



GRANGE
RESOURCES LIMITED
ABN 80 009 132 405

STOCK EXCHANGE ANNOUNCEMENT

ANNUAL REPORT 2006

27 October 2006

Grange Resources Limited is pleased to release to the market the Company's Annual Report for the year ended 30 June 2006 which has been dispatched to shareholders.

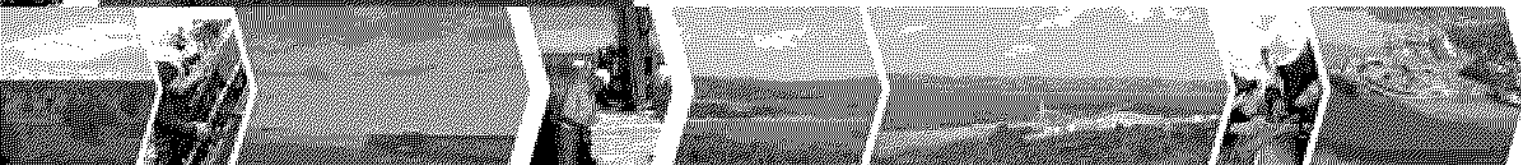
For further information visit the Grange website at www.grangeresources.com.au or alternatively contact Neil Marston on + 61 (8) 9321 1118.

NEIL MARSTON
Company Secretary



GRANGE
RESOURCES LIMITED

ANNUAL REPORT 2006



CORPORATE DIRECTORY

BOARD OF DIRECTORS

Anthony Bohmenn

(Non-Executive Chairman)

Geoffrey Lloyd Warburton Wedlock

(Managing Director)

Alexander Henry Nutter

(Technical Director)

Richard Krasnoff

(Non-Executive Director)

Hans Rudolf Moser

(Non-Executive Director)

SENIOR MANAGEMENT

Neil Andrew Marston

(Chief Financial Officer & Company Secretary)

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140 St George's Terrace
PERTH WA 6000

STOCK EXCHANGE

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

WEBSITE

www.grangeresources.com.au

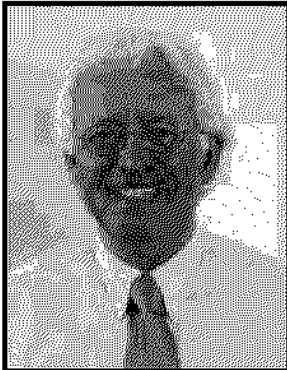
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CHAIRMAN'S REPORT



On behalf of your Board of Directors, I have pleasure in presenting the Annual Report and Financial Statements of Grange Resources Limited ("Grange" or the "Company") and its controlled entities for the financial year ended 30 June 2006.

Grange recorded a consolidated operating profit after tax of \$1.94 million for the financial year ended 30 June 2006 compared to an operating after tax loss of \$5.27 million in the previous financial year. The result was achieved on revenue of \$10.40 million including revenue of \$7.44 million generated from the sale of copper concentrate from the Reward Deeps and Conviction underground mine which compared to \$3.93 million in the previous financial year. Production from the Rewards Deeps and Conviction underground mine ceased in July 2005.

During the 2006/2007 financial year the Company expects to generate revenue of approximately \$2.9 million from royalty income from the Red Hill and Freshwater Projects

The primary focus of the Company during the Financial Year has been the completion of the bankable feasibility study (BFS) on the development of the Southdown Magnetite Project and Kemaman (Malaysia) Pellet Project. The technical and capital cost aspects of the BFS were largely completed in the first quarter of 2006 with a capital cost estimate of US\$1.175 billion. In March 2006 the Company commenced a tender process for the selection of a joint venture partner or partners to assist Grange develop the project. This process is well advanced and the Company aims to conclude this process during the last quarter of 2006. Additional resource drilling at Southdown was completed in May 2006 resulting in an increased resource estimate of 479Mt grading 37.3% magnetite being announced in September 2006. Environmental and project approvals for the Southdown Magnetite Project are expected in mid 2007. Environmental and project approvals for the Kemaman Pellet Project are more advanced and are expected in late 2006.

Subsequent to the year end, in September 2006, the Malaysian Government approved Pioneer Status for the Kemaman Pellet Plant Project and a substantial package of investment incentives including a 100% corporate tax exemption for a period of 15 years. The package is one of the best packages offered by the Malaysian Government in relation to a project of this nature. The incentive package substantially improves the economics of the project.

The Company continues to devote resources to developing new investment opportunities in the mining sector in South East Asia. In Malaysia the Company, with its joint venture partner has commenced development of the old Bukit Ibam iron ore mine to produce iron ore for local consumption. The Company also aims to undertake extensive exploration in Malaysia with the aim of producing iron ore for export.

The achievements of this year bode well for the future of the Company. I extend my sincerest thanks to the Board and management team of Grange for their significant contributions and efforts. Appreciation is also extended to our shareholders for their continued support. We look forward to the continuing success of the Company as it brings the development of the Southdown Magnetite Project and Kemaman Pellet Project to fruition in the financial year ahead.

A handwritten signature in black ink, appearing to read 'Bohenn', written in a cursive style.

ANTHONY BOHNENN
Chairman

MAJOR ACTIVITIES AND HIGHLIGHTS



The Company's major activities and highlights since the last annual report were as follows:

- The Company recorded a profit after tax of \$1.94 million.
- The Company's efforts focused on the bankable feasibility study on development of the Southdown Magnetite and Kemaman Pellet Project. The study was largely completed by March 2006 with a capital cost estimate of US\$1.175 billion being determined.
- Resource drilling at Southdown was completed in May 2006. In total 226 holes aggregating over 57,000 metres of drilling were completed during 2004-2006.
- A JORC compliant resource estimate on all Southdown drilling and assay data shows the deposit to contain 479Mt grading 37.3% magnetite (Indicated 427Mt grading 38.2% magnetite and Inferred 52Mt grading 30.1% magnetite).
- In September 2006 the Malaysian Government approved Pioneer Status for the Kemaman Pellet Project and a substantial package of special investment incentives.
- In July 2005 the final shipment of copper concentrate from the Reward Deeps mine was exported from Townsville. Income received during the financial year from the sales of copper concentrate amounted to \$7.44 million.
- Royalty payments from mining activities at the Red Hill Gold Mine totalled \$1,990,866.
- Royalty payments from mining activities at the Freshwater Project totalled \$327,744.
- The Company acquired a 51% interest in the Bukit Ibam iron ore mine in Malaysia. Development work to re-open the mine is currently underway.
- 8,000,000 fully paid ordinary shares were issued at a price of \$1.35 raising \$10.80 million to fund Southdown feasibility study costs
- 4,285,715 fully paid ordinary shares were issued at a price of \$0.50 per share pursuant to the exercise of options.

*The company recorded a profit
after tax of \$1.94 million*



REVIEW OF OPERATIONS

OPERATING RESULTS FOR THE YEAR

The Company recorded a consolidated operating profit of \$1.94 million for the financial year ended 30 June 2006, compared with a consolidated operating loss of \$5.27 million in the previous financial year. The operating profit was generated on consolidated revenue of \$10.40 million, compared to \$7.11 million over the previous financial year.

Grange had consolidated net assets of \$38.76 million at the end of the financial year, consisting largely of the following items:

- \$8.31 million held in cash investments including cash backed security deposits;
- \$6.27 million being receivables, and
- \$23.44 million being the value attributable to capitalised exploration and evaluation expenditure associated with the Southdown Magnetite Project; and

The Company's cash reserves decreased by \$0.43 million during the financial year, reflecting a surplus from operating activities of \$4.13 million, a surplus from financing activities of \$12.28 million and a deficit in investing activities of \$16.84 million.

MINING AND EXPLORATION ACTIVITIES

SOUTHDOWN MAGNETITE AND KEMAMAN (MALAYSIA) PELLET PROJECT

GRANGE 100%

BACKGROUND

Grange Resources Ltd acquired the Southdown mining leases in November 2003 and immediately commenced a review of previous exploration work. This led Grange to undertake a new ground magnetic survey and investigate a number of essential development requirements, including a harbour and shipping channel sea floor probing survey at Albany. The results of this work culminated in a prefeasibility "Scoping Study" which considered the following project components:

- Mining at an annual rate of 17.8 million tonnes with a stripping ratio of around 2.6 to 1.0.
- Annual production of 6.6 million tonnes per annum of magnetite concentrate containing 69% Fe.
- Transportation of the magnetite concentrate to the Port of Albany via a buried slurry pipeline.
- Establishing a large-scale pellet plant in South East Asia to process the Southdown concentrate into high grade iron ore pellets to produce 6.8 million tonnes of pellets per annum.
- Potential markets for pellets in direct reduction and blast furnaces located in the Gulf and South East Asia.
- Assessment of the economics of the project including capital expenditure on infrastructure in Australia and South East Asia.

The key findings from the scoping study included:

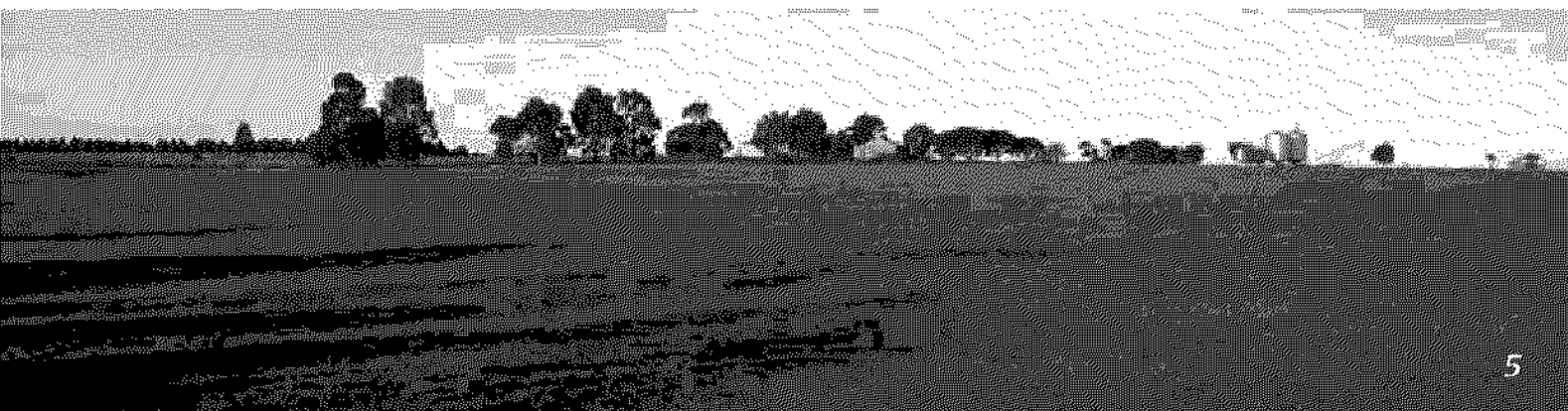
- A potentially significant resource was indicated of sufficient size to support large scale mining, concentrating and pelletisation operations.
- The mineralisation appeared to be amenable to coarse magnetic separation.
- Close proximity to road and port facilities in Western Australia and Malaysia.
- Competitive mining and processing costs.
- The mining tenements were located on freehold land in Western Australia with no Native Title issues outstanding.
- Two products were proposed namely Direct Reduction ("DR") and Blast Furnace ("BF") pellets.
- Establishment of a pellet plant in Malaysia, near key markets including:
 - Direct Reduction - steel producers in Malaysia, Indonesia, and the Middle East; and
 - Blast Furnace - steel producers in China, Japan, South Korea and Taiwan.

Following the completion of the scoping study and some preliminary drilling in late 2004 Grange announced in January 2005, the commencement of a full Bankable Feasibility Study (BFS) for the Southdown Magnetite and Kemaman Pellet Project.

Grange engaged the following consultants to assist with the preparation of the BFS:

- ProMet Engineers to undertake and supervise the engineering and metallurgical work, including concentrator, pipelines, ports and pellet plant.
- Golder Associates to undertake the resource estimation, mine planning and scheduling, geotechnical engineering and hydrology.
- AMC Consultants to review alternative mining methods.
- Ecologia to undertake environmental studies and prepare the documents necessary for the project approvals process.
- JFA Consultants to supervise the work relevant to the Albany Port, shipping channel and dredging.
- Rockwater to search for a water supply.
- Perunding Utama to undertake the environmental work necessary for the development of the pellet plant and associated infrastructure in Malaysia.

Following the completion of the scoping study and some preliminary drilling in late 2004 Grange announced in January 2005, the commencement of a full Bankable Feasibility Study (BFS) for the Southdown Magnetite and Kemaman Pellet Project.



REVIEW OF OPERATIONS (CONTINUED)

DEVELOPMENT PLAN

It is proposed to mine the Southdown Magnetite deposit using proven open pit mining methods with the magnetite mineralisation being crushed, ground, screened and then magnetically separated to produce a magnetite concentrate at a planned production rate of 6.6 Mtpa. Coarse production waste (tailings) will be dewatered and deposited as solid tailings while finer material will be deposited in a slurry form into a tailings storage facility. Overburden is to be placed in waste rock dumps for the first 5 years of production following which progressive backfilling of the pit with both waste rock and tailings is planned.

The magnetite concentrate will be pumped as slurry, approximately 100 km to a concentrate storage facility at the port of Albany before being loaded on to capsize vessels and shipped to an iron ore pellet plant located in Malaysia. Filtered water recovered from the slurry will be pumped back to the mine site for re-use in the concentrator via a return water pipeline buried beside the slurry pipeline.

At Albany Port the construction of a new berth will be required and the Albany Port Authority will provide land to accommodate a concentrate storage facility and ship loading infrastructure. Widening of the existing shipping channel into Princess Royal Harbour and extending the channel into King George Sound is also proposed to facilitate the access of capsize vessels.

Grange has entered into a Heads of Agreement with subsidiaries of Road Builder (M) Holdings Bhd to secure the future use of infrastructure in Malaysia comprising an existing wharf and up to 60 hectares of land for the pellet plant at Kemaman on the east coast of peninsular Malaysia. The design capacity of the pellet plant is 6.8 Mtpa.

The magnetite resource within the Grange mining leases is sufficient to support the planned production rate for a period of 22 years. Known extensions to the magnetite deposit within an adjacent tenement owned by Rio Tinto could extend the project life considerably.

PROJECT LOCATION

The Southdown Magnetite Project is located approximately 90 kilometres northeast of the Port of Albany on the south coast of Western Australia (figure 1).

The project comprises three granted mining leases M70/433, M70/718 and M70/719 covering an area of 1712 hectares and a General Purpose Lease Application G70/217 and two Miscellaneous Licence Applications L70/97 and L70/98 covering an additional 872 hectares on freehold farming property (figure 2) over which the Company holds an option to purchase.

Figure 1: Location of Southdown Magnetite Project, Albany WA

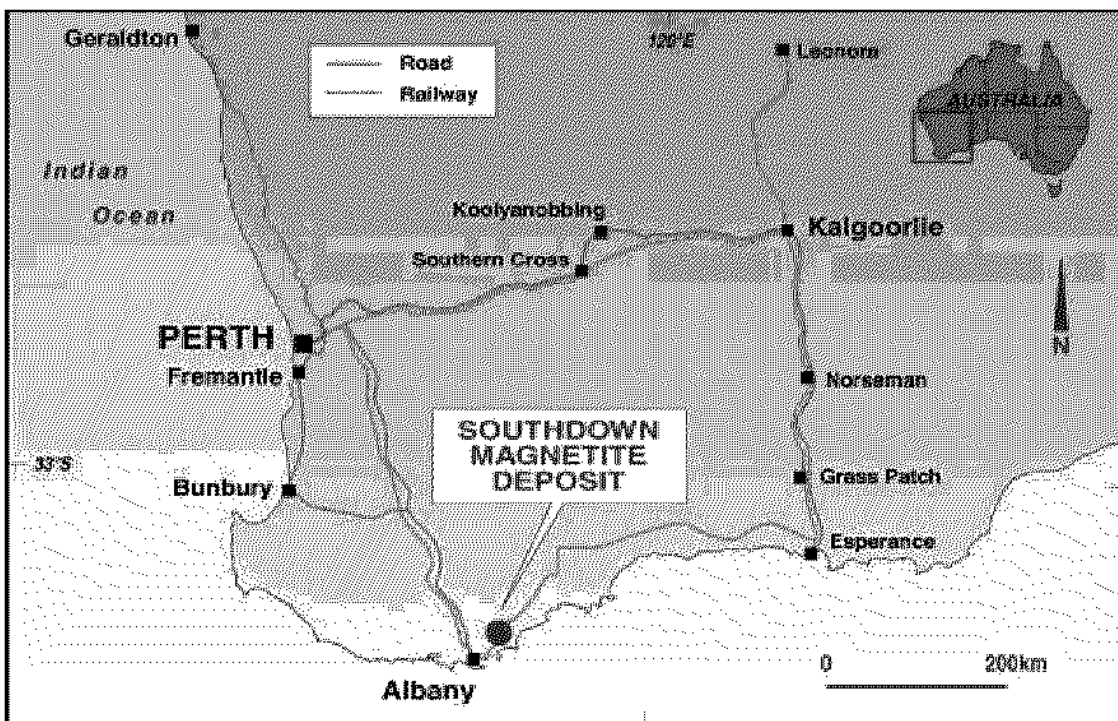
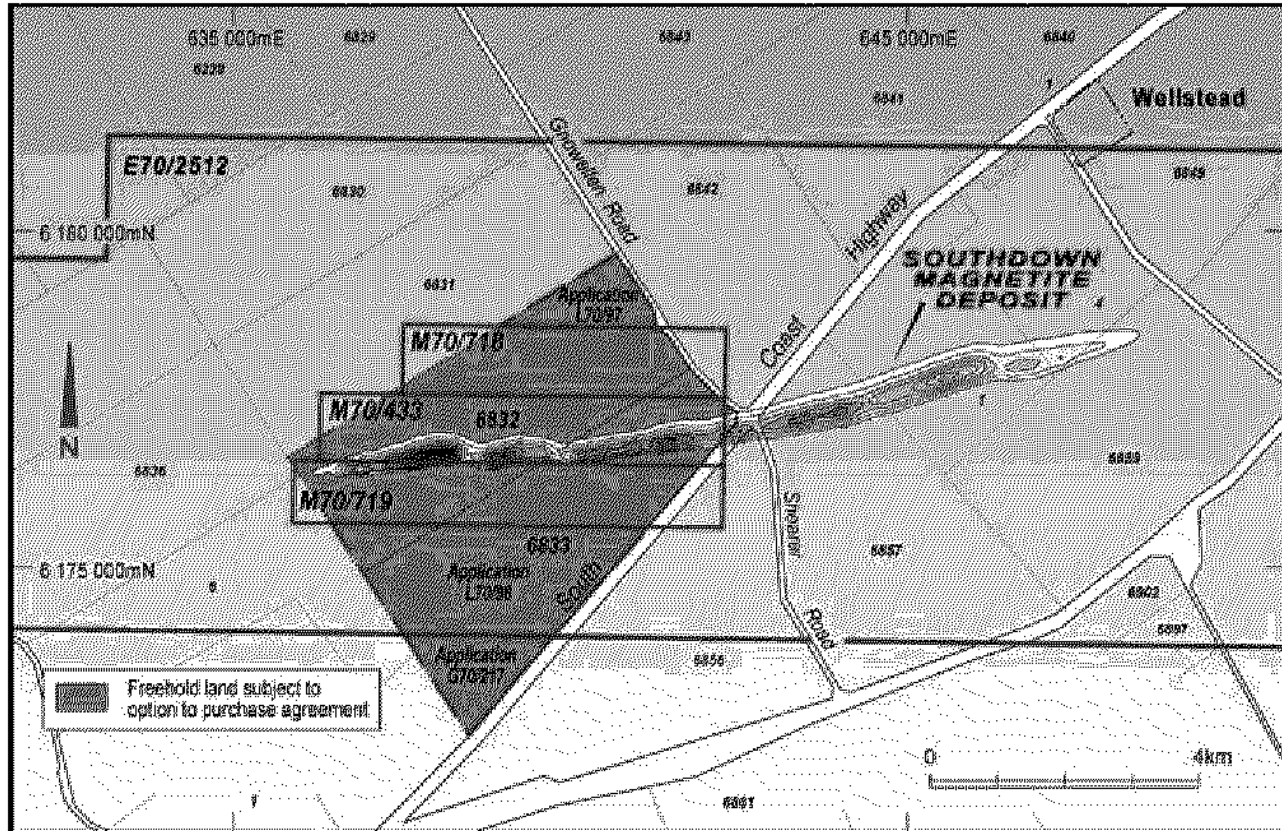


Figure 2: Aeromagnetic Signature of the Southdown Magnetite Deposit and Location of Mining Tenements



RESOURCE EVALUATION

The Company's mining leases cover the western portion of a deposit of magnetite mineralisation that was first recognised in the early 1980s. The deposit has strike length of approximately 13km and Grange's three mining leases cover the western 6km of the deposit.

The eastern section of the deposit is held by Rio Tinto within exploration licence E70/2512. The aeromagnetic signature of the deposit (figure 2) indicates an increasing depth of cover over the magnetite mineralisation as the deposit extends from Grange's mining leases further to the east. Rio Tinto carried out reconnaissance diamond drilling to evaluate the nature and extent of the deposit within its exploration licence during the period October 2005 to March 2006.

Resource Drilling and Resource Estimate

In November 2004 the Company commenced diamond drilling to evaluate the nature and strike and depth extent of the Southdown magnetite deposit within its mining leases. The resource drilling programme was designed to provide sufficient data to establish a resource that could be classified as Indicated in accordance with the Australasian Code for the Reporting of Identified Mineral Resources and Ore Reserves (JORC Code, 2004). Drill holes were spaced at 50 metres intervals on traverses 200 metres apart along the 6km strike length. The resource drilling programme was completed during May 2006 by which time 195 resource holes aggregating 52,653 metres had been completed. The location of drill holes completed to date is shown on figure 3. In addition to the resource drill holes, 9 geotechnical holes (2,279 metres), 6 metallurgical holes (1,549 metres), 3 hydrogeological holes (845 metres) and 13 groundwater monitoring bores (522 metres) have been completed. A summary of drilling and sampling undertaken on the project is provided in Table 1.

Drill core was cut on site and submitted to the Amdel laboratory in Perth for sample preparation and test work (Davis Tube Recovery) to determine the magnetite content. The magnetic fraction was assayed by X-ray Fluorescence Spectroscopy to determine its iron content and quality. A total of 8611 samples from the 195 resource drill holes and 892 samples from resampling of the 1986/87 drill core were submitted for analysis.

REVIEW OF OPERATIONS (CONTINUED)

TABLE 1

SOUTHDOWN MAGNETITE PROJECT – SUMMARY OF DRILLING AND SAMPLING				
Company/Date	Purpose	Number of Holes	Metres	DTR Samples
Southdown JV & Portman				
1986 - 1987	Resource	52	5,757	187
Grange Resources				
2004 - 2006	Resource	195	52,653	9,503*
	Geotechnical	9	2,279	
	Metallurgical	6	1,549	
	Hydrogeological	3	845	
	Groundwater Monitoring	13	522	
Total Grange		226	57,848	9,503
Grand Total		278	63,605	9,690

Note: *Includes 892 samples from re-sampling of 1986-1987 drill core by Grange

Golder Associates have completed a resource model using an all geological and assay data available as at 4 September 2006 and prepared a mineral resource estimate. The magnetite deposit within the Company's mining leases has a strike length of approximately 6,000 metres and a vertical depth ranging from 50 to 500 metres. The available data has allowed Golder Associates to estimate the resource contained within 5,950 metres of strike with variable depths ranging from 50 to 480 metres below surface. The resources were estimated using a cut-off grade of 10wt% Davis Tube Concentrate (DTC).

Based on the above criteria Golder Associates estimated the Southdown deposit contains 479.1 million tonnes grading 37.3% magnetite of which 427.3 million tonnes grading 38.2% magnetite are classified as Indicated Resources and 51.8 million tonnes grading 30.1% magnetite are classified as Inferred Resources.

The resource estimate (Table 2) was classified in accordance with the Australasian Code for the Reporting of Identified Mineral Resources and Ore Reserves (JORC Code, 2004).



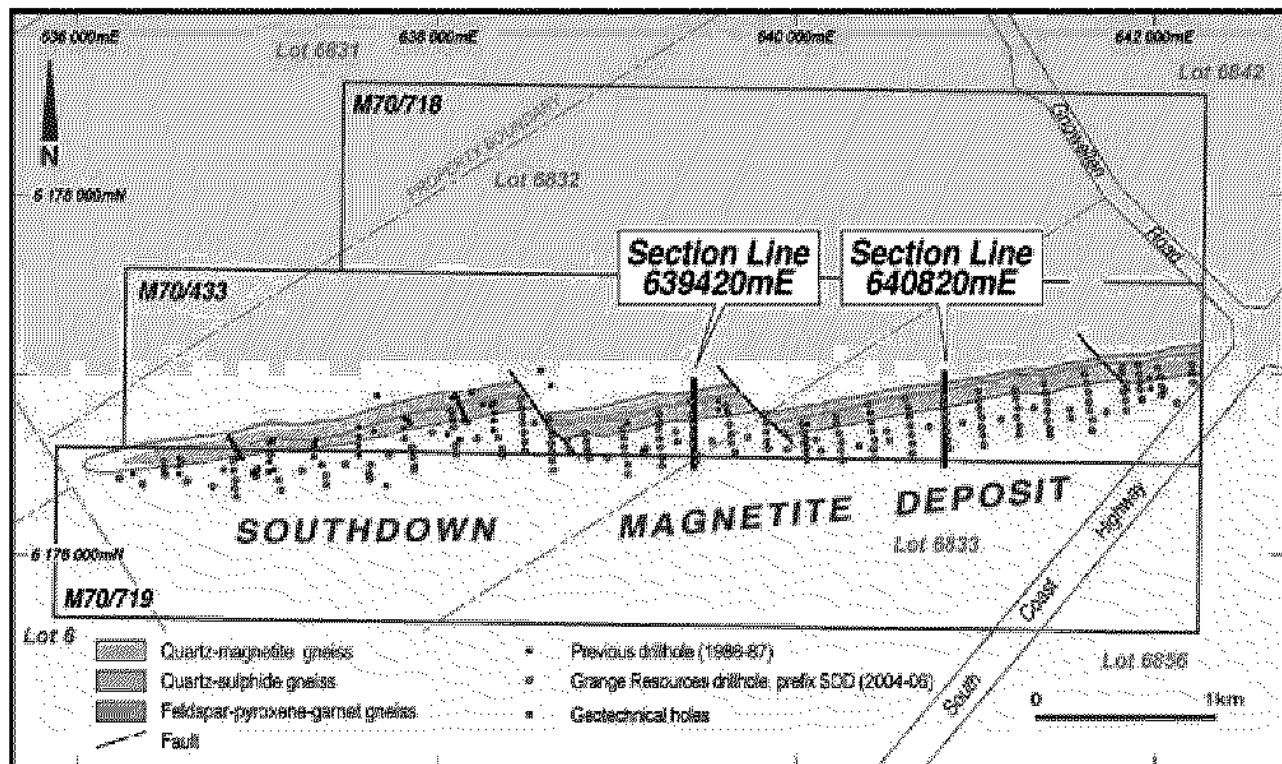
9,503 samples from over 57,000 metres of drilling were sent for laboratory testing.

TABLE 2

SOUTHDOWN MAGNETITE PROJECT - INSITU MINERAL RESOURCE ESTIMATE			
Class	Indicated Resource	Inferred Resource	Total
Tonnes (Mt)	427.3	51.8	479.1
DTC wt%	38.2	30.1	37.3
DTC Fe%	69.2	69.0	69.2
DTC SiO ₂ %	1.9	2.0	1.9
DTC Al ₂ O ₃ %	1.4	1.3	1.3
DTC TiO ₂ %	0.37	0.44	0.37
DTC S%	0.42	0.63	0.44
DTC Na ₂ O%	0.05	0.04	0.05
DTC K ₂ O%	0.009	0.009	0.009
DTC P%	0.002	0.003	0.002
DTC MgO%	0.23	0.25	0.24
DTC CaO%	0.18	0.22	0.18
DTC Mn%	0.036	0.036	0.036
DTC V%	0.021	0.023	0.021
DTC LOI%	-3.0	-2.9	-3.0

The information in this statement of Mineral Resources is based on information compiled by Mr Richard Gaze who is a Member of the Australasian Institute of Mining and Metallurgy and has sufficient relevant experience to qualify as a Competent Person as defined in the JORC Code (2004). Richard Gaze consents to the inclusion of this information in the form and context in which it appears

Figure 3: Interpreted Geology and Drill Hole Location Plan



REVIEW OF OPERATIONS (CONTINUED)

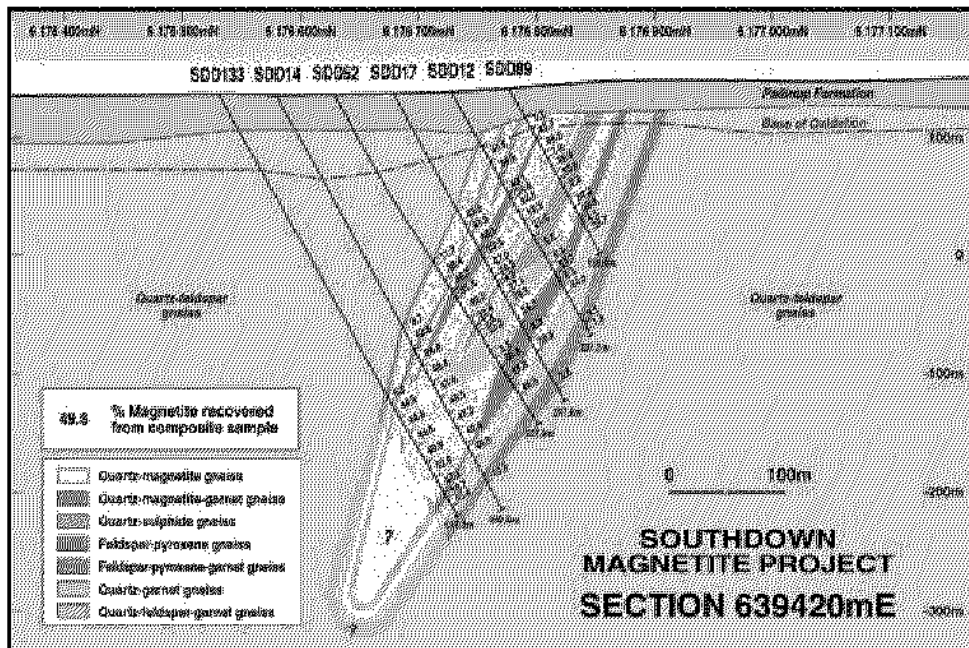
Geology

Interpretation of drilling data indicates that the Southdown deposit consists of a gently east-plunging, overturned tightly folded syncline that is offset by northwest and northeast trending faults (figure 3).

The core of the syncline is occupied by intensely metamorphosed quartz-magnetite-clinopyroxene gneiss and garnet-biotite gneiss. The interpreted vertical depth to the keel of the syncline is approximately 50 metres at the western end of the deposit and increases to a vertical depth in excess of 500 metres in the eastern portion of the deposit. The thickness of the deposit ranges from 40 to 110 metres and averages 85 metres.

Typical cross sections of the deposit are shown in figures 4 and 5 and the locations of the sections are shown in figure 3.

Figure 4: Interpreted Cross Section 639420mE



The Southdown deposit contains 479.1 million tonnes grading 37.3% magnetite

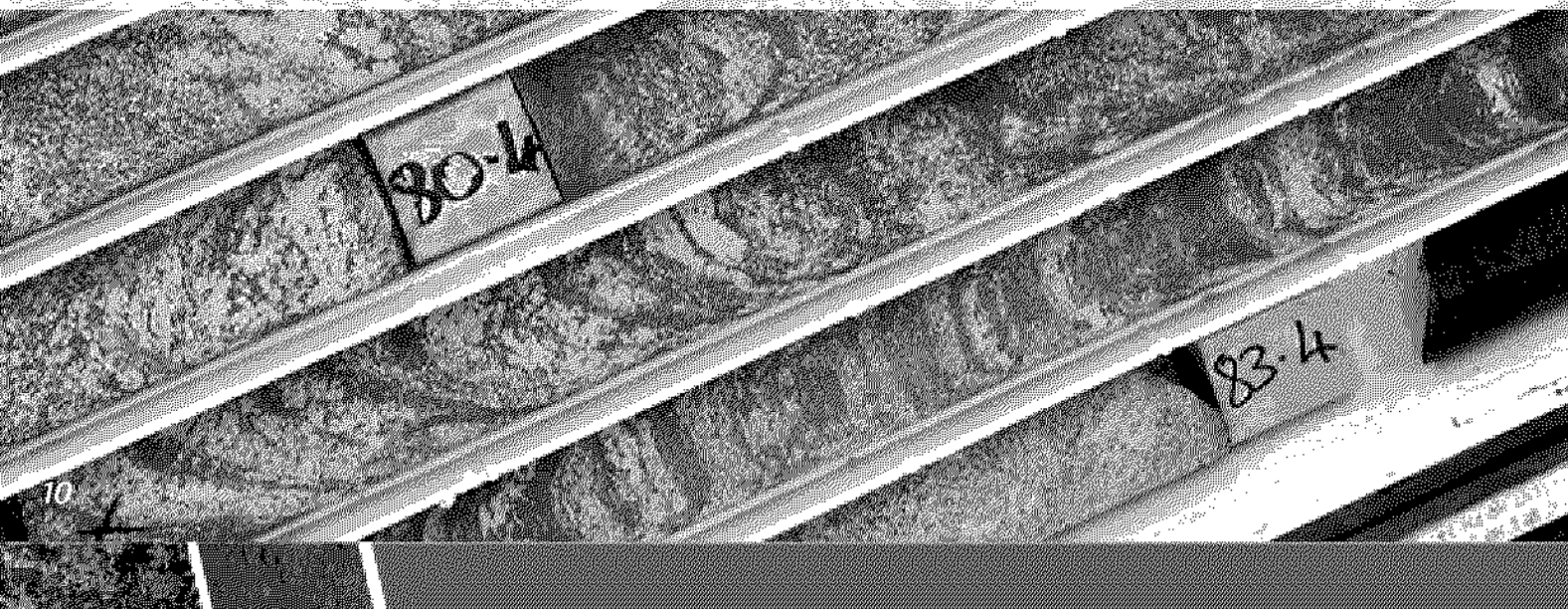
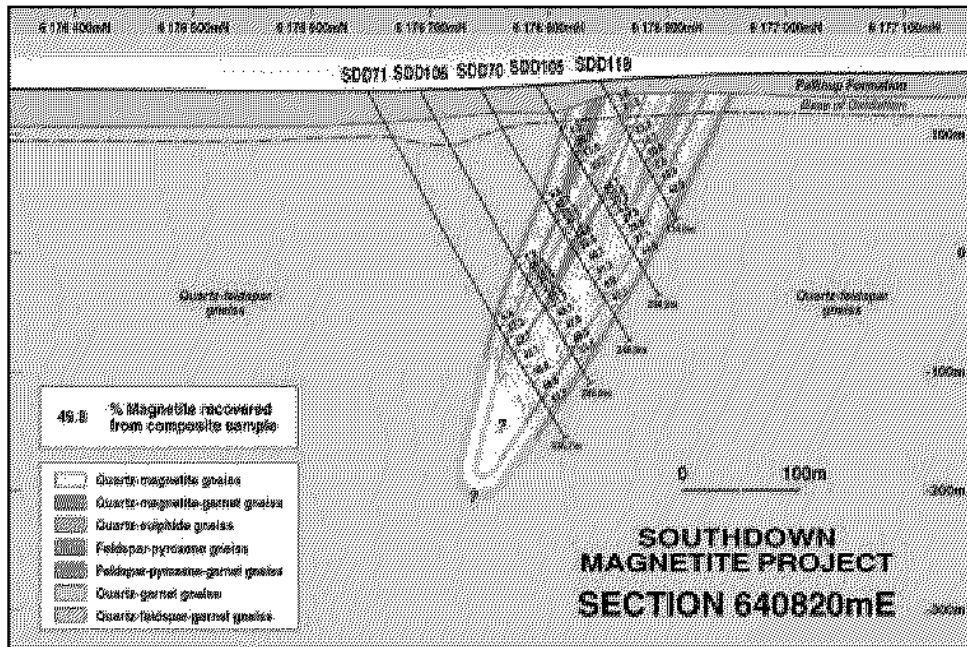


Figure 5: Interpreted Cross Section 640820mE



MINE PLANNING

Preliminary pit optimisation and mine planning work has been carried out based on an earlier geological and resource model developed in January 2006. The work was undertaken in order to develop preliminary mining schedules and a layout for the open pit, waste rock dumps and tailings storage facilities. Based on the results of the study Grange is confident that the deposit contains sufficient mineralisation to support an open pit mining project producing 6.6Mtpa of magnetite concentrate for a period of approximately 22 years. The study developed a concept of co-disposal of approximately 50% of the backfill and tailings into the excavated pit.

More detailed mine planning and scheduling is currently being undertaken based on the updated resource model. Geotechnical and hydrogeological studies have also been completed to provide data for mine design and scheduling.

The main objectives of the preliminary mine scheduling process was to:

- Formulate mining method strategies and test the practicality of these strategies
- Assess whether or not the nominated concentrate production rate of 6.6Mdmtpa is achievable
- Estimate potential mining quantities for input to the mining equipment selection and cost estimation process; and
- Provide preliminary "ore" grade tonnage profiles over the life of the mine for input to the treatment plant design process.

It is envisaged that the long narrow Southdown pit will be mined in a series of blocks commencing at the western end of the deposit and progressing to the east throughout the mine life. The proposed pit will have a footprint of approximately 400ha, a strike length of 6,000 metres and a depth of approximately 300 metres.

The pit optimisation study developed a backfill dumping scenario with a portion of the waste being returned to the mine on a progressive basis. The conceptual dumping schedule showed that approximately 50% of the waste rock would be able to be placed in the excavated pit with backfilling commencing from Year 5 onwards.

The pit optimisation study also investigated the co-disposal of tailings in the backfill and concluded that from Year 7 onwards this would be practical. The concept is to create basins within the waste for filling with plant tailings. Approximately half the tailings would be able to be placed in the backfill. The tailings would be progressively covered by a layer of oxide material to seal them from the atmosphere.

REVIEW OF OPERATIONS (CONTINUED)

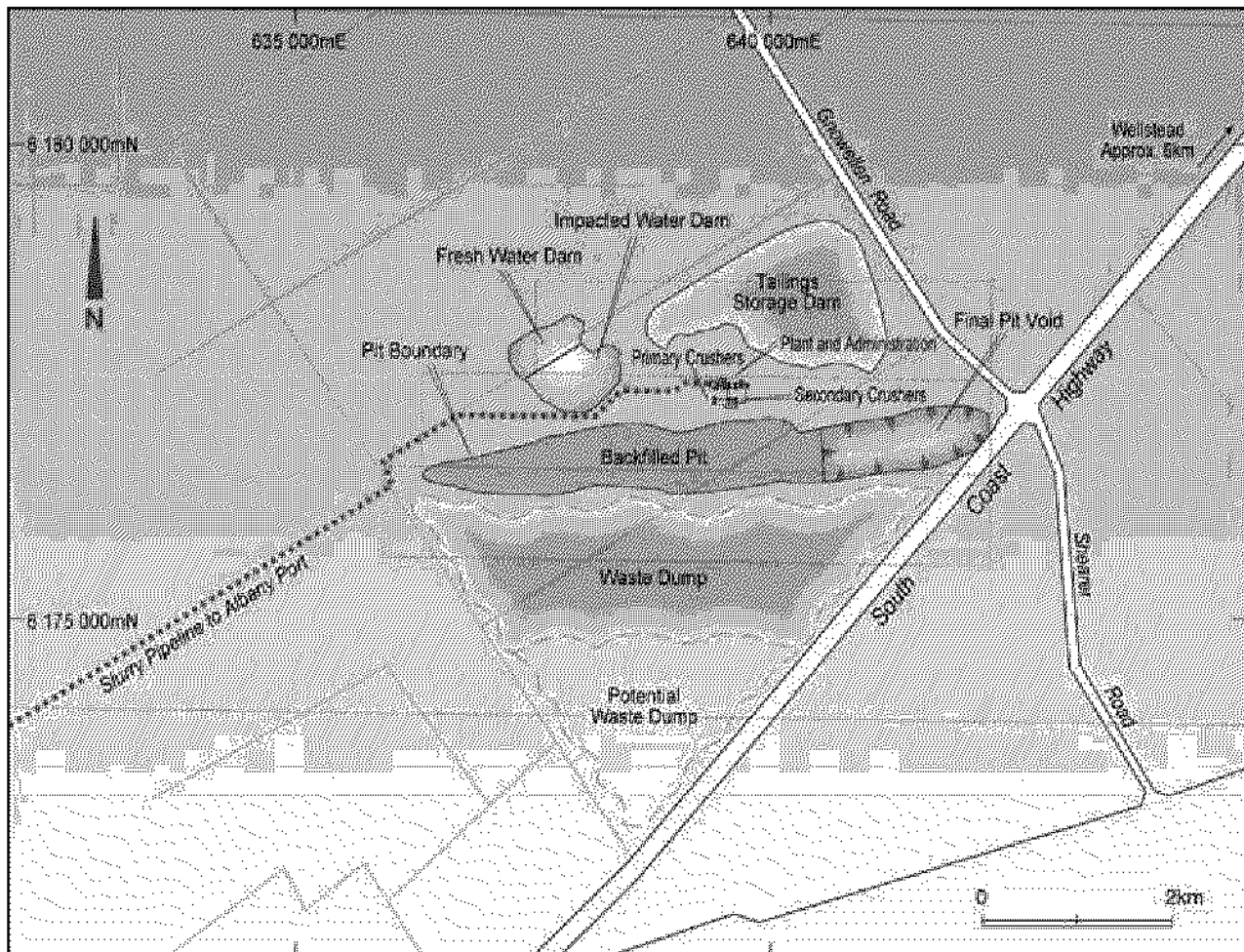
Site investigation

A programme of test pitting and shallow geotechnical drilling has been completed to investigate the footprints of the tailings storage facility, the waste rock dump and the proposed water dam (Figure 6). Test bore holes have been logged for soil and rock type and tested for geotechnical parameters. Piezometers to test for water levels were installed in all the test bores. The aims of the site investigation work were to:

- Characterise the geotechnical and hydro-geological conditions at the proposed tailings storage facility and water dam sites for use in stability and seepage analyses;
- Install piezometers in the boreholes to enable future monitoring of groundwater levels and water quality;
- Assess the suitability and quantity of near surface soil material for use as borrow material in construction works; and
- Collect representative soil samples for laboratory testing.

During the June quarter three HQ size 300 metre deep vertical core holes were drilled within the outline of the pit. Each of the holes has been equipped with vibrating wire piezometers to provide information on hydraulic gradients and hydraulic pressures in support of the geotechnical pit design.

Figure 6: Conceptual site layout plan



METALLURGICAL TEST WORK

A comprehensive test work programme has been conducted on representative samples of "ore" from the Southdown magnetite deposit and has demonstrated that a high quality magnetite concentrate containing very low levels of phosphorous can readily be produced suitable for the production of both direct reduction (DR) and blast furnace (BF) pellets.

The test work has established that multi-stage grinding and separation allows the production of a DR grade concentrate at a P_{80} of 34 microns and a BF grade concentrate at a grind as coarse as a P_{80} of 40 to 45 micron. The concentrate contains low levels of silica and phosphorus and other contaminants all of which typically reduce with further grinding. The concentrate has a relatively high sulphur content of 0.7%S which can be readily reduced to below 0.2%S by reverse flotation. Expected DR and BF concentrate qualities are presented in Table 3.

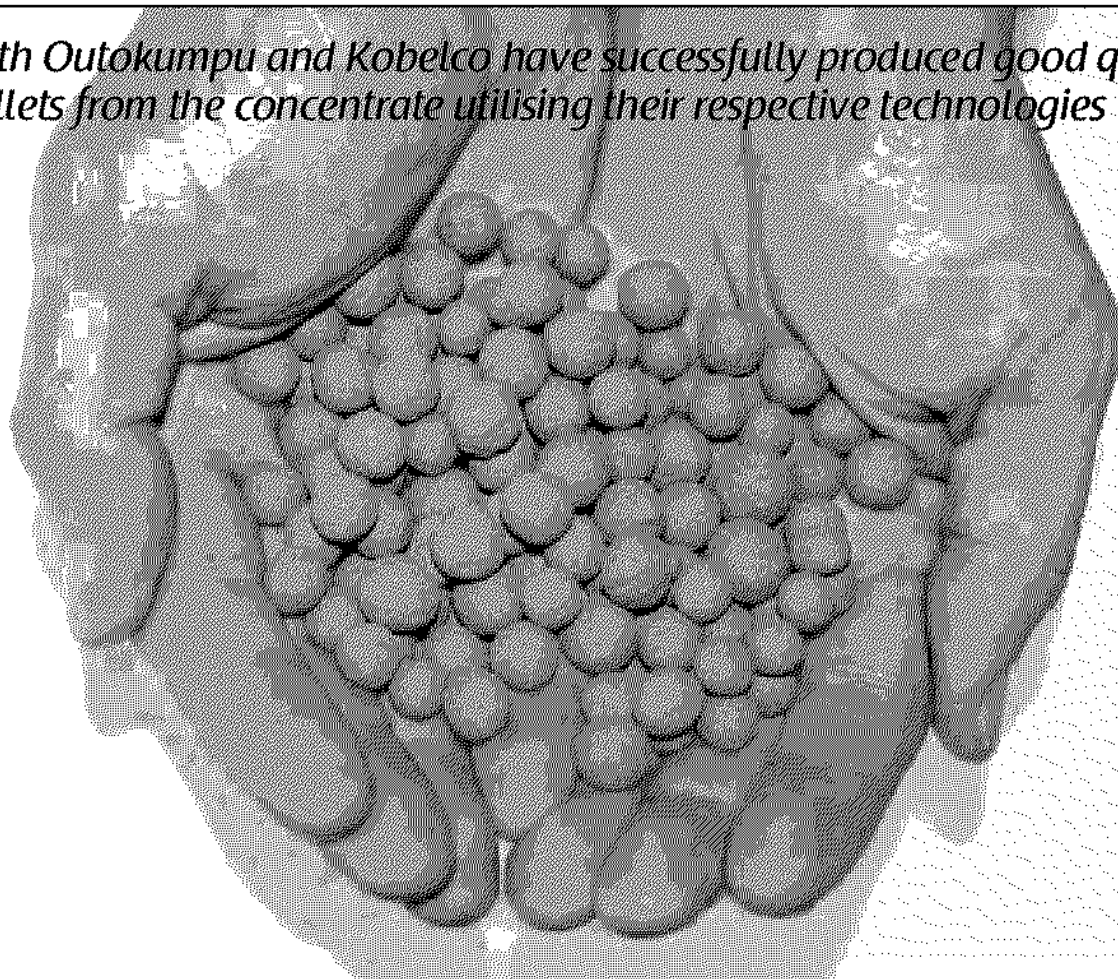
A 22 tonne bulk sample of mineralisation from drill core has been processed through a pilot plant set up in a metallurgical laboratory in Perth and approximately 6.0 tonnes of magnetite concentrate has been produced for test work on pellet production, slurry characteristics, thickener operation and filtration.

Approximately 1.5 tonnes of concentrate were forwarded to Outokumpu Technology (Lurgi) in Germany in November 2005 to determine the suitability of the concentrate to make pellets using Outokumpu's Straight Grate technology. Approximately 2.0 tonnes of concentrate were forwarded to Kobelco Corporation in Japan during February 2006 to determine the suitability of the concentrate to make pellets utilising Kobelco's Grate Kiln technology.

Both Outokumpu and Kobelco have successfully produced good quality pellets from the concentrate utilising their respective technologies. The concentrate processed by both companies contained relatively high sulphur (0.7%S) and further pelletising tests are being undertaken on a low sulphur concentrate (<0.2%S) produced by reverse flotation. Information being generated by Outokumpu and Kobelco will determine the operating conditions for the future pellet plant to be established at Kemaman.

The expected qualities of concentrate (prior to the removal of the sulphur by flotation) and DR and BF pellets based on the results of testwork undertaken to date by both Outokumpu and Kobelco are presented in Table 3.

Both Outokumpu and Kobelco have successfully produced good quality pellets from the concentrate utilising their respective technologies



REVIEW OF OPERATIONS (CONTINUED)

TABLE 3

SOUTHDOWN MAGNETITE PROJECT - EXPECTED CONCENTRATE & PELLET QUALITY							
Parameter	DR Concentrate	BF Concentrate	DR Pellets		BF Pellets		
			Target	Estimated	Target	Acid	Fluxed
Fe %	69.89	67.70	>67.5	67.21		65.60	62.71
FeO %	28.60	28.60		0.50		0.50	0.50
SiO ₂ %	0.97	3.01	<2.0	1.19	<5.0	3.33	3.38
Al ₂ O ₃ %	1.34	1.51		1.36	<2.0	1.58	1.58
CaO %	0.07	0.20		0.76		0.20	2.65
MgO %	0.15	0.35		0.16		0.35	1.47
TiO ₂ %	0.37	0.38		0.36	<1.0	0.37	0.35
Cr ₂ O ₃ %	0.06	0.06		0.06		0.06	0.05
Na ₂ O/K ₂ O %	0.01	0.07		0.02		0.09	0.09
Mn %	0.03	0.03		0.03		0.03	0.03
P %	0.01	0.01		0.00	<0.07	0.00	0.00
S % (1)	0.65	0.43		0.01		0.01	0.01
LOI %	-2.71	-2.60					
B4 (2)	0.10	0.12		0.36		0.11	0.83
B2 (3)	0.07	0.07		0.64		0.06	0.78
MgO/CaO	2.14	1.75		0.21		1.72	0.56
SiO ₂ /Al ₂ O ₃	0.72	1.99		0.87		2.11	2.14
80% Passing	34 - 38 micron	42 - 45					
Blaine m ² /kg	200 - 230	180 - 200					
CCS (4)			>250	265 - 287	>250		
Abrasion Index %			<4.0	3.7 - 3.9	<4.0		
Tumble Index %			>95.0	96.1 - 97.2	>95.0		
%<5mm			<3.0		<3.0		
%>5<16mm			>93.0		>93.0		
RDI % (5)			>90.0	92.8 - 93.7	>90.0		
Linder Reduction			>92.0	96.1			
% Metallisation							
Reduction Degree				95.4			

Notes:

1. The sulphur content of the concentrate is expected to be reduced to 0.2% following reverse flotation.
2. $B4 = \frac{CaO + MgO}{SiO_2 + Al_2O_3}$
3. $B2 = \frac{CaO}{SiO_2}$
4. CCS = Cold Compression Strength.
5. RDI = Reduction Disintegration Index.

The metallurgical test work programme consisted of three principal sections:

1. Bench scale work to establish the overall metallurgical characteristics and behaviour of the material.
2. Pilot plant runs to confirm the bench scale work and generate samples of magnetite concentrate and tailings for further testwork.
3. Specific tests to optimise design and equipment selection.

The results of the work established that multi-stage grinding and magnetic separation allows the production of both DR and BF grade concentrate. Dry magnetic separation was found to be of benefit by enabling a large reduction in feed to subsequent grinding steps for a minimal loss of magnetite. High pressure grinding roll testwork has shown that the Southdown material responds well to high pressure comminution and has provided data for the selection of appropriately sized machines.

The further pelletisation test work being undertaken will also include the laboratory production of 200kg of pellets for basket tests at both Midrex and HYL direct reduction shaft furnaces.

SOUTHDOWN INFRASTRUCTURE

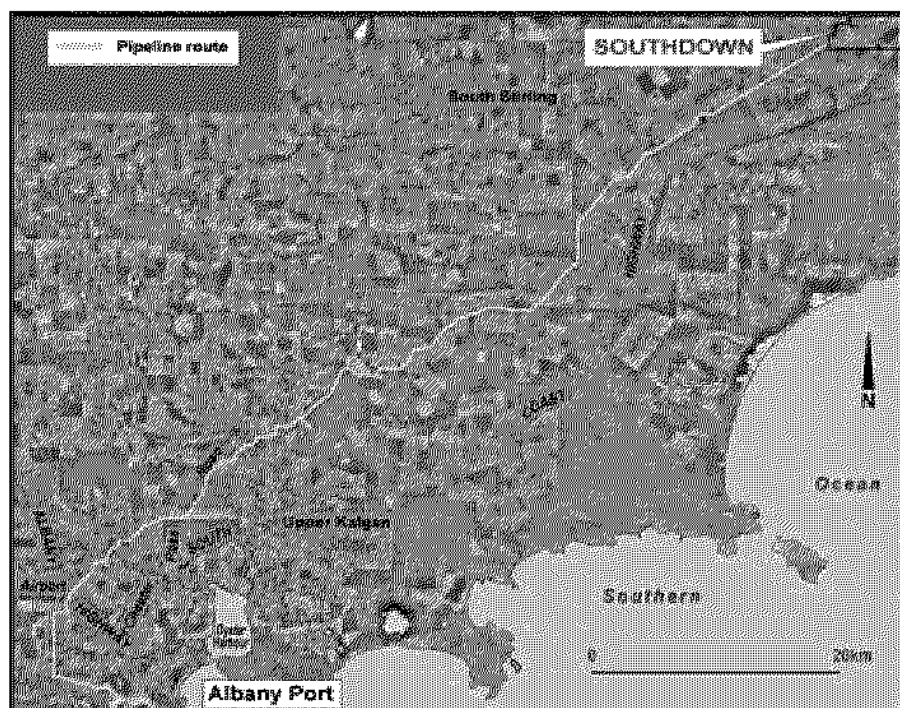
Slurry Pipeline

It is planned to transport the magnetite concentrate in slurry form by buried pipeline from the Southdown site into the Albany port area where it will be dewatered in the filter plant prior to stockpiling (see Figure 7).

The proposed pipeline alignment is to be secured via registered easements which affect 47 freehold or leasehold landowners. Wherever possible the proposed pipeline alignment is sited across cleared land and along property boundaries. Revised offers and agreement documents were sent to affected landowners in July 2006 and follow up negotiations with individual landowners are being undertaken.

In respect to road reserves, Unallocated Crown Land and other Crown Reserves negotiations with a variety of government agencies for pipeline access is ongoing and will be concluded once the freehold easement alignment is secured.

Figure 7: Proposed Slurry Pipeline Route



REVIEW OF OPERATIONS (CONTINUED)

Power Supply

Grange will require a reliable power supply for the concentrator, slurry pipeline pumps, mine site facilities, concentrate filtration plant at Albany, port material handling facilities, and return waterline pumps.

Western Power has completed a study to evaluate the optimum transmission line for the supply of electricity to the Southdown mine and concentrator. A new 220kV transmission line from Muja to Kojonup and then to Southdown has been proposed. This line is expected to have a capacity of approximately 150MW, well in excess of the Project's requirement of approximately 75MW. This power line will also add significantly to regional power infrastructure and is expected to improve power supply to many existing consumers.

Grange has contracted Western Power to obtain the easement for this transmission line and formal landowner and stakeholder consultation in respect to the easement alignment commenced in July 2006.

The Southdown Project will be classed as a contestable customer so Grange will be able to negotiate electricity supply terms and price from market participants. Grange has recently contacted potential power suppliers to update likely supply and costs.

Water Supply

Significant effort has been undertaken to define process water solutions for the project. Process design work has determined that the annual make-up water requirement will be 2.7 Gigalitres (2.7×10^9 litres) per annum (approximately 85 litres/second).

Potential make-up water supply sources include:

- Pit dewatering from groundwater and rainfall inflows;
- On-site rain water runoff capture;
- On/off-site groundwater extraction, and
- Treated waste water from the Water Corporation's Albany Tree Farm.

A Site-wide Water Balance Study and Water Management Plan undertaken for Grange's Feasibility Study has identified that from year 5 of mining onwards pit dewatering and rain water runoff from impacted areas on site such as the waste dump, tailings storage facility and other mining affected areas could provide up to 77 litres/second of water which represents about 90% of the total make-up water requirements. This study is being extended to determine the water that could be available from capture on land adjacent to the project site as it appears that appropriate water harvesting could provide the total make up water requirements for the project.

The Water Corporation has advised that at least 3,000 Kilolitres/day (35 litres/second) of treated waste water could be supplied to the project if required.

Indications are that the entire water requirements for the project can be sourced from the site



Albany Port

The Company continues to work closely with the Albany Port Authority in respect to the need to expand the port to meet the requirements of the Southdown operations. Work undertaken during the period included:

- Completion of environmental studies required for the submission of the Public Environmental Review (PER).
- Under keel clearance modelling to ascertain the required channel depth for the likely ship type. Two channel depths are being considered; 15.0m with average high tides to give a vessel loading of 15.8m and 16.0m with average high tides to give a vessel loading of 16.8m.
- A preferred tenderer has been identified for the conduct of a Magnetometer Survey of the existing and proposed shipping channel within Princess Royal Harbour and King George Sound to determine the location of Unexploded Ordnance. The aim of this survey will be to identify within the survey area any Unexploded Ordnance fired from the old coastal defence batteries that operated up until the 1960's or dumped at sea after the end of the Second World War. The survey will be completed before the commencement of dredging for the port expansion.
- Design of the seawall at berth 7 has commenced.
- Expressions of interest were called for the design and construction of berth 7 and shiploader.

SOUTHDOWN ENVIRONMENTAL APPROVALS

Grange and APA have respectively engaged Ecologia to facilitate the environmental approval process including:

- Liaising with government, public stakeholders and contractors.
- Undertaking environmental impact studies.
- Providing specialist technical advice.
- Preparing environmental documentation required to be submitted to regulatory authorities.

The final Environmental Scoping Document was approved by the EPA on 12th April 2006. The draft Public Environmental Review (PER) document was submitted to the EPA and other government agencies for comment on 4th July 2006.

Allowing for the mandatory review and response periods, environmental approval for the Project is expected in the second quarter of 2007, subject to any appeals.



REVIEW OF OPERATIONS (CONTINUED)

KEMAMAN (MALAYSIA) PELLET PROJECT

In February 2005, Grange announced that it had entered into a Heads of Agreement with Road Builder (M) Holdings Bhd, a publicly listed Malaysian company, to acquire up to a maximum of 60 hectares of land in an industrial estate adjacent to the port of Kemaman to build a magnetite pellet plant and secure port facilities (West Wharf). The Kemaman Pellet Plant will use concentrate shipped from the Southdown Magnetite Project to produce high quality iron ore pellets. The Kemaman site was selected as the preferred location for a number of reasons including the following:

- Availability of competitively priced energy supplies including natural gas and electricity.
- Close proximity to potential off-take parties and markets.
- Very competitive export sea freight.
- Access to port infrastructure with low operating costs.
- Availability of a skilled construction and operating workforce.
- The potential granting of government incentives including tax benefits and the exemption from import and export duties.
- Ability to expand through the provision of additional pellet plants.

The key components of the Kemaman Pellet Project comprise the following:

- The pellet plant.
- Stockyards for pellets and concentrate with mobile stackers and reclaimers;
- A ship loader (nominally 4,000 tph) capable of loading iron ore pellets into capesize vessels.
- Two ship-unloaders (nominally 2,000 tph each) capable of unloading magnetite concentrate from capesize vessels.
- Conveyor systems between the ship-unloaders and ship loader and the concentrate and pellet stockyards.
- Office, maintenance, laboratory and other facilities as necessary.
- The provision of services from water, natural gas and electricity providers.

Provision has been made in the infrastructure for the future construction of additional pellet plants on the Kemaman site.

Pellet Plant Facility

The Kemaman Pellet Plant facility will be designed for a capacity of 6.8 Mtpa. This capacity achieves the optimum economies of scale for a single pellet plant using existing technology. There are a number of plants operating at this scale around the world.

Testing of the ground conditions at the Pellet Plant site has been completed. Results of the tests indicate that pre-loading of areas on the site will need to be undertaken as soon as the project commences.

West Wharf

The West Wharf consists of an existing jetty with a concrete deck approximately 510 metres long by 29 metres wide, sufficient to berth a Capesize and Panamax vessel concurrently. The depth of the berth pocket was originally dredged to 18 metres although parts of the turning basin had not been fully dredged at the time of the agreement. Under the terms of the Heads of Agreement, Road Builder is required to provide for vessels with a draft of 16m and during July 2006, dredging of the turning basin at Kemaman commenced.



Dredging of the basin at Kemaman Port to a draft of 16 metres commenced in July 2006.

Power Supply

Tenaga Nasional Berhad (TNB) is the national electricity provider for Malaysia. High voltage power is available from a TNB substation immediately next to the pellet plant site. TNB have indicated that they would be able to supply power to an agreed location within the pellet plant site via a 132kV line. Discussions have commenced with TNB to seek the best possible power price and terms for the project.

Natural Gas Supply

Natural Gas for the pellet plant is available from the national supplier, Petronas Gas via a pipeline that runs along a road adjacent to the pellet plant site. Petronas Gas would supply the gas to the pellet plant site via a new lateral from the pipeline to a designated supply point on the pellet plant site. A formal application for the supply of gas has been made to Petronas Gas.

Conveyor Corridor

An infrastructure corridor exists between the West Wharf and the pellet plant site. A pipe conveyor system has been designed for the transport of imported Southdown concentrates and the export of Kemaman iron ore pellets. This pipe conveyor would be sited within or adjacent to the infrastructure corridor.

MALAYSIAN INVESTMENT INCENTIVES

In April 2006, Grange Developments Sdn Bhd (GDSB), a wholly owned subsidiary of Grange Resources Limited, lodged an Application for Pre-Packaged Incentive for the Kemaman Pellet Plant and associated infrastructure with the Malaysian Industrial Development Authority (MIDA). GDSB is responsible for the planned development of the iron ore pellet plant operation to be built at Kemaman in Malaysia.

In September 2006 the Malaysian Government advised that it had granted a substantial tax incentive package to GDSB for the Kemaman Pellet Plant Project.

REVIEW OF OPERATIONS (CONTINUED)

The Malaysian Minister of Finance approved Pioneer Status for the project with a package of special incentives including:

- A 100% corporate income tax exemption at the statutory income level for a period of 15 years.
- An Infrastructure Allowance to construct and provide infrastructure to the West Wharf at Kemaman Port. The Company can offset the Allowance against 85% of the statutory income after the 15 year tax exempt period.
- A 100% exemption on Withholding Tax applicable on payments to non-residents for interests, royalty, services and contracts for a period of 5 years commencing from 2007.
- An exemption on import duty and sales tax on all raw materials and machinery imported into the country by Grange used directly in the manufacturing of iron ore pellets.
- 25 expatriate positions to operate the project, and
- A Matching Training Grant of RM1 million (AUD370,000) for a period of four years beginning 2009.

The package is one of the best packages offered by the Malaysian Government in relation to a project of this nature. The 15 year tax exempt period is beyond the standard 5 or 10 year tax exempt period normally given. This incentive package substantially improves the project economics of the Kemaman Pellet Plant.

KEMAMAN ENVIRONMENTAL APPROVALS

Perunding Utama Sdn Bhd (PU) is the environmental consultant for the Project in Malaysia.

The review panel meeting for assessing the Terms of Reference for the Detailed Environmental Impact Assessment (DEIA) for the pellet plant at Teluk Kalong Industrial Estate, Kemaman was held on the 14th November 2005. Issues raised by the review panel meeting were addressed in the updated Project Terms of Reference which was submitted by PU to the Department of Environment (DoE) on 7th February 2006 and approved on the 5th May 2006.

The DEIA report was completed and lodged with the DoE on 14th June 2006 and has been published for public comment. The final meeting of the review panel for the DEIA was held on 7th September 2006. No significant issues are anticipated and Malaysian environmental approval is expected in the fourth quarter of 2006.

PROJECT CAPITAL COST

The project capital cost estimate in December 2005 dollars was estimated at US\$1,175M including contingencies. This estimate was compiled as follows:

Southdown

- Owner leased mining equipment
- A provisional sum for prestripping
- Equipment lists for the Southdown concentrator based on the flow sheet developed from the pilot plant test work
- Vendor quotes for the equipment
- Electrical costs based on the installed equipment and installation based on similar work being undertaken on other current projects
- Construction costs based on other current construction projects
- Construction and operating infrastructure based on current project costs
- Slurry pipeline estimate by Pipeline Systems Incorporated (PSI)
- Land based port facilities based on vendor quotes and current construction costs
- Engineering costs and owners costs (including land purchases, insurances, overheads, employer training, etc)

Kemaman

- Pellet Plant cost estimate provided by Outokumpu for Malaysian installation
- Infrastructure based on vendor quotes and Malaysian construction
- Civil works based on site investigations and Malaysian costs for piling and preload

The breakdown of capital costs in various currencies is Euro (16%), Malaysian Ringgit (16%), US\$ (13%) and A\$ (55%).

This cost estimate compares with the published capital cost of the new Samarco development of a mine expansion, concentrator and pellet plant in Brazil (7.6Mtpy) at an estimated cost of US\$1,200M

PROJECT OPERATING COSTS

The preliminary estimate of the operating cost for iron ore pellets, free on board (FOB) Kemaman is US\$39.43/tonne using owner mining costs.

PROJECT STRUCTURE

Grange anticipates new participants will be introduced into the project and is providing specific BFS information to a number of companies that have registered their interest through confidentiality agreements. Grange appointed Azure Capital to assist in the process of determining the most appropriate partners capable of facilitating the financing and development of the project.

In March 2006 Grange announced the commencement of an international tender process for joint venture partners. The first key milestone date under the process was for non-binding expressions of interest to be submitted in May 2006. A number of parties submitted non binding expressions of interest (EOI) and have commenced the detailed due diligence phase. As expected, EOIs have been submitted in accordance with the Information Memorandum development template along with a number of other alternatives.

Interest has come from all the growth pellet demand areas in the world, as well as from existing producers and general investors. Due to the complexity of interest and the extent of due diligence, Grange is targeting the last quarter of 2006 for resolution of the ownership structure for the Project.

The Albany Port Authority would facilitate the export of Magnetite concentrate in Capesize ships through capital investments in dredging, land reclamation and berth construction.



REVIEW OF OPERATIONS (CONTINUED)

DIRECT REDUCTION AND BLAST FURNACE PELLET DEMAND

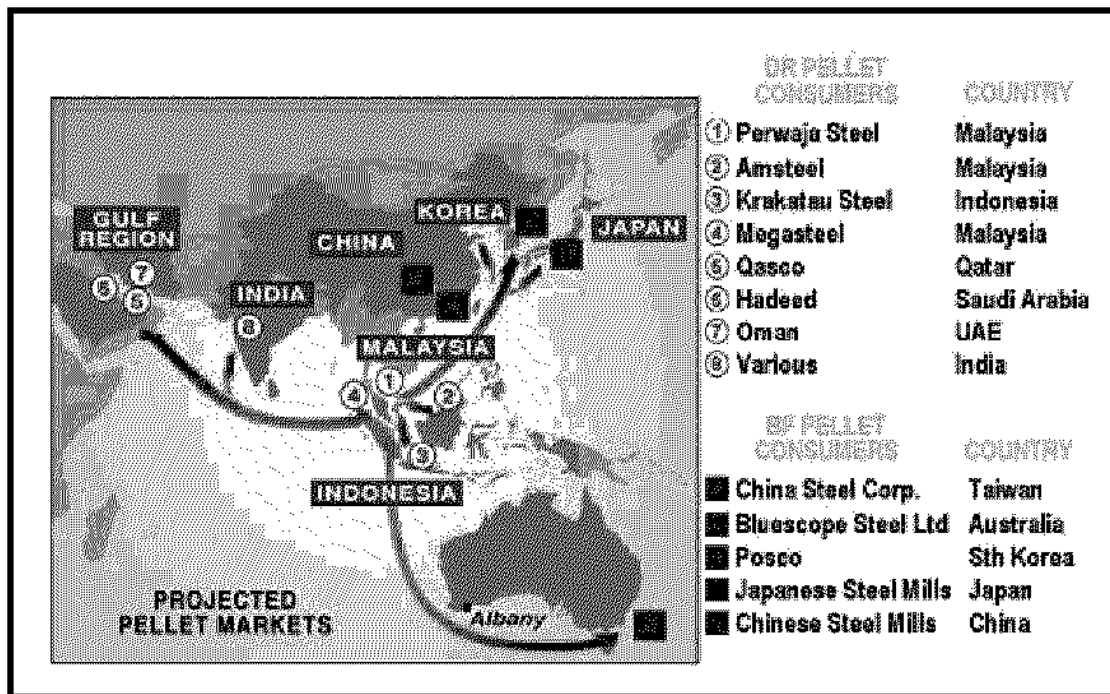
Over the past year but particularly the last quarter, Grange Resources and Azure Capital have contacted or visited pellet consumers in the competitive sea freight proximity of Kemaman. Figure 8 shows the location of potential consumers and highlights the freight advantage of Kemaman which can be summarised as follows:

- South East Asian DR pellet consumers within one days sailing of Kemaman. Perwaja Steel is located adjacent to the pellet plant and could be serviced by road or an overland conveyor.
- Middle East DR pellet consumers with sea freight of approximately US\$7.7/t in panamax vessels.
- North Asian BF pellet consumers with sea freight of approximately US\$5.7/t in panamax vessels.
- Chinese BF pellet consumers, located on the Yangtze River at US\$12.7/t in handymax vessels.
- Australian BF pellet consumers with sea freight of approximately US\$6.0/t in panamax vessels.

These freight costs compare to current long term pellet supply freight costs - mostly from Brazil of - approximately US\$20/t. Spot freight costs from Brazil can be significantly higher than these long term costs.

Additional market potential is being investigated in Indonesia, Thailand and India.

Figure 8: Projected iron ore pellet markets for the Kemaman Pellet Plant



Annual production of 6.6 million tonnes per annum of magnetite concentrate containing 69% Fe.

MOUNT WINDSOR JOINT VENTURE

Grange 30%, TCM 70%

The Mt Windsor Joint Venture is an unincorporated joint venture between BML Holdings Pty Ltd (BML) 30% (a wholly owned subsidiary of Grange) and Thalanga Copper Mines Pty Limited ("TCM") 70%, the manager. The joint venture operated the Reward and Highway open pit mines during 1998-2002 and, until cessation of mining activities on 8 July 2005, had been mining and processing copper ore from an underground mine developed to extract ore from the Reward Deeps and Conviction copper deposits to produce a copper concentrate for export. The project area is located approximately 37 km south of Charters Towers in North Queensland.

REWARD DEEPS & CONVICTION COPPER MINE

Grange 30%, TCM 70%

Operations

On 8 July 2005 mining operations at the Reward Deeps and Conviction underground mine ceased due to the exhaustion of ore reserves.

Concentrate Sales

In July 2005 the final shipment of copper concentrate (4,606t) from the Reward Deeps and Highway South underground mine was exported from Townsville. Income received during the financial year from the sales of copper concentrate amounted to \$7.44 million.

Rehabilitation

Rehabilitation of the Highway and Reward mine site commenced in November 2005 and was completed during the June 2006 quarter.

RED HILL PROJECT

Grange 4% Gross Revenue Royalty
 Barrick (PD) Australia Limited ("Barrick PD") 100%

Grange holds a 4% gross revenue royalty on all production after the first 85,000 ounces of gold produced from the Red Hill Mining Lease (M27/57), which is located approximately 4km north east of the Kanowna Bell Gold Mine, 20km north east of Kalgoorlie. The project is owned and operated by Barrick PD.

Gold mineralisation at Red Hill occurs mainly as free gold in shallow dipping quartz veins within a porphyry host. Drilling has shown the presence of a large tonnage low-grade gold deposit, which extends outside the boundaries of M27/57 on to tenements held 100% by Barrick PD and not subject to the royalty.

During the financial year royalty payments from mining activities at Red Hill totalled \$1.99 million. Royalty income from commencement of operations in February 2003 to 30 June 2006 amounts to \$3,759,739. Ore treated during this period has been 4,012,087 tonnes at an average grade of 1.76g/t gold for the recovery of 214,628 ounces. For production above the threshold of 85,000 ounces the royalty to Grange has averaged \$25.47 per ounce of gold produced. A summary of production statistics and royalty income received for the year ending 30 June 2006 is provided in Table 4.

TABLE 4

RED HILL PROJECT -- MINING LEASE M27/57 PRODUCTION AND ROYALTY INCOME FOR YEAR TO 30 JUNE 2006				
Period	Ore Milled (Tonnes)	Grade (g/t Au)	Recovered Gold Ounces	Royalty (\$)
September 2005 Quarter	266,716	1.67	13,425	317,680
December 2005 Quarter	198,640	2.11	12,553	322,985
March 2006 Quarter	325,153	2.13	20,763	616,336
June 2006 Quarter	345,010	2.13	22,143	733,865
TOTALS	1,135,519	2.02	68,884	1,990,867

REVIEW OF OPERATIONS (CONTINUED)

Reserves and Resources

Barrick PD has compiled estimations of mineral resources and ore reserves as at 31 August 2006 for the Red Hill project. Ore reserves within M27/57 are estimated to a depth of 150 metres and amount to 1.52 million tonnes grading 1.59g/t gold containing 77,400 ounces of gold. These reserves include surface stockpiles of 1.13 million tonnes grading 1.50g/t gold containing 54,600 ounces of gold. Mineral Resources are estimated to a depth of 150 metres and amount to 5.5 million tonnes grading 1.40g/t gold containing 248,000 ounces of gold.

Ore reserves and mineral resources within M27/57 as at 31 August 2006 are summarised in Tables 5 and 6 respectively. The Measured and Indicated Resources, summarised in Table 6 are **inclusive** of those in-situ Mineral Resources modified to produce the Ore Reserves in Table 5.

TABLE 5

RED HILL PROJECT - MINING LEASE M27/57 MINING RESERVE AS AT 31 AUGUST 2006				
Reserve Classification	Cut-off Grade (g/t)	Tonnes	Grade (g/t)	Ounces
Proved (Stockpiles)	0.8 - 1.4	745,000	1.11	26,600
Proved (Stockpiles)	>1.4	386,000	2.26	28,000
Sub Total Stockpiles		1,131,000	1.50	54,600
Probable (In-situ)	0.8 - 1.4	116,000	0.98	3,600
Probable (In-situ)	>1.4	272,000	2.20	19,200
Sub Total In-situ		388,000	1.83	22,800
Total		1,519,000	1.59	77,400

Notes:

- Estimation method: Block model, Multiple Indicator Kriging (MIK)
- Reserves estimated to a depth of 150 metres
- Gold Price A\$632/oz
- Reserves rounded to nearest 1,000 tonnes

This reserve statement has been compiled by Mr Roger Cooper of Barrick (PD) Australia Limited, who is a competent person as defined in Appendix 5A to the ASX listing rules. Barrick (PD) has consented in writing to the information being included in the form and context in which it appears.

TABLE 6

RED HILL PROJECT - MINING LEASE M27/57 MINERAL RESOURCES AS AT 31 AUGUST 2006				
Resource Category	Cut-off Grade (g/t)	Tonnes	Grade (g/t)	Ounces
Indicated	0.8 - 1.4	2,386,000	1.05	80,700
Indicated	>1.4	1,612,000	2.03	105,400
Sub Total Indicated		3,998,000	1.45	186,100
Inferred	0.8 - 1.4	916,000	1.03	30,400
Inferred	>1.4	585,000	1.69	31,700
Sub Total Inferred		1,501,000	1.29	62,100
Total		5,499,000	1.40	248,200

Notes:

- Estimation method: Block model, Multiple Indicator Kriging (MIK)
- Resources estimated to a depth of 150 metres
- Resources rounded to nearest 1,000 tonnes

This resource statement has been compiled by Mr Roger Cooper of Barrick (PD) Australia Limited, who is a competent person as defined in Appendix 5A to the ASX listing rules. Barrick (PD) has consented in writing to the information being included in the form and context in which it appears.

FRESHWATER PROJECT

Grange - Sliding Scale Production Royalty
 Barrick Gold of Australia Limited ("Barrick Gold") 100%

The Freshwater project is located adjacent to and to the east of the Plutonic Gold Mine located approximately 180km north east of Meekatharra in Western Australia. The project is owned and operated by Barrick Gold of Australia Limited. The Company holds a sliding scale royalty based on grade, tonnage and type of ore milled on all production from the Freshwater leases.

Royalty and Production

Total royalty income earned for the year ended 30 June 2006 amounted to \$327,744 from underground ore. A summary of production statistics and the cash received from royalty income received for the year ending 30 June 2006 is provided in Table 7. The cash received from royalty income is inclusive of royalty income accrued but not paid in the previous financial year.

TABLE 7

FRESHWATER PROJECT - PRODUCTION AND ROYALTY INCOME FOR YEAR TO 30 JUNE 2006			
Period	Ore Milled (tonnes)	Grade (g/t Au)	Royalty (\$)
UNDERGROUND ORE			
September 2005 Quarter	32,140	5.37	44,043
December 2005 Quarter	64,925	4.66	139,474
March 2006 Quarter	16,642	8.03	90,329
June 2006 Quarter	30,173	5.73	53,898
TOTAL UNDERGROUND	143,880	5.43	327,744

Royalty income derived from open pit ore from November 1996 when the royalty was first established, to 30 June 2006 totals \$3.0 million. Gold ore treated during this period has been 4.03 million tonnes at an average grade of 2.08 g/t gold for the recovery of 259,065 ounces. The royalty has averaged \$11.58 per ounce of gold produced.

Royalty income for underground ore from December 2001 when development of the Plutonic East mine commenced, to 30 June 2006 amounts to \$1,004,839. Gold ore treated during this period has been 362,139 tonnes at an average grade of 6.22g/t gold for the recovery of an estimated 67,000 ounces. The royalty has averaged \$14.92 per ounce of gold produced.

Reserves and Resources

Barrick Gold has advised that as at 31 December 2005 the Freshwater underground Ore Reserves amounted to 308,000 tonnes grading 5.7g/t gold containing 56,300 ounces gold. In addition to these reserves, Freshwater underground Mineral Resources amounted to approximately 3.48 million tonnes grading 5.28 g/t gold containing 590,500 ounces gold.

Barrick Gold also reported open pit Mineral Resources as at 31 December 2005, of 1.125 million tonnes grading 2.52 g/t gold, containing 91,100 ounces of gold.

Ore Reserves and Mineral Resources for the Plutonic East and Area 4 underground project are presented in Table 8 and open pit Mineral Resources are presented in Table 9. It should be noted that in Table 8 the mineral resources are **exclusive** of those resources modified to estimate the ore reserves.

REVIEW OF OPERATIONS (CONTINUED)

TABLE 8

FRESHWATER PROJECT - UNDERGROUND PROJECTS STATEMENT OF ORE RESERVES AND MINERAL RESOURCES AS AT 31 DECEMBER 2005					
Location	Category	Tonnes	Grade g/t Au	Contained Ounces	Recoverable Ounces
ORE RESERVES					
Plutonic East & Area 4	Proved	17,000	4.20	2,300	2,100
	Probable	291,000	5.80	54,000	48,600
Total Underground Ore Reserves		308,000	5.70	56,300	50,700
MINERAL RESOURCES					
Plutonic East & Area 4	Indicated	453,000	5.16	75,200	
	Inferred	3,026,000	5.30	515,300	
Total Underground Resources		3,479,000	5.28	590,500	

TABLE 9

FRESHWATER PROJECT - OPEN PIT PROJECTS STATEMENT OF MINERAL RESOURCES AS AT 31 DECEMBER 2005				
Location	Category	Tonnes	Grade g/t Au	Contained Ounces
Barramundi	Indicated	37,000	3.09	3,700
	Inferred	4,000	1.69	200
Total Barramundi		41,000	2.93	3,900
Salmon	Indicated	761,000	2.29	56,000
	Inferred	3,000	1.65	200
Total Salmon		764,000	2.29	56,200
Trout	Indicated	252,000	3.09	25,000
	Inferred	68,000	2.82	6,000
Total Trout		320,000	3.03	31,000
Total	Indicated	1,050,000	2.51	84,700
Total	Inferred	75,000	2.71	6,400
Total Open Pit Resources		1,125,000	2.52	91,100

These reserve and resource statements have been prepared by Mr Matthew Fallon, Geology Superintendent for Barrick Gold of Australia Limited, who is a competent person as defined in the JORC Code. Mr Fallon is a full time employee of Barrick Gold of Australia Limited. Barrick Gold of Australia has consented in writing to the information being included in the form and context in which it appears.

Development Drilling and Exploration

Barrick Gold reported that during the year development drilling was undertaken at the Trout open pit area. 130 RC holes aggregating 11,289 metres were drilled to test the continuity of the Main lode grade west of the existing pit. Mineralisation has been identified in the mafic unit related to quartz veining and sulphides. Several significant intersections were recorded.

No exploration activity was undertaken on the Freshwater tenements during the year.

WEMBLEY

Grange 100%, Gleneagle Gold Limited ("Gleneagle") Earning 80%

The Wembley Gold Project is located approximately 65km south east of Gleneagle's Fortnum Gold Project and comprises one granted mining lease and a mining lease application. Gleneagle is earning an 80% interest in the tenements by spending \$500,000 on exploration.

The granted mining lease covers the Durack and Outback prospects, which host a modest gold resource of 568,000 tonnes grading 2.3g/t gold (42,700 contained ounces). The resource comprises an indicated resource of 390,000 tonnes grading 2.2g/t gold containing 27,600 ounces and an inferred resource of 180,000 tonnes grading 2.6g/t gold containing 15,100 ounces.

During the year Gleneagle completed further RC and RAB drilling to test for extensions to mineralised zones within the known resource and to increase the geological understanding of the mineralised system. Gleneagle advise that the resource estimate is to be upgraded to include the more recent drilling with pit optimisation to be undertaken on the updated resource.



REVIEW OF OPERATIONS (CONTINUED)

MALAYSIAN IRON ORE

The Company has adopted an active strategy to pursue other prospects and projects overseas and within Australia.

In February, 2006, Grange Minerals Sdn. Bhd. a wholly owned Malaysian subsidiary signed a Memorandum of Understanding with a local Malaysian company, Esperance Mining Sdn. Bhd., to joint venture and develop a small mine and process plant at the old iron ore mine of Bukit Ibam, in Malaysia. Grange Minerals are earning 51% equity. The operation is designed to mine remnant iron ore reserves and provide concentrate for the local pipe coating industry at Kuantan. Kuantan is on the east coast of Peninsula Malaysia and is 50kms south of Kemaman which is the location of the proposed site for the Grange iron ore pellet plant. The Bukit Ibam Mining Certificate was granted on June 21, 2006 and preparation to mine and plant construction were underway at year end. Grange Minerals also plans to carry out extensive exploration for iron ore and other commodities in the Bukit Ibam district and at the Sungei Rama prospect to the south, whilst at the same time generating cash flow through their joint venture operation. The Bukit Ibam district was a significant producer of iron ore concentrate from a number of ore bodies which, collectively, between 1962 and 1970, produced 22 million tonnes of haematite and magnetite ore. In support of their increased activity Grange Minerals has opened a regional office in Kuantan.

Applications for other Exploration Licences within Malaysia have been made in the States of Kelantan and Terengganu to explore for gold and iron ore. The proposed Licence areas are at Batu Melintang, Rusila and Bukit Panjang; all are in old mine areas and are considered advanced gold and iron ore prospects (see figure 9). These applications are currently being processed by the respective state governments.

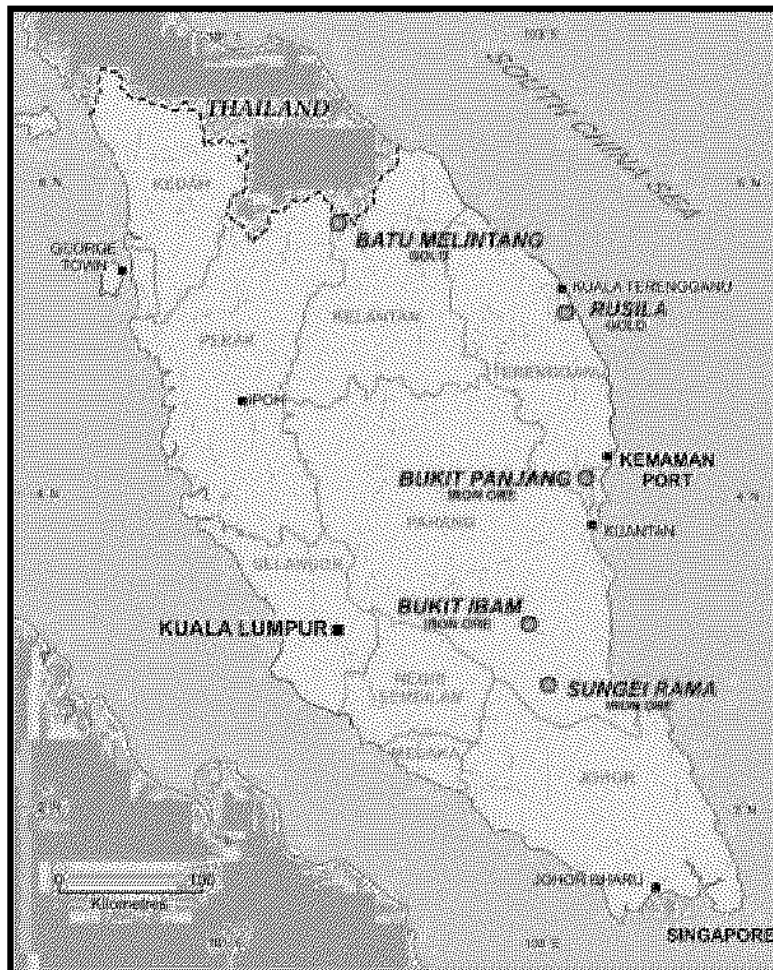


Grange has established an office in Kuantan, Malaysia to support the company's mining and development operations



Construction of the processing plant at the Bukit Ibam Iron Ore mine has commenced and should be in production by December 2006.

Figure 9: Malaysian Project Locations



REVIEW OF OPERATIONS (CONTINUED)

OTHER EXPLORATION PROJECTS

In addition to the above projects, the Company holds interests in several exploration projects in Western Australia and the Northern Territory.

In the **Wiluna District** of Western Australia the Company holds a 10% free carried interest to a decision to mine or expenditure of \$2 million in the **Abercromby Well Joint Venture** with MPI Nickel Pty Ltd. The tenement is prospective for gold mineralisation.

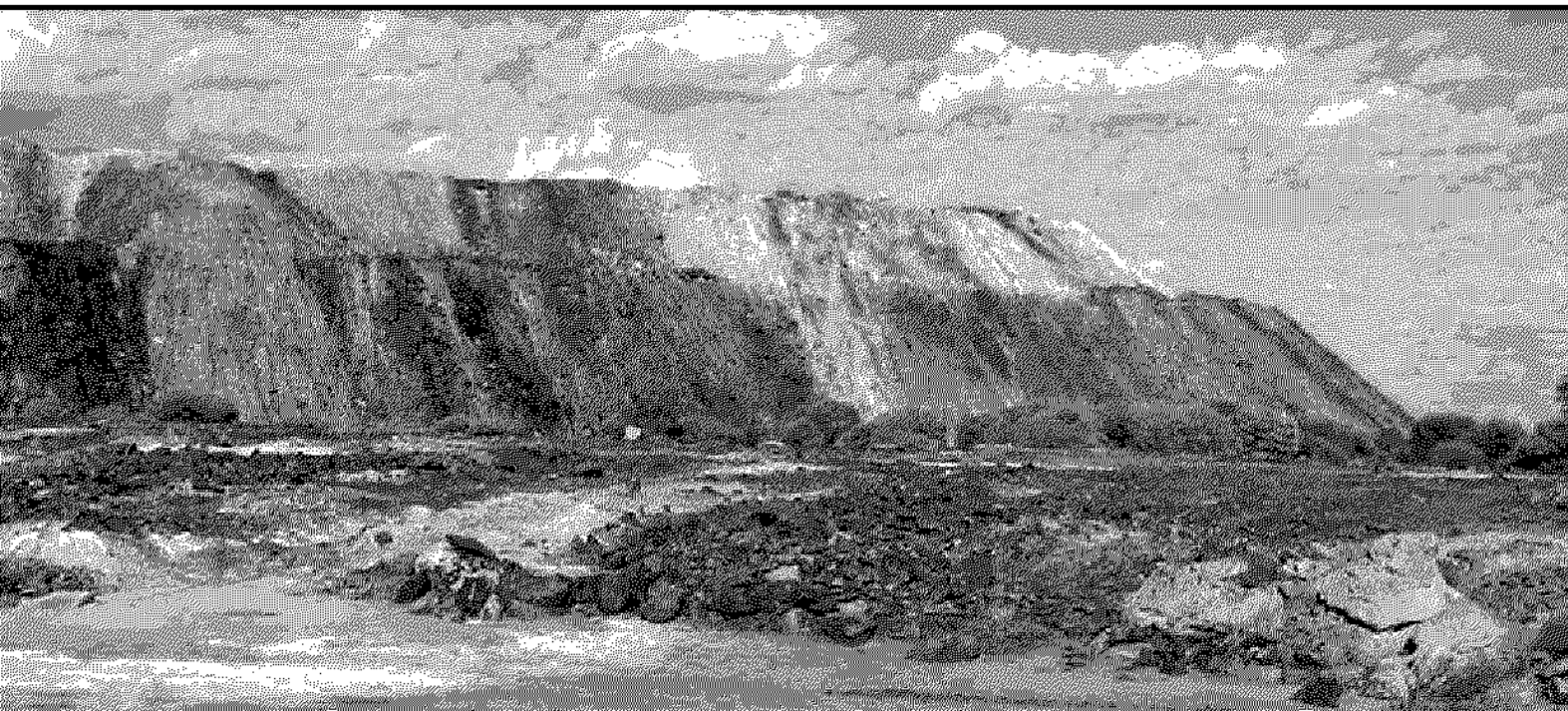
During 2004 Grange entered into an option to a purchase agreement with Murchison Copper Mines Pty Ltd over the **Horseshoe Lights Project**, which has been exercised. Subsequent to entering into the option agreement a plaint was lodged over the main mining lease at Horseshoe Lights (M52/743). The plaint is being defended by Grange. The transfer of ownership and management of the project have been delayed pending the outcome of the plaint hearings.

Substantial resources of low-grade copper bearing material are present at Horseshoe Lights in stockpiles, dumps, tailings and in-situ hard rock resources. Previous work has shown that the tailings and stockpiles are readily amenable to leaching. The Company continues to seek opportunities to establish a copper leaching operation on site.

Grange entered into option to purchase agreements during 2005 with Murchison Copper Mines Pty Ltd over the old **Thaduna** and **Green Dragon** copper mines located approximately 170km north east of Meekatharra in Western Australia. Prior to entering into the option to purchase agreements, plaints were lodged over the Thaduna and Green Dragon mining leases. The plaints are being defended by Grange. Murchison Copper Mines has exercised its options but the transfer of ownership and management of the projects have been delayed pending the outcome of the plaint proceedings.

The Company considers the stockpiles and tailings associated with the Thaduna mine represent potential feed to an operation that may be established at the Horseshoe Lights Mine to process low-grade copper resources.

The Company holds equity in several tenements in the Tennant Creek region in the Northern Territory. The most prospective area with potential to host a high-grade gold, copper, bismuth resource is the **Mt Samuel prospect** located approximately 6km south of Tennant Creek. Access to the Mt Samuel property is currently not available due to the presence of an Aboriginal sacred site. In May 2006 the Company entered into a Memorandum of Understanding with Westgold Resources NL whereby Westgold could farm in on the tenements subject to it negotiating an Access agreement with the traditional custodians.



Horseshoe Lights tailings dam and stockpiles contain over \$50 million of copper based on current metal prices

Your Directors present their report with respect to the results of Grange Resources Limited ("Grange" or "the Company") and its controlled entities (the "Group") for the year ended 30 June 2006 (the "Balance Date") and the state of affairs of the Company and Group at Balance Date.

DIRECTORS

The names and details of the directors of the Company in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Anthony Bohnenn

Non-executive Chairman

Mr Bohnenn was appointed as a director of Grange in November 2001 and subsequently elected as Chairman on 1 July 2002. Mr Bohnenn has more than 25 years experience as Managing Director in the investment banking and financial services industries, with an emphasis in research and funds management. Mr Bohnenn is based in the Netherlands and his main focus has been identifying investment opportunities in Australia, China and Asia. Mr Bohnenn is chairman of the Audit and Compliance Committee and Remuneration Committee.

Geoff Wedlock B.Sc.

Managing Director

Mr Wedlock was appointed managing director of Grange on 23 February 2005. Mr Wedlock's previous roles have included executive positions with BHP Billiton Limited, Portman Mining Limited and Western Metals Limited. Mr Wedlock has more than 35 years of experience in minerals exploration and project management. During the past three years Mr Wedlock has also served as a director of the following listed public companies:

- Western Metals Limited (2001 to 2003)

Alexander Henry Nutter BSc., MSc., DIC., FAusIMM., MAIG.

Technical Director

Mr Nutter is a geologist and holds degrees from Southampton, Leeds and London universities. He has over 30 years experience in mineral exploration, resource evaluation and mining geology in Australia, West Africa and the Asia-Pacific region. He has held senior positions in the mining industry and has been responsible for the discovery and/or acquisition of several mineral resources for both international and Australian public companies.

Richard Krasnoff BEc., MBA., GAICD

Non-executive Director

Mr Krasnoff was appointed as a director of Grange on 16 June 2005. Mr Krasnoff also serves on the Audit and Compliance Committee. Mr Krasnoff's previous roles have included an executive position with Wesfarmers Limited and as a management consultant with McKinsey & Company for a period of ten years. Mr Krasnoff is a graduate of the Australian Institute of Company Directors and has completed a Master of Business Administration from the Harvard Business School. During the past three years Mr Krasnoff has also served as a director of the following listed public companies:

- Conquest Mining Limited (October 2004 to present)

Hans Rudolf Moser B. Com

Non-executive Director

Mr Moser is based in Switzerland with more than 20 years experience in the Swiss banking industry. He has a Bachelor of Commerce from the University of Basel in Switzerland. Mr Moser manages a large European investment fund and has been an active investor in Australian companies for many years. Mr Moser serves on the Remuneration Committee. During the past three years Mr Moser has also served as a Director of the following Australian publicly listed companies:

- Oriel Communications Limited (July 2000 - present)
- Adultshop.com Limited (March 1999 - present)
- Senetas Corporation Limited (2002 - 2004)
- Union Resources Limited (1997 - 2004)

DIRECTORS' REPORT (CONTINUED)

COMPANY SECRETARY

Neil Andrew Marston B.Com. ACIS

Mr Marston was appointed Company Secretary and Chief Financial Officer of Grange on 21 July 2006. Mr Marston has a Bachelor of Commerce, obtained from Curtin University of Technology, WA. He has over 13 years experience in the mining/exploration industry together with 13 years experience in a broad range of administration and management positions in several other industry sectors.

Mark Andrew Thomas Smith B.Bus., CPA, ACIS

Mr Smith was appointed Company Secretary and Chief Financial Officer of Grange on 16 September 2005. Mr Smith has a Bachelor of Business undergraduate degree, with a major in Accountancy, obtained from the Queensland University of Technology and is a Certified Practising Accountant with 14 years post-graduate experience across a wide variety of industries. He has held senior financial positions with a number of Australian publicly listed companies in the resources sector. Mr Smith resigned on 21 July 2006.

DIRECTOR'S SHAREHOLDING INTERESTS

At the date of this report the direct or indirect interest of each director of the Company in the issued securities of Grange were:

	Ordinary Shares	\$0.50 Options over Ordinary Shares	\$1.25 Options over Ordinary Shares	\$1.50 Options over Ordinary Shares	\$2.50 Options over Ordinary Shares
A Bohnenn	13,270,338	Nil	Nil	Nil	Nil
G L W Wedlock	104,000	1,500,000	1,500,000	1,500,000	1,000,000
A H Nutter	944,999	Nil	Nil	Nil	Nil
R Krasnoff	50,000	Nil	Nil	Nil	Nil
H R Moser	4,310,450	Nil	Nil	Nil	Nil

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Group were:

- conduct of a bankable feasibility study on development of the Southdown Magnetite Project and Kenaman Pellet Project;
- production of copper concentrate;
- royalty income from production of gold;
- minerals exploration and evaluation;
- investment of cash assets; and
- administration of the Group.

OPERATING RESULTS FOR THE YEAR

The consolidated operating profit of the Group after providing for income tax amounted to \$1.94 million (2005: loss \$5.27 million). The result included the following items of significance:

- gross revenue generated from the export of copper concentrate from the Reward Deeps and Conviction underground mine was \$7.44 million;
- royalty income generated from the Red Hill and Freshwater Projects for the year was \$2.32 million ; and
- expenditure associated with mining operations at the Reward Deeps and Conviction underground mine totalled \$4.54 million for the year including mining, transportation, milling, depreciation, amortisation and administration.

REVIEW OF FINANCIAL CONDITION

CAPITAL STRUCTURE

The Company has a sound capital structure and as at the date of this report remains debt free.

CASH FROM OPERATIONS

The Company experienced a cash flow surplus of \$4.13 million from operating activities largely attributable to an increase in revenue generated from settlement of the final shipments of copper concentrate from the Reward Deeps and Conviction underground mine.

The Company expects a reduction in the cash flows from operating activities due to the cessation of mining activities at the Reward Deeps and Conviction Project. The Company will continue to receive royalty income from production of gold during the current financial year.

LIQUIDITY AND FUNDING

During the financial year the Company generated sufficient cash reserves to fund its operations. As a consequence, the Company remained debt free for the entire period. The Company has sufficient funds to finance its current operations. However, in the event the Company identifies new investment opportunities in the resources sector, there may be a requirement to seek additional funding by either offering equity or alternatively seeking debt or a combination thereof.

SHARE ISSUES DURING THE YEAR

In November 2005 the Company arranged a share placement with Shaw Corporate Finance Pty Limited and BBY Limited comprising of 8.0 million fully paid ordinary shares at an issue price of \$1.35 each raising \$10.80 million. In addition a total of 4,285,715 fully paid ordinary shares were issued following the exercise of options at a price of \$0.50 each, raising \$2,142,858.

RISK MANAGEMENT

The Board takes a proactive approach to risk management and is responsible for identifying areas of significant business risk and ensuring that management's objectives and activities are aligned with the expectations and risk management policies identified by the board.

The Board believes that it is crucial for all directors to be part of this process, and as such the Board has not established a separate risk management committee but instead delegated this task to the Audit and Compliance Committee of the Board. The following controls assist in achieving these objectives:

- Financial Reporting - An annual budget is approved by directors. Quarterly actual results are reported against budget and revised forecasts for the year are prepared regularly.
- Quality and Integrity of Personnel - All personnel are advised of the Company's policies and practices with performance appraisals taking place on an ongoing basis.
- Operational Reporting - Key areas identified and major activities are subject to regular reporting to the board.
- Continuous Disclosure - Continuous disclosure is a recurring agenda item at board meetings and is monitored and considered on an ongoing basis by the Audit & Compliance Committee.

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Shareholders' equity increased \$14.76 million or 77.1% during the financial year from \$19.15 million to \$33.88 million. Factors contributing to this increase included the following:

- the issue of 8,000,000 fully paid ordinary shares at an issue price of \$1.35;
- the issue of 4,285,715 fully paid ordinary shares at an issue price of \$0.50 pursuant to the exercise of options; and
- the profit from ordinary activities of \$1.94 million.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 15th June 2006 the plaint for forfeiture of the Horseshoe Lights Mining Lease M52/743 was dismissed in the Warden's Court. On 21st July 2006 the plaintiffs obtained an order nisi from the Supreme Court for the judicial review of the Warden's decision by the Court of Appeal. Grange through its subsidiary Horseshoe Gold Mine Pty Ltd is opposing the order for judicial review and the matter is likely to be heard in early 2007.

On the 7th July 2006 a meeting of the members of Murchison Copper Mines Pty Ltd was held at which the incumbent directors of the company were replaced by Geoffrey Lloyd Warburton Wedlock, Alexander Henry Nutter and Derek Macauley. The new Directors intend to evaluate the development of a copper tailings and stockpiles treatment operation at the Horseshoe Lights Mine as soon as the matters on Mining Lease M52/743 are favourably resolved.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company expects royalty payments from Barrick Gold of Australia Limited to continue during the 2006/07 financial year from mining activities on the Freshwater leases.

The Company expects royalty payments from Barrick (PD) Australia Limited to continue during the 2006/07 financial year from mining activities at the Red Hill gold mine.

Grange will continue to focus on completion of the Bankable Feasibility Study on development of the Southdown Magnetite and Kemaman Pellet Project with the outstanding technical aspects of the study targeted for completion by the end of 2006 with environmental and project approvals expected by mid 2007.

Grange will continue to pursue further growth opportunities in the resources sector with particular emphasis on iron ore, manganese and coal deposits located in South East Asia including Malaysia and Indonesia.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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. There have been no significant known breaches of the Group's environmental obligations.

SHARE OPTIONS

UNISSUED SHARES

As at the date of this report unissued ordinary shares of the Company under option are:

Option Expiry Date	Exercise Price	Number of Fully Paid Shares
30 June 2007	\$0.50	1,500,000
30 June 2007	\$1.25	1,500,000
30 June 2008	\$1.50	1,500,000
30 June 2011	\$2.50	1,000,000

At the Balance Date there were 5,500,000 unissued ordinary shares under options. During the financial year no options were issued pursuant to the Grange Resources Limited Directors' and Officers' Option Plan.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or related body corporate.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year 4,285,715 options were converted to ordinary shares at an exercise price of \$0.50 per share.

Since Balance Date there have been no further options exercised.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Group has paid premiums totalling \$26,620 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all directors and officers of the Group. The policy conditions preclude the Group from any detailed disclosures.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Grange Resources Limited.

REMUNERATION PHILOSOPHY

The performance of the Company largely depends upon the quality of its directors and executives. To prosper the Company must be able to attract, motivate and retain directors and executives with the appropriate skills. 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 performance hurdles in relation to variable executive remuneration.

REMUNERATION COMMITTEE AND REMUNERATION POLICY

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the managing director and executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior executives on an annual basis by reference to relevant employment market conditions and considers advice from external consultants with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Executives are given the opportunity to receive their base emolument in a variety of forms, including cash and fringe benefits, such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to their individual performance and the Group's financial and operational performance. The criteria considered by the remuneration committee include those relating to profitability, cash flow, share price growth and individual performance.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

OBJECTIVE

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

STRUCTURE

The Constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 4 November 1999 when shareholders approved an aggregate remuneration of \$150,000 per year.

DIRECTORS' REPORT (CONTINUED)

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. An additional fee may be payable for each board committee on which a director sits which recognises the additional time required by directors who serve on one or more sub committees. At this time there are no additional fees paid to directors who serve on sub committees.

Non-executive directors are not required to hold shares in the Company, however it is considered good governance for directors to have a stake in the Company whose board on which they sit. The non-executive directors are entitled to participate in the Grange Resources Limited Directors' and Officers' Option Plan which provides incentives where specified criteria are met.

The remuneration of non-executive directors for the period ending 30 June 2006 is outlined in Table 1 of this report.

EXECUTIVE DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

OBJECTIVE

The Company aims to reward executives with a level and combination of remuneration commensurate with their position and responsibilities within the Company that:

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

STRUCTURE

In determining the level and components of executive remuneration, the Remuneration Committee considers independent advice from external consultants in the form of reports detailing market levels of remuneration for comparable executive roles.

It is the policy of the Remuneration Committee that employment contracts are entered into with all executive directors and senior executives.

Remuneration consists of the following elements:

- Fixed remuneration
- Variable remuneration (which includes short term and long term incentive)

The proportion of fixed remuneration and variable remuneration including incentives is established for each senior executive by the Remuneration Committee. Table 2 of this report details the fixed and variable components of the 6 most highly remunerated senior executives.

FIXED REMUNERATION

OBJECTIVE

The level of fixed remuneration is established to provide a base level of remuneration which is both appropriate to the component and competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of individual performance, relevant comparative remuneration in the market and internal policies and practices. As noted previously, the Remuneration Committee may consider advice from external consultants who are independent of management.

STRUCTURE

Senior executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. The manner of payment chosen is optimal for the recipient without creating any undue cost for the Company.

Table 1: Directors' remuneration for the year ended 30 June 2006

		Short Term			Post	Share Based	Total	Performance Related
		Salary & Fees	Cash bonus	Non Cash Bonus	Employment	Payments		
		\$	\$	\$	Super- annuation	Options		
Specified Directors								
A Bohnenn	2006	68,206	-	-	-	-	68,206	
Non-Executive Chairman	2005	56,667	-	-	-	-	56,667	
R Krasnoff	2006	-	-	-	47,163	-	47,163	
Non-Executive Director	2005	-	-	-	1,887	-	1,887	
A H Nutter	2006	100,856	15,000	-	107,722	-	223,578	6.71%
Technical Director	2005	99,899	-	-	104,652	-	204,551	
G L W Wedlock	2006	317,702	75,000	-	28,593	338,080	759,375	54.40%
Managing Director	2005	225,692	-	-	20,312	180,000	426,004	
H R Moser	2006	23,000	-	-	-	-	23,000	
Non-Executive Director	2005	23,000	-	-	-	-	23,000	
A Rankine-Wilson	2006	-	-	-	-	-	-	
Former Executive Director	2005	379,661	-	-	21,872	-	401,533	

VARIABLE REMUNERATION – SHORT TERM INCENTIVE (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives responsible for meeting those targets.

Structure

Actual STI payments granted to senior executives depend on the extent to which specific operating targets set from time to time are met. The operational targets consist of both financial and non financial measures of performance. Typically included are measures such as net profit after tax, risk management and overall contribution.

The aggregate STI payments available for executives are subject to the approval of the Remuneration Committee with payments usually made as a cash bonus.

Operational Targets

Operational targets that senior executives have been striving to achieve during the period have been:

- Satisfactory completion of the Southdown Magnetite and Kemaman Pellet Plant bankable feasibility study;
- Completion of Resource drilling at Southdown;
- Lodgement of the Southdown Public Environmental Review documentation
- Completion of negotiations for the Southdown slurry pipeline easement;
- Successful negotiation of a Pioneer Status package for the Kemaman Pellet Plant, and
- Acquisition of a suitable iron ore or coal project in Malaysia or elsewhere in SE Asia.

DIRECTORS' REPORT (CONTINUED)

VARIABLE REMUNERATION – LONG TERM INCENTIVE (LTI)

Objective

The objective of the LTI program is to reward senior executives in a manner that aligns this element of remuneration with the creation of long term shareholder wealth.

Structure

LTI grants to executives are delivered in the form of an entitlement to participate in the Grange Resources Limited Directors' and Officers' Option Plan.

The Company utilises the LTI program to link remuneration with the attainment of key performance hurdles in particular with the development of projects. The use of this performance based program ensures an alignment between comparative shareholder return and reward for executives.

Table 2: Remuneration of the 6 named executives who received the highest remuneration for the year ended 30 June 2006

		Short Term				Post Employment	Share Based Payments	Total	Performance Related
		Salary & Fees	Cash bonus	Non-Cash Bonus	Other	Super-annuation	Options		
		\$	\$	\$	\$	\$	\$		
Current					-				
S Hall	2006	59,022	15,000	-	-	119,255	-	193,277	7.76%
GM: Business Development	2005	-	-	-	-	-	-	-	
					-				
N Marston	2006	129,327	20,000	-	-	11,639	-	160,966	12.42%
GM: Commercial & Company Secretary	2005	87,404	-	-	-	7,866	-	95,270	
Former					-				
C Bryant	2006	144,337	10,000	-	-	12,669	-	167,006	5.99%
Former Senior Geologist	2005	93,230	-	-	-	8,158	-	101,388	
					-				
B Chau	2006	69,431	-	-	84,906	4,702	-	159,039	
Former Group Financial Accountant	2005	68,512	-	-	-	6,166	-	74,678	
M Smith	2006	44,154	10,000	-	-	81,154	-	135,308	7.39%
Former CFO & Company Secretary	2005	-	-	-	-	-	-	-	
A Pismiris	2006	45,364	-	-	-	21,310	-	66,674	
Former CFO & Company Secretary	2005	121,333	-	-	-	36,177	-	157,510	

Notes:

- Unless otherwise disclosed, the beginning of the reporting period is 1 July 2005 (2005: 1 July 2004). Where a Director or Executive was appointed during the year, the beginning of the reporting period is the date of appointment;
- Unless otherwise disclosed, the end of the reporting period is 30 June 2006 (2005: 30 June 2005). Where a Director or Executive resigned during the year, the end of the reporting period is the date of resignation.

Employment Contracts with Directors and Executives

Except as discussed below, the following Directors and Executives are employed under contracts of employment for periods of three years:

- A Nutter (Technical Director)
- S Hall (General Manager – Business Development)
- N Marston (General Manager – Commercial and Company Secretary)
- M Muirhead (Group Accountant)

The employment contracts have standard commercial terms, including:

- Participation in the Grange Staff Bonus Scheme being a share of the bonus pool as determined by the Remuneration Committee and Board of the Company.
- The Director or Executive may resign from their position and thus terminate their employment agreement by providing three months written notice.
- On resignation any options will be forfeited.
- The company may terminate the employment agreement by providing three months written notice or by providing payment for the lesser of twelve months or the unexpired period of this agreement in lieu of giving notice, the agreement will then terminate upon such payment being made.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Director or Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Managing Director

The Managing Director, Mr Wedlock is employed under contract. The current employment contract commenced on 1 March 2005 and terminates on 29 February 2008, at which time the Group may choose to enter into a new employment contract with Mr Wedlock.

- Mr Wedlock receives fixed remuneration of \$370,000 per annum plus 9% superannuation.
- The contract provides for participation in the Grange Staff Bonus Scheme being a share of the bonus pool as determined by the Remuneration Committee and Board of the Company.
- Following the agreement entered into by Mr Wedlock and the Company on 26 April 2005 and following shareholder approval, Mr Wedlock was granted the following option package on 2 May 2005:
 - (i) 1,500,000 incentive options exercisable at \$1.25 on or before 30 June 2007. These unlisted options will not vest until Mr Wedlock has achieved Southdown project approvals;
 - (ii) 1,500,000 incentive options exercisable at \$1.50 on or before 30 June 2008. These unlisted options will not vest until Mr Wedlock has achieved Southdown project commencement;
 - (iii) 1,000,000 incentive options exercisable at \$2.50 on or before 30 June 2011. These unlisted options will not vest until Mr Wedlock has achieved a payment of \$0.05 dividend.
- Mr Wedlock may resign from his position and thus terminate his employment agreement by providing three months written notice.
- On resignation any options will be forfeited.
- The company may terminate this employment agreement by providing three months written notice or by providing payment for the lesser of twelve months or the unexpired period of this agreement in lieu of giving notice, the agreement will then terminate upon such payment being made.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

DIRECTORS' REPORT (CONTINUED)

Value of Options Granted to Directors and Executives

No options were granted, exercised or lapsed during the year.

Fair Value of Options

From 1 July 2004, options granted as part of Director and Executive emoluments have been independently valued using the Binomial Valuation Model, which takes into account factors including the option exercise price, the current level and volatility of the underlying share price, the risk free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for the assumptions used for grants made during the financial years ending 30 June 2005 and 30 June 2006:

	2006	2005
Dividend yield	0%	0%
Expected volatility	50%	50%
Risk-free interest rate	5.15%	5.15%
Expected life of option	1,2,5 years	1,2,5 years

DIRECTORS' MEETINGS

The number of meetings of directors including meetings of committees of the Board held during the year and the number of meetings attended by each director was as follows:

Director	Directors Meetings	Meetings of Committees	
		Audit & Compliance	Remuneration
Number of Meetings held	5	3	1
Number of meetings attended			
A Bohnenn	5	3	1
R Krasnoff	5	1	n/a
H R Moser	nil	nil	1
A H Nutter	5	n/a	n/a
G L W Wedlock	5	n/a	n/a
A C Pismiris ¹	1	n/a	n/a
M A T Smith ²	4	3	n/a

Notes:

1. Mr Pismiris was the Company Secretary and was not a member of the Board.
2. Mr Smith was the Company Secretary and was not a member of the Board.

Other directors and members of management may attend meetings of the Audit and Compliance and Remuneration Committee at the invitation of the Chairman. The details of the functions and membership of the committees of the Board are included in the Corporate Governance Statement.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, during the financial period the directors of Grange Resources Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the following section of this report.

NON AUDIT SERVICES

The following non-audit services were provided by the Company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service means that auditor independence was not compromised.

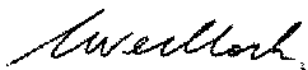
Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services \$127,006

AUDITOR'S INDEPENDENCE

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the Directors of Grange Resources Limited with an Independence Declaration in relation to the audit of the attached Financial Statements. This Independence Declaration is attached to this Directors' Report and forms part of the Directors' Report.

This report has been made in accordance with a resolution of Directors.



Geoff L W Wedlock
Managing Director

29 September 2006

AUDITOR'S INDEPENDENCE DECLARATION



at The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

at Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box A1939
Perth WA 6843

Auditor's Independence Declaration to the Directors of Grange Resources Limited

In relation to our audit of the financial report of Grange Resources Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'V. W. Tidy'.

V W Tidy
Partner
Perth
29 September 2006

The Board of Directors of Grange Resources Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business activities and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

1. BOARD OF DIRECTORS

1.1 ROLE OF THE BOARD

The Board's current role is to collectively govern and manage the Company. The Directors must act in the best interests of the Company as a whole. It is the role of the Board to govern and manage the Company in accordance with the stated objectives of the Company.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors in the performance of their roles.

1.2 COMPOSITION OF THE BOARD

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are set out in the Directors' Report. Directors are appointed based on their experience and on the independence of their decision-making and judgment.

The Company's Constitution provides for the appointment of a minimum number of directors as three and up to a maximum of eight. Currently the Company has five directors comprising two executive directors and three non-executive directors. The Constitution does not require a shareholding qualification for directors.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Messrs A Bohnenn, R Krasnoff and H R Moser are Non-Executive Directors. In addition to being Non-Executive Mr Krasnoff and Mr Moser also meet the following criteria for independence adopted by the Company.

An Independent Director:

- (i) is a Non-Executive Director and:
- (ii) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (iii) within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- (iv) is not a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- (v) is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- (vi) has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- (vii) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- (viii) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

Mr Bohnenn, the Non-executive Chairman of the Company does not meet the Company's criteria for independence as a consequence of his substantial shareholding in Grange and the marketing and public relations services agreement Grange has with Hendygywyn Holding & Beheer b.v. However, Mr Bohnenn's experience and background makes his contribution to the Board such that it is appropriate for him to retain his position.

1.3 RESPONSIBILITIES OF THE BOARD

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- (i) Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
- (ii) Strategy Formulation: working to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- (iii) Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.
- (iv) Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- (v) Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- (vi) Company Finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
- (vii) Human Resources: appointing, and, where appropriate, removing executives as well as reviewing the performance of executives and monitoring the performance of senior management in their implementation of the Company's strategy.
- (viii) Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- (ix) Delegation of Authority: where appropriate delegating appropriate powers to the Company's executives to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of any Committees of the Board.

1.4 TERM OF OFFICE

Under the Company's Constitution, the minimum number of Directors is three. At each Annual General Meeting, one third of the Directors (excluding the Managing Director) must resign, with Directors resigning in rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election.

1.5 BOARD POLICIES

1.5.1 Conflicts of Interest

Directors must disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company and if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.5.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.5.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.5.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

1.5.5 Education and Induction

New Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:

- details of the roles and responsibilities of a Director with an outline of the qualities required to be a successful Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of the Company.

1.5.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.5.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

1.5.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- (i) communicating effectively with shareholders through releases to the market via ASX, the Company's website, information mailed to shareholders and the general meetings of the Company;
- (ii) giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- (iii) making it easy for shareholders to participate in general meetings of the Company; and
- (iv) requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.5.9 Trading in Company Shares

The Company has a Share Trading Policy under which Directors are required to discuss their intention to trade in the Company's securities with the Chairman prior to trading. Consideration will be given in these discussions to any special circumstances (eg financial hardship).

Directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director by virtue of holding office as a director of the Company.

The following guidelines are to be observed by Directors and employees of Grange:

- Securities may be purchased or sold immediately following the release of Grange's, half-yearly and final results ("results announcements") (subject to observing the additional approval requirements set out below).
- Securities should not be purchased or sold during the two week period preceding any results announcements.
- Securities should not be purchased or sold preceding any material ASX announcement by Grange, if the employee is aware that it is likely that such an announcement will be made.
- Securities should not be purchased or sold for the purpose of short term speculation.
- Securities may be purchased or sold at other times (subject to additional disclosure requirements established by the Board).

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company of which the market is not aware and that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

1.5.10 Performance Review/Evaluation

The Board intends to conduct an evaluation of its performance periodically. There was no evaluation conducted during the financial year.

1.5.11 Attestations by Company Secretary

In accordance with the Board's policy, the Company Secretary is required to make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing this Annual Report.

2. BOARD COMMITTEES

The Board currently has two committees which have been established to consider particular issues and strategies in order to advise and guide the Board. Committees are also established as the need arises.

2.1 AUDIT & COMPLIANCE COMMITTEE

The audit and compliance committee was in place for the entire reporting period and operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company to deal with the effectiveness and efficiency of business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of the internal control framework and ethical standards to the audit and compliance committee. The committee's responsibilities include the following:

- oversee and appraise the independence, quality and extent of the total audit effort;
- perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- evaluate the adequacy and effectiveness of the Company's and the Group's risk management and financial control, and other internal control systems and evaluate the operation thereof; and
- review and endorse the annual and half year attestation statements in accordance with regulatory requirements.
- the appointment of external auditors.
- review and implement risk management and internal control structures appropriate to the needs of Grange.
- monitor compliance issues, applicable laws and regulations, particularly compliance with the Stock Exchange Listing Rules;
- review all public releases to the ASX of material consequence, prior to release to the market; and
- review of Corporate Governance Practices.

The members of the Audit and Compliance Committee throughout the reporting period were Mr A Bohnenn. Mr M A T Smith was a member of the Audit and Compliance Committee from September 2005 to July 2006. Mr H R Moser was a member of the Audit and Compliance Committee until February 2006 when he was replaced by Mr R Krasnoff.

Qualifications of audit and compliance committee members

A Bohnenn has more than 25 years experience as Managing Director in the investment banking and financial services industries, with an emphasis in research and funds management.

H R Moser is a Director of a number of Australian publicly listed companies in the resource and technology sectors.

R Krasnoff previous roles have included an executive position with Wesfarmers Limited and as a management consultant with McKinsey & Company for a period of ten years. He has also served as a director of listed public companies in Australia.

M A T Smith is a Certified Practising Accountant with 14 years post-graduate experience across a wide variety of industries. He has held senior financial positions with a number of Australian publicly listed companies in the resources sector.

CORPORATE GOVERNANCE STATEMENT

(CONTINUED)

2.2 REMUNERATION COMMITTEE

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board 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.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the reporting period refer to the remuneration report, which is contained within the Directors' Report.

2.2.1 Role

The role of the Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for executives.

2.2.2 Composition

The members of the Remuneration Committee throughout the reporting period were Mr A Bohnenn and Mr H R Moser.

2.3 SEAL COMMITTEE

Any two directors and the Company Secretary of the Company can participate on this committee. The committee has the responsibility of approving the application of the Company seal to documents that legally bind the Company.

2.4 NOMINATION COMMITTEE

The Directors have elected not to appoint a Nomination Committee due to the scale and nature of the Company's activities.

Subject to the provision of the Company's Constitution, the issues of board composition and selection criteria for directors are dealt with by the full board. The board continues to have the mix of skills and experience necessary for the conduct of the Company's activities.

The Constitution provides for events whereby directors may be removed from the board. Similarly shareholders have the ability to nominate, appoint and remove directors.

In addition, the Constitution provides for the regular rotation of directors which ensures that directors seek re-election by shareholders at least once every three years.

Given these existing regulatory requirements, directors are not appointed for a specified term and directors' continuity of service is in the hands of shareholders.

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INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated		Grange Resources Limited	
		2006 \$	2005 \$	2006 \$	2005 \$
Continuing operations					
Sale of Copper		7,443,174	3,937,368	-	-
Royalties		2,318,612	2,525,841	2,044,764	1,678,562
Finance revenue		634,107	645,603	499,950	59,521
Revenue from continuing operations	3(a)	10,395,893	7,108,812	2,544,714	1,738,083
Cost of sales	3(c)	(4,541,684)	(8,037,157)	-	(419,616)
Gross profit		5,854,209	(928,345)	2,544,714	1,318,467
Other income	3(b)	489,751	27,154	387,092	18,724
Administration costs	3(d)	(1,984,338)	(2,287,635)	(1,933,026)	(2,089,271)
Employee benefits expense	3(e)	(2,117,459)	(1,787,579)	(2,117,459)	(1,787,579)
Other expenses	3(f)	(299,029)	(269,455)	-	-
Profit from continuing operations before tax and borrowing costs		1,943,134	(5,245,860)	(1,118,679)	(2,539,659)
Borrowing costs	3(g)	(7,204)	(27,441)	-	-
Profit / (loss) from continuing operations before income tax		1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
Income tax expense	4	-	-	-	-
Profit / (loss) from continuing operations after income tax expense		1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
Net profit / (loss) attributable to members of Grange Resources Limited		1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
Basic earnings per share (cents per share)	24	2.04	(7.27)		
Diluted earnings per share (cents per share)	24	2.04	(7.27)		

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET

AS AT 30 JUNE 2006



	NOTE	Consolidated		Grange Resources Limited	
		2006	2005	2006	2005
		\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and cash equivalents	5	8,306,137	8,738,794	8,087,202	4,535,711
Trade and other receivables	6	3,560,069	1,380,729	1,327,242	986,736
Inventories	7	-	2,094,946	-	-
Prepayments		53,194	54,018	53,194	54,018
Total Current Assets		11,919,400	12,268,487	9,467,638	5,576,465
Non-Current Assets					
Trade and other receivables	8	2,711,680	3,159,878	2,181,364	2,057,602
Other financial assets	9	-	-	4,581,143	4,581,143
Property, plant & equipment	12	694,956	450,309	390,307	160,211
Exploration and evaluation	13	23,440,495	7,814,728	23,557,476	7,131,171
Total Non-Current Assets		26,847,131	11,424,915	30,710,290	13,930,127
TOTAL ASSETS		38,766,531	23,693,402	40,177,928	19,506,592
LIABILITIES					
Current Liabilities					
Trade and other payables	14	1,165,123	2,505,765	1,022,973	1,459,854
Provisions	15	2,675,402	682,941	138,595	103,952
Loans and borrowings	17	-	-	32,406,794	23,013,892
Current income tax liabilities		34,365	34,365	34,365	34,365
Total Current Liabilities		3,874,890	3,223,071	33,602,727	24,612,063
Non-Current Liabilities					
Provisions	16	1,006,660	1,320,628	584,603	584,603
Total Non-Current Liabilities		1,006,660	1,320,628	584,603	584,603
TOTAL LIABILITIES		4,881,550	4,543,699	34,187,330	25,196,666
NET ASSETS		33,884,981	19,149,703	5,990,598	(5,690,074)
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	18	50,685,531	38,404,263	50,685,534	38,404,263
Reserves	19	4,266,992	3,748,912	4,266,992	3,748,912
Accumulated losses	19	(21,067,542)	(23,003,472)	(48,961,928)	(47,843,249)
Total Parent Entity Interest in Equity		33,884,981	19,149,703	5,990,598	(5,690,074)
TOTAL EQUITY		33,884,981	19,149,703	5,990,598	(5,690,074)

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2006

NOTE	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
Net income (expense) recognised directly in equity	-	-	-	-
Profit / (loss) for the year	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
Total recognised income / (expense) for the year	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
Total recognised income / (expense) for the year is attributable to:				
Members of Grange Resources Limited	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)

CASHFLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006



	NOTE	Consolidated		Grange Resources Limited	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		8,211,403	5,314,619	2,113,348	865,697
Payments to suppliers and employees		(4,751,189)	(12,787,789)	(3,481,113)	(2,716,986)
Interest received		634,107	645,603	499,950	59,521
Other income		-	27,094	-	8,443
Borrowing costs		(7,204)	(27,441)	-	-
Receipt of government grants		38,110	-	38,110	-
Net cash inflow / (outflow) from operating activities	5	4,125,227	(6,827,914)	(829,705)	(1,783,325)
Cash flows from investing activities					
Payment for exploration and evaluation		(16,841,236)	(6,416,927)	(16,742,247)	(6,316,215)
Payments for property, plant and equipment	12	(308,610)	(198,999)	(289,469)	(161,619)
Proceeds from / (payment of) security deposit		310,694	(1,153,981)	99,054	(1,068,182)
Net cash inflow / (outflow) used in investing activities		(16,839,152)	(7,769,907)	(16,932,662)	(7,546,016)
Cash flows from financing activities					
Proceeds from borrowings from controlled entities within wholly owned group		-	-	9,032,586	6,511,008
Proceeds from issue of fully paid shares	18	10,800,000	5,000,000	10,800,000	5,000,000
Payment for share costs	18	(661,590)	-	(661,590)	-
Proceeds from exercise of share options	18	2,142,858	2,104,800	2,142,862	2,104,800
Net cash flows from / (used in) financing activities		12,281,268	7,104,800	21,313,858	13,615,808
Net increase / (decrease) in cash and cash equivalents					
		(432,657)	(7,493,021)	3,551,491	4,286,467
Cash and cash equivalents at beginning of the financial year		8,738,794	16,231,815	4,535,711	249,244
Cash and cash equivalents at end of the financial year	5	8,306,137	8,738,794	8,087,202	4,535,711

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

The financial report of Grange Resources Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 29th September 2006.

Grange Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group is mining and exploration.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are in whole dollars.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentations* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemptions under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 30.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)



AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard **	Application date for Group
2005-1	AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 1023 <i>General Insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1 <i>First-time adoption of AIFRS</i> and AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3 <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-9	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101 <i>Presentation of Financial Statements</i> , AASB 114 <i>Segment Reporting</i> , AASB 117 <i>Leases</i> , AASB 133 <i>Earnings per Share</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
2006-1	AASB 121 <i>The Effects of Change in Foreign Currency Rates</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
New Standard	AASB 7 <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
Revised Standard	AASB 119: <i>Employee Benefits</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
New UIG	UIG 4: <i>Determining whether an Arrangement contains a Lease</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
New UIG	UIG 8: <i>Scope of AASB 2</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
New UIG	New UIG UIG 9: <i>Reassessment of Embedded Derivatives</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

** Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

The following amendments are not applicable to the Group and therefore have no impact:

AASB Amendment	Affected Standard (s)
2004-3	AASB 1: <i>First time adoption of AIFRS</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 124: <i>Related Party Disclosures</i>
2006-2	AASB 1: <i>First time adoption of IFRS</i>
New UIG	UIG 5 <i>Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
New UIG	UIG 6: <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>
New UIG	UIG 7 <i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>

(c) Basis of Consolidation

The accounts of the Group comprise the accounts of Grange Resources Limited and all of its controlled entities. Control exists where Grange Resources Limited has the capacity to dominate the decision making relative to the financial and operating policies of another entity so that the other entity operates with Grange Resources Limited to achieve the objectives of Grange Resources Limited.

A list of controlled entities is contained in note 10 to the accounts. The financial statements of the controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(d) Significant accounting judgements, estimates and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 is determined by an external valuer using a binomial model, using the assumptions detailed in Note 21.

The accounting policies set out below have been applied consistently to all periods and presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2005 for the purposes of the transition to Australian Accounting Standards – AIFRS.

(e) Revenue Recognition and Other Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Royalties

Royalty revenue is recognised in the month in which the ore is processed at a treatment plant.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

(iv) Interest revenue

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying value amount of the financial asset.

Accounting policies applicable for the year ending 30 June 2005

Interest revenue was recognised when the Group's right to receive payment was established.

Other revenues are recognised when a right to receive it has been attained.

(f) Borrowing Costs

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Borrowing costs are recognised when incurred.

Accounting policies applicable for the year ending 30 June 2005

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- finance charges on leased assets.

Where the borrowing costs incurred are directly associated with the construction, purchase or acquisition of a qualifying asset, the borrowing costs are capitalised as part of the cost of the asset. For the current period all borrowing costs have been expensed.

(g) Leases

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

Leases that effectively transfer substantially all of the risks and benefits 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 or computer equipment under lease. A lease liability of equal value is also recognised. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a consistent rate of return on the remaining balance of the liability. Finance charges are recognised as an expense in the Income Statement.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the Income Statement as an integral part of the total lease expense.

(h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(i) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade and other receivables are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Trade terms are determined by contractual agreement or otherwise on a 30 day basis.

Receivables from controlled entities are carried at the principal amount. Interest, when charged, is recognised as income on an accruals basis.

Accounting policies applicable for the year ending 30 June 2005

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off when incurred.

(j) Inventories

Inventories comprise broken ore, work in progress and concentrate which are carried at the lower of cost and net realisable value.

Costs represent weighted average cost and includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including amortisation.

Net realisable value is the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

(k) Derecognition of financial assets and financial liabilities

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable to the derecognition of financial assets and financial liabilities for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and / or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent on the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

(ii) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Accounting policies applicable for the year ending 30 June 2005

(i) *Financial assets*

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed.

(ii) *Financial liabilities*

A financial liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(l) Foreign currency translation

Both the functional and presentation currency of Grange Resources Limited and its subsidiaries is Australian dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Foreign exchange differences arising on translation are recognised in the income statement.

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(m) Income tax

Current income tax and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

- (i) where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- (i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

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

(n) Other taxes

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 items 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 Cash Flow Statement 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 classified as operating cash flows.

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

(o) Interests in Joint Venture Operations

The Group's interest in its joint venture operation is accounted for by recognising the Group's assets and liabilities from the joint venture, as well as expenses incurred by the Group and the Group's share of income earned from the joint venture, in the consolidated financial statements.

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, unless under the terms of the farm out it is considered excessive based on the diluted interest retained. A provision is then made to reduce exploration expenditure to its recoverable amount. 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.

(p) Property, plant and equipment

Plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation, amortisation or impairment in value.

Land and buildings are measured at cost less, where applicable, any accumulated depreciation, amortisation or impairment in value.

Property, plant and equipment are depreciated to their residual value at rates based upon the life of the individual asset or the life of the mine, whichever is considered shorter. Depreciation rates used are as follows:

Buildings	10% straight line per annum
Furniture and fittings	14% straight line per annum
Computer equipment	27% straight line per annum
Mining plant and equipment	27% straight line per annum

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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

(i) *Impairment*

The carrying amount of property, plant and equipment is reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs unless the assets value in use can be estimated to be close to its fair value. If any indication of impairment exists, and where the carrying values exceed the estimated recoverable amount, the asset or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. 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.

(ii) *Derecognition and disposal*

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 profit or loss in the year the asset is derecognised.

(q) Mineral Exploration and Evaluation Expenditure

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.

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.

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

The Group has applied AASB 6 Exploration and Evaluation of Mineral Resources, the Australian equivalent to IFRS 6, in preparing financial statements.

(r) Development Properties

Development expenditure incurred by, or on behalf of, the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified under non-current assets as "Development Properties".

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until they are reclassified as "Production Properties" following a decision to commence mining.

(s) Production Properties

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

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

The net carrying value of each production property is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets.

(t) Provisions for Site Restoration

The Group records the present value of the estimated cost of legal and constructive obligations (such as those under the Group's Environmental Policy) to restore operating locations in the period in which the obligation is incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances or changes in rehabilitation costs are recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The unwinding of the effect of discounting on the provision is recorded as a finance cost in the income statement. The carrying amount capitalised is depreciated over the life of the related asset.

(u) Investments and other financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified in the following categories where appropriate: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(i) Financial assets at fair value through profit or loss

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

(ii) 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.

Accounting policies applicable for the year ending 30 June 2005

Current investments are carried at the lower of cost and net market value except where they have been disposed of subsequent to year end where they are carried at the lower of cost and the net value realised from their sale.

All other non-current investments are carried at the lower of cost and recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

(v) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset 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.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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 carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

(w) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005

Trade payables and other payables are carried at costs which is fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

(x) Borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

Accounting policies applicable for the year ending 30 June 2005

Loans are carried at their principal amounts. Interest is charged as an expense as it accrues.

(y) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation 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 reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(z) Employee entitlements

(i) Wages, salaries, annual, sick and long service leave

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

(ii) Share-based payment transactions

The Group provides benefits to employees (including directors) in the form of share-based payment transactions, whereby employees render services in exchange for share options ("equity-settled transactions").

The current plan in place is the Grange Resources Ltd Directors' and Officers' Option Plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Grange Resources Ltd ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired and;
- (ii) the number of awards that, in the opinion of the Board of the Group, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of those conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

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.

(aa) Earnings per share (EPS)

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effects of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(bb) 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 3. REVENUES, OTHER INCOME & EXPENSES

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
Revenue and Expenses from Continuing Operations				
(a) Revenue				
Revenue from sale of Copper	7,443,174	3,937,368	-	-
Revenue from Royalties	2,318,612	2,525,841	2,044,764	1,678,562
Finance revenue	634,107	645,603	499,950	59,521
	<u>10,395,893</u>	<u>7,108,812</u>	<u>2,544,714</u>	<u>1,738,083</u>
<i>Breakdown of finance revenue:</i>				
Interest received from other persons / corporations	634,107	645,603	499,950	59,521
	<u>634,107</u>	<u>645,603</u>	<u>499,950</u>	<u>59,521</u>
(b) Other income				
Government grants	38,110	-	38,110	-
Sundry income	451,641	27,154	348,982	18,724
	<u>489,751</u>	<u>27,154</u>	<u>387,092</u>	<u>18,724</u>
(c) Costs of sales				
Included in cost of sales:				
Amortisation of deferred exploration, evaluation and development costs	306,440	829,483	-	419,616
Depreciation	3,594	3,049	-	-
Production costs	2,124,446	9,026,221	-	-
Inventory movement	2,107,204	(1,821,596)	-	-
	<u>4,541,684</u>	<u>8,037,157</u>	<u>-</u>	<u>419,616</u>

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 3. REVENUES, OTHER INCOME & EXPENSES (CONTINUED)

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
(d) Administration expenses				
Included in administrative expenses:				
Audit	42,111	35,000	42,111	35,000
Consultants	143,706	468,126	211,638	468,126
Contractors	141,912	6,251	139,454	6,251
Depreciation	60,371	6,209	59,851	6,209
Freight	358,434	372,523	29,796	14,066
Insurance	92,228	71,661	60,542	71,661
Legal	331,408	260,205	162,039	260,205
Minimum lease payments - operating lease	-	86,602	-	86,602
Project evaluation	35,747	438,823	35,747	438,823
Rent and outgoings	172,818	88,602	172,818	88,602
Travel	255,795	376,634	255,795	376,634
Other	349,808	76,999	763,235	237,092
	<u>1,984,338</u>	<u>2,287,635</u>	<u>1,933,026</u>	<u>2,089,271</u>
(e) Employee benefits expenses				
Payroll cost	1,248,266	1,360,703	1,248,266	1,360,703
Defined contribution plan expense	351,113	246,876	351,113	246,876
Share-based payments expense	518,080	180,000	518,080	180,000
	<u>2,117,459</u>	<u>1,787,579</u>	<u>2,117,459</u>	<u>1,787,579</u>
(f) Other expenses				
Horseshoe maintenance expenses	299,029	269,455	-	-
	<u>299,029</u>	<u>269,455</u>	<u>-</u>	<u>-</u>
(g) Borrowing costs				
Interest paid to non-related entities	7,204	27,441	-	-
	<u>7,204</u>	<u>27,441</u>	<u>-</u>	<u>-</u>

NOTE 4. INCOME TAX EXPENSE

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) Major components of income tax expense for the years ended 30 June 2006 and 2005 are:	-	-	-	-
Income Statement				
<i>Current income tax</i>				
Current income tax charge / (benefit)	-	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	-	-	-	-
Timing differences not recognised	-	-	-	-
Income tax expense reported in income statement	-	-	-	-
Statement of changes in equity				
Income tax liability reported in equity	-	-	-	-
(b) A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2006 and 2005 is as follows:				
Accounting profit / (loss) before tax	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
At statutory income tax rate of 30% (2005: 30%)	580,780	(1,581,990)	(335,604)	(761,898)
Non-deductible items	248,524	214,340	248,524	214,340
Non-deductible provision for non-recovery of loan to controlled entity	-	-	-	-
Non-deductible decrement in carrying value of assets	-	-	-	-
Deductible research & development claim	-	(1,458,978)	-	(1,458,978)
Utilisation of tax losses / unrecognised tax losses	(829,304)	2,826,628	87,080	2,006,536
Income tax expense reported in income statement	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 4. INCOME TAX EXPENSE (CONTINUED)

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
(c) Deferred income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Accrued income	(261,128)	(175,833)	85,295	-
Accelerated deductions for tax purposes	-	(61,656)	(61,656)	(20,238)
Other receivable	(666,791)	-	666,761	-
Deferred mining Exploration	-	-	-	(82,908)
	(7,032,148)	(2,344,419)	4,687,730	1,850,202
	<u>(7,960,067)</u>	<u>(2,581,908)</u>	<u>5,378,130</u>	<u>1,747,056</u>
Deferred tax assets				
Accelerated depreciation for tax purposes	162,490	162,490	-	(61,771)
Foreign exchange	14,607	-	(14,607)	-
Accrued expenses	27,897	-	(27,897)	6,300
Provision for employee entitlements	41,579	31,186	(10,393)	-
Blackhole costs	15,377	19,221	3,844	(10,747)
Provision for rehabilitation	388,040	569,188	181,845	583,497
Provision for restoration	675,000	-	(675,000)	-
Carried forward losses	12,662,563	8,657,198	(4,005,365)	(5,090,963)
	<u>13,987,553</u>	<u>9,439,283</u>		
Unrecognised deferred tax assets			(830,557)	2,826,628
Deferred tax expense			-	-
PARENT				
Deferred tax liabilities				
Accrued income	(1,136)	(11,839)	(9,903)	11,839
Accelerated deductions for tax purposes	-	-	-	-
Deferred mining Exploration	-	-	-	-
	(7,067,243)	(2,101,922)	4,965,320	1,704,193
	<u>(7,068,379)</u>	<u>(2,113,761)</u>	<u>4,955,417</u>	<u>1,716,032</u>

NOTE 4. INCOME TAX EXPENSE (CONTINUED)

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
(c) Deferred income tax (continued)				
Deferred tax assets				
Accelerated depreciation for tax purposes	-	-	-	9,150
Foreign exchange	14,607	-	(14,607)	-
Accrued expenses	27,897	-	(27,897)	6,300
Provision for employee entitlements	41,579	31,186	(10,393)	12,124
Blackhole costs	15,377	19,221	3,844	(10,747)
Provision for rehabilitation	175,381	175,381	-	-
Carried forward losses	12,662,563	8,657,198	(4,993,445)	(3,715,147)
	<u>12,937,404</u>	<u>8,882,986</u>		
Unrecognised deferred tax assets			87,081	2,006,536
Deferred tax expense			<u>-</u>	<u>-</u>

Potential future income tax benefits attributable to tax losses of \$12,662,563 (2005: \$8,657,198) carried forward have not been brought to account at 30 June 2006 because directors do not believe it is appropriate to regard realisation of the future tax benefit as probable. These benefits will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;
- (ii) the Group continues to comply with the conditions for the deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the loss.

(d) Tax Consolidation

The Company and its 100% owned subsidiaries are a tax consolidated group as of 1 July 2002. Members of the group have agreed to enter into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payments obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Grange Resources Limited.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 5. CASH AND CASH EQUIVALENTS

		Consolidated		Grange Resources Limited	
		2006 \$	2005 \$	2006 \$	2005 \$
Cash at bank and in hand	(i)	2,087,202	146,092	2,087,202	76,597
Short term deposits	(ii)	6,000,000	8,330,665	6,000,000	4,459,114
Cash at bank and in hand - Joint Ventures	(iii)	218,935	262,037	-	-
		8,306,137	8,738,794	8,087,202	4,535,711

- (i) Cash at bank earns interest at floating rates based on daily bank deposit rates.
- (ii) Short-term deposits are made for varying periods depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates.
- (iii) Joint Venture cash at bank represents Mount Windsor Joint Venture, Reward, Highway and Reward Deeps / Conviction cash calls paid by Grange Resources Limited but not yet used by the joint ventures to pay creditors.

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at banks and in hand	2,087,202	146,092	2,087,202	76,597
Short term deposits	6,000,000	8,330,665	6,000,000	4,459,114
Cash at banks and in hand - Joint Ventures	218,935	262,037	-	-
	8,306,137	8,738,794	8,087,202	4,535,711

Reconciliation of net profit / (loss) after tax to net cash flows from operations

Net profit / (loss) after income tax	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
<i>Adjustments for:</i>				
Amortisation	306,440	823,274	-	419,616
Depreciation	63,965	9,258	59,851	6,209
Share options expensed	518,080	180,000	518,080	180,000
Allowance for impairment of exploration & evaluation expenditure	770,386	-	-	-
<i>Changes in assets and liabilities</i>				
(Increase) / decrease in trade and other receivables	(2,041,840)	(1,148,590)	(203,006)	(823,147)
(Increase) / decrease in prepayments	824	(1,131)	824	(813)
(Increase) / decrease in inventories	2,094,947	(1,821,966)	-	-
(Decrease) / increase in trade and other payables	(1,201,998)	437,935	(121,418)	934,058
(Decrease) / increase in provisions	1,678,493	(33,393)	34,643	40,411
Net cash from operating activities	4,125,227	(6,827,914)	(829,705)	(1,783,325)

NOTE 6. TRADE AND OTHER RECEIVABLES (CURRENT)

		Consolidated		Grange Resources Limited	
		2006	2005	2006	2005
		\$	\$	\$	\$
Trade receivables	(i)	866,509	957,649	866,509	586,111
Security deposits	(ii)	137,500	423,080	137,500	-
Other debtors	(iii)	336,060	-	323,233	400,625
Other receivables	(iv)	2,220,000	-	-	-
		<u>3,560,069</u>	<u>1,380,729</u>	<u>1,327,242</u>	<u>986,736</u>

(i) Trade receivables are all non-interest bearing and are generally on 30 day terms.

(ii) Security deposits have no fixed repayment terms.

(iii) Other debtors relate to GST receivable from the Australian Taxation Office.

(iv) Other receivables relate to the expected insurance compensation from the Gregory Development Road. Refer note 15.
The receivable is the Group's 30% share.

NOTE 7. INVENTORIES (CURRENT)

Product inventory (at cost)	-	1,889,427	-	-
Stores inventory (at cost)	-	205,519	-	-
Total inventories at cost	-	<u>2,094,946</u>	-	-

NOTE 8. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

Related party receivables

Loans to controlled entities	27	-	-	12,125,241	12,778,190
Provision for doubtful recovery	27	-	-	(11,078,949)	(12,092,225)
		-	-	<u>1,046,292</u>	<u>685,965</u>

Other receivables

Security deposits	(i)	2,711,680	3,159,878	1,135,072	1,371,637
		<u>2,711,680</u>	<u>3,159,878</u>	<u>2,181,364</u>	<u>2,057,602</u>

Terms and conditions

(i) Security deposits include amounts with:

- a. Perth Diocesan Trustees for the office lease expiring 19 July 2010;
- b. Road Builder (M) Holdings Bhd to acquire land in the Malaysian port city of Kemaman and secure port facilities. The deposit is repayable twelve months from termination or expiry of the agreement;
- c. Minister for Mines and Energy for the States of Queensland and Western Australia for performance bonds in relation to the rehabilitation of Highway Reward and Horseshoe Lights mine, repayable upon satisfactory completion of rehabilitation.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 9. OTHER FINANCIAL ASSETS

		Consolidated		Grange Resources Limited	
		2006	2005	2006	2005
		\$	\$	\$	\$
Investments in controlled entities	10	-	-	28,366,953	27,903,678
Provision for impairment		-	-	(23,785,810)	(23,322,535)
		-	-	4,581,143	4,581,143

NOTE 10. INTERESTS IN SUBSIDIARIES

Name	Percentage of unique interest held by the Group		Investment	
	2006	2005	2006	2005
	%	%	\$	\$
Grange Capital Pty Ltd	100	100		
Tribune Development Pty Ltd	100	100		
Barrack Mines Pty Ltd	100	100	4,581,143	4,581,143
Bamine Pty Ltd	100	100		
BML Holdings Pty Ltd	100	100		
Horseshoe Gold Mine Pty Ltd	100	100		
Surfboard Securities Pty Ltd	100	100		
			4,581,143	4,581,143

The Company and all subsidiaries are incorporated in Australia. Grange Resources Limited is a company limited by shares and domiciled in Australia.

NOTE 11. INTERESTS IN JOINT VENTURE OPERATIONS AND BUSINESS UNDERTAKINGS

At 30 June 2006 the Group was participant in the following joint ventures:

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	% Interest	% Interest	% Interest	% Interest
<i>Production Joint Ventures:</i>				
Reward - Copper / Gold	31.15	31.15		
Highway - Copper	30.00	30.00		
<i>Development Joint Ventures:</i>				
Reward Deeps / Conviction - Copper	30.00	30.00		
<i>Exploration Joint Ventures:</i>				
Mt Samuel - Exploration Gold	85.00	85.00	42.50	42.50
Abercromby Well - Exploration Gold / Nickel	10.00	10.00		
Mt Windsor - Exploration Gold / Base Metals	30.00	30.00		

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 11. INTERESTS IN JOINT VENTURE OPERATIONS AND BUSINESS UNDERTAKINGS (CONTINUED)

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

	Consolidated	
	2006	2005
	\$	\$
Current Assets		
Cash and cash equivalents	218,935	262,037
Inventories	-	2,094,946
Trade debtors and other receivables	2,315,984	-
Total Current Assets	2,534,919	2,356,983
Non-Current Assets		
Exploration and evaluation expenditure	-	653,390
Property, plant and equipment	262,742	266,241
Total Non-Current Assets	262,742	919,631
Total Assets	2,797,661	3,276,614
Current Liabilities		
Trade and other payables	88,111	1,011,016
Provisions	2,536,809	578,989
Total Current Liabilities	2,624,920	1,590,005
Non-Current Liabilities		
Provisions	-	736,025
Total Non-Current Liabilities	-	736,025
Total Liabilities	2,624,920	2,326,030
NET ASSETS EMPLOYED IN JOINT VENTURE OPERATIONS	172,741	950,584

The net contributions of joint venture operations (inclusive of resultant revenues) to the Group operating profit before income tax and abnormal items was a loss of \$3,323,019 (2005: loss \$3,871,429).

The parent entity does not hold ownership in any operating joint ventures.

Contingent liabilities in relation to joint ventures are disclosed in note 23.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED							GRANGE RESOURCES LIMITED						
	Freehold land and buildings	Plant and equipment	Office equipment	Pastoral lease	Furniture and fittings	Total	Freehold land and buildings	Plant and equipment	Office equipment	Pastoral lease	Furniture and fittings	Total		
Year ended 30 June 2006	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
At 1 July 2005, net of accumulated depreciation and impairment	142,336	3,500	41,731	262,742	-	450,309	142,336	-	17,875	-	-	160,211		
Additions	-	18,680	74,692	-	215,238	308,610	-	74,231	-	215,238	-	289,469		
Disposals	-	-	-	-	-	-	-	-	-	-	-	-		
Depreciation charge for the year	(14,234)	(3,594)	(24,610)	-	(21,525)	(63,963)	(14,234)	-	(23,614)	-	(21,525)	(59,373)		
Impairment	-	-	-	-	-	-	-	-	-	-	-	-		
At 30 June 2006, net of accumulated depreciation and impairment	128,102	18,586	91,813	262,742	193,713	694,956	128,102	-	68,492	-	193,713	390,307		
At 1 July 2005														
Cost or fair value	142,336	1,138,052	94,141	262,742	-	1,637,271	142,336	-	70,747	-	-	213,083		
Accumulated depreciation and impairment	-	(1,134,552)	(52,410)	-	-	(1,186,962)	-	-	(52,872)	-	-	(52,872)		
Net carrying amount	142,336	3,500	41,731	262,742	-	450,309	142,336	-	17,875	-	-	160,211		
At 30 June 2006														
Cost or fair value	142,336	57,200	168,834	262,742	215,238	846,350	142,336	-	144,978	-	215,238	502,552		
Accumulated depreciation and impairment	(14,234)	(38,614)	(77,021)	-	(21,525)	(151,394)	(14,234)	-	(76,486)	-	(21,525)	(112,245)		
Net carrying amount	128,102	18,586	91,813	262,742	193,713	694,956	128,102	-	68,492	-	193,713	390,307		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)



NOTE 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED						GRANGE RESOURCES LIMITED					
	Freehold land and buildings	Plant and equipment	Office equipment	Pastoral lease	Furniture and fittings	Total	Freehold land and buildings	Plant and equipment	Office equipment	Pastoral lease	Furniture and fittings	Total
Year ended 30 June 2005	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
At 1 July 2005, net of accumulated depreciation and impairment	-	6,540	28,666	225,362	-	260,568	-	-	4,753	-	-	4,753
Additions	142,336	-	19,273	37,380	-	198,989	142,336	-	19,330	-	-	161,666
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	-	(3,040)	(6,208)	-	-	(9,248)	-	-	(6,208)	-	-	(6,208)
At 30 June 2005, net of accumulated depreciation and impairment	142,336	3,500	41,731	262,742	-	450,309	142,336	-	17,875	-	-	160,211
At 1 July 2004												
Cost or fair value	-	1,138,052	102,318	225,362	-	1,465,732	-	-	51,416	-	-	51,416
Accumulated depreciation and impairment	-	(1,131,512)	(73,652)	-	-	(1,205,164)	-	-	(46,663)	-	-	(46,663)
Net carrying amount	-	6,540	28,666	225,362	-	260,568	-	-	4,753	-	-	4,753
At 30 June 2005												
Cost or fair value	142,336	1,138,052	94,141	262,742	-	1,637,271	142,336	-	70,747	-	-	213,083
Accumulated depreciation and impairment	-	(1,134,552)	(52,410)	-	-	(1,186,962)	-	-	(52,872)	-	-	(52,872)
Net carrying amount	142,336	3,500	41,731	262,742	-	450,309	142,336	-	17,875	-	-	160,211

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The useful life of the assets was estimated as follows for 2005 and 2006:

Buildings	10 years
Plant and equipment	4 years
Office equipment	4 years
Furniture and fittings	7 years

NOTE 13. EXPLORATION & EVALUATION EXPENDITURE

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
Exploration & evaluation properties (at cost)	23,440,495	7,508,288	23,557,476	7,131,171
Production properties (at cost)	1,215,562	23,341,379	-	419,616
Accumulated amortisation	(1,215,562)	(23,034,939)	-	(419,616)
	<u>23,440,495</u>	<u>7,814,728</u>	<u>23,557,476</u>	<u>7,131,171</u>

Movement:

Exploration & Evaluation Properties

Balance at beginning of year	7,508,288	289,860	7,131,171	68,101
Current year expenditure	15,932,207	6,416,968	16,426,305	6,316,215
Transfer from / (to) production properties	-	54,605	-	-
Transfer from investments	-	746,855	-	746,855
Balance at end of year	<u>23,440,495</u>	<u>7,508,288</u>	<u>23,557,476</u>	<u>7,131,171</u>

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.

Production properties

Balance at beginning of year	306,440	1,184,319	-	419,616
Transfer from / (to) development, exploration and evaluation properties	-	(54,605)	-	-
Current year expenditure	-	-	-	-
Amortisation charged	(306,440)	(823,274)	-	(419,616)
Balance at end of year	<u>-</u>	<u>306,440</u>	<u>-</u>	<u>-</u>

The directors have reviewed the carrying values of each area of interest as at Balance Date. Where the carrying value of an individual area of interest was in excess of its recoverable amount the area of interest has been written down to its recoverable amount.

NOTE 14. TRADE AND OTHER PAYABLES

		Consolidated		Grange Resources Limited	
		2006	2005	2006	2005
		\$	\$	\$	\$
Trade payables	(i)	1,165,123	2,105,765	1,022,973	1,059,854
Other creditors	(ii)	-	400,000	-	400,000
		1,165,123	2,505,765	1,022,973	1,459,854

(i) Trade payables are non-interest bearing and are normally settled on repayment terms between 7 and 30 days.

(ii) Other creditors are non-interest bearing and have a repayment date of 30 November 2005.

NOTE 15. PROVISIONS (CURRENT)

Provision for annual leave		138,595	103,952	138,595	103,952
Provision for road restoration	(i)	2,250,000	-	-	-
Provision for mine rehabilitation	(ii)	286,807	578,989	-	-
		2,675,402	682,941	138,595	103,952

NOTE 16. PROVISIONS (NON-CURRENT)

Provision for mine rehabilitation	(ii)	1,006,660	1,320,628	584,603	584,603
		1,006,660	1,320,628	584,603	584,603

(i) During the year, cracking was detected in the Gregory Development Road adjacent to the Highway-Reward open pit of which the Group has a 30% joint venture interest. Remediation measures are being considered. If found liable, the joint venture may be required to relocate a section of the road away from the open pit. The provision is the Group's 30% share. It is expected costs associated with the relocation will be compensated by insurance. Refer note 6.

(ii) The provision for rehabilitation is recognised for mining activities for costs such as reclamation, plant closure and other costs associated with the rehabilitation of a mine site. Estimates of the rehabilitation obligations are based on expert opinions based on the anticipated future costs. The Group has assumed that no significant changes will occur in the relevant Federal and State Legislation in relation to the rehabilitation of such mines in the future.

Movements in mine rehabilitation provisions

Total current and non current carrying amount at the beginning of the financial year		1,899,617	1,973,421	584,603	584,603
Amounts utilised during the year		(606,150)	(315,000)	-	-
Increase in provision during the year		-	241,196	-	-
Carrying amount at the end of the financial year		1,293,467	1,899,617	584,603	584,603

NOTE 17. LOANS AND BORROWINGS

Loans from controlled entities – unsecured	27	-	-	32,406,794	23,013,892
		-	-	32,406,794	23,013,892

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 18. CONTRIBUTED EQUITY

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) Share capital				
Ordinary shares				
Issued and fully paid	50,685,531	38,404,263	50,685,534	38,404,263
	50,685,531	38,404,263	50,685,534	38,404,263

	No. of shares	\$
(b) Movements in ordinary share capital		
At 1 July 2004	69,709,259	31,299,463
Issued on 14 June 2005 by public equity raising	5,000,000	5,000,000
Exercise of options on 18 August 2004	60,000	7,200
Exercise of options on 3 November 2004	750,000	90,000
Exercise of options on 3 February 2005	2,730,000	327,600
Exercise of options on 22 March 2005	1,500,000	180,000
Exercise of options on 23 March 2005	1,000,000	500,000
Exercise of options on 17 May 2005	2,000,000	1,000,000
At 1 July 2005	82,749,259	38,404,263
Issued on 21 November 2005 by public equity raising (i)	8,000,000	10,800,000
Share issue expenses on 21 November 2005	-	(661,590)
Exercise of options on 25 November 2005	1,000,000	500,000
Exercise of options on 9 December 2005	1,000,000	500,000
Exercise of options on 18 January 2006	1,000,000	500,000
Exercise of options on 22 February 2006	600,000	300,000
Exercise of options on 20 March 2006	685,715	342,858
At 30 June 2006	95,034,974	50,685,531

(i) In November 2005 the Company arranged a share placement with Shaw Corporate Finance Pty Limited and BBY Limited comprising of 8.0 million fully paid ordinary shares at an issue price of \$1.35 each raising, \$10.80 million.

(c) Share options

The Company has share based payment option schemes under which options to subscribe for the company's shares have been granted to certain executives and other employees (refer Note 21).

(d) 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.

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Company does not have authorised capital nor par value in respect of its issued shares.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)



NOTE 19. RESERVES AND ACCUMULATED LOSSES

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
(a) Reserves				
Option issue reserve	3,568,912	3,568,912	3,568,912	3,568,912
Share-based payments reserve	698,080	180,000	698,080	180,000
	4,266,992	3,748,912	4,266,992	3,748,912

CONSOLIDATED

Movements in reserves

At 1 July 2004

Share-based payments

At 30 June 2005

Share-based payments

At 30 June 2006

Option issue reserve
Share-based payments reserve

\$

\$

3,568,912

-

-

180,000

3,568,912

180,000

-

518,080

3,568,912

698,080

PARENT

Movements in reserves

At 1 July 2004

Share based payments

At 30 June 2005

Share based payments

At 30 June 2006

Option issue reserve

Share-based payments reserve

\$

\$

3,568,912

-

-

180,000

3,568,912

180,000

-

518,080

3,568,912

698,080

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 19. RESERVES AND ACCUMULATED LOSSES (CONTINUED)

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) Accumulated losses				
Movements in accumulated losses were as follows:				
Balance 1 July	(23,003,472)	(17,730,171)	(47,843,249)	(45,303,590)
Net (loss) profit for the year	1,935,930	(5,273,301)	(1,118,679)	(2,539,659)
Balance 30 June	(21,067,542)	(23,003,472)	(48,961,928)	(47,843,249)

(c) Nature and purpose of reserves

Option issue reserve

The option issue reserve is used to recognise the fair value of options issued.

Share based payments reserve

The share based payments reserve is used to recognise the fair value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 21 for further details of these plans.

NOTE 20. EXPENDITURE COMMITMENTS

(a) Lease expenditure commitments

The operating lease commitments refer to the rent of the Perth office for five years (1 September 2005 to 31 August 2010)

Future minimum rentals payable as at 30 June are as follows:

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within one year	101,840	88,440	101,840	88,440
After one year but not more than five years	305,520	479,541	305,520	479,541
	407,360	567,981	407,360	567,981

NOTE 20. EXPENDITURE COMMITMENTS (CONTINUED)

(b) Exploration 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 (excluding obligations farmed out under joint venture arrangements) will be approximately:

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
Within one year	336,100	336,100	237,400	237,400
After one year but not more than five years	1,344,400	1,344,400	949,600	949,600
	1,680,500	1,680,500	1,187,000	1,187,000

(c) Southdown Project Acquisition Expenditure Commitments

Under the terms of a purchase agreement with Global Doctor Pty Ltd, a wholly owned subsidiary of MedAire Inc., the Company secured the right to acquire the Southdown Magnetite Project ("Southdown"). In accordance with the staggered purchase arrangement, as detailed in the purchase agreement, the Company is committed to expend \$1,000,000 upon the commencement of commercial mining operations at Southdown.

(d) Malaysian Land Acquisition Expenditure Commitments

Under the terms of a Heads Of Agreement ("HOA") executed in February 2005, the Company is required to pay Road Builder (M) Holdings Bhd ("Road Builder") a total of RM 866,400 (approx \$US228,000) in consideration for the granting of an exclusive land option in the Malaysian port of Kemaman. The total consideration was payable in four instalments. As at the date of this report, the Company paid the fourth and final instalment, of RM 288,800 (approx US\$76,000) in August 2006.

NOTE 21. SHARE BASED PAYMENT PLANS

Grange Resources Limited Directors' & Officers' Option Plan

In July 2002 the Company established the Grange Resources Directors' and Officers' Option Plan ("Plan") where Grange may at the discretion of management and directors, grant options over the ordinary shares of Grange to directors, executives and eligible full-time staff of the Group. The maximum number of options issued must not exceed 10% of the total number of fully paid shares on issue. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Grange, although the Remuneration Committee and management of Grange retain the final discretion on the issue of the options. Options issued pursuant to the Plan cannot be transferred and will not be quoted on the Australian Stock Exchange Limited.

The expense recognised in the income statement in relation to share-based payments is disclosed in note 3(e).

(a) Plan options held at the beginning and end of the reporting period

The following table summaries information about options held by a director during the year:

Number of Options	Grant Date	Vesting Date	Expiry Date	Exercise Price
1,500,000	29 Apr 2004	Grant date	30 June 2007	\$0.50
1,500,000	2 May 2005	Southdown project approvals	30 June 2007	\$1.25
1,500,000	2 May 2005	Southdown project commencement	30 June 2008	\$1.50
1,000,000	2 May 2005	Payment of \$0.05 dividend	30 June 2011	\$2.50

The fair value of the equity-settled share options granted under the option plans is estimated as at the date of grant using the binomial model taking into account the terms and conditions upon which the options were granted.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 21. SHARE BASED PAYMENT PLANS (CONTINUED)

The following table lists the inputs to the model used for the years 30 June 2005 and 30 June 2006:

	2006	2005
Dividend yield	0%	0%
Expected volatility	50%	50%
Risk-free interest rate	5.15%	5.15%
Expected life of option	1,2,5 years	1,2,5 years

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options were incorporated into the measurement of fair value.

NOTE 22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent Liabilities

Bank Guarantees

At year end 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 \$1,233,858 (2005: \$1,233,858), in relation to the rehabilitation of the Highway Reward project.

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 Western Australia, any sum to a maximum aggregate amount of \$327,500 (2005: \$327,500), in relation to the rehabilitation of the Horseshoe Lights Mine.

A Bank guarantee has been provided by Grange Resources Limited, on demand by Road Builder (M) Holdings Bhd for the amount of \$1,000,000 (2005: \$1,000,000), in accordance with the terms of a Heads of Agreement dated 17 February 2005 to acquire land in the Malaysian port city of Kemaman and to secure port facilities.

A Bank guarantee has been provided by Grange Resources Limited, on demand by the Perth Diocesan Trustees for the amount of \$135,072 (2005: \$135,072), in accordance with the terms of an office lease agreement dated 20 July 2005 to lease office premises in QBE House.

No material losses are anticipated in respect of any of the above contingent liabilities.

(b) Contingent Assets

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

NOTE 23. SUBSEQUENT EVENTS

On 15th June 2006 the plaint for forfeiture of the Horseshoe Lights Mining Lease M52/743 was dismissed in the Warden's Court. On 21st July 2006 the plaintiffs obtained an order nisi from the Supreme Court for the judicial review of the Warden's decision by the Court of Appeal. Grange through its subsidiary Horseshoe Gold Mine Pty Ltd is opposing the order for judicial review and the matter is likely to be heard in early 2007.

On the 7th July 2006 a meeting of the members of Murchison Copper Mines Pty Ltd was held at which the incumbent directors of the company were replaced by Geoffrey Lloyd Warburton Wedlock, Alexander Henry Nutter and Derek Macauley. The new Directors intend to evaluate the development of a copper tailings and stockpiles treatment operation at the Horseshoe Lights Mine as soon as the matters on Mining Lease M52/743 are favourably resolved.

NOTE 24. EARNINGS PER SHARE

	Consolidated	
	2006 \$	2005 \$
Basic earnings per share	2.04	(7.27)
Diluted earnings per share	2.04	(7.27)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

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

Profit/(loss) attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share

1,935,930	(5,273,301)
-----------	-------------

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

Weighted average number of shares used as the denominator in calculating basic earnings per share

95,034,974	72,527,067
------------	------------

Effect of dilution:

Share options

-	-
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Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share

95,034,974	72,527,067
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Potential ordinary shares relating to options in issue are not considered dilutive and have therefore been excluded from the calculation of diluted earnings per share.

Conversions, calls, subscription or issues after 30 June 2006

Since the end of the financial year, there have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares and before the completion of this financial report.

NOTE 25. REMUNERATION OF AUDITORS

	Consolidated		Grange Resources Limited	
	2006 \$	2005 \$	2006 \$	2005 \$
The auditor of Grange Resources Limited is Ernst & Young.				
<i>Amounts received or due and receivable by Ernst & Young:</i>				
- an audit or review of the financial report of the entity and any other entity in the Group	45,000	34,200	45,000	32,400
- tax compliance	156,019	123,467	156,019	123,467
	201,019	157,667	201,019	155,867

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 26. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

Directors

A Bohnenn	Chairman (non-executive)
G L W Wedlock	Managing Director
A H Nutter	Director
R Krasnoff	Director (non-executive)
H R Moser	Director (non-executive)

Executives

C Bryant	Senior Geologist: resigned 30 June 2006
B Chau	Group Financial Accountant: resigned 7 April 2006
S Hall	General Manager – Business Development: appointed 8 August 2005
N Marston	General Manager – Commercial & Company Secretary: appointed 21 July 2006 (formerly Project Manager: appointed 1 September 2004)
M Muirhead	Group Accountant: appointed 26 April 2006
A Pismiris	Company Secretary: resigned 16 September 2005
M Smith	Company Secretary: resigned 21 July 2006

(b) Compensation of Key Management Personnel

Remuneration philosophy

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

- provide competitive rewards to attract executives;
- link executive rewards to shareholder value; and
- establish performance hurdles in relation to variable executive remuneration.

Remuneration committee and remuneration policy

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the managing director and executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior executives on an annual basis by reference to relevant employment market conditions and considers advice from external consultants with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Executives are given the opportunity to receive their base emolument in a variety of forms, including cash and fringe benefits, such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to their individual performance and the Group's financial and operational performance. The criteria considered by the remuneration committee include those relating to profitability, cash flow, share price growth and individual performance.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate and distinct.

NOTE 26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 4 November 1999 when shareholders approved an aggregate remuneration of \$150,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. An additional fee may be payable for each board committee on which a director sits which recognises the additional time required by directors who serve on one or more sub committees. At this time there are no additional fees paid to directors who serve on sub committees.

Non-executive directors are not required to hold shares in the Company, however it is considered good governance for directors to have a stake in the Company whose board on which they sit. The non-executive directors are entitled to participate in the Grange Resources Limited Directors' and Officers' Option Plan which provides incentives where specified criteria are met.

Details of the nature and amount of each element of the emolument of each director of the Company and the most highly paid executive officer of the Company and of the Group paid or payable by the Group during the financial year are as follows.

The remuneration of non-executive directors for the period ending 30 June 2006 is outlined in Table 1 of this report.

Executive director and senior executive remuneration

Objective

The Company aims to reward executives with a level and combination of remuneration commensurate with their position and responsibilities within the Company that:

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

Structure

In determining the level and components of executive remuneration, the Remuneration Committee considers independent advice from external consultants in the form of reports detailing market levels of remuneration for comparable executive roles.

It is the policy of the Remuneration Committee that employment contracts are entered into with all executive directors and senior executives.

Remuneration consists of the following elements:

- Fixed remuneration
- Variable remuneration (which includes short term and long term incentive)

The proportion of fixed remuneration and variable remuneration including incentives is established for each senior executive by the Remuneration Committee.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

Fixed Remuneration

Objective

The level of fixed remuneration is established to provide a base level of remuneration which is both appropriate to the component and competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of individual performance, relevant comparative remuneration in the market and internal policies and practices. As noted previously, the Remuneration Committee considers advice from external advice which is independent of management.

Structure

Senior executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. The manner of payment chosen is optimal for the recipient without creating any undue cost for the Company.

Variable Remuneration – Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives responsible for meeting those targets.

Structure

Actual STI payments granted to senior executives depend on the extent to which specific operating targets set from time to time are met. The operational targets consist of both financial and non financial measures of performance. Typically included are measures such as net profit after tax, risk management and overall contribution.

The aggregate STI payments available for executives are subject to the approval of the Remuneration Committee with payments usually made as a cash bonus.

Operational Targets

Operational targets that senior executives have been striving to achieve during the period have been:

- Satisfactory completion of the Southdown Magnetite and Kemaman Pellet Plant bankable feasibility study;
- Completion of Resource drilling at Southdown;
- Lodgement of the Southdown Public Environmental Review documentation;
- Completion of negotiations for the Southdown slurry pipeline easement;
- Successful negotiation of a Pioneer Status package for the Kemaman Pellet Plant, and
- Acquisition of a suitable iron ore or coal project in Malaysia or elsewhere in SE Asia.

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI program is to reward senior executives in a manner that aligns this element of remuneration with the creation of long term shareholder wealth.

Structure

LTI grants to executives are delivered in the form of an entitlement to participate in the Grange Resources Limited Directors' and Officers' Option Plan.

The Company utilises the LTI program to link remuneration with the attainment of key performance hurdles in particular with the development of projects. The use of this performance based program ensures an alignment between comparative shareholder return and reward for executives.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)



NOTE 26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Compensation of Key Management Personnel - Directors

		Salary & Fees	Short Term		Post Employment Super'n	Share-Based Payments	Total	% Perf. Related
			Cash Bonus	Non Cash Bonus				
		\$	\$	\$	\$	\$	\$	
Directors								
Current								
A Bohnenn (Appointed: 1 July 2002)	2006	68,206	-	-	-	-	68,206	-
	2005	56,667	-	-	-	-	56,667	-
R Krasnoff (Appointed: 16 June 2005)	2006	-	-	-	47,163	-	47,163	-
	2005	-	-	-	1,887	-	1,887	-
A H Nutter (Appointed: 24 February 1998)	2006	100,856	15,000	-	107,722	-	223,578	6.71%
	2005	99,899	-	-	104,652	-	204,551	-
G L W Wedlock (Appointed: 23 February 2005)	2006	317,702	75,000	-	28,593	338,080	759,375	54.40%
	2005	225,692	-	-	20,312	180,000	426,004	-
H R Moser (Appointed: 15 November 1999)	2006	23,000	-	-	-	-	23,000	-
	2005	23,000	-	-	-	-	23,000	-
Former								
A Rankine-Wilson (Resigned: 17 May 2005)	2006	-	-	-	-	-	-	-
	2005	379,661	-	-	21,872	-	401,533	-
Total Remuneration: Directors	2006	509,764	90,000	-	183,478	338,080	1,121,322	38.18%
	2005	784,919	-	-	148,723	180,000	1,113,642	-

Compensation of Key Management Personnel - Executives

		Salary & Fees	Short Term		Other	Post Employment Super'n	Share-Based Payments	Total	% Perf. Related
			Cash Bonus	Non Cash Bonus					
		\$	\$	\$	\$	\$	\$		
Executives									
Current									
S Hall (Appointed: 8 August 2005)	2006	59,022	15,000	-	-	119,255	-	193,277	7.76%
	2005	-	-	-	-	-	-	-	-
N Marston (Appointed: 21 July 2006)	2006	129,327	20,000	-	-	11,639	-	160,966	12.42%
	2005	87,404	-	-	-	7,866	-	95,270	-
M Muirhead (Appointed: 26 April 2006)	2006	15,179	-	-	-	1,366	-	16,545	-
	2005	-	-	-	-	-	-	-	-
Former									
C Bryant (Resigned: 30 June 2006)	2006	144,337	10,000	-	-	12,669	-	167,006	5.99%
	2005	93,230	-	-	-	8,158	-	101,388	-
B Chau (Resigned: 7 April 2006)	2006	69,431	-	-	84,906	4,702	-	159,039	-
	2005	68,512	-	-	-	6,166	-	74,678	-
A C Pismiris (Resigned: 16 September 2005)	2006	45,364	-	-	-	21,310	-	66,674	-
	2005	121,333	-	-	-	36,177	-	157,510	-
M Smith (Resigned: 21 July 2006)	2006	44,154	10,000	-	-	81,154	-	135,308	7.39%
	2005	-	-	-	-	-	-	-	-
Total Remuneration: Executives	2006	506,814	55,000	-	84,906	252,095	-	898,815	6.12%
	2005	370,479	-	-	-	58,367	-	428,846	-

Notes:

- Unless otherwise disclosed, the beginning of the reporting period is 1 July 2005 (2005: 1 July 2004). Where a Director or Executive was appointed during the year, the beginning of the reporting period is the date of appointment;
- Unless otherwise disclosed, the end of the reporting period is 30 June 2006 (2005: 30 June 2005). Where a Director or Executive resigned during the year, the end of the reporting period is the date of resignation.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Compensation by Category: Key Management Personnel

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-term	1,161,678	1,155,398	1,161,678	1,155,398
Post employment	435,573	207,090	435,573	207,090
Long-term	-	-	-	-
Retirement benefits	-	-	-	-
Termination benefits	84,906	-	84,906	-
Share-based payments	338,080	180,000	338,080	180,000
	2,020,237	1,542,488	2,020,237	1,542,488

(c) **Compensation Options: Granted and vested during the year**

During the year, no compensation options were granted or vested.

(d) **Shares issued on exercise of compensation options**

No shares were issued on the exercise of compensation options during the year.

(e) **Option holdings of Key Management Personnel**

	Balance at 1 July 2005	Granted as compensation	Options exercised	Balance at 30 June 2006	Vested at 30 June 2006
Directors					
G L W Wedlock	5,500,000	-	-	5,500,000	-
	5,500,000	-	-	5,500,000	-

All compensation options issued to the managing director will vest on the Company achieving key milestones associated with development of the Southdown Magnetite Project.

(f) **Shareholdings of Key Management Personnel**

	Balance at 1 July 2005	Granted as compensation	Options exercised	Balance at 30 June 2006	Vested at 30 June 2006
Directors					
A Bohnenn	12,746,038	-	-	524,300	13,270,338
A H Nutter	944,999	-	-	-	944,999
G L W Wedlock	104,000	-	-	-	104,000
H R Moser	4,310,450	-	-	100,000	4,410,450
R Krasnoff	-	-	-	50,000	50,000
	18,105,487	-	-	674,300	18,779,787
Executives					
N Marston	740	-	-	(740)	-
	740	-	-	(740)	-

NOTE 26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(f) Shareholdings of Key Management Personnel (continued)

All equity transactions with directors and executives have been entered into under terms no more favourable than those the entity would have adopted if dealing at arms length.

(g) Other transactions with Directors & Executives

Fees of \$60,000 (2005: \$60,000) were paid to Hendygywn Holding & Beheer b.v., of which Mr A Bohnenn is a director and shareholder, under a marketing and public relations services agreement.

(h) Employment Contracts with Directors and Executives

Except as discussed below, the following Directors and Executives are employed under contracts of employment for periods of three years:

- A Nutter (Technical Director)
- S Hall (General Manager – Business Development)
- N Marston (General Manager – Commercial)
- M Muirhead (Group Accountant)

The employment contracts have standard commercial terms, including:

- Participation in the Grange Staff Bonus Scheme being a share of the bonus pool as determined by the Remuneration Committee and Board of the Company.
- The Director or Executive may resign from their position and thus terminate their employment agreement by providing three months written notice.
- On resignation any options will be forfeited.
- The company may terminate the employment agreement by providing three months written notice or by providing payment for the lesser of twelve months or the unexpired period of this agreement in lieu of giving notice, the agreement will then terminate upon such payment being made.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Director or Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Managing Director

The Managing Director, Mr Wedlock is employed under contract. The current employment contract commenced on 1 March 2005 and terminates on 29 February 2008, at which time the Group may choose to commence negotiation to enter into a new employment contract with Mr Wedlock.

- Mr Wedlock receives fixed remuneration of \$370,000 per annum plus 9% superannuation.
- The contract provides for participation in the Grange Staff Bonus Scheme being a share of the bonus pool as determined by the Remuneration Committee and Board of the Company.
- Following the agreement entered into by Mr Wedlock and the Company on 26 April 2005 and following shareholder approval, Mr Wedlock was granted the following option package on 2 May 2005:
 - (i) 1,500,000 incentive options exercisable at \$1.25 on or before 30 June 2007. These unlisted options will not vest until Mr Wedlock has achieved Southdown project approvals
 - (ii) 1,500,000 incentive options exercisable at \$1.50 on or before 30 June 2008. These unlisted options will not vest until Mr Wedlock has achieved Southdown project commencement;
 - (iii) 1,000,000 incentive options exercisable at \$2.50 on or before 30 June 2011. These unlisted options will not vest until Mr Wedlock has achieved a payment of \$0.05 dividend.
- Mr Wedlock may resign from his position and thus terminate his employment agreement by providing three months written notice.
- On resignation any options will be forfeited.
- The company may terminate this employment agreement by providing three months written notice or by providing payment for the lesser of twelve months or the unexpired period of this agreement in lieu of giving notice, the agreement will then terminate upon such payment being made.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 27. RELATED PARTY DISCLOSURE

Ultimate parent

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

	Consolidated		Grange Resources Limited	
	2006	2005	2006	2005
Wholly-owned group transactions	\$	\$	\$	\$
Aggregate amounts receivable at balance date from:				
Controlled entities (i)	-	-	12,125,241	12,778,190
Provision for non-recovery	-	-	(11,078,949)	(12,092,225)
	-	-	1,046,292	685,965
Aggregate amounts payable at balance date to:				
Controlled entities	-	-	32,406,794	23,013,892
	-	-	32,406,794	23,013,892

(i) Loans from controlled entities are interest free and repayable on demand.

Other related party transactions

Fees of \$60,000 paid to Hendygywyn Holdings and Beheer b.v., of which Mr Bohnenn is a director and shareholder, under a marketing and public relations services agreement.

Transactions with related parties, other than wholly owned subsidiaries, are made under normal commercial terms and conditions unless otherwise stated.

NOTE 28. SEGMENT INFORMATION

(a) Geographic Segments

The Group operates predominantly in one geographic segment, Australia.

(b) Industry Segments

The Group operates predominantly in the mining and exploration industry and has progressively wound up its interests in the technology and financial services industry.

	Mining & Exploration Activities		Financial Services & Technology Activities		Consolidated	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Revenue and other income						
Sales revenue and royalties	9,761,786	6,463,210	-	-	9,761,786	6,463,210
Interest revenue	634,107	645,603	-	-	634,107	645,603
Other income	489,751	27,153	-	-	489,751	27,153
Total segment revenue and other income	10,885,644	7,135,966	-	-	10,885,644	7,135,966
Unallocated revenue					-	-
Total consolidated revenue and other income					10,885,644	7,135,966
Results						
Segment results	1,935,930	(5,247,836)	-	(25,465)	1,935,930	(5,273,301)
Unallocated expenses					-	-
Unallocated revenue					-	-
Group profit/(loss) from ordinary activities before income tax					1,935,930	(5,273,301)
Income tax expense					-	-
Group profit/(loss) from ordinary activities after income tax					1,935,930	(5,093,301)
Assets						
Segment assets	38,766,531	23,625,421	-	67,981	38,766,531	23,693,402
Unallocated assets					-	-
Total assets					38,766,531	23,693,402
Liabilities						
Segment liabilities	4,881,550	4,543,699	-	-	4,881,550	4,543,699
Unallocated liabilities					-	-
Total liabilities					4,881,550	4,543,699

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 28. SEGMENT INFORMATION (CONTINUED)

(b) Industry Segments (continued)

	Mining & Exploration Activities		Financial Services & Technology Activities		Consolidated		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Other segment information:							
Acquisition of equipment, other non current assets	of	intangible	property,	plant	and	and	
		615,050	198,999	-	-	615,050	198,999
Depreciation and amortisation		370,405	832,532	-	-	370,405	832,532
Non cash depreciation and amortisation *	cash	1,421,568	1,855,359	expenses	other	1,421,568	1,855,359

* Non cash expenses include accruals, foreign exchange gain / loss and share-based payments.

NOTE 29. FINANCIAL INSTRUMENTS

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

CONSOLIDATED	Carrying Amount		Fair Value	
	2006 \$	2005 \$	2006 \$	2005 \$
Financial Assets				
Cash	2,087,202	146,092	2,087,202	146,092
Cash – Joint Ventures	218,935	262,037	218,935	262,037
Short term deposits	6,000,000	8,330,665	6,000,000	8,330,665
Trade receivables	3,560,069	1,380,729	3,560,069	1,380,729
Prepayments	53,194	54,018	53,194	54,018
Financial Liabilities				
Trade and other payables	1,165,123	2,505,765	1,165,123	2,505,765
Current income tax liabilities	34,365	34,365	34,365	34,365
PARENT				
Financial Assets				
Cash	2,087,202	76,597	2,087,202	76,597
Short term deposits	6,000,000	4,459,114	6,000,000	4,459,114
Trade receivables	1,327,242	986,736	1,327,242	986,736
Prepayments	53,194	54,018	53,194	54,018
Financial Liabilities				
Trade and other payables	1,022,973	1,459,854	1,022,973	1,459,854
Current income tax liabilities	34,365	34,365	34,365	34,365

Shares in controlled entities are excluded from the above as these are accounted for at cost in accordance with AASB 127.

(a) Financial Risk Management Policy

The Group's principal financial instruments cash, security deposits and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. Being at an exploration stage, the Group has limited exposure to risks arising from the Group's financial instruments.

As the Group moves into a development and production phase the Group's exposure to commodity price risk, foreign currency risk and credit risk are expected to increase significantly. The Board will set appropriate policies to manage these risks dependent on market conditions and requirements at that time.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

NOTE 29. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk

The following table sets out the carrying amount of the financial instruments exposed to interest rate risk:

	2006 Floating Interest Rate \$	2006 Non- Interest Bearing \$	2006 Total \$	2005 Floating Interest Rate \$	2005 Non- Interest Bearing \$	2005 Total \$
CONSOLIDATED						
Financial Assets						
Cash at bank	2,306,137	-	2,306,137	408,129	-	408,129
Cash on deposit	6,000,000	-	6,000,000	8,330,665	-	8,330,665
Receivables	-	3,422,569	3,422,569	-	1,684,184	1,684,184
Security deposits	2,849,180	-	2,849,180	2,856,433	-	2,856,433
	11,155,317	3,422,569	14,577,886	11,595,227	1,684,184	13,279,411
Weighted average interest rate	5.24%			5.24%		
Financial Liabilities						
Trade and other payables	-	1,165,123	1,165,123	-	2,505,765	2,505,765
	-	1,165,123	1,165,123	-	2,505,765	2,505,765
PARENT						
Financial Assets						
Cash at bank	2,087,202	-	2,087,202	76,597	-	76,597
Cash on deposit	6,000,000	-	6,000,000	4,459,114	-	4,459,114
Receivables	-	2,236,034	2,236,034	-	1,672,701	1,672,701
Security deposits	1,272,572	-	1,272,572	1,371,637	-	1,371,637
	9,359,774	2,236,034	11,595,808	5,907,348	1,672,701	7,580,049
Weighted average interest rate	5.36%			5.49%		
PARENT						
Financial Liabilities						
Trade and other payables	-	1,022,973	1,022,973	-	1,459,854	1,459,854
	-	1,022,973	1,022,973	-	1,459,854	1,459,854

b) Net Fair Values

All financial assets and liabilities have been recognised at the balance date at their net fair values

Cash, cash equivalents and security deposits: The carrying amount approximates fair value because of their short term to maturity.

Trade receivable and trade creditors: The carrying amount approximates fair value

c) Credit Risk

The consolidated entities maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

The company minimises concentration of credit risk in relation to trade receivables by undertaking transactions with reputable customers and undertaking reasonable steps to ensue credit worthiness of customers.

NOTE 30. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for period beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First time adoption of AIFRS.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied:

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and Group have adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.
- AASB 2 Share based payment transactions has not been applied to any equity instrument that were granted on or before 7 November 2002 that vested before 1 January 2005.

Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 July 2005 ("AGAAP") are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	30 June 2005	1 July 2004
	\$	\$
CONSOLIDATED		
Total equity under AGAAP	19,149,703	17,138,162
Adjustments to accumulated losses (net of tax)	-	-
Recognition of share-based payment expense (i)	(180,000)	-
Adjustments to other reserves (net of tax)	-	-
Recognition of share-based payment expense (i)	180,000	-
Total equity under AIFRS	19,149,703	17,138,162
PARENT		
Total equity under AGAAP	(5,690,074)	(10,435,257)
Adjustments to accumulated losses (net of tax)	-	-
Recognition of share-based payment expense (i)	(180,000)	-
Adjustments to other reserves (net of tax)	-	-
Recognition of share-based payment expense (i)	180,000	-
Total equity under AIFRS	(5,690,074)	(10,435,257)

(i) Under AASB 2 Share-based payments, the Group recognises the fair value of options granted to executives and directors as remuneration as an expense on a pro rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share-based payments are not recognised under AGAAP.

Management has decided to adopt the AASB 1 First Time Adoption of Australian Equivalent to International Financial Reporting Standards transitional arrangements which allow companies not to fully retrospectively apply AASB 2 Share-based payments. Under the terms of the transitional arrangements the cost of options issued after 7 Nov 2002 which had not vested at 1 Jan 2005 have been recognised in the income statement.

The Company has adopted the exemptions from having to apply AASB 132 and AASB 139 to the comparative period.

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Consolidated 30 June 2005	Parent 1 July 2004
	\$	\$
Profit / (loss) after tax as previously reported	(5,093,301)	(2,359,659)
Share-based payment expense (i)	(180,000)	(180,000)
Net profit under AIFRS	(5,273,301)	(2,539,659)

(i) Share-based payment costs are charged to the income statement under AASB 2 'Share-based payment' but not under AGAAP.

DIRECTORS' DECLARATION



In accordance with a resolution of the Board of Directors of Grange Resources Limited, I state that:

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the Company and of the Group are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; 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.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295(A) of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Bohenn".

ANTHONY BOHNENN
CHAIRMAN

Dated this 29th day of September 2006

Perth, Western Australia

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF GRANGE RESOURCES LIMITED



■ The Ernst & Young Building
11 Aburats Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2446

GPO Box M839
Perth WA 6847

Independent audit report to members of Grange Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Grange Resources Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF GRANGE RESOURCES LIMITED (CONTINUED)



ERNST & YOUNG

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Grange Resources Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Grange Resources Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Handwritten signature of Ernst & Young.

Ernst & Young

Handwritten signature of V W Tidy.

V W Tidy
Partner
Perth
29 September 2006

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 29 September 2006:

ORDINARY SHARES

1. Twenty Largest Shareholders

The twenty largest holders of ordinary fully paid shares are listed below:

Name	Number	%
ANZ Nominees Ltd	32,143,651	33.82
National Nominees Ltd	28,404,188	29.89
Westpac Custodian Nominees Ltd	10,680,193	11.24
Citicorp Nominees Pty Ltd	4,615,404	4.86
Zero Nominees Pty Ltd	1,509,260	1.59
J P Morgan Nominees Australia Ltd	1,043,167	1.10
Mr Hans-Rudolf Moser	860,450	0.91
Mr Alexander Henry Nutter	750,000	0.79
ACP Investments Pty Ltd	600,000	0.63
Dr Salim Cassim	536,308	0.56
Dr Salim Cassim	530,000	0.56
King Chong Chai	470,900	0.50
Mr Antonius Clemens Maria Bohnenn	446,300	0.47
Colvic Pty Ltd	432,593	0.46
Merrill Lynch (Australia) Nominees Pty Ltd	382,331	0.40
Meridan Holdings Pty Ltd	356,000	0.37
Mr King Chong Chau	300,000	0.32
HSBC	274,661	0.29
Machinery Automation & Robotics Pty Ltd	259,824	0.27
Colvic Pty Ltd	207,407	0.22
	84,802,637	89.25

2. Distribution of Shareholders

(a) Analysis of number of shareholders by size and holding:

Category of shareholding	Number of shareholders
1 – 1,000	234
1,001 – 5,000	500
5,001 – 10,000	197
10,001 – 100,000	187
100,001 – and over	27
TOTAL	1,145

(b) There are 45 holders of ordinary shares each holding less than a marketable parcel.

3. Voting Rights

All shares carry one vote per share without restriction.

4. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders is set out below:

Name	Number of fully paid shares \$	Percentage of issued capital \$
Anthony Bohnenn	13,326,338	14.02
RAB Special Situations (Master) Fund Limited	9,000,000	9.47

UNQUOTED SECURITIES

The Company has the following unquoted securities on issue:

Class of Security	Number of securities on Issue	Number of security holders
50 cent options expiring 30 June 2007	1,500,000	1
\$1.25 options expiring 30 June 2007	1,500,000	1
\$1.50 options expiring 30 June 2007	1,500,000	1
\$2.50 options expiring 30 June 2007	1,000,000	1

TENEMENT LISTING

AS AT 31 AUGUST 2006

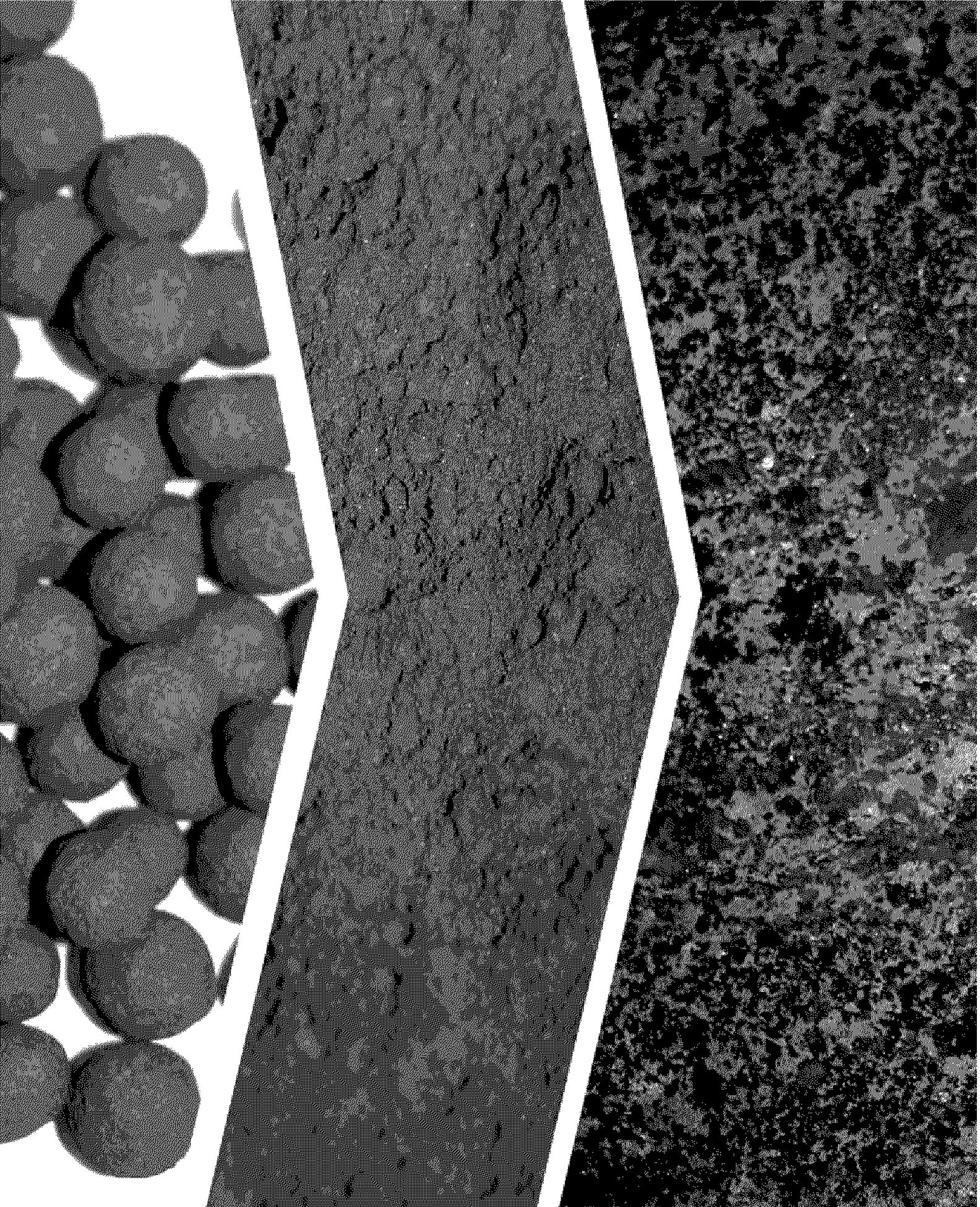
PROSPECT	TENEMENT	INTEREST	PROSPECT	TENEMENT	INTEREST
Western Australia			Queensland		
Horseshoe Lights	L52/42-45	0% (1)	Mt Windsor JV	ML 1571	30% (10)
	L52/66	0% (1)		ML 1734	30% (10)
	M52/743	0% (1)		ML 1739	30% (10)
	M52/744	0%(1) (2)		ML 10028	30% (10)
				ML 1758	30% (10)
Thaduna	M52/165	0% (1) (4)		EPM 14537	30% (10)
Green Dragon	M52/180	0% (1) (4)			
			Northern Territory		
Wembley	M52/801	100% (3)(5)	Mt Samuel	MLC 49	50% (11) (14) (15)
	M52/587	100%(2)(3)(5)		MLC 527	100% (14) (15)
				MLC 599	85% (12) (14) (15)
Horseshoe South	M52/558	100% (2)		MLC 617	85% (12) (14) (15)
	M52/585	100% (2)		MLC 678-681	85%(12) (2) (15)
				MCC 174	100% (13) (15)
Abercromby Well JV	M53/336	10% (6)		MCC 212	85% (12) (13) (15)
				MCC 287-288	100% (13) (15)
Red Hill	M27/57	(7)		MCC 308	85% (12) (15)
				MCC 344	100% (14) (15)
Horseshoe South West	M52/651	100% (2)			
			The Trump	MCC 316-317	100%(14) (15)
Freshwater	M52/277-281	(8)		MCC 340-341	100%(14) (15)
	M52/285	(8)			
	M52/295-296	(8)	True Blue	MCC 342	100%(14) (15)
	M52/299-301	(8)		MLC 619	85% (12)(14) (15)
	M52/305-306	(8)			
	M52/368-370	(8)	Aga Khan	MLC 522	100%(14) (15)
Southdown	M70/433	100% (9)	Black Cat	MCC 338-339	100%(14) (15)
	M70/718	100% (9)			
	M70/719	100% (9)	Malaysia		
	L70/97	100% (2)	Bukit Ibam	PP01/2005	51% (16)
	L70/98	100% (2)			
	G70/217	100% (2)			

Notes:

1. Subject to exercise of option by Murchison Copper Mines Pty Ltd
2. Under application.
3. Subject to option agreement with Gleneagle Gold Limited
4. Subject to 5% Net Smelter Return royalty with Trans-Global Resources NL.
5. Subject to 1% Net Smelter Return royalty with Lac Minerals (Australia) NL.
6. Subject to joint venture agreement with MPI Nickel Pty Ltd.
7. Royalty interest with Barrick (PD) Australia Limited.
8. Royalty interest with Barrick Gold of Australia Limited.
9. Subject to conditional purchase agreement with Global Doctor Pty Ltd
10. Subject to joint venture agreement with Thalanga Copper Mines Pty Limited.
11. Subject to joint venture agreement with Santexco Pty Ltd.
12. Subject to joint venture agreement with W. & L.D.C. Appel.
13. Subject to option agreement with J.L. Love & G.P. Hamilton.
14. Subject to 2% Net Profit Royalty with Lytton Nominees Pty Ltd and Moubion Pty Ltd.
15. Subject to Farm in agreement with Westgold Resources NL
16. Subject to joint venture agreement with Esperance Mining Sdn Bhd.

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