Grange Resources Limited

ABN 80 009 132 405
and Controlled Entities

Australia's leading magnetite producer

FINANCIAL REPORT

For the Six Month Period Ended **31 December 2010**

Contents

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 six month period ended 31 December 2010**.**

During the current 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 current reporting period is a transitional one from 1 July 2010 to 31 December 2010 (i.e. six months). Reporting periods thereafter will be prepared for a 12 month period from 1 January to 31 December.

Directors

The following persons were Directors of the Company during the whole of the six month period ended 31 December 2010 and up to the date of this report:

Xi Zhiqiang
Neil Chatfield
Russell Clark
Clement Ko
John Hoon

Mr Zhao Hong Lin was appointed a Non-Executive Director on 30 July 2010 and an Executive Director on 1 December 2010 and continues in office at the date of this report.

Mr Wei Guo was a Director from the beginning of the financial period until his resignation on 30 July 2010.

Information on Directors

Xi Zhiqiang, Age 55
Non-executive Chairman, Member of the Audit and Remuneration and Nomination 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 56
Deputy Non-executive Chairman, Chairman of Remuneration and Nomination 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 Blue Holdings Limited (since June 2007). Mr Chatfield was previously a Director of Toll Holdings Limited from 1998 to September 2008.

Russell St John Clark BSc, ARSM, MIMM, MAusIMM, CE, Age 53
Managing Director and Chief Executive Officer

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.

Zhao Hong Lin, Age 57
Executive Director

Mr Zhao was a 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 Acc.), MBA, CA, FCPA, ACIS, CFP, Age 51
Non-executive Director, Chairman of Audit Committee, Member of the Remuneration and Nomination 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.

Clement Ko LLB, MBA, Age 47
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 18 years of experience in the mining sector with extensive experience in marketing and sales.

Company Secretary

The Company Secretary is Ms Pauline Carr BEc, MBA, FCIS, FAICD. She was appointed on 29 January 2010.

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

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

Review of Operations

Key Highlights

- A net profit after tax of $85.2 million for the six month period ended 31 December 2010
- Revenues from mining operations of $193.3 million from the sale of 1.2 million tonnes of iron ore pellets
- Gross profit from mining operations of $63.5 million for the six month period ended 31 December 2010 as compared to a loss from mining operations of $11.5 million for the 12 month period ended 30 June 2010
- Net cash inflow from operating activities of $78.5 million
- Cash and trade receivables of $122.6 million and no net debt as at 31 December 2010
- Asset impairment reversal of $45.2 million after tax ($64.6 million pre-tax) recognised as at 31 December 2010
- Southdown project pre-feasibility study progressing well with the joint venture spending $20.5 million since the commencement of the pre-feasibility in May 2010

Safety performance

The safety performance at Grange's operations over the past six months has improved significantly and the continuing focus is on safe, cost effective delivery of product to fulfil our long term contracts. The Total Recordable Injury Frequency Rate ("TRIFR") has reduced from 22.5 to 9.1 per million hours worked, an impressive reduction of 59.6%. In addition, the Group had no Lost Time Injuries during the six month period ended 31 December 2010.

Review of results

The results for the six month period to 31 December 2010 reflect a significant turnaround in the financial performance of Grange resulting from improved market conditions. A net profit after tax of $85.2 million was generated on revenues of $193.3 million during the six month period compared to a profit of $42.2 million on revenues of $229.1 million for the 12 month period ended 30 June 2010.

Sales of iron ore pellets were at an interim price of US$150 per tonne for the six month period ended 31 December 2010 in comparison to US$80 per tonne for the 12 month period ended 30 June 2010, an increase of 87.5%. The Group has sold 1.6 million tonnes of iron ore pellets to its customers at interim prices to date. Negotiations on an iron ore index (IODEX) based market pricing mechanism with customers will continue during March.

The recent appreciation of the Australian dollar has eroded some of the benefit of the higher iron ore pellet prices. However the improved margins from higher prices and continued cost management have created a platform for the Company to continue its investment in the Savage River mine and processing infrastructure as well as fund its continued investment of the Southdown project.

Grange has also recognised a reversal of an asset impairment of $45.2 million after tax (pre-tax $64.6 million) in relation to an impairment loss previously recognised during the year ended 30 June 2009 on assets associated with the Group's Tasmanian operations.

Grange, as manager of the Southdown joint venture (Grange share 70%), made substantial progress towards the completion of the pre-feasibility study (PFS) for the Southdown magnetite project during the six month period ended 31 December 2010. It is anticipated that the PFS and owners review will be completed by the end of March 2011.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the six month period ended 31 December 2010. 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

On 6 January 2011, the Group merged its multiple tax consolidated group's such that the previous tax consolidated group consisting of Grange Tasmania Holdings Pty Ltd and its wholly-owned Australian subsidiaries are now part of the Grange Resources Limited tax consolidated group.

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.

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.

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.

Energy Efficiency Opportunities Act 2006

Following consultation with the Department of Resources, Energy and Tourism an application to deregister Grange Resources (Tasmania) Pty Ltd from the Energy Efficiency Opportunities program was accepted under section 14 of the Energy Efficiency Opportunities Act 2006 by the Delegate of the Secretary to the Department.

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 are being implemented. Grange submitted an Assessment and Reporting Schedule prior to 31 December 2010.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the six month period ended 31 December 2010, and the numbers of meetings attended by each Director were:

Name	Directors' meetings		Meetings of Committees			
			Audit		Remuneration	
	A	B	A	B	A	B
X Zhiqiang	6	6	6	6	1	1
N Chatfield	6	6	6	6	1	1
R S Clark	6	6	-	-	-	-
C Ko	6	6	-	-	-	-
J Hoon	6	6	6	6	1	1
Z Hong Lin(1)	5	5	-	-	-	-
W Guo(2)	1	1	-	-	-	-

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 six month period ended 31 December 2010

(1) - Z Hong Lin commenced as a Director on 30 July 2010

(2) - W Guo resigned as a Director on 30 July 2010

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:

Director	Number of Fully Paid Ordinary Shares		Rights	Options
	Beneficial	Non-Beneficial		
X Zhiqiang (1)	-	-	-	-
N Chatfield	20,000	-	-	-
R S Clark	1,000,000	-	1,067,650	4,500,000
C Ko (2)	90,385,520	672,594,573	-	-
J Hoon	-	-	-	-
Z Hong Lin (1)	-	-	-	-

(1) X Zhiqiang is a full time employee of the Shagang Group and Z Hong Lin was a Director on the Board of the 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

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

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

In consultation with external remuneration consultants, 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 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 July 2010. 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 July 2010
Board of Directors	
Chairman [1]	$130,000
Deputy chairman	$85,000
Non-executive Director	$75,000
Audit Committee	
Chairman	$15,000
Committee member	$10,000
Remuneration and Nomination Committee	
Chairman	$15,000
Committee member	$5,000

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

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. 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 16.

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 six month period ended 31 December 2010 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 July 2010 to 31 August 2010 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.

(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 Xi Zhiqiang, 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; and
- Recommend processes to annually evaluate the performance of the Board, its Committees and individual Directors.

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.

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 pages 2 to 3) and the following executives:

Name	**Position**
Wayne Bould	Chief Operating Officer
Craig Ferrier	Chief Financial Officer
Fernando Moutinho	Project Director – Southdown
David Corr	Financial Controller
Ross Carpenter	General Manager – Mining and Projects

Amounts of remuneration

Table 1: Remuneration for the six month period ended 31 December 2010

	Short-term employee benefits				Post employment benefits	Long-term benefits		Long term incentive (LTI)		Total
	Salary & fees	Non-monetary benefits	Short term incentive (STI)	Other	Super-annuation	Long service leave	Termination benefits	Rights	Options	
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**

Table 1: Remuneration for the six month period ended 31 December 2010 (Continued)

	Short-term employee benefits				Post employment benefits	Long-term benefits		Long term incentive (LTI)		Total
	Salary & fees	Non-monetary benefits	Short term incentive (STI) (5)	Other	Super-annuation	Long service leave	Termination benefits	Rights(5)(6)	Options	
Executive Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
R S Clark	275,230	-	-	-	24,770	2,435	-	47,006	-	349,441
Z Hong Lin (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	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) Z Hong Lin was appointed an 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.

Table 2: Remuneration for the year ended 30 June 2010 ended (Continued)

	Short-term employee benefits				Post employment benefits	Long-term benefits		Long term incentive (LTI)		Total
	Salary & fees	Non-monetary benefits	Short term incentive (STI)	Other	Super-annuation	Long service leave	Termination benefits	Rights	Options	
Non-executive Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Xi Zhiqiang	90,000	-	-	-	-	-	-	-	-	90,000
N Chatfield	82,487	-	-	-	7,513	-	-	-	-	90,000
C Ko	60,000	-	-	-	-	-	-	-	-	60,000
J Hoon (1)	5,473	-	-	-	516	-	-	-	-	5,989
Z Hong Lin (2)	-	-	-	-	-	-	-	-	-	-
W Guo (3)	60,000	-	-	-	-	-	-	-	-	60,000
P Stephens (4), (5)	56,492	-	-	-	8,383	-	-	-	-	64,875
A Bohnenn (6)	23,660	-	-	-	1,720	-	-	-	-	25,380
Sub-total Non-executive Directors	**378,112**	**-**	**-**	**-**	**18,132**	**-**	**-**	**-**	**-**	**396,244**

Table 2: Remuneration for the year ended 30 June 2010 (Continued)

	Short-term employee benefits				Post employment benefits	Long-term benefits		Long term incentive (LTI)		Total
	Salary & fees	Non-monetary benefits	Short term incentive (STI)	Other	Super-annuation	Long service leave	Termination benefits	Rights	Options	
Executive Director	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
R Clark [7]	500,000	-	161,865	270,000	45,000	5,189	-	206,828	-	1,188,882
Other Key Management Personnel										
W Bould [8]	261,057	18,093	57,845	100,000	25,299	2,762	-	88,374	-	553,430
D Corr [9]	122,478	8,400	14,024	-	11,023	116	-	8,570	-	164,611
R Carpenter [10]	245,642	-	12,049	-	22,108	9,251	-	10,308	-	299,358
S Apostolou [11]	105,378	-	-	-	7,855	-	-	-	-	113,233
B Burdett [12]	75,932	-	-	-	7,658	2,076	-	-	-	85,666
N Longmire [13]	72,224	-	-	-	6,817	-	-	-	-	79,041
J Galbraith [14]	2,455	-	-	-	221	868	225,707	-	-	229,251
B Lorking [14]	1,845	-	-	-	225	-	230,142	-	-	232,212
Sub-total key management personnel	**1,387,011**	**26,493**	**245,783**	**370,000**	**126,206**	**20,262**	**455,849**	**314,080**	**-**	**2,945,684**
TOTAL	**1,765,123**	**26,493**	**245,783**	**370,000**	**144,338**	**20,262**	**455,849**	**314,080**	**-**	**3,341,928**

(1) J Hoon was appointed as a Director on 2 June 2010
(2) Z Hong Lin was appointed as a Director on 30 July 2010
(3) W Guo resigned as a Director on 30 July 2010
(4) P Stephens resigned as a Director on 7 April 2010
(5) Salary and fees includes an amount of $6,800 paid to P Stephens for consulting services provided to Grange during the year ended 30 June 2010
(6) A Bohnenn ceased to be a Director on 25 November 2009
(7) Other payments to R Clark relate to a bonus payment for his proactive role in integrating the Grange and ABM businesses post merger. The Remuneration and Nomination Committee proposed and the Board approved a bonus of $250,000 to be paid as 1,000,000 shares in Grange. The payment was approved by shareholders at the Annual General Meeting on 25 November 2009 and the shares issued on 7 December 2009. The Grange share price on the date of approval was $0.27 per share.
(8) Other payments to W Bould relate to a performance related payment for 2009 of $100,000 to be paid as 298,507 shares in Grange. These shares were issued on 6 August 2010
(9) D Corr commenced employment with the Company on 12 October 2009
(10) Subsequent to 30 June 2010, R Carpenter received retention payment of $400,000 in accordance with a scheme established by ABM
(11) S Apostolou ceased employment with the Company on 4 February 2010
(12) B Burdett ceased employment with the Company on 30 October 2009
(13) N Longmire ceased employment with the Company on 16 October 2009
(14) J Galbraith and B Lorking ceased employment with the Company on 3 July 2009

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:

Name	Fixed Remuneration		At Risk - STI		At Risk - LTI	
	Dec-10	Jun-10	Dec-10	Jun-10	Dec-10	Jun-10
Executive Director						
R Clark	50%	50%	16%	16%	34%	34%
Z Hong Lin [(1)]	100%	-	-	-	-	-
Other key management personnel						
W Bould	59%	59%	12%	12%	29%	29%
C Ferrier	77%	-	8%	-	15%	-
F Moutinho	100%	-	-	-	-	-
D Corr	81%	86%	8%	7%	11%	7%
R Carpenter	81%	81%	8%	8%	11%	11%

(1) Z Hong Lin was appointed an Executive Director of the Company on 1 December 2010 and was not eligible to participate in the Group's variable remuneration schemes for the six month period ended 31 December 2010

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, Chief Operating Officer 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 March 2008, the Company and its Managing Director, Mr Russell Clark, entered into an employment agreement. The agreement is for a term of 3 years. Mr Clark may terminate his employment at any time by giving three months notice. The Company may terminate Mr Clark's employment by giving three months notice or by the Company paying Mr Clark an amount equivalent to three months remuneration in lieu of notice. The Company is presently in discussions with the Managing Director in relation to a contract renewal.

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 2010

	Balance 1 July 2010	Granted as remuneration	Other Changes (net)	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	-	53,212	-	53,212	17,737	35,475

There were no rights on issue during the year ended 30 June 2010

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. Rights 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.

Options to Grange shares

The key terms and conditions of each grant of options affecting Directors and key management personnel as at 31 December 2010 are as follows:

Name	Grant Date	Options	Exercise Price (1)	Fair Value per Option at Grant Date	Vesting Date	Expiry Date
Director options						
R Clark	28-Nov-08	1,500,000	$1.92	$0.48	2-Jan-09	6-Mar-12
		1,500,000	$2.87	$0.34	2-Jan-09	6-Mar-12
		1,500,000	$3.37	$0.27	2-Jan-09	6-Mar-12
Other key management personnel options						
W Bould	14-Jul-08	150,000	$1.92	$0.54	2-Jan-09	1-May-12
		150,000	$2.87	$0.39	2-Jan-09	1-May-12
		150,000	$3.37	$0.30	2-Jan-09	1-May-12

(1) The exercise price of each option has been adjusted as a result of the September 2009 rights issue in accordance with ASX Listing Rule 6.22

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 six month period ended 31 December 2010. Furthermore, there were no shares issued to Directors or key management personnel of the Group during the six month period ended 31 December 2010.

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

The Company also had 9.0 million ordinary shares under option as at 30 June 2010. These options were held by Hamersley Holdings Limited, exercisable at $1.50 and expired on 28 September 2010.

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 arises 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 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.

	6 months to 31 December 2010 $'000	12 months to 30 June 2010 $'000
(a) PricewaterhouseCoopers		
Audit and review of financial reports	235	375
Taxation services		
Taxation compliance	81	129
Taxation consulting and advice	432	362
Other services	98	-
Total remuneration of PricewaterhouseCoopers	**846**	**866**

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 21.

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

PricewaterhouseCoopers 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
27 February 2011

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Grange Resources Limited for the period ended 31 December 2010, 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
27 February 2011

Liability limited by a scheme approved under Professional Standards Legislation

GRANGE RESOURCES LIMITED
ABN 80 009 132 405
31 DECEMBER 2010 FINANCIAL REPORT

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2010

	NOTES	6 months to 31 December 2010 $'000	12 months to 30 June 2010 $'000
Revenues from mining operations	5	**193,334**	**229,066**
Cost of sales	6	**(129,823)**	**(240,588)**
Gross profit / (loss) from mining operations		**63,511**	**(11,522)**
Administration expenses		**(3,054)**	**(6,392)**
Operating profit / (loss) before other income / (expense)		**60,457**	**(17,914)**
Other income / (expenses)			
Restructure of deferred consideration	22, 25	**-**	**84,106**
Revaluation of deferred consideration	22, 25	**(6,678)**	**(19,571)**
Reversal of asset impairment	7	**64,619**	**-**
Other income / (expenses)	8	**3,855**	**(10)**
Operating profit before finance costs		**122,253**	**46,611**
Finance income	9	**7,388**	**10,219**
Finance expenses	9	**(4,537)**	**(12,575)**
Profit before tax		**125,104**	**44,255**
Income tax benefit / (expense)	10	**(39,863)**	**(2,027)**
Profit / (loss) for the period		**85,241**	**42,228**
Other comprehensive income			
Exchange differences on translation of foreign operations		**(226)**	**88**
Total comprehensive income for the period		**85,015**	**42,316**
Profit / (loss) attributable to:			
- Equity holders of Grange Resources Limited		**85,241**	**42,645**
- Minority interest		**-**	**(417)**
		85,241	**42,228**
Total comprehensive income / (loss) attributable to:			
- Equity holders of Grange Resources Limited		**85,015**	**42,733**
- Minority interest		**-**	**(417)**
		85,015	**42,316**
Earnings per share for profit / (loss) attributable to the ordinary equity holders of Grange Resources Limited			
Basic earnings / (loss) per share (cents per share)	39	**7.40**	**3.93**
Diluted earnings / (loss) per share (cents per share)	39	**7.40**	**3.93**

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	NOTES	31 December 2010 $'000	30 June 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	11	**91,922**	**70,476**
Trade and other receivables	12	**39,309**	**10,268**
Inventories	13	**35,921**	**51,755**
Available-for-sale financial assets	14	**984**	**-**
		168,136	**132,499**
Assets classified as held for sale	41	**-**	**4,788**
Total current assets		**168,136**	**137,287**
Non-current assets			
Receivables	15	**13,768**	**15,882**
Property, plant and equipment	16	**161,694**	**153,014**
Mine properties and development	17	**395,737**	**326,135**
Exploration and evaluation	18	**60,573**	**47,269**
Deferred tax assets	19	**-**	**-**
Total non-current assets		**631,772**	**542,300**
Total assets		**799,908**	**679,587**
LIABILITIES			
Current liabilities			
Trade and other payables	20	**35,602**	**34,660**
Borrowings	21	**13,134**	**12,249**
Current tax liability		**-**	**2,742**
Provisions	23	**3,208**	**3,871**
		51,944	**53,522**
Liabilities classified as held for sale	41	**-**	**1,921**
Total current liabilities		**51,944**	**55,443**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	NOTES	31 December 2010 $'000	30 June 2010 $'000
Non-current liabilities			
Borrowings	24	**33,860**	**44,700**
Deferred consideration	25	**59,269**	**50,409**
Deferred tax liabilities	26	**72,102**	**32,238**
Provisions	27	**19,674**	**19,631**
Total non-current liabilities		**184,905**	**146,978**
Total liabilities		**236,849**	**202,421**
Net assets		**563,059**	**477,166**
EQUITY			
Contributed equity	28	**328,912**	**328,812**
Reserves	29	**2,955**	**2,855**
Retained profits / (losses)	30	**231,192**	**145,951**
Capital and reserves attributable to equity holders of Grange Resources Limited		**563,059**	**477,618**
Non-controlling interests		**-**	**(452)**
Total equity		**563,059**	**477,166**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2010

Consolidated	NOTES	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Non-controlling interests $'000	TOTAL $'000
Balance at 1 July 2010		**328,812**	**2,855**	**145,951**	**(452)**	**477,166**
Profit / (loss) for the period		-	-	85,241	-	85,241
Exchange differences on disposal 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**
Balance at 1 July 2009		**160,198**	**2,116**	**103,306**	**(35)**	**265,585**
Profit / (loss) for the year		-	-	42,645	(417)	42,228
Exchange differences on translation of foreign operations		-	88	-	-	88
Total comprehensive income / (loss) for the year		-	88	42,645	(417)	42,316
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs		168,614	-	-	-	168,614
Employee share options and rights		-	651	-	-	651
		168,614	651	-	-	169,265
Balance at 30 June 2010		**328,812**	**2,855**	**145,951**	**(452)**	**477,166**

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

STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2010

	NOTES	6 months to 31 December 2010 $'000	12 months to 30 June 2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**171,008**	**242,259**
Payments to suppliers and employees (inclusive of goods and services tax)		**(90,267)**	**(200,725)**
		80,741	**41,534**
Interest received		**994**	**2,571**
Interest paid		**(226)**	**(1,712)**
Income taxes (paid)/received		**(3,057)**	**5,642**
Net cash inflow / (outflow) from operating activities	38	**78,452**	**48,035**
Cash flows from investing activities			
Payments for exploration and evaluation		**(13,370)**	**(1,266)**
Payments for property, plant and equipment		**(19,557)**	**(10,450)**
Payments for mine properties and development		**(14,129)**	**(18,954)**
Proceeds from disposal of subsidiaries		**851**	**-**
Payment of security deposits		**1,643**	**-**
Net cash inflow / (outflow) from investing activities		**(44,562)**	**(30,670)**
Cash flows from financing activities			
Proceeds from issues of fully paid shares, net of transaction costs		**-**	**150,384**
Proceeds from borrowings		**-**	**33,468**
Repayment of borrowings		**-**	**(89,406)**
Payment of deferred consideration		**-**	**(48,572)**
Finance lease payments		**(5,117)**	**(13,489)**
Net cash inflow / (outflow) from financing activities		**(5,117)**	**32,385**
Net increase / (decrease) in cash and cash equivalents		**28,773**	**49,750**
Cash and cash equivalents at beginning of the period		**70,476**	**20,466**
Net foreign exchange differences		**(7,327)**	**260**
Cash and cash equivalents at end of the period	11	**91,922**	**70,476**

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report is for the consolidated entity consisting of Grange Resources Limited (the Company) and its subsidiaries.

(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

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Grange Resources comply with International Financial Reporting Standards (IFRS).

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 in conformity with AIFRS 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 as at 31 December 2010 and the results of all subsidiaries for the six month period 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 35.

The purchase method of accounting is used to account for the acquisition of subsidiaries 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Principles of consolidation (continued)

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 36.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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 purchase 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Business combinations (continued)

Deferred consideration is measured at the present value of management's best estimate of expenditure required to settle the present 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.

The Group has agreed with customers to price its iron ore pellets at index based market prices. Interim pricing arrangements have been agreed with customers and will remain in place until such time as an index based market pricing mechanism is agreed. Accordingly, sales revenues have been initially recognised using interim prices and will be subsequently adjusted, if necessary, when an index based market price is agreed with customers.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(i) Cash and cash equivalents

For statement of cash flows presentation purposes, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

Current income tax and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situation in which applicable tax regulation is subject to interpretation. Such positions are considered individually and where appropriate, provisions are established based on the estimates of the amounts expected to be paid to the taxation authorities.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all assessable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Grange Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The combined Grange Resources Limited group operates two separate tax consolidated groups. The head entities of the group's two separate tax consolidated groups are Grange Resources Limited and Grange Tasmania Holdings Pty Ltd (formerly Shagang Mining (Australia) Pty Ltd). The head entities in the tax consolidated group's continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone tax payer in its own right.

In addition to its own current and deferred tax amounts, the head entities of the Group's tax consolidated groups also recognise the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in its tax consolidated group. Assets or liabilities arising under tax funding agreement within the tax consolidated entities are recognised as amounts receivable from, or payable to, other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

On 6 January 2011, the group merged its two separate tax consolidated group's. The impact of this merger upon the carrying amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet will be assessed during 2011.

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Goods and Services Tax (GST) (continued)

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. Depreciation on other assets is calculated using the straight-line method to allocate the cost, net of their residual values, over the estimated useful lives or the life of the mine, whichever is shorter, or, in the cash of leasehold improvements and certain leased plant and equipment, the shorter lease term. Depreciation rates used are as follows:

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 (continued)

(o) Exploration and evaluation (continued)

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).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 (continued)

(z) Provisions (continued)

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Employee entitlements (continued)

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) Earnings per share (EPS) (continued)

(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 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) ***Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards*** *(effective from 1 January 2011)*

In December 2009, the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party.

The Group will apply the amended standard from 1 January 2011.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ag) New accounting standards and interpretations (continued)

(ii) ***AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement*** *(effective from 1 January 2011)*

In December 2*009*, the AASB made an amendment to *Interpretation 14 The Limit on a Defined Benefit Asset: Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Company does not make any such prepayments. The amendment is therefore not expected to have any impact on the Company's financial statements. The Company intends to apply the amendment from 1 January 2011.

(iii) ***AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets*** *(effective from 1 July 2011)*

In November 2010, the AASB made amendments to AASB 7 *Financial Instruments: Disclosures* which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Company's disclosures.

(iv) ***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

(v) ***2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*** *(effective from 1 January 2012)*

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Company will apply the amendment from 1 January 2012.

(vi) ***AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*** *(effective from 1 July 2013)*

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Grange Resources Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the Group.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) ***AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*** *(effective from 1 January 2011)*

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 January 2011. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

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 2010	30 June 2010
	$'000	$'000
Financial Assets		
Cash and cash equivalents	**91,922**	**70,476**
Trade and other receivables	**49,572**	**23,989**
	141,494	**94,465**
Financial Liabilities		
Trade and other payables	**35,602**	**34,660**
Borrowings	**46,994**	**56,949**
Deferred consideration	**59,269**	**50,409**
	141,865	**142,018**

(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.

The Group closed out all currency hedges in April 2009. Since this time the Group has not managed its foreign exchange risk with currency hedges.

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

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

	31 December 2010 $'000	30 June 2010 $'000
Cash and cash equivalents	**60,149**	**28,330**
Trade and other receivables	**35,996**	**10,571**
Trade and other payables	**(770)**	**(107)**
Borrowings	**(35,339)**	**(47,667)**
Deferred consideration	**(59,269)**	**(50,409)**

(i) Group sensitivity

Based on the financial instruments held at 31 December 2010, 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 $0.1 million higher / $0.1 million lower (June 2010 $5.1 million lower / $4.2 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 as detailed in the above table.

(ii) Price risk

The Group is exposed to commodity price risk. During prior years, contract iron ore pellet prices were set by the global markets annually on 1 April for the forthcoming 12 months.

The Group agreed with its customers to price its iron ore pellets at index based market prices. Interim pricing arrangements have been agreed and will remain in place with all customers until an index based market pricing mechanism is agreed.

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.

(iii) 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 2010		June 2010	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Borrowings	**2.47**	**9,177**	**2.54**	**9,282**

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

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 2010, if interest rates had increased by 5 basis points (bps) or decreased by 5 basis points from the period end rates with all other variables held constant, post tax profit for the period would have been $0.4 million higher / $0.4 million lower (June 2010 changes of 5 bps / 5 bps: $0.3 million higher / $0.3 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 2010.

(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

The Group has fully drawn available borrowing facilities as at the reporting date.

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.

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

31 December 2010 – Consolidated	**Less than 6 months**	**6 - 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contract-ual cash flows**	**Carrying amount liabilities**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'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

30 June 2010 - Consolidated	**Less than 6 months**	**6 - 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total contract-ual cash flows**	**Carrying amount liabilities**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Non-interest bearing							
Trade and other payables and borrowings	34,660	-	-	-	-	34,660	34,660
Deferred consideration	-	-	3,691	27,415	56,789	87,895	50,409
Variable rate borrowings	454	448	450	1,330	6,600	9,282	9,282
Fixed rate borrowings	6,952	6,953	13,905	25,485	-	53,295	47,667
Total non-derivatives	42,066	7,401	18,046	54,230	63,389	185,132	142,018

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.

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

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.

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.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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.

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.

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.

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.

Furthermore, the Group merged its multiple tax consolidated group's on 6 January 2011 and the impact of this merger upon the carrying amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet will be assessed during 2011.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 has agreed with its customers to price its iron ore pellets at index based market prices from 1 April 2010. An interim price of US$150 per tonne was agreed with customers for the six month period ended 31 December 2010. These interim pricing arrangements will remain in place until such time as an index based market pricing mechanism is agreed with customers.

The Group has recognised interim priced revenues of $190.5 million from the sale of iron ore pellets during the six month period ended 31 December 2010 (12 months to 30 June 2010: $44.4 million). Negotiations in relation to an index based market pricing mechanism continue with customers. If necessary, adjustments to interim prices will be recognised by the Group during the period in which the index based market pricing mechanism is agreed with customers.

Provisional pricing
The Group has recognised revenues amounting to $5.9 million for the six month period ended 31 December 2010 (12 months to 30 June 2010: $3.2m) 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 six month period ended 31 December 2010.

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	
	6 months to 31 December 2010	**12 months to 30 June 2010**
	$'000	**$'000**
Australia	**69,161**	**79,037**
China	**124,173**	**149,942**
Malaysia	**-**	**87**
TOTAL	**193,334**	**229,066**

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 2010 and 30 June 2010. The total cost incurred during the current and comparative periods to acquire segment assets were also predominately incurred in Australia.

NOTE 5. REVENUE

	6 months to 31 December 2010	12 months to 30 June 2010
	$'000	$'000
From mining operations		
Sales of iron ore	193,334	226,377
Other revenue	-	2,689
	193,334	229,066

NOTE 6. COST OF SALES

Mining costs	49,025	102,119
Production costs	40,776	84,627
Government royalties	6,855	8,524
Depreciation and amortisation expense	19,229	44,070
Deferred mining costs capitalised (net)	(13,918)	(9,009)
Changes in inventories	18,866	8,786
Foreign exchange (gain) / loss	8,990	1,471
	129,823	240,588
Depreciation and amortisation		
Land and buildings	1,362	2,751
Plant and equipment	9,484	22,913
Computer equipment	195	324
Mine properties and development	8,188	18,082
	19,229	44,070

NOTE 7. REVERSAL OF ASSET IMPAIRMENT

	6 months to 31 December 2010	12 months to 30 June 2010
	$'000	$'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)

	6 months to 31 December 2010	12 months to 30 June 2010
	$'000	$'000
Other income / (expenses)		
Net profit on disposal of subsidiaries	3,377	-
Net profit on the disposal of property, plant and equipment	293	(10)
Other income	185	-
	3,855	(10)

NOTE 9. FINANCE INCOME/(EXPENSES)

	6 months to 31 December 2010	12 months to 30 June 2010
	$'000	$'000
Finance income		
Interest income received or receivable		
- Other entities	999	2,512
Exchange gains on foreign currency borrowings	6,389	7,707
	7,388	10,219
Finance expenses		
Interest charges paid or payable		
- Related entities	-	(269)
- Other entities	(602)	(1,222)
Finance lease interest charges paid or payable	(1,210)	(2,767)
Provisions: unwinding of discount		
- Deferred consideration	(2,182)	(6,045)
- Decommissioning and restoration	(543)	(1,063)
Other	-	(1,209)
	(4,537)	(12,575)

NOTE 10. INCOME TAX EXPENSE / (BENEFIT)

		6 months to 31 December 2010	12 months to 30 June 2010
		$'000	$'000
(a)	**Income tax expense**		
	Current tax	-	-
	Deferred tax	41,893	(3,024)
	Adjustment to current / deferred tax of prior periods	(2,030)	5,051
		39,863	2,027
	Deferred income tax (revenue) expense included in income tax expense comprises:		
	(Increase)/decrease in deferred tax assets	13,221	(6,728)
	Increase/(decrease) in deferred tax liabilities	26,642	3,704
		39,863	(3,024)
(b)	**Numerical reconciliation of income tax expense to prima facie tax payable**		
	Profit/(loss) from continuing operations before income tax expense	125,104	44,255
	Tax at the Australian tax rate of 30% (June 2010: 30%)	37,531	13,277
	Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
	Revaluation of deferred consideration	5,495	6,980
	Restructure of deferred consideration	-	(25,232)
	Unwind of discount on deferred consideration	655	1,542
	Share based payments expense	128	195
	Disposal of subsidiary undertakings	(889)	-
	Research and development tax concession	(513)	-
	Sundry items	(163)	214
		42,244	(3,024)
	Difference in overseas tax rates	(637)	-
	Adjustments to current / deferred tax of prior periods	(2,030)	5,051
	Income tax benefits not recognised	286	-
	Income tax expense / (benefit)	39,863	2,027

NOTE 10. INCOME TAX EXPENSE / (BENEFIT) (continued)

Deferred tax assets attributable to tax losses of $16.2 million held by the Grange Resources Limited tax consolidated group, have not been brought to account at 31 December 2010 because the Directors do not believe it is appropriate to regard realisation of the future tax benefit as probable. These benefits will only be obtained if:

(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;

(ii) the Group continues to comply with the conditions for the deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the loss.

Grange Resources Limited and Grange Tasmania Holdings Pty Ltd (formerly Shagang Mining (Australia) Pty Ltd) and each of their wholly owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in Note 1(l).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group's 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 entities, Grange Resources Limited and Grange Tasmania Holdings Pty Ltd.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Grange Resources Limited and Grange Tasmania Holdings Pty Ltd 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 or Grange Tasmania Holdings Pty Ltd 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 funding 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 2010	30 June 2010
	$'000	$'000
Cash at bank and in hand	91,922	70,476
	91,922	70,476

(a) 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 2010	30 June 2010
	$'000	$'000
Trade receivables	30,708	4,933
Other receivables	4,388	2,938
Prepayments	3,505	2,160
Security deposits	708	237
	39,309	10,268

(a) Impaired trade receivables

The Group has no trade receivables past due as at 31 December 2010, nor does it consider there to be any potential impairment loss on these receivables.

(b) 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.

(c) 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

Stores and spares	16,970	13,938
Ore stockpiles (at cost)	8,337	18,977
Work-in-progress (at cost)	1,081	746
Finished goods (at cost)	9,533	18,094
	35,921	51,755

NOTE 14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2010	30 June 2010
	$'000	$'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	**-**	**-**
Additions	**886**	**-**
Revaluation gain recognised in the income statement	**98**	**-**
Balance at the end of the period	**984**	**-**

NOTE 15. RECEIVABLES

Other receivables		
Security deposits	**13,768**	**15,882**
	13,768	**15,882**

(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 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)**	**0**	**(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**

	Land and buildings $'000	*Plant and equipment* $'000	*Computer equipment* $'000	*Total* $'000
At 1 July 2009				
Cost or fair value	**35,177**	**214,692**	**1,316**	**251,185**
Accumulated depreciation	**(2,963)**	**(74,706)**	**(494)**	**(78,163)**
Net book amount	**32,214**	**139,986**	**822**	**173,022**
Year ended 30 June 2010				
Opening net book amount	**32,214**	**139,986**	**822**	**173,022**
Additions	**1,683**	**6,392**	**-**	**8,075**
Disposals	**(555)**	**(1,013)**	**-**	**(1,568)**
Depreciation charge	**(2,765)**	**(23,135)**	**(351)**	**(26,251)**
Transfers				
- Cost or fair value	**9,034**	**(8,875)**	**109**	**268**
- Accumulated depreciation	**(6,228)**	**5,696**	**-**	**(532)**
Closing net book amount	**33,383**	**119,051**	**580**	**153,014**
At 30 June 2010				
Cost or fair value				
Accumulated depreciation	**45,339**	**211,196**	**1,425**	**257,960**
Net book amount	**(11,956)**	**(92,145)**	**(845)**	**(104,946)**
	33,383	**119,051**	**580**	**153,014**

NOTE 16. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Assets under construction

The carrying amounts of the assets disclosed above includes expenditure of $3.4 million (30 June 2010: $3.0 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 2010 $'000	30 June 2010 $'000
Cost	70,927	70,927
Accumulated depreciation	(42,907)	(37,759)
Net book amount	28,020	33,168

NOTE 17. MINE PROPERTIES AND DEVELOPMENT

Mine properties and development (at cost)	339,616	275,839
Accumulated depreciation	(74,758)	(66,665)
Net book amount	264,858	209,174
Deferred mining costs (net book amount)	130,879	116,961
Total mine properties and development	395,737	326,135

Movements in mine properties and development are set out below:

Mine properties and development		
Opening net book amount	209,174	227,582
Reversal of asset impairment	64,619	-
Change in estimate	(842)	(267)
Depreciation charge	(8,093)	(18,141)
Closing net book amount	264,858	209,174
Deferred mining costs		
Opening net book amount	116,961	107,952
Current period expenditure capitalised	14,128	18,954
Amounts transferred to inventories	(210)	(9,945)
Closing net book amount	130,879	116,961

NOTE 18. EXPLORATION & EVALUATION

	31 December 2010 $'000	30 June 2010 $'000
Exploration & evaluation properties (at cost)	**60,573**	**47,269**
	60,573	**47,269**

Movements in exploration and evaluation expenditure are set out below:

Balance at beginning of period	**47,269**	**45,315**
Current period expenditure	**13,304**	**2,429**
Transfers to assets held for sale	**-**	**(380)**
Exchange differences	**-**	**123**
Impairment loss	**-**	**(218)**
Balance at end of period	**60,573**	**47,269**

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. Where the carrying value of an individual area of interest was in excess of its recoverable amount the area of interest has been written down to its recoverable amount.

NOTE 19. DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:		
Trade and other payables	**2,610**	**1,886**
Employee benefits	**1,023**	**1,148**
Deferred consideration	**344**	**3,835**
Borrowings	**-**	**1,064**
Decommissioning and restoration	**5,769**	**5,848**
Taxation losses	**14,946**	**23,952**
Other	**2,184**	**2,365**
Total deferred tax assets	**26,876**	**40,098**
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 26)	**(26,876)**	**(40,098)**
Net deferred tax assets	**-**	-

NOTE 20. TRADE AND OTHER PAYABLES

	31 December 2010	30 June 2010
	$'000	$'000
Trade payables and accruals	29,240	26,350
Other payables	6,362	8,310
	35,602	34,660

(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 2010	30 June 2010
Secured		
Finance lease liabilities (1)	9,766	11,354
Unsecured		
Other	3,368	895
	13,134	12,249

(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 2010 $'000	30 June 2010 $'000
Deferred consideration	-	-
	-	-

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

Balance at beginning of the period	-	29,586
Payments	-	(48,572)
Charged / (credited) to profit or loss:		
- restructure of deferred consideration	-	(2,363)
- changes in estimate	-	727
Charged / (credited) to equity through the issue of shares	-	(1,217)
Transfers from non-current balance	-	21,839
Balance at end of the period	-	-

NOTE 23. PROVISIONS (CURRENT)

Employee benefits	2,980	3,461
Decommissioning and restoration	228	410
	3,208	3,871

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

(a) Movements in decommissioning and restoration provision

Carrying amount at start of the period	410	810
Amounts used during the period	-	(380)
Transfers to liabilities held for sale	-	(20)
Change in estimate	(182)	-
Carrying amount at the end of the period	228	410

NOTE 24. BORROWINGS (NON-CURRENT)

Secured		
Finance lease liabilities (1)	25,573	36,313
Unsecured		
Other	8,287	8,387
	33,860	44,700

(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 2010	30 June 2010
	$'000	$'000
Deferred consideration	59,269	50,409
	59,269	50,409

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

Balance at beginning of period	50,409	144,933
Charged / (credited) to profit or loss		
- restructure of deferred consideration	-	(81,743)
- changes in estimate	6,678	18,846
- unwinding of discount	2,182	6,045
Charged / (credited) to equity through the issue of shares	-	(15,833)
Transfers to current balance	-	(21,839)
Balance at end of period	59,269	50,409

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 original terms capped the obligation at 20% of US dollar revenues generated by ABM above a pre-determined price of US$47.50 per tonne of pellets for iron ore years commencing on 1 April 2010 and ending on 31 March 2022. Capital restructuring initiatives completed in September 2009, which involved the issue of 55 million shares in Grange, changed the terms of the obligation to a 2% gross receipts obligation from 2012 to 2023 and reduced the Group's obligation by $97.6 million.

NOTE 26. DEFERRED TAX LIABILITIES (NON-CURRENT)

The balance comprises temporary differences attributable to:		
Inventories	4,340	3,431
Property, plant and equipment	8,120	8,012
Mine properties and development	67,554	44,655
Exploration and evaluation	17,795	13,874
Borrowings	1,018	2,184
Other	151	180
Total deferred tax liabilities	98,978	72,336
Set-off of deferred tax assets pursuant to set-off provisions (Note 19)	(26,876)	(40,098)
Net deferred tax liabilities	72,102	32,238

NOTE 27. PROVISIONS (NON-CURRENT)

	31 December 2010 $'000	30 June 2010 $'000
Employee benefits	673	546
Decommissioning and restoration	19,001	19,085
	19,674	19,631

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

	31 December 2010 $'000	30 June 2010 $'000
Balance at beginning of period	19,085	20,206
Changes in estimate	(627)	(357)
Unwinding of discount	543	1,063
Transfers to liabilities held for sale	-	(1,827)
Balance at end of period	19,001	19,085

NOTE 28. CONTRIBUTED EQUITY

	31 December 2010 Shares	30 June 2010 Shares	31 December 2010 $'000	30 June 2010 $'000
Issued and fully paid ordinary shares	1,152,077,403	1,151,778,896	328,912	328,812
	1,152,077,403	1,151,778,896	328,912	328,812

NOTE 28. CONTRIBUTED EQUITY (continued)

(a) Movements in consolidated share capital	Notes	Number of Shares	$'000
1 July 2009 – Opening balance		**495,516,250**	**160,198**
Issue of shares under short term incentive plan		**319,743**	**-**
21 September 2009 – Issue of Grange shares from non-renounceable entitlement offer	(i)	**497,212,283**	**124,303**
22 September 2009 – Issue of shares from capital restructure	(ii)	**55,000,000**	**17,050**
7 December 2009 – Issue of shares to Managing Director	(iii)	**1,000,000**	**270**
16 December 2009 – Issue of shares to cornerstone shareholders and advisors	(iv)	**100,049,500**	**29,014**
3 February 2010 – Issue of shares to consultants		**1,333,060**	**440**
13 April 2010 – Issue of shares to consultants		**1,333,060**	**440**
13 April 2010 – Issue of shares for land parcel acquisition		**15,000**	**30**
		1,151,778,896	**331,745**
Less: Transaction costs arising from share issues		**-**	**(2,933)**
30 June 2010 – Closing balance		**1,151,778,896**	**328,812**
6 August 2010 – Issue of shares to Chief Operating Officer	(v)	**298,507**	**100**
31 December 2010 – Closing balance		**1,152,077,403**	**328,912**

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

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

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

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

(v) 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.

NOTE 28. CONTRIBUTED EQUITY (continued)

(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 2010	30 June 2010
	$'000	$'000
(a) Reserves		
Foreign currency translation reserve	-	226
Share-based payments reserve	2,955	2,629
	2,955	2,855

	Foreign currency translation reserve	*Share-based payments reserve*	
	$'000	$'000	
Movements in reserves			
Balance as at 1 July 2009	138	1,978	
Share based payments expense	-	651	
Foreign currency translation differences	88	-	(5
Balance as at 30 June 2010	226	2,629	
Share based payments expense	-	426	
Issue of shares to Chief Operating Officer	-	(100)	
Foreign currency translation differences	(226)	-	
Balance as at 31 December 2010	-	2,955	

(b) Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign subsidiaries. Exchange differences are recognised in other comprehensive income and are accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Share based payments 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 2010	30 June 2010
	$'000	$'000
Retained profits / (losses)		
Movements in retained profits / (losses) were as follows:		
Balance at the beginning of the period	**145,951**	**103,306**
Net profit / (loss) for the period	**85,241**	**42,645**
Balance at the end of the period	**231,192**	**145,951**

NOTE 31. KEY MANAGEMENT PERSONNEL

(a) Directors

The remuneration of Directors' disclosures are in relation to the Directors of Grange Resources Limited for both the current and comparative financial periods.

(b) Key management personnel

The key management personnel of the Group are the Directors of Grange Resources Limited and those executives that report directly to the Managing Director being:

Name	Position
Wayne Bould	Chief Operating Officer
Craig Ferrier	Chief Financial Officer (from 6 September 2010)
Fernando Moutinho	Project Director – Southdown (from 16 August 2010)
David Corr	Financial Controller (from 12 October 2009)
Ross Carpenter	General Manager – Mining & Projects

(c) Key management personnel compensation

Total expenses arising from payments made to key management personnel recognised during the period were as follows:

	6 months to 31 December 2010	12 months to 30 June 2010
	$'000	$'000
Short-term employee benefits	**1,394**	**2,029**
Post-employment benefits	**81**	**126**
Long-term benefits	**13**	**20**
Termination benefits	**-**	**456**
Share-based payments	**71**	**314**
	1,559	**2,945**

Detailed remuneration disclosures are provided in the remuneration report on pages 8 to 17.

(d) 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 31. KEY MANAGEMENT PERSONNEL (continued)

(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 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 of the Group							
W Bould	450,000	-	-	-	450,000	450,000	-

30 June 2010

	Balance 1 July 2009	Granted as remuneration	Options exercised	Other Changes (net)	Balance 30 June 2010	Vested and exercisable	Unvested
Directors of Grange Resources Limited							
A Bohnenn [(1) (3)]	450,000	-	-	(450,000)	-	-	-
R Clark	4,500,000	-	-	-	4,500,000	4,500,000	-
Other key management personnel of group							
W Bould	450,000	-	-	-	450,000	450,000	-
N Longmire [(2) (3)]	50,000	-	-	(50,000)	-	-	-

[(1)] A Bohnenn ceased to be a Director on 25 November 2009.
[(2)] N Longmire ceased employment with the Company on 16 October 2010.
[(3)] The options which had vested on the date of ceasing to be a Director/Employee and will expire on the Expiry Date unless exercised in accordance with the terms and conditions prior to that date.

NOTE 31. KEY MANAGEMENT PERSONNEL (continued)

(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 2010

	Balance 1 July 2010	Granted as remuneration	Other Changes (net)	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	-	53,212	-	53,212	17,737	35,475

30 June 2010

There were no rights issued during the year ended 30 June 2010

(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 2010

	Balance 1 July 2010	Granted as remuneration	On exercise of options	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

NOTE 31. KEY MANAGEMENT PERSONNEL (continued)

30 June 2010

	Balance 1 July 2009	Granted as remuneration	On exercise of options	Other changes (net)	Balance 30 June 2010
Directors of Grange Resources Limited					
N Chatfield	-	-	-	20,000[3]	20,000
R Clark	-	1,000,000	-	-	1,000,000
A Bohnenn [1]	13,774,338	-	-	(13,774,338)	-
C Ko	82,085,520	-	-	8,300,000[3]	90,385,520
Other key management personnel of the Group					
W Bould	310,152	-	-	190,152[3]	500,304
D Corr	-	-	-	42,005[3]	42,005
N Longmire [2]	28,776	-	-	(28,776)	-

(1) A Bohnenn ceased to be a Director on 25 November 2009
(2) N Longmire ceased employment with the Company on 16 October 2010
(3) Represents shares acquired by Directors or key management personnel during the year

(e) Loans to key management personnel

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

(f) Other transactions with key management personnel

P Stephens

Fees of $6,800 were paid to Peter Stephens during the year ended 30 June 2010 for consulting services provided to the Group.

NOTE 32. REMUNERATION OF AUDITORS

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

	6 months to 31 December 2010 $'000	12 months to 30 June 2010 $'000
(a) PricewaterhouseCoopers		
Audit and review of financial reports	**235**	**375**
Taxation services		
Taxation compliance	**81**	**129**
Taxation consulting and advice	**432**	**362**
Other services	**98**	**-**
Total remuneration of PricewaterhouseCoopers	**846**	**866**

NOTE 33. 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:

	31 December 2010	30 June 2010
	$'000	$'000
Within one year	222	208
After one year but not more than five years	654	224
Minimum lease payments	876	432

(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:

Within one year	11,661	13,905
After one year but not more than five years	27,003	39,390
	38,664	53,295
Future finance charges	(3,325)	(5,628)
Recognised as a liability	35,339	47,667

(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:

Within one year	635	1,943
After one year but not more than five years	1,809	4,446
	2,444	6,389

(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;

Within one year	41,512	33,209
After one year but not more than five years	33,828	29,142
	75,340	62,351

NOTE 33. COMMITMENTS AND CONTINGENCIES (continued)

(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 (2009: $1,262,258), 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 $1,998,913 (June 2010: $1,998,913). 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 (June 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 Note 42 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 is assessing various submissions from Grange regarding the land rich duty implications of the transaction. At this time no assessment has been issued. Based on the status of the assessment process uncertainties remain as to the existence and amount of land rich duty obligations arising from this transaction. The financial exposure to Grange has not been disclosed given the present uncertainties and the fact that the disclosure of such information may prejudice the current assessment process.

During 2006, cracking was detected in the Gregory Development Road adjacent to the Highway Reward open pit of which the Group has a 30% joint venture interest. Remediation measures are being considered. If found liable, the joint venture maybe required to relocate a section of the road away from the open pit.

Refer Note 42 for other contingent liabilities of the parent entity.

(f) Contingent Assets

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

NOTE 34. 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 $124.2 million were made with related parties during the six month period ended 31 December 2010 (12 month period ended 30 June 2010: $150.0 million)

During the year ended 30 June 2010, facilitation fees associated with a Bank of China funding arrangement were paid to Jiangsu Shagang International Trade Co., Ltd of $1.0 million.

c) Outstanding balances arising from sales of goods and services

	31 December 2010	30 June 2010
	$'000	$'000
Trade and other receivables (sales of iron ore)		
Related parties	30,166	3,219
	30,166	3,219
Trade and other payables (facilitation fees)		
Related parties	-	(130)
	-	(130)

NOTE 35. 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.

Name	Percentage of equity interest held by the Group 31 December 2010 %	30 June 2010 %
Ever Green Resources Co., Limited (1)	**100**	**100**
Grange Tasmania Holdings Pty Ltd (formerly Shagang Mining (Australia) Pty Ltd)	**100**	**100**
Beviron Pty Ltd	**100**	**100**
Grange Resources (Tasmania) Pty Ltd	**100**	**100**
Grange Capital Pty Ltd	**100**	**100**
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 (formerly Surfboard Securities Pty Ltd)	**100**	**100**
Southdown Project Management Company Pty Ltd	**100**	**-**
Murchison Copper Mines Pty Ltd (2)	**-**	**79.34**
Grange Developments Sdn Bhd (3)	**100**	**100**
Grange Minerals Sdn Bhd (4)	**-**	**100**
EG Mineral Resources Sdn Bhd (4)	**-**	**51**

(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) During July 2010, the Group announced that it had entered into a Sale and Purchase Agreement for the sale of Grange Minerals Sdn Bhd which holds the group's 51% share of the Bukit Ibam magnetite mine located in Malaysia. During the period, the Group accounted for the disposal of its interest in the subsidiary due to an effective loss of control arising from the ongoing satisfaction of conditions precedent to the completion of the sale.

NOTE 36. INTERESTS IN JOINT VENTURES

Name of Joint Venture	% Interest 31 December 2010	% Interest 30 June 2010
Production Joint Ventures:		
Bukit Ibam (Malaysia) – Iron Ore [(1)]	**-**	**51.00**
Reward - Copper / Gold	**31.15**	**31.15**
Highway – Copper	**30.00**	**30.00**
Development Joint Ventures:		
Reward Deeps / Conviction - Copper	**30.00**	**30.00**
Southdown – Iron Ore	**70.00**	**70.00**
Exploration Joint Ventures:		
Mt Samuel - Exploration Gold	**85.00**	**85.00**
Abercromby Well - Exploration Gold / Nickel	**10.00**	**10.00**
Mt Windsor - Exploration Gold / Base Metals	**30.00**	**30.00**

(1) During July 2010, the Group announced that it had entered into a Sale and Purchase Agreement for the sale of Grange Minerals Sdn Bhd which holds the group's 51% share of the Bukit Ibam joint venture. During the period, the Group accounted for the disposal of its interest in the joint venture due to an effective loss of control arising from the ongoing satisfaction of conditions precedent to the completion of the sale.

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.

NOTE 36. INTERESTS IN JOINT VENTURES (continued)

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 2010	30 June 2010
	$'000	$'000
ASSETS		
Current assets		
Cash and cash equivalents	6,842	4,513
Trade and other receivables	474	175
Assets classified as held for sale	-	2,066
Total current assets	7,316	6,754
Non-current assets		
Property, plant and equipment	6,125	6,553
Exploration and evaluation	56,790	43,526
Total non-current assets	62,915	50,079
Total assets	70,231	56,833
LIABILITIES		
Current liabilities		
Trade and other payables	6,042	1,571
Provisions	-	409
Liabilities classified as held for sale	-	59
Total current liabilities	6,042	2,039
Non-current liabilities		
Provisions	273	499
Total non-current liabilities	273	499
Total liabilities	6,315	2,538
Net assets	63,916	54,295

The net contributions of joint ventures (inclusive of resultant revenues) to the Group's operating profit before income tax was a loss of $753,995 (30 June 2010: loss $38,345).

Contingent liabilities in relation to joint ventures are disclosed in Note 33.

NOTE 37. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 6 January 2011, the Group merged its multiple tax consolidated group's such that the previous tax consolidated group consisting of Grange Tasmania Holdings Pty Ltd and its wholly-owned Australian subsidiaries is now part of the Grange Resources Limited tax consolidated group. The impact of this merger upon the carrying amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet will be assessed during 2011.

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

	6 months to 31 December 2010 $'000	12 months to 30 June 2010 $'000
Profit / (loss) for the period	85,241	42,228
Revaluation of deferred consideration	6,678	19,571
Restructure of deferred consideration	-	(84,106)
Unwinding of discount	2,725	7,108
Depreciation and amortisation	19,291	44,069
Deferred mining	210	9,945
Interest expense on finance leases	1,210	2,767
Reversal of asset impairment	(64,619)	-
(Profit) / loss on sale of property, plant and equipment	(293)	10
(Profit) / loss on disposal of subsidiaries	(3,377)	-
Share based payment expense	426	285
Net unrealised foreign exchange (gain) / loss	1,168	(3,441)
Change in operating assets and liabilities		
(Increase) / decrease in trade and other receivables	(26,742)	9,593
(Increase) / decrease in inventories	15,835	12,132
(Increase) / decrease in other current assets	-	256
Increase / (decrease) in trade and other payables	673	(14,442)
Increase / (decrease) in current tax liabilities	-	2,742
Increase / (decrease) in other provisions	163	(570)
Increase / (decrease) in deferred tax liabilities	39,863	(112)
Net cash inflow / (outflow) from operating activities	78,452	48,035

NOTE 39. EARNINGS PER SHARE

	6 months to 31 December 2010	12 months to 30 June 2010
	Cents	**Cents**
Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**7.40**	**3.93**
Total basic earnings per share attributable to the ordinary equity holders of the Company	**7.40**	**3.93**
Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**7.40**	**3.93**
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**7.40**	**3.93**

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

Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share from continuing operations	**85,241**	**42,645**
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share from continuing operations	**85,241**	**42,645**

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

	31 December 2010	30 June 2010
	Number	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,152,018,999**	**1,075,141,315**

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.

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:

	6 months to 31 December 2010 $'000	12 months to 30 June 2010 $'000
Shares issued to the Managing Director and Chief Operating Officer	-	370
Rights issued to eligible employees under the LTIP	426	651
	426	1,021

In addition to the above, the Company also issued 2,666,120 shares ($0.9 million) during the year ended 30 June 2010 to an external consultant for the provision of strategic advisory services.

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 option 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.

NOTE 40. SHARE BASED PAYMENTS (continued)

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

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 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			$2.85	-	-	-	$2.72	$2.72
30 June 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			$2.85	-	-	-	$2.72	$2.72

(1) The exercise price was adjusted as a result of the September 2009 rights issue in accordance with ASX Listing Rule 6.22.

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) Shares issued to the Managing Director and Chief Operating Officer

During the year ended 30 June 2010, the Remuneration and Nomination Committee proposed and the Board approved a bonus for the Managing Director of $250,000 to be paid as 1,000,000 shares in Grange for his proactive role in integrating the Grange and ABM businesses post merger. The payment was approved by shareholders at the Annual General Meeting on 25 November 2009 and the shares issued on 7 December 2009. The Grange share price on the date of approval was $0.27 per share. The Remuneration and Nomination Committee also proposed and the Board approved a performance related payment for 2009 of $100,000 to the Chief Operating Officer to be paid as 298,507 shares. These shares were issued on 6 August 2010.

(iii) 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.

NOTE 40. SHARE BASED PAYMENTS (continued)

Rights are allocated using a share price that is based on the volume weighted average price of the Company's shares. For the six month period ended 31 December 2010 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 July 2010 to 31 August 2010 will be used).

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

The table below summaries rights issued to eligible employees:

Performance Period	Balance 1 July 2010	Granted as remuneration	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 six month period ended 31 December 2010. Rights awarded to eligible employees 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.

(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.

NOTE 40. SHARE BASED PAYMENTS (continued)

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 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			$2.61	-	-	-	$2.48	$2.48
30 June 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			$2.61	-	-	-	$2.48	$2.48

(1) The exercise price was adjusted as a result of the September 2009 rights issue in accordance with ASX Listing Rule 6.22.

Each option is convertible into one ordinary share.

Fair value of options granted

No options were granted during the reporting period.

NOTE 41. ASSETS HELD FOR SALE

During the reporting period Grange recognised a pre-tax profit of $3.4 million from the sale of its minor projects following the completion of the sale of Murchison Copper Mines Pty Ltd to Horseshoe Metals Limited and the ongoing progression of conditions precedent of the sale of Grange Minerals Sdn Bhd (which holds the group's 51% share of the Bukit Ibam magnetite mine located in Malaysia) resulting in a loss of control during the period.

(a) Assets classified as held for sale

	31 December 2010	30 June 2010
	$'000	$'000
Cash and cash equivalents	-	655
Trade and other receivables	-	476
Exploration and evaluation	-	380
Property, plant and equipment	-	409
Mine properties and development	-	2,868
	-	4,788

(b) Liabilities directly associated with assets classified as held for sale

	31 December 2010	30 June 2010
Trade and other payables	-	73
Provisions	-	1,848
	-	1,921

(c) Details of the sale of subsidiaries

	6 months to 31 December 2010
	$'000
Consideration received	
Cash	3,562
Listed Australian equities	886
Total disposal consideration	4,448
Carrying amount of net assets sold	(1,071)
Gain on sale before income tax expense	3,377
Income tax expense	(124)
Gain on sale after income tax expense	3,253

NOTE 42. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	31 December 2010	30 June 2010
	$'000	$'000
Balance sheet		
Current assets	**28,738**	**32,843**
Total assets	**348,961**	**348,402**
Current liabilities	**8,742**	**1,088**
Total liabilities	**40,820**	**36,028**
Shareholders' equity		
Contributed equity	**389,874**	**387,559**
Reserves		
Share-based payments	**34,146**	**33,820**
Retained profits/(losses)	**(115,879)**	**(110,227)**
Total equity	**308,141**	**311,152**
Profit / (loss) for the period	**(5,652)**	**(6,922)**
Total comprehensive income / (loss) for the period	**(5,652)**	**(6,922)**

(b) Contingent liabilities of the parent entity

Bank guarantees

A bank guarantee has been provided by the parent entity, on demand by Road Builder (M) Holdings Bhd for the amount of $1,000,000 (June 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. The guarantee will be payable should the Company withdraw from the offer to acquire the land.

A bank guarantee has been provided by the parent entity, on demand by the Perth Diocesan Trustees for the amount of $135,072 (June 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.

In accordance with the terms of the Service Agreement entered into with Managing Director, Russell Clark, two one-off payments of $1,000,000 each (less applicable tax) are due upon the Board being satisfied that the Company has, as part of the Southdown Magnetite and Kemaman Pellet Plant Project, achieved commercial production of magnetite concentrate and commercial production of iron ore pellets (both subject to any applicable law or regulatory policy).

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 22 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 2010 and of its performance for the financial period 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

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
27 February 2011

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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 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Grange Resources Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period end or from time to time during the financial period.

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 Financial Report to determine whether it contains any material inconsistencies with the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 2010 and of its performance for the period 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 8 to 17 of the directors' report for the period ended 31 December 2010. 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 period ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

D.G. Smith

Debbie Smith
Partner

Melbourne
27 February 2011