DE GREY MINING LIMITED

ANNUAL REPORT | 2006

THE BOLD EXPLORER

Contents

De Grey Mining Limited

ABN 65 094 206 292

Cover photo: Scenery from De Grey Mining Limited's Turner River Project.

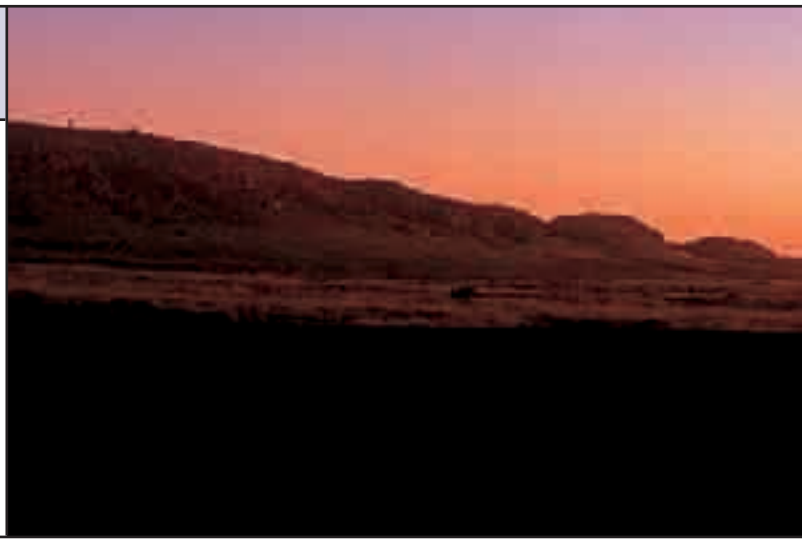
COMPANY PARTICULARS

Directors	Campbell Ansell *(Chairman)* Darren Townsend *(Managing Director)* Denis O'Meara Gary Brabham Craig Oliver
Exploration Manager	Dave Hammond
Chief Geologist	David Ross
Company Secretary	Dennis Wilkins
Registered Office	5 Bishop Street Jolimont WA 6014 Telephone: +61 8 9285 7500 Facsimile: +61 8 9285 7599

Share Registry	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross WA 6153 Telephone: +61 8 9315 2333 Facsimile: +61 8 9315 2233
Auditors	Butler Settineri 35-37 Havelock Street WEST PERTH WA 6005
ASX Listing	The Company is listed on the Australian Stock Exchange Limited Home Exchange: Perth ASX Code: Shares DEG Options: DEGO

Web: www.degreymining.com.au

2006 SUMMARY



Highlights

- Discovery of a new Volcanogenic Massive Sulphide (VMS) belt at the Turner River Project.
- Identification of five zinc and silver rich mineralised zones along the new VMS belt. Best intersections include:
  - 17 metres at 4.64% zinc, 124g/t silver, 1.84% lead, 0.80g/t gold and 0.17% copper including a high grade intersection of:

    4 metres at 12.04% zinc, 294g/t silver, 4.19% lead, 1.15g/t gold and 0.35% copper
  - 21 metres at 4.65% zinc, 137g/t silver, 2.10% lead, 1.08g/t gold and 0.08% copper including a high grade intersection of:

    4 metres at 10.58% zinc, 309g/t silver, 5.90% lead, 3.15g/t gold and 0.15% copper
- Restructuring of the Board to add further technical expertise.
- Encouraging gold results from early phase gold exploration at the T1 Prospect.

Overview

With the discovery of the new VMS belt at Turner River, exploration activity is currently increasing. In a little over twelve months De Grey has discovered five zinc and silver rich mineralised zones. The current focus of the Company is to work towards identifying a critical mass of base and precious metal resource drilling targets.


De Grey Mining Limited
Broome
Port Hedland
Turner River
(Base Metals and Gold)
Dampier
Marble Bar
Newman
Beyondie
(Base and Precious Metals)
Carnarvon
Meekatharra
Wiluna
Agnew
Laverton
Leonora
Geraldton
Southern Cross
Kalgoorlie
Perth
Norseman
Esperance
Albany
0
500km

CHAIRMAN'S REPORT

In the 2007 year De Grey is budgeting to significantly increase its exploration effort with the aim of proving a critical mass of resource drilling targets at Turner River.

Dear fellow shareholders,

The 2006 financial year was one of the most significant years in De Grey's short history with the discovery by the company of a new Volcanogenic Massive Sulphide (VMS) belt at the Turner River Project in the Pilbara and the reconstruction of the Board following the resignation of two of our founding directors and a changed role for Denis O'Meara whose prospecting prowess was the genesis of the Company.

Due to the resignations and the changed role for Denis we had to recruit fresh, relevant experience to the Board at a critical time as we accelerate a major exploration program aimed at identifying resource drilling targets at Turner River.

I now have the privilege of being your Chairman following the resignation of Ron Manners. Michael Baker who was one of the founding directors has also resigned and Denis O'Meara has become a non executive director.

Importantly, Darren Townsend, previously our General Manager of Operations, has been appointed Managing Director. Darren is an experienced Mining Engineer who has performed exceptionally in the short time he has been with the Company.

Gary Brabham was appointed a non-executive director in November 2005 and Craig Oliver was appointed a non-executive director in April this year.

Gary Brabham, who is a Geologist, brings over 25 years experience in the mining industry and specialist skills in gold and base metals exploration, structural geology, project generation and feasibility studies to the Board.

Craig Oliver is a Chartered Accountant with more than 15 years of corporate, project development and operational experience in mid-cap mining companies. Craig has specialist skills in debt and equity raisings and asset acquisitions and disposals.

All members of our Board and the members of our Management team have extensive practical experience in all aspects of mineral exploration, project development, operational management and

project financing and are well equipped to guide the company as it focuses strongly on its aim of becoming a producer.

But activity in 2006 was not confined to the Board room. Our major assets are the Turner River Project, 60 kilometres south of Port Hedland and the Beyondie Base and Precious Metals Project, 160 kilometres south of Newman.

The Turner River Project, comprising 1,200 square kilometres of 100% owned tenements and an additional 126 square kilometres of joint-ventured tenements, includes Wingina Well where so far we have identified a JORC compliant resource of 203,000 ounces of gold, a number of gold drilling targets and the newly discovered VMS belt with five distinct mineralised zones over a 20 kilometre strike length.

The 2,100 square kilometre Beyondie Base and Precious Metals Project, which is also 100% owned, is a greenfields location subjected so far to very light exploration which has indicated the potential for base and precious metals mineralisation.

At the Turner River Project De Grey drilled 56,000 metres of RAB, Aircore and RC holes during the year resulting in the discovery of the new VMS belt which, when combined with the gold targets already identified, points to a very bright future for your Company.

In the 2007 year De Grey is budgeting to significantly increase its exploration effort with the aim of proving a critical mass of resource drilling targets at Turner River. We are also planning to step up exploration at Beyondie and I believe 2006-07 will be a good year for shareholders.

During the year De Grey raised more than $9 million from the exercise of its July 2005 options and this combined with a recent share placement for $2 million dollars has been used to fund the accelerating exploration program.

I would like to thank my fellow directors and De Grey's small band of employees for their support and look forward to continuing success in the current year.

Campbell Ansell, Chairman
September 2006

MANAGING DIRECTOR'S REPORT

With such attractive exploration targets De Grey is well placed to capitalise on a unique situation in which we hold most of the ground in a potentially very significant mineralised area.

In exploration terms the 2005-06 financial year was highly successful for De Grey with the discovery of a new Volcanogenic Massive Sulphide (VMS) belt at Turner River in the Pilbara.

VMS deposits are an attractive exploration target because of their multi-element nature and high grades, which result in high contained values of metal. VMS deposits are also found in clusters within belts of favourable geology.

In a little over twelve months since this new VMS discovery De Grey has already identified five mineralised zones along twenty kilometres of the new belt.

De Grey shareholders are in the fortunate position of being owners of a company with access to over 50 kilometres of this new VMS belt. Shareholders are reminded that despite our exploration programs at Turner River over the past four years, much of the VMS belt we hold has so far had little or no exploration.

De Grey is part way through implementing an accelerated exploration program consisting of a number of geophysical and geochemical surveys. This work is helping to target the drilling programs and this financial year's aim is to identify a critical mass of resource drilling targets along the VMS belt.

With such an attractive exploration target De Grey is well placed to capitalise on a unique situation in which we hold most of the ground in a potentially very significant mineralised area.

We are tackling this task with an exploration team and systems of work that in my opinion are amongst the best around.

De Grey is also the owner of a number of extremely attractive gold targets at Turner River and this year a portion of our efforts will be focused on developing these targets

The Chairman has already mentioned the restructuring of our board in the wake of the resignations of two of our founding directors and the decision of our original founder, Denis O'Meara to step down as Managing Director.

On the Management side we have also appointed David Hammond, a highly experienced exploration geologist to the position of Exploration Manager for the Company. Dave brings a wealth of experience in discovering ore bodies to De Grey and complements our Chief Geologist, David Ross and his team.

In addition we have recently appointed Anna Price to our exploration team. Anna is an experienced geologist whose principal responsibility will be to advance the Beyondie Base and Precious Metals Project.

My personal thanks go to our former chairman, Ron Manners. and our former director and joint founder, Michael Baker for their support and efforts during De Grey's formative years.

On the corporate front I would also like to thank our shareholders for their ongoing support and patience. I am confident that shareholders will see the benefit of the expanded exploration programs in place.

Special thanks also to all our staff, consultants and directors for their efforts this year. I would also like to express thanks to all the pastoralists on whose stations we operate with a special thanks to Colin and Betty Brierly, of Indee Station and Kevin and Melanie Dean at Wallareenya Station. I would also like to extend thanks to the traditional owners of the areas we operate in, namely the Kariyarra, Njamal and Gingirana people.

Darren Townsend, Managing Director
September 2006

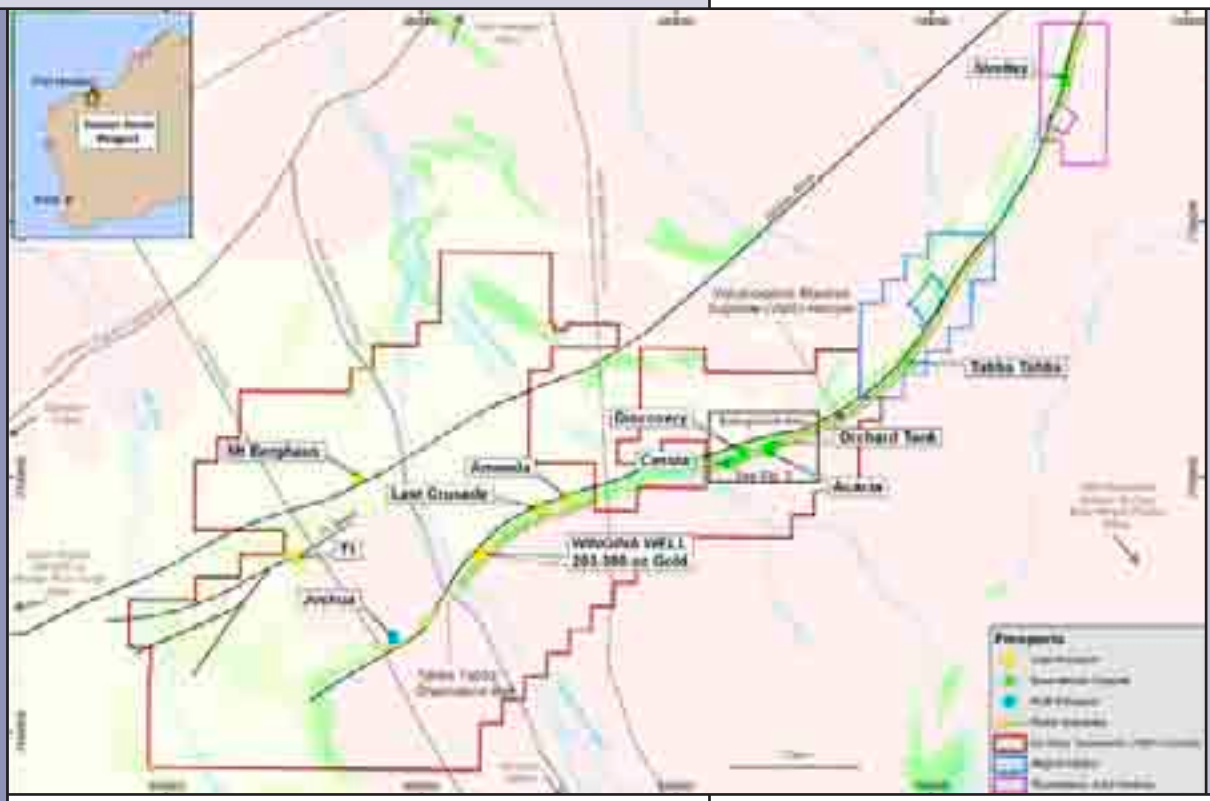


Figure 1: Turner River Project – Prospect location map

TURNER RIVER PROJECT

Located 60 kilometres south of Port Hedland in the Pilbara region of Western Australia, the Turner River Project covers an area of 1,340 square kilometres. An additional 126 square kilometres was added to the Project in 2006 through a new exploration Joint Venture and an Option Agreement.

During the 2005-06 financial year De Grey discovered a major new region of poly-metallic base and precious metal mineralisation at Turner River.

Turner River is particularly well-endowed with a variety of mineralisation styles including gold and PGE's in addition to the new poly-metallic discoveries (zinc, silver, lead, gold and copper). The Project contains the 203,300oz Wingina Well Gold Deposit as well as other high priority gold prospects containing significant high grade drill intersections. Platinum group mineralisation has also been identified at the Three Kings Prospect. Residual prospectivity at Turner remains high for all these commodities with large areas under cover not yet tested.

Exploration progress and results for the 2005-06 year are summarised below by exploration target.

Turner River Base and Precious Metals Exploration

The highlight of the year's exploration was the discovery of a new poly-metallic volcanogenic massive sulphide (VMS) belt within De Grey's large landholding.

Significant intersections of zinc-silver-lead-gold-copper were returned from early RC drilling to 200 metres vertical depth. Five separate zones of sulphide mineralisation have currently been identified over a strike length of 20 kilometres from the Cassia to Tabba Tabba Prospects (Figure 1).

Mineralisation is open down-dip and in many cases also along strike. RC and diamond drilling is continuing at each prospect.

The steeply dipping mineralisation is hosted within foliated sericite-altered felsic schist (originally felsic volcanic units). Zinc and silver constitute the main economic minerals accompanied by significant associated lead and gold with minor copper.

The new discoveries are particularly significant as it is the first time VMS style mineralisation has been discovered in this part of the Pilbara Craton. VMS deposits can be high value due to their grade and poly-metallic nature.

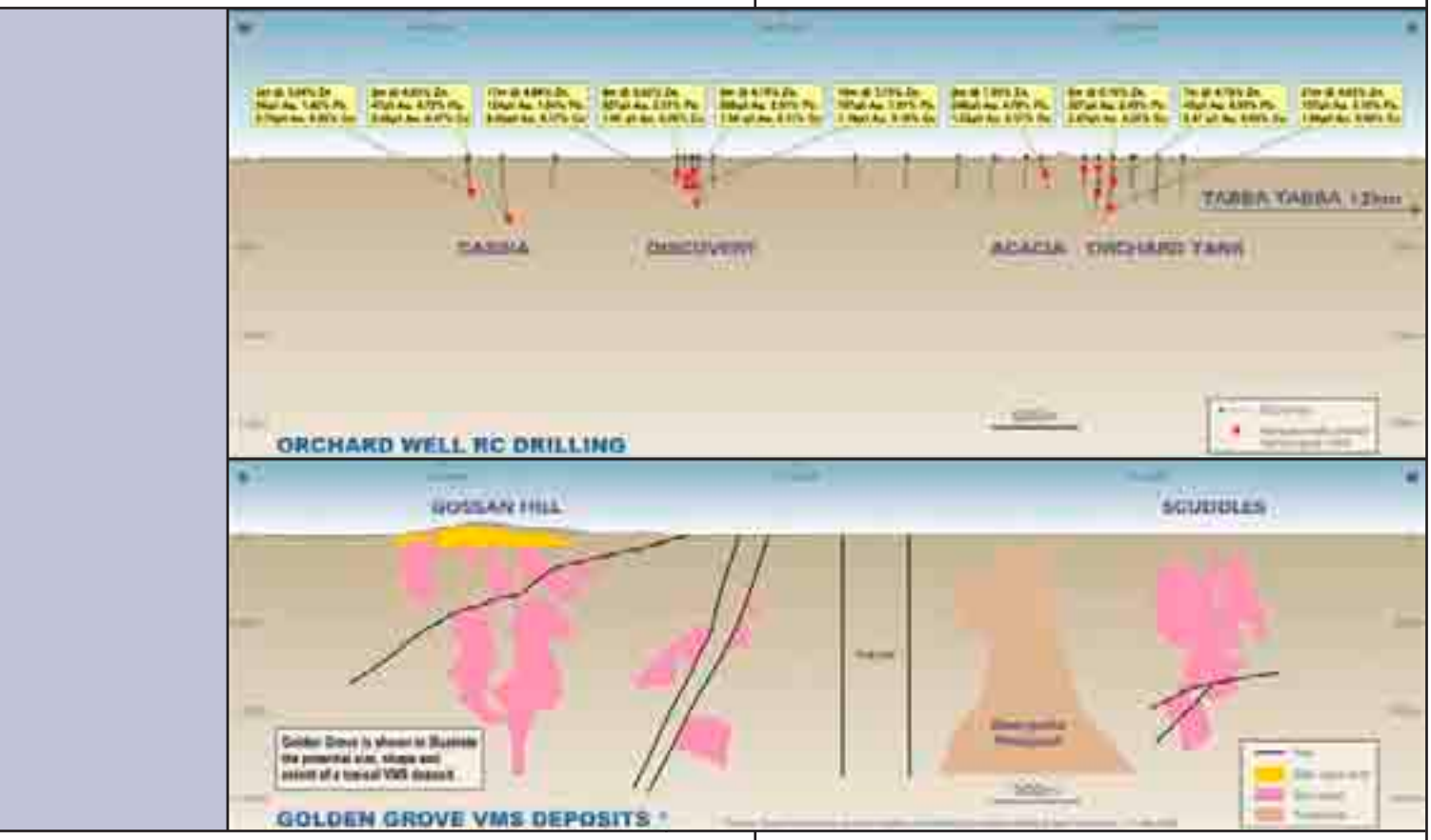


Figure 2: Orchard Well RC results in comparison with a typical VMS Deposit

De Grey is well-placed to gain value from this discovery as it holds tenements over a total strike length of 75 kilometres along the Tabba Tabba Greenstone Belt, a northeast to southwest orientated linear belt of bimodal volcanic, chert and meta-sedimentary Archaean lithologies. The majority of the belt remains unexplored for VMS-style mineralisation.

Regional exploration programs are scheduled to evaluate this greater region as VMS deposits are known to occur in irregular clusters. Typically, four to eleven individual deposits may be present in each VMS mining camp over total strike lengths of 10 to 40 kilometres. Examples in Australia include Golden Grove (Oxiana Ltd) and Jaguar-Teutonic Bore (Jabiru Metals Ltd) in Western Australia and Rosebery (Zinifex Limited) in Tasmania. De Grey are optimistic that further zones of mineralisation may be discovered. Figure 2 illustrates the early stage of De Grey's exploration versus the geometry and extent of Oxiana's Golden Grove VMS deposits.

The initial RC drilling completed to date has returned zinc-silver-lead-gold-copper mineralisation from five areas named, from west to east, (Figure 3) the Cassia, Discovery, Acacia, Orchard Tank and Tabba Prospects.

Discovery Prospect

Mapping and rock sampling of an area of high lead and zinc identified from a surface geochemical lag sampling program resulting in the discovery of a gossan that returned a sample of 10.5g/t gold and 626g/t silver. Initial RAB drilling defined a notable gold-silver supergene enrichment zone with partially depleted zinc and lead to approximately 60 metre depth (Figure 4). Intersections included:

Drill Hole	Intersection
WARB418:	11 metres at 2.81% zinc, 94g/t silver, 1.75% lead, 3.17g/t gold and 0.18% copper from 3 metres
WARB419:	15 metres at 3.03% zinc, 192g/t silver, 1.25% lead, 3.41g/t gold and 0.38% copper from 25 metres

Follow up RC drilling beneath this weathered zone intersected significant zinc-silver-lead-gold sulphide mineralisation including:

WARC009:	13 metres at 3.11% zinc, 58g/t silver, 1.36% lead, 1.19g/t gold and 0.19% copper from 179 metres
WARC014:	9 metres at 4.79% zinc, 200g/t silver, 2.01% lead, 1.50g/t gold and 0.11% copper from 83 metres

Drill Hole	Intersection
WARC022:	16 metres at 3.79% zinc, 167g/t silver, 1.81% lead, 1.19g/t gold and 0.16% copper from 165 metres including a high grade intersection of:

3 metres at 11.23% zinc, 308g/t silver, 5.62% lead, 2.20g/t gold and 0.27% copper from 175 metres

WARC024:	17 metres at 4.64% zinc, 124g/t silver, 1.84% lead, 0.80g/t gold and 0.17% copper from 165 metres including a high grade intersection of:

4 metres at 12.04% zinc, 294g/t silver, 4.19% lead, 1.15g/t gold and 0.35% copper from 166 metres

In the primary zone, the sub-vertical sphalerite-galena mineralisation is hosted by pyritic quartz-sericite schist over a true width of up to 13 metres. Drilling to date has defined a 100 metres strike length of intersections greater than 7 metres at 4.5% combined zinc plus lead with silver averaging 142g/t to a vertical depth of 180 metres, where the mineralisation remains open.

Further RC and diamond drilling is in progress with the aim of extending the boundaries of the known mineralisation.

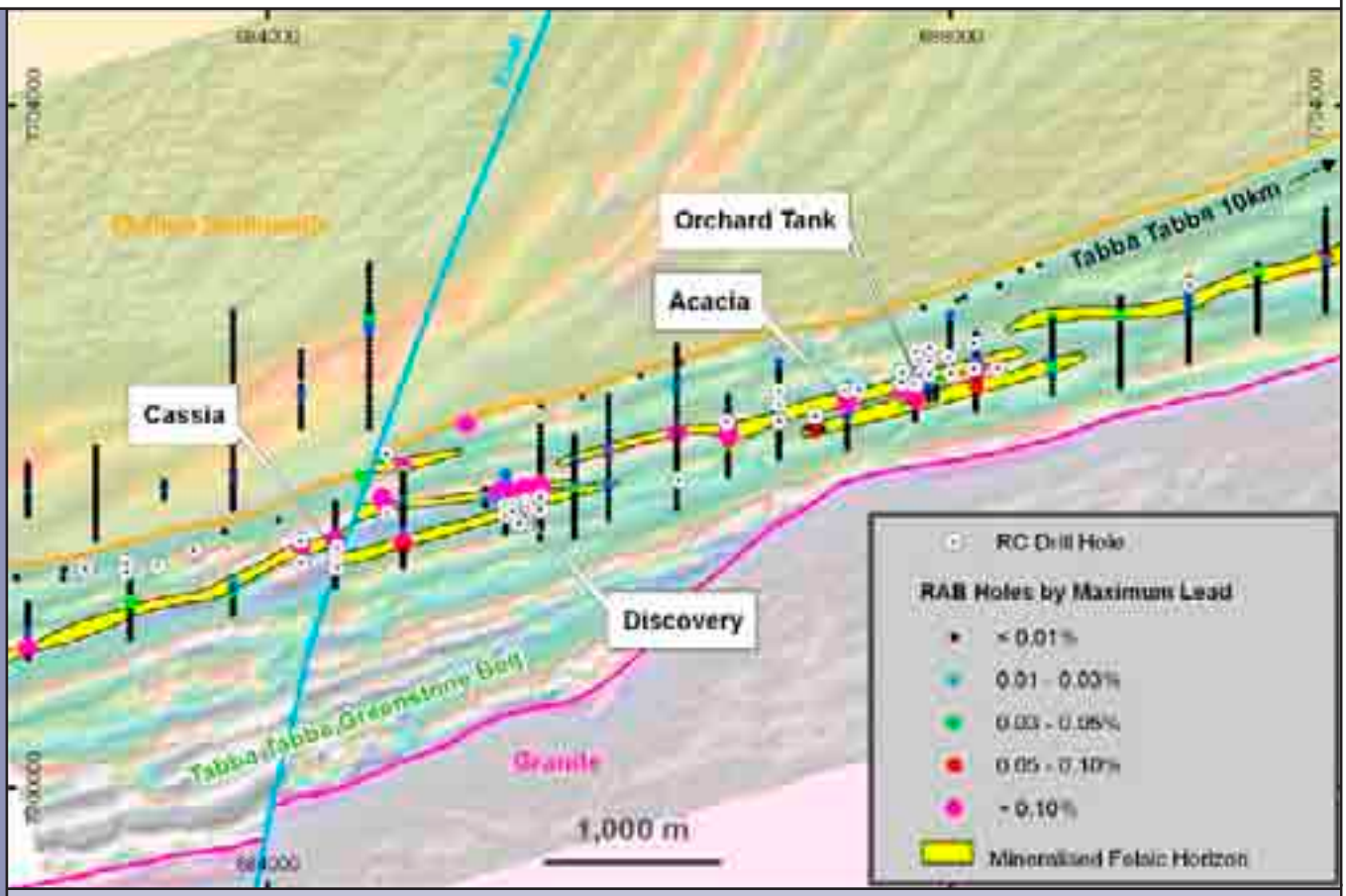


Figure 3: VMS Prospects, Orchard Well and Tabba Tabba

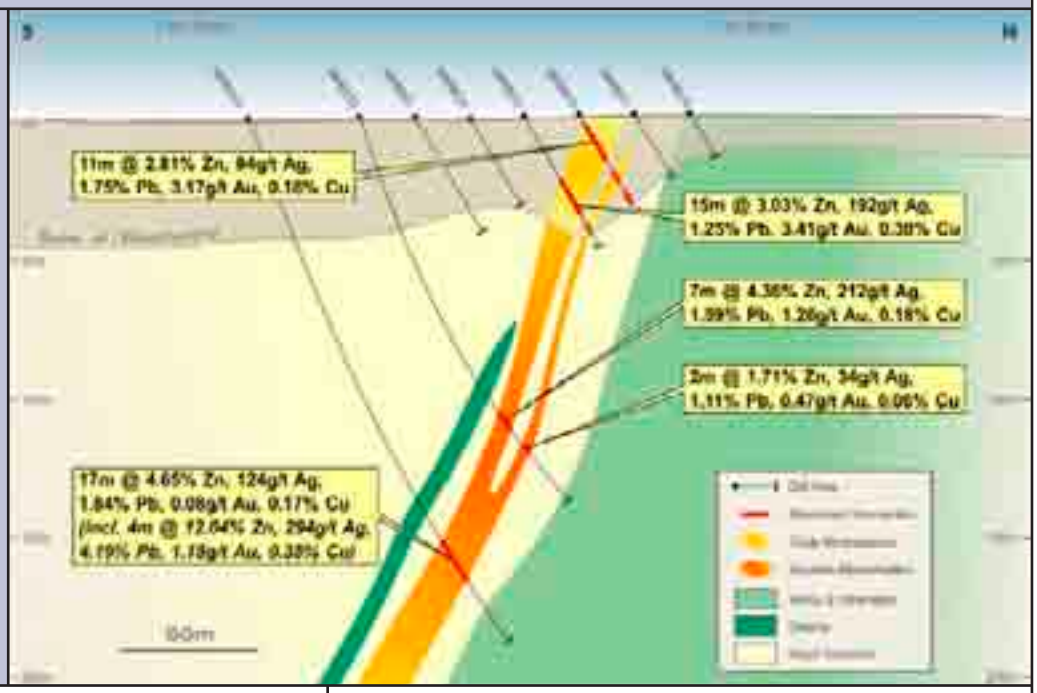


Figure 4: Cross section through the Discovery Prospect

Orchard Tank And Acacia Prospects

The Orchard Tank and Acacia Prospects are the most significant zones of mineralisation located to date on the Orchard Well tenement. The two Prospects may have a combined strike length of 500 metres.

Orchard Tank is located 2.5 kilometres along strike to the east of Discovery (Figure 3). Acacia lies 350 metres immediately along strike to the west of Orchard Tank, on the opposite side of a 20 metre high laterite ridge. There is potential for the mineralisation to be continuous between these prospects (Figure 5). RC and diamond drilling is currently underway to test this target area together with the potential strike and down-dip continuations of the mineralisation.

A high lead in lag sampling geochemical anomaly resulted in the identification of two gossans assaying up to 0.18% zinc, 3g/t silver and 0.44% lead. RAB followed by RC drilling has located two main horizons of sulphide mineralisation to date in a similar geological setting to Discovery. The southern horizon consists of a zone of disseminated to massive pyrite associated with zinc-silver-lead-gold-copper mineralisation as intersected by:

Drill Hole	Intersection
WARC017:	7 metres at 4.70% zinc, 45g/t silver, 0.95% lead, 0.47g/t gold and 0.09% copper from 166 metres

The northern horizon has returned the best intersections to date, especially from depth where the mineralisation is increasing in tenor and remains open both down-dip and along strike (Figure 6).

Drill Hole	Intersection
WARC010:	13 metres at 1.57% zinc, 24g/t silver, 0.90% lead, 0.20g/t gold and 0.06% copper from 28 metres and 9 metres at 4.46% zinc, 180g/t silver, 2.35% lead, 0.27g/t gold and 0.06% copper from 45 metres
WARC045:	21 metres at 4.65% zinc, 137g/t silver, 2.10% lead, 1.08g/t gold and 0.08% copper from 301 metres including a high grade intersection of: 4 metres at 10.58% zinc, 309g/t silver, 5.90% lead, 3.15g/t gold and 0.15% copper from 307 metres

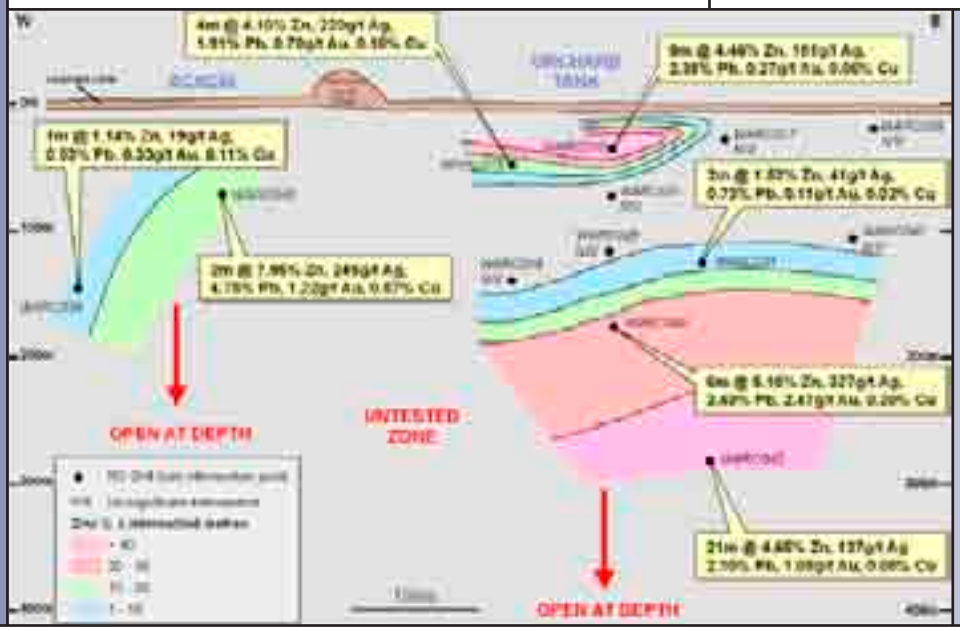


Figure 5: Orchard Tank to Acacia, Northern Horizon Long Section

A high grade intersection was also returned from drill hole WARC048 which is collared 80 metres to the west of hole WARC045.

WARC048: 6 metres at 6.16% zinc, 327g/t silver, 2.40% lead, 2.50g/t gold, and 0.20% copper from 208 metres

The Acacia Prospect was identified from an outcropping gossan at surface. A high grade intersection in WARC049 includes:

Drill Hole	Intersection
WARC049:	2 metres at 7.95% zinc, 246g/t silver, 4.78% lead, 1.22g/t gold and 0.57% copper from 88 metres

Mineralisation remains open down-dip and along strike towards Orchard Tank.

Recent diamond drilling will provide the samples necessary for preliminary metallurgical evaluation of metal recoveries in concentrates from this mineralisation. Additional drilling will be planned once the results of the current program become available.

Cassia Prospect

Located 1 kilometre west of Discovery, the Cassia gossan contains up to 0.21% zinc, 23g/t silver, 5.77% lead and 1.34g/t gold. It was discovered through systematic lag sampling and has been subject to only limited RC drilling. Best results to date were returned from hole WARC043:

Drill Hole	Intersection
WARC043:	2 metres at 5.24% zinc, 96g/t silver, 1.42% lead, 0.70g/t gold and 0.06% copper from 207 metres

Located 195 metres along strike to the east, WARC025 intersected:

WARC025: 2 metres at 4.03% zinc, 47g/t silver, 0.72% lead, 0.48g/t gold and 0.47% copper from 367 metres

Mineralisation at Cassia is again hosted by a pyritic felsic volcanic horizon and remains open along strike and down-dip. Geophysical techniques including Induced Polarisation (IP) and Versatile Time Domain Electro Magnetic (VTEM) surveys have been completed to assist with identifying priority targets for the next stage of RC and diamond drilling at this early stage prospect.

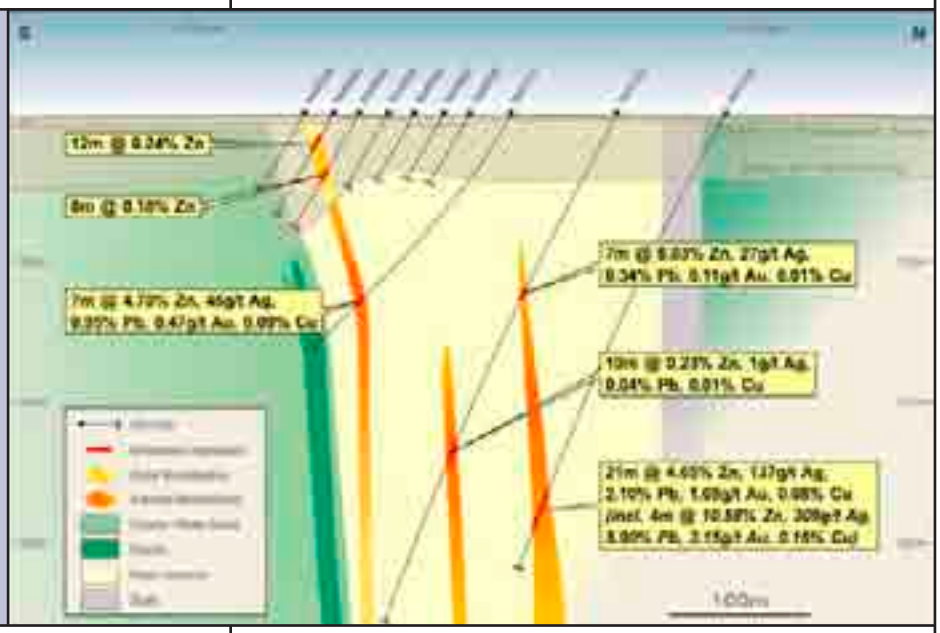


Figure 6: Cross section through the Orchard Tank Prospect

Tabba Tabba – Attgold Option

In July 2006 the Company signed an Option Agreement with Attgold Pty Ltd for the purchase of tenement EL45/2364 on the following terms:

- $50,000 to be paid on signing of the option
- De Grey have an 18 month period (from the date of grant) to decide if they wish to acquire the tenement
- Should De Grey choose to acquire the tenement 100% they will issue 500,000 fully paid ordinary shares or cash equivalent to Attgold and grant Attgold a royalty of $1/t up to a maximum of $750,000 (This can be paid out for $500,000 prior to a decision to mine)

Tabba Tabba abuts the eastern margin of Orchard Well and so hosts the strike continuation of the felsic volcanic units for a further 15 kilometres to the north east (Figure 1). A surface sampling program on 400 metre spaced traverses has been completed with 1,354 samples collected. Results identify a series of lead-zinc-copper-gold anomalies including values up to 3,590ppm zinc, 723ppm copper and 5,680ppm lead over two outcropping gossans. A detailed aeromagnetic survey has also been completed, which together with geological mapping, will aid in the targeting of future drilling.

The gossans, one of which can be traced for 400 metre along strike, returned up to 0.72% zinc, 11g/t silver and 7.42% lead in rock chip samples. This prospect lies 15 kilometres to the east of Discovery, illustrating the wide-spread nature of the mineralised VMS horizons at Turner River and the potential for the discovery of further new zones of mineralisation within De Grey's extensive land holdings.

Subsequent reconnaissance RC drilling completed in June 2006 over a 240 metres strike length returned intersections of:

Drill Hole	Intersection
TTRC001:	6 metres at 3.37% zinc, 44g/t silver, 0.78% lead, 0.17g/t gold and 0.35% copper from 52 metres
TTRC002:	5 metres at 3.76% zinc, 79g/t silver, 0.95% lead, 0.25g/t gold and 0.26% copper from 47 metres
TTRC007:	7 metres at 4.51% zinc, 81g/t silver, 1.05% lead, 0.28g/t gold and 0.21% copper from 128 metres

The sphalerite-galena-pyrite mineralisation is hosted by a sericite-altered felsic schist two metres beneath a 10 metre wide massive pyrite zone, which also carries up to 70g/t silver and 1.80% zinc. Further RC and diamond drilling is in progress to test the strike and down-dip continuity of this mineralisation.

Additional lead-zinc-copper lag anomalies over 10 times background with values of up to 767ppm zinc, 165ppm lead and 216ppm copper remain untested on the northern portion of the tenement and will be the target of future drilling after geological mapping has been completed.

Strelley – Thunderlarra Joint Venture (De Grey Earning 60%)

In May 2006 the company signed a Joint Venture agreement with Thundelarra Exploration. The Strelley tenement covers the north-easterly extension of the Tabba Tabba Greenstone Belt that hosts the VMS-style base and precious metals occurrences at Orchard Well. Under the agreement with Thundelarra:

- De Grey is to reimburse Thundelarra $10,000 on signing agreement,
- De Grey will earn 60% by expenditure of $180,000 within 2 years of grant,
- Thundelarra will have the right to contribute pro rata or at any stage elect to dilute to a 20% free carried interest (decision to mine),
- If this right is not taken up by Thundelarra for further expenditure of $180,000, De Grey will have the right to earn up to 80%.

A detailed airborne magnetic survey has been completed together with a surface geochemical survey on 400 metre spaced traverses. Results to date include geochemical anomalism up to 257ppm zinc, 40ppm lead and 368ppm copper.

Mapping in progress has identified the VMS-prospective felsic volcanic units on Strelley. A copper-stained differentiated dolerite has also been identified (see PGE exploration). The area is included in the recently completed airborne VTEM survey.

Future work will consist of the completion of the detailed geological mapping and data integration prior to initial RAB drilling of identified high priority targets.

Regional VMS Exploration

So far exploration has focused on 20 kilometres of the felsic volcanic units at Orchard Well and Tabba. Exploration is at a very early stage in other areas. With landholdings that cover over 75 kilometres strike of the Tabba Tabba Greenstone Belt, De Grey is strategically well positioned to explore and realise the potential upside of its discovery.

An integrated exploration strategy of phased geophysical surveys, surface sampling, mapping and drilling will be followed to efficiently evaluate the potential of this area as rapidly as possible. Recently an airborne electromagnetic survey (VTEM) was flown over the entire 75 kilometre Tabba Tabba Greenstone Belt within De Grey's landholdings. The survey's aim is to locate massive sulphide horizons that can be associated with this style of mineralisation. An augered soil sampling program will also commence over a 12 kilometre strike length of the belt to the south of the Wingina Well gold deposit that has not been evaluated for VMS mineralisation. Trial induced polarisation (IP) surveys are also planned over the known occurrences to investigate the level of response prior to its application more regionally as a targeting tool for deeper drill testing.

This preliminary work will assist in prioritising and targeting initial RAB and RC drilling in the remainder of the belt, much of which lies beneath thin flood plain sand cover around the seasonal drainages and is completely untested. De Grey is optimistic that additional zones of mineralisation may be present.

Turner River Gold Exploration

The Turner River Project remains highly prospective for gold. De Grey discovered the 203,300oz Wingina Gold Deposit in 2003, followed by other high grade gold zones along the Cleaverville Chert at Amanda and Last Crusade (Figure 7).

The Mt Berghaus Prospect has also returned encouraging gold mineralised intersections from RAB and RC drilling over a 5.5 kilometre strike length.

The gold exploration strategy for 2006-07 is to identify further resource targets. Additional gold resources may be outlined by limited further drilling at the above mentioned prospects, however, large strike lengths of known gold mineralised structures such as the Mallina Shear and its associated splays remain unexplored beneath thin transported cover. These areas are considered to have the highest potential to host large gold deposits with the potential to quickly increase the gold resource base and will be the focus of exploration drilling in the coming year.

Wingina Well Gold Deposit

Following the successful discovery of the Wingina Well gold mineralisation in December 2003, the company announced in October 2004 a JORC compliant resource estimate of 203,300 ounces of gold for Wingina Well. Table 1 on opposite page, summarises the gold resource within the Cleaverville Chert at Wingina.

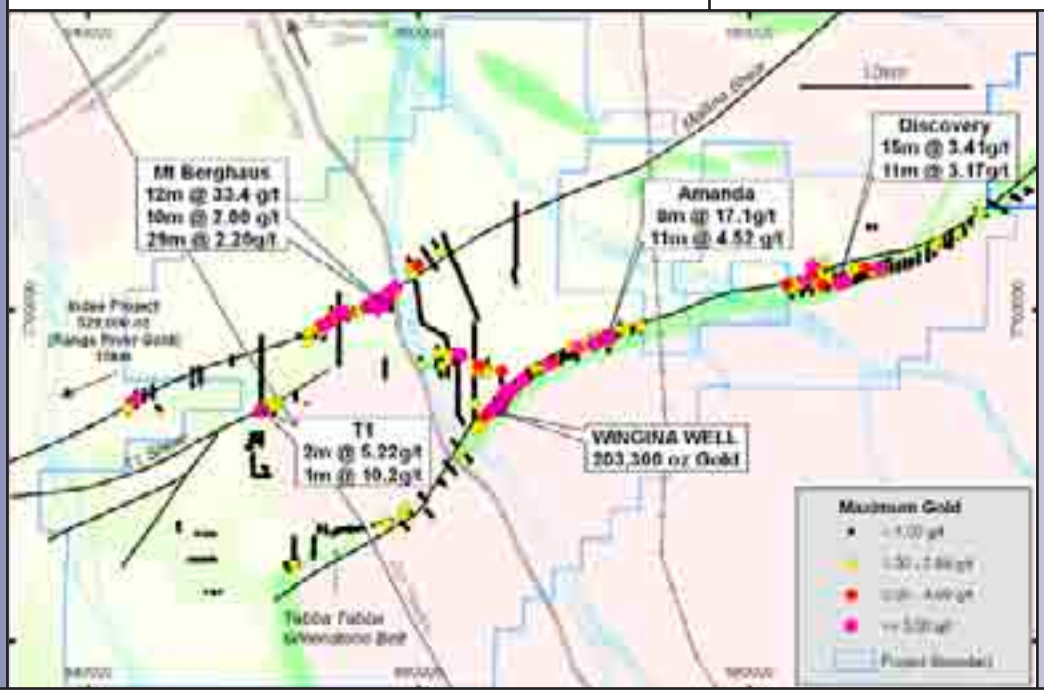


Figure 7: Gold Prospects Summary, Turner River

Prelimary Resource Estimate for Wingina Well

Wingina Well Cut Off Grade 0.5 g/t gold

	Cut off Grade g/t	Tonnes	Grade (g/t)	Ounces Gold
Measured	0.5	2,141,700	1.97	135,500
Indicated	0.5	534,500	1.60	27,400
Inferred	0.5	768,200	1.63	40,400
Total		3,444,400	1.84	203,300

	Measured		Indicated		Inferred		Total Ounces of Gold
	Tonnes	Grade (g/t)	Tonnes	Grade (g/t)	Tonnes	Grade (g/t)	
Oxide	1,646,300	1.99	328,800	1.59	377,000	1.77	143,700
Transitional	222,200	1.82	47,900	1.61	44,000	1.56	17,700
Fresh	273,200	1.95	157,800	1.58	347,200	1.50	41,900
Total	2,141,700	1.97	534,500	1.60	768,200	1.63	203,300

Representative samples from Wingina Well were submitted to AMMTEC Ltd for gold extraction and crushing test work. Metallurgical test results recorded a high gold recovery over 24 hours. The test results also indicated a rapid and high gold extraction rate with low reagent consumptions of cyanide (NaCN) and lime.

Ore Type	Number of Samples	Samples Recovery%	g/t NaCN	kg/t Lime
Oxide	8	97.3%	0.15	1.32
Transitional	4	93.8%	0.14	2.10
Fresh	5	93.7%	0.27	2.34

The Wingina Well deposit is deeply weathered to approximately 120 metres. Drilling has evaluated the mineralisation to 200 metres vertical, where it remains open down-dip. Further metallurgical test work to evaluate gold recoveries by Heap Leach processes is planned.

Amanda Gold Prospect

Nine kilometres along strike to the north-east of Wingina Well (Figure 7) significant gold mineralised intersections have been returned from RC drilling targeting gold anomalies along the Cleaverville Chert. Gold mineralisation has been identified over a 1,500 metre strike length with previously reported results including:

Drill Hole	Intersection
TRC023:	8 metres at 17.1g/t gold from 41 metres including: 2 metres at 46.4g/t gold from 44 metres
AMRC001:	11 metres at 4.52g/t gold from 62 metres including: 2 metres at 15.8g/t from 63 metres

Mineralisation is currently open along strike and down-dip but only limited further drilling is required before a resource estimate can be made.

Mt Berghaus Gold Prospect

Mt Berghaus is located 10 kilometres north-west of Wingina Well (Figure 7) along the Mallina Shear Zone, 35 kilometres to the east of the 529,000oz Indee gold deposits, where Range River Gold Ltd has recently commenced mining. Gold mineralisation at Mt Berghaus is structurally controlled within quartz veins, lenses and stockworks in Mallina Formation turbiditic sandstone. With the focus on the new VMS discoveries, no drilling was completed at Mt Berghaus this financial year.

Previous work by De Grey included RAB and RC drilling. RAB drilling confirmed gold mineralisation over a 5.5 kilometres strike length with RC drilling completed on wide spaced sections over a 1.7 kilometre section. Significant gold mineralisation has been intersected, as illustrated by the following previously reported intersections:

Drill Hole	Intersection
BGRC097:	12 metres at 33.4g/t gold from 4 metres including: 1 metre at 24.6g/t gold, 1 metre at 354g/t gold and 1 metre at 31.3g/t gold
BGRC099:	10 metres at 2.00g/t gold from 85m
BGRC101:	29 metres at 2.20g/t gold from 6m including: 2 metres at 14.9g/t from 22 metres

The company will consolidate all the geological data for Mt Berghaus including further structural mapping and interpretation prior to any significant future drilling programs.

T1 Shear Gold Prospect

Three Aircore drill traverses were completed this year at the T1 Prospect (Figure 8), where previous blade refusal drilling by De Grey returned gold mineralised intersections up to 12 metres at 0.86g/t gold and 2 metres at 2.77g/t gold, both to end of hole. Results continue to be encouraging, with gold and arsenic mineralisation identified within dolerite and an adjacent palaeochannel over a strike length of 600 metres (Figure 9). Significant gold results from the most recent drilling include:

Figure 8: T1 Gold Prospect and Regional Targets

Drill Hole	Intersection
T1AC094:	2 metres at 5.22g/t gold from 38 metres
T1AC082:	1 metre at 10.20g/t gold from 34 metres

The results from T1 are particularly significant as they identify a new area of gold mineralisation along a major untested structure. The structure - the T1 Shear - can be traced on aeromagnetic images over a 19 kilometre strike length beneath transported cover (Figure 8). Also encouraging is the presence of dolerites, which are a more favourable host rock to gold mineralisation than the Mallina sandstones that host erratic though high grade gold mineralisation at Mt Berghaus.

Aircore drilling programs in 2006-07 will target this structure followed by initial RC testing of the mineralised dolerite within the primary zone.

Three Kings PGE Exploration

Exploration for PGE mineralisation was managed by a Joint Venture between De Grey and Impala Platinum of South Africa (Implats) for the majority of the current reporting year.

Platinum Group (Platinum, Palladium and Gold = PGE) mineralisation associated with the contact of a pyroxenite and peridotite has been traced over a strike length of 12 kilometres along the Tabba Tabba Greenstone Belt. Previously reported higher grade intersections have been returned over a 4.5 kilometre long zone including:

Drill Hole	Intersection
IERC04:	6 metres at 1.58g/t PGE from 75 metres
IERC05:	15 metres at 1.39g/t PGE from 28 metres
IERC46:	14 metres at 1.32g/t PGE from 58 metres

Seven new RC holes for 810 metres were completed by the Joint Venture this year, targeting extensions to the PGE mineralisation at the Joshua Prospect. Drill hole IERC083 had a best intersection of 3 metres at 2.30g/t PGE from 113 metres with a further 2 metres at 2.21 g/t PGE from 123 metres depth.

In April 2006 Implats decided to relinquish its Joint Venture with De Grey for the exploration of the Three Kings Platinum Project. Implats spent approximately $800,000 on exploration in the area but does not retain an ongoing interest.

A 9 kilometre strike length of the prospective ultramafic body remains untested by drilling to the east of Joshua.

Also of interest is the identification of a copper-stained differentiated dolerite during mapping of the Strelley Joint Venture tenement to the northeast. This is important as it locates a potential copper-nickel-PGE target in a new area 65 kilometres north east of the known occurrences.

Data from the previous Implats Joint Venture will be consolidated and reviewed and the northern mapping completed prior to a decision on future PGE exploration.

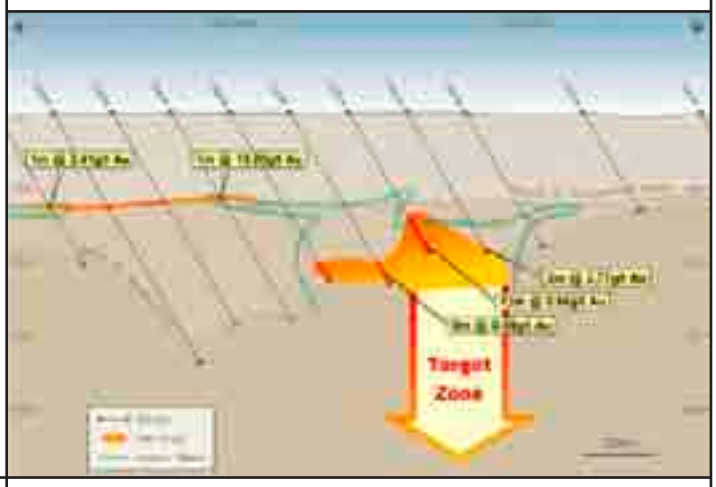


Figure 9: T1 Prospect – Gold in Aircore drilling

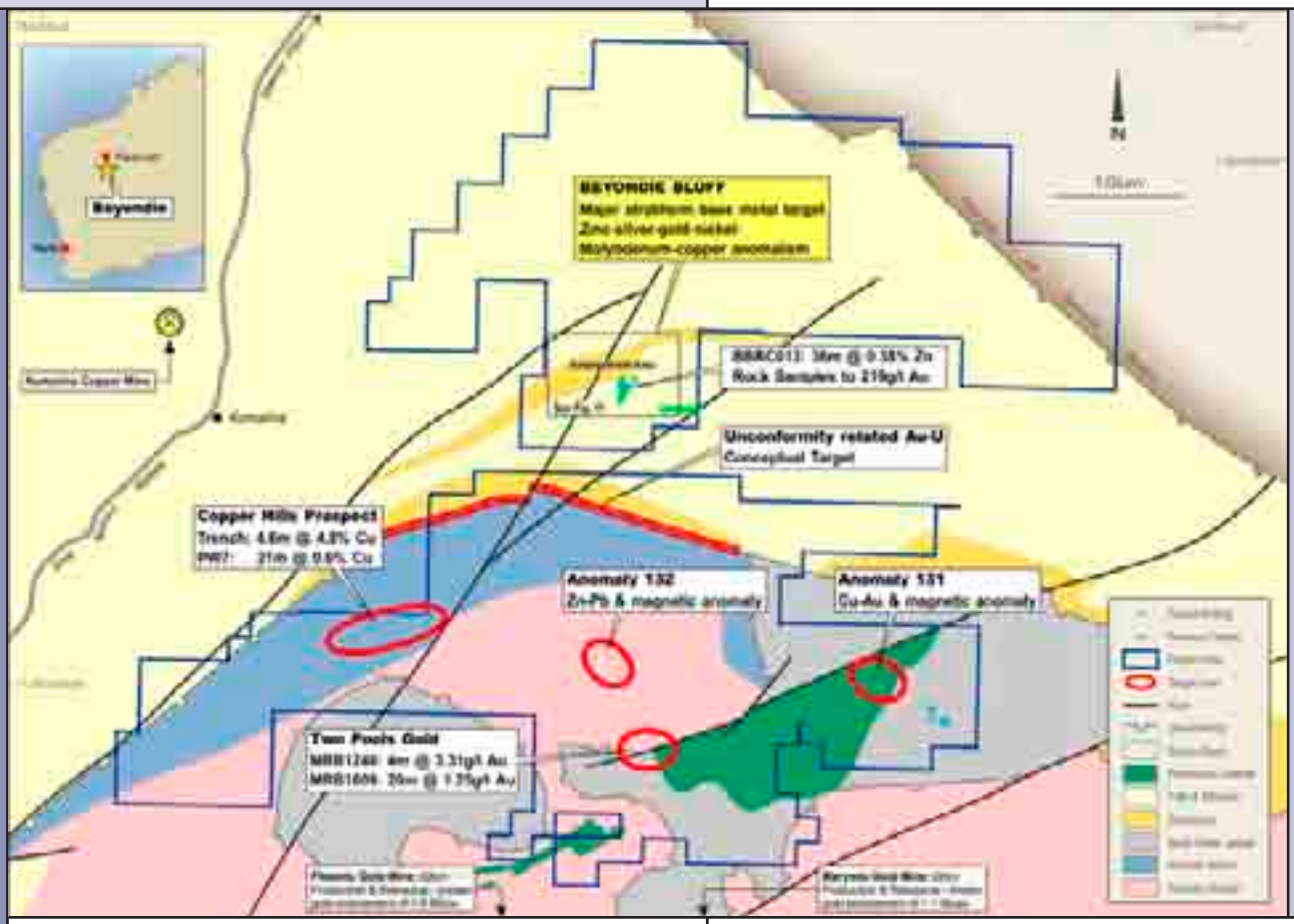


Figure 10: Beyondie Project – Prospect location map

BEYONDIE PROJECT

De Grey Mining Ltd holds 100% of 2,100 square kilometres of the Beyondie Base and Precious Metals Project, located 160 kilometres south of Newman and 50 kilometres east of the Kumarina copper deposits. The company recently reduced its landholdings at Beyondie to lower its tenement holding costs. The project area covers part of the Proterozoic Bangemall Basin and the northern margin of the Archaean Marymia Inlier.

The Plutonic Gold Mine (6 million ounces of gold) lies 50 kilometres to the south-west and Marymia Gold Mine (350,000 ounces historic gold production) is located 20 kilometres to the south-west from the tenements.

Recent work at Beyondie has refined specific target areas (Figure 10) for three main target styles:

1) Major sedimentary exhalative shale hosted (Sedex) base and precious metals (Beyondie Bluff)
2) Shear zone hosted copper (Copper Hills)
3) Hydrothermal lode gold (Two Pools)

De Grey has recently appointed a Senior Geologist to assist the company with the acceleration of its work at Beyondie.

Beyondie Bluff

The Beyondie Bluff area and associated zinc-rich shales is the highest priority exploration target for De Grey within the Beyondie Project. A significant Sedex base metal target is being defined by early stage work in preparation for drill testing later this year.

Drilling, stream sediment MagLag sampling, rock sampling, mapping and aeromagnetic interpretations completed over the last 12 months have defined an area of anomalous zinc-silver-molybdenum-nickel-antimony associated with black shales of the Bangemall Group beneath the quartzite Bluff (Figure 11).

Three RAB holes (BBRB001 to BBRB003) were drilled in the 2005/2006 reporting year south of the Beyondie Bluff intersecting phosphatic shales containing further anomalous zinc up to 2,720ppm (0.27% zinc) and copper values up to 591ppm.

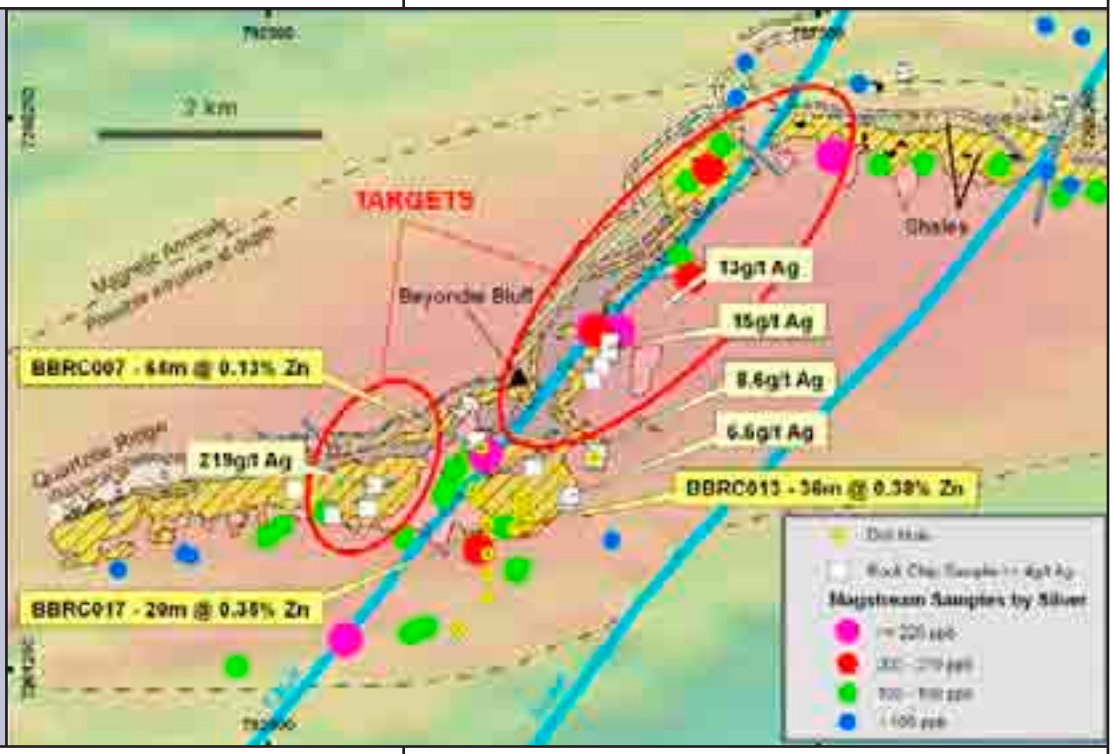


Figure 11: Beyondie Bluff Stratiform Zinc Target

Previously reported RC drill intersections at Beyondie Bluff from a stratigraphically higher position returned up to 4 metres at 1.0% zinc with 0.15% nickel at the base of a much broader intercept of 36 metres grading 0.38% zinc and 0.03% nickel (RC hole BBRC013). Anomalous molybdenum was intersected in BBRC02 with assays up to 213ppm over a 4 metre composite sample within a wider interval of 16 metres at 127ppm molybdenum from 8 metre depth. Several surrounding holes also returned anomalous (>2,000ppm) zinc with associated silver (up to 8g/t) over average down hole lengths of 24 metres. To date this drilling has identified a metal-rich shale unit at Beyondie Bluff over a 1 square kilometre area, which is currently open down dip to the north and along strike to the east and west.

Rock chip sampling over a 16 kilometre strike length at Beyondie Bluff has returned highly anomalous metal values up to 219g/t silver (Figure 11), 0.12g/t gold, 6,870ppm barium, 0.28% copper, 1,550ppm molybdenum, 930ppm antimony and 23.5ppm uranium. Malachite (copper) staining has been observed in several areas.

A Magstream sampling program was also completed over the Bluff area. This returned strongly anomalous gold, silver, zinc, cadmium, antimony, arsenic and molybdenum over a northeast orientated structure. Moderately anomalous lead, platinum and uranium were also identified. This metal association supports a mineralised black shale or Sedex environment in the area.

The results obtained to date are encouraging and indicate a possible Sedex target in the Bluff area. Grid based systematic surface geochemical sampling is planned to define the mineralised stratigraphic horizons and structures in more detail prior to reconnaissance RC drill-testing later this financial year.

Copper Hills Prospect

The Copper Hills Prospect is located 26 kilometres southwest of the Bluff within Archaean chloritic schists and banded iron formation. Reconnaissance rock chip sampling completed by De Grey in 2005-06 returned 2.6% copper and 0.65g/t gold from gossanous quartz breccias within the highly foliated schists.

A review of previous trenching work by an oil company in the early 1970's shows encouraging copper mineralisation up to 4.6 metres at 4.8% and 15 metres at 0.7%. Follow-up shallow drilling returned up to 21 metres at 0.6% copper in hole PW7 from a sericite alteration zone. Potential strike and depth extensions to this mineralisation remain as significant drill targets under the current higher metal prices. The eastern strike extension of the mineralised zone extends under thin transported cover towards a large fault and flexure in the shear system, adding to the prospectivity of this unexplored area.

Tenement application E52/1806, which contains Copper Hills, is expected to be granted in the coming months. This will allow De Grey to complete further exploration and evaluation of this copper mineralisation.

Two Pools Gold Prospect

The southern portion of the Beyondie Project covers the northern margin of the Archaean Yilgarn Craton. Several gold occurrences including the Plutonic and Marymia mining centres are situated to the south of De Grey's landholdings.

Exploration for gold was conducted by previous explorers, with one of the more significant prospects – Two Pools – being located on the structural contact between Archaean granite and Proterozoic sediments. Intersections up to 4 metres at 3.31g/t gold from 13 metres and 20 metres at 1.25g/t gold from 8 metres were returned from shallow drilling within this area.

The main significance of the occurrence is the demonstration of Yilgarn-style gold mineralisation within the southern Beyondie Project. A further 25 kilometres of the northeast orientated structure controlling the gold occurrence is contained within De Grey's tenements and will be a focus for further exploration. De Grey expects the tenements over this portion of the Project to be granted shortly and will conduct further work to evaluate opportunities for economic gold deposits in this area.

Your directors submit their report for the year ended 30 June 2006.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Campbell T Ansell, *FCA, MAICD (Non-Executive Chairman, member of audit and remuneration committees)*

Campbell Ansell is a Chartered Accountant who is also a director of Universal Resources Ltd and Castle Minerals Ltd, as well as Chairman of Nickel Australia Limited. He is also a non-executive director of several other successful business operations and has had a long term involvement with the resources sector and several government and semi government boards. Campbell holds/has held the following directorships in the last 3 years: Croesus Mining NL [12/1997 to 3/2006], Dragon Mining NL [4/1990 to 3/2006], Nickel Australia [director since 9/2003] Universal Resources Ltd [director since 3/2002] and Castle Minerals Ltd [director since 9/2005]

Darren P Townsend, *B.Eng (Mining) – Hons, EMBA (Managing Director, appointed 1 June 2006)*

Darren joined De Grey Mining Ltd in 2004 as General Manager - Operations and is well versed in the company's activities. He has a Bachelor of Mining Engineering degree, with Honours and has completed post graduate business qualifications. Darren has extensive operational and technical experience and was previously General Manager of Sons of Gwalia's Wodgina tantalum operation. Prior to this, Darren worked as Superintendent of Mine Production with Rio Tinto at Mt Tom Price.

Denis W O'Meara, *JP, AMAusIMM (Non-Executive Director, member of audit and remuneration committees. Managing Director from the start of the financial year until 1 June 2006)*

Denis O'Meara is a prospector and founder of De Grey Mining Ltd. Denis has a lifelong involvement in mining, prospecting and exploration. He has been involved in several major resource and exploratory discoveries in Western Australian including Miralga Creek, Sulphur Springs, Gorge Range, Indee, Pearana (Pilbara), Horans Dam (Kalgoorlie), Triangle Bore (Mt Magnet) and Weld Range (Murchison). His activities have supported several corporate fund raisings/listings since 1969. His prospecting has also led to joint ventures with 17 companies. Denis is the discoverer of the Beyondie Bluff gold and base metal anomalies.

Denis has served as an executive councillor of AMEC, a board member of AGIC (Australian Gold Industry Council) for its 10 year duration and board member of the Port Hedland Port Authority. He also received a National Outstanding Achievement Award - Greening Australia, 1991 and served as a board member of the Kings Park and Botanical Gardens, Perth, 1994 - 1996. Denis has not held any former directorships in the last 3 years.

Gary R Brabham, *BAppSc (app Geol), MSc (Geol), PGCert(Geostats), MAusIMM, MAIG (Non-Executive Director, appointed 23 November 2005, chairman of remuneration committee, member of audit committee)*

Gary Brabham was appointed to the board in November 2005. He has more than 25 years experience in mine geology and mineral exploration for a variety of commodities. As chief geologist for several Australian and overseas gold projects, and through consulting roles with Hellman & Schofield, Gary has seen a number of projects through evaluation, feasibility and mine start-up phases. Since April 2005 Gary has been Exploration Manager and Technical Director for Adamus Resources Limited [7/2005 to present].

Craig Oliver, *CA, MBA (Non-Executive Director, appointed 10 April 2006, chairman of audit committee, member of remuneration committee)*

Craig has considerable corporate, project development and operational experience from more than 15 years in senior roles in mid-capped publicly listed mining companies and as a partner in a mid-tier Chartered Accounting firm.

Craig has specific resources experience in gold, platinum, coal, iron ore, nickel and industrial metals from site based and corporate roles in Australia, UK and Africa including securing project approvals and in developing, expanding and commissioning precious metal, light metal and bulk commodity projects. He has also had significant experience in negotiating debt and equity raisings, asset acquisitions and disposals and in managing company listings on the ASX, AIM and TSX. Craig has held the following former directorships in the last 3 years:NKWE Platinum Ltd [7/2003 to 1/2006].

Ron B Manners was a director from the start of the financial year until he resigned on 3 July 2006.

Michael J Baker was a director from the start of the financial year until he resigned on 6 April 2006.

COMPANY SECRETARY

Dennis Wilkins, *BBus, ACIS, AICD*

Mr Dennis Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a director of South Boulder Mines Limited, Marengo Mining Limited and Bonaparte Diamond Mines NL. Dennis has not held any former directorships in the last 3 years.

Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of De Grey Mining Limited were:

		Options over Ordinary Shares					
	Ordinary Exercise Price	Expire on 6 Nov 2009 Exercise Price 50 cents	Expire on 22 Nov 2010 Exercise Price 50 cents	Expire on 10 Jul 2011 Exercise Price 30 cents	Expire on 30 Jun 2012 Exercise Price 30 cents	Expire on 30 Jun 2012 Exercise Price 30 cents	Expire on 30 Jun 2013 Exercise Price 35 cents
Campbell T Ansell	150,000	-	-	-	-	-	-
Darren P Townsend	126,526	-	-	-	1,000,000	1,000,000	1,000,000
Denis W O'Meara	2,444,742	1,000,000	1,000,000	1,000,000	-	-	-
Gary Brabham	-	-	-	1,000,000	-	-	-
Craig Oliver	-	-	-	1,000,000	-	-	-

DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

CORPORATE INFORMATION

Nature of operations and principal activities

During the year the consolidated entity carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There has been no significant change in the nature of this activity during the year.

A review of operations and the chairman's statement are contained elsewhere in the annual report.

Employees

The consolidated entity employed 14 employees as at 30 June 2006 (2005: 16 employees).

OPERATING AND FINANCIAL REVIEW

Operating Results for the Year

The operating loss after income tax of the consolidated entity for the year ended 30 June 2006 was $13,032,034 (2005: $8,274,437). Included in this loss figure is an amount of exploration expenditure ($11,225,379) written off. Refer notes to the financial statements note 1(f).

Summarised operating results are as follows:

	2006	
	Revenues $	Results $
Geographic segments		
Australia	387,371	(13,032,034)
Consolidated entity revenues and loss from ordinary activities before income tax expense	387,371	(13,032,034)

Shareholder Returns

	2006	2005
Basic loss per share (cents)	(9.4)	(9.8)

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the consolidated entity occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 19, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The entity is subject to significant environmental regulation in respect to its exploration activities.

The company aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the company are not aware of any breach of environmental legislation for the year under review.

SHARE OPTIONS

Unissued shares

At the date of this report there are 9,530,000 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	49,977,428
Share options issued during the year	
Exercisable at 25 cents, on or before 31 December 2010	1,620,000
Exercisable at 50 cents, on or before 22 November 2010	1,000,000
Total options issued to 30 June 2006	2,620,000
Share option decreases during the year	
50 cent options lapsed at 5 July 2005	(5,000,000)
Options exercised at 20 cents on or before 5 July 2005	(35,977,428)
Options cancelled at 30 June 2006	(1,090,000)
45 cent options lapsed at 30 June 2006	(7,500,000)
Total number of options outstanding as at 30 June 2006	3,030,000
Issued subsequent to year end	
Exercisable at 25 cents, on or before 31 December 2010	500,000
Exercisable at 30 cents, on or before 10 July 2011	3,000,000
Exercisable at 30 cents, on or before 30 June 2011	1,000,000
Exercisable at 30 cents, on or before 30 June 2012	1,000,000
Exercisable at 35 cents, on or before 30 June 2013	1,000,000
Total number of options outstanding at the date of this report	9,530,000

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
31 Mar 2009	50.0	500,000
06 Nov 2009	50.0	1,000,000
22 Nov 2010	50.0	1,000,000
31 Dec 2010	25.0	1,030,000
30 Jun 2011	30.0	1,000,000
10 Jul 2011	30.0	3,000,000
30 Jun 2012	30.0	1,000,000
30 Jun 2013	35.0	1,000,000
Total number of options outstanding at the date of this report		9,530,000

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums insuring all the directors of De Grey Mining Limited against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums to be paid is confidential in terms of the agreement with the underwriter.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of De Grey Mining Limited (the company).

Remuneration policy

The remuneration policy of De Grey Mining Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of De Grey Mining Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%. Some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation. In addition, original directors receive a retirement benefit equal to three times the average of their last three years annual directors fees and new directors receive options in the company in accordance with the employees and contractors option incentive plan.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes or Binomial methodologies.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting (currently $250,000). Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plans.

The retirement benefit entitlement has been frozen as of 30 June 2006.

Performance based remuneration

The managing director has an element of performance based remuneration built into his remuneration which revolve around key milestone events determined by the remuneration committee. Apart from the above, the company has no other performance based remuneration component built into director and executive remuneration packages.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer note 22.

Employment contracts of directors and senior executives

For details of service agreements between directors/executives and De Grey Mining Limited, refer note 22.

Compensation of Key Management Personnel for the year ended 30 June 2006

		Short-Term		Post Employment		Share-based Payments	Total
		Salary & Fees	Cash Bonus	Non Monetary	Super-annuation	Retirement benefits	Options
Directors							
Campbell T Ansell							
2006	**42,500**	**-**	**-**	**6,550**	**-**	**-**	**49,050**
2005	31,875	-	-	4,231	-	-	36,106
Darren P Townsend (appointed 1 June 2006)							
2006	**239,462**	**-**	**-**	**21,552**	**-**	**-**	**261,014**
2005	192,308	-	-	17,238	-	-	209,546
Denis W O'Meara							
2006	**208,334**	**-**	**-**	**22,500**	**-**	**33,572**	**264,406**
2005	207,292	-	-	18,000	-	242,100	467,392
Gary R Brabham (appointed 23 November 2005)							
2006	**16,019**	**-**	**-**	**1,442**	**-**	**-**	**17,461**
Craig Oliver (appointed 10 April 2006)							
2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Ron B Manners (resigned 3 July 2006)							
2006	**-**	**-**	**-**	**100,587**	**-**	**-**	**100,587**
2005	-	-	-	64,038	-	-	64,038
Michael J Baker (resigned 6 April 2006)							
2006	**45,742**	**-**	**-**	**4,117**	**143,871**	**-**	**193,730**
2005	33,125	-	-	2,981	-	-	36,106
Executives							
Dennis Wilkins (Company Secretary)							
2006	**126,441**	**-**	**-**	**-**	**-**	**-**	**126,441**
2005	116,500	-	-	-	-	97,467	213,967
David Hammond (Exploration Manager, appointed 6 June 2006)							
2006	**5,769**	**-**	**-**	**519**	**-**	**-**	**6,288**
Neil Lithgow (Exploration Manager, resigned 12 May 2006)							
2006	**156,594**	**-**	**-**	**13,271**	**-**	**-**	**169,865**
2005	140,077	-	-	11,620	-	-	151,697
Total							
2006	**840,861**	**-**	**-**	**170,538**	**143,871**	**33,572**	**1,188,842**
2005	721,177	-	-	118,108	-	339,567	1,178,852

Compensation options granted during the year ended 30 June 2006

Options are issued to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of De Grey Mining Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders. The following options were granted as part of remuneration during the year. For details of key management personnel interests in options at year end, refer note 22.

	Grant date	Grant number	Vest	Value per option at grant date	Exercised Number	Value per option at exercise date	Value at date option lapsed	% of remuneration
Denis W O'Meara	02/12/2005	1,000,000	02/12/2005	3.36 cents	N/A	N/A	N/A	9.13%

Performance Income as a proportion of total compensation

No performance based bonuses have been paid to key management personnel during the financial year. It is the intent of the board to include performance bonuses as part of remuneration packages when mine production commences.

DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year are:

	Directors' Meetings		Meetings of Committees			
			Audit		Remuneration	
	A	B	A	B	A	B
Number of meetings attended:						
Campbell T Ansell	10	10	2	2	1	1
Darren P Townsend	1	1	*	*	*	*
Denis W O'Meara	10	10	*	*	*	*
Gary R Brabham	6	6	*	*	1	1
Craig Oliver	3	3	0	0	1	1
Ron B Manners	10	10	0	0	*	*
Michael J Baker	8	8	2	2	*	*

Notes

A - Number of meetings attended.

B - Number of meetings held during the time the director held office during the year.

* - Not a member of the relevant committee

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The auditors' independence declaration for the year ended 30 June 2006 has been received and can be found on page 9.

NON-AUDIT SERVICES

No non-audit services were provided by the entity's auditor, Butler Settineri (Audit) Pty Ltd. 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 provided means that auditor independence was not compromised.

Butler Settineri Chartered Accountants received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services $9,735

Signed in accordance with a resolution of the directors.

Campbell T Ansell
Chairman

Perth, 21 September 2006

AUDITORS INDEPENDENCE DECLARATION

As lead auditor for the audit of De Grey Mining Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) No contraventions of any applicable code of professional conduct in relation to the audit.

BUTLER SETTINERI (AUDIT) PTY LTD

COLIN P BUTLER
Director

Perth
Date: 1 October 2006

The Board of Directors

The company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

As and if the company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act 2001, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. The committee structure and membership is reviewed on an annual basis.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis and are available on the company website. All matters determined by committees are submitted to the full board as recommendations for board consideration.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the charter of the individual committees.

Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Appointments to Other Boards

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

Independent Professional Advice

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the company.

ASX principles of Good Corporate Governance

The board has reviewed its current practices in light of the ASX principles of good corporate governance and best practice guidelines 2005 with a view to making amendments where applicable after considering the company's size and the resources it has available.

As the company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The following table sets out the company's present position with regard to adoption of these principles.

	ASX Principle	Status	Reference/comment
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Formalise and disclose the functions reserved to the board and those delegated to management	A	The company has adopted this recommendation to formalise and disclose the functions reserved to the board and those delegated to management.
Principle 2:	**Structure the board to add value**		
2.1	A majority of board members should be independent directors	A	Given the company's background, the nature and size of its business and the current stage of its development, the board comprises five directors, four of whom are non-executive (including the independent chairman). The board believes that this is both appropriate and acceptable at this stage of the company's development. Three members of the board are independent and two are non-independent.
2.2	The chairperson should be an independent director	A	
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual	A	The positions of chairman and managing director are held by separate persons.
2.4	The board should establish a nomination committee	A	The full board is the nomination committee. Acting in its ordinary capacity from time to time as required, the board carries out the process of determining the need for, screening and appointing new directors. In view of the size and resources available to the company, it is not considered that a separate nomination committee would add any substance to this process.
2.5	Provide the information indicated in guide to reporting on Principle 2	A (in part)	The skills and experience of directors are set out in the company's annual report and on its website.
Principle 3:	**Promote ethical and responsible decision making**		
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices	A	The company has formulated a code of conduct which can be viewed on the company's website.
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees	A	The company has formulated a securities trading policy which can be viewed on its website.
3.3	Provide the information indicated in Guide to Reporting on Principle 3	A	The company has established an audit committee which comprises three non-executive directors. The charter for this committee is disclosed on the company's website. Sourcing alternative or additional directors to strictly comply with this principle is considered expensive with costs outweighing potential benefits. In addition, the board as a whole addresses the governance aspects of the full scope of the company's activities to ensure that it adheres to appropriate ethical standards. All matters which might properly be dealt with by special committees are subject to regular scrutiny at full board meetings.

A = Adopted
N/A = Not adopted

	ASX Principle	Status	Reference/comment
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards	A	
4.2	The board should establish an audit committee	A	
4.3	SStructure the audit committee so that it consists of:	A	
	• Only non-executive directors	b	
	• A majority of independent directors	b	
	• An independent chairperson who is not the chairperson of the board	b	
	• At least three members	b	
4.4	The audit committee should have a formal charter	A	
4.5	Provide the information indicated in Guide to reporting on Principle 4	A	
Principle 5:	**Make timely and balanced disclosure**		
5.1	Establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior management level for that compliance	A	The company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Provide the information indicated in guide to reporting on Principle 5	A	The board receives monthly reports on the status of the company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each board meeting.
Principle 6:	**Respect the rights of shareholders**		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	A	In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the company. This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the company website and the distribution of specific releases covering major transactions or events.
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report	A	Shareholders are encouraged to exercise their right to vote, either by attending meetings, or by lodging a proxy. The company's auditors attend all shareholders' meetings.

A = Adopted
N/A = Not adopted

	ASX Principle	Status	Reference/comment
Principle 7:	**Recognise and manage risk**		
7.1	The board or appropriate board committee should establish policies on risk oversight and management	A	While the company does not have formalised policies on risk management the board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include:• • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the polices adopted by the board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects	A	
7.3	Provide information indicated in guide to reporting on Principle 7	N/A	
Principle 8:	**Encourage enhanced Performance**		
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives	N/A	The remuneration of executive and non-executive directors is reviewed by the board with the exclusion of the director concerned. The remuneration of management and employees is reviewed by the board and approved by the chairman. Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues including the identification of matters that may have a material effect on the price of the company's securities. Whenever relevant, any such matters are reported to ASX.

A = Adopted
N/A = Not adopted

	ASX Principle	Status	Reference/comment
Principle 9:	**Remunerate fairly and responsibly**		
9.1	Provide disclosure in relation to the company's remuneration policies and benefits to these policies and the link between remuneration paid to directors and key executives and corporate performance.	A	The company discloses remuneration-related information in its annual report to shareholders in accordance with the Corporations Act 2001. Remuneration levels are determined by the board on an individual basis, the size of the company making individual assessment more appropriate than formal remuneration policies. In doing so, the board seeks to retain professional services as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary.
9.2	The board should establish a remuneration committee	A	
9.3	Clearly distinguish the structure of non-executive directors remuneration from that of executives	A	
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	A	
9.5	Provide information indicated in ASX guide to reporting on Principle 9	A	
Principle 10:	**Recognise legitimate interests of Stakeholders**		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	A	The company's code of conduct is set out in the company's website. The board continues to review existing procedures over time to ensure adequate processes are in place. All directors, employees and contractors are expected to act with the utmost integrity and objectivity in their dealings with other parties, striving at all times to enhance the reputation and performance of the company.

A = Adopted
N/A = Not adopted

	Notes	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
REVENUE FROM CONTINUING OPERATIONS	3	**387,371**	154,253	**387,371**	154,253
EXPENDITURE					
Depreciation expense	4	**(123,812)**	(49,850)	**(123,812)**	(52,832)
Employee benefits expense		**(1,330,282)**	(796,692)	**(1,330,282)**	(796,692)
Provision for impairment		**-**	-	**(12,617,875)**	-
Exploration expenditure written off	4	**(11,225,379)**	(6,522,101)	**(3,797,493)**	(2,771,829)
Corporate expenses		**(179,722)**	(77,576)	**(177,657)**	(77,576)
Occupancy expenses		**(84,783)**	(78,189)	**(84,783)**	(78,189)
Consulting expenses		**(145,797)**	(328,576)	**(145,797)**	(328,576)
Investor relations and advertising expenses		**(77,024)**	(96,620)	**(77,024)**	(96,620)
Administration expenses		**(149,411)**	(392,035)	**(149,411)**	(392,035)
Share based payment expense	27	**(88,713)**	(49,587)	**(88,713)**	(49,587)
Other expenses from ordinary activities		**(14,482)**	(37,464)	**(14,482)**	(33,104)
LOSS BEFORE INCOME TAX EXPENSE		**(13,032,034)**	(8,274,437)	**(18,219,958)**	(4,522,787)
INCOME TAX BENEFIT / (EXPENSE)	5	**-**	-	**-**	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF DE GREY MINING LIMITED		**(13,032,034)**	(8,274,437)	**(18,219,958)**	(4,522,787)
Basic and diluted loss per share (cents per share)	20	**(9.4)**	(9.8)		

The above Income Statements are to be read in conjunction with the Notes to the Financial Statements.

BALANCE SHEETS AT 30 JUNE 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
CURRENT ASSETS					
Cash and cash equivalents	16(b)	**4,542,165**	3,480,182	**4,542,165**	3,480,182
Trade and other receivables	7	**49,553**	514,713	**49,553**	514,713
Other financial assets	8	**57,594**	60,915	**57,594**	60,915
TOTAL CURRENT ASSETS		**4,649,312**	4,055,810	**4,649,312**	4,055,810
NON-CURRENT ASSETS					
Other financial assets	8	**51,000**	-	**51,000**	11,761,325
Plant and equipment	10	**367,568**	379,194	**367,568**	379,194
Mining tenements and capitalised exploration costs	11	**-**	7,067,253	**-**	494,740
TOTAL NON-CURRENT ASSETS		**418,568**	7,446,447	**418,568**	12,635,259
TOTAL ASSETS		**5,067,880**	11,502,257	**5,067,880**	16,691,069
CURRENT LIABILITIES					
Trade and other payables	12	**546,493**	997,554	**546,493**	998,442
Provisions	13	**536,276**	62,386	**536,276**	62,386
TOTAL CURRENT LIABILITIES		**1,082,769**	1,059,940	**1,082,769**	1,060,828
TOTAL LIABILITIES		**1,082,769**	1,059,940	**1,082,769**	1,060,828
NET ASSETS		**3,985,111**	10,442,317	**3,985,111**	15,630,241
EQUITY					
Issued capital	14	**30,029,539**	23,535,424	**30,029,539**	23,535,424
Reserves	15	**130,300**	49,587	**130,300**	49,587
Accumulated losses	15	**(26,174,728)**	(13,142,694)	**(26,174,728)**	(7,954,770)
TOTAL EQUITY		**3,985,111**	10,442,317	**3,985,111**	15,630,241

The above Balance Sheets are to be read in conjunction with the Notes to the Financial Statements.

	Notes	Consolidated		The Company	
		2006 $	2005 $	2006 $	2005 $
TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR		**10,442,317**	10,871,655	**15,630,241**	12,307,929
Employee share options	15	**88,713**	49,587	**88,713**	49,587
Asset Revaluation Reserve		**(8,000)**	-	**(8,000)**	-
NET INCOME RECOGNISED DIRECTLY IN EQUITY		**80,713**	49,587	**80,713**	49,587
LOSS FOR THE YEAR		**(13,032,034)**	(8,274,437)	**(18,219,958)**	(4,522,787)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF DE GREY MINING LIMITED		**(12,951,321)**	(8,224,850)	**(18,139,246)**	(4,473,200)
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the year	14	**6,964,115**	8,003,012	**6,964,115**	8,003,012
Transaction costs	14	**(470,000)**	(207,500)	**(470,000)**	(207,500)
		6,494,115	7,795,512	**6,494,115**	7,795,512
TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR		**3,985,111**	10,442,317	**3,985,111**	15,630,241

The above Statements of Changes in Equity are to be read in conjunction with the Notes to the Financial Statements.

	Notes	Consolidated		The Company	
		2006 $	2005 $	2006 $	2005 $
CASH FLOWS USED IN OPERATING ACTIVITIES					
Payments to suppliers and employees		**(1,490,190)**	(1,770,163)	**(1,489,012)**	(1,767,180)
Interest received		**387,371**	154,254	**387,371**	154,254
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	16(a)	**(1,102,819)**	(1,615,909)	**(1,101,641)**	(1,612,926)
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of property, plant and equipment		**(112,186)**	(214,768)	**(112,186)**	(219,130)
Payments for exploration and evaluation expenditure		**(4,217,127)**	(6,304,107)	**(3,361,753)**	(2,585,169)
Advances to related parties		-	-	**(856,551)**	(3,717,559)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(4,329,313)**	(6,518,875)	**(4,330,490)**	(6,521,858)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		**6,964,115**	8,003,012	**6,964,115**	8,003,012
Payment of share issue costs		**(470,000)**	(207,500)	**(470,000)**	(207,500)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**6,494,115**	7,795,512	**6,494,115**	7,795,512
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,061,983**	(339,272)	**1,061,983**	(339,272)
Add opening cash and cash equivalents brought forward		**3,480,182**	3,819,454	**3,480,182**	3,819,454
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	16(b)	**4,542,165**	3,480,182	**4,542,165**	3,480,182

The above Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for De Grey Mining Limited as an individual entity and the consolidated entity consisting of De Grey Mining Limited and its subsidiaries. De Grey Mining Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on Australian Stock Exchange Limited.

This financial report was authorised for issue by the board on 21 September 2006.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensures that the financial report, comprising the group's financial statements and notes and the parent entity financial statements and notes of De Grey Mining Limited, comply with IFRSs.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first De Grey Mining Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of De Grey Mining Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRSs. When preparing De Grey Mining Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRSs. The comparative figures in respect of 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the group's equity and its net income are given in note 2.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising De Grey Mining Limited (the parent entity) and all entities which De Grey Mining Limited controlled from time to time during the year and at balance date. A controlled entity is any entity De Grey Mining Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in note 9.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Investments in subsidiaries are accounted for at cost in the individual financial statements of De Grey Mining Limited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts. The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

Depreciation

Depreciation of plant and equipment is calculated on a reducing balance basis so as to write off the net costs of each asset over the expected useful life. The rates vary between 10% and 30% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(d) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(e) Financial assets

Receivables

Prepayments

Prepayments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Available-for-sale

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

(f) Exploration and evaluation costs

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

The company has taken a more conservative approach in determining when exploration costs will be capitalised and carried forward to the extent that until such time as a potentially economical resource is identified future exploration costs will be expensed in the year that they are incurred. Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

(g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(h) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(j) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee benefits

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, and long service leave.

Liabilities arising in respect of wages and salaries, annual 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.

Share-based payments

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

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 by an external valuation using a Black-Scholes option pricing model.

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 options that, in the opinion of the directors 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 these 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 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.

(l) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(m) Issued capital

Ordinary shares are classified as equity.

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

(n) Earnings per share (EPS)

Basic earnings per share

Basic EPS is calculated as the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(p) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(q) Interests in joint ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated income statement and balance sheet. Details of the economic entity's interests are shown in note 25.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

(r) Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Estimated impairment of inter-company receivables and investments in subsidiaries

The group tests annually whether inter-company receivables and investments in subsidiaries have suffered any impairment, in accordance with the accounting policy stated in note 1(d).

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

	Consolidated			The Company		
	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
Reconciliation of Equity at 1 July 2004						
CURRENT ASSETS						
Cash and cash equivalents	3,819,454	-	**3,819,454**	3,819,454	-	**3,819,454**
Trade and other receivables	123,447	-	**123,447**	123,447	-	**123,447**
TOTAL CURRENT ASSETS	3,942,901	-	**3,942,901**	3,942,901	-	**3,942,901**
NON-CURRENT ASSETS						
Receivables	-	-	**-**	5,703,974	-	**5,703,974**
Other financial assets	-	-	**-**	2,339,792	-	**2,339,792**
Plant and equipment	214,276	-	**214,276**	212,896	-	**212,896**
Mining tenements and capitalised exploration costs	7,409,644	-	**7,409,644**	804,420	-	**804,420**
TOTAL NON-CURRENT ASSETS	7,623,920	-	**7,623,920**	9,061,082	-	**9,061,082**
TOTAL ASSETS	11,566,821	-	**11,566,821**	13,003,983	-	**13,003,983**
CURRENT LIABILITIES						
Trade and other payables	673,675	-	673,675	674,563	-	**674,563**
Provisions	21,491	-	**21,491**	21,491	-	**21,491**
TOTAL CURRENT LIABILITIES	695,166	-	**695,166**	696,054	-	**696,054**
TOTAL LIABILITIES	695,166	-	**695,166**	696,054	-	**696,054**
NET ASSETS	10,871,655	-	**10,871,655**	12,307,929	-	**12,307,929**
EQUITY						
Issued capital	15,739,912	-	**15,739,912**	15,739,912	-	**15,739,912**
Accumulated losses	(4,868,257)	-	**(4,868,257)**	(3,431,983)	-	**(3,431,983)**
TOTAL EQUITY	10,871,655	-	**10,871,655**	12,307,929	-	**12,307,929**

No material impacts have occurred to Equity presented under AGAAP on adoption of AIFRS.

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

	Previous AGAAP $	Consolidated Effect of transition to AIFRS $	AIFRS $	Previous AGAAP $	The Company Effect of transition to AIFRS $	AIFRS $
CURRENT ASSETS						
Cash and cash equivalents	3,480,182	-	**3,480,182**	3,480,182	-	**3,480,182**
Trade and other receivables	575,628	-	**575,628**	575,628	-	**575,628**
TOTAL CURRENT ASSETS	4,055,810	-	**4,055,810**	4,055,810	-	**4,055,810**
NON-CURRENT ASSETS						
Receivables	-	-	**-**	9,421,533	-	**9,421,533**
Other financial assets	-	-	**-**	2,339,792	-	**2,339,792**
Plant and equipment	379,194	-	**379,194**	379,194	-	**379,194**
Mining tenements and capitalised exploration costs	7,067,253	-	**7,067,253**	494,740	-	**494,740**
TOTAL NON-CURRENT ASSETS	7,446,447	-	**7,446,447**	12,635,259	-	**12,635,259**
TOTAL ASSETS	11,502,257	-	**11,502,257**	16,691,069	-	**16,691,069**
CURRENT LIABILITIES						
Trade and other payables	997,554	-	**997,554**	998,442	-	**998,442**
Provisions	62,386	-	**62,386**	62,386	-	**62,386**
TOTAL CURRENT LIABILITIES	1,059,940	-	**1,059,940**	1,060,828	-	**1,060,828**
TOTAL LIABILITIES	1,059,940	-	**1,059,940**	1,060,828	-	**1,060,828**
NET ASSETS	10,442,317	-	**10,442,317**	15,630,241	-	**15,630,241**
EQUITY						
Issued capital	23,535,424	-	**23,535,424**	23,535,424	-	**23,535,424**
Option Reserve	-	49,587	**49,587**	-	49,587	**49,587**
Accumulated losses	(13,093,107)	(49,587)	**(13,142,694)**	(7,905,183)	(49,587)	**(7,954,770)**
TOTAL EQUITY	10,442,317	-	**10,442,317**	15,630,241	-	**15,630,241**

No material impacts have occurred to Equity presented under AGAAP on adoption of AIFRS.

	Previous AGAAP $	Consolidated Effect of transition to AIFRS $	AIFRS $	Previous AGAAP $	The Company Effect of transition to AIFRS $	AIFRS $
Reconciliation of Profit or Loss for year ended 30 June 2005						
REVENUE FROM ORDINARY ACTIVITIES	154,253	-	**154,253**	154,253	-	**154,253**
EXPENDITURE FROM ORDINARY ACTIVITIES						
Depreciation expense	(49,850)	-	**(49,850)**	(52,832)	-	**(52,832)**
Employee benefits expense	(796,692)	-	**(796,692)**	(796,692)	-	**(796,692)**
Exploration expenditure written off	(6,522,101)	-	**(6,522,101)**	(2,771,829)	-	**(2,771,829)**
Corporate expenses	(77,576)	-	**(77,576)**	(77,576)	-	**(77,576)**
Occupancy expenses	(78,189)	-	**(78,189)**	(78,189)	-	**(78,189)**
Consulting expenses	(328,576)	-	**(328,576)**	(328,576)	-	**(328,576)**
Investor relations and advertising expenses	(96,620)	-	**(96,620)**	(96,620)	-	**(96,620)**
Administration expenses	(392,035)	-	**(392,035)**	(392,035)	-	**(392,035)**
Share based payment expense	-	(49,587)	**(49,587)**	-	(49,587)	**(49,587)**
Other expenses from ordinary activities	(37,464)	-	**(37,464)**	(33,104)	-	**(33,104)**
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	(8,224,850)	(49,587)	**(8,274,437)**	(4,473,200)	(49,587)	**(4,522,787)**
INCOME TAX BENEFIT / (EXPENSE) RELATING TO ORDINARY ACTIVITIES	-	-	-	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF DE GREY MINING LIMITED	(8,224,850)	(49,587)	**(8,274,437)**	(4,473,200)	(49,587)	**(4,522,787)**

No material impacts have occurred to the Income Statement presented under AGAAP on adoption of AIFRS.
No material impacts have occurred to the Cash Flows presented under AGAAP on adoption of AIFRS.

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
3. REVENUE FROM CONTINUING OPERATIONS				
Revenues from non-operating activities				
Interest				
Bank interest	**387,371**	154,253	**387,371**	154,253
Total revenues from continuing operations	**387,371**	154,253	**387,371**	154,253
4. EXPENSES AND LOSSES/(GAINS)				
Expenses				
Depreciation of plant and equipment	**123,812**	49,850	**123,812**	52,832
Exploration expenditure written off	**11,225,379**	6,522,101	**3,797,493**	2,771,829
Impairment of Non-current assets	**-**	-	**12,617,876**	-
Rental of premises under operating lease	**71,073**	65,253	**71,073**	65,253
Contributions to superannuation funds	**400,186**	197,683	**400,186**	197,683

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $

5. INCOME TAX

(a) Income tax expense

Current tax	**-**	-	**-**	-
Deferred tax	**-**	-	**-**	-
Under (over) provided in prior years	**-**	-	**-**	-
	-	-	**-**	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from ordinary activities before income tax expense	**(13,032,034)**	(8,274,437)	**(18,219,958)**	(4,522,787)
Prima facie tax benefit on loss from ordinary activities at 30% (2005: 30%)	**(3,909,610)**	(2,482,331)	**(5,465,987)**	(1,356,836)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	**26,614**	14,876	**26,614**	14,876
Capital raising fees	**(141,000)**	(62,250)	**(141,000)**	(62,250)
Expenditure on mining interests written off	**3,367,614**	1,956,630	**1,139,248**	831,549
Expenditure on mining interests	**(1,247,438)**	(1,961,817)	**(990,826)**	(831,549)
Research & Development Expenditure Claimed	**55,622**	87,476	**55,622**	87,476
Sundry items	**136,224**	34,357	**136,224**	34,357
	(1,711,974)	(2,413,059)	**(5,240,105)**	(1,282,377)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**1,711,974**	2,413,059	**5,240,105**	1,282,377
Income tax expense	**-**	-	**-**	-

(c) Unrecognised temporary differences

On Income Tax Account				
Provisions	**179,314**	41,898	**179,314**	41,898
Capital raising fees	**150,414**	109,496	**150,414**	109,496
Other	**1,861**	3,965	**1,861**	3,965
Exploration	**(2,918,210)**	(853,657)	**(2,918,210)**	(853,657)
Carry forward tax losses	**7,110,111**	5,419,043	**7,110,111**	5,419,043
	4,523,490	4,720,745	**4,523,490**	4,720,745

(d) Tax consolidation

Effective 1 July 2004, for the purposes of income taxation, De Grey Mining Limited and its 100% owned subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is De Grey Mining Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate De Grey Mining Limited for any current tax payable assumed and are compensated by De Grey Mining Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to De Grey Mining Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

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

(e) Franking credits

The company has no franking credits available for use in future years.

6. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

	Notes	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $

7. TRADE AND OTHER RECEIVABLES (CURRENT)

Sundry debtors	7(a)	**19,845**	496,264	**19,845**	496,264
Goods and Services Tax receivable		**29,708**	18,449	**29,708**	18,449
		49,553	514,713	**49,553**	514,713

(a) Terms and conditions

(i) Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

8. OTHER FINANCIAL ASSETS

Current					
Prepayments		**57,594**	60,915	**57,594**	60,915
Non-current					
Shares in controlled entities – at cost	9	**-**	-	**3,500,278**	3,500,278
Loans to controlled entities		**-**	-	**10,278,085**	9,421,533
Provision for impairment		**-**	-	**(13,778,363)**	(1,160,486)
Shares and Options in Listed Companies		**51,000**	-	**51,000**	-
		51,000	-	**51,000**	11,761,325

Loans and investments in controlled entities have been provided for impairment in full because the companies currently have no revenue stream or assets to enable repayment of the loans and no returns on investments will be received in the foreseeable future.

9. INTERESTS IN CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of incorporation	Class of shares	Equity Holding* 2006 %	Equity Holding* 2005 %
Beyondie Gold NL	Australia	Ordinary	**100**	100
Domain Mining NL	Australia	Ordinary	**100**	100

*Percentage of voting power is in proportion to ownership

	Notes	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
10. PLANT AND EQUIPMENT					
Plant & equipment					
At cost		**561,742**	494,892	**561,742**	494,892
Accumulated depreciation		**(194,174)**	(115,698)	**(194,174)**	(115,698)
Total plant and equipment	10(a)	**367,568**	379,194	**367,568**	379,194
(a) Reconciliations					
Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year					
Plant & equipment					
Carrying amount at beginning of year		**379,194**	214,276	**379,194**	214,276
Additions		**171,751**	214,768	**171,751**	214,768
Disposals (WDV)		**(59,565)**	-	**(59,565)**	-
Depreciation expense		**(123,812)**	(49,850)	**(123,812)**	(49,850)
Carrying amount at end of year		**367,568**	379,194	**367,568**	379,194
11. MINING TENEMENTS AND CAPITALISED EXPLORATION COSTS					
Exploration and evaluation costs carried forward in respect of mining areas of interest					
Opening balance		**7,067,253**	7,049,964	**494,740**	494,740
Current year expenditure		**4,158,126**	6,539,390	**3,302,753**	2,771,829
Current year write off		**(11,225,379)**	(6,522,101)	**(3,797,493)**	(2,771,829)
Closing balance		**-**	7,067,253	**-**	494,740
Under the current policy, exploration costs have been fully written off. Previously, the ultimate recoupment of costs carried forward for exploration and evaluation phases was dependent on the successful development and commercial exploitation or sale of the respective mining areas.					
12. TRADE AND OTHER PAYABLES (CURRENT)					
Trade creditors		**337,353**	100,481	**337,353**	100,481
Other creditors and accruals		**209,140**	897,073	**209,140**	897,961
		546,493	997,554	**546,493**	998,442

Included in trade and other payables is an amount of $452,253 which relates to exploration.

13. PROVISIONS (CURRENT)					
Employee benefits					
Annual leave		**137,063**	62,386	**137,063**	62,386
Retirement benefit		**399,213**	-	**399,213**	-
		536,276	62,386	**536,276**	62,386

	Notes	2006 Number of Shares	2006 $	2005 Number of Shares$	2005

14. ISSUED CAPITAL

(a) Issued and paid up capital

Ordinary shares fully paid	14(b), 14(d)	**139,225,620**	**30,029,539**	104,405,042	23,535,424
		139,225,620	**30,029,539**	104,405,042	23,535,424

(b) Movements in shares on issue

Beginning of the financial year	**104,405,042**	**23,535,424**	77,639,988	15,739,912
Issued during the year				
- Issue to satisfy underwriting fee at 20c	**625,000**	**125,000**	-	-
- Shares issued at 20c	**10,000**	**2,000**	-	-
- Shares issued at 42c to raise additional capital	**-**	**-**	7,500,000	3,150,000
- Shares issued at 40c to raise additional capital	**-**	**-**	5,000,000	2,000,000
- Shares on exercise of options	**34,185,578**	**6,837,115**	14,265,054	2,853,012
less transaction costs	**-**	**(470,000)**	**-**	(207,500)
End of the financial year	**139,225,620**	**30,029,539**	104,405,042	23,535,424

(c) Movements in options on issue

	Number of options	
Beginning of the financial year	**49,977,428**	48,117,299
Issued during the year		
- Exercisable at 50c, on or before 22 November 2010	**1,000,000**	-
- Exercisable at 25c, on or before 31 December 2010	**1,620,000**	-
- Exercisable at 20c, on or before 30 June 2005	**-**	333,333
- Exercisable at 50c, on or before 31 March 2009	**-**	500,000
- Exercisable at 50c, on or before 6 November 2009	**-**	1,000,000
- Exercisable at 45c, on or before 30 June 2006	**-**	7,500,000
- Exercisable at 50c, on or before 5 July 2007	**-**	5,000,000
Less: Options exercised (20c on or before 5 July 2005)	**(35,977,428)**	(12,473,204)
Less: Options lapsed (50c on or before 5 July 2005)	**(5,000,000)**	-
Less: Options lapsed (45c on or before 30 June 2006)	**(7,500,000)**	-
Less: Options cancelled (25c on or before 31 December 2006)	**(1,090,000)**	-
End of the financial year	**3,030,000**	49,977,428

(d) Ordinary shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

All shares issued are fully paid and have no par value.

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $

15. RESERVES AND ACCUMULATED LOSSES

(a) Reserves				
Share-based payments reserve	**138,300**	49,587	**138,300**	49,587
Asset revaluation reserve	**(8,000)**	-	**(8,000)**	-
Reserve closing balance	**130,300**	49,587	**130,300**	49,587
Movements:				
Share-based payments reserve				
Balance at beginning of year	**49,587**	-	**49,587**	-
Option expense	**88,713**	49,587	**88,713**	49,587
Balance at end of year	**138,300**	49,587	**138,300**	49,587
(b) Accumulated losses				
Balance at beginning of year	**(13,142,694)**	(4,868,257)	**(7,954,770)**	(3,431,983)
Net loss attributable to members of De Grey Mining Limited	**(13,032,034)**	(8,274,437)	**(18,219,958)**	(4,522,787)
Balance at end of year	**(26,174,728)**	(13,142,694)	**(26,174,728)**	(7,954,770)

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

Asset revaluation reserve

The asset revaluation reserve is used to revalue those financial assets classified as available-for-sale financial assets. The valuation decrement for the current financial year is $8,000.

16. STATEMENT OF CASH FLOWS

(a) Reconciliation of the net loss after income tax to net cash flows from operating activities				
Net loss	**(13,032,034)**	(8,274,437)	**(18,219,958)**	(4,522,787)
Non-cash Items				
Depreciation of non-current assets	**123,812**	49,850	**123,812**	52,832
Exploration costs written off	**11,225,379**	6,523,478	**3,797,493**	2,771,829
Provision for impairment of investment	**-**	-	**12,617,876**	-
Option expense	**88,713**	49,587	**88,713**	49,587
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	**468,482**	(5,282)	**468,482**	(5,282)
Increase/(decrease) in trade and other payables	**(451,061)**	-	**(451,949)**	-
Increase/(decrease) in employee entitlements	**473,890**	40,895	**473,890**	40,895
Net cash outflow from operating activities	**(1,102,819)**	(1,615,909)	**(1,101,641)**	(1,612,926)
(b) Reconciliation of cash and cash equivalents				
Cash and cash equivalents comprises:				
- cash at bank and in hand	**805,173**	2,944,839	**805,173**	2,944,839
- short-term deposits	**3,736,992**	535,343	**3,736,992**	535,343
Closing cash and cash equivalents balance	**4,542,165**	3,480,182	**4,542,165**	3,480,182

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
(c) Financing facilities available				
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities				
- Bank feasibility finance facility	**5,000,000**	5,000,000	**5,000,000**	5,000,000
Facilities unused at reporting date				
- Bank feasibility finance facility	**5,000,000**	5,000,000	**5,000,000**	5,000,000
(d) Non-cash financing and investing activities				
The company received 100,000 Atlas Iron Ltd shares valued at $59,000 in consideration of the sale of mining tenements. These shares were market valued at balance date to $51,000.				

17. EXPENDITURE COMMITMENTS

(a) Exploration commitments				
The company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:				
not later than one year	**963,700**	872,300	**963,700**	872,300
later than one year and not later than two years	**963,700**	1,744,600	**963,700**	1,744,600
later than two years and not later than five years	**2,891,100**	4,477,600	**2,891,100**	4,477,600
	4,818,500	7,094,500	**4,818,500**	7,094,500
(b) Lease expenditure commitments				
Operating leases (non-cancellable):				
Minimum lease payments				
- not later than one year	**71,073**	71,073	**71,073**	71,073
- later than one year and not later than five years	**71,073**	142,146	**71,073**	142,146
Aggregate lease expenditure contracted for at reporting date	**142,146**	213,219	**142,146**	213,219

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the greater of CPI or a market rent review per annum. The lease allows for subletting of all lease areas.

(c) Remuneration commitments				
Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in note 22(b) that are not recognised as liabilities and are not included in the key management personnel compensation.				
not later than one year	**178,969**	250,000	**178,969**	250,000
	178,969	250,000	**178,969**	250,000

(d) Joint ventures

There are no capital commitments arising out of interest in joint ventures.

18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no material contingent liabilities or contingent assets of the consolidated entity at balance date.

19. SUBSEQUENT EVENTS

Other than stated below, no matter or circumstance has arisen since 30 June 2006, which has significantly affected, or may significantly affect the operations of the company, the result of those operations, or the state of affairs of the company in subsequent financial years.

Subsequent issue of options to Directors

On the 13 July 2006 further options were issued to the Directors of the company, as voted on at the General Meeting, as follows:

	TOTAL	Expire on 10 July 2011 Exercise Price 30 cents	Expire on 30 June 2011 Exercise Price 30 cents	Expire on 30 June 2012 Exercise Price 30 cents	Expire on 30 June 2013 Exercise Price 35 cents
Gary Brabham	**1,000,000**	1,000,000	-	-	-
Craig Oliver	**1,000,000**	1,000,000	-	-	-
Denis O'Meara	**1,000,000**	1,000,000	-	-	-
Darren Townsend	**3,000,000**	-	1,000,000	1,000,000	1,000,000
Total issued	**6,000,000**	**3,000,000**	**1,000,000**	**1,000,000**	**1,000,000**

Capital raising as announced 5 Sept 2006

The Company announced the placement of 18,181,818 ordinary shares issued at a price of 11 cents per share to raise $2 million (before expenses of the issue). The placement is to professional and sophisticated investors with Max Capital Pty Ltd acting as Lead Manager.

Following completion of the placement, De Grey will have 157,407,438 ordinary shares on issue and working capital of approximately $4.5 million.

Share Purchase Plan

On 5 September 2006 the Company announced a Share Purchase Plan ("SPP") for eligible shareholders. The Company has limited the SPP to a maximum of 18,181,818 ordinary shares at an issue price of 11 cents per share to raise a maximum of $2 million (before expenses of the issue).

The financial effects of the above transactions have not been brought to account at 30 June 2006.

Directors Retirement Benefit

Mr Ron Manners received a director's retirement benefit of $252,063 in July 2006 together with a final Director's fee payment of $15,227. The director's retirement benefit was included in the retirement benefit provision at note 13 of $399,213.

	2006 $	2005 $

20. LOSS PER SHARE

(a) Reconciliation of earnings to profit or loss

Net loss	**(13,032,034)**	(8,274,437)
Loss used in calculating basic loss per share	**(13,032,034)**	(8,274,437)

	Number of shares	Number of shares
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share		
Weighted average number of ordinary shares used in calculating basic loss per share	**138,587,194**	84,633,139

(c) Effect of dilutive securities

There were no dilutive potential ordinary shares on issue at balance date. Accordingly diluted loss per share has not been disclosed. Options considered non dilutive at balance date are 3,030,000.

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $

21. AUDITORS'REMUNERATION

Amounts received or due and receivable by Butler Settineri (Audit) Pty Ltd for:				
- services in relation to the entity and any other entity in the consolidated entity				
- Audit and review services	**12,000**	13,500	**12,000**	13,500
- other services in relation to the entity and any other entity in the consolidated entity				
- Tax compliance services	**9,735**	2,345	**9,735**	2,345
	21,735	15,845	**21,735**	15,845

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of key management personnel

(i) Directors

Campbell T Ansell	Non-Executive Chairman	
Darren P Townsend	Managing Director	*Appointed 1 June 2006*
Denis W O'Meara	Non-Executive Director	*Resigned as Managing Director on 1 June 2006*
Gary R Brabham	Non-Executive Director	*Appointed 23 November 2005*
Craig Oliver	Non-Executive Director	*Appointed 10 April 2006*
Ron B Manners	Non-Executive Director	*Resigned 3 July 2006*
Michael J Baker	Non-Executive Director	*Resigned 6 April 2006*

(ii) Executives

Dennis Wilkins	Company Secretary	
David Hammond	Exploration Manager	*Appointed 6 June 2006*
Neil Lithgow	Exploration Manager	*Resigned 12 May 2006*

(b) Remuneration policy of key management personnel

The objective of the company's executive reward framework is to attract and retain the most qualified and experienced directors and senior executives. The board's policy in determining the nature and amount of compensation is directly linked to market forces prevailing in the industry at the time of review. There is no link between the board's policy and the entity's performance due to the company's current stage of development. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness
- Acceptability to shareholders
- Key performance indicators
- Capital management

Non executive directors

The constitution of the company provides that the non-executive directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate maximum sum per annum from time to time determined by the company in general meeting (currently $250,000). The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market.

Directors fees

A director may be paid fees or other amounts as the directors determine where a director performs special duties or otherwise performs service outside the scope of the ordinary duties of a director. A director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Compensation determination

Options issued to key management personnel, as part of their remuneration, vest on date of issue. The options terms and conditions, including exercise prices, are set according to the individual's role, and based on the requirement to meet certain performance criteria hurdles, to align their interests with that of the shareholders of the company.

Service agreements

The agreements relating to remuneration are set out below:

Darren Townsend, Managing Director:

- Term of agreement - 1 year commencing 1 June 2006.
- Base salary, exclusive of statutory superannuation, of $250,000 to be reviewed upon termination by the board.
- Payment of termination benefit on early termination by the company, other than for gross misconduct, equal to the fee for the remaining term of the agreement.

Dennis Wilkins, Company Secretary:

- Term of agreement - 3 months notice of termination required.
- Fixed fee, $9,450 per month (includes company secretarial, accounting and other corporate services).

Retirement benefits

Other retirement benefits may be provided directly by the company if approved by shareholders.

(c) Compensation of key management personnel by category

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
Short-term	**946,567**	721,177	**946,567**	721,177
Post employment	**160,035**	118,108	**160,035**	118,108
Other long-term	**-**	-	**-**	-
Termination benefits	**395,934**	-	**395,934**	-
Share-based payment	**33,572**	339,567	**33,572**	339,567
	1,536,108	1,178,852	**1,536,108**	1,178,852

(d) Compensation of key management personnel by individual

	Salary & Fees	Short-Term Cash Bonus	Non Monetary	Post Employment Super-annuation	Post Employment Retirement benefits	Share-based Payments Options	Total
Directors							
Campbell T Ansell							
2006	**42,500**	**-**	**-**	**6,550**	**-**	**-**	**49,050**
2005	31,875	-	-	4,231	-	-	36,106
Darren P Townsend (appointed 1 June 2006)							
2006	**239,462**	**-**	**-**	**21,552**	**-**	**-**	**261,014**
2005	192,308	-	-	17,238	-	-	209,546
Denis W O'Meara							
2006	**208,334**	**-**	**-**	**22,500**	**-**	**33,572**	**264,406**
2005	207,292	-	-	18,000	-	242,100	467,392
Gary R Brabham (appointed 23 November 2005)							
2006	**16,019**	**-**	**-**	**1,442**	**-**	**-**	**17,461**
Craig Oliver (appointed 10 April 2006)							
2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Ron B Manners (resigned 3 July 2006)							
2006	**-**	**-**	**-**	**100,587**	**-**	**-**	**100,587**
2005	-	-	-	64,038	-	-	64,038
Michael J Baker (resigned 6 April 2006)							
2006	**45,742**	**-**	**-**	**4,117**	**143,871**	**-**	**193,730**
2005	33,125	-	-	2,981	-	-	36,106
Executives							
Dennis Wilkins (Company Secretary)							
2006	**126,441**	**-**	**-**	**-**	**-**	**-**	**126,441**
2005	116,500	-	-	-	-	97,467	213,967
David Hammond (Exploration Manager, appointed 6 June 2006)							
2006	**5,769**	**-**	**-**	**519**	**-**	**-**	**6,288**
Neil Lithgow (Exploration Manager, resigned 12 May 2006)							
2006	**156,594**	**-**	**-**	**13,271**	**-**	**-**	**169,865**
2005	140,077	-	-	11,620	-	-	151,697
Total							
2006	**840,861**	**-**	**-**	**170,538**	**143,871**	**33,572**	**1,188,842**
2005	721,177	-	-	118,108	-	339,567	1,178,852

(e) Compensation options: Granted and vested during the year

	Vested Number	Granted Number	Terms & Conditions for Each Grant: Grant Date	Value per option at grant date (cents)	Exercise Price per share (cents)	First Exercise Date	Last Exercise Date
Directors							
Denis W O'Meara	1,000,000	**1,000,000**	2 Dec 2005	3.36	50.0	2 Dec 2005	22 Nov 2010
Total	1,000,000	**1,000,000**					

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(f) Shares issued on exercise of compensation options

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

(g) Option holdings of key management personnel

	Balance at beginning of year 1 July 2005	Granted	Options Exercised	Net Change Other	Balance at end of year 30 June 2006	Vested at 30 June 2006 Total	Not exercisable	Exercisable
Directors								
Campbell T Ansell	200,000	-	(200,000)	-	-	-	-	-
Darren P Townsend	-	-	-	-	-	-	-	-
Denis W O'Meara	1,000,000	1,000,000	-	-	2,000,000	2,000,000	-	2,000,000
Gary R Brabham	-	-	-	-	-	-	-	-
Craig Oliver	-	-	-	-	-	-	-	-
Executives								
Dennis Wilkins	-	-	-	-	-	-	-	-
David Hammond	-	-	-	-	-	-	-	-
Total	**1,200,000**	**1,000,000**	**(200,000)**	**-**	**2,000,000**	**2,000,000**	**-**	**2,000,000**

(h) Shareholdings of key management personnel

	Balance 1 July 2005 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2006 Ord
Directors					
Campbell T Ansell	50,000	-	200,000	(100,000)	150,000
Darren P Townsend	-	-	-	56,526	56,526
Denis W O'Meara	1,950,001	-	-	494,741	2,444,742
Gary R Brabham	-	-	-	-	-
Craig Oliver	-	-	-	-	-
Executives					
Dennis Wilkins	-	-	-	-	-
David Hammond	-	-	-	-	-
Total	**2,000,001**	**-**	**200,000**	**451,267**	**2,651,268**

(i) Loans to key management personnel

There were no loans to key management personnel during the year.

(j) Other transactions and balances with key management personnel

Refer note 23 below for other transactions and balances with key management personnel.

23. RELATED PARTY DISCLOSURES

(a) Parent entity

The ultimate parent entity within the Group is De Grey Mining Limited.

(b) Wholly-owned group transactions

Details of interests in wholly owned controlled entities are set out in note 9. Details of dealings with these entities are set out below.

Loans

The company has paid exploration and administration expenses on behalf of its controlled entities. As at 30 June 2006, Beyondie Gold NL owed De Grey Mining Limited the sum of $10,277,908 (2005: $9,421,533). Domain Mining NL owed De Grey Mining Limited the sum of $177 (2005: De Grey Mining Limited owed Domain Mining NL $888). No interest is charged on these debts and they are unsecured.

(c) Key management personnel

Apart from the details disclosed in this note and note 22, no key management personnel have entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end except as elsewhere disclosed in this report.

DWCorporate

DWCorporate, a business of which Mr Wilkins is principal, provided Company Secretarial and other corporate services to De Grey Mining Limited during the year. The amounts paid were at arms length and are disclosed at note 22(d) above.

Other transactions with the company

The terms and conditions of the transactions with directors and director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms length basis.

Amounts payable to directors and their director-related entities at balance date were nil.

24. SEGMENT INFORMATION

Segment products and locations

The consolidated entity operates in one industry and one geographical segment, namely the mining industry within Western Australia.

25. JOINT VENTURE

The company has interests in the following joint ventures:

Joint Venture	Activities	Interest	Carrying Value $
Atlas Iron Ltd	Iron Ore	2% of gross sales revenue (royalty)	
	30% Option to buy back	NIL	
Thundelarra Exploration Ltd and Attgold Pty Ltd	Gold and Base and Precious Metals	De Grey earning up to 60% Attgold Option Agreement – Royalty of $1/t (maximum of $750,000)	NIL

The Indee Platinum Joint Venture ceased on the 24 April 2006.

26. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

26(a) Interest rate risk

The consolidated entity is exposed to movements in market interest rates on short-term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

The only financial asset exposed to interest rate risk is the cash balance of $4,542,165 (prior year $3,480,182). The weighted average effective interest rate is 5.6% (prior year 4.8%).

26(b) Net fair values

All financial assets and liabilities have been recognised at the balance date at amounts approximating their carrying value.

26(c) Credit risk exposures

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision of doubtful debts) of those assets as disclosed in the balance sheet and notes to the financial statements.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

26(d) Liquidity risk exposures

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions.

26(e) Market risk exposures – Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

27. SHARE-BASED PAYMENTS

Employees and contractors option plan

The Group provides benefits to employees (including directors) and consultants of the Group in the form of share-based payment transactions, whereby employees or consultants render services in exchange for options (for nil consideration) to acquire ordinary shares. The exercise price of the options granted range from 25 cents to 50 cents per option. All options granted to employees vest on grant and are exercisable at any time from the date of issue until 31 December 2010. Options granted to consultants and the former Managing Director, Mr Denis O'Meara, have expiry dates ranging from 31 March 2009 to 22 November 2010.

The options are granted to employees to align their interests with that of the shareholders of the company.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share in the capital of the company with full dividend and voting rights.

Set out below are summaries of granted options:

	Consolidated and The Company			
	2006		2005	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	**1,500,000**	**41.0**	-	-
Granted	**2,620,000**	**35.0**	1,500,000	50.0
Cancelled	**(1,090,000)**	**25.0**	-	-
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Outstanding at year-end	**3,030,000**	**46.0**	1,500,000	50.0
Exercisable at year-end	**3,030,000**	**46.0**	1,500,000	50.0

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.8 years (2005: 4.14 years), and the exercise prices range from 25 cents to 50 cents.

Expenses arising from share-based payment transactions

The weighted average fair value of the options granted during the year was 7.75 cents. The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

Date Granted	Number of Options Granted $	Exercise Price $	Expiry Date	Risk Free Interest Rate Used	Volatility Applied	Option Value $
2 December 2005	1,000,000	**0.50**	22 November 2010	**5.25%**	70%	0.0336
6 April 2006	1,620,000	**0.25**	31 December 2010	**5.50%**	70%	0.1046

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

No assumptions have been made relating to expected early exercise of the options and there are no other inputs to the model.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated		The Company	
	2006 $	2005 $	2006 $	2005 $
Options issued to employees and consultants	**138,300**	49,587	**138,300**	49,587

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of De Grey Mining Limited, I state that:

(1) In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity'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 295A of the Corporations Act 2001 for the financial year ending 30 June 2006.

On behalf of the board

Campbell T Ansell
Chairman

Perth, 21 September 2006

Scope

We have audited the attached financial report, being a general purpose financial report of De Grey Mining Limited for the financial year ended 30 June 2006 as set out on pages 15 to 40 comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001.

This responsibility also includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion, the financial report of De Grey Mining Limited is in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

b) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

BUTLER SETTINERI (AUDIT) PTY LTD

COLIN P BUTLER
Director

Perth
Date: 21 September 2006

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 21 September 2006.

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

	Ordinary shares		Options	
	Number of holders	Number of shares	Number of holders	Number of options
1 - 1,000	**60**	**43,073**	-	-
1,001 - 5,000	**458**	**1,603,714**	-	-
5,001 - 10,000	**520**	**4,626,223**	-	-
10,001 - 100,000	**1,279**	**48,092,885**	10	530,000
100,001 and over	**205**	**103,041,593**	6	9,000,000
	2,522	**157,407,488**	16	9,530,000
The number of shareholders holding less than a marketable parcel of shares are:	**359**	**861,821**	-	-

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Lion Selection Group Limited	12,013,908	7.63%
2	Bougainvillaea Holdings Pty Ltd	8,015,000	5.09%
3	Yandal Investments Pty Ltd	6,750,000	4.29%
4	Anz Nominees Limited	4,342,607	2.76%
5	Macquarie Bank Limited	3,527,500	2.24%
6	Mannwest Group Pty Ltd	2,500,000	1.59%
7	Mr Ronald Brown Manners	2,000,000	1.27%
8	Mr Denis William O'Meara	1,544,741	0.98%
9	Intersuisse (Issues) Nominee	1,380,000	0.88%
10	Nefco Nominees Pty Ltd	1,323,000	0.84%
11	Rbc Dexia Investor Services	1,200,000	0.76%
12	Forty Traders Limited	1,150,000	0.73%
13	Mr Mark Gareth Creasy	1,000,000	0.64%
14	Topspeed Pty Ltd	1,000,000	0.64%
15	Ben Shelara Holdings Pty Ltd	1,000,000	0.64%
16	Chanrich Properties Pty Ltd	935,186	0.59%
17	The House Of Dare Pty Ltd	900,000	0.57%
18	Lambiris Bros Kitchens	882,500	0.56%
19	Mrs Myrna Eunice O'Meara	720,001	0.46%
20	Dr Keith David Brown & Mrs Nina Brown	700,000	0.44%
		52,884,443	33.60%

(d) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares
Lion Selection Group Ltd	12,013,908
Bougainvillaea Holdings Pty Ltd	8,015,000

(e) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

Tenements Listing

Location	Tenement	Percentage held
Beyondie Base & Precious Metals	E69/1511	100%
Beyondie Base & Precious Metals	E52/1470	100%
Beyondie Base & Precious Metals	E52/1491	100%
Beyondie Base & Precious Metals	E52/1806 (A)	100%
Beyondie Base & Precious Metals	E52/1807 (A)	100%
Beyondie Base & Precious Metals	E52/1808 (A)	100%
Beyondie Base & Precious Metals	E52/1809 (A)	100%
Beyondie Base & Precious Metals	E52/1826 (A)	100%
Beyondie Base & Precious Metals	E52/1827 (A)	100%
Beyondie Base & Precious Metals	E52/1828 (A)	100%
Beyondie Base & Precious Metals	E69/2030 (A)	100%
Beyondie Base & Precious Metals	E69/2031 (A)	100%
Beyondie Base & Precious Metals	P52/1105 (A)	100%
Beyondie Base & Precious Metals	P52/1106 (A)	100%
Beyondie Base & Precious Metals	P52/1107 (A)	100%
Beyondie Base & Precious Metals	P52/1108 (A)	100%
Beyondie Base & Precious Metals	P52/1109 (A)	100%
Beyondie Base & Precious Metals	P52/1110 (A)	100%
Beyondie Base & Precious Metals	P69/39 (A)	100%
East Sulphur Springs	ELA45/2940	100%
East Sulphur Springs	ELA45/2941	100%
East Sulphur Springs	PA45/2623	100%
East Sulphur Springs	PA45/2624	100%
East Sulphur Springs	PA45/2625	100%
East Sulphur Springs	PA45/2626	100%
East Sulphur Springs	PA45/2627	100%
Horans Dam	E26/58	100%
Horans Dam	E26/120 (A)	100%
Horans Dam	M26/796 (A)	100%
Horans Dam	M26/797 (A)	100%
Marble Bar North	ELA45/2942	100%
Marble Bar North	PA45/2621	100%
Marble Bar North	PA45/2622	100%
Turner River	E45/1353	100%
Turner River	E45/1641	100%
Turner River	E45/2212	100%
Turner River	E45/2213	100%
Turner River	E45/2354	100%
Turner River	E45/2403	100%
Turner River	E45/2533	100%
Turner River	E45/2597	100%
Turner River	E45/2465	100%
Turner River	E47/1132	100%
Turner River	E47/891	100%
Turner River	E45/2364	option
Turner River	E45/2611	60%
Turner River	E45/2432 (A)	100%
Turner River	M45/934 (A)	100%
Turner River	P45/2538 (A)	100%
Turner River	P45/2539 (A)	100%
Turner River	P45/2540 (A)	100%
Turner River	P45/2541 (A)	100%
Turner River	P45/2542 (A)	100%
Turner River	P45/2543 (A)	100%
Turner River	P45/2544 (A)	100%
Turner River	P45/2545 (A)	100%
Turner River	P45/2546 (A)	100%
Turner River	P45/2547 (A)	100%
Turner River	P45/2548 (A)	100%
Turner River	P45/2549 (A)	100%
Turner River	P45/2552 (A)	100%
Turner River	P45/2553 (A)	100%
Turner River	P45/2554 (A)	100%
Turner River	P45/2555 (A)	100%
Turner River	P45/2556 (A)	100%
Turner River	P47/1166 (A)	100%
Turner River	P47/1167 (A)	100%
Turner River	M45/1068 (A)	100%
Turner River	M45/1069 (A)	100%
Turner River	M45/1070 (A)	100%
Turner River	M45/1071 (A)	100%
Turner River	M45/1072 (A)	100%
Turner River	M45/1073 (A)	100%
Turner River	M45/1074 (A)	100%
Turner River	M45/1075 (A)	100%
Turner River	M45/1076 (A)	100%
Turner River	M45/1077 (A)	100%
Turner River	G45/272 (A)	100%
Toomey Hill	E39/1152 (A)	100%
South Yeelirrie	E36/566	100%
South Yeelirrie	E36/567	100%
South Yeelirrie	E36/568	100%

De Grey Mining Limited

ABN 65 094 206 292

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5 Bishop Street
Jolimont WA 6014
Telephone: +61 8 9285 7500
Facsimile: +61 8 9285 7599
Web: www.degreymining.com.au