Grange Resources Limited

ABN 80 009 132 405
and Controlled Entities

Australia's most experienced magnetite producer

FINANCIAL REPORT

For the Year Ended **31 December 2013**

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DIRECTORS' REPORT

The Directors present their report on the consolidated entity (the “Group”) consisting of Grange Resources Limited (“Grange” or “the Company”) and the entities it controlled at the end of, or during, the year ended 31 December 2013.

Directors

The following persons were Directors of the Company during the whole of the 12 month financial year ended 31 December 2013 and up to the date of this report:

Neil Chatfield
Clement Ko
John Hoon
Honglin Zhao

Michelle Li was appointed non-executive Director and Chairman of the Company from 29 October 2013.

Wayne Bould was appointed Managing Director of the Company from 4 June 2013.

Zhiqiang Xi was non-executive Director and Chairman of the Company until his resignation on 29 October 2013.

Richard Mehan was Managing Director of the Company until his resignation on 4 June 2013.

Information on Directors

Michelle Li, Age 49 PhD, GAICD
Non-executive Chairman, Member of the Audit Committee, Member of the Remuneration and Nomination Committee, and Member of the Health Safety and Environment Committee

Ms Li was appointed as non-executive Chairman on 29 October 2013. She is a mineral processing engineer and metallurgist with over 20 years' experience in the Australian mining sector. Her experience includes senior roles at Citic Pacific, Rio Tinto and Iluka Resources, as well as a senior project role at the Grange Resources Southdown project.

Ms Li has a PhD from the University of Queensland and was previously a non-executive Director of Sherwin Iron Limited from 2012 until 2013.

Neil Chatfield FCPA, FAICD, Age 59
Deputy Non-executive Chairman, Chairman of Remuneration and Nomination Committee, Chairman of the Health, Safety and Environment Committee, Chairman of Committee of Independent Directors and Member of the Audit Committee.

Mr Chatfield is an experienced executive and Non-executive Director and has over 35 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 Non-executive Chairman of Seek Limited (since 2012) and Non-executive Director (since 2005), Non-executive Director of Transurban Group (since 2009) and Non-executive Chairman of Virgin Australia Holdings Limited (since June 2007) and Non-executive Director of Recall Holdings Limited (since 2013). Mr Chatfield was previously an executive Director of Toll Holdings Limited from 1998 to September 2008 and a Non-executive Director of Whitehaven Coal from 2007 to 2012.

Wayne Bould, Age 61
Managing Director; Member of the Health, Safety and Environment Committee, Member of the Committee of Independent Directors

Mr Bould, formerly the Company's Chief Operating Officer, was appointed Managing Director on 4 June 2013 and has over 40 years' practical and managerial experience in the petroleum, forestry and mining sectors. He joined Grange in May 2008 and was integrally involved in the completion of the merger with Australian Bulk Minerals and the successful integration of the two businesses.

Prior to joining Grange, Mr Bould was the Director, Business Excellence for Newmont Mining Corporation's global business operations. Mr Bould also has considerable experience as a senior manager in management consulting, in the downstream oil industry with Shell Australia, and in the manufacture and distribution of timber products with Auspine.

Mr Bould is an active contributor to the Tasmanian mining sector and is the current President and a Director of Tasmanian Minerals Council. In addition he is an industry representative member on the Joint Commonwealth and Tasmanian Economic Council.

Honglin Zhao, Age 60
Executive Director

Mr Zhao is a Director on the Board of the Jiangsu Shagang Group, ultimate shareholder of Shagang International Holdings Limited and China's largest private steel company. He is also a Director of Shagang International (Australia) Pty Ltd.

Mr Zhao has over 38 years' experience in the industry and was previously the Commander of Project Development Headquarters with Shagang. Mr Zhao has extensive project management and implementation experience and expertise.

John Hoon, CA, FGIA, GAICD, Age 54
Non-executive Director, Chairman of Audit Committee, Member of the Remuneration and Nomination Committee, Member of the Health, Safety and Environment Committee and Member of the Committee of Independent Directors

Mr Hoon has a strong background in financial and audit matters and has an extensive Australian and South East Asian business network across a wide range of sectors. He was previously a Director of Bao Australia Pty Ltd, a subsidiary of China Shanghai Baosteel Corporation which is one of the largest listed companies in China and which has numerous joint ventures with Australian mining companies. In addition, Mr Hoon together with his associates, successfully founded and established Navitas Limited, an Australian listed company providing private business and English language education. Mr Hoon was previously a non-executive Director of Drake Resources Limited from 2011 until 2013.

Clement Ko LLB, MBA, Age 50
Non-executive Director

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

Company Secretary

Ms Pauline Carr BEc, MBA, FCIS, FAICD

Ms Carr is a qualified chartered secretary and experienced executive with over 28 years management and commercial experience in the resources industry with both Australian and international companies. In addition, she has 20 years of comprehensive hands on company secretarial, compliance and governance experience with listed company boards. She also provides governance, management support, compliance, risk management and business improvement consultancy services to organisations in a range of sectors.

Pauline is a fellow with both the Australian Institute of Company Directors and the Governance Institute of Australia (formerly Chartered Secretaries Australia). She was a member of the Governance Institute's South Australian Branch Council and the National Legislative Review Committee for many years and is a regular presenter of seminars for governance professionals.

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 associated Pellet Plant Projects.

Dividends

Dividends paid to members during the financial year were as follows:

	2013	2012
	$'000	$'000
Unfranked interim dividend for the year ended 31 December 2012 – 1.0 cent per share (2011: 3.0 cents per share)	(11,564)	(34,643)
Unfranked interim dividend for the year ended 31 December 2013 – 1.0 cent per share (2012: 1.0 cent per share)	(11,565)	(11,555)
Total dividends provided for or paid	(23,129)	(46,198)

These dividends were declared NIL conduit foreign income.

In addition to the above dividends which we paid during 2013, the directors have recommended the payment of an unfranked dividend of $23.1 million. This represents an ordinary final unfranked dividend of 1.0 cent per share for the year ended 31 December 2013 and an additional special unfranked dividend of 1.0 cent per share for the same period. This final and special dividend was declared NIL conduit foreign income and will be paid on 4 April 2014.

Operating and Financial Review

Key Highlights

- Outstanding safety record at both our Savage River and Port Latta operations continues with no Lost Time Injuries recorded since July 2010

- Delivered on our 2013 promises by successfully navigating the business through a challenging transitional year which finished strongly
    - Revenues from mining operations of $281.1 million
    - Net profit after tax of $25.6 million

- Disciplined operational planning and execution has allowed the business to fund critical mine re-development and preserve balance sheet strength
    - Cash and term deposits of $159.9 million
    - Net cash inflows from operating activities of $115.8 million
    - Low gearing levels with borrowings of $3.5 million
    - Continued cost control disciplines have seen unit operating costs return to long term target levels
    - Maintained focus on the protection and progressive refurbishment of critical core process infrastructure. Paid $23.1 million of dividends to shareholders during 2013 with a further $23.1 million to be paid in April 2014

- Declared an ordinary final dividend of 1.0 cent per share (unfranked) for the year ended 31 December 2013 and an additional special dividend of 1.0 cent per share (unfranked) for the same period. The combined 2.0 cent dividend will be paid on 4 April 2014

- Pellet prices remained strong with improving premiums for Grange's higher quality, lower impurity products
  - Realised product prices averaged US$141.43 (A$147.99) per tonne (FOB Port Latta)
  - Lower realised AUD:USD exchange rates ($0.9557) have delivered stronger AUD revenues
  - Strong market sentiment that current prices are likely to continue to prevail in 2014

- Successfully delivered mine re-development strategies
  - Re-established access to higher grade ore ahead of schedule in September 2013 which significantly improved production and delivered competitive unit operating costs during Q4 2013
  - The strong emphasis on reducing operating costs and maintaining competitive unit operating costs will continue during 2014
  - Successfully completed an extensive drilling program at Long Plains and announced an upgraded high grade magnetite resource of 107 million tonnes, potentially increasing the life of mine at Savage River *(refer ASX announcement dated 19 December 2013)*

- Maintained our focus on the Southdown Project
  - Continued our search for an equity partner in the Southdown Project
  - Ensured that all Southdown tenements, permits and project assets remained in good standing
  - Maintained the currency of all the elements of the Southdown definitive feasibility study
  - Commenced an internal review of the Southdown definitive feasibility study to identify the potential for alternative development models

Safety performance

The exceptional safety performance at Savage River and Port Latta operations continued with no Lost Time Injuries (LTI) recorded since July 2010. This result reflects the robust and effective safety culture and the strong focus by all staff in maintaining a safe and productive workplace. Unfortunately, the Total Recordable Injury Frequency Rate (TRIFR) increased from 1.99 per million hours worked at 31 December 2012 to 3.87 per million hours worked at 31 December 2013 due to a number of medical treatment injuries. The increase in reported medical treatment injuries highlights the ongoing development of an open and collaborative approach to safety management in the workplace.

Full year result

Grange recorded a consolidated profit after tax of $25.6 million for the year ended 31 December 2013 (2012 restated: $59.1 million). This result was achieved on sales of 1.9 million tonnes (2012: 2.4 million tonnes) of iron ore products and revenues from mining operations of $281.1 million (2012: 331.3 million).

Key revenue metrics for the year ended 31 December 2013 and the preceding 2012 year were as follows:

	2013	**2012**
Iron Ore Pellet Sales (dmt)	1,814,786	1,220,679
Iron Ore Concentrate Sales (dmt)	136	63,940
Iron Ore Chip Sales (dmt)	84,364	84,280
Total Iron Ore Product Sales (dmt)	1,899,286	2,368,899
Average Realised Product Price (US$/t FOB Port Latta)	$141.43	$144.84
Average Realised Exchange Rate (AUD:USD)	0.9557	1.0356
Average Realised Product Price (A$/t FOB Port Latta)	$147.99	$139.86

The reduction in revenues from mining operations for the year ended 31 December 2013 arose from the following:

- 20% reduction in sales of iron ore products to 1.9 million tonnes (from 2.4 million tonnes in 2012). This was due to restricted access to the usual runs of higher grade ore between January 2013 and September 2013. Consequently much larger volumes of lower grade ore were required to be processed during this period to offset the downstream production impacts.

- 2% reduction in the average product prices to US$141.43 per tonne (from US$144.84 per tonne in 2012) off-set by an 8% reduction in the average realised AUD:USD exchange rate. This delivered stronger AUD unit prices of A$147.99 per tonne (from A$139.86 per tonne in 2012). Premiums for higher iron content and products with lower impurities (including those produced by Grange) significantly improved during Q4 2013.

The iron ore market is dynamic and continues to evolve with heightened interest in high grade, low impurity iron ore products from the Chinese, Indian and to a lesser extent, Japanese markets. This evolution is driven by a combination of India's internal tax regime, toughening environmental requirements in China and additional growth in Japan. These market changes provide very good opportunities for Grange to shore up its sales offerings and to seriously consider negotiating term off-take agreements with quality customers. However the iron ore market will continue to be subject on-going pressure from buyers in all markets to supply them with premium products at a lower cost.

Key operating metrics for the year ended 31 December 2013 and the preceding 2012 year were as follows:

	2013	**2012**
Total BCM Mined	17,667,735	14,637,773
Total Ore BCM	1,978,790	1,773,636
Concentrate Produced (t)	1,955,499	2,122,757
Weight Recovery (%)	33.4	35.9
Pellets Produced (t)	1,915,966	2,004,526
Pellet Stockpile (t)	232,402	131,223
"C1" Operating Cost (A$/t Product Produced)[1]	$119.94	$106.08

Note: "C1" costs are the cash costs associated with producing iron ore products without allowance for mine development, deferred stripping and stockpile movements, and also excludes royalties, depreciation and amortisation costs.

The increased unit costs at Savage River were the result of remediation efforts relating to the July 2012 rock slide and the need to process large volumes of lower grade ore from January 2013 to September 2013. Greater day to day focus on the operational basics such as quality planning and scheduling coupled with very tight management of unit costs bought about the reduction of the higher unit operating costs in Q3 2013, and settle into a far more stable and controlled operating environment in Q4 2013.

The strategy of producing product from the lower grade remnant deposits on a "just in time" basis proved very effective in not only funding the remediation efforts but also the re-development of the North Pit.

Re-establishing access to higher grade ore in the North Pit from September 2013 has facilitated improved production, sales and replenished cash reserves. It has also enabled the rebuild of run of mine stockpiles to commence and places the operations team in a position to achieve planned production of approximately 2.3 million tonnes of iron ore products in 2014 at competitive unit operating costs.

Exploration and Evaluation

The successful completion of an extensive drilling program at Long Plains and the release of a resource statement prepared in accordance with JORC 2012 which reported an upgraded resource of 107 million tonnes in December 2013 was a significant achievement. This provides Grange with the potential to extend the mine life at Savage River beyond 2030. Further feasibility modelling will now be undertaken to understand how this resource can form part of the overall Life of Mine Plan for Savage River.

This information on Long Plains mineral resource is a summary only and details can be found in an announcement to the ASX dated 19 December 2013.

Southdown Magnetite Project

The Southdown Magnetite Project, situated 90km from the city of Albany in Western Australia, is a joint venture between Grange (70%) and SRT Australia Pty Ltd (SRTA) (30%). SRTA is jointly owned by Sojitz Corporation, a Japanese global trading company, and Kobe Steel, the fourth largest Japanese steel maker. This advanced project has 1.2 billion tonnes of high quality resource, which outcrops at the western end of its 12km strike length and has access to established infrastructure.

During 2013, market conditions for securing project investment funding did not improve. The joint venture partners continue to monitor all ongoing project requirements to ensure that the current status of the feasibility studies is such that the project can be fully recommenced as soon as an appropriate opportunity arises. The on-going strategy is to maintain the currency and good standing of all tenements, permits and project assets. This approach will be continued into 2014, and at least until Grange is able to secure an equity partner for a strategic share of the Company's interest in the project or until a valid alternate development model can be successfully formulated.

In December 2013, Grange advised that its Board had commissioned management to conduct an internal review of the operating model generated for the project as part of the Definitive Feasibility Study. The internal review is tasked to determine if the Southdown concept can be reworked to reduce initial capital requirements and the overall life of mine operating costs.

The review will consider changes in market outlook and mix, project construction conditions (including regional infrastructure development) and the application of the "hands on" operating methodologies learned from our operations at Savage River. The review is in progress and is expected to be completed during mid-2014.

Financial Position

As at 31 December 2013, Grange has $159.9 million (2012: $174.9 million) in cash and term deposits and $3.5 million (2012 restated $13.9 million) in borrowings. The Company believes that it has preserved the strength of the Group's balance sheet whilst:

- Investing in significant mine re-development at Savage River to regain access to the main ore zone of the North Pit and progressing pre-production stripping at South Deposit to provide an alternative source of ore in the second half of 2014;

- Repaying a mobile equipment facility of $5.8 million (net of debt service reserve amounts) in April 2013; and

- Returning $23.1 million to shareholders through the payment of dividends in April 2013 and October 2013.

With no net debt, improved access to high grade ore and increasing confidence of production and ongoing unit costs, Grange is well positioned to take advantage of a stronger iron ore market.

Capital Management

Grange has announced an unfranked final ordinary dividend of 1.0 cent per share for the year ended 31 December 2013 and an additional unfranked special dividend of 1.0 cent per share for the same period. This brings our total dividends for the year ended 31 December 2013 to 3.0 cents per share and highlights our commitment to maintaining a regular dividend and demonstrates our confidence in near term operating results. Since 2011, we have returned in excess of $115.5 million to shareholders through dividends

New accounting standards and interpretations

During the year, Grange adopted AASB Interpretation 20, *Stripping costs in the Production Phase of a Surface Mine*. Accounting for deferred stripping costs under Interpretation 20 differs from the previous accounting policy as the deferral of stripping costs in now based upon a ratio determined with reference to identified components of the ore body rather than a ratio determined with reference to the life of a mine. In accordance with the transitional provisions, this new accounting interpretation has been applied from 1 January 2012, being the beginning of the earliest period presented in the annual financial report and resulted in a restatement of comparative financial information.

Significant Changes in State of Affairs

During the financial year, the Company successfully completed the relocation of its corporate headquarters from Perth to Tasmania and closed the Perth office.

There were no other significant changes in the state of affairs of the Group that occurred during the year ended 31 December 2013. Commentary on the overall state of affairs of the Group is set out in the Operating and Financial Review.

Matters Subsequent to the End of the Financial Year

Except as discussed above, no other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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

Likely Developments and Expected Results of Operations

Grange's strategic focus is to generate shareholder value by safely producing high quality iron ore products from its Savage River and Port Latta operations in Tasmania and continuing to assess the feasibility of a major iron ore development project at Southdown, near Albany in Western Australia. The group's current strategic priorities include:

Savage River and Port Latta Operations

- Broadening our customer base to take advantage of market opportunities and to diversify geographic customer risk
- Driving operating costs down further and maintaining access to high grade ore by continuing to invest in mine development
- Continuing to invest in process infrastructure

Southdown Project

- Ensuring that all tenements, permits and project assets remain in good standing
- Maintaining the currency of all the elements of definitive feasibility study
- Conducting an internal review of the definitive feasibility study to identify the potential for alternative development models
- Continuing the search for a new equity partner to take a strategic share of the Company's interest in the Project

Risk Management

The group continues to assess and manage various business risks that could impact the Group's operating and financial performance and its ability to successfully deliver strategic priorities including:

- Fluctuations in iron ore prices and movements in foreign exchange rates
- Mining risks
- Production and costs
- Project evaluation and development
- Health, safety and environment

Environmental Regulation

The mining and exploration tenements held by the Group contain environmental requirements and conditions that the Group 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 year there were no major breaches of licence conditions.

Southdown Joint Venture

The Southdown Joint Venture has not been responsible for any activities which would cause a breach of environmental legislation.

Mount Windsor Joint Venture

The Group is a junior partner (30%) in the Mt Windsor project in North Queensland which is now being rehabilitated for future lease relinquishment. A Transitional Environment Program required by the Queensland Department of Environment and Resource Management has been completed. The Queensland Department of Environment and Heritage Protection has approved the completion of the program. A second Transitional Environment Program has been entered into voluntarily to identify and remediate various sources of pollution on site. A comprehensive plan has been developed and instigated to manage the leases with relinquishment expected in 2025.

National Greenhouse and Energy Reporting Act 2007

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

Energy Efficiency Opportunities Act 2006

Grange Resources Limited was officially registered under section 13 of the Energy Efficiency Opportunities Act 2006. Annual investigation and reporting programs under the legislation have been implemented. The Group submitted its final government report for the first five year period prior to 31 December 2013. The Group's public report is available on the Grange Resources website in the investor information reports section.

Clean Energy Act 2011

The Group has complied with its obligations under the Clean Energy Act and related legislation for the 2012-13 year and received assistance through the Jobs and Competitiveness Program for the emissions-intensive trade-exposed activities of *Production of Iron Ore Pellets* and *Production of Magnetite Concentrate* in the moderately emissions-intensive category.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2013, and the numbers of meetings attended by each Director were:

Name	Directors' meetings		Meetings of Committees							
			Audit		Remuneration		Health, Safety & Environment		Independent Directors	
	A	B	A	B	A	B	A	B	A	B
M Li[(1)]	1	1	-	-	1	1	-	-	-	-
N Chatfield	11	11	8	8	6	6	4	4	4	4
W Bould[(2)]	6	6	-	-	-	-	2	2	3	3
C Ko	11	11	-	-	-	-	-	-	-	-
J Hoon	11	11	8	8	6	6	4	4	4	4
H Zhao	10	11	-	-	-	-	-	-	-	-
Z Xi[(3)]	10	10	8	8	5	5	4	4	-	-
R Mehan[(4)]	4	5	-	-	-	-	2	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 year ended 31 December 2013

(1) M Li was appointed a Non-Executive Director and Chairman of the Company from 29 October 2013.

(2) W Bould was appointed Managing Director of the Company from 4 June 2013.

(3) Z Xi resigned as a Director of the Company from 29 October 2013.

(4) R Mehan resigned as Managing Director of the Company from 4 June 2013.

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		
M Li	-	-	-	-
N Chatfield	140,000	-	-	-
W Bould	1,247,343	-	-	-
C Ko[(1)]	98,154,884	599,964,104	-	-
J Hoon	-	-	-	-
H Zhao[(2)]	-	-	-	-

(1) Shagang International Holdings Limited and RGL Holdings Co. Ltd are associates of Pacific International Co. Pty Ltd. Mr Ko owns 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.

(2) H Zhao is a Director on the Board of the Jiangsu Shagang Group, ultimate shareholder of Shagang International Holdings Limited. Shagang International Holdings Limited and its subsidiaries hold 537,947,670 ordinary fully paid shares in the Company as at the date of this report.

REMUNERATION REPORT

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

Principles Used to Determine the Nature and Amount of Remuneration

(i) Remuneration Philosophy

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

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

(ii) Remuneration Structure

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

A key determinant of Company performance is 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.

The Company did not use the services of independent remuneration consultants during the year ended 31 December 2013.

Non-executive Directors

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

Directors' Fees

The current remuneration was last reviewed with effect from 1 November 2013. 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 reviewed for adequacy. Any increase to the aggregate Directors' fee pool is submitted to shareholders for approval. The maximum currently stands at $800,000 per annum and was approved by shareholders at the Annual General Meeting on 26 November 2010.

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

	From 1 November 2013	**From 1 November 2012**
Board of Directors		
Chairman[(1)]	$157,500	$157,500
Deputy Chairman	$89,250	$89,250
Non-executive Director	$78,750	$78,750
Audit Committee		
Chairman	$15,750	$15,750
Committee Member	$10,500	$10,500
Remuneration and Nomination Committee		
Chairman	$15,750	$15,750
Committee Member	$7,500	$5,250
Health, Safety and Environment Committee		
Chairman	$15,750	$15,750
Committee Member	$10,500	$10,500
Independent Directors Committee		
Chairman	$15,750	-
Committee Member	$10,000	-

(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. These options expired on 6 March 2012. None of the current Non-executive Directors have been awarded options in the Company and the Company does not have a specific option plan in relation to the issue of options to Non-executive Directors. From time to time the Company will also look at industry practice when determining whether options should form part of the Non-executive Directors' remuneration.

Executive Pay

Objective

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

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

Structure

In determining the level and components of executive remuneration, the Remuneration and Nomination Committee considers recommendations from senior executives which are based upon the prevailing labour market conditions. In addition, independent advice is sought by the Committee 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 21.

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 the achievement of company performance goals and 50% relates to the attainment of agreed 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.

31 December 2013 Award

In December 2012, the Board determined that the LTI program move to a three year performance period with immediate effect from 1 January 2013 and that Total Shareholder Return ("TSR") be used as the performance hurdle for the Plan.

Total Shareholder Return is a common measure of value creation for shareholders. It is calculated as the difference in the share price between the beginning and end of the period, divided by the share price at the start of the period. The Board has determined that the performance hurdle for the rights be the attainment of a Total Shareholder Return of 5% per annum compounded over the three year period from 1 January 2013 to 31 December 2015.

The precise vesting date for the Rights will be determined once the Board has assessed performance against the TSR target, following the end of the three year vesting period.

The precise number of Rights that will vest will be dependent upon the Board assessment of performance against the TSR target.

31 December 2012 Award

For the year ending 31 December 2012, 50% of the LTI for an employee relates to Company performance goals and 50% relates to personal performance goals. Rights were allocated using a share price that was based on the volume weighted average price of the Company's shares.

Rights awarded for performance leading up to and inclusive of 31 December 2012 currently vest in three equal tranches over 24 months.

For the 31 December 2012 Award, the share price was based on the volume weighted average price of the Company's shares for the first two months of the Award performance period (i.e. the volume weighted average price of the Company's shares from 1 January 2012 to 29 February 2012).

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 over the timeframe stipulated in the LTI Plan from time to time. A maximum number of Options per individual issue has been specified and approved for each job grade in the grade structure matrix. The exercise price of options issued will be equal to a 20% premium on the weighted average price of the Company's shares in the last three months before the financial period begins. The Company did not issue any options to employees in the 12 months ended 31 December 2013.

(iii) Remuneration and Nomination Committee

The Board has an established a Remuneration and Nomination Committee to assist in overseeing the development of 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 Ms Michelle Li, 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, other Executive Directors and Key Management Personnel;
- The remuneration of the Managing Director; Managing Director - Southdown; Chief Financial Officer; and General Manager Operations;
- Periodically assessing the skills required by the Board;
- Recommend processes to evaluate the performance of the Board, its Committees and individual Directors; and
- Reviewing governance arrangements pertaining to remuneration matters.

The Charter is reviewed annually and remuneration strategies are reviewed regularly.

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

Details of Remuneration

Details of the remuneration of the Directors and the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) 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	Managing Director (from 4 June 2013, previously Chief Operating Officer)
David Corr	Chief Financial Officer
Ben Maynard	General Manager Operations (from 1 January 2013)
Fernando Moutinho	Project Director – Southdown (until 31 December 2012)

Amounts of remuneration

Table 1: Remuneration for the year ended 31 December 2013

	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	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
M Li(1)	23,536	-	-	-	2,718	-	-	-	-	26,254
N Chatfield	133,876	-	-	-	-	-	-	-	-	133,876
C Ko	78,751	-	-	-	-	-	-	-	-	78,751
J Hoon	107,867	-	-	-	4,552	-	-	-	-	112,419
X Zhiqiang(2)	131,250	-	-	-	-	-	-	-	-	131,250
Sub-total Non-Executive Directors	**475,280**	**-**	**-**	**-**	**7,270**	**-**	**-**	**-**	**-**	**482,550**

Table 1: Remuneration for the year ended 31 December 2013 (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[8]	Options	
Executive Directors	$	$	$	$	$	$	$	$	$	$
W Bould[3]	468,749	-	-	-	-	-	-	-	-	468,749
H Zhao	355,165	91,862	45,000[5]	-	32,337	-	-	-	-	524,364
R Mehan[4]	233,056	-	100,781[6]	-	-	-	178,173[7]	196,612[9]	-	708,622
Other Key Management Personnel										
D Corr	277,093	-	31,318[5]	-	25,284	5,778	-	43,405	-	382,878
B Maynard	174,670	-	14,173[5]	-	17,258	14,320	-	9,823	-	230,244
Sub-total Key Management Personnel	**1,508,733**	**91,862**	**191,272**	**-**	**74,879**	**20,098**	**178,173**	**249,840**	**-**	**2,314,857**
TOTAL	**1,984,013**	**91,862**	**191,272**	**-**	**82,149**	**20,098**	**178,173**	**249,840**	**-**	**2,797,407**

(1) M Li was appointed a Non-Executive Director and Chairman of the Company from 29 October 2013.
(2) Z Xi resigned as a Director of the Company from 29 October 2013.
(3) W Bould was appointed Managing Director of the Company from 4 June 2013. Remuneration disclosures include consultancy fees earned from 1 January 2013 to 3 June 2013 when he was Chief Operating Officer of the Group.
(4) R Mehan resigned as Managing Director of the Company on 4 June 2013.
(5) Represents short term incentive payments for the year ended 31 December 2012. Variable remuneration amounts awarded to Executive Directors and Other Key Management Personnel are disclosed during the period in which the Remuneration and Nomination Committee approves the remuneration entitlement.
(6) Represents short term incentive payments for the years ended 31 December 2012 and 31 December 2013 as approved by the Remuneration and Nomination Committee during the year. The variable remuneration payment to R Mehan for the year ended 31 December 2013 represents a pro-rata amount for the period in which he was employed by the Company.
(7) R Mehan received a payment of 4 months salary upon ceasing employment with the Company in accordance with the terms of his employment contract. The total termination payments to R Mehan did not exceed the statutory limit for such payments.
(8) Represents amounts expensed through the Company's income statement for rights issued under the Company's Long Term Incentive Scheme. These amounts are recognised in the Company's income statement over the vesting period in accordance with AASB 2, *Share Based Payments*. The amount recognised for R Mehan represents the entire vesting period expense for the rights that were issued upon ceasing employment with the Company.
(9) Represents rights issued to R Mehan for the year ended 31 December 2013 as approved by the Remuneration and Nomination Committee during the year. These rights will vest in accordance with the conditions of the Company's Long Term Incentive Scheme and the terms of his employment contract.

Amounts of remuneration

Table 2: Remuneration for the year ended 31 December 2012

	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	151,250	-	-	-	-	-	-	-	-	151,250
N Chatfield	126,042	-	-	-	-	-	-	-	-	126,042
C Ko	75,625	-	-	-	-	-	-	-	-	75,625
J Hoon	97,133	-	-	-	8,743	-	-	-	-	105,876
Sub-total Non-Executive Directors	**450,050**	**-**	**-**	**-**	**8,743**	**-**	**-**	**-**	**-**	**458,793**

Table 2: Remuneration for the year ended 31 December 2012 (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[9]	Options	
Executive Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
R Mehan[1]	171,233	-	-	-	14,511	2,023	-	-	-	187,767
H Zhao	412,845	52,846	80,370[5]	-	37,156	3,906	-	-	-	587,123
R Clark[2]	403,160	-	320,174[6]	-	32,988	-	463,500[8]	804,777[10]	-	2,024,599
Other Key Management Personnel										
W Bould[3]	364,247	17,748	223,654[6]	145,732[7]	34,381	-	-	241,187	-	1,026,949
D Corr	264,200	-	42,440[5]	-	27,304	4,692	-	52,571	-	391,207
F Moutinho[4]	441,101	-	132,030[5]	-	39,699	-	171,096	-	-	783,926
Sub-total Key Management Personnel	**2,056,786**	**70,594**	**798,668**	**145,732**	**186,039**	**10,621**	**634,596**	**1,098,535**	**-**	**5,001,571**
TOTAL	**2,506,836**	**70,594**	**798,668**	**145,732**	**194,782**	**10,621**	**634,596**	**1,098,535**	**-**	**5,460,364**

(1) R Mehan commenced employment with the Company as Managing Director on 6 August 2012.

(2) R Clark resigned as Managing Director of the Company on 6 August 2012 and ceased employment on 15 September 2012.

(3) W Bould ceased employment with the Company on 31 December 2012 and entered into a consulting arrangement with the Company effective from 1 January 2013. He will continue to fulfil the role of Chief Operating Officer of the Group during 2013 and is no longer eligible to participate in the Group's variable remuneration schemes.

(4) F Moutinho ceased employment with the Company on 31 December 2012 following the Group's announcement on 30 November 2012 to significantly reduce expenditure on the Southdown Project for 2013.

(5) Represents short term incentive payments for the year ended 31 December 2011. Variable remuneration amounts awarded to Executive Directors and Other Key Management Personnel are disclosed during the period in which the Remuneration and Nomination Committee approves the remuneration entitlement.

(6) Represents short term incentive payments for the years ended 31 December 2011 and 31 December 2012 as approved by the Remuneration and Nomination Committee during the year. The variable remuneration payment to R Clark for the year ended 31 December 2012 represents a pro-rata amount for the period in which he was employed by the Company.

(7) Other payments to W Bould represent an operational performance bonus for the year ended 31 December 2012 as approved by the Remuneration and Nomination Committee during the year.

(8) R Clark received a payment of 9 months salary and superannuation upon ceasing employment with the Company in accordance with the terms of his employment contract. The total termination payments to R Clark did not exceed the statutory limit for such payments.

(9) Represents amounts expensed through the Company's income statement for rights issued under the Company's Long Term Incentive Scheme. These amounts are recognised in the Company's income statement over the vesting period in accordance with AASB 2, *Share Based Payments*. The amounts recognised for R Clark and W Bould represent the entire vesting period expense for rights that have been issued due to changes in employment conditions and arrangements. The rights issued to R Clark and W Bould will continue vest in accordance with the conditions of the Company's Long Term Incentive Scheme and in accordance with their employment contracts.

(10) Includes rights issued to R Clark on a pro-rata basis for the year ended 31 December 2012 as approved by the Remuneration and Nomination Committee during the year. These rights will vest in accordance with the conditions of the Company's Long Term Incentive Scheme and the terms of his employment contract.

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-13	Dec-12	Dec-13	Dec-12	Dec-13	Dec-12
Executive Directors						
W Bould[(1)]	100%	59%	-	41%	-	-
H Zhao	91%	83%	9%	17%	-	-
R Mehan[(2)]	-	68%	-	14%	-	18%
Other Key Management Personnel						
D Corr	74%	74%	11%	11%	15%	15%
B Maynard	80%	-	10%	-	10%	-
F Moutinho[(3)]	-	77%	-	23%	-	-

(1) W Bould was appointed Managing Director of the Company from 4 June 2013. The terms of his consultancy agreement with the Company does not have him participating in the Group's variable remuneration schemes.
(2) R Mehan resigned as Managing Director of the Company from 4 June 2013.
(3) F Moutinho ceased employment with the Company from 31 December 2012.

Service Agreements

On appointment to the Board, all Non-executive Directors sign a letter of appointment with the Company. The document details the term of appointment, the role, duties and obligations of the Directors as well as the likely time commitment and performance expectations and review arrangements and circumstances relating to the vacation of office. In addition, it also summarises the major Board policies and terms, including compensation, relevant to the office of Director.

Remuneration and other terms of employment for the Managing Director are detailed in a Consultancy Agreement.

In 2013, the Company entered into a new Consultancy Agreement with Wayne Bould upon his appointment as Managing Director of Grange Resources Limited from 4 June 2013. The parties to the Consultancy Agreement are Grange Resources Limited and Phylogen Management Services Pty Ltd. The key terms of the arrangement, as advised to the ASX on 4 June 2013, are as follows:

- **Term** – The appointment was effective from 4 June 2013 and will continue until his engagement is terminated in accordance with the Consultancy Agreement.

- **Remuneration** – Total fixed consultancy fees of $500,000 per annum. Mr Bould does not participate in any variable remuneration programs operated by the Company.

- **Termination** – May be effected with six months notice by either party. The Company may make payments in lieu of part or all of the applicable notice period. In the event of illegal acts or serious breaches the Company may terminate the Consultancy Agreement without notice. In such instances payment to Mr Bould would be limited to unpaid consultancy fees.

The remuneration for all other key management personnel is formalised in service agreements which provide for the provision of performance related variable remuneration and other benefits. These agreements with other key management personnel 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.

The Remuneration and Nomination Committee reviews the remuneration arrangements of the Managing Director and his direct reports annually.

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 2013

	Balance 1 January 2013	Granted as remuneration	Issued on vesting of rights	Other	Balance 31 December 2013	Vested	Unvested
Directors of Grange Resources Limited							
W Bould	232,607	-	(232,607)	-	-	-	-
R Mehan[1]	-	614,029[2]	-	(614,029)	-	-	614,029
Other Key Management Personnel							
D Corr[3]	59,501	71,807	(107,372)	-	23,936	-	23,926
B Maynard[3]	8,909	17,712	(20,717)	-	5,904	-	5,904

(1) R Mehan resigned as Managing Director of the Company on 4 June 2013. Unvested rights issued to R Mehan will vest in accordance with the conditions of the Company's Long Term Incentive Scheme and the terms of his employment contract.

(2) Represents rights issued to R Mehan for the year ended 31 December 2013 as approved by the Remuneration and Nomination Committee during the year.

(3) From 1 January 2013, the LTI program adopted a Total Shareholder Return performance hurdle and moved to a three year performance period. Rights awarded to eligible employees will be disclosed in the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement following the end of the three year performance period.

31 December 2012

	Balance 1 January 2012	Granted as remuneration	Issued on vesting of rights	Other	Balance 31 December 2012	Vested	Unvested
Directors of Grange Resources Limited							
R Mehan[1]	-	-	-	-	-	-	-
R Clark[2]	578,670	1,162,090[3]	(734,819)	(1,005,941)	-	-	1,005,941
Other Key Management Personnel							
W Bould[4]	264,466	316,628	(348,487)	-	232,607	-	232,607
D Corr[5]	31,260	76,865	(48,624)	-	59,501	-	59,501

(1) R Mehan was appointed Managing Director of the Company on 6 August 2012 and is not eligible to participate in the Company's long term incentive schemes for the year ended 31 December 2012.

(2) R Clark resigned as Managing Director of the Company on 6 August 2012 and ceased employment on 15 September 2012. Unvested rights issued to R Clark will continue vest in accordance with the conditions of the Company's Long Term Incentive Scheme and the terms of his employment contract.

(3) Includes rights issued to R Clark on a pro-rata basis for the year ended 31 December 2012 as approved by the Remuneration and Nomination Committee during the year.

(4) W Bould ceased employment with the Company on 31 December 2012 and entered into a consulting arrangement with the Company effective from 1 January 2013. He is no longer eligible to participate in the Group's variable remuneration schemes. Unvested rights will continue to vest in accordance with the conditions of the Company's Long Term Incentive Scheme.

(5) As at the date of this report, the Remuneration and Nomination Committee is still reviewing the variable remuneration entitlements for eligible employees for the year ended 31 December 2012. Rights awarded to eligible employees for the year ended 31 December 2012 will be disclosed in the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement.

Options to Grange shares

As at 31 December 2013 there were no options affecting Directors and other key management personnel.

Shares under option

There were no unissued ordinary shares of the Company under option as at 31 December 2013.

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

Audit and Non-audit Services

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

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

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

During the year 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:

	2013 $'000	2012 $'000
(a) PwC - Australia		
Audit and review of financial reports	284	292
Other assurance services	15	58
Taxation services		
Taxation compliance	-	248
Taxation consulting and advice	95	425
Total remuneration of PwC - Australia	**394**	**1,023**
(b) Related practices of PwC - Australia		
Audit and review of financial reports	23	8
Taxation compliance	2	2
Total remuneration of related practices of PwC - Australia	**25**	**10**

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers expertise and experience with the Group are important. These assignments are principally tax consulting and advice or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders on all major consulting assignments. Group policy also requires the Chairman of the Audit Committee to approve all individual assignments performed by PricewaterhouseCoopers with total fees greater than $10,000.

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 26.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the Directors’ Report. Amounts in the Directors’ Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

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

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

Michelle Li Chairman	Wayne Bould Managing Director

Burnie, Tasmania
28 February 2014

Auditor's Independence Declaration

As lead auditor for the audit of Grange Resources Limited for the year ended 31 December 2013, 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.

John O'Donoghue
Partner
PricewaterhouseCoopers

Melbourne
28 February 2014

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CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

ROLE OF THE BOARD

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

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

Board Functions

Specific accountabilities and responsibilities of the Board include:

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

- Having an awareness of the statutory obligations imposed on Board members and ensuring there are appropriate standards of corporate governance.

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

Management Functions

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

COMPOSITION OF BOARD

The Board aims to have a mix of relevant skills, industry and geographic knowledge together with expertise to carry out its duties and meet its objectives including high levels of:
- Finance / accounting expertise;
- Operational and technical expertise;
- Large project management and implementation expertise;
- Australian resources industry expertise; and
- Iron ore marketing and trading expertise.

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

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

Two of the four non-executive Directors are not considered to be independent. The non-independent Directors, include Michelle Li (nominated by major shareholder Shagang International Holdings Limited) and Clement Ko (representative of substantial shareholder Pacific International Holdings Co. Pty Ltd). Michelle Li also acts as Chairman.

The Board is mindful of the Principles and the preference for Boards to have a majority of independent Directors. The Board continues to monitor and review its composition and plans to appoint an additional independent Director in the first half of 2014. The independent status of each director is monitored throughout the year.

Director	**Independent**	**Non-Executive**	**Term in Office**
Michelle Li	No – Nominated by major shareholder	Yes	2 months
Neil Chatfield	Yes	Yes	5 years
Wayne Bould	No – Managing Director	No	6 months
John Hoon	Yes	Yes	3 years & 8 months
Honglin Zhao	No – Executive Director	No	3 years & 6 months
Clement Ko	No – Substantial shareholder	Yes	5 years

EVALUATION OF THE BOARD, COMMITTEES AND SENIOR MANAGEMENT

The performance of the Board and its Committees is conducted on a periodic basis. Senior management are reviewed and evaluated annually. In particular, the assessment of senior management is conducted by reference to short term and long term key performance indicators which are agreed at the start of each financial year. The evaluation of the Board is overseen by the Remuneration and Nomination Committee and Board members are required to complete questionnaires providing feedback on the Board's performance. The review process for the Committees is undertaken by way of regular feedback from the Board during the year. A formal assessment of the Board was last conducted in mid 2013.

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

BOARD COMMITTEES

Audit Committee

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

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

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

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

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

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

Remuneration and Nomination Committee

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

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

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

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

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

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

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

The Committee has adopted the following guidelines for engaging and dealing with remuneration consultants:

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

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

Health, Safety and Environment Committee

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

- Reviewing the strategic plans and targets covering health, safety and the environment;
- Monitoring safety and environmental performance together with action plans to improve performance and / or remedy specific issues;

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

The Committee is comprised of a majority of non-executive directors. The members of the Health, Safety and Environment Committee are: Mr Neil Chatfield (Committee Chairman), Mr John Hoon, Ms Michelle Li, all of whom are non-executive Directors, and Managing Director, Mr Wayne Bould.

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

Committee of Independent Directors

The Committee of Independent Directors' of the Board serves as an independent body with respect to transactions which may give rise to a potential conflict of interest for a particular Director, with a view to protect the interests of both the Company and its shareholders.

The Committee's duties include general oversight of the Company's consideration of any proposed transaction between the Company and any person in relation to whom a conflict of interest exists or may exist for a particular Director.

The Committee is also responsible for the interpretation of conflict of interest protocols as well as reviewing and making recommendations to the Board or shareholders (as applicable) on the pricing and contract negotiations for the supply of product to substantial shareholders or related parties and the review of the process and arrangements for the supply of product on a spot sale basis to substantial shareholder and related parties.

The members of the Committee of Independent Directors are: Mr Neil Chatfield (Committee Chairman), Mr John Hoon, and Managing Director, Mr Wayne Bould.

A copy of the Committee's charter is on the Company's website.

INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

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

CODES OF CONDUCT

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

The Code requires all Directors, employees and contractors to conduct business with the highest ethical standards, including compliance with the law, and to report or avoid conflict of interest situations. Compliance with the Code is mandatory with breaches taken seriously.

In addition the Board has a dedicated Code of Conduct which provides Directors with clear and unambiguous guidance as to the minimum standards of behaviour which is required of Grange's Directors undertaking Grange activities or whenever they are representing Grange.

Copies of the Code of Ethics and Conduct and the Board Code of Conduct are located on the Company's website.

DIVERSITY

Philosophy and Policy

Grange recognises that our employees are our most valuable resource and the means by which we will achieve safe, sustainable, cost effective production. Diversity is one of many elements which helps create sustainable value for our shareholders. Grange takes a broad and all encompassing view of diversity. Diversity is about accepting, respecting and understanding that each person is unique.

In late 2011 the Board approved a Diversity Policy. The policy highlights that an individual's differences can be along the lines of race, cultural background, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs or other ideologies. Diversity can also include an extensive range of individual characteristics and experiences such as communication styles, career path, educational background, family responsibilities and marital status which may influence personal perspectives.

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

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

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

- Using professional intermediaries to source suitably qualified candidates for Board positions;
- Providing translation services and other administrative arrangements to accommodate non-English speaking Board members;
- Assuming responsibility for establishing and reviewing measurable diversity targets (with the assistance of the Remuneration and Nominations Committee);

- Reporting on gender participation in the Annual Report each year; and
- Annually reviewing the diversity policy.

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

Gender Participation

The Company has one female Board member who is also Chairman. In addition the Grange Board has cultural diversity with four of the six directors being of overseas origin.

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

The table below indicates the participation of women in the general workforce for the Company as at December 2013:

Workforce Segment	% of Total Workforce in Segment	As at 31 Dec 2013 % of Women in Segment	As at 31 Dec 2012 % of Women in Segment	Measurable Diversity Targets
Supervisory / Administrative	22%	20%	21%	*No specific target for these individual categories. Overall target of 12% for all three categories by 2017*
Operations / Maintenance	74%	4%	4%	
Professional / Managerial	4%	11%	15%	25% by 2017
Total workforce	***100%***	***8%***	***9%***	***12% by 2017***

As at 31 December 2013 the number of women in the Company's workforce was 46. This represents an overall participation rate of 8%. Women comprise 4% of operations and maintenance roles, 20% of administration and supervisory roles and 11% of senior professional roles and managerial roles.

In early 2012 the Company established measurable diversity objectives. In developing its objectives the Board considered the location and nature of the Company's operations as well as potential impact of its major development project. In late 2012 the Company announced a significant reduction in expenditure and staff numbers in its Southdown Project.

As a result, for the foreseeable future the Company's will be based at Grange's Tasmanian operations. Both Savage River and Port Latta are mature and established operations and by mining industry standards have a stable workforce with very low levels of staff turnover. Consequently there are limited opportunities for the Company to improve diversity through recruitment.

In early 2013 the Company reviewed its diversity objectives in the light of the changed operational landscape and market conditions. As a result amendments have been made to the timeframe for the attainment of its diversity objectives with 2017 being considered a more realistic target. The Company continues to aim to have women comprising 25% of senior professional / managerial roles and to increase the overall proportion of women in the workforce to 12%. The Board will continue to review progress against these targets at regular intervals.

TRADING IN COMPANY SECURITIES BY DIRECTORS AND SENIOR EXECUTIVES

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

The policy describes what constitutes insider trading, the penalties for undertaking such activities and makes recommendations on when employees should not trade in the Company's securities. The policy also notes designated "blackout" periods during which Directors and employees are not allowed to trade. The Company Secretary advises employees and Directors of the commencement and conclusion of all blackout periods.

Before commencing any trade, a Director must first obtain the written approval of the Chairman and senior management must advise the Company Secretary.

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

During the year the Company also introduced additional internal procedures to provide clarity to employees in relation to information requests from external sources.

CONTINUOUS DISCLOSURE

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

The Board has a Continuous Disclosure and Market Communication Policy to ensure that information considered material by the Company is immediately reported to the ASX. Other information such as Company presentations are also disclosed to the ASX and are on the Company's website.

Grange applies the following guiding principles for market communications:

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

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

SHAREHOLDER COMMUNICATION

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

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

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

RISK MANAGEMENT

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

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

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

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

REMUNERATE FAIRLY AND RESPONSIBLY

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

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

ASX BEST PRACTICE RECOMMENDATIONS

The adjacent table lists each of the ASX Best Practice Recommendations applicable to the Company as at the date of its financial year end, being 31 December 2013, and whether the Company was in compliance with the recommendations at that date. Where the Company considers that it is divergent from these recommendations, or that it is not practical to comply, there is an explanation of the Company's reasons set out following the table.

	Principle / Recommendation	**Complied**	**Note**
1	**Lay Solid Foundations for Management and Oversight**		
1.1	Establish and disclose the functions reserved to the Board and those delegated to management.	✓	
1.2	Disclose the process for evaluating the performance of senior executives.	✓	
2	**Structure the Board to Add Value**		
2.1	A majority of the Board should be independent directors.	×	1
2.2	The chair should be an independent director.	×	1

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

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

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

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

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

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

Australia's most experienced magnetite producer

FINANCIAL STATEMENTS

For the Year Ended **31 December 2013**

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

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

34A Alexander Street
Burnie Tasmania 7320

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 2 to 10, which is not part of these financial statements.

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013 $'000	2012 (Restated) $'000
Revenues from mining operations	6	281,072	331,308
Cost of sales	7	(251,985)	(261,283)
Gross profit from mining operations		**29,087**	**70,025**
Administration expenses		(4,795)	(6,995)
Operating profit before other income / (expense)		**24,292**	**63,030**
Other income / (expenses)			
Revaluation of deferred consideration	22, 25	5,077	15,328
Other income / (expenses)	8	1,368	998
Operating profit before finance costs		**30,737**	**79,356**
Finance income	9	10,957	8,718
Finance expenses	9	(6,065)	(7,514)
Profit before tax		**35,629**	**80,560**
Income tax expense	10	(10,012)	(21,480)
Profit for the year		**25,617**	**59,080**
Total comprehensive income for the year		**25,617**	**59,080**
Profit for the period attributable to:			
- Equity holders of Grange Resources Limited		25,617	59,080
		25,617	59,080
Total comprehensive income for the period attributable to:			
- Equity holders of Grange Resources Limited		25,617	59,080
		25,617	59,080
Earnings per share for profit attributable to the ordinary equity holders of Grange Resources Limited			
Basic earnings per share (cents per share)	40	**2.22**	**5.12**
Diluted earnings per share (cents per share)	40	**2.21**	**5.11**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	NOTES	31 December 2013 $'000	31 December 2012 (Restated) $'000	1 January 2012 (Restated) $'000
ASSETS				
Current assets				
Cash and cash equivalents	11	**154,881**	119,918	172,269
Term deposits		**5,000**	55,000	9,846
Trade and other receivables	12	**29,269**	22,397	41,163
Inventories	13	**59,981**	53,097	68,178
Intangible assets	14	**3,063**	5,548	-
Total current assets		**252,194**	255,960	291,456
Non-current assets				
Term deposits		**-**	-	6,892
Receivables	15	**7,747**	6,937	13,824
Property, plant and equipment	16	**163,747**	171,879	169,378
Mine properties and development	17	**369,775**	365,281	343,222
Exploration and evaluation	18	**115,145**	109,734	96,561
Deferred tax assets	19	**-**	-	1,641
Total non-current assets		**656,414**	653,831	631,518
Total assets		**908,608**	909,791	922,974
LIABILITIES				
Current liabilities				
Trade and other payables	20	**35,443**	34,982	49,424
Borrowings	21	**2,852**	13,876	21,459
Deferred consideration	22	**8,332**	7,559	10,387
Current tax liability		**667**	-	4,695
Provisions	23	**8,094**	6,806	5,790
Total current liabilities		**55,388**	63,223	91,755

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	NOTES	31 December 2013 $'000	31 December 2012 (Restated) $'000	1 January 2012 (Restated) $'000
Non-current liabilities				
Borrowings	24	**680**	-	14,161
Deferred consideration	25	**35,536**	42,027	54,965
Deferred tax liabilities	26	**33,880**	24,535	-
Provisions	27	**34,048**	33,737	29,503
Total non-current liabilities		**104,144**	100,299	98,629
Total liabilities		**159,532**	163,522	190,384
Net assets		**749,076**	746,269	732,590
EQUITY				
Contributed equity	28	**331,373**	330,334	329,577
Reserves	29	**383**	1,103	3,041
Retained profits	30	**417,320**	414,832	399,972
Capital and reserves attributable to owners of Grange Resources Limited		**749,076**	746,269	732,590
Total equity		**749,076**	746,269	732,590

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

GRANGE RESOURCES LIMITED
ABN 80 009 132 405
31 DECEMBER 2013 FINANCIAL REPORT

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

Consolidated	NOTES	Contributed equity $'000	Reserves $'000	Retained earnings (Restated) $'000	TOTAL (Restated) $'000
Balance at 1 January 2013		**330,334**	**1,103**	**414,832**	**746,269**
Profit for the period		-	-	25,617	25,617
Total comprehensive income for the year		330,334	1,103	440,449	771,886
Transactions with owners in their capacity as owners					
Dividends paid	31	-	-	(23,129)	(23,129)
Employee share options and rights	29	1,039	(720)	-	319
		1,039	(720)	(23,129)	(22,810)
Balance at 31 December 2013		**331,373**	**383**	**417,320**	**749,076**
Balance at 1 January 2012		**329,577**	**3,041**	**424,681**	**757,299**
Change in accounting policy	32	-	-	(24,709)	(24,709)
Restated balance at 1 January 2012		**329,577**	**3,041**	**399,972**	**732,590**
Profit for the period		-	-	59,080	59,080
Total comprehensive income for the period		-	-	59,080	59,080
Transactions with owners in their capacity as owners					
Dividends paid	31	-	-	(46,198)	(46,198)
Employee share options and rights	29	757	(1,938)	1,978	797
		757	(1,938)	(44,220)	(45,401)
Balance at 31 December 2012		**330,334**	**1,103**	**414,832**	**746,269**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	2013 $'000	2012 (Restated) $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**268,298**	365,858
Payments to suppliers and employees (inclusive of goods and services tax)		**(156,657)**	(192,989)
		111,641	172,869
Interest received		**4,170**	6,840
Interest paid		**(9)**	(431)
Income taxes (paid) / received		**-**	-
Net cash inflow / (outflow) from operating activities	39	**115,802**	179,278
Cash flows from investing activities			
Payments for exploration and evaluation		**(5,411)**	(14,321)
Payments for property, plant and equipment		**(14,684)**	(27,818)
Payments for mine properties and development		**(80,074)**	(75,817)
Proceeds from (payments for) term deposits		**55,601**	(37,930)
Net cash inflow / (outflow) from investing activities		**(44,568)**	(155,886)
Cash flows from financing activities			
Repayment of borrowings		**-**	(10,138)
Proceeds from borrowings		**3,532**	-
Payment of deferred consideration		**(5,174)**	(5,324)
Dividends paid to shareholders		**(23,129)**	(46,198)
Finance lease payments		**(14,243)**	(12,482)
Net cash inflow / (outflow) from financing activities		**(39,014)**	(74,142)
Net increase / (decrease) in cash and cash equivalents		**32,220**	(50,750)
Cash and cash equivalents at beginning of the year		**119,918**	172,269
Net foreign exchange differences		**2,743**	(1,601)
Cash and cash equivalents at end of the year	11	**154,881**	119,918

The above statement 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 statements are set out below. These policies have been consistently applied for all the periods presented, unless otherwise stated.

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with IFRS

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

New accounting standards and interpretations adopted by the group

(i) AASB Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine (Interpretation 20)

Interpretation 20 provides guidance on the accounting for waste removal (stripping) costs incurred in the production phase of a surface mine. This Interpretation has been adopted retrospectively from 1 January 2012, representing the beginning of the earliest period presented, and has impacted the manner in which the Company accounts for stripping costs in the production phase of a surface mine (formerly referred to as deferred mining costs).

Prior to the issuance of *Interpretation 20*, the Company deferred stripping costs incurred in the production phase of a surface mine based on a ratio obtained by dividing the tonnage of waste mined by the quantity of ore mined. Stripping costs were deferred to the extent that the current period ratio exceeded the life of mine ratio and conversely charged to the income statement in periods when the ratio fell short of the life of mine ratio.

The accounting for deferred stripping costs under *Interpretation 20* differs from the previous accounting policy as the deferral of stripping costs is now based upon a ratio determined with reference to identified components of the ore body rather than a ratio determined with reference to the life of a mine.

In order to reflect the requirements of *Interpretation 20*, the Company has adopted the accounting policy as set out in Note 1(s).

(ii) AASB 10, Consolidated Financial Statements

AASB 10 is effective for accounting periods beginning on or after 1 January 2013 and replaces the guidance on control and consolidation in *AASB 127*, *Consolidated and Separate Financial Statements*, and Interpretation 112, *Consolidation – Special Purpose Entities.* It introduces a single definition of control of an entity, focusing on the need to have both exposure, or rights, to variable returns and the power to affect those returns, before control is present. The Group has reviewed its investments in other entities and concluded that the application of *AASB 10* does not have any impact on the amounts recognised in the consolidated financial statements.

(iii) AASB 11, Joint Arrangements

AASB 11 is effective for accounting periods beginning on or after 1 January 2013 and introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how contractual rights and obligations are shared by the parties to the joint arrangements. Based on the assessment of contractual rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iii) AASB 11, Joint Arrangements(continued)

Joint ventures are accounted for using the equity method, and the choice to proportionally consolidate is no longer be permitted. Parties to a joint operation continue to account for their direct right to, and their share of, jointly held revenues, expenses, assets and liabilities of the joint operation. The Group has assessed the nature of its joint arrangements and the application of *AASB 11* does not have any impact on the amounts recognised in the consolidated financial statements.

(iv) AASB 12, Disclosure of Interests in Other Entities

AASB 12 is effective for accounting periods beginning on or after 1 January 2013 and sets out the required disclosures for entitles reporting under *AASB 10* and *AASB 11,* replacing the disclose requirements currently found in *AASB 128, Investments in Associates and Joint Ventures*. The application of AASB 12 requires a number of disclosures which are consistent with previous disclosures made by the Company and has no impact on the amounts recognised in the consolidated financial statements.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Reclassification of Comparative Financial Information

The Company has reclassified financial information for the comparative period to improve the relevance and reliability of information presented. This reclassification has reduced borrowings by $9.3 million and increased provisions by the same amount at the beginning of the earliest period presented in the financial report, being 1 January 2012. A reclassification has also been made to the statement of financial position as at 31 December 2012. This revised presentation reflects the intention of the Company to discharge the purchase price obligation as specified in the Goldamere Agreement through the completion of environmental restoration works. There have been no changes to the comparative income statement as a result of this reclassification.

Details in relation to the impact of this reclassification on comparative financial information are disclosed in Note 32.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Grange Resources Limited as at 31 December 2013 and the results of all subsidiaries for the year then ended. Grange Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Principles of consolidation (continued)

(i) Subsidiaries (continued)

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 37.

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

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

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

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

(ii) Joint Ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated into the financial statements under the appropriate headings. Details of joint ventures are set out in Note 38.

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 5 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions and balances

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

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

(iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised as a separate component of equity.

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

(e) Business combinations

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Business combinations (continued)

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

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

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

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities described below. Amounts disclosed as revenue are net of agency commissions and amounts collected on behalf of third parties.

Revenue is recognised for the major business transactions as follows:

Sales of iron ore

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

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

Royalties

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

Interest revenue

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

Dividend revenue

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

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

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

(j) Trade and other receivables

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

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

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

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

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

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

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

Deferred tax assets are recognised for deductible temporary differences, including MRRT allowances and unused tax losses, only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Grange Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, Grange Resources Limited and its subsidiaries are taxed as a single entity and the deferred tax assets and liabilities of the Group are set off in the consolidated financial statements.

(m) Goods and Services Tax (GST)

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

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

- receivables and payables, which are stated with the amount of GST included.

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

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

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

(n) Mineral Resources Rent Tax (MRRT)

The MRRT was enacted in the reporting period ended 31 December 2012 and commenced on 1 July 2012. The MRRT represents an additional tax on profits generated from mining operations of iron ore and coal miners in Australia

The MRRT is considered, for accounting purposes, to be a tax based on income and accordingly current and deferred MRRT expenses will be measured and disclosed on the same basis as income tax expense as set out in Note 1(l).

(o) Carbon Emissions

Carbon emission units (carbon permits) issued under the Jobs and Competitiveness Program are recognised as a Government grant upon receipt and presented as an intangible asset. Grants from the government are recognised at fair value. The Government grant is initially recognised as deferred income and then subsequently recognised in the income statement systematically over the period based on production from the emissions intensive activity.

Carbon emission liabilities are recognised as the emissions are generated and are measured at the present value of the carbon permits required to extinguish the liability

Carbon expense and deferred income from carbon permits are recorded as part of the cost of inventory.

Carbon permit assets and carbon emission liabilities are disclosed on a gross basis in the consolidated statement of financial position.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Property, plant and equipment

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

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

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

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

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

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

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

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

(q) 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Exploration and evaluation (continued)

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.

(r) Mine properties and development

Mine properties and development represent the accumulation of all exploration, evaluation and development expenditure incurred by, not 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(t).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Deferred stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in the production phase of a surface mine are capitalised to the extent that they improve access to an identified component of the ore body and are subsequently amortised on a systematic basis over the expected useful life of the identified component of the ore body. Capitalised stripping costs are disclosed as a component of Mine Properties and Development.

Components of an ore body are determined with reference to life of mine plans and take account of factors such as the geographical separation of mining locations and/or the economic status of mine development decisions.

Capitalised stripping costs are initially measured at cost and represent an accumulation of costs directly incurred in performing the stripping activity that improves access to the identified component of the ore body, plus an allocation of directly attributable overhead costs. The amount of stripping costs deferred is based on a relevant production measure which uses a ratio obtained by dividing the tonnage of waste mined by the quantity of ore mined for an identified component of the ore body. Stripping costs incurred in the period for an identified component of the ore body are deferred to the extent that the current period ratio exceeds the expected ratio for the life of the identified component of the ore body. Such deferred costs are then charged against the income statement on a systematic units of production basis over the expected useful life of an identified component of the ore body.

Changes to the life of mine plan, identified components of an ore body, stripping ratios, units of production and expected useful life are accounted for prospectively.

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

Transition

The transitional provisions of Interpretation 20 require that it be applied from 1 January 2012, being the beginning of the earliest period presented in the financial report. Any previously recognised asset balance that resulted from stripping activity (predecessor stripping asset) shall be reclassified as part of an existing asset to which the stripping asset related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.

To the extent there is no identifiable component of the ore body to which the predecessor stripping asset relates, the asset has been written off to opening retained earnings at the beginning of the earliest period presented in the financial report, being 1 January 2012.

In accordance with these transitional provisions, adjustments have been made to the Statement of Financial Position as at 1 January 2012 to reflect the fact that the operations at Savage River had two identifiable ore components in operation within the North Pit as at this date and $24.7 million (tax effected) of predecessor stripping costs were unable to be associated to an identifiable ore component.

In addition to the above, adjustments have also been made to the financial report for the year ended 31 December 2012 to reflect the impact of accounting for stripping costs based on identifiable components of the ore body.

Details in relation to the impact of the transitional provisions of Interpretation 20 on comparative financial information are disclosed in Note 32.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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 groups 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)

(u) 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.

(v) 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Derivative financial instruments (continued)

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.

(w) 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) 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.

(y) Ore reserves

The Company estimates its mineral resources and ore reserves based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC 2012 code). Reserves, and for certain mineral 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.

(z) 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.

(aa) 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Borrowings (continued)

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.

(ab) 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Provisions (continued)

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.

(ac) Employee entitlements

Wages and salaries, annual leave and sick leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation funds

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

Share-based payment transactions

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Employee entitlements (continued)

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.

(ad) 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.

(ae) 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.

(af) Earnings per share (EPS)

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

(ii) Diluted earnings per share

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ag) 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.

(ah) 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.

(ai) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) ***AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*** *(effective from 1 January 2017)*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption. The Company intends to apply the standard from 1 January 2017. Application of this standard will not have a significant impact on the Group.

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

In July 2011, the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. Following changes made to the *Corporations Regulations,* the relevant disclosures will have to be included in the remuneration report for financial years commencing on or after 1 July 2013.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ai) New accounting standards and interpretations (continued)

(iii) ***AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets*** *(effective 1 January 2014)*

The AASB has made small changes to some of the disclosures that are required under AASB 136 *Impairment of Assets.* These may result in additional disclosures if the group recognises an impairment loss or the reversal of an impairment loss during the period. They will not affect any of the amounts recognised in the financial statements. The Group intends to apply the amendment from 1 January 2014.

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 an 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:

	2013	2012 (Restated)
	$'000	$'000
Financial Assets		
Cash and cash equivalents	**154,881**	119,918
Term deposits	**5,000**	55,000
Trade and other receivables	**33,679**	25,703
	193,560	200,621
Financial Liabilities		
Trade and other payables	**35,444**	34,982
Borrowings	**3,532**	13,876
Deferred consideration	**43,868**	49,586
	82,844	98,444

(a) Market Risk

(i) Foreign exchange risk

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

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

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

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

(a) Market Risk (continued)

(i) Foreign exchange risk (continued)

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

	2013 $'000	2012 $'000
Cash and cash equivalents	**73,427**	90,198
Trade and other receivables	**21,522**	13,519
Trade and other payables	**(573)**	(916)
Borrowings	**-**	(13,876)
Deferred consideration	**(43,868)**	(49,586)
Net US dollar surplus	**50,508**	39,339

Group sensitivity

Based on the financial instruments held at 31 December 2013, 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 $5.4 million higher / $2.0 million lower (2012: $4.1 million higher / $1.7 million lower), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated borrowings and deferred consideration off-set by US dollar denominated cash and cash equivalents and receivables as detailed in the above table.

(ii) Price risk

The Group is exposed to commodity price risk. During prior years, the Group agreed with its customers to price its iron ore pellets at index based market prices. At this time, the Group does not manage its iron ore price risk with financial instruments.

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

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from cash and cash equivalents.

Borrowings issued at variable rates expose 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 no variable rate borrowings outstanding. 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.

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

(a) Market Risk (continued)

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 2013, if interest rates had increased by 50 basis points (bps) or decreased by 50 basis points from the period end rates with all other variables held constant, post tax profit for the period would have been $0.8 million higher / $0.8 million lower (December 2012 changes of 50 bps / 50 bps: $0.6 million higher / $0.6 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 2013.

(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.

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

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.

2013 – 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	35,443	-	-	-	-	35,443	35,443
Deferred consideration	4,815	3,878	6,126	18,963	34,669	68,451	43,868
Fixed rate borrowings	2,380	541	359	329	-	3,609	3,532
Total non-derivatives	42,638	4,419	6,485	19,292	34,669	107,503	82,843

2012 - 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	34,982	-	-	-	-	34,982	34,982
Deferred consideration	4,325	3,551	7,029	21,309	41,750	77,964	49,586
Fixed rate borrowings	14,165	-	-	-	-	14,165	13,876
Total non-derivatives	53,472	3,551	7,029	21,309	41,750	127,111	98,444

(d) 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. FAIR VALUE MEASUREMENT

In accordance with AASB 13, *Fair Value Measurement*, the Company has classified, according to the fair value hierarchy, the Group's deferred consideration obligation as a Level 3 liability. This obligation is measured at fair value on a recurring basis. There are no Level 1 or 2 assets or liabilities.

The Group did not measure any other liabilities at fair value on a non-recurring basis as at 31 December 2013 and did not transfer any fair value amounts between the fair value hierarchy during the year ended 31 December 2013.

Due to their short-term nature, the carrying amounts of current receivables and current payables are assumed to approximate their fair value.

(i) Valuation processes

The valuation of deferred consideration is carried out by the Group's finance department, considered by the Audit Committee and approved by the Board of Directors at least once every six months, in-line with the Group's reporting dates.

In determining the fair value of the deferred consideration obligation, the main Level 3 inputs are derived and evaluated as follows:

Expected annual cash outflows - estimates of expected gross revenues and annual cash outflows are determined based on a number of assumptions including production, commodity prices and foreign exchange rates. These estimates are based on the Group's current life of mine plans and budgets as well as commodity prices and foreign exchange rates as determined by an external party.

Discount rates - the discount rate is an estimate that reflects current market assessment of the time value of money and risks specific to the liability.

There were no changes to any of the valuation techniques used to determine the fair value of the obligation during the reporting year.

(ii) Valuation inputs and sensitivity analysis

The following table summarises the quantitative information about the significant inputs used in the fair value measurement of deferred consideration

Description	Fair Value $'000	Valuation Technique	Inputs	Range of inputs
Deferred consideration	43,868	Discounted cash flows	Expected annual cash outflows	$5.7 million - $7.2 million
			Risk adjusted discount rate	10%

Based on the fair value of deferred consideration at 31 December 2013, had expected annual cash outflows strengthened / weakened by 10% with all other variables held constant, the fair value of the obligation would have been $4.4 million higher / $4.4 million lower. In addition, an increase / decrease in the discount rate by 100 basis points (bps) from the year end rate with all other variables held constant, would result in the fair value of the obligation being $1.7 million higher / $1.6 million lower.

NOTE 4. 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.

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.

(a) 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. The Company has also considered recent transactions involving Australian magnetite iron ore projects which provide another reference point to support the carrying value of the group's interest in the Southdown Project.

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.

(b) 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.

(c) Impairment of property, plant and equipment and mine properties and development

The Group performs an impairment assessment where there is an indication of possible impairment. Impairment assessments are performed using information from internal Board approved budgets as well as 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 expectations regarding future operating performance which is subject to risk and uncertainty.

At the end of the reporting year the key assumptions used by the Directors in determining the recoverable amount were in the following ranges for the group's Savage River operations:

Assumption	2014-2022	Long Term 2023+
Iron Ore Pellets (65.5% fe FOB Port Latta) (US$ per dmt)	US$140/t – US$105/t	US$105/t
AUD:USD Exchange Rate	$0.90 declining to $0.81	$0.81
Post-tax real discount rate	10%	10%

NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment of property, plant and equipment and mine properties and development (continued)

Commodity prices and foreign exchange rates

Commodity prices and foreign exchange rates are estimated with reference to analysis performed by an external party and are updated at least once every six months, in-line with the Group's reporting dates. The rates applied are based upon analysis performed by an external party.

Operating performance (Production, operating costs and capital costs)

Life of mine production, operating cost and capital cost assumptions are based on the Group's most recent life of mine plan and budget. The assumptions include expected improvements reflecting the Group's objective of maximising free cash flow by optimising production and improving productivity. Mineral resources and ore reserves not in the most recent life of mine plan are not included in the determination of recoverable amount.

Discount rate

To determine the recoverable amount, the estimated future cash flows have been discounted to their present value using a post-tax real discount rate that reflects a current market assessment of the time value of money and risks specific to the asset.

Sensitivity considerations

The recoverable amount calculated for the group's Savage River operations is not significantly in excess of the carrying amount. It is estimated that changes in the following key assumptions that have a significant risk of resulting in a material adjustment to the carrying amount would have the following approximate impact on the recoverable amount of the Group's operations:

Decrease in recoverable amount resulting from	
US$1 per dmt decrease in Iron Ore Pellet prices (65.5% fe FOB Port Latta)	$17.2 million
$0.01 increase in the AUD:USD exchange rate	$23.2 million
1% increase in estimated operating costs	$11.8 million
25 bps increase in the discount rate	$12.1 million

Reasonably possible changes in circumstances may affect these key assumptions and therefore the recoverable amount. In reality, a change in any one of the aforementioned assumptions (including operating performance) would usually be accompanied by a change in another assumption which may have an off-setting impact. Action is usually taken to respond to adverse changes in assumptions to mitigate the impact of any such change. If the carrying amount is assessed to be impaired, the impairment charge is recognised in the income statement.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Stripping costs in the production phase of a surface mine (Interpretation 20)

The application of *Interpretation 20* requires management judgement in determining whether a surface mine is in the production phase and whether the benefits of production stripping activities will be realised in the form of inventory produced through improved access to ore.

Judgement is also applied in identifying the component of the ore body and the manner in which stripping costs are capitalised and amortised. There are a number of uncertainties inherent in identifying components of the ore body and the inputs to the relevant production methods for capitalising and amortising stripping costs and these assumptions may change significantly when new information becomes available. Such changes could impact on capitalisation and amortisation rates for capitalised stripping costs and deferred stripping asset values. In addition, the Company performed an assessment of the predecessor stripping asset as at 1 January 2012 to determine the extent that there remains an identifiable component of the ore body with which the predecessor stripping can be associated.

(e) Determination of mineral resources and ore reserves

Mineral resources and ore reserves are based on information compiled by a Competent Person as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC 2012 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 ore 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.

(f) Taxation

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

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

In addition, certain deferred tax assets for deductible temporary differences, including carried forward taxation losses 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.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(g) Mineral Resources Rent Tax (MRRT)

The enactment and subsequent commencement of the MRRT requires management judgement in relation to the application of the Mineral Resources Rent Tax Act 2012.

In assessing the impact of the MRRT on future results, the Group makes a number of assumptions and estimates, including commodity price, foreign exchange rates, reserves and resources for a mining project interest and an expectation regarding future operating performance which is subject to risk and uncertainty. In addition, the Group has also determined a market value of its mining assets as at 1 May 2010. Changes in circumstances and market conditions may affect any of these assumptions and estimates and the impact of the MRRT on the group's future results. These changes coupled with the impact of the MRRT on the Group's future results will be recognised in the period in which the assessment is made.

(h) Deferred consideration obligation

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

In determining the appropriate level of obligation consideration is given to the expected gross revenues of Grange Resources (Tasmania) Pty Ltd and the timing of these expected gross revenues. Estimates of gross revenue include a number of assumptions including commodity prices and foreign exchange rates. Changes to any of the estimates could result in a significant change to the level of the obligation required, which in turn will impact future financial results. Refer to Note 3 for further information, including sensitivities to assumptions.

(i) 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.

(j) 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 shares issued is determined by the volume weighted average trading price over a specified number of days.

(k) Revenue recognition - Provisional pricing

The Group has recognised revenues amounting to $8.5 million for the year ended 31 December 2013 (31 December 2012: $2.0 million) from the sale of iron ore products which requires quantity and quality verification by the customer. The Group is confident that the quantity and quality of the iron ore pellets is such that it is appropriate to recognise the provisional pricing revenues during the year ended 31 December 2013.

NOTE 5. 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.

The following table presents revenues from sales of iron ore based on the geographical location of the port of discharge.

	Segment revenues from sales to external customers	
	2013	**2012**
	$'000	**$'000**
Australia	6,725	73,147
China	206,487	237,676
India	12,761	20,485
Japan	30,582	-
Korea	21,684	-
Philippines	2,833	-
TOTAL	281,072	331,308

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 2013 and 31 December 2012. The total costs incurred during the current and comparative periods to acquire segment assets were also predominately incurred in Australia.

NOTE 6. REVENUE

	2013 $'000	2012 (Restated) $'000
From mining operations		
Sales of iron ore	281,072	331,308
	281,072	331,308

NOTE 7. COST OF SALES

Mining costs	142,472	133,184
Production costs	92,577	95,502
Government royalties	9,702	9,481
Depreciation and amortisation expense	22,723	24,579
Mine properties and development		
- Amounts capitalised during the year	(50,906)	(19,087)
- Amortisation expense	15,643	15,066
Deferred stripping		
- Amounts capitalised during the year	(29,168)	(56,730)
- Amortisation expense	59,487	42,060
Changes in inventories	(7,881)	17,229
Foreign exchange loss	(2,664)	(1)
	251,985	261,283
Depreciation and amortisation		
Land and buildings	1,516	2,925
Plant and equipment	20,668	21,475
Computer equipment	539	179
	22,723	24,579

Profit before income tax includes the following specific expenses:

Employee benefits expense	61,274	62,488
Defined contribution superannuation expense	5,071	5,034

NOTE 8. OTHER INCOME / (EXPENSES)

	2013 $'000	2012 $'000
Other income / (expenses)		
Net loss on the disposal of property, plant and equipment	(28)	(78)
Write off of exploration and evaluation assets	-	(1,148)
Recovery from legal claim	-	860
Other income	1,396	1,364
	1,368	998

NOTE 9. FINANCE INCOME/(EXPENSES)

Finance income		
Interest income received or receivable		
- Other entities	4,334	7,073
Exchange gains on foreign currency deposits / borrowings (net)	6,623	1,645
	10,957	8,718
Finance expenses		
Interest charges paid or payable		
- Other entities	(206)	(637)
Finance lease interest charges paid or payable	(290)	(1,281)
Provisions: unwinding of discount		
- Deferred consideration (Note 22 and Note 25)	(4,533)	(4,886)
- Decommissioning and restoration (Note 27)	(1,036)	(710)
	(6,065)	(7,514)

NOTE 10. INCOME TAX EXPENSE

		2013	2012 (Restated)
		$'000	$'000
(a)	**Income tax expense**		
	Current tax	667	(4,695)
	Deferred tax	9,345	26,175
		10,012	21,480
	Deferred income tax (revenue) expense included in income tax expense comprises:		
	(Increase)/decrease in deferred tax assets	1,953	10,346
	Increase/(decrease) in deferred tax liabilities	7,392	15,829
		9,345	26,175
(b)	**Numerical reconciliation of income tax expense to prima facie tax payable**		
	Profit from continuing operations before income tax expense	35,629	80,560
	Tax at the Australian tax rate of 30% (2012: 30%)	10,689	24,168
	Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
	Revaluation of deferred consideration	(1,523)	(4,598)
	Unwind of discount on deferred consideration	1,360	1,466
	Recovery from legal claim	-	2,322
	Share based payments expense	96	239
	Sundry items	277	347
		10,899	23,944
	Adjustments to current / deferred tax of prior periods	(887)	(2,464)
	Income tax expense	10,012	21,480
(c)	**Taxation Losses**		
	Unused taxation losses for which no deferred tax asset has been recognised	54,104	54,104
	Potential tax benefit @ 30%	16,231	16,231

All unused taxation losses were incurred by Australian entities that are part of the tax consolidated group. The tax losses as disclosed above have not been recognised as they are not presently available for use. Their availability is subject to the satisfaction of the same business test under Australia's tax loss integrity rules.

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

(d) Mineral Resources Rent Tax (MRRT)

As at 31 December 2013, the Group has unused MRRT royalty credits and starting base allowances for which no deferred tax asset has been recognised. The Australian Government announced on 24 October 2013 that it will seek to repeal the MRRT with effect from 1 July 2014. The Group is awaiting the outcome of this announcement.

NOTE 11. CASH AND CASH EQUIVALENTS

	2013 $'000	2012 $'000
Cash at bank and in hand	31,223	16,991
Term deposits	123,658	102,927
	154,881	119,918

(a) Total cash (current and non-current)

Cash at bank and in hand as per statement of cash flows	154,881	119,918
Add:		
Current term deposits	5,000	55,000
	159,881	174,918

Total cash is held in trading accounts or term deposits with major financial institutions under normal terms and conditions appropriate to the operation of the accounts. These deposits earn interest at rates set by these institutions. As at 31 December 2013 the weighted average interest rate on the Australian dollar accounts was 3.99% (31 December 2012: 4.54%) and the weighted average interest rate on the United States dollar accounts was 0.87% (31 December 2012: 0.72%).

(b) Risk exposure

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

NOTE 12. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Trade receivables	21,696	7,926
Security deposits[1]	394	6,805
Other receivables	3,842	4,035
Prepayments	3,337	3,631
	29,269	22,397

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

(a) Impaired trade receivables

The Group has no trade receivables past due as at 31 December 2013, 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

	2013 $'000	2012 (Restated) $'000
Stores and spares	20,843	21,840
Ore stockpiles (at cost)	20,487	15,320
Work-in-progress (at cost)	439	1,240
Finished goods (at cost)	18,212	14,697
	59,981	53,097

NOTE 14. INTANGIBLE ASSETS

Carbon Units[1]	3,063	5,548
	3,063	5,548

(1) Represents the fair value of the allocation of free carbon units issued to Grange Resources (Tasmania) Pty Ltd pursuant to the *Clean Energy Act 2011* and the *Clean Energy Regulations 2011* for the 2013-14 vintage year (2012: 2012-13 vintage year).

NOTE 15. RECEIVABLES

	2013 $'000	2012 $'000
Security deposits[1]	7,747	6,937
	7,747	6,937

[1] Non-current security deposits comprises of restricted deposits that are used for monetary backing for performance guarantees.

(a) Risk exposure

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

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $'000	*Plant and equipment* $'000	*Computer equipment* $'000	*Total* $'000
At 1 January 2013				
Cost or fair value	54,067	281,164	2,377	337,608
Accumulated depreciation	(19,265)	(144,501)	(1,963)	(165,729)
Net book amount	**34,802**	**136,663**	**414**	**171,879**
Year ended 31 December 2013				
Opening net book amount	34,802	136,663	414	171,879
Additions	909	11,660	2,998	15,567
Disposals	-	(26)	(4)	(30)
Depreciation charge	(1,532)	(21,529)	(608)	(23,669)
Transfers (at net book value)	(8,830)	7,773	1,057	-
Closing net book amount	**25,349**	**134,541**	**3,857**	**163,747**
At 31 December 2013				
Cost or fair value	38,485	300,448	6,883	345,816
Accumulated depreciation	(13,136)	(165,907)	(3,026)	(182,069)
Net book amount	**25,349**	**134,541**	**3,857**	**163,747**

	Land and buildings $'000	*Plant and equipment* $'000	*Computer equipment* $'000	*Total* $'000
At 1 January 2012				
Cost or fair value	53,729	254,281	2,001	310,011
Accumulated depreciation	(16,324)	(122,828)	(1,481)	(140,633)
Net book amount	**37,405**	**131,453**	**520**	**169,378**
Year ended 31 December 2012				
Opening net book amount	37,405	131,453	520	169,378
Additions	457	26,974	410	27,841
Disposals	(119)	(91)	(34)	(244)
Depreciation charge	(2,941)	(21,673)	(482)	(25,096)
Closing net book amount	**34,802**	**136,663**	**414**	**171,879**
At 31 December 2012				
Cost or fair value	54,067	281,164	2,377	337,608
Accumulated depreciation	(19,265)	(144,501)	(1,963)	(165,729)
Net book amount	**34,802**	**136,663**	**414**	**171,879**

NOTE 16. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Assets under construction

The carrying amounts of the assets disclosed above includes expenditure of $24.1 million (2012: $25.7 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.

	2013 $'000	2012 (Restated) $'000
Cost	999	70,927
Accumulated depreciation	-	(56,654)
Net book amount	999	14,273

NOTE 17. MINE PROPERTIES AND DEVELOPMENT

Mine properties and development (at cost)	411,431	360,966
Accumulated depreciation	(120,952)	(105,300)
Net book amount	290,479	255,666
Deferred stripping costs (net book amount)	79,296	109,615
Total mine properties and development	369,775	365,281

Movements in mine properties and development are set out below:

Mine properties and development		
Opening net book amount	255,666	248,277
Current year expenditure capitalised	50,906	19,087
Change in rehabilitation estimate	(450)	3,368
Amortisation expense	(15,643)	(15,066)
Closing net book amount	290,479	255,666
Deferred stripping costs		
Opening net book amount	109,615	94,945
Current year expenditure capitalised	29,168	56,730
Amortisation expense	(59,487)	(42,060)
Closing net book amount	79,296	109,615

NOTE 18. EXPLORATION & EVALUATION

	2013 $'000	2012 $'000
Exploration & evaluation properties (at cost)	115,145	109,734
	115,145	109,734

Movements in exploration and evaluation expenditure are set out below:

	2013 $'000	2012 $'000
Balance at beginning of year	109,734	96,561
Current year expenditure	5,411	14,321
Expenditure written-off	-	(1,148)
Balance at end of year	115,145	109,734

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 Company has announced that it is looking to sell at least a 30 per cent stake of Grange's 70 per cent interest in the Southdown Magnetite Project.

As at 31 December 2013, there is not sufficient certainty regarding the outcome of this strategy to recognise a stake of the group's interest in the Southdown Project as a non-current asset held for sale.

The Directors have reviewed the carrying values of each area of interest (including Southdown) as at the balance date and have concluded that they are carried forward in accordance with the exploration and evaluation accounting policy.

NOTE 19. DEFERRED TAX ASSETS

	2013 $'000	2012 $'000
The balance comprises temporary differences attributable to:		
Receivables	**-**	27
Property, plant and equipment	21,263	24,109
Trade and other payables	2,293	187
Employee benefits	2,572	2,358
Decommissioning and restoration	7,369	7,089
Taxation losses	-	1,438
Other	849	1,091
Total deferred tax assets	34,346	36,299
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 26)	(34,346)	(36,299)
Net deferred tax assets	-	-

NOTE 20. TRADE AND OTHER PAYABLES

	2013 $'000	2012 $'000
Trade payables and accruals	24,157	22,674
Other payables	11,286	12,308
	35,443	34,982

(a) Other payables

Other payables include accruals for annual leave of $7.3 million (2012 $6.3 million). 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)

	2013 $'000	2012 $'000
Secured		
Finance lease liabilities [(1)]	319	13,876
Other borrowings	2,533	-
	2,852	13,876

(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)

	2013 $'000	2012 $'000
Deferred consideration	8,332	7,559
	8,332	7,559

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

	2013 $'000	2012 $'000
Balance at beginning of the year	7,559	10,387
Payments	(5,174)	(5,324)
Changes in estimate	(1,148)	(5,274)
Unwinding of discount	776	147
Transfers from non-current balance	6,319	7,623
Balance at end of the year	8,332	7,559

Refer to Note 25 for further details on deferred consideration.

NOTE 23. PROVISIONS (CURRENT)

	2013	2012 (Restated)
	$'000	$'000
Employee benefits	7,357	6,139
Decommissioning and restoration	535	667
Other	202	-
	8,094	6,806

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

	Decommissioning and restoration	Other	Total
Balance at beginning of the year	667	-	**667**
Payments	(562)	-	**(562)**
Additional provision recognised	-	202	**202**
Transfers from non-current provisions	430	-	**430**
Balance at the end of the year	535	202	**737**

NOTE 24. BORROWINGS (NON-CURRENT)

	2013	2012
	$'000	$'000
Secured		
Finance lease liabilities [(1)]	680	-
	680	-

(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)

Deferred consideration	35,536	42,027
	35,536	42,027

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

Balance at beginning of year	42,027	54,965
Changes in estimate	(3,929)	(10,054)
Unwinding of discount	3,757	4,739
Transfers to current balance	(6,319)	(7,623)
Balance at end of year	35,536	42,027

The deferred consideration obligation represents a series of payments owing to the previous owners of Grange Resources (Tasmania) Pty Ltd and arose from a business combination which completed in August 2007. The terms of the obligation entitle the previous owners to 2% of the gross receipts of Grange Resources (Tasmania) Pty Ltd from 1 January 2012 to 31 December 2023. Refer to Note 3 and Note 4(h) for further information with respect to this balance.

NOTE 26. DEFERRED TAX LIABILITIES (NON-CURRENT)

	2013 $'000	2012 (Restated) $'000
The balance comprises temporary differences attributable to:		
Trade and other receivables	39	62
Inventories	2,651	1,100
Mine properties and development	30,992	27,054
Exploration and evaluation	34,544	32,170
Borrowings	-	448
Total deferred tax liabilities	68,226	60,834
Set-off of deferred tax assets pursuant to set-off provisions (Note 19)	(34,346)	(36,299)
Net deferred tax liabilities	33,880	24,535

NOTE 27. PROVISIONS (NON-CURRENT)

Employee benefits	1,225	1,721
Decommissioning and restoration	32,595	32,016
Other	228	-
	34,048	33,737

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

	Decommissioning and restoration	Other	Total
Balance at beginning of the year	32,016	-	**32,016**
Change in estimate	(27)	-	**(27)**
Unwinding of discount	1,036	-	**1,036**
Additional provision recognised	-	228	**228**
Transfers to current provisions	(430)	-	**(430)**
Balance at the end of the year	32,595	228	**32,823**

NOTE 28. CONTRIBUTED EQUITY

	2013 Shares	2012 Shares	2013 $'000	2012 $'000
Issued and fully paid ordinary shares	1,157,097,869	1,155,487,102	331,373	330,334
	1,157,097,869	1,155,487,102	331,373	330,334

NOTE 28. CONTRIBUTED EQUITY (continued)

(a) Movements in ordinary share capital	Number of Shares	$'000
1 January 2012 – Opening balance	**1,153,937,134**	**329,577**
5 January 2012 – Issue of shares under long term incentive plan	422,593	229
27 March 2012 – Issue of shares under long term incentive plan	406,865	300
2 July 2012 – Issue of shares under long term incentive plan	720,510	228
31 December 2012 – Closing balance	**1,155,487,102**	**330,334**
8 January 2013 – Issue of shares under long term incentive plan	314,298	170
8 January 2013 – Issue of shares under long term incentive plan	364,842	269
10 January 2013 – Issue of shares under long term incentive plan	15,540	11
7 March 2013 – Issue of shares under long term incentive plan	310,413	181
31 December 2013 – Issue of shares under long term incentive plan	240,829	140
31 December 2013 – Issue of shares under long term incentive plan	364,845	268
31 December 2013 – Closing balance	**1,157,097,869**	**331,373**

(b) Ordinary shares

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

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

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

(c) Share options and rights

The Company has share based payment schemes under which options to subscribe and rights for the Company's shares have been granted to certain executives and eligible employees (refer to Note 41).

NOTE 29. RESERVES

	2013 $'000	2012 $'000
Share-based payments reserve	383	1,103
	383	1,103

(a) Movements in share-based payments reserves

	2013 $'000	2012 $'000
Balance at beginning of the year	1,103	3,041
Share based payments expense	319	797
Expired share options	-	(1,978)
Issue of shares to employees	(1,039)	(757)
Balance at end of the year	383	1,103

NOTE 29. RESERVES (continued)

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

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

NOTE 30. RETAINED PROFITS

	2013 $'000	2012 (Restated) $'000
Retained profits		
Movements in retained profits were as follows:		
Balance at the beginning of the year	414,832	399,972
Profit for the year	25,617	59,080
Dividends paid	(23,129)	(46,198)
Expired share options	-	1,978
Balance at the end of the year	417,320	414,832

NOTE 31. DIVIDENDS

Unfranked final dividend for the year ended 31 December 2012 – 1.0 cent per share (2011: 3.0 cents per share)	(11,564)	(34,643)
Unfranked interim dividend for the year ended 31 December 2013 – 1.0 cent per share (2012: 1.0 cent per share)	(11,565)	(11,555)
Total dividends provided for or paid	(23,129)	(46,198)

(a) Ordinary shares

A final dividend for the year ended 31 December 2012 of 1.0 cent per fully paid share (2011: 3.0 cents per share) was paid on 3 April 2013. This final dividend was declared NIL conduit foreign income.

An interim dividend for the year ended 31 December 2013 of 1.0 cent per fully paid share (2012: 1.0 cent per fully paid share) was paid on 2 October 2013. This interim dividend was declared NIL conduit foreign income.

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

In addition to the above dividends which were paid in 2013, the Directors have recommended the payment of an unfranked dividend of $23.1 million. This represents an ordinary final unfranked dividend of 1.0 cent per share for the year ended 31 December 2013 and an additional special unfranked dividend of 1.0 cent per share for the same period. This final and special dividend was declared NIL conduit foreign income and is not recognised as a liability at year end. The combined 2.0 cent dividend will be paid on 4 April 2014.

NOTE 32. IMPACTS ARISING FROM THE RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION AND THE ADOPTION OF AASB INTERPRETATION 20, STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

(a) Statement of Financial Position – 1 January 2012

	31 December 2011	Increase / (Decrease)		1 January 2012 (Restated)
		Reclassification	Interpretation 20	
	$'000	$'000	$'000	$'000
ASSETS				
Current assets				
Cash and cash equivalents	172,269	-	-	172,269
Term deposits	9,846	-	-	9,846
Trade and other receivables	41,163	-	-	41,163
Inventories	68,178	-	-	68,178
Total current assets	**291,456**	**-**	**-**	**291,456**
Non-current assets				
Term deposits	6,892	-	-	6,892
Receivables	13,824	-	-	13,824
Property, plant and equipment	169,378	-	-	169,378
Mine properties and development	378,520	-	(35,298)	343,222
Exploration and evaluation	96,561	-	-	96,561
Deferred tax assets	-	-	1,641	1,641
Total non-current assets	**665,175**	**-**	**(33,657)**	**631,518**
Total assets	**956,631**	**-**	**(33,657)**	**922,974**
LIABILITIES				
Current liabilities				
Trade and other payables	49,424	-	-	49,424
Borrowings	22,047	(588)	-	21,459
Deferred consideration	10,387	-	-	10,387
Current tax liabilities	4,695	-	-	4,695
Provisions	5,202	588	-	5,790
Total current liabilities	**91,755**	**-**	**-**	**91,755**
Non-current liabilities				
Borrowings	22,839	(8,678)	-	14,161
Deferred consideration	54,965	-	-	54,965
Deferred tax liabilities	8,948	-	(8,948)	-
Provisions	20,825	8,678	-	29,503
Total non-current liabilities	**107,577**	**-**	**(8,948)**	**98,629**
Total liabilities	**199,332**	**-**	**(8,948)**	**190,384**
Net assets	**757,299**	**-**	**(24,709)**	**732,590**
EQUITY				
Contributed equity	329,577	-	-	329,577
Reserves	3,041	-	-	3,041
Retained earnings	424,681	-	(24,709)	399,972
Total equity	**757,299**	**-**	**(24,709)**	**732,590**

NOTE 32. IMPACTS ARISING FROM THE RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION AND THE ADOPTION OF AASB INTERPRETATION 20, STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE (continued)

(b) Statement of Comprehensive Income – 31 December 2012

	31 December 2012 $'000	Profit Increase / (Decrease) $'000	31 December 2012 (Restated) $'000
Revenues from mining operations	331,308	-	331,308
Cost of sales	(294,391)	33,108	(261,283)
Gross profit from mining operations	**36,917**	**33,108**	**70,025**
Administration expenses	(6,995)	-	(6,995)
Operating profit before other income / (expenses)	**29,922**	**33,108**	**63,030**
Other income / (expenses)			
Revaluation of deferred consideration	15,328	-	15,328
Other income / (expenses)	998	-	998
Operating profit before finance income / (expense)	**46,248**	**33,108**	**79,356**
Finance income	8,718	-	8,718
Finance expenses	(7,514)	-	(7,514)
Profit before tax	**47,452**	**33,108**	**80,560**
Income tax expense	(11,548)	(9,932)	(21,480)
Profit for the year	**35,904**	**23,176**	**59,080**
Total comprehensive income for the year	**35,904**	**23,176**	**59,080**
Earnings per share for profit attributable to the ordinary equity holders of Grange Resources Limited			
Basic earnings per share (cents per share)	3.11	2.01	5.12
Diluted earnings per share (cents per share)	3.10	2.01	5.11

NOTE 32. IMPACTS ARISING FROM THE RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION AND THE ADOPTION OF AASB INTERPRETATION 20, STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE (continued)

(c) Statement of Cash Flows – 31 December 2012

	31 December 2012	Increase / (Decrease)	31 December 2012 (Restated)
	$'000	$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)	365,858		365,858
Payments to suppliers and employees (inclusive of goods and services tax)	(240,342)	47,353	(192,989)
	125,516	47,353	172,869
Interest received	6,840	-	6,840
Interest paid	(431)	-	(431)
Net cash inflow / (outflow) from operating activities	**131,925**	**47,353**	**179,278**
Cash flows from investing activities			
Payments for exploration and evaluation	(14,321)	-	(14,321)
Payments for property, plant and equipment	(27,818)	-	(27,818)
Payments for mine properties and development	(28,464)	(47,353)	(75,817)
Proceeds from / (payments for) term deposits	(37,930)	-	(37,930)
Net cash inflow / (outflow) from investing activities	**(108,533)**	**(47,353)**	**(155,886)**
Cash flows from financing activities			
Finance lease payments	(12,482)	-	(12,482)
Repayment of borrowings	(10,138)	-	(10,138)
Payment of deferred consideration	(5,324)	-	(5,324)
Payment of dividends to shareholders	(46,198)	-	(46,198)
Net cash inflow / (outflow) from financing activities	**(74,142)**	**-**	**(74,142)**
Net increase / (decrease) in cash and cash equivalents	(50,750)	-	(50,750)
Cash and cash equivalents at beginning of the year	172,269	-	172,269
Net foreign exchange differences	(1,601)	-	(1,601)
Cash and cash equivalents at end of the year	**119,918**	**-**	**119,918**

NOTE 32. IMPACTS ARISING FROM THE RECLASSIFICATION OF COMPARATIVE FINANCIAL INFORMATION AND THE ADOPTION OF AASB INTERPRETATION 20, STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE (continued)

(d) Statement of Financial Position – 31 December 2012

	31 December 2012	Increase / (Decrease)		31 December 2012 (Restated)
		Reclassification	Interpretation 20	
	$'000	$'000	$'000	$'000
ASSETS				
Current assets				
Cash and cash equivalents	119,918	-	-	119,918
Term deposits	55,000	-	-	55,000
Trade and other receivables	22,397	-	-	22,397
Inventories	59,432	-	(6,335)	53,097
Intangible assets	5,548	-	-	5,548
Total current assets	**262,295**	**-**	**(6,335)**	**255,960**
Non-current assets				
Receivables	6,937	-	-	6,937
Property, plant and equipment	171,879	-	-	171,879
Mine properties and development	361,136	-	4,145	365,281
Exploration and evaluation	109,734	-	-	109,734
Total non-current assets	**649,686**	**-**	**4,145**	**653,831**
Total assets	**911,981**	**-**	**(2,190)**	**909,791**
LIABILITIES				
Current liabilities				
Trade and other payables	34,982	-	-	34,982
Borrowings	14,326	(450)	-	13,876
Deferred consideration	7,559	-	-	7,559
Current tax liabilities	-	-	-	-
Provisions	6,356	450	-	6,806
Total current liabilities	**63,223**	**-**	**-**	**63,223**
Non-current liabilities				
Borrowings	8,603	(8,603)	-	-
Deferred consideration	42,027	-	-	42,027
Deferred tax liabilities	25,192	-	(657)	24,535
Provisions	25,134	8,603	-	33,737
Total non-current liabilities	**100,956**	**-**	**(657)**	**100,299**
Total liabilities	**164,179**	**-**	**(657)**	**163,522**
Net assets	**747,802**	**-**	**(1,533)**	**746,269**
EQUITY				
Contributed equity	330,334	-	-	330,334
Reserves	1,103	-	-	1,103
Retained earnings	416,365	-	(1,533)	414,832
Total equity	**747,802**	**-**	**(1,533)**	**746,269**

NOTE 33. KEY MANAGEMENT PERSONNEL

	2013 $'000	2012 $'000
Short-term employee benefits	1,792	3,060
Post-employment benefits	75	186
Long-term benefits	20	11
Termination benefits	178	635
Share-based payments	250	1,099
	2,315	4,991

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 23.

(a) Equity instrument disclosures relating to key management personnel

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

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

(ii) Option holdings

31 December 2013

There were no options over ordinary shares in the Company held during the year ended 31 December 2013 by any Director of Grange Resources Limited or other key management personal of the Group, including their personally related entities.

31 December 2012

	Balance 1 January 2012	Granted as remuneration	Options exercised	Options lapsed	Balance 31 December 2012	Vested and exercisable	Unvested
Directors of Grange Resources Limited							
R Clark	4,500,000	-	-	(4,500,000)	-	-	-
Other Key Management Personnel							
W Bould	450,000	-	-	(450,000)	-	-	-

(iii) Rights to Grange Shares

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

31 December 2013

	Balance 1 January 2013	Granted as remuneration	Shares issued on vesting of rights	Other changes (net)	Balance 31 December 2013	Vested	Unvested
Directors of Grange Resources Limited							
W Bould	232,607	-	(232,607)	-	-	-	-
R Mehan(1)	-	614,029(2)	-	(614,029)	-	-	614,029
Other key management personnel of group							
D Corr(3)	59,501	71,807	(107,372)	-	23,936	-	23,936
B Maynard(3)	8,909	17,712	(20,717)	-	5,904		5,904

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

(1) R Mehan resigned as Managing Director of the Company on 4 June 2013. Unvested rights issued to R Mehan will vest in accordance with the terms of his employment contract and the conditions of the Company's Long Term Incentive Scheme.

(2) Represents rights issued to R Mehan for the year ended 31 December 2013 as approved by the Remuneration and Nomination Committee during the year.

(3) From 1 January 2013, the LTI program adopted a Total Shareholder Return performance hurdle and moved to a three year performance period. Rights awarded to eligible employees will be disclosed in the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement following the end of the three year performance period.

31 December 2012

	Balance 1 January 2012	Granted as remuneration	Shares issued on vesting of rights	Other changes (net)	Balance 31 December 2012	Vested	Unvested
Directors of Grange Resources Limited							
R Clark[1]	578,670	1,162,090[2]	(734,819)	(1,005,941)	-		1,005,941
Other key management personnel of group							
W Bould[3]	264,466	316,628	(348,487)	-	232,607	-	232,607
D Corr[4]	31,260	76,865	(48,626)	-	59,499	-	59,499

(1) R Clark resigned as Managing Director of the Company on 6 August 2012 and ceased employment on 15 September 2012. Unvested rights issued to R Clark will continue to vest in accordance with the terms of his employment contract and the conditions of the Company's Long Term Incentive Scheme.

(2) Includes rights issued to R Clark on a pro-rata basis for the year ended 31 December 2012 as approved by the Remuneration and Nomination Committee during the year.

(3) W Bould ceased employment with the Company on 31 December 2012 and entered into a consulting arrangement with the Company effective from 1 January 2013. He is no longer eligible to participate in the Group's variable remuneration schemes. Unvested rights will continue to vest in accordance with the conditions of the terms of his employment contract and the Company's Long Term Incentive Scheme.

(4) As at the date of this report, the Remuneration and Nomination Committee is still reviewing the variable remuneration entitlements for eligible employees for the year ended 31 December 2012. Rights awarded to eligible employees for the year ended 31 December 2012 will be disclosed in the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement.

(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 2013

	Balance 1 January 2013	On vesting of rights	On market purchases	On market disposals	Other	Balance 31 December 2013
Directors of Grange Resources Limited						
N Chatfield	140,000	-	-	-	-	140,000
W Bould	1,313,204	232,607	-	(298,468)	-	1,247,343
C Ko	90,385,520	-	7,769,364	-	-	98,154,884
R Mehan[1]	100,000	-	-	-	(100,000)	-
Other key management personnel of the Group						
D Corr	140,506	107,372	-	-	-	247,878
B Maynard	41,500	20,717	-	-	-	62,217

(1) R Mehan resigned as Managing Director of the Company on 4 June 2013.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

31 December 2012

	Balance 1 January 2012	On vesting of rights	On market purchases	On market disposals	Other	Balance 31 December 2012
Directors of Grange Resources Limited						
N Chatfield	20,000		120,000	-	-	140,000
R Mehan	-	-	100,000	-	-	100,000
C Ko	90,385,520	-	-	-	-	90,385,520
R Clark(1)	1,823,159	734,819	-	(400,000)	(2,157,978)	-
Other key management personnel of the Group						
W Bould	1,159,140	348,487	-	(194,423)	-	1,313,204
D Corr	91,882	48,624	-	-	-	140,506

(1) R Clark resigned as Managing Director of the Company on 6 August 2012 and ceased employment on 15 September 2012.

(b) Loans to key management personnel

There were no loans to key management personnel during the year (December 2012: Nil).

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year (December 2012: Nil).

NOTE 34. REMUNERATION OF AUDITORS

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

	2013 $'000	2012 $'000
(a) PwC - Australia		
Audit and review of financial reports	284	292
Other assurance services	15	58
Taxation services		
Taxation compliance	-	248
Taxation consulting and advice	95	425
Total remuneration of PwC - Australia	394	1,023
(b) Related practices of PwC - Australia		
Audit and review of financial reports	23	8
Taxation compliance	2	2
Total remuneration of related practices of PwC - Australia	25	10

NOTE 35. 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:

	2013 $'000	2012 $'000
Within one year	222	212
After one year but not more than five years	250	474
Minimum lease payments	472	686

(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	389	14,165
After one year but not more than five years	687	-
	1,076	14,165
Future finance charges	(77)	(289)
Recognised as a liability	999	13,876

(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	856	854
After one year but not more than five years	3,345	4,096
	4,201	4,950

(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	23,197	40,288
After one year but not more than five years	4,577	8,796
	27,774	49,084

NOTE 35. 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 $2,012,963 (2012: $1,262,659), in relation to the rehabilitation of the Highway Reward project.

A Bank guarantee has been provided by Grange Resources (Tasmania) Pty Ltd, held by the Tasmanian Government, as required under Environmental Management and Pollution Control Act 1994 (EMPCA) for the amount of $2,934,444 (December 2012: $2,873,554). This amount is to guarantee the rehabilitation responsibilities under the mining lease at Savage River.

A Bank guarantee has been provided by Grange Resources (Tasmania) Pty Ltd, held by the National Australia Bank, as required under the Goldamere Agreement and applicable Deeds of Variation, for the amount of $2,800,000 (December 2012: $2,800,000). This amount is a guarantee against the purchase price outstanding with the Tasmanian government as specified in the Goldamere Agreement.

Refer to Note 42 for bank guarantees provided by the parent entity. No material losses are anticipated in respect of any of the above contingent liabilities.

Refer to 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 36. 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 $182.4 million were made with related parties during the year (2012: $218.9 million).

(c) Outstanding balances arising from sales of goods and services

	2013	2012
	$'000	$'000
Trade receivables / (payables) (sales of iron ore)		
Related parties	20,555	(2,000)
Other receivables		
Related parties	10	10
	20,565	(1,990)

NOTE 37. SUBSIDIARIES

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

	Percentage of equity interest held by the Group	
	2013	**2012**
Name	**%**	**%**
Ever Green Resources Co., Limited [(1)]	100	100
Grange Tasmania Holdings Pty Ltd	100	100
Beviron Pty Ltd	100	100
Grange Resources (Tasmania) Pty Ltd	100	100
Grange Capital Pty Ltd	100	100
Grange Administrative Services Pty Ltd	100	100
Barrack Mines Pty Ltd	100	100
Bamine Pty Ltd	100	100
BML Holdings Pty Ltd	100	100
Horseshoe Gold Mine Pty Ltd	100	100
Grange Resources (Southdown) Pty Ltd	100	100
Southdown Project Management Company Pty Ltd	100	100
Grange Developments Sdn Bhd [(2)]	100	100

(1) Ever Green Resources Co., Limited is incorporated in Hong Kong, and registered as a foreign company under the Corporations Act 2001.

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

NOTE 38. INTERESTS IN JOINT VENTURES

Name of Joint Venture	% Interest 2013	% Interest 2012
Southdown Magnetite and Associated Pellet Project(s) – Iron Ore	70.00	70.00
Reward - Copper / Gold	31.15	31.15
Highway – Copper	30.00	30.00
Reward Deeps / Conviction - Copper	30.00	30.00
Mt Windsor Exploration - Gold / Base Metals	30.00	30.00
Durack / Wembley – Exploration Gold (1)	15.00	15.00

(1) In accordance with the terms of a farm-in agreement, Montezuma Mining Company Ltd, has earned an 85% interest in the Durack / Wembley tenements. Registration of the tenement transfers with the Western Australia Department of Mines and Petroleum was completed on 18th May 2012. This registration reduced the Group's ownership interest in the tenements from 100% to 15%.

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 38. 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.

	2013 $'000	2012 $'000
ASSETS		
Current assets		
Cash and cash equivalents	9,329	9,315
Trade and other receivables	89	108
Total current assets	9,418	9,423
Non-current assets		
Receivables	-	700
Property, plant and equipment	6,493	6,518
Exploration and evaluation	107,702	105,277
Total non-current assets	114,195	112,495
Total assets	123,613	121,918
LIABILITIES		
Current liabilities		
Trade and other payables	67	365
Total current liabilities	67	365
Total liabilities	67	365
Net assets	123,546	121,553

The net contributions of joint ventures (inclusive of resultant revenues) to the Group’s operating profit before income tax was a profit of $25,651 (2012: profit $222,864).

Contingent liabilities in relation to joint ventures are disclosed in Note 35.

NOTE 39. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013	2012 (Restated)
	$'000	$'000
Profit for the year	25,617	59,080
Revaluation of deferred consideration	(5,077)	(15,328)
Unwinding of discount	5,569	5,596
Depreciation and amortisation	23,669	25,096
Mine properties and development amortization	75,130	57,126
Exploration and evaluation expenditure written off	-	1,148
Interest expense on finance leases	290	1,281
(Profit) / loss on sale of property, plant and equipment	28	(23)
Share based payment expense	319	757
Net unrealised foreign exchange (gain) / loss	(2,743)	(94)
Change in operating assets and liabilities		
(Increase) / decrease in trade and other receivables	(13,283)	25,178
(Increase) / decrease in inventories	(6,884)	15,081
(Increase) / decrease in intangible assets	2,485	(5,548)
Increase / (decrease) in trade and other payables	107	(16,305)
Increase / (decrease) in other provisions	563	4,753
Increase / (decrease) provision for income tax payable	667	(4,695)
Increase / (decrease) in deferred tax liabilities	9,345	26,175
Net cash inflow / (outflow) from operating activities	115,802	179,278

NOTE 40. EARNINGS PER SHARE

	2013	2012 (Restated)
	Cents	Cents
Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	2.22	5.12
Total basic earnings per share attributable to the ordinary equity holders of the Company	2.22	5.12
Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	2.21	5.11
Total diluted earnings per share attributable to the ordinary equity holders of the Company	2.21	5.11

(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	25,617	59,080
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share from continuing operations	25,617	59,080

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

	2013	2012
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,156,425,168	1,155,029,611

Options

Options granted to Directors and eligible employees under the Long Term Incentive Plan, were considered to be potential ordinary shares and were included in the determination of diluted earnings per share to the extent to which they were dilutive. All of the options expired during the year ended 31 December 2012 and are not included in the calculation of basic or diluted earnings per share for the year ended 31 December 2012. Details relating to options are set out in Note 41.

NOTE 40. EARNINGS PER SHARE (continued)

Rights

Rights issued to eligible employees under the Long Term Incentive Plan are considered to be potential ordinary shares for the purposes of determining diluted earnings per share. Rights have not been included in the determination of basic earnings per share. Details relating to rights are set out in Note 41.

NOTE 41. 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:

	2013 $'000	2012 $'000
Rights issued to eligible employees under the LTIP	319	797
	319	797

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. These options expired during the year ended 31 December 2012.

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

There were no options affecting Directors during the year ended 31 December 2013.

NOTE 41. SHARE BASED PAYMENTS (continued)

The table below summaries the balance of options granted to Directors under the plan during the year ended 31 December 2012:

Grant Date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Expired during the period	Balance at end of the period	Vested and exercisable at end of the period
31 December 2012								
28-Nov-08	6-Mar-12	$1.92	2,100,000	-	-	(2,100,000)	-	-
28-Nov-08	6-Mar-12	$2.87	2,100,000	-	-	(2,100,000)	-	-
28-Nov-08	6-Mar-12	$3.37	2,100,000	-	-	(2,100,000)	-	-
TOTAL			**6,300,000**	**-**	**-**	**(6,300,000)**	**-**	**-**
Weighted average exercise price			$2.72			$2.72		

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

Fair value of options granted

No options were granted during the reporting period.

(ii) Rights to Grange Shares

The Board will review regularly and reserves the right to vary from time to time the appropriate 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.

31 December 2013 Award

In December 2012, the Board determined that the LTI program move to a three year performance period with immediate effect from 1 January 2013 and that Total Shareholder Return (“TSR”) be used as the performance hurdle for the Plan.

Total Shareholder Return is a common measure of value creation for shareholders. It is calculated as the difference in the share price between the beginning and end of the period, divided by the share price at the start of the period. The Board has determined that the performance hurdle for the rights be the attainment of a Total Shareholder Return of 5% per annum compounded over the three year period from 1 January 2013 to 31 December 2015.

The precise vesting date for the Rights will be determined once the Board has assessed performance against the TSR target, following the end of the three year vesting period.

The precise number of Rights that will vest will be dependent upon the Board assessment of performance against the TSR target.

NOTE 41. SHARE BASED PAYMENTS (continued)

31 December 2012 Award

For the year ending 31 December 2012, 50% of the LTI for an employee relates to Company performance goals and 50% relates to personal performance goals. Rights were allocated using a share price that was based on the volume weighted average price of the Company's shares.

Rights awarded for performance leading up to and inclusive of 31 December 2012 currently vest in three equal tranches over 24 months.

For the 31 December 2012 Award, the share price was based on the volume weighted average price of the Company's shares for the first two months of the Award performance period (i.e. the volume weighted average price of the Company's shares from 1 January 2012 to 29 February 2012).

The expense recognised during the year ended 31 December 2013 is for rights to Grange shares issued to eligible employees. These amounts are recognised in the Company's income statement over the vesting period.

The table below summaries rights issued to eligible employees:

31 December 2013

Performance Period	Balance 1 January 2013	Granted as remuneration	Issued on vesting of rights	Other Changes (net)(1)	Balance 31 December 2013	Vested	Unvested
31 December 2010	314,298	-	(314,298)	-	-	-	-
31 December 2011	745,227	-	(745,227)	-	-	-	-
31 December 2012	518,927	273,144	(551,242)	-	240,829	-	240,829
31 December 2013(3)	-	614,029(2)	-	-	614,029	-	614,029
Total	**1,578,452**	**887,173**	**(1,610,767)**	**-**	**854,858**	**-**	**854,858**

31 December 2012

Performance Period	Balance 1 January 2012	Granted as remuneration	Issued on vesting of rights	Other Changes (net)(1)	Balance 31 December 2012	Vested	Unvested
30 June 2010	733,373	-	(720,510)	(12,863)	-	-	-
31 December 2010	744,752	-	(422,593)	(7,861)	314,298	-	314,298
31 December 2011	-	1,157,958	(406,865)	(5,866)	745,227	-	745,227
31 December 2012	-	518,927(4)	-	-	518,927	-	518,927
Total	**1,478,125**	**1,676,885**	**(1,549,968)**	**(26,590)**	**1,578,452**	**-**	**1,578,452**

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

(2) Represents rights issued to R Mehan for the year ended 31 December 2013 as approved by the Remuneration and Nomination Committee during the year.

(3) From 1 January 2013, the LTI program adopted a Total Shareholder Return performance hurdle and moved to a three year performance period. Rights awarded to eligible employees will be disclosed in the period in which the Remuneration and Nomination Committee approves the variable remuneration entitlement following the end of the three year performance period

(4) Represents rights issued to R Clark on a pro-rata basis for the year ended 31 December 2012 as approved by the Remuneration and Nomination Committee during the year.

NOTE 41. SHARE BASED PAYMENTS (continued)

(iii) 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.

There were no options affecting eligible employees during the year ended 31 December 2013.

The table below summaries the balance of options granted to eligible employees under the plan during the year ended 31 December 2012:

Grant Date	Expiry date	Exercise price	Balance at start of the period	Granted during the period	Exercised during the period	Expired during the period	Balance at end of the period	Vested and exercisable at end of the period
31 December 2012								
14/15-Jul-08	1-May-12	$1.92	325,000	-	-	(325,000)	-	-
14-Jul-08	1-May-12	$2.87	150,000	-	-	(150,000)	-	-
14-Jul-08	6-Mar-12	$3.37	150,000	-	-	(150,000)	-	-
16-Jun-09	1-Oct-12	$2.37	65,000	-	-	(65,000)	-	-
TOTAL			**690,000**	**-**	**-**	**(690,000)**	**-**	**-**
Weighted average exercise price			$2.48	-	-	$2.48	-	-

Each option is convertible into one ordinary share.

Fair value of options granted

No options were granted during the reporting period.

NOTE 42. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2013	2012
	$'000	$'000
Balance sheet		
Current assets	13,244	17,622
Total assets	386,717	372,995
Current liabilities	4,726	6,888
Total liabilities	68,110	54,316
Shareholders' equity		
Contributed equity	392,335	392,010
Reserves		
Share-based payments	31,574	32,294
Retained (losses)	(105,302)	(105,625)
Total equity	318,607	318,679
Profit for the year	22,053	47,385
Total comprehensive income for the year	22,053	47,385

(b) Contingent liabilities of the parent entity

Bank deposits / guarantees

A bank guarantee has been provided by the parent entity, on demand by Charter Hall Funds Management Limited for the amount of $130,470, in accordance with the terms of an office lease agreement dated 19 December 2012 to lease office premises at 225 St Georges Terrace, Perth.

Other contingent liabilities

Pursuant to the terms of an agreement dated 21 November 2003, under which the Company purchased certain tenements comprising the Southdown project, the Company is required to make a further payment of $1,000,000 to MedAire, Inc upon commencement of commercial mining operations from those tenements.

NOTE 43. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 38 to 106 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 2013 and of its performance for the financial year ended on that date, and

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

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations of the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

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

Michelle Li	Wayne Bould
Chairman	Managing Director

Burnie, Tasmania
28 February 2014

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 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Grange Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Grange Resources Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 12 to 23 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Grange Resources Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John O'Donoghue
Partner

Melbourne
28 February 2014