011	**329,577**	**3,041**	**424,681**	**-**	**757,299**
Balance at 1 July 2010	**328,812**	**2,855**	**145,951**	**(452)**	**477,166**
Profit for the period	-	-	85,241	-	85,241
Exchange differences on translation of foreign operations	-	(226)	-	-	(226)
Total comprehensive income / (loss) for the period	-	(226)	85,241	-	85,015
Transactions with owners in their capacity as owners					
Disposal of non-controlling interest	-	-	-	452	452
Employee share options and rights	100	326	-	-	426
	100	326	-	452	878
Balance at 31 December 2010	**328,912**	**2,955**	**231,192**	**-**	**563,059**

The above statements of changes in equity should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the Year Ended 31 December 2011

	Notes	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**437,011**	171,008
Payments to suppliers and employees (inclusive of goods and services tax)		**(228,970)**	(90,267)
		208,041	80,741
Interest received		**2,612**	994
Interest paid		**(278)**	(226)
Income taxes (paid)/received		**-**	(3,057)
Net cash inflow / (outflow) from operating activities	*38*	**210,375**	78,452
Cash flows from investing activities			
Payments for exploration and evaluation		**(35,075)**	(13,370)
Payments for property, plant and equipment		**(32,104)**	(19,557)
Payments for mine properties and development		**(20,959)**	(14,129)
Proceeds from available-for-sale financial assets		**2,454**	-
Proceeds from disposal of subsidiaries		**824**	851
Proceeds from (payments for) term deposits		**(15,865)**	1,643
Net cash inflow / (outflow) from investing activities		**(100,725)**	(44,562)
Cash flows from financing activities			
Repayment of borrowings		**(2,335)**	-
Proceeds from borrowings		**10,000**	-
Dividends paid to shareholders		**(23,078)**	-
Finance lease payments		**(13,360)**	(5,117)
Net cash inflow / (outflow) from financing activities		**(28,773)**	(5,117)
Net increase / (decrease) in cash and cash equivalents		**80,877**	28,773
Cash and cash equivalents at beginning of the year/period		**91,922**	70,476
Net foreign exchange differences		**(530)**	(7,327)
Cash and cash equivalents at end of the year/period	*11*	**172,269**	91,922

The above statements of cash flows should be read in conjunction with the accompanying notes

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied for all the periods presented, unless otherwise stated.

The financial statements is for the consolidated entity consisting of Grange Resources Limited and its subsidiaries.

During the prior reporting period the Company received confirmation from the Australian Securities and Investments Commission ("ASIC"), of a change in its financial year end date from 30 June to 31 December. This change means that the prior reporting period was a transitional one from 1 July 2010 to 31 December 2010 (i.e. six months). Reporting periods are now prepared for a twelve month period from 1 January to 31 December. Due to the difference in the duration of the reporting periods presented in the financial statements, the amounts presented in the Statement of Comprehensive Income and the Statement of Cash Flows are not entirely comparable.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

The consolidated financial statements of the Grange Resources Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical costs convention, except for certain assets which, as noted, are at fair value.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Grange Resources Limited as at 31 December 2011 and the results of all subsidiaries for the year then ended. Grange Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Details of subsidiaries are set out in Note 36.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(e)).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases of minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the identifiable net assets of the subsidiary. Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Grange Resources Limited.

(ii) Joint Ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated into the financial statements under the appropriate headings. Details of joint ventures are set out in Note 37.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

(b) Principles of consolidation *(cont.)*

Where part of a joint venture interest is farmed out in consideration of the farm-in party undertaking to incur further expenditure on behalf of both the farm-in party and the entity in the joint venture area of interest, exploration expenditure incurred and carried forward prior to farm out continues to be carried forward without adjustment. Any cash received in consideration for farming out part of a joint venture interest is treated as a reduction in the carrying value of the related mineral property.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

Refer to Note 4 for further information on segment descriptions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Grange Resources Limited's functional and presentation currency.

(ii) Transactions and balances

All foreign currency transactions during the financial period are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates on monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange, unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. In a reverse acquisition, if the fair value of the equity instruments of the legal subsidiary is not otherwise clearly evident, the total fair value of all the issued equity instruments of the legal parent before the business combination shall be used as the basis for determining the cost of the combination. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being a proxy for the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Deferred consideration is measured at the present value of management's best estimate of expenditure required to settle the obligation at the reporting date. The discount rate used to determine the present value reflects the current assessment of the Group's incremental borrowing rate. The increase in the provision due to the passage of time or 'unwinding' of the discount is recognised as a finance expense. Other movements in deferred consideration, including those from updated short and long-term commodity prices and forward exchange rates are recognised in the income statement to the extent that they do not exceed the discount on acquisition initially recognised.

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities described below.

Revenue is recognised for the major business transactions as follows:

Sales of iron ore

Revenues from the sales of iron ore are recognised when the significant risks and rewards of ownership of the goods have passed to the customer and the amount of revenue can be measured reliably. Risks and rewards are considered passed to the buyer at the time when title passes to the customer.

The majority of the Group's sales arrangements specify that title passes when the product is transferred to the vessel on which the product will be shipped. Revenues are generally recognised on the bill of lading date. Sales arrangements allow for an adjustment to the sales price based on a survey of the goods by the customer (an assay for mineral content). Accordingly, sales revenue is initially recognised on a provisional basis using the most recently determined estimate of the product specifications and subsequently adjusted, if necessary, based on a survey of the goods by the customer.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the arrangements.

Interest revenue

Interest revenue is recognised on a time proportion basis using the effective interest method.

Dividend revenue

Dividends are recognised as revenue when the right to receive payment is established.

(g) Government Grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(h) Leases

Leases are classified as either operating or finance leases at the inception of the leases based on the economic substance of their agreement so as to reflect the risks and rewards incidental to ownership.

Finance leases, which are those leases that transfer substantially all of the risks and rewards incidental to ownership of the leased item to the Group, are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment. A lease liability of equal value is also recognised. Each lease payment is allocated between the liability and financing costs. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability over the period. The property, plant and equipment acquired under a finance lease is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating leases are those leases that do not transfer a significant portion of the risks and rewards of ownership to the Group as lessee. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade and other receivables

Trade receivables are recognised and carried at the original invoice amount less provision for impairment. Trade receivables are generally due for settlement within 14 days.

Collectability of trade receivables are reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the amount directly. An allowance accounts (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised become uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

Term deposits held with financial institutions with maturities of more than three months are presented as receivables. Term deposits with a maturity date of more than 12 months after the reporting date are classified as non-current.

(k) Inventories

Raw materials and stores, ore stockpiles, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost is determined primarily on the basis of weighted average costs and comprises of cost of direct materials and the costs of production which include:

- labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- depreciation of property, plant and equipment used in the extraction and processing of ore; and
- production overheads directly attributable to the extraction and processing of ore.

Stockpiles represent ore that has been extracted and is available for further processing. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as incurred. Where the future processing of the ore can be predicted with confidence because it exceeds the mine's cut-off grade, it is valued at the lower of cost and net realisable value. Work in progress inventory includes partly processed material. Quantities are assessed primarily through surveys and assays.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses on of it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and the tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Grange Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. On 6 January 2011, the Group merged its two separate tax consolidated group's and Grange Resources Limited became the head entity of the merged tax consolidated group. As a consequence, Grange Resources Limited and its subsidiaries are taxed as a single entity and the deferred tax assets and liabilities of the Group are set off in the consolidated financial statements.

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

Commitments and contingencies are presented net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Property, plant and equipment

Land and buildings and plant and equipment are measured at cost less, where applicable, any accumulated depreciation, amortisation or impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Land is not depreciated. Assets under construction are measured at cost and are not depreciated until they are ready and available for use. Depreciation on assets is calculated using either a straight-line or diminishing value method to allocate the cost,net of their residual values, over the estimated useful lives or the life of the mine, whichever is shorter. Leasehold improvements and certain leased plant and equipment are depreciated over the shorter lease term.

Other non-mine plant and equipment typically has the following estimated useful lives:

Buildings	10 years
Plant and Equipment	4 to 8 years
Computer Equipment	3 to 5 years

The assets residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, at each financial period end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the asset is derecognised.

(o) Exploration and evaluation

Exploration and evaluation expenditure comprises costs which are directly attributable to:

- research and analysing exploration data
- conducting geological studies, exploratory drilling and sampling
- examining and testing extraction and treatment methods
- compiling pre-feasibility and definitive feasibility studies

Exploration and evaluation expenditure also includes the costs incurred in acquiring rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

(0) Exploration and evaluation *(cont.)*

Capitalisation of exploration expenditure commences on acquisition of a beneficial interest, or option to acquire a beneficial interest, in mineral rights.

Mining tenements and capitalised exploration expenditure (including acquisition costs) are stated at cost, less, where applicable, any accumulated amortisation. The carrying amount of deferred mineral exploration and evaluation expenditure is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets.

The future recoverability of capitalised exploration expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes that could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

Costs arising from the acquisition, exploration and evaluation relating to an area of interest are carried forward provided that rights to tenure of the area of interest are current and provided further that at least one of the following conditions is met:

(i) such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or

(ii) exploration and evaluation activities in the area of interest have not, at balance date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

To the extent that capitalised exploration expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

Ultimate recoupment of these costs is dependent on the successful development and commercial exploitation or sale, of the respective areas of interest.

In the event a loss arises from the sale of an area of interest for which expenditure has been carried forward, this will be recorded in the income statement.

(p) Mine properties and development

Mine properties and development represent the accumulation of all exploration, evaluation and development expenditure incurred by, or on behalf of, the entity in relation to areas of interest in which mining of a mineral resource has commenced.

Where further development expenditure is incurred in respect of a production property after the commencement of production, such expenditure is carried forward as part of the cost of that production property only when substantial future economic benefits arise, otherwise such expenditure is classified as part of the cost of production.

Costs on production properties in which the Group has an interest are amortised over the life of the area of interest to which such costs relate on the production output basis. Changes to the life of the area of interest are accounted for prospectively.

The carrying value of each mine property and development are assessed annually for impairment in accordance with Note 1(r).

(q) Deferred mining

Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the operation or a discrete section of the ore body.

Waste removal normally continues throughout the life of the mine. The Company defers stripping costs incurred during the production stage of its operations and discloses it within 'Mine properties and development'.

The amount of stripping cost deferred is based on the ratio obtained by dividing the tonnage of waste mined by the quantity of ore mined. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of mine ratio. Such deferred costs are then charged against to the income statement to the extent that, in subsequent periods, the ratio falls short of the life of mine ratio. The life of mine ratio is based on proven and probable reserves of the operation.

Deferred stripping costs form part of the total investment in the relevant cash generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Changes to the life of mine stripping ratio are accounted for prospectively.

(r) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset, including capitalised exploration and evaluation and capitalised development expenditure, may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the greater of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or group's of assets (cash generating units).

Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the pre-impairment value, adjusted for any depreciation that would have been recognised on the asset had the initial impairment loss not occurred. Such reversal is recognised in profit or loss.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(s) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition, and in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading purposes are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Available-for-sale financial assets

Financial assets that are available-for-sale are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

(t) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

(t) Derivative financial instruments *(cont.)*

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

(u) Financial instruments issued by the company

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

(v) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group are held for sale are presented separately from other liabilities in the balance sheet.

(w) Ore reserves

The Company estimates its ore reserves and mineral resources based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves of December 2004 (the JORC code). Reserves, and for certain mines resources, determined in this way are used in the calculation of depreciation, amortisation and impairment charges, the assessment of life of mine stripping ratios and for forecasting the timing of the payment of close down and restoration costs.

In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction.

(x) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(y) Borrowings

All borrowings are initially recognised at the fair value of the consideration received, less transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(z) Provisions

Provisions are recognised when the Group has a present obligation, it is probable that there will be a future sacrifice of economic benefits and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be recovered from a third party, for example under an insurance contract, the receivable is recognised as a separate asset but only when the reimbursement is virtually certain and it can be measured reliably. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the current market assessment of the time value of money. Where this is the case, its carrying amount is the present value of these estimated future cash flows. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Decommissioning and restoration

Decommissioning and restoration provisions include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. The provision is recognised in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within mine properties and development, to the extent that any amount of deduction does not exceed the carrying amount of the asset. Any deduction in excess of the carrying amount is recognised in the income statement immediately. If an adjustment results in an addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will apply. These costs are then depreciated over the life of the area of interest to which they relate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

(z) Provisions *(cont.)*

Onerous contracts

An onerous contract is considered to exist where the Company has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

Restructuring

A provision for restructuring is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by:

- starting to implement the plan; or
- announcing its main features to those affected by it.

(aa) Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation funds

Contributions to defined contribution funds are recognised as an expense in the income statement as they become payable.

Share-based payment transactions

Share based compensation benefits are provided to Directors and eligible employees under various plans. Information relating to the plans operated by the Company is set out in Note 40.

The fair value of rights and options granted under the plans is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the Director or eligible employee become unconditionally entitled to the rights and options.

The fair value of rights is determined with reference to the fair value of rights issued, which includes the volume weighted average price of the Company's shares.

The fair value of options at grant date is independently determined using either binomial option pricing or Black-Scholes pricing models that take into account the exercise price, the term of the option, the impact of dilution, the share price at the grant date, the expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted, where necessary, to reflect market vesting conditions but excludes the impact of any non-market vesting conditions.

Non-market vesting conditions are included in the assumptions about the number of rights and options that are expected to be exercisable. At each reporting date, the entity revises its estimate of the number of rights and options that are expected to vest or become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Where an equity-settled award is modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modifications, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(ab) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction, net of tax, of the share proceeds received.

(ac) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial period but not distributed at balance date.

(ad) Earnings per share (EPS)

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(ae) Parent entity financial information

The financial information for the parent entity, Grange Resources Limited, disclosed in Note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Grange Resources Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(af) Rounding of amounts

The Company is 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 financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ag) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) **AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)** (effective from 1 January 2013]

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The Company intends to apply the standard from 1 January 2013.

(ii) **AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards** (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

(ag) New accounting standards and interpretations *(cont.)*

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 31 December 2013.

(iii) **AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13** (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

(iv) **AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income** (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 31 December 2013.

(v) **AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements** (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(vi) **AASB Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine and AASB 2011-12 Amendments to Australian Accounting Standards arising from Interpretation 20** (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the orebody) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body.

This is different to the Group's current accounting policy which is to capitalise stripping costs based on a life of mine waste-to-ore stripping ratio and amortise the costs over the life of the mine. The interpretation must be applied retrospectively and the Group will have to write off existing stripping cost asset balances to retained earnings on the date of transition, unless they relate to an identifiable component of the ore body.

The Group has not yet undertaken a review of its existing stripping cost assets in light of the requirements of the interpretation and hence is unable to quantify the effect, if any, on the amounts recognised in the financial statements.

NOTE 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group has previously used derivative financial instruments such as foreign exchange contracts to manage certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and commodity price risks and aging analysis for credit risk.

Risk management is carried out by a Treasury Committee under a policy approved by the Board of Directors. The Treasury Committee identifies, evaluates and manages financial risks according to parameters outlined in the approved Treasury policy. The Treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group holds the following financial instruments:

	31 December 2011 $'000	31 December 2010 $'000
Financial Assets		
Cash and cash equivalents	**172,269**	91,922
Trade and other receivables	**68,064**	49,572
	240,333	141,494
Financial Liabilities		
Trade and other payables	**49,424**	35,602
Borrowings	**44,887**	46,994
Deferred consideration	**65,351**	59,269
	159,662	141,865

(a) Market Risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from commercial transactions, given that the Group's sales revenues are denominated in US dollars and the majority of its operating costs are denominated in Australian dollars, and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

At this time the Group does not manage its prospective foreign exchange risk with currency hedges.

The Group's exposure to US dollar denominated foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	31 December 2011 $'000	31 December 2010 $'000
Cash and cash equivalents	**54,984**	60,149
Trade and other receivables	**54,432**	35,996
Trade and other payables	**(874)**	(770)
Borrowings	**(25,620)**	(35,339)
Deferred consideration	**(65,352)**	(59,269)
Net US dollar surplus / (deficit)	**17,570**	767

NOTE 2. FINANCIAL RISK MANAGEMENTS *(cont.)*

(ii) Group sensitivity

Based on the financial instruments held at 31 December 2011, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post tax profit for the financial period would have been $1.4 million higher/$1.1 million lower (December 2010 $0.1 million lower/$0.1 million higher), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated borrowings and deferred consideration off-set by US dollar denominated cash and cash equivalents and receivables as detailed in the above table.

(iii) Price risk

The Group is exposed to commodity price risk. During prior years, the Group agreed with its customers to price its iron ore pellets at index based market prices. Interim pricing arrangements were agreed and remained in place with all customers until an iron ore index based market pricing mechanism was agreed in April 2011. At this time, the Group does not manage its iron ore price risk with financial instruments.

Going forward, the Group may consider using financial instruments to manage commodity price risk given exposures to market prices arising from recent changes to pricing mechanisms.

(iv) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long term borrowings. Borrowings are issued at variable rates exposing the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value.

As at the reporting date, the Group has the following variable rate borrowings outstanding:

	December 2011		December 2010	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Borrowings	**4.76**	**19,128**	2.70	9,177

The Group's fixed rate borrowings are carried at amortised cost. As they are fixed rate borrowings, they are not subject to interest rate risk as defined by AASB 7, Financial Instruments: Disclosures.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. No financial instruments are used to manage interest rate risk.

Group sensitivity

The Group's fixed rate borrowings are carried at amortised cost. As they are fixed rate borrowing, they are not subject to interest rate risk and are excluded from the interest rate sensitivity analysis.

At 31 December 2011, if interest rates had increased by 50 basis points(bps) or decreased by 50 basis points from the period end rates with all other variables held constant, post tax profit for the period would have been $0.8 million higher/$0.8 million lower (December 2010 changes of 50bps/50 bps: $0.4 million higher/$0.4 million lower).

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Group is exposed to a concentration of risk with sales of iron ore being made to a limited number of customers. The maximum exposure to credit risk at the reporting date is limited to the carrying value of trade receivables, cash and cash equivalents and deposits with banks and financial institutions.

The Group has no receivables past due as at 31 December 2011.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

As at 31 December 2011, the Group has access to an undrawn floating rate working capital facility of $10 million with an expiration date of less than one year (2010: Nil). This undrawn amount of the facility may be drawn at any time subject to the Group satisfying various conditions.

Maturities of financial liabilities

The table below analyses the Groups financial liabilities into relevant maturity groupings based on the remaining period as at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2011– Consolidated

	less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non derivatives							
Non-interest bearing							
Trade and other payables	49,424	-	-	-	-	49,424	49,424
Deferred consideration	5,529	5,372	10,082	29,970	52,058	103,011	65,352
Variable rate borrowings	225	10,225	445	1,351	6,883	19,129	19,129
Fixed rate borrowings	5,973	6,991	15,334	-	-	28,298	25,758
Total non derivatives	**61,151**	**22,588**	**25,861**	**31,321**	**58,941**	**199,862**	**159,663**

31 December 2010 - Consolidated

	less than 6 months $'000	6 - 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non derivatives							
Non-interest bearing							
Trade and other payables	35,602	-	-	-	-	35,602	35,602
Deferred consideration	-	-	10,929	28,562	64,774	104,265	59,269
Variable rate borrowings	453	225	450	1,341	6,713	9,182	9,182
Fixed rate borrowings	7,479	6,655	12,710	14,293	-	41,137	37,812
Total non derivatives	**43,534**	**6,880**	**24,089**	**44,196**	**71,487**	**190,186**	**141,865**

d) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

e) Capital Risk Management

When managing capital, the Group's objective is to safeguard the ability to continue as a going concern so that the Group continues to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management is constantly reviewing and adjusting, where necessary, the capital structure. This involves the use of corporate forecasting models which enable analysis of the Group's financial position including cash flow forecasts to determine future capital management requirements. To ensure sufficient funding, a range of assumptions are modeled.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices and foreign exchange rates.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

Net realisable value of inventories

The Group reviews the carrying value of its inventories at each reporting date to ensure that the cost does not exceed net realisable value. Estimates of net realisable value includes a number of assumptions, including commodity price expectations, foreign exchange rates and costs to complete inventories to a saleable product.

Impairment of property, plant and equipment and mine properties and development

The Group performs an impairment assessment when there is an indication of a possible impairment. Impairment assessments are performed using information from internal Board approved budgets as well external sources, including industry analysts and analysis performed by external parties. In assessing the recoverable amount, the consolidated entity makes a number of impairment assumptions, including commodity price expectations, foreign exchange rates, reserves and resources and expectation regarding future operating performance which is subject to risk and uncertainty. Changes in circumstances may affect these estimates and the recoverable amount. If the carrying amount is assessed to be impaired, the impairment charge is recognised in the income statement. Conversely, where a prior period asset impairment has reversed the carrying amount of the asset is increased to the lower of its recoverable amount and pre-impairment value, adjusted for any depreciation that would have been recognised on the asset had the initial impairment not occurred.

Determination of ore reserves and resources

Ore reserves and resources are based on information compiled by a Competent Person as defined in accordance with the Australasian Code of Mineral Resources and Ore Reserves of December 2004 (the JORC code). There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values and provisions for rehabilitation.

Taxation

The Group's accounting policy for taxation requires management judgment in relation to the application of income tax legislation. There are many transactions and calculations undertaken during the ordinary course of business where the ultimate tax determination is uncertain. The Group recognises liabilities for tax, and if appropriate taxation investigation or audit issues, based on whether tax will be due and payable. Where the taxation outcome of such matters is different from the amount initially recorded, such difference will impact the current and deferred tax positions in the period in which the assessment is made.

The Group merged its multiple tax consolidated group's on 6 January 2011 which has impacted the carrying amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet at 31 December 2011. Management have used judgement in the application of income tax legislation on accounting for this tax consolidation. These judgements are based on management's interpretation of the income tax legislation applicable at the time of the consolidation.

In addition, certain deferred tax assets for deductible temporary differences and carried forward taxation loses have been recognised. In recognising these deferred tax assets assumptions have been made regarding the Group's ability to generate future taxable profits. Utilisation of the tax losses also depends on the ability of the tax consolidated entities to satisfy certain tests at the time the losses are recouped. If the entities fail to satisfy the tests, the carried forward losses that are currently recognised as deferred tax assets would have to be written off to income tax expense. There is an inherent risk and uncertainty in applying these judgments and a possibility that changes in legislation will impact upon the carrying amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet.

Deferred consideration obligation

The Group has recognised a deferred consideration obligation in relation to a series of payments owing to the previous owners of Grange Resources (Tasmania) Pty Ltd as a result of a business combination in August 2007.

In determining the appropriate level of obligation consideration is given to the expected gross revenues of Grange Resources (Tasmania) Pty Ltd and the timing of these expected gross revenues. Estimates of gross revenue include a number of assumptions including commodity price expectation and foreign exchange rates. Changes to any of the estimates could result in a significant change to the level of the obligation required, which in turn will impact future financial results.

Provision for decommissioning and restoration costs

Decommissioning and restoration costs are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results. These estimates are reviewed annually and adjusted where necessary to ensure that the most up to date data is used.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for options is determined by an external value using a binomial model, using the assumptions detailed in Note 40. The fair value for shares issued is determined by the volume weighted average trading price over a specified number of days.

Revenue recognition

Interim pricing

The Group agreed with its customers during the year ended 31 December 2011 an IODEX based index pricing mechanism for iron ore pellet sales. Accordingly, the group has recognised revenues of $52.1 million for the year ended 31 December 2011 for sales made under interim pricing arrangements with customers from 1 April 2010 to 31 December 2010.

Provisional pricing

The Group has recognised revenues amounting to $3.9 million for the year ended 31 December 2011 (6 months to 31 December 2010: $5.9m) from the sale of iron ore pellets which requires quantity and quality verification by the customer. The Group is confident that the quantity and quality of the iron ore pellets is such that it is appropriate to recognise the provisional pricing revenues during the year ended 31 December 2011.

NOTE 4. SEGMENT INFORMATION

(a) Description of segments

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 measurement and presentation in the financial statements.

Exploration, evaluation and development projects (including the 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 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.

Segment revenues from sales to external customers

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Australia	**151,101**	69,161
China	**259,331**	124,173
TOTAL	**410,432**	193,334

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital are allocated based on where the assets are located.

The consolidated assets of the Group were predominately located in Australia as at 31 December 2011 and 31 December 2010. The total cost incurred during the current and comparative periods to acquire segment assets were also predominately incurred in Australia.

NOTE 5. REVENUE

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
From mining operations		
Sales of iron ore	**410,432**	193,334
	410,432	193,334

NOTE 6. COST OF SALES

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Mining costs	**136,733**	49,025
Production costs	**87,650**	40,776
Government royalties	**14,290**	6,855
Depreciation and amortisation expense	**39,637**	19,229
Net deferred mining costs expensed /(capitalised)	**636**	(13,918)
Changes in inventories	**(29,535)**	18,866
Foreign exchange loss	**2,832**	8,990
	252,243	129,823
Depreciation and amortisation		
Land and buildings	**2,977**	1,362
Plant and equipment	**20,880**	9,484
Computer equipment	**295**	195
Mine properties and development	**15,485**	8,188
	39,637	19,229
Profit before income tax includes the following specific expenses:		
Employee benefits expense	**53,312**	20,697
Defined contribution superannuation expense	**4,453**	1,832

NOTE 7. REVERSAL OF ASSET IMPAIRMENT

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Reversal of asset impairment		
- Mine properties and development	-	64,619

Australian Accounting Standard AASB 136, Impairment of Assets, requires prior period asset impairment losses to be reversed if there have been a positive change in the estimates used to determine the assets recoverable amount since the impairment loss was recognised. Where a positive change has occurred the carrying amount of the asset is increased to the lower of its recoverable amount and pre-impairment value, adjusted for any depreciation that would have been recognised on the asset had the initial impairment loss not occurred.

The consolidated entity previously recognised an impairment loss of $66.6 million during the year ended 30 June 2009 in relation to mine, properties and development assets associated with its Tasmanian operations. During the six month period ended 31 December 2010 the consolidated entity has reversed $64.6 million of this prior period impairment loss, which represents the pre-impairment value adjusted for depreciation that would have been recognised had the impairment loss not occurred.

The impairment assessment at 31 December 2010 was performed using an internal valuation using a real post tax discount rate of 9.33% and a fair value less costs to sell valuation method. In assessing the recoverable amount, the consolidated entity makes a number of impairment assumptions, including assumptions relating to commodity prices, foreign exchange rates and risk adjustments to future cash flows. Commodity price expectations, exchange rates, reserves and resources, and expectations regarding the future operating performance can change significantly over short periods of time, which can have a significant impact upon the carrying value of assets. The consolidated entity has considered information from industry analysts and analysis performed by external parties in relation to short-term and long-term assumptions.

NOTE 8. OTHER INCOME / (EXPENSES)

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Other income / (expenses)		
Net profit on disposal of subsidiaries	824	3,377
Net gain on sale of available-for-sale financial assets	1,470	-
Net profit on the disposal of property, plant and equipment	86	293
Other income	1,428	185
	3,808	3,855

NOTE 9. FINANCE INCOME / (EXPENSES)

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Finance income		
Interest income received or receivable		
- Other entities	3,575	999
Exchange gains on foreign currency deposits / borrowings (net)	8,396	6,389
	11,971	7,388
Finance expenses		
Interest charges paid or payable		
- Other entities	(555)	(602)
Finance lease interest charges paid or payable	(1,891)	(1,210)
Provisions: unwinding of discount		
- Deferred consideration	(5,894)	(2,182)
- Decommissioning and restoration	(1,052)	(543)
	(9,392)	(4,537)

NOTE 10. INCOME TAX (BENEFIT) / EXPENSE

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
(a) Income tax expense		
Current tax	4,695	-
Deferred tax	(63,153)	39,863
	(58,458)	39,863
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets	(19,769)	13,221
Increase/(decrease) in deferred tax liabilities	(43,384)	26,642
	(63,153)	39,863
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	158,109	125,104
Tax at the Australian tax rate of 30% (December 2010: 30%)	47,433	37,531
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Revaluation of deferred consideration	57	5,495
Unwind of discount on deferred consideration	1,768	655
Share based payments expense	225	128
Disposal of subsidiary undertakings	-	(889)
Research and development tax concession	-	(513)
Sundry items	(28)	(163)
	49,455	42,244
Difference in overseas tax rates	-	(637)
Adjustments to current / deferred tax of prior periods	(857)	(2,030)
Adjustments to deferred tax arising from the merger of tax consolidated groups	(107,056)	-
Income tax benefits not recognised	-	286
Income tax (benefit) / expense	(58,458)	39,863
(c) Taxation Losses		
Unused taxation losses for which no deferred tax asset has been recognised	54,104	54,104
Potential tax benefit @ 30%	16,231	16,231

All unused taxation losses were incurred by Australian entities that are part of the tax consolidated group. The tax losses as disclosed above have not been recognised as their availability is subject to satisfying Australia's loss integrity rules.

(d) Tax consolidation legislation

On 6 January 2011, the Group merged its multiple income tax consolidated groups into a single group with Grange Resources Limited as the head entity. The entities in the merged tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Grange Resources Limited.

The tax sharing agreement also requires all contributing members to fully compensate Grange Resources Limited for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to Grange Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable / payable under the tax sharing agreement are due upon receipt of the funding advice from the head entities, which is issued as soon as practicable after the end of the financial period. The head entity may also require payment of an interim funding amount to assist with its obligations to pay tax instalments. The funding amounts are recognised as intercompany receivables or payables.

NOTE 11. CASH AND CASH EQUIVALENTS

	31 December 2011 $'000	31 December 2010 $'000
Cash at bank and in hand	41,556	78,857
Term deposits	130,713	13,065
	172,269	91,922
(a) Total cash (current and non-current)		
Cash at bank and in hand as per statement of cash flows	172,269	91,922
Add:		
Current term deposits (note 12)	10,096	708
Non-current term deposits (note 15)	20,716	13,768
	203,081	106,398

Total cash is deposited in trading accounts with major financial institutions under normal terms and conditions appropriate to the operations of the accounts. These deposits earn interest at rates set by these institutions and as at 31 December 2011 the weighted average interest rate on these accounts was 4.07%.

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 12. TRADE AND OTHER RECEIVABLES

	31 December 2011 $'000	31 December 2010 $'000
Trade receivables	**32,235**	30,708
Term deposits	**10,096**	708
Other receivables	**5,017**	4,388
Prepayments	**3,661**	3,505
	51,009	39,309

(a) Term deposits

- Restricted [(1)]	**250**	708
- Non - restricted	**9,846**	-
	10,096	708

(1) Current restricted term deposits comprises of deposits that are used for monetary backing for performance guarantees.

(b) Impaired trade receivables

The Group has no trade receivables past due as at 31 December 2011, nor does it consider there to be any potential impairment loss on these receivables.

(c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 2.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note 2 for more information on the credit quality of the Group's trade and other receivables.

NOTE 13. INVENTORIES

	31 December 2011 $'000	31 December 2010 $'000
Stores and spares	**19,692**	16,970
Ore stockpiles (at cost)	**11,687**	8,337
Work-in-progress (at cost)	**422**	1,081
Finished goods (at cost)	**36,377**	9,533
	68,178	35,921

NOTE 14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2011 $'000	31 December 2010 $'000
Listed securities		
Listed Australian equities	**-**	984

(a) Movements in available-for-sale financial assets

Movements in available-for-sale financial assets are set out below:

Balance at the beginning of the period	**984**	-
Additions	**-**	886
Revaluation gain recognised in the income statement	**-**	98
Disposals	**(984)**	-
Balance at the end of the period	**-**	984

NOTE 15. RECEIVABLES

	31 December 2011 $'000	31 December 2010 $'000
Other receivables		
Term deposits		
- Restricted [(1)]	**13,824**	13,768
- Non - restricted	**6,892**	-
	20,716	13,768

(1) Non-current restricted term deposits comprises of deposits that are used for monetary backing for performance guarantees, including a debt service reserve amount as part of a secured finance lease liability.

(a) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in Note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $'000	Plant and equipment $'000	Computer equipment $'000	Total $'000
At 1 January 2011				
Cost or fair value	48,535	227,401	1,886	277,822
Accumulated depreciation	(13,325)	(101,713)	(1,090)	(116,128)
Net book amount	**35,210**	**125,688**	**796**	**161,694**
Year ended 31 December 2011				
Opening net book amount	35,210	125,688	796	161,694
Additions	5,194	26,886	115	32,195
Disposals	-	(6)	-	(6)
Depreciation charge	(2,999)	(21,115)	(391)	(24,505)
Closing net book amount	**37,405**	**131,453**	**520**	**169,378**
At 31 December 2011				
Cost or fair value	53,729	254,281	2,001	310,011
Accumulated depreciation	(16,324)	(122,828)	(1,481)	(140,633)
Net book amount	**37,405**	**131,453**	**520**	**169,378**

	Land and buildings $'000	Plant and equipment $'000	Computer equipment $'000	Total $'000
At 1 July 2010				
Cost or fair value	45,339	211,196	1,425	257,960
Accumulated depreciation	(11,956)	(92,145)	(845)	(104,946)
Net book amount	**33,383**	**119,051**	**580**	**153,014**
Six month period ended 31 December 2010				
Opening net book amount	33,383	119,051	580	153,014
Additions	3,681	16,232	460	20,373
Disposals	(485)	(27)	-	(512)
Depreciation charge	(1,369)	(9,568)	(244)	(11,181)
Closing net book amount	**35,210**	**125,688**	**796**	**161,694**
At 31 December 2010				
Cost or fair value	48,535	227,401	1,886	277,822
Accumulated depreciation	(13,325)	(101,713)	(1,090)	(116,128)
Net book amount	**35,210**	**125,688**	**796**	**161,694**

(a) Assets under construction

The carrying amounts of the assets disclosed above includes expenditure of $14.2 million (31 December 2010: $3.4 million) recognised in relation to property, plant and equipment which is in the course of construction.

(b) Leased assets

Plant and equipment includes the following amounts where the Group is a lessee under a finance lease. The lessor is secured over the leased assets.

	31 December 2011 $'000	31 December 2010 $'000
Cost	**70,927**	70,927
Accumulated depreciation	**(50,930)**	(42,907)
Net book amount	**19,997**	28,020

NOTE 17. MINE PROPERTIES AND DEVELOPMENT

	31 December 2011 $'000	31 December 2010 $'000
Mine properties and development (at cost)	**338,520**	339,616
Accumulated depreciation	**(90,243)**	(74,758)
Net book amount	**248,277**	264,858
Deferred mining costs (net book amount)	**130,243**	130,879
Total mine properties and development	**378,520**	395,737

Movements in mine properties and development are set out below:

Mine properties and development		
Opening net book amount	**264,858**	209,174
Reversal of asset impairment	**-**	64,619
Change in rehabilitation estimate	**(1,096)**	(842)
Depreciation charge	**(15,485)**	(8,093)
Closing net book amount	**248,277**	264,858
Deferred mining costs		
Opening net book amount	**130,879**	116,961
Current period expenditure capitalised	**20,959**	14,128
Amounts transferred to inventories	**(21,595)**	(210)
Closing net book amount	**130,243**	130,879

NOTE 18. EXPLORATION & EVALUATION

	31 December 2011 $'000	31 December 2010 $'000
Exploration & evaluation properties (at cost)	**96,561**	60,573
	96,561	60,573

Movements in exploration and evaluation expenditure are set out below:

Balance at beginning of year / period	**60,573**	47,269
Current period expenditure	**35,988**	13,304
Balance at end of year / period	**96,561**	60,573

The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation or alternatively the sale of the respective areas of interest at an amount at least equal to book value.

The Directors have reviewed the carrying values of each area of interest as at balance date and have concluded that there is no impairment.

NOTE 19. DEFERRED TAX ASSETS

	31 December 2011 $'000	31 December 2010 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**31,379**	-
Trade and other payables	**6,001**	2,610
Employee benefits	**1,948**	1,023
Deferred consideration	**-**	344
Decommissioning and restoration	**5,860**	5,769
Taxation losses	**-**	14,946
Other	**1,457**	2,184
Total deferred tax assets	**46,645**	26,876
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 26)	**(46,645)**	(26,876)
Net deferred tax assets	**-**	-

NOTE 20. TRADE AND OTHER PAYABLES

	31 December 2011 $'000	31 December 2010 $'000
Trade payables and accruals	**42,183**	29,240
Other payables	**7,241**	6,362
	49,424	35,602

(a) Other payables

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement.

(b) Risk exposure

Trade payables are non-interest bearing and are normally settled on repayment terms between 7 and 30 days. Information about the Group's exposure to foreign exchange risk is provided in Note 2.

NOTE 21. BORROWINGS (CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
Secured		
Finance lease liabilities [(1)]	**11,459**	9,766
	11,459	9,766
Unsecured		
Bank loan	**10,000**	-
Other	**588**	3,368
	10,588	3,368
	22,047	13,134

(1) Lease liabilities are secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

NOTE 22. DEFERRED CONSIDERATION (CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
Deferred consideration	**10,387**	-
	10,387	-

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

Balance at beginning of the year / period	**-**	-
Changes in estimate	**(41)**	-
Unwind of discount	**911**	-
Transfers from non-current balance	**9,517**	-
Balance at end of the year / period	**10,387**	-

Refer to Note 25 for further details on deferred consideration.

NOTE 23. PROVISIONS (CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
Employee benefits	**4,967**	2,980
Decommissioning and restoration	**235**	228
	5,202	3,208

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

(a) Movements in decommissioning and restoration provision

Balance at beginning of the year / period	**228**	410
Changes in estimate	**131**	(182)
Transfers to non-current provisions	**(124)**	-
Balance at the end of the year / period	**235**	228

NOTE 24. BORROWINGS (NON-CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
Secured		
Finance lease liabilities [(1)]	**14,161**	25,573
Unsecured		
Other	**8,678**	8,287
	22,839	33,860

(1) Lease liabilities are secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

NOTE 25. DEFERRED CONSIDERATION (NON-CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
Deferred consideration	**54,965**	59,269
	54,965	59,269

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

Balance at beginning of year / period	**59,269**	50,409
Changes in estimate	**230**	6,678
Unwinding of discount	**4,983**	2,182
Transfers to current balance	**(9,517)**	-
Balance at end of year / period	**54,965**	59,269

The deferred consideration obligation represents a series of payments owing to the previous owners of Grange Resources (Tasmania) Pty Ltd (formerly Australian Bulk Minerals (ABM)) and arose from a business combination involving ABM which completed in August 2007. The terms of the obligation entitle the previous owners to 2% of the gross receipts of Grange Resources (Tasmania) Pty Ltd from 1 January 2012 to 31 December 2023.

NOTE 26. DEFERRED TAX LIABILITIES (NON-CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
The balance comprises temporary differences attributable to:		
Trade and other receivables	**277**	-
Inventories	**-**	4,340
Receivables	**11**	-
Property, plant and equipment	**-**	8,120
Mine properties and development	**25,655**	67,554
Exploration and evaluation	**28,968**	17,795
Borrowings	**682**	1,018
Other	**-**	151
Total deferred tax liabilities	**55,593**	98,978
Set-off of deferred tax assets pursuant to set-off provisions (Note 19)	**(46,645)**	(26,876)
Net deferred tax liabilities	**8,948**	72,102

NOTE 27. PROVISIONS (NON-CURRENT)

	31 December 2011 $'000	31 December 2010 $'000
Employee benefits	**1,527**	673
Decommissioning and restoration	**19,298**	19,001
	20,825	19,674

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

(a) Movements in decommissioning and restoration provision

Balance at beginning of year / period	**19,001**	19,085
Changes in estimate	**(879)**	(627)
Unwinding of discount	**1,052**	543
Transfer from current provisions	**124**	-
Balance at end of year / period	**19,298**	19,001

NOTE 28. CONTRIBUTED EQUITY

	31 December 2011 Shares	31 December 2010 Shares	31 December 2011 $'000	31 December 2010 $'000
Issued and fully paid ordinary shares	**1,153,937,134**	1,152,077,403	**329,577**	328,912

(a) Movements in ordinary share capital

	Notes	Number of Shares	$'000
1 July 2010 – Opening balance		**1,151,778,896**	**328,812**
6 August 2010 – Issue of shares to Chief Operating Officer	(i)	298,507	100
31 December 2010 – Closing balance		**1,152,077,403**	**328,912**
3 March 2011 – Issue of shares under long term incentive plan		769,321	244
5 May 2011 – Issue of shares under long term incentive plan		334,763	181
5 July 2011 – Issue of shares under long term incentive plan		755,647	240
31 December 2011 – Closing balance		**1,153,937,134**	**329,577**

(i) In August 2010, the Company issued 298,507 ordinary shares to the Chief Operating Officer in relation to a performance related payment for 2009.

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the Company in proportion to the number of and amounts paid on the shares held.

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the Company.

Ordinary shares have no par value and the Company does not have a limited amount of authorised share capital.

(c) Share options and rights

The Company has share based payment schemes under which options to subscribe and rights for the Company's shares have been granted to certain executives and eligible employees (refer to Note 40).

NOTE 29. RESERVES

	31 December 2011 $'000	31 December 2010 $'000
Share-based payments reserve	**3,041**	2,955
	3,041	2,955
(a) Movements in share-based payments reserves		
Balance at beginning of the year / period	**2,955**	2,629
Share based payments expense	**751**	426
Issue of shares to Chief Operating Officer	**-**	(100)
Issue of shares to employees	**(665)**	-
Balance at end of the year / period	**3,041**	2,955

(b) Nature and purpose of share-based payment reserve

The share based payments reserve is used to recognise the fair value of equity benefits issued by the Company.

NOTE 30. RETAINED PROFITS / (LOSSES)

	31 December 2011 $'000	31 December 2010 $'000
Retained profits / (losses)		
Movements in retained profits / (losses) were as follows:		
Balance at the beginning of the year / period	**231,192**	145,951
Net profit for the year / period	**216,567**	85,241
Dividends paid	**(23,078)**	-
Balance at the end of the year / period	**424,681**	231,192

NOTE 31. DIVIDENDS

	31 December 2011 $'000	31 December 2010 $'000
Unfranked interim dividend for the year ended 31 December 2011 – 2 cents per share(2010: NIL)	**(23,078)**	-
Total dividends provided for or paid	**(23,078)**	-

(a) Ordinary shares

Interim dividend for the year ended 31 December 2011 of 2 cents per fully paid share (2010: NIL) paid 13 October 2011. The interim dividend was declared NIL conduit foreign income.

(b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end the directors have recommended the payment of a final unfranked dividend of 3 cents per fully paid ordinary share. The aggregate amount of the proposed dividend expected to be paid on 27 April 2012 out of retained earnings at 31 December 2011, but not recognised as a liability at year end is $34.6 million. This final dividend was declared NIL conduit foreign income.

NOTE 32. KEY MANAGEMENT PERSONNEL

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Short-term employee benefits	**2,630**	1,394
Post-employment benefits	**213**	81
Long-term benefits	**13**	13
Termination benefits	**130**	-
Share-based payments	**351**	71
	3,337	1,559

Detailed remuneration disclosures are provided in the remuneration report on pages 37 to 43.

(a) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

No options were provided as remuneration or shares issued on exercise of options during the period.

NOTE 32. KEY MANAGEMENT PERSONNEL *(cont.)*

(ii) Option holdings

The number of options over ordinary shares in the Company held during the period by each Director of Grange Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below:

31 December 2011

	Balance 1 January 2011	Granted as remuneration	Options exercised	Other changes (net)	Balance 31 December 2011	Vested and exercisable	Unvested
Directors of Grange Resources Limited							
R Clark	4,500,000	-	-	-	4,500,000	4,500,000	-
Other Key Management Personnel							
W Bould	450,000	-	-	-	450,000	450,000	-

31 December 2010

	Balance 1 July 2010	Granted as remuneration	Options exercised	Other changes (net)	Balance 31 December 2010	Vested and exercisable	Unvested
Directors of Grange Resources Limited							
R Clark	4,500,000	-	-	-	4,500,000	4,500,000	-
Other Key Management Personnel							
W Bould	450,000	-	-	-	450,000	450,000	-

(iii) Rights to Grange Shares

The number of rights in shares in the Company offered to each Director of Grange Resources Limited and other key management personnel of the Group including their personally related parties, are set out below:

31 December 2011

	Balance 1 January 2011	Granted as remuneration	Shares issued on vesting of rights	Balance 31 December 2011	Vested	Unvested
Directors of Grange Resources Limited						
R Clark	1,067,650	334,179	(823,159)	578,670	-	578,670
Other Key Management Personnel						
W Bould	456,192	168,603	(360,329)	264,466	-	264,466
D Corr	44,239	24,769	(37,748)	31,260	-	31,260

31 December 2010

	Balance 1 January 2010	Granted as remuneration	Shares issued on vesting of rights	Balance 31 December 2010	Vested	Unvested
Directors of Grange Resources Limited						
R Clark	-	1,067,650	-	1,067,650	355,883	711,767
Other key management personnel of group						
W Bould	-	456,192	-	456,192	152,064	304,128
D Corr	-	44,239	-	44,239	14,746	29,493
R Carpenter (1)	-	53,212	-	53,212	17,737	35,475

(1) R Carpenter ceased to be classified as key management personnel of the Group on 1 January 2011.

(iv) Share holdings

The number of shares in the Company held during the period by each Director of Grange Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below:

31 December 2011

	Balance 1 January 2011	Granted as remuneration	On exercise of options	On vesting of rights	Other changes (net)	Balance 31 December 2011
Directors of Grange Resources Limited						
N Chatfield	20,000	-	-	-	-	20,000
R Clark	1,000,000	-	-	823,159	-	1,823,159
C Ko	90,385,520	-	-	-	-	90,385,520
Other key management personnel of the Group						
W Bould	798,811	-	-	360,329	-	1,159,140
D Corr	42,005	-	-	37,748	12,129	91,882

31 December 2010

	Balance 1 July 2010	Granted as remuneration	On exercise of options	On vesting of rights	Other changes (net)	Balance 31 December 2010
Directors of Grange Resources Limited						
N Chatfield	20,000	-	-	-	-	20,000
R Clark	1,000,000	-	-	-	-	1,000,000
C Ko	90,385,520	-	-	-	-	90,385,520
Other key management personnel of the Group						
W Bould	500,304	298,507	-	-	-	798,811
D Corr	42,005	-	-	-	-	42,005

(b) Loans to key management personnel

There were no loans to key management personnel during the year (December 2010: Nil).

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year (December 2010: Nil).

NOTE 33. REMUNERATION OF AUDITORS

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
(a) PwC - Australia		
Audit and review of financial reports	**230**	230
Other assurance services	**65**	5
Taxation services		
Taxation compliance	**212**	81
Taxation consulting and advice	**1,648**	432
Other services	**220**	98
Total remuneration of PwC - Australia	**2,375**	846
(b) Related practices of PwC - Australia		
Audit and review of financial reports	**62**	-
Taxation compliance	**15**	-
Total remuneration of related practices of PwC - Australia	**77**	-

NOTE 34. COMMITMENTS AND CONTINGENCIES

(a) Lease expenditure commitments

The Group leases various offices under non-cancellable operating leases expiring within 2 years. The leases have varying terms, escalation clauses and renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Within one year	**227**	222
After one year but not more than five years	**677**	654
Minimum lease payments	**904**	876

(b) Finance lease expenditure commitments

The finance lease commitments comprise of the leasing of the light vehicles and heavy mining equipment. Commitments for minimum lease payments in relation to the Group's finance leases are payable as follows:

	31 December 2011 $'000	31 December 2010 $'000
Within one year	**12,826**	11,661
After one year but not more than five years	**15,334**	27,003
	28,160	38,664
Future finance charges	**(2,540)**	(3,325)
Recognised as a liability	**25,620**	35,339

(c) Tenement expenditure commitments

In order to maintain the mining and exploration tenements in which the Group is involved, the Group is committed to meet conditions under which the tenements were granted. If the Group continues to hold those tenements, the minimum expenditure requirements (including interests in joint venture arrangements) will be approximately:

	31 December 2011 $'000	31 December 2010 $'000
Within one year	**667**	635
After one year but not more than five years	**1,388**	1,809
	2,055	2,444

(d) Operating and capital expenditure commitments

In order to maintain and continue mining and pellet processing operations in Tasmania there are a number of commitments and ongoing orders to various contractors or suppliers going forward, these will be approximately:

	31 December 2011 $'000	31 December 2010 $'000
Within one year	**49,267**	41,512
After one year but not more than five years	**15,956**	33,828
	65,223	75,340

(e) Contingent Liabilities

Bank Guarantees

Bank guarantees have been provided on the Group's behalf to secure, on demand by the Minister for Mines and Energy for the State of Queensland, any sum to a maximum aggregate amount of $1,262,659 (2010: $1,262,659), in relation to the rehabilitation of the Highway Reward project.

A Bank guarantee has been provided by Grange Resources (Tasmania) Pty Ltd, held by the Tasmanian Government, as required under Environmental Management and Pollution Control Act 1994 (EMPCA) for the amount of $2,777,575 (December 2010: $2,648,718). This amount is to guarantee the rehabilitation responsibilities under the mining lease at Savage River.

A Bank guarantee has been provided by Grange Resources (Tasmania) Pty Ltd, held by the National Australia Bank, as required under the Goldamere Agreement and applicable Deeds of Variation, for the amount of $2,800,000 (December 2010: $2,800,000). This amount is a guarantee against the purchase price outstanding with the Tasmanian government as specified in the Goldamere Agreement.

Refer to Note 41 for bank guarantees provided by the parent entity. No material losses are anticipated in respect of any of the above contingent liabilities.

Other Contingent Liabilities

On 2 January 2009, Grange completed the legal acquisition of Ever Green Resources Co., Ltd. The Commissioner of State Revenue in Tasmania informed the Company during the year ended 31 December 2011 that no land rich duty obligations arose from this transaction.

Refer to Note 41 for other contingent liabilities of the parent entity.

(f) Contingent Assets

The Group did not have any contingent assets at the Balance Date.

NOTE 35. RELATED PARTY TRANSACTIONS

a) Ultimate parent

Grange Resources Limited is the ultimate Australian holding company of the Group.

b) Transactions with related parties

Sales of iron ore of $245.8 million were made with related parties during the year ended 31 December 2011(6 month period ended 31 December 2010: $124.2 million).

c) Outstanding balances arising from sales of goods and services

	31 December 2011 $'000	31 December 2010 $'000
Trade receivables (sales of iron ore)		
Related parties	**20,048**	30,166
Other receivables		
Related parties	**36**	-
	20,084	30,166

NOTE 36. SUBSIDIARIES

The consolidated financial statement incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.

Percentage of equity interest held by the Group

Name	31 December 2011 %	31 December 2010 %
Ever Green Resources Co., Limited (1)	**100**	100
Grange Tasmania Holdings Pty Ltd	**100**	100
Beviron Pty Ltd	**100**	100
Grange Resources (Tasmania) Pty Ltd	**100**	100
Grange Capital Pty Ltd	**100**	100
Grange Administrative Services Pty Ltd (formerly Tribune Development Pty Ltd)	**100**	100
Barrack Mines Pty Ltd	**100**	100
Bamine Pty Ltd	**100**	100
BML Holdings Pty Ltd	**100**	100
Horseshoe Gold Mine Pty Ltd	**100**	100
Grange Resources (Southdown) Pty Ltd	**100**	100
Southdown Project Management Company Pty Ltd	**100**	100
Murchison Copper Mines Pty Ltd (2)	**-**	-
Grange Developments Sdn Bhd (3)	**100**	100
Grange Minerals Sdn Bhd (4)	**-**	-
EG Mineral Resources Sdn Bhd (4)	**-**	-

(1) Ever Green Resources Co., Limited is incorporated in Hong Kong. The Company received confirmation from the Australian Securities and Investments Commission of its registration as a foreign company under the Corporations Act 2001 on 28 January 2011.

(2) The Group completed the sale of its 79.34% interest in Murchison Copper Mines Pty Ltd to Horseshoe Metals Limited in July 2010.

(3) Grange Developments Sdn Bhd is incorporated in Malaysia.

(4) The Group completed the sale of Grange Minerals Sdn Bhd and EG Mineral Resources Sdn Bhd in July 2011. The Group accounted for the divestment of its interests in these subsidiaries during the year ended 30 June 2010 due to an effective loss of control arising from the satisfaction of conditions precedent to the completion of the sale.

NOTE 37. INTERESTS IN JOINT VENTURES

Name of Joint Venture	% Interest 31 December 2011	% Interest 31 December 2010
Southdown Magnetite and Associated Pellet Project(s) – Iron Ore	**70.00**	70.00
Reward - Copper / Gold	**31.15**	31.15
Highway – Copper	**30.00**	30.00
Reward Deeps / Conviction - Copper	**30.00**	30.00
Mt Windsor Exploration - Gold / Base Metals	**30.00**	30.00
Durack / Wembley – Exploration Gold (1)	**100.00**	100.00
Abercromby Well - Exploration Gold / Nickel (2)	**10.00**	10.00
Mt Samuel - Exploration Gold (3)	**-**	85.00

(1) In accordance with the terms of a farm-in agreement, Montezuma Mining Company Ltd, has earned an 85% interest in the Durack / Wembley tenements. Registration of the tenement transfers with the Western Australia Department of Mines and Petroleum is progressing. This registration once complete will reduce the Group's ownership interest in the tenements to 15%.

(2) A contract to sell the Abercromby Well tenements was entered into with Nova Energy Pty Ltd on 22 September 2011. The transfer of the tenements to Nova Energy Pty Ltd was registered by the Western Australia Department of Mines and Petroleum on 23 January 2012.

(3) A contract to sell the Mt Samuel tenements was entered into with Giants Reef Exploration Pty Ltd on 6 November 2009. Registration of the tenement transfers with the Northern Territory Department of Resources was completed during the year.

The joint ventures are not separate legal entities. They are contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenue and profit.

The Group's direct interests in joint venture net assets, as summarised below, are included in the corresponding balance sheet items in the consolidated financial statements.

	31 December 2011 $'000	31 December 2010 $'000
ASSETS		
Current assets		
Cash and cash equivalents	**1,112**	6,842
Trade and other receivables	**967**	474
Total current assets	**2,079**	7,316
Non-current assets		
Property, plant and equipment	**6,380**	6,125
Exploration and evaluation	**93,121**	56,790
Total non-current assets	**99,501**	62,915
Total assets	**101,580**	70,231
LIABILITIES		
Current liabilities		
Trade and other payables	**3,706**	6,042
Total current liabilities	**3,706**	6,042
Non-current liabilities		
Provisions	**224**	273
Total non-current liabilities	**224**	273
Total liabilities	**3,930**	6,315
Net assets	**97,650**	63,916

The net contributions of joint ventures (inclusive of resultant revenues) to the Group's operating profit before income tax was a profit of $166,597 (31 December 2010: loss $753,995).

Contingent liabilities in relation to joint ventures are disclosed in Note 34.

NOTE 38. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Profit / (loss) for the period	**216,567**	85,241
Revaluation of deferred consideration	**189**	6,678
Unwinding of discount	**6,946**	2,725
Depreciation and amortisation	**39,990**	19,291
Deferred mining	**21,595**	210
Interest expense on finance leases	**1,891**	1,210
Reversal of asset impairment	**-**	(64,619)
(Profit) / loss on available for sale financial assets	**(1,470)**	-
(Profit) / loss on sale of property, plant and equipment	**(85)**	(293)
(Profit) / loss on disposal of subsidiaries	**(824)**	(3,377)
Share based payment expense	**751**	426
Net unrealised foreign exchange (gain) / loss	**199**	1,168
Change in operating assets and liabilities		
(Increase) / decrease in trade and other receivables	**(2,387)**	(26,742)
(Increase) / decrease in inventories	**(32,257)**	15,835
Increase / (decrease) in trade and other payables	**15,727**	673
Increase / (decrease) in other provisions	**2,091**	163
Increase / (decrease) provision for income tax payable	**4,695**	-
Increase / (decrease) in deferred tax liabilities	**(63,243)**	39,863
Net cash inflow / (outflow) from operating activities	**210,375**	78,452

NOTE 39. EARNINGS PER SHARE

	12 months to 31 December 2011 Cents	6 months to 31 December 2010 Cents
Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**18.78**	7.40
Total basic earnings per share attributable to the ordinary equity holders of the Company	**18.78**	7.40
Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**18.76**	7.40
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**18.76**	7.40

(a) Reconciliations of earnings used in calculating earnings per share

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share from continuing operations	**216,567**	85,241
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share from continuing operations	**216,567**	85,241

(b) Weighted average number of shares used as the denominator

	31 December 2011 Number	31 December 2010 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,153,311,836**	1,152,018,999

NOTE 39. EARNINGS PER SHARE *(cont.)*

Options

Options granted to Directors and eligible employees under the Long Term Incentive Plan,are considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. As all the options currently on issue are out of the money, they are not considered dilutive and therefore not included in the calculation of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 40.

Rights

Rights issued to eligible employees under the Long Term Incentive Plan are considered to be potential ordinary shares for the purposes of determining diluted earnings per share. Rights have not been included in the determination of basic earnings per share.

NOTE 40. SHARE BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	12 months to 31 December 2011 $'000	6 months to 31 December 2010 $'000
Rights issued to eligible employees under the LTIP	**751**	426
	751	426

The types of share-based payments are described below.

(b) Types of share-based payments

(i) Options issued to Directors

In May 2008, the shareholders approved the issuing of 4.5 million options to the Managing Director and 450,000 options to each Non-executive Director (or their respective nominees) at that time. The issuing of these options was intended to act as an incentive for the Directors to align themselves with the Company's strategic plan focussing on optimising performance with the benefits flowing through enhanced shareholder returns. The Board considered the grant of the Director options to be reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company and retain them, whilst maintaining the Company's cash reserves.

The Company does not have a specific option plan in relation to the issue of options to Non-executive Directors and is considering this form of remuneration as part of the overall fees paid. The Company will also look at industry practice when determining whether options should form part of the non-executive Directors remuneration.

The table below summaries the current balance of options granted under the plan:

Grant date	Expiry Date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Cancelled during the period	Balance at end of the period	Vested and exercisable at end of the period
31 December 2011								
28-Nov-08	6-Mar-12	$1.92	2,100,000	-	-	-	2,100,000	2,100,000
28-Nov-08	6-Mar-12	$2.87	2,100,000	-	-	-	2,100,000	2,100,000
28-Nov-08	6-Mar-12	$3.37	2,100,000	-	-	-	2,100,000	2,100,000
TOTAL			**6,300,000**	**-**	**-**	**-**	**6,300,000**	**6,300,000**
Weighted average exercise price			$2.72	-	-	-	$2.72	$2.72
31 December 2010								
28-Nov-08	6-Mar-12	$1.92	2,100,000	-	-	-	2,100,000	2,100,000
28-Nov-08	6-Mar-12	$2.87	2,100,000	-	-	-	2,100,000	2,100,000
28-Nov-08	6-Mar-12	$3.37	2,100,000	-	-	-	2,100,000	2,100,000
TOTAL			**6,300,000**	**-**	**-**	**-**	**6,300,000**	**6,300,000**
Weighted average exercise price			$2.72	-	-	-	$2.72	$2.72

The options granted to Directors carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Fair value of options granted

No options were granted during the reporting period.

(ii) Rights to Grange Shares

The Board will review regularly and reserves the right to vary from time to time the appropriate objectives and vesting periods for Rights to Grange shares.

The objective for the issue of Rights under the LTI program is to reward selected senior employees in a manner that aligns this element of their remuneration package with the creation of long term shareholder wealth while at the same time securing the employee's tenure with the Company over the longer term. The LTI grants Rights to the Company's shares to selected senior employees, and these Rights vest in several equal tranches over the timeframe stipulated in the LTI Plan (currently they vest in three equal tranches over 24 months). 50% of the LTI for an employee relates to company performance goals and 50% relates to personal performance goals.

Rights are allocated using a share price that is based on the volume weighted average price of the Company's shares. For the year ended 31 December 2011 the share price is based on the volume weighted average price of the Company's shares for the first two months of the performance period (i.e. the volume weighted average price of the Company's shares from 1 January 2011 to 28 February 2011 will be used).

The expense recognised during the year ended 31 December 2011 is for rights to Grange shares issued to eligible employees for the year ended 30 June 2010 and period the ended 31 December 2010. These amounts are recognised in the Company's income statement over the vesting period.

The table below summaries rights issued to eligible employees:

31 December 2011

Performance Period	Balance 1 January 2011	Granted as remuneration	Issued on vesting of rights	Other changes (net) (1)	Balance 31 December 2011	Vested	Unvested
30 June 2010	2,307,963	-	(1,524,968)	(49,622)	733,373	-	733,373
31 December 2010	-	1,004,283	(334,763)	(22,590)	646,930	-	646,930
Total	**2,307,963**	**1,004,283**	**(1,859,731)**	**(72,212)**	**1,380,303**	**-**	**1,380,303**

(1) Other changes relate to the departure of eligible employees prior to the date of vesting

NOTE 40. SHARE BASED PAYMENTS *(cont.)*

31 December 2010

Performance Period	Balance 1 July 2010	Granted as remuneration	Issued on vesting of rights	Other changes (net)	Balance 31 December 2010	Vested	Unvested
30 June 2010	-	2,307,963	-	-	2,307,963	769,321	1,538,642

As at the date of this report, the Remuneration and Nomination Committee is still reviewing variable remuneration entitlements for the year ended 31 December 2011. Rights awarded to eligible employees for the year ended 31 December 2011 will be disclosed during the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement.

(iv) Options to Grange Shares

The objective of issuing Options under the LTI program is to provide a mechanism for the Company to selectively reward senior employees for having gone the "extra mile" in dealing with exceptional or unplanned or unexpected issues or circumstances which have impacted the business. The Board of Directors, based on the Managing Director's recommendation, may discretionally grant the options via the LTI plan processes, and these options vest in over the timeframe stipulated in the LTI Plan from time to time. A maximum number of Options per individual issue has been specified and approved for each job grade in the grade structure matrix. The exercise price of options issued will be equal to a 20% premium on the weighted average price of the Company's shares in the last three months before the financial period begins.

The table below summaries the options issued to eligible employees:

Grant Date	Expiry date	Exercise price [1]	Balance at start of the period	Granted during the period	Exercised during the period	Cancelled during the period	Balance at end of the period	Vested and exercisable at end of the period
31 December 2011								
14/15-Jul-08	1-May-12	$1.92	325,000	-	-	-	325,000	325,000
14-Jul-08	1-May-12	$2.87	150,000	-	-	-	150,000	150,000
14-Jul-08	6-Mar-12	$3.37	150,000	-	-	-	150,000	150,000
16-Jun-09	1-Oct-12	$2.37	65,000	-	-	-	65,000	65,000
TOTAL			**690,000**	**-**	**-**	**-**	**690,000**	**690,000**
Weighted average exercise price			$2.48	-	-	-	$2.48	$2.48
31 December 2010								
14/15-Jul-08	1-May-12	$1.92	325,000	-	-	-	325,000	325,000
14-Jul-08	1-May-12	$2.87	150,000	-	-	-	150,000	150,000
14-Jul-08	6-Mar-12	$3.37	150,000	-	-	-	150,000	150,000
16-Jun-09	1-Oct-12	$2.37	65,000	-	-	-	65,000	65,000
TOTAL			**690,000**	**-**	**-**	**-**	**690,000**	**690,000**
Weighted average exercise price			$2.48	-	-	-	$2.48	$2.48

(1) Each option is convertible into one ordinary share.

Fair value of options granted

No options were granted during the reporting period.

NOTE 41. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	31 December 2011 $'000	31 December 2010 $'000
Balance sheet		
Current assets	**94,520**	28,738
Total assets	**423,221**	348,961
Current liabilities	**19,510**	8,742
Total liabilities	**106,525**	40,820
Shareholders' equity		
Contributed equity	**390,539**	389,874
Reserves		
Share-based payments	**34,232**	34,146
Retained profits/(losses)	**(108,075)**	(115,879)
Total equity	**316,696**	308,141
Profit / (loss) for the period	**30,859**	(5,652)
Total comprehensive income / (loss) for the period	**30,859**	(5,652)

(b) Contingent liabilities of the parent entity

Bank deposits / guarantees

A bank deposit has been made by the parent entity for the amount of $1,000,000 (December 2010: $1,000,000), in accordance with the terms of a Heads of Agreement dated 17 February 2005 to acquire land in the Malaysian port city of Kemaman and to secure port facilities in relation to the Southdown project.

A bank guarantee has been provided by the parent entity, on demand by the Perth Diocesan Trustees for the amount of $135,072 (December 2010: $135,072), in accordance with the terms of an office lease agreement dated 20 July 2005 to lease office premises in QBE House.

Other contingent liabilities

Pursuant to the terms of an agreement dated 21 November 2003, under which the Company purchased certain tenements comprising the Southdown project, the Company is required to make a further payment of $1,000,000 to MedAire, Inc upon commencement of commercial mining operations from those tenements.

NOTE 42. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Except as disclosed in Note 31, no other matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 47 to 87 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 true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the financial 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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations of the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

Russell Clark
Managing Director

Perth, Western Australia
28 February 2012

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

Report on the financial report

We have audited the accompanying financial report of Grange Resources Limited (the company), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Grange Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Grange Resources Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 37 to 44 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Grange Resources Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

D.G. Smith

Debbie Smith
Partner

Melbourne
28 February 2012

Tenement Schedule

as at 29 February 2012

PROSPECT	TENEMENT	INTEREST
WESTERN AUSTRALIA		
Horseshoe Lights	M52/743	0% (1)
	E52/2042	0% (1)
	P52/1203-1206	0% (1)
Wembley	M52/801	100% (3) (5)
	P52/1189-1193	100% (5)
Abercromby Well	M53/336	0% (6)
Red Hill	M27/57	0% (7)
Freshwater	M52/277-281	0% (8)
	M52/285	0% (8)
	M52/295-296	0% (8)
	M52/299-301	0% (8)
	M52/305-306	0% (8)
	M52/368-370	0% (8)
Southdown	M70/433	70% (9) (13)
	M70/718	70% (9) (13)
	M70/719	70% (9) (13)
	G70/217	70% (13)
	G70/234-236	70% (13)
	G70/245	70% (2)(13)
	E70/2512	70% (13)
	E70/3073	100%
	E70/3896	100%
Pilbara	E47/1846	0% (4)
	E47/1855	0% (4)
	E47/2241	0% (4)
QUEENSLAND		
Mt Windsor JV	ML 1571	30% (10)
	ML 1734	30% (10)
	ML 1739	30% (10)
	ML 10028	30% (10)
	ML 1758	30% (10)

PROSPECT	TENEMENT	INTEREST
NORTHERN TERRITORY		
Mt Samuel	MLC 49	0% (11)
	MLC 527	0% (12)
	MLC 599	0% (12)
	MLC 617	0% (12)
	MCC 174	0% (12)
	MCC 212	0% (12)
	MCC 287-288	0% (12)
	MCC 308	0% (12)
	MCC 344	0% (15)
True Blue	MCC 342	0% (12)
	MLC 619	0% (12)
Aga Khan	MLC 522	0% (12)
Black Cat	MCC 338-339	0% (12)
	MCC 316-317	0% (12)
	MCC 340-341	0% (12)
TASMANIA		
Savage River	2M/2001	100% (14)
	14M/2007	100% (14)
	11M/2008	100% (14)
	EL30/2003	100% (14)
	EL19/2005	0% (15)
	EL46/2007	0% (15)

1. Beneficial holder Horseshoe Gold Mines Pty Ltd, royalty interest with Horseshoe Metals Limited.
2. Under application.
3. Subject to option agreement with Montezuma Mining Company Ltd.
4. Royalty interest with Fortescue Metals Group Ltd.
5. Subject to 1% Net Smelter Return royalty with Lac Minerals (Australia) NL.
6. Royalty interest with Nova Energy Pty Ltd.
7. Royalty interest with Barrick (PD) Australia Limited.
8. Royalty interest with Barrick Gold of Australia Limited.
9. Subject to conditional purchase agreement with Medaire Inc.
10. Subject to joint venture agreement with Thalanga Copper Mines Pty Limited.
11. Royalty interest with Santexco Pty Ltd.
12. Royalty interest with Giants Reef Exploration Pty Ltd.
13. Subject to Joint Venture Implementation Agreement with Sojitz Resources and Technology Pty Ltd.
14. Held by Grange Resources (Tasmania) Pty Ltd.
15. EL19/2005 and EL47/2007 consolidated into EL30/2003 during 2010.

ASX & Shareholder Information

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The shareholder information set out below was applicable as at 5 March 2012:

ORDINARY SHARES

Twenty Largest Shareholders

The twenty largest holders of ordinary fully paid shares are listed below:

Name	Number	%
Shagang International (Australia) Pty Ltd	305,375,639	26.45
Shagang International Holdings Limited	232,575,639	20.15
RGL Holdings Co Ltd	132,092,015	11.44
Pacific International Co Pty Ltd	90,385,520	7.83
Merrill Lynch Pierce Fenner& Smith Inc	21,098,656	1.83
Rio Tinto Limited	18,000,000	1.56
KBL European Private Bankers	17,734,324	1.54
ABN AMRO Bank	15,662,367	1.36
Dimensional Fund Advisors	15,067,043	1.31
Contango Asset Management	14,405,301	1.25
Anthony Bohnenn	12,662,333	1.10
Rabobank Various Clients	10,001,325	0.87
Paradice Investment Management	7,252,423	0.63
UBS AG Zurich	6,828,106	0.59
MLC Limited	6,245,264	0.54
Stichting Depositary	6,209,290	0.54
Invesco Asset Management	5,914,479	0.51
Patersons Asset Management Limited	5,906,975	0.51
Colonial First State	5,508,963	0.48
Schroders Investment Management (UK) Limited	4,777,948	0.41
Subtotal	933,703,610	80.88

Distribution of Equity Securities

Analysis of number of shareholders by size and holding:

	Ordinary Shares	Director Options	Employee Options	Other Options
1 - 1,000	512	-	-	-
1,001 - 10,000	2,487	-	-	-
10,001 - 100,000	1,624	-	-	5[3]
100,001 - 1,000,000	167	4[1]	1[2]	-
1,000,001 - and over	25	1[1]	-	-
Total	4,815	5	1	6

1. Options expire 6 March 2012. Exercise price ranges from $1.9215 through to $3.3715
2. Options expire 1 May 2012. Exercise price ranges from $1.9215 through to $3.3715
3. All of these options expire by 1 October 2012. Exercise price ranges from $1.9215 through to $2.3715

The number of shareholders holding less than a marketable parcel of Ordinary Shares at 5 March 2012 was 318.

Voting Rights

All shares carry one vote per share without restriction.

Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders is set out below:

Name	Number of fully paid shares	Voting power
Shagang International (Australia) Pty Ltd Shagang International Holdings Limited, Ever Lucky Developments Limited RGL Holdings Co. Ltd Pacific International Co. Pty Ltd	762,460,093	66.05

Securities Subject to Voluntary Escrow

The following securities are subject to voluntary escrow:

Class of Security	Number of Securities	Escrow period ends
Fully Paid Ordinary Shares	Nil	Not applicable

List of Significant ASX Announcements

From 1 January 2011 to 29 February 2012

DATE	ANNOUNCEMENT
29/2/2012	Key Dates – Final Dividend
29/2/2012	Full Year Results and Appendix 4E and Financial Statements – 12 months ending 31 Dec 2012
23/2/2012	World Steel Conference Presentation - London
16/2/2012	Southdown Magnetite Resources Hit One Billion Tonnes
17/01/2012	31 December 2011 Quarterly Report Presentation
17/01/2012	Quarterly Report for 3 Months Ended 31 December 2011
11/01/2012	Significant Improvement in Southdown Project Resources
08/11/2011	Macquarie Conference Presentation - Perth
25/10/2011	Citi Conference Presentation - Sydney
19/10/2011	Grange Quarterly Report for the 3 Months Ended 30 September 2011
30/09/2011	Southdown Project Financing - Key Appointment
05/09/2011	Grange Resources Signs Memorandum of Understanding with Venture Minerals Limited
31/08/2011	Payment of Inaugural Dividend (Letter to Shareholders)
31/08/2011	30 June 2011 Half Year Results General Presentation
31/08/2011	30 June 2011 Interim Financial Statements
31/08/2011	Half Year Results and Appendix 4D
23/08/2011	Grange Resources Iron Ore Offtake to BlueScope Steel
02/08/2011	2011 Diggers and Dealers Conference Presentation - Kalgoorlie
25/07/2011	Grange Signs Savage River Memorandum of Understanding with Shree Minerals Limited
19/07/2011	Report for the Quarter Ended 30 June 2011
30/06/2011	Grange Granted Permit for Production Increase at Southdown
23/06/2011	Investor Presentation - Hong Kong
10/06/2011	Southdown Project Detailed Feasibility Study Fully Approved and Funded
03/06/2011	General Investor Presentation - Hong Kong
18/05/2011	Merrill Lynch Asian Stars Conference Presentation
11/05/2011	Investor Presentation - Albany
10/05/2011	Dealing in Securities Policy
10/05/2011	Results of 2011 Annual General Meeting
10/05/2011	Chairman`s Address to Shareholders
10/05/2011	Successful Completion of Southdown Project Pre Feasibility Study
19/04/2011	Quarterly Report for the 3 Months Ending 31 March 2011
08/04/2011	Notice of Annual General Meeting/Proxy Form
07/04/2011	Deutsche Bank Coal and Iron Ore Conference Presentation
04/04/2011	Pricing Mechanism Agreed with Shagang and BlueScope Steel
01/04/2011	31 December 2010 Annual Report
23/03/2011	Mines and Money Conference Presentation – Hong Kong
23/03/2011	General Investor Presentation - Perth
10/03/2011	Grange Sells Stake in Horseshoe Metals Limited
08/03/2011	ASX Mid Caps Conference Presentation - London
28/02/2011	Financial Report for the 6 Month Period Ending 31 Dec 2010
28/02/2011	Results and Appendix 4E - 6 Months Ended 31 Dec 2010
10/02/2011	Change in Substantial Holding for Horseshoe Metals Limited
25/01/2011	Company Investor Presentation
18/01/2011	Quarterly Report for the 3 Months Ended 31 December 2010

GRANGE RESOURCES

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