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 2012

Contents

DIRECTORS' REPORT

The Directors present their report on the consolidated entity (the “Group”) consisting of Grange Resources Limited (“Grange” or “the Company”) and the entities it controlled at the end of, or during, the year ended 31 December 2012**.**

Directors

The following persons were Directors of the Company during the whole of the 12 month financial year ended 31 December 2012 and up to the date of this report:

Zhiqiang Xi
Neil Chatfield
Clement Ko
John Hoon
Honglin Zhao

Richard Mehan was appointed Managing Director of the Company from 6 August 2012.

Russell Clark was Managing Director of the Company from the beginning of the period until his resignation on 6 August 2012.

Information on Directors

Xi Zhiqiang, Age 57
Non-executive Chairman, Member of the Audit; Remuneration and Nomination; and Health Safety and Environment Committees

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

Neil Chatfield FCPA, FAICD, Age 58
Deputy Non-executive Chairman, Chairman of Remuneration and Nomination Committee, Chairman of the Health, Safety and Environment Committee, Member of the Audit Committee, Member of Committee of Independent Directors

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

Richard Mehan BEcon Age 59
Managing Director; Member of the Health, Safety and Environment Committee, Member of the Committee of Independent Directors

Mr Mehan was appointed to the Board as Managing Director on 6 August 2012. He has 30 years' experience in the bulk resources sector, the majority in senior roles in the iron ore industry. He spent 15 years with Rio Tinto iron ore in a range of commercial roles including sales and marketing, business analysis and development and bulk shipping.

In 1998 Richard joined Portman Ltd as General Manager Iron Ore, and subsequently held the positions of General Manager Marketing, Chief Operating Officer and finally Managing Director as the company grew substantially in production and sales of traded iron ore.

In 2005 Cliffs Natural Resources took control of Portman and in 2007 Mr Mehan was appointed President and CEO of Asia Pacific for Cliffs with regional responsibility for iron ore, coal, business development and global exploration.

In 2011 Mr Mehan was appointed Managing Director and CEO of Jupiter Mines Limited.

Mr Mehan is a Director of IFAP (Industrial Federation for Accident Prevention), a not for profit organisation providing safety solutions to industry and OH&S training primarily in Western Australia.

Honglin Zhao, Age 59
Executive Director

Mr Zhao was an executive Director on the Board of the Jiangsu Shagang Group (“Shagang”), China’s largest private steel company. He has 36 years’ experience in the industry and was most recently the Commander of Project Development Headquarters with Shagang. Mr Zhao has extensive project management and implementation experience and expertise.

John Hoon, BA (Hons Acc.), MBA, CA, FCPA, FCSA, GAICD, Age 53
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 appointed a Non-executive Director of Drake Resources Limited in 2011.

Clement Ko LLB, MBA, Age 49
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 27 years management and commercial experience in the resources industry with both Australian and international companies. In addition she has over 18 years 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 Chartered Secretaries Australia ("CSA"). She was a member of the CSA's South Australian Branch Council and the CSA's National Legislative Review Committee for many years and is a regular presenter of CSA 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:

	2012 $'000	2011 $'000
Unfranked final dividend for the year ended 31 December 2011 – 3 cents per share (2010: Nil)	**(34,643)**	**-**
Unfranked interim dividend for the year ended 31 December 2012 – 1 cent per share (2011: 2 cents per share)	**(11,555)**	**(23,078)**
Total dividends provided for or paid	**(46,198)**	**(23,078)**

These dividends were declared NIL conduit foreign income.

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary unfranked dividend of $11.6 million (1 cent per fully paid share) for the year ended 31 December 2012. This final dividend was declared NIL conduit foreign income and will be paid on 3 April 2013.

Review of Operations

Key Highlights

- Excellent safety record at Savage River continues with no Lost Time Injuries recorded since July 2010

- Solid operating performance during a period of operational challenges and volatile market conditions
    - Revenues from mining operations of $331.3 million
    - Net profit after tax of $35.9 million

- Disciplined cash management has preserved balance sheet strength
    - Disciplined operating cost review processes
    - Rigid capital expenditure approval processes
    - Net cash inflows from operating activities of $131.9 million
    - Cash and term deposits of $174.9 million
    - No net debt and reduced gearing levels with borrowings of $22.9 million
    - Paid $46.2 million of dividends to shareholders during 2012 with a further $11.6 million to be paid in April 2013

- Final dividend of 1.0 cents per share (unfranked) declared in February 2013. Continues to provide an attractive dividend yield to shareholders at current share prices

- Revised off-take agreement with Shagang providing flexibility to broaden customer base and take advantage of improving market conditions
    - Significant increase in 62% Fe iron ore prices since market lows in September 2012
    - Continue to receive a quality premium for iron ore pellets

- Successfully addressed operational challenges arising from the July 2012 rock slide at Savage River
    - Re-established access to higher grade ore, improved production and reduced C1 operating costs during Q4 2012
    - Strong emphasis on reducing operating costs and maintaining access to higher grade ore will continue during 2013
    - Capital expenditure and major maintenance programs rescheduled and bought forward into 2012 to de-risk operations in 2013
    - Announced a mineral resource of approximately 49 million tonnes grading 45% DTR at Long Plains providing an opportunity to extend the life of Savage River

- Timely reassessment of Southdown Project Expenditure
    - Completed definitive feasibility study, showing the project to have robust economics.
    - Continue to seek new equity partners with the assistance of Deutsche Bank
    - Significant reduction in project expenditure for 2013

Review of results

Safety performance

The exceptional safety performance at Savage River continued with no Lost Time Injuries (LTI) recorded since July 2010. In Total Recordable Injury Frequency Rate (TRIFR) has fallen from 22.5 per million hours worked at 30 June 2010 to 1.99 per million hours worked at 31 December 2012, an impressive 91% improvement. The result is reflective of the safety culture and the strong focus by all staff on maintaining the disciplined management of Grange's safe and productive workplace.

Full year result

Grange recorded a consolidated profit after tax of $35.9 million for the year ended 31 December 2012. This result was achieved on sales of 2.4 million tonnes of iron ore products and revenues of $331.3 million during 2012, compared to 1.8 million tonnes of iron ore products and revenues of $410.4 million for the year ended 31 December 2011. The reduction in revenues from mining operations for the year ended 31 December 2012 arose from the following:

- 34% increase in sales of iron ore products to 2.4 million tonnes (from 1.8 million tonnes). Regular shipments of iron ore products from Savage River continued to occur at regular intervals during a period of volatile market conditions.
- 31% reduction in average product prices to US$144.84 per tonne (from US$210.21 per tonne). Savage River iron ore products continued to attract a premium price relative to 62% iron ore fines prices during 2012 and a revised off-take agreement with Shagang is providing flexibility to broaden our customer base and take advantage of improving market conditions.
- Non-recurring revenues of A$52.1 million recognised during the year ended 31 December 2011 from sales made under interim pricing arrangements in 2010

The July 2012 rock slide at Savage River increased costs during the second half of 2012 and resulted in a C1 cash operating cost of A$106.08 per tonne of product produced for the year ended 31 December 2012, compared to $109.43 per tonne of product produced for the year ended 31 December 2011. The operations team were very quick to respond to the rock slide and were able to maintain ore supplies from alternate lower grade locations during a period of operational challenges. As a result, no contracted sales were missed and force majeure was not called. Larger than anticipated volumes of higher grade ore were extracted from the North Pit during the second half of 2012 which increased production and delivered stockpile attainment in excess of revised July 2012 mine plan.

In the second half of 2012 the operations team also optimised the delays resulting from the July 2012 rock slide by rescheduling capital projects and maintenance opportunities in order to re-balance and de-risk the mine plan into the first quarter of 2013. This saw major preparatory works completed for an AG-Mill change-out and the relocation of 900 metres of the slurry pipeline beyond the operational footprint of the life of mine pit shell. While this required a four day shut down across the process plants, this provided an opportunity to undertake planned maintenance in advance of the common equipment shutdown scheduled for the first quarter of 2013.

As at 31 December 2012, Grange has $174.9 million in cash and term deposits and $22.9 million in borrowings, of which $13.9 million relates to a mobile equipment lease facility which will be repaid during 2013.

With no net debt and increasing confidence of production and costs following the July 2012 rock slide, Grange is well positioned to take advantage of a stronger iron ore market.
Exploration and Evaluation

A $2 million exploration drilling program was completed at Long Plains, a magnetite deposit located approximately 10 kilometres south of Savage River. The exploration drilling program has allowed the Company to announce a mineral resource of approximately 49 million tonnes at 45% DTR for the Long Plains deposit and provides an opportunity to extend the life of Savage River for a further three to five years. This information on mineral resource is a summary only and details can be found in an announcement to the ASX dated 30 August 2012.

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 2012 the following was progressed on the project:

- Completion of a definitive feasibility study in April 2012 which improved the project's level of accuracy to +/-15%
- Progression of project engineering, land acquisition, permitting, drilling and test work
- Finalisation of the process flow sheet and confirmation of the final concentrate product to be a premium quality (68.6% fe) containing low contaminants
- Delineation to reserve status of a major ore body capable of producing high grade concentrate (68.6% fe).
- Initial capital expenditure estimated at A$2.885 billion including EPCM, owners' costs and contingency of A$0.535 billion
- Operating costs estimated at A$58.5 per tonne of concentrate delivered at the ship's rail in Albany (excluding State Royalties)
- Submission of EPC contract tenders for major construction works by interested parties

Grange announced in November 2012 that it will be significantly reducing expenditure on the project during 2013 whilst the Company continues its search for an equity partner for a strategic share of the Company's interest in the project. This course of action was considered to be in the best interest of shareholders given uncertain market conditions, high development costs and difficult financial markets. Given the progress made on the project during pre-feasibility and definitive feasibility studies the project is able to quickly move to the development phase when market and cost environments are more favourable.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the year ended 31 December 2012. Commentary on the overall state of affairs of the Group is set out in the Review of Operations.

Matters Subsequent to the End of the Financial Period

Except as discussed above, no other matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect:

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

Likely Developments and Expected Results of Operations

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

Environmental Regulation

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

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

Savage River and Port Latta Operations

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

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

Southdown Joint Venture

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

Mount Windsor Joint Venture

The Group is a junior partner (30%) in the Mt Windsor project in North Queensland which is now being rehabilitated for future lease relinquishment. The Transitional Environment Program required by the Queensland Department of Environment and Resource Management has been completed. The Queensland Department of Environment and Heritage Protection has approved the completion of the program. 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 second annual government report prior to 31 December 2012. The Group’s second annual public report is available on the Grange Resources website in the investor information reports section.

Clean Energy Act 2011

The Group has completed preparations for the introduction of the Clean Energy Act and related legislation from 1 July 2012 and has 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 2012, and the numbers of meetings attended by each Director were:

Name	Directors' meetings		Meetings of Committees							
			Audit		Remuneration		Health, Safety & Environment		Independent Directors[1]	
	A	B	A	B	A	B	A	B	A	B
Z Xi	13	13	8	8	5	5	3	3	-	-
N Chatfield	13	13	8	8	5	5	3	3	5	5
R Mehan[2]	6	6	-	-	-	-	1	1	2	2
C Ko	9	13	-	-	-	-	-	-	-	-
J Hoon	13	13	8	8	5	5	3	3	5	5
H Zhao	13	13	-	-	-	-	-	-	-	-
R Clark[3]	5	7	-	-	-	-	2	2	2	3

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 2012

(1) During the year the Board established a dedicated Committee of Independent Directors

(2) R Mehan was appointed Managing Director of the Company on 6 August 2012

(3) R Clark resigned as Managing Director of the Company on 6 August 2012

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		
Z Xi[1]	-	-	-	-
N Chatfield	140,000	-	-	-
R Mehan	100,000	-	-	-
C Ko [2]	90,385,520	595,160,016	-	-
J Hoon	-	-	-	-
H Zhao[1]	-	-	-	-

(1) Z Xi is a full time employee of the Shagang Group and H Zhao was a Director on the Board of the Jiangsu Shagang Group, ultimate shareholder of Shagang International Holdings Limited. Shagang International Holdings Limited and its subsidiaries hold 536,767,551 ordinary fully paid shares in the Company as at the date of this report.

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

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 2012.

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 2012. 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 by shareholders. The maximum currently stands at $800,000 per annum and was approved by shareholders at the Annual General Meeting on 26 November 2010.

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

	From 1 November 2012	**From 1 November 2011**
Board of Directors		
Chairman [(1)]	$157,500	$150,000
Deputy Chairman	$89,250	$85,000
Non-executive Director	$78,750	$75,000
Audit Committee		
Chairman	$15,750	$15,000
Committee Member	$10,500	$10,000
Remuneration and Nomination Committee		
Chairman	$15,750	$15,000
Committee Member	$5,250	$5,000
Health, Safety and Environment Committee		
Chairman	$15,750	$15,000
Committee Member	$10,500	$10,000

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

During the year the Board established a dedicated Committee of Independent Directors. Members of this Committee are not paid any additional amounts for this role.

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 18.

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

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 are allocated using a share price that is based on the volume weighted average price of the Company's shares. For the year ended 31 December 2012 the share price is based on the volume weighted average price of the Company's shares for the first two months of the performance period (i.e. the volume weighted average price of the Company's shares from 1 January 2012 to 29 February 2012 will be used).

b) *Options to Grange Shares*

The objective of issuing Options under the LTI program is to provide a mechanism for the Company to selectively reward senior employees for having gone the “extra mile” in dealing with exceptional, unplanned or unexpected issues or circumstances which have impacted the business. The Board of Directors, based on the Managing Director’s recommendation, may discretionally grant the options via the LTI plan processes, and these options vest over the timeframe stipulated in the LTI Plan from time to time. A maximum number of Options per individual issue has been specified and approved for each job grade in the grade structure matrix. The exercise price of options issued will be equal to a 20% premium on the weighted average price of the Company’s shares in the last three months before the financial period begins. The Company did not issue any options to employees in the 12 months ending 31 December 2012.

(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 Mr Zhiqiang Xi, all of whom are Non-executive Directors.

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

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

The Charter 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	Chief Operating Officer
David Corr	Chief Financial Officer
Fernando Moutinho	Project Director – Southdown (until 31 December 2012)

Amounts of remuneration

Table 1: 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 1: 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 period. 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 period.
(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 period. 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 2: Remuneration for the year ended 31 December 2011

	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	133,333	-	-	-	-	-	-	-	-	133,333
N Chatfield	112,500	-	-	-	-	-	-	-	-	112,500
C Ko	75,000	-	-	-	-	-	-	-	-	75,000
J Hoon	88,685	-	-	-	7,982	-	-	-	-	96,667
Sub-total Non-Executive Directors	**409,518**	**-**	**-**	**-**	**7,982**	**-**	**-**	**-**	**-**	**417,500**

Table 2: Remuneration for the year ended 31 December 2011 (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) [3]	Other	Super-annuation	Long service leave	Termination benefits	Rights[4]	Options	
Executive Directors	$	$	$	$	$	$	$	$	$	$
R Clark	566,972	-	86,625	-	51,027	6,320	-	226,809	-	937,753
H Zhao	412,844	27,385	-	-	37,156	1,036	-	-	-	478,421
Other Key Management Personnel										
W Bould	339,632	49,175	36,553	-	28,645	3,980	-	109,348	-	567,333
D Corr [1]	224,847	-	8,798	-	20,008	1,744	-	14,660	-	270,057
F Moutinho	375,357	-	20,000	-	65,690	1,212	-	-	-	462,259
C Ferrier [2]	72,095	-	-	-	2,861	-	130,457	-	-	205,413
Sub-total key management personnel	**1,991,747**	**76,560**	**151,976**	**-**	**205,387**	**14,292**	**130,457**	**350,817**	**-**	**2,921,236**
TOTAL	**2,401,265**	**76,560**	**151,976**	**-**	**213,369**	**14,292**	**130,457**	**350,817**	**-**	**3,338,736**

(1) D Corr was appointed Chief Financial Officer on 1 April 2011. Remuneration disclosures include amounts received as Financial Controller from 1 January 2011 to 31 March 2011.
(2) C Ferrier ceased employment with the company on 6 March 2011.
(3) Represents amounts awarded to key management personnel for the six month period ended 31 December 2010.
(4) Represents amounts expensed through the Company's income statement for rights issued under the Company's Long Term Incentive Scheme. These amounts are recognised in the Company's income statement over the vesting period in accordance with AASB 2, *Share Based Payments*.

Table 2: 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-12	Dec-11	Dec-12	Dec-11	Dec-12	Dec-11
Executive Director						
R Mehan(1)	68%	-	14%	-	18%	-
H Zhao	83%	83%	17%	17%	-	-
R Clark(2)	-	50%	-	16%	-	34%
Other Key Management Personnel						
W Bould(3)	59%	59%	41%	12%	-	29%
D Corr	74%	74%	11%	11%	15%	15%
F Moutinho(4)	77%	77%	23%	23%	-	-

(1) R Mehan was appointed Managing Director of the Company on 6 August 2012. He is not eligible to participate in the Company's long term incentive scheme 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.
(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.
(4) F Moutinho ceased employment with the Company on 31 December 2012.

Service Agreements

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

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

In 2012, the Company entered into an Employment Agreement with its new Managing Director, Mr Richard Mehan. The details of Mr Mehan's employment contract, as advised to the ASX on 31 July 2012, are as follows:

- Total fixed annual remuneration ("TFR") inclusive of superannuation of $545,000; and
- A variable annual reward composed of a short term incentive component of up to a maximum of 21.1% of TFR ($115,000) and a long term incentive component of up to a maximum of 25.7% of TFR ($140,000).

The Short Term Incentive ("STI") is determined by the Board annually and will be based on Mr Mehan's performance. 50% of the STI payment will be linked to Company performance, as measured by key performance indicators set for Company performance by the Board. 50% of the STI payment will be linked to Mr Mehan's personal performance as measured against personal key performance indicators set by the Board. The Short Term Incentive will be paid as cash.

The Long Term Incentive ('LTI") is granted in the form of performance rights to shares in the Company. Subject to the achievement of qualifying hurdles set by the Board, the Company will grant to Mr Mehan an annual LTI up to a value of $140,000 (i.e. 25.7% of his TFR). The rights to shares will vest in line with terms as set by the Remuneration Committee subject to the achievement of hurdles.

The contract provides for an annual review of the Managing Director’s remuneration with effect from 1 January 2014. In undertaking the review the Board is required to consider the following:

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

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

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

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

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

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

Share-based Compensation

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

Rights to Grange shares

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

31 December 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 period.

(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.

31 December 2011

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

Options to Grange shares

As at 31 December 2012 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 2012.

Insurance of Officers

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

Indemnity of Auditors

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

Audit and Non-audit Services

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

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

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

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

	2012	2011
	$'000	**$'000**
(a) PwC - Australia		
Audit and review of financial reports	292	230
Other assurance services	58	65
Taxation services		
Taxation compliance	248	212
Taxation consulting and advice	425	1,648
Other services	-	220
Total remuneration of PwC - Australia	**1,023**	**2,375**
(b) Related practices of PwC - Australia		
Audit and review of financial reports	8	62
Taxation compliance	2	15
Total remuneration of related practices of PwC - Australia	**10**	**77**

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 24.

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.

Zhiqiang Xi
Chairman

Richard Mehan
Managing Director

Perth, Western Australia
27 February 2013

Auditor's Independence Declaration

As lead auditor for the audit of Grange Resources Limited for the year ended 31 December 2012, 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.

Tim Goldsmith

Tim Goldsmith
Partner
PricewaterhouseCoopers

Melbourne
27 February 2013

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

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

Director	**Independent**	**Non-Executive**	**Term in Office**
Zhiqiang Xi	No – employed by major shareholder	Yes	4 years
Neil Chatfield	Yes	Yes	4 years
Richard Mehan	No – Managing Director	No	6 months
John Hoon	Yes	Yes	2 years & 8 months
Honglin Zhao	No – Executive Director	No	2 years & 6 months
Clement Ko	No – substantial shareholder	Yes	4 years

EVALUATION OF THE BOARD, COMMITTEES AND SENIOR MANAGEMENT

The performance of the Board and its Committees is conducted on a periodic basis. Senior management are reviewed and evaluated annually. In particular, the assessment of senior management is conducted by reference to short term and long term key performance indicators which are agreed at the start of each financial year. The evaluation of the Board is overseen by the Remuneration and Nomination Committee and Board members are required to complete questionnaires providing feedback on the Board's performance. The review process for the Committees is undertaken by way of regular feedback from the Board during the year. A formal assessment of the Board was conducted in late 2011. The next review is scheduled for 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 Zhiqiang Xi, all of whom are non-executive Directors. A majority of the Committee (including the Committee Chairman) is independent. Each member of the Audit Committee must be appropriately financially literate and at least one member of the Audit Committee will have extensive financial or accounting expertise.

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

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

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

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

Remuneration and Nomination Committee

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

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

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

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

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

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

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

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 Board or the Remuneration and Nominations committee;
- any interaction between management and the consultant/consultancy should be authorised by the Board or Remuneration and Nominations Committee and should be limited to receiving input to allow the consultant to undertake the work commission by the board or remuneration committee; and
- If interviews or working sessions involve management then a representative of the Board or Remuneration and Nominations Committee may attend.

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

Health, Safety and Environment Committee

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, Mr Zhiqiang Xi, all of whom are non-executive Directors, and Managing Director, Mr Richard Mehan.

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

During the year a special purpose Committee of Independent Directors operated to consider and approve pricing and off-take negotiations with the Company's major shareholder. The Committee met regularly and was chaired by independent director Mr Neil Chatfield and was comprised of only directors who were independent of the Company's major shareholders. In addition to Mr Chatfield the other Committee members were Mr John Hoon and the Managing Director.

On 19 November 2012, the Company announced that agreement had been reached with its major customer Jiangsu Shagang International Trade Co. Ltd ("Shagang"), to revise the annual off-take tonnage and the pricing mechanism applying to its iron ore pellet sales agreement for Savage River production.

INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

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

CODE OF CONDUCT

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

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

DIVERSITY

Philosophy and Policy

Grange recognises that our employees are our most valuable resource and the means by which we will achieve safe, sustainable, cost effective production. Diversity is one of many elements which helps create sustainable value for our shareholders. 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 favorably or more favorably 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 organizational culture in which remuneration practices reward and retain employees equally based on performance and potential regardless of gender;
  - Providing training and personal development plans to maximise safety awareness, job performance and productivity, and the opportunity for promotion;
  - Complying with anti-discrimination and equal employment legislation;
  - Initiating and supporting actions in our communities which foster diversity and equal opportunities; and
  - Integrating Board approved diversity targets into business and workforce planning.

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

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

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

Gender Participation

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

The Company defines executives as those professional or 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:

Workforce Segment	**% of Total Workforce in Segment**	**As at 31 Dec 2012 % of Women in Segment**	**As at 31 Dec 2011 % of Women in Segment**	**Measurable Diversity Targets**
Supervisory / Administrative	24%	21%	22%	*No specific target for these individual categories. Overall target of 12% for all three categories by 2017*
Operations / Maintenance	72%	4%	5%	
Professional / Managerial	4%	15%	16%	25% by 2017
Total workforce	***100%***	***9%***	***9.8%***	***12% by 2017***

As at 31 December 2012 the number of women in the Company's workforce was 55. This represents an overall participation rate of 9%. Women comprise 4% of operations and maintenance roles, 21% of administration and supervisory roles and 15% 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 overwhelming majority of the Company's employees (98%) 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 approval of the Chairman and senior management must advise the Company Secretary.

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

CONTINUOUS DISCLOSURE

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

The Board has 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 eight years of historical ASX announcements to facilitate research by investors and shareholders.

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

RISK MANAGEMENT

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

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

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

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

REMUNERATE FAIRLY AND RESPONSIBLY

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

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

Non-executive Directors are remunerated 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 2012, 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.	✓	

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

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

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

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

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

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

GRANGE
RESOURCES

Australia's most experienced magnetite producer

FINANCIAL STATEMENTS

For the Year Ended
31 December 2012

Contents

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

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

Level 11 (St Georges Square)
225 St Georges Terrace
PERTH Western Australia 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Director's report on pages 2 to 8, which are 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 2012

	NOTES	2012	2011
		$'000	$'000
Revenues from mining operations	5	331,308	410,432
Cost of sales	6	(294,391)	(252,243)
Gross profit from mining operations		36,917	158,189
Administration expenses		(6,995)	(6,278)
Operating profit before other income / (expense)		29,922	151,911
Other income / (expenses)			
Revaluation of deferred consideration	22, 25	15,328	(189)
Other income / (expenses)	7	998	3,808
Operating profit before finance costs		46,248	155,530
Finance income	8	8,718	11,971
Finance expenses	8	(7,514)	(9,392)
Profit before tax		47,452	158,109
Income tax (expense) / benefit	9	(11,548)	58,458
Profit for the period		35,904	216,567
Total comprehensive income for the period		35,904	216,567
Profit attributable to:			
- Owners of Grange Resources Limited		35,904	216,567
		35,904	216,567
Total comprehensive income attributable to:			
- Owners of Grange Resources Limited		35,904	216,567
		35,904	216,567
Earnings per share for profit attributable to the ordinary equity holders of Grange Resources Limited			
Basic earnings per share (cents per share)	39	3.11	18.78
Diluted earnings per share (cents per share)	39	3.10	18.76

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	NOTES	2012 $'000	2011 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	**119,918**	**172,269**
Term deposits		**55,000**	**9,846**
Trade and other receivables	11	**22,397**	**41,163**
Inventories	12	**59,432**	**68,178**
Available-for-sale financial assets	13	**-**	**-**
Intangible assets	14	**5,548**	**-**
Total current assets		**262,295**	**291,456**
Non-current assets			
Term deposits		**-**	**6,892**
Receivables	15	**6,937**	**13,824**
Property, plant and equipment	16	**171,879**	**169,378**
Mine properties and development	17	**361,136**	**378,520**
Exploration and evaluation	18	**109,734**	**96,561**
Deferred tax assets	19	**-**	**-**
Total non-current assets		**649,686**	**665,175**
Total assets		**911,981**	**956,631**
LIABILITIES			
Current liabilities			
Trade and other payables	20	**34,982**	**49,424**
Borrowings	21	**14,326**	**22,047**
Deferred consideration	22	**7,559**	**10,387**
Current tax liability		**-**	**4,695**
Provisions	23	**6,356**	**5,202**
Total current liabilities		**63,223**	**91,755**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	NOTES	2012 $'000	2011 $'000
Non-current liabilities			
Borrowings	24	**8,603**	**22,839**
Deferred consideration	25	**42,027**	**54,965**
Deferred tax liabilities	26	**25,192**	**8,948**
Provisions	27	**25,134**	**20,825**
Total non-current liabilities		**100,956**	**107,577**
Total liabilities		**164,179**	**199,332**
Net assets		**747,802**	**757,299**
EQUITY			
Contributed equity	28	**330,334**	**329,577**
Reserves	29	**1,103**	**3,041**
Retained profits	30	**416,365**	**424,681**
Capital and reserves attributable to owners of Grange Resources Limited		**747,802**	**757,299**
Total equity		**747,802**	**757,299**

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

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

Consolidated	NOTES	Contributed equity $'000	Reserves $'000	Retained earnings $'000	TOTAL $'000
Balance at 1 January 2012		**329,577**	**3,041**	**424,681**	**757,299**
Profit for the year		-	-	35,904	35,904
Total comprehensive income / (loss) for the year		-	-	35,904	35,904
Transactions with owners in their capacity as owners					
Dividends paid		-	-	(46,198)	(46,198)
Employee share options and rights		757	(1,938)	1,978	797
		757	(1,938)	(44,220)	(45,401)
Balance at 31 December 2012		**330,334**	**1,103**	**416,365**	**747,802**
Balance at 1 January 2011		**328,912**	**2,955**	**231,192**	**563,059**
Profit for the period		-	-	216,567	216,567
Total comprehensive income / (loss) for the period		-	-	216,567	216,567
Transactions with owners in their capacity as owners					
Dividends paid				(23,078)	(23,078)
Employee share options and rights		665	86	-	751
		665	86	(23,078)	(22,327)
Balance at 31 December 2011		**329,577**	**3,041**	**424,681**	**757,299**

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 2012

	NOTES	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**365,858**	**437,011**
Payments to suppliers and employees (inclusive of goods and services tax)		**(240,342)**	**(228,970)**
		125,516	**208,041**
Interest received		**6,840**	**2,612**
Interest paid		**(431)**	**(278)**
Income taxes (paid) / received		**-**	**-**
Net cash inflow / (outflow) from operating activities	38	**131,925**	**210,375**
Cash flows from investing activities			
Payments for exploration and evaluation		**(14,321)**	**(35,075)**
Payments for property, plant and equipment		**(27,818)**	**(32,104)**
Payments for mine properties and development		**(28,464)**	**(20,959)**
Proceeds from available-for-sale financial assets		**-**	**2,454**
Proceeds from disposal of subsidiaries		**-**	**824**
Proceeds from (payments for) term deposits		**(37,930)**	**(15,865)**
Net cash inflow / (outflow) from investing activities		**(108,533)**	**(100,725)**
Cash flows from financing activities			
Repayment of borrowings		**(10,138)**	**(2,335)**
Proceeds from borrowings		**-**	**10,000**
Payment of deferred consideration		**(5,324)**	**-**
Dividends paid to shareholders		**(46,198)**	**(23,078)**
Finance lease payments		**(12,482)**	**(13,360)**
Net cash inflow / (outflow) from financing activities		**(74,142)**	**(28,773)**
Net increase / (decrease) in cash and cash equivalents		**(50,750)**	**80,877**
Cash and cash equivalents at beginning of the year		**172,269**	**91,922**
Net foreign exchange differences		**(1,601)**	**(530)**
Cash and cash equivalents at end of the year	10	**119,918**	**172,269**

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).

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Grange Resources Limited as at 31 December 2012 and the results of all subsidiaries for the year then ended. Grange Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Principles of consolidation (continued)

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

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

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

(ii) Joint Ventures

Jointly controlled assets

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

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

(c) Segment reporting

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

Refer to Note 4 for further information on segment descriptions.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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

(iii) Group companies

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

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

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

(e) Business combinations

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Business combinations (continued)

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

(f) Revenue recognition

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

Revenue is recognised for the major business transactions as follows:

Sales of iron ore

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

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

Royalties

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

Interest revenue

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

Dividend revenue

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

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

(m) Goods and Services Tax (GST)

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

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

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

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

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

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

(n) 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).

(s) Deferred mining

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) **Deferred mining (continued)**

short of the life of mine ratio. The life of mine ratio is based on proven and probable reserves of the operation.

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

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

(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 group's of assets (cash generating units).

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

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

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

(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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Investments and other financial assets (continued)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Derivative financial instruments (continued)

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.

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Non-current assets held for sale (continued)

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 2004 (the JORC 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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Provisions (continued)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Employee entitlements (continued)

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

Defined contribution superannuation funds

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

Share-based payment transactions

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

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

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

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

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

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

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

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

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

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ai) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 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 2015]*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Company intends to apply the standard from 1 January 2015. Application of this standard will not have a significant impact on the Group.

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ai) New accounting standards and interpretations (continued)

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied from 1 January 2013.

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

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied from 1 January 2013.

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

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 January 2013.

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

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments will apply from 1 January 2014 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

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

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

This is different to the Group's current accounting policy which is to capitalise stripping costs based on a life of mine waste-to-ore stripping ratio and amortise the costs over the life of the mine. The interpretation must be applied prospectively from earliest period presented and the Group will have to write off existing stripping asset balances of $130.2 million as at 1 January 2012 to retained earnings, unless they relate to an identifiable component of the ore body.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ai) New accounting standards and interpretations (continued)

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

The Group continues to review its existing stripping cost assets in light of the requirements of the interpretation and is unable to quantify the effect, if any, on the amounts recognised in the financial statements as at 31 December 2012.

(vii) **AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle*** (effective 1 January 2013).

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group will apply the amendments from 1 January 2013. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.

NOTE 2. FINANCIAL RISK MANAGEMENT

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

Risk management is carried out by a Treasury Committee under a policy approved by the Board of Directors. The Treasury Committee identifies, evaluates and manages financial risks according to parameters outlined in 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:

	2012 $'000	2011 $'000
Financial Assets		
Cash and cash equivalents	**119,918**	172,269
Term deposits	**55,000**	16,738
Trade and other receivables	**25,703**	51,326
	200,621	240,333
Financial Liabilities		
Trade and other payables	**34,982**	49,424
Borrowings	**22,929**	44,887
Deferred consideration	**49,586**	65,351
	107,497	159,662

(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:

	2012 $'000	2011 $'000
Cash and cash equivalents	90,198	54,984
Term deposits	-	16,738
Trade and other receivables	13,519	37,694
Trade and other payables	(916)	(874)
Borrowings	(13,876)	(25,620)
Deferred consideration	(49,586)	(65,352)
Net US dollar surplus	39,339	17,570

(ii) Group sensitivity

Based on the financial instruments held at 31 December 2012, 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 $4.1 million higher / $1.7 million lower (2011: $1.4 million higher / $1.1 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.

(iii) Price risk

The Group is exposed to commodity price risk. During prior years, the Group agreed with its customers to price its iron ore pellets at index based market prices. 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.

(iv) Cash flow and fair value interest rate risk

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

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

	2012		2011	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Borrowings	2.08	9,054	4.76	19,128

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

(a) Market Risk (continued)

(iv) Cash flow and fair value interest rate risk (continued)

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

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

Group sensitivity

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

At 31 December 2012, 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 $0.6 million higher / $0.6 million lower (December 2011 changes of 50 bps / 50 bps: $0.8 million higher / $0.8 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 2012.

(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.

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
Variable rate borrowings	225	220	440	1,349	6,819	9,053	9,053
Fixed rate borrowings	14,165	-	-	-	-	14,165	13,876
Total non-derivatives	53,697	3,771	7,469	22,658	48,569	136,164	107,497

2011 - 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	49,424	-	-	-	-	49,424	49,424
Deferred consideration	5,529	5,372	10,082	29,970	52,058	103,011	65,352
Variable rate borrowings	225	10,225	445	1,351	6,883	19,129	19,129
Fixed rate borrowings	5,973	6,991	15,334	-	-	28,298	25,758
Total non-derivatives	61,151	22,588	25,861	31,321	58,941	199,862	159,663

d) Fair Value Estimation

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

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

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

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

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

d) Fair Value Estimation (continued)

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

e) Capital Risk Management

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

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

Impairment of capitalised exploration and evaluation expenditure

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

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

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

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

Net realisable value of inventories

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

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

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

Determination of 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 Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the JORC code). There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of 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.

Taxation

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

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

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Critical accounting estimates and assumptions (continued)

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.

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.

Provision for decommissioning and restoration costs

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

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

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

Share-based payment transactions

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

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Revenue recognition - Provisional pricing

The Group has recognised revenues amounting to $2.0 million for the year ended 31 December 2012 (31 December 2011: $3.9m) 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 2012.

NOTE 4. SEGMENT INFORMATION

(a) Description of segments

Management has determined and presented operating segments based on the reports reviewed by the Managing Director, who is the Group's chief operating decision maker in terms of allocating resources and assessing performance.

The Group has one reportable segment, being the exploration, evaluation and development of mineral resources and iron ore mining operations. The Managing Director allocates resources and assesses performance, in terms of revenues earned; expenses incurred and assets employed, on a consolidated basis in a manner consistent with that of the measurement and presentation in the financial statements.

Exploration, evaluation and development projects (including the Southdown project) are not deemed reportable operating segments at this time as the financial performance of these operations is not separately included in the reports provided to the Managing Director. These projects may become segments in the future.

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

	Segment revenues from sales to external customers	
	2012	2011
	$'000	$'000
Australia	85,181	151,101
China	218,856	259,331
Switzerland	27,271	-
TOTAL	**331,308**	**410,432**

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

The consolidated assets of the Group were predominately located in Australia as at 31 December 2012 and 31 December 2011. The total cost incurred during the current and comparative periods to acquire segment assets were also predominately incurred in Australia.

NOTE 5. REVENUE

	2012	2011
	$'000	$'000
From mining operations		
Sales of iron ore	331,308	410,432
	331,308	410,432

NOTE 6. COST OF SALES

Mining costs	133,184	136,733
Production costs	95,502	87,650
Government royalties	9,481	14,290
Depreciation and amortisation expense	39,635	39,637
Net deferred mining costs expensed / (capitalised)	24,772	636
Net mine development expensed / (capitalised)	(19,076)	-
Changes in inventories	10,894	(29,535)
Foreign exchange loss	(1)	2,832
	294,391	252,243
Depreciation and amortisation		
Land and buildings	2,925	2,977
Plant and equipment	21,475	20,880
Computer equipment	179	295
Mine properties and development	15,056	15,485
	39,635	39,637

Profit before income tax includes the following specific expenses:

Employee benefits expense	62,488	53,312
Defined contribution superannuation expense	5,034	4,453

NOTE 7. OTHER INCOME / (EXPENSES)

	2012	2011
	$'000	$'000
Other income / (expenses)		
Net profit on disposal of subsidiaries	-	824
Net gain/(loss) on sale of available-for-sale financial assets	-	1,470
Net profit on the disposal of property, plant and equipment	(78)	86
Write off of exploration and evaluation assets	(1,148)	-
Recovery from legal claim	860	-
Other income	1,364	1,428
	998	3,808

NOTE 8. FINANCE INCOME/(EXPENSES)

	2012	2011
Finance income		
Interest income received or receivable		
- Other entities	7,073	3,575
Exchange gains on foreign currency deposits / borrowings (net)	1,645	8,396
	8,718	11,971
Finance expenses		
Interest charges paid or payable		
- Other entities	(637)	(555)
Finance lease interest charges paid or payable	(1,281)	(1,891)
Provisions: unwinding of discount		
- Deferred consideration	(4,886)	(5,894)
- Decommissioning and restoration	(710)	(1,052)
	(7,514)	(9,392)

NOTE 9. INCOME TAX EXPENSE / (BENEFIT)

		2012	2011
		$'000	**$'000**
(a)	**Income tax expense**		
	Current tax	**(4,695)**	**4,695**
	Deferred tax	**16,243**	**(63,153)**
		11,548	**(58,458)**
	Deferred income tax (revenue) expense included in income tax expense comprises:		
	(Increase)/decrease in deferred tax assets	**10,346**	**(19,769)**
	Increase/(decrease) in deferred tax liabilities	**5,897**	**(43,384)**
		16,243	**(63,153)**
(b)	**Numerical reconciliation of income tax expense to prima facie tax payable**		
	Profit/(loss) from continuing operations before income tax expense	**47,452**	**158,109**
	Tax at the Australian tax rate of 30% (2011: 30%)	**14,236**	**47,433**
	Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
	Revaluation of deferred consideration	**(4,598)**	**57**
	Unwind of discount on deferred consideration	**1,466**	**1,768**
	Recovery from legal claim	**2,322**	**-**
	Share based payments expense	**239**	**225**
	Sundry items	**347**	**(28)**
		14,012	**49,455**
	Adjustments to current / deferred tax of prior periods	**(2,464)**	**(857)**
	Adjustments to deferred tax arising from the merger of tax consolidated groups	**-**	**(107,056)**
	Income tax expense / (benefit)	**11,548**	**(58,458)**
(c)	**Taxation Losses**		
	Unused taxation losses for which no deferred tax asset has been recognised	**54,104**	**54,104**
	Potential tax benefit @ 30%	**16,231**	**16,231**

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

NOTE 9. INCOME TAX EXPENSE / (BENEFIT) (continued)

(d) Tax consolidation legislation

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

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

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

(e) Mineral Resources Rent Tax (MRRT)

As at 31 December 2012, the Group has unused MRRT royalty credits and starting base allowances for which no deferred tax asset has been recognised. The Group continues to assess its options and assumptions in relation to the application of the *Mineral Resources Rent Tax Act 2012* and the extent of MRRT allowances that may be available to be applied in later years.

NOTE 10. CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Cash at bank and in hand	**16,991**	**41,556**
Term deposits	**102,927**	**130,713**
	119,918	**172,269**

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

	2012 $'000	2011 $'000
Cash at bank and in hand as per statement of cash flows	**119,918**	**172,269**
Add:		
Current term deposits	**55,000**	**9,846**
Non-current term deposits	**-**	**6,892**
	174,918	**189,007**

NOTE 10. CASH AND CASH EQUIVALENTS (continued)

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

Total cash 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 2012 the weighted average interest rate on the Australian dollar accounts was 4.54% (31 December 2011: 6.18%) and the weighted average interest rate on the United States dollar accounts was 0.72% (31 December 2011: 0.75%).

(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 11. TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Trade receivables	**7,926**	32,235
Security deposits[(1)]	**6,805**	250
Other receivables	**4,035**	5,017
Prepayments	**3,631**	3,661
	22,397	41,163

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

(a) Impaired trade receivables

The Group has no trade receivables past due as at 31 December 2012, 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 12. INVENTORIES

	2012 $'000	2011 $'000
Stores and spares	**21,840**	19,692
Ore stockpiles (at cost)	**18,705**	11,687
Work-in-progress (at cost)	**1,417**	422
Finished goods (at cost)	**17,470**	36,377
	59,432	68,178

NOTE 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Listed securities		
Listed Australian equities	**-**	-

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

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

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

NOTE 14. INTANGIBLE ASSETS

Carbon Units[1]	**5,548**	-
	5,548	-

[1] Represents the fair value of the first 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 2012-13 vintage year

NOTE 15. RECEIVABLES

Security deposits	**6,937**	13,824
	6,937	13,824

[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 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**

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

NOTE 16. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Assets under construction

The carrying amounts of the assets disclosed above includes expenditure of $25.7 million (2011: $14.2 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.

	2012 $'000	2011 $'000
Cost	70,927	70,927
Accumulated depreciation	(56,654)	(50,930)
Net book amount	14,273	19,997

NOTE 17. MINE PROPERTIES AND DEVELOPMENT

Mine properties and development (at cost)	360,965	338,520
Accumulated depreciation	(105,300)	(90,243)
Net book amount	255,665	248,277
Deferred mining costs (net book amount)	105,471	130,243
Total mine properties and development	361,136	378,520

Movements in mine properties and development are set out below:

Mine properties and development		
Opening net book amount	248,277	264,858
Current year expenditure capitalised	19,076	-
Change in rehabilitation estimate	3,368	(1,096)
Depreciation charge	(15,056)	(15,485)
Closing net book amount	255,665	248,277
Deferred mining costs		
Opening net book amount	130,243	130,879
Current period expenditure capitalised	9,388	20,959
Amounts transferred to inventories	(34,160)	(21,595)
Closing net book amount	105,471	130,243

NOTE 18. EXPLORATION & EVALUATION

	2012 $'000	2011 $'000
Exploration & evaluation properties (at cost)	**109,734**	**96,561**
	109,734	**96,561**

Movements in exploration and evaluation expenditure are set out below:

Balance at beginning of year	**96,561**	**60,573**
Current period expenditure	**14,321**	**35,988**
Expenditure written-off	**(1,148)**	**-**
Balance at end of year	**109,734**	**96,561**

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.

During the period, the Company announced that it had appointed Deutsche Bank as corporate advisors to assist Grange develop its equity strategy for the Southdown Magnetite Project by looking to sell at least a 30 per cent stake of Grange's 70 per cent interest in the project.

As at 31 December 2012, 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

The balance comprises temporary differences attributable to:		
Receivables	**27**	**-**
Property, plant and equipment	**24,109**	**31,379**
Trade and other payables	**187**	**6,001**
Employee benefits	**2,358**	**1,948**
Decommissioning and restoration	**7,089**	**5,860**
Taxation losses	**1,438**	**-**
Other	**1,091**	**1,457**
Total deferred tax assets	**36,299**	**46,645**
Set-off against deferred tax liabilities pursuant to set-off provisions (Note 26)	**(36,299)**	**(46,645)**
Net deferred tax assets	**-**	**-**

NOTE 20. TRADE AND OTHER PAYABLES

	2012	2011
	$'000	$'000
Trade payables and accruals	22,674	42,183
Other payables	12,308	7,241
	34,982	49,424

(a) Other payables

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

(b) Risk exposure

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

NOTE 21. BORROWINGS (CURRENT)

Secured		
Finance lease liabilities [1]	13,876	11,459
	13,876	11,459
Unsecured		
Bank loan	-	10,000
Other	450	588
	450	10,588
	14,326	22,047

(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)

	2012 $'000	2011 $'000
Deferred consideration	7,559	10,387
	7,559	10,387

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

	2012	2011
Balance at beginning of the year	10,387	-
Payments	(5,324)	-
Changes in estimate	(5,274)	(41)
Unwind of discount	147	911
Transfers from non-current balance	7,623	9,517
Balance at end of the year	7,559	10,387

Refer to Note 25 for further details on deferred consideration.

NOTE 23. PROVISIONS (CURRENT)

	2012	2011
Employee benefits	6,139	4,967
Decommissioning and restoration	217	235
	6,356	5,202

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

(a) Movements in decommissioning and restoration provision

	2012	2011
Balance at beginning of the year	235	228
Changes in estimate	-	131
Transfers to non-current provisions	(18)	(124)
Balance at the end of the year	217	235

NOTE 24. BORROWINGS (NON-CURRENT)

	2012	2011
Secured		
Finance lease liabilities [1]	-	14,161
Unsecured		
Other	8,603	8,678
	8,603	22,839

[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)

	2012 $'000	2011 $'000
Deferred consideration	**42,027**	**54,965**
	42,027	**54,965**

(a) Movements in deferred consideration

Movements in deferred consideration are set out below:

Balance at beginning of year	**54,965**	**59,269**
Changes in estimate	**(10,054)**	**230**
Unwinding of discount	**4,739**	**4,983**
Transfers to current balance	**(7,623)**	**(9,517)**
Balance at end of year	**42,027**	**54,965**

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.

NOTE 26. DEFERRED TAX LIABILITIES (NON-CURRENT)

The balance comprises temporary differences attributable to:		
Trade and other receivables	**62**	**277**
Inventories	**3,000**	**-**
Receivables	**-**	**11**
Mine properties and development	**25,811**	**25,655**
Exploration and evaluation	**32,170**	**28,968**
Borrowings	**448**	**682**
Total deferred tax liabilities	**61,491**	**55,593**
Set-off of deferred tax assets pursuant to set-off provisions (Note 19)	**(36,299)**	**(46,645)**
Net deferred tax liabilities	**25,192**	**8,948**

NOTE 27. PROVISIONS (NON-CURRENT)

	2012 $'000	2011 $'000
Employee benefits	1,721	1,527
Decommissioning and restoration	23,413	19,298
	25,134	20,825

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

(a) Movements in decommissioning and restoration provision

	2012	2011
Balance at beginning of year	19,298	19,001
Changes in estimate	3,387	(879)
Unwinding of discount	710	1,052
Transfer from current provisions	18	124
Balance at end of year	23,413	19,298

NOTE 28. CONTRIBUTED EQUITY

	2012 Shares	2011 Shares	2012 $'000	2011 $'000
Issued and fully paid ordinary shares	1,155,487,102	1,153,937,134	330,334	329,577
	1,155,487,102	1,153,937,134	330,334	329,577

NOTE 28. CONTRIBUTED EQUITY (continued)

(a) Movements in ordinary share capital	Number of Shares	$'000
1 January 2011 – Opening balance	**1,152,077,403**	**328,912**
3 March 2011 – Issue of shares under long term incentive plan	**769,321**	**244**
5 May 2011 – Issue of shares under long term incentive plan	**334,763**	**181**
5 July 2011 – Issue of shares under long term incentive plan	**755,647**	**240**
31 December 2011 – Closing balance	**1,153,937,134**	**329,577**
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**

(b) Ordinary shares

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

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

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

(c) Share options and rights

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

NOTE 29. RESERVES

	2012	2011
	$'000	$'000
Share-based payments reserve	1,103	3,041
	1,103	3,041

(a) Movements in share-based payments reserves

Balance at beginning of the year	3,041	2,955
Share based payments expense	797	751
Expired share options	(1,978)	-
Issue of shares to employees	(757)	(665)
Balance at end of the year	1,103	3,041

(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

Retained profits

Movements in retained profits were as follows:

Balance at the beginning of the year	424,681	231,192
Profit for the year	35,904	216,567
Dividends paid	(46,198)	(23,078)
Expired share options	1,978	-
Balance at the end of the year	416,365	424,681

NOTE 31. DIVIDENDS

Unfranked final dividend for the year ended 31 December 2011 – 3 cents per share (2010: Nil)	(34,643)	-
Unfranked interim dividend for the year ended 31 December 2012 – 1 cent per share (2011: 2 cents per share)	(11,555)	(23,078)
Total dividends provided for or paid	(46,198)	(23,078)

(a) Ordinary shares

A final dividend for the year ended 31 December 2011 of 3 cents per fully paid share (2010: nil) was paid on 27 April 2012. This final dividend was declared NIL conduit foreign income.

An interim dividend for the year ended 31 December 2012 of 1 cent per fully paid share (2011: 2 cents per fully paid share) was paid on 2 October 2012. This interim dividend was declared NIL conduit foreign income.

NOTE 31. DIVIDENDS (continued)

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

In addition to the above dividends, since year end the Directors have recommended the payment of a final unfranked dividend of 1 cent per fully paid ordinary share. The aggregate amount of the proposed dividend is expected to be paid on 3 April 2013, but not recognised as a liability at year end is $11.6 million. The final dividend was declared NIL conduit foreign income.

NOTE 32. KEY MANAGEMENT PERSONNEL

	2012 $'000	2011 $'000
Short-term employee benefits	**3,060**	2,220
Post-employment benefits	**186**	205
Long-term benefits	**11**	14
Termination benefits	**635**	131
Share-based payments	**1,099**	351
	4,991	2,921

Detailed remuneration disclosures are provided in the remuneration report on pages 10 to 20.

(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

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

31 December 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)	-	-	-

NOTE 32. KEY MANAGEMENT PERSONNEL (continued)

31 December 2011

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

(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 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 period.

(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.

31 December 2011

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

NOTE 32. KEY MANAGEMENT PERSONNEL (continued)

(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 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
R Clark[(1)]	1,823,159	734,819	-	(400,000)	(2,157,978)	-
C Ko	90,385,520	-	-	-	-	90,385,520
Other key management personnel of the Group						
W Bould	1,159,140	348,487	-	(194,423)	-	1,313,204
D Corr	91,882	48,626	-	-	-	140,508

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

31 December 2011

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

(b) Loans to key management personnel

There were no loans to key management personnel during the year (December 2011: Nil).

(c) Other transactions with key management personnel

There were no other transactions with key management personnel during the year (December 2011: Nil).

NOTE 33. REMUNERATION OF AUDITORS

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

	2012	2011
	$'000	$'000
(a) PwC - Australia		
Audit and review of financial reports	**292**	**230**
Other assurance services	**58**	**65**
Taxation services		
Taxation compliance	**248**	**212**
Taxation consulting and advice	**425**	**1,648**
Other services	**-**	**220**
Total remuneration of PwC - Australia	**1,023**	**2,375**
(b) Related practices of PwC - Australia		
Audit and review of financial reports	**8**	**62**
Taxation compliance	**2**	**15**
Total remuneration of related practices of PwC - Australia	**10**	**77**

NOTE 34. COMMITMENTS AND CONTINGENCIES

(a) Lease expenditure commitments

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

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

Within one year	**212**	**227**
After one year but not more than five years	**474**	**677**
Minimum lease payments	**686**	**904**

NOTE 34. COMMITMENTS AND CONTINGENCIES (continued)

(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:

	2012 $'000	2011 $'000
Within one year	14,165	12,826
After one year but not more than five years	-	15,334
	14,165	28,160
Future finance charges	(289)	(2,540)
Recognised as a liability	13,876	25,620

(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	854	667
After one year but not more than five years	4,096	1,388
	4,950	2,055

(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	40,288	49,267
After one year but not more than five years	8,796	15,956
	49,084	65,223

(e) Contingent Liabilities

Bank Guarantees

Bank guarantees have been provided on the Group's behalf to secure, on demand by the Minister for Mines and Energy for the State of Queensland, any sum to a maximum aggregate amount of $1,262,659 (2011: $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 $2,873,554 (December 2011: $2,777,575). 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 2011: $2,800,000). This amount is a guarantee against the purchase price outstanding with the Tasmanian government as specified in the Goldamere Agreement.

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

NOTE 34. COMMITMENTS AND CONTINGENCIES (continued)

Other Contingent Liabilities

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

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

(f) Contingent Assets

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

NOTE 35. RELATED PARTY TRANSACTIONS

a) Ultimate parent

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

b) Transactions with related parties

Sales of iron ore of $218.9 million were made with related parties during the year (2011: $245.8 million).

c) Outstanding balances arising from sales of goods and services

	2012 $'000	2011 $'000
Trade receivables (sales of iron ore)		
Related parties	**(2,000)**	**20,048**
Other receivables		
Related parties	**10**	**36**
	(1,990)	**20,084**

NOTE 36. SUBSIDIARIES

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

	Percentage of equity interest held by the Group	
	2012	**2011**
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. The Company received confirmation from the Australian Securities and Investments Commission of its registration as a foreign company under the *Corporations Act 2001* on 28 January 2011.

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

NOTE 37. INTERESTS IN JOINT VENTURES

Name of Joint Venture	% Interest 2012	% Interest 2011
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**	**100.00**
Abercromby Well - Exploration Gold / Nickel (2)	**-**	**10.00**

(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 to 15%.

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

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 37. 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.

	2012 $'000	2011 $'000
ASSETS		
Current assets		
Cash and cash equivalents	**9,315**	**1,112**
Trade and other receivables	**108**	**967**
Total current assets	**9,423**	**2,079**
Non-current assets		
Receivables	**700**	**-**
Property, plant and equipment	**6,518**	**6,380**
Exploration and evaluation	**105,277**	**93,121**
Total non-current assets	**112,495**	**99,501**
Total assets	**121,918**	**101,580**
LIABILITIES		
Current liabilities		
Trade and other payables	**365**	**3,706**
Total current liabilities	**365**	**3,706**
Non-current liabilities		
Provisions	**-**	**224**
Total non-current liabilities	**-**	**224**
Total liabilities	**365**	**3,930**
Net assets	**121,553**	**97,650**

The net contributions of joint ventures (inclusive of resultant revenues) to the Group's operating profit before income tax was a profit of $222,864 (2011: profit $166,597).

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

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

	2012	2011
	$'000	$'000
Profit for the period	35,904	216,567
Revaluation of deferred consideration	(15,328)	189
Unwinding of discount	5,596	6,946
Depreciation and amortisation	40,152	39,990
Deferred mining	34,160	21,595
Exploration and evaluation expenditure written off	1,148	-
Interest expense on finance leases	1,281	1,891
(Profit) / loss on available for sale financial assets	-	(1,470)
(Profit) / loss on sale of property, plant and equipment	(23)	(85)
(Profit) / loss on disposal of subsidiaries	-	(824)
Share based payment expense	757	751
Net unrealised foreign exchange (gain) / loss	(94)	199
Change in operating assets and liabilities		
(Increase) / decrease in trade and other receivables	25,178	(2,387)
(Increase) / decrease in inventories	8,746	(32,257)
(Increase) / decrease in intangible assets	(5,548)	-
Increase / (decrease) in trade and other payables	(16,305)	15,727
Increase / (decrease) in other provisions	4,753	2,091
Increase / (decrease) provision for income tax payable	(4,695)	4,695
Increase / (decrease) in deferred tax liabilities	16,243	(63,243)
Net cash inflow / (outflow) from operating activities	131,925	210,375

NOTE 39. EARNINGS PER SHARE

	2012 Cents	2011 Cents
Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	3.11	18.78
Total basic earnings per share attributable to the ordinary equity holders of the Company	3.11	18.78
Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	3.10	18.76
Total diluted earnings per share attributable to the ordinary equity holders of the Company	3.10	18.76

(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	35,904	216,567
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share from continuing operations	35,904	216,567

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

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,155,029,611	1,153,311,836

Options

Options granted to Directors and eligible employees under the Long Term Incentive Plan, were considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they were dilutive. As all the options on issue at 31 December 2011 were out of the money, they were not considered dilutive and therefore not included in the calculation of diluted earnings per share for the year ended 31 December 2011. 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 40.

NOTE 39. 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.

NOTE 40. SHARE BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

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

	2012 $'000	2011 $'000
Rights issued to eligible employees under the LTIP	**797**	**751**
	797	**751**

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.

NOTE 40. SHARE BASED PAYMENTS (continued)

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

Grant Date	Expiry date	Exercise price	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	-	-
31 December 2011								
28-Nov-08	6-Mar-12	$1.92	2,100,000	-	-	-	2,100,000	2,100,000
28-Nov-08	6-Mar-12	$2.87	2,100,000	-	-	-	2,100,000	2,100,000
28-Nov-08	6-Mar-12	$3.37	2,100,000	-	-	-	2,100,000	2,100,000
TOTAL			**6,300,000**	**-**	**-**	**-**	**6,300,000**	**6,300,000**
Weighted average exercise price			$2.72	-	-	-	$2.72	$2.72

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

Fair value of options granted

No options were granted during the reporting period.

(ii) Rights to Grange Shares

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

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

NOTE 40. SHARE BASED PAYMENTS (continued)

Rights are allocated using a share price that is based on the volume weighted average price of the Company's shares. For the year ended 31 December 2012 the share price is based on the volume weighted average price of the Company's shares for the first two months of the performance period (i.e. the volume weighted average price of the Company's shares from 1 January 2012 to 28 February 2012 will be used).

The expense recognised during the year ended 31 December 2012 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 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)	(7,859)	314,300	-	314,300
31 December 2011	-	1,157,958	(406,865)	(5,868)	745,225	-	745,225
31 December 2012(3)	-	518,927(2)	-	-	518,927	-	518,927
Total	**1,478,125**	**1,676,885**	**(1,549,968)**	**(26,590)**	**1,578,452**	**-**	**1,578,452**

31 December 2011

Performance Period	Balance 1 January 2011	Granted as remuneration	Issued on vesting of rights	Other Changes (net)(1)	Balance 31 December 2011	Vested	Unvested
30 June 2010	2,307,963	-	(1,524,968)	(49,622)	733,373	-	733,373
31 December 2010	-	1,104,716	(334,763)	(25,201)	744,752	-	744,752
Total	**2,307,963**	**1,104,716**	**(1,859,731)**	**(74,823)**	**1,478,125**	**-**	**1,478,125**

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

(2) 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 period.

(3) As at the date of this report, the Remuneration and Nomination Committee is still reviewing the variable remuneration entitlements eligible employees 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) Options to Grange Shares

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

NOTE 40. SHARE BASED PAYMENTS (continued)

The table below summaries the options issued to eligible employees:

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

Each option is convertible into one ordinary share.

Fair value of options granted

No options were granted during the reporting period.

NOTE 41. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2012 $'000	2011 $'000
Balance sheet		
Current assets	**17,622**	**94,520**
Total assets	**372,995**	**423,221**
Current liabilities	**6,888**	**19,510**
Total liabilities	**54,316**	**106,525**
Shareholders' equity		
Contributed equity	**391,296**	**390,539**
Reserves		
Share-based payments	**32,294**	**34,232**
Retained (losses)	**(104,911)**	**(108,075)**
Total equity	**318,679**	**316,696**
Profit for the year	**47,385**	**30,859**
Total comprehensive income for the year	**47,385**	**30,859**

(b) Contingent liabilities of the parent entity

Bank deposits / guarantees

A bank guarantee has been provided by the parent entity, on demand by the Perth Diocesan Trustees for the amount of $135,072 (December 2011: $135,072), in accordance with the terms of an office lease agreement dated 20 July 2005 to lease office premises in QBE House.

Other contingent liabilities

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

NOTE 42. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No other matter or circumstance has arisen since 31 December 2012 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 36 to 99 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 2012 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.

Zhiqiang Xi	Richard Mehan
Chairman	Managing Director

Perth, Western Australia
27 February 2013

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 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Grange Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

 (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 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 10 to 20 of the directors' report for the year ended 31 December 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Tim Goldsmith

Tim Goldsmith
Partner

Melbourne
27 February 2013