# DE GREY MINING LIMITED
# ANNUAL REPORT 2007

# De Grey Mining Limited

ABN 65 094 206 292



Photography by Lara Jensen

**Directors**
Campbell Ansell *(Chairman)*
Darren Townsend *(Managing Director)*
Gary Brabham
Craig Oliver

**Exploration Manager**
Dave Hammond

**Senior Geologist**
Dan Hampton

**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



## Overview

**Despite a number of delays due to Cyclone George and issues with drilling contractor availability over 36,000 metres was drilled for the year, predominantly focused on the VMS belt discovered last year at Turner River. In less than two years De Grey has discovered six zinc and silver rich mineralised zones. The focus of the Company is to work towards identifying a critical mass of base and precious metal resource drilling targets and to continue to look for further project acquisitions/joint ventures in the Pilbara region to fit in with the Company's aim of building a strategic holding of base and precious metals assets within trucking distance of a possible central processing facility.**


**In the 2007-08 year De Grey is budgeting to continue its aggressive exploration effort with the aim of providing a critical mass of resource for drilling targets at Turner River.**

## HIGHLIGHTS

- First two diamond drilling programs of the new Volcanogenic Massive Sulphide (VMS) belt at the Turner River Project return high grade zinc and silver-rich intersections. Best intersections include:
  - 4.90 metres at 12.7% zinc, 331g/t silver, 7.31% lead, 2.54g/t gold and 0.35% copper from 514.4 metres
  - 3.85 metres at 8.21% zinc, 748g/t silver, 5.23% lead, 3.08g/t gold and 0.61% copper from 276.8 metres
  - 2.43 metres at 8.90% zinc, 256g/t silver, 4.45% lead, 2.51g/t gold and 0.14% copper from 308.27 metres
- Identification of a new VMS mineralised prospect at Hakea. This takes the number of zinc and silver-rich mineralised zones along an 18 kilometre strike of the VMS belt to six.
- Preliminary metallurgical test work of Orchard Tank mineralisation returns high recoveries and high concentrate grades.
- Two holes of De Grey's first three hole RC drill program at Copper Hills (Beyondie Project) intersects 4 metres at 1.19% copper from 59 metres including 1 metre at 2.19% copper and 2 metres at 1.38% copper from 42 metres.

## PROJECT LOCATIONS


# Managing Director's Report

De Grey continued its active exploration of the Turner River Project, 60 kilometres south of Port Hedland during 2006-07, primarily targeting Volcanogenic Massive Sulphide-style (VMS) prospects in a new polymetallic VMS belt, the discovery of which was confirmed by the Company with drilling in October 2005.

Despite delays to the exploration program beyond the control of the Company, such as the destruction of the exploration camp by Cyclone George, more than 36,000 metres of drilling was completed during the year.

Significant zinc-silver-lead-gold-copper mineralisation has now been identified in six separate locations along an 18 kilometres of strike of VMS belt.

Metallurgical test work on samples from the most advanced of these prospects indicates excellent overall metal recoveries and high concentrate grades.



**Metallurgical test work on samples from the most advanced VMS prospect indicates excellent overall metal recoveries and high concentrate grades.**

Dependent on further exploration results, De Grey aims to be resource drilling a VMS prospect as soon as possible.

The Company also took the opportunity to further progress its exploration for gold at Turner River during the year, eager to add to the JORC compliant resource of 203,000 ounces of gold at Wingina Well.. In the forthcoming year De Grey will be following up a number of other attractive gold exploration targets in the area.

As well as continuing to advance our exploration for base metals and gold at Turner River, De Grey is continuing strategies to acquire other

prospective ground in the Pilbara, and to step up exploration of the 100% owned Beyondie Base and Precious Metals Project, which covers 2,445 square kilometres 160 kilometres south of Newman.

During the year the Company pegged 85 square kilometres of tenements prospective for gold and base metals over greenstone in the Eastern Pilbara within trucking distance of the Turner River Project. We also actively pursued a number of joint venture and tenement purchase opportunities and will continue to follow this course to selectively add value to our portfolio of tenements.

De Grey was also successful during the year with its first drilling program at the Copper Hills prospect, located on the Beyondie Project which has been only lightly explored in the past.

Although only three RC holes were drilled, copper mineralisation was identified in two of these holes at Copper Hills. In addition, re-splits from RC drilling to the north of the Beyondie Bluff identified a trend of increasing zinc anomalism in shale.

From these results of our reconnaissance exploration to date, Beyondie is emerging as a greenfields exploration asset of some significance for De Grey and we are currently examining a number of options to advance exploration of this very large project.

On the management front, De Grey has recently welcomed Dan Hampton to our exploration team. Dan is a highly experienced geologist whose principal responsibility will be to manage the Company's Turner River Project.

Dan has been a valuable addition to the team and he will greatly assist our Exploration Manager Dave Hammond with further advancing our Tuner River Project.

On the corporate front I would also like to thank our shareholders for their ongoing support and patience. Rest assured that our team of six geologists under the leadership of Dave Hammond are very busy drilling lots of metres to change the Company's fortunes.

Many thanks also to all our administration and support staff, consultants and directors for their efforts during the year past.

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, Kevin and Melanie Dean at Wallareenya Station, Brent and Rachel Smoothy at Kumarina Station and John Roach of Marymia Station.

I would also like to extend thanks to the traditional owners of the areas we operate in, namely the Kariyarra, Njamal, Martu and Gingerana people.

Darren Townsend, Managing Director

September 2007

## TURNER RIVER PROJECT

The Turner River Project is located 60 kilometres south of Port Hedland in the Pilbara Region of Western Australia and covers an area of 1,178 square kilometres (Figure 1). In February 2007 De Grey exercised an option to acquire the 74 square kilometre Tabba Tabba tenement, adding to the 100% held tenure in the region.

The main focus of exploration during the 2006/2007 financial year was the new region of volcanogenic massive sulphide style (VMS) mineralisation discovered at Turner River Project last year.

The main focus of exploration during the 2006/2007 was the new region of volcanogenic massive sulphide style (VMS) mineralisation discovered at Turner River Project last year.

De Grey is following an aggressive exploration strategy for base and precious metals at Turner River, as illustrated by the summary exploration statistics in Table 1:

*Table 1: Turner River Project Exploration Statistics July 2006 to June 2007*

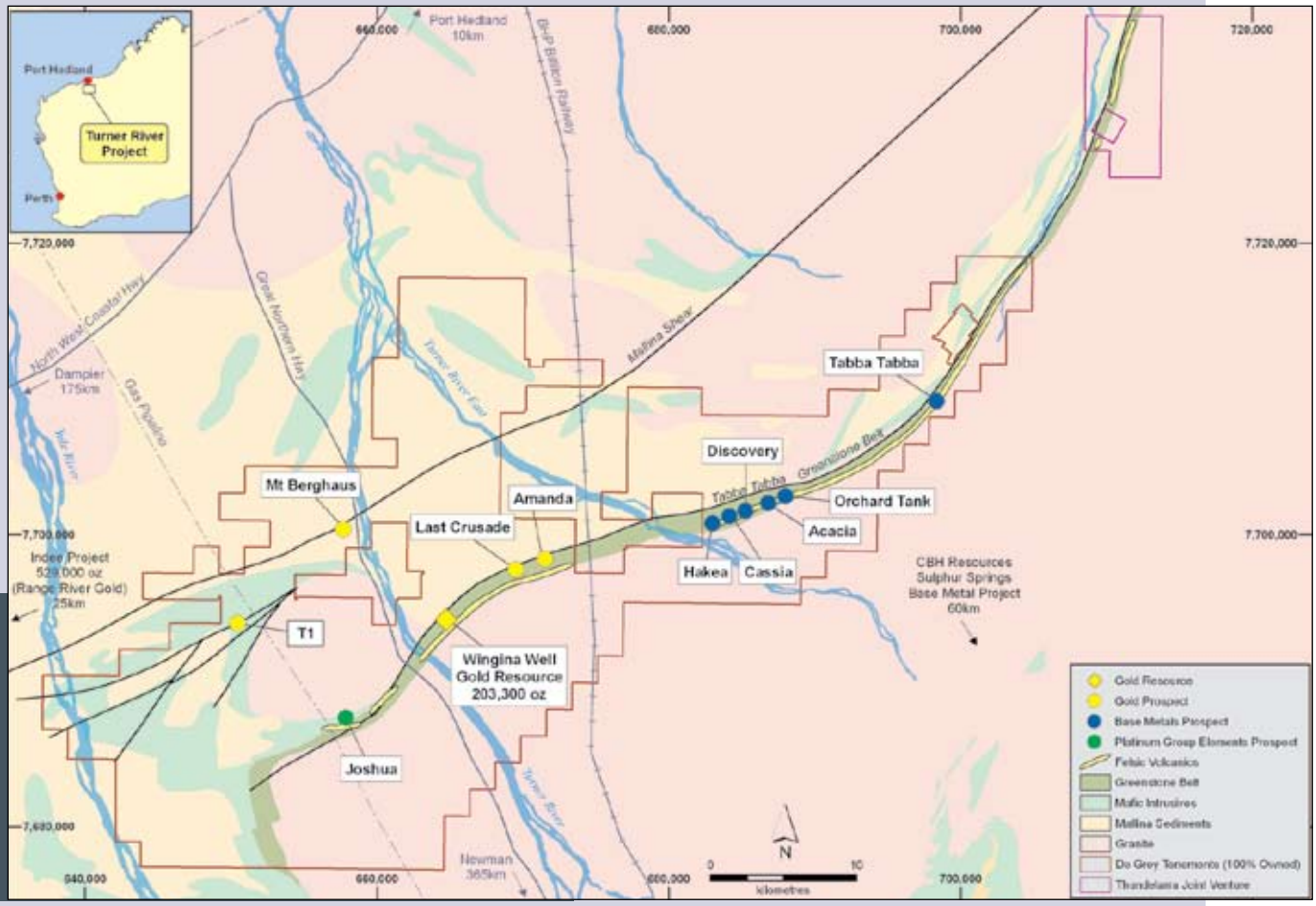
| Method | Item | 2006/2007 |
|---|---|---|
| RAB drilling | holes | 790 |
| | metres | 15,881m |
| Aircore drilling | holes | 207 |
| | metres | 8,169m |
| RC drilling | holes | 57 |
| | metres | 9,690m |
| Diamond drilling | holes | 11 |
| | metres | 2,624m |
| Auger drilling | Auger holes | 3,286 |
| Surface sampling | Soil and rock samples | 1,368 |

Exploration activities were affected this year by Cyclone George, which delayed exploration programs for 3 months from early March 2007.

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 2006/2007 year are summarised below by exploration target.

*Figure 1: Turner River Project – Prospect Location Map*




## TURNER RIVER BASE AND PRECIOUS METALS EXPLORATION

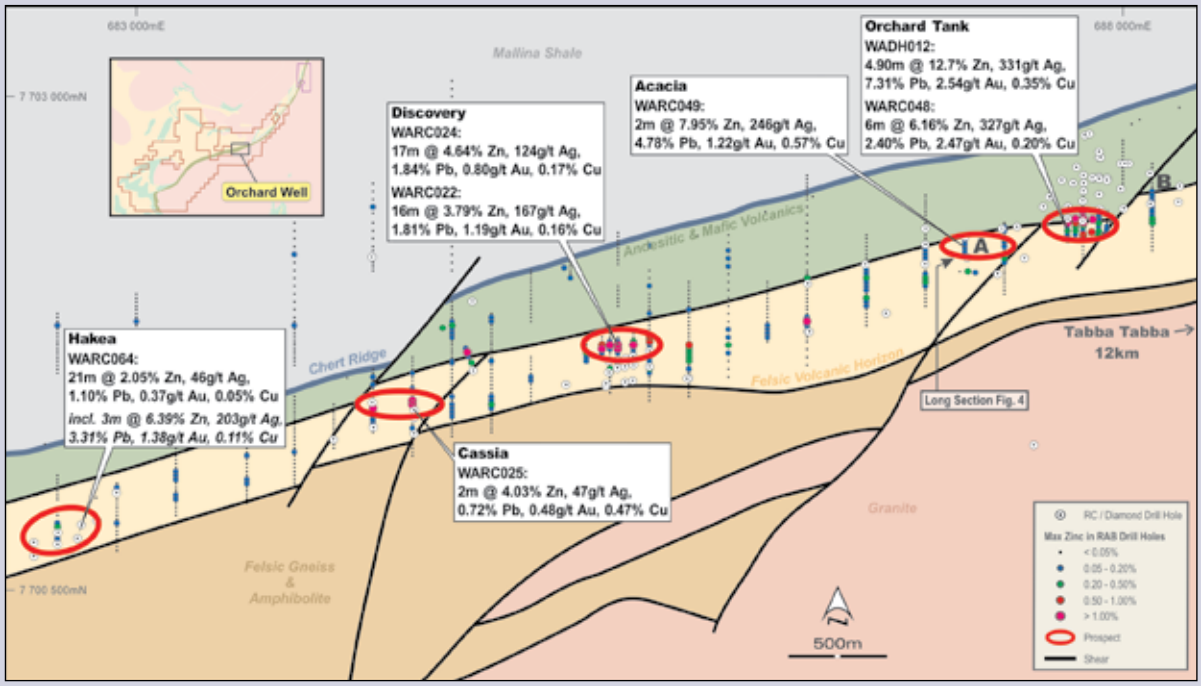
The majority of exploration programs this year have focused on the evaluation of the poly-metallic volcanogenic massive sulphide - style (VMS) prospects discovered last year by De Grey.

The discovery of VMS mineralisation for the first time in the Central Pilbara Craton is particularly significant as such deposits can be very high value due to their grade and polymetallic nature. VMS deposits are known to occur in clusters within a particular district.

Examples of VMS mining operations in WA include Golden Grove (Oxiana Limited) and Jaguar (Jabiru Metals Limited). CBH Resources Limited's planned 1.5 million tonnes per annum Sulphur Springs mine and processing plant in the Pilbara lies only 60 kilometres from De Grey's Turner VMS prospects.

The Tabba Tabba Greenstone Belt, a northeast to southwest orientated linear belt of bimodal volcanic, chert and meta-sedimentary Archaean rocks, has been dated recently by the Geological Survey of Western Australia (GSWA) at 3,252 Ma. This is much older than was previously thought and suggests a correlation to the

*Figure 2: VMS Prospects, Hakea to Orchard Tank Plan*






Sulphur Springs Group (3,270 Ma to 3,235 Ma) with the implication that the VMS mineralisation, which was also dated to the same age as the greenstone belt, is of similar age and type to Sulphur Springs. De Grey is well-placed to gain value from the discovery of VMS mineralisation as it holds tenements over a total strike length of 75 kilometres along the Tabba Tabba Greenstone Belt. The majority of the belt remains unexplored for VMS-style mineralisation.

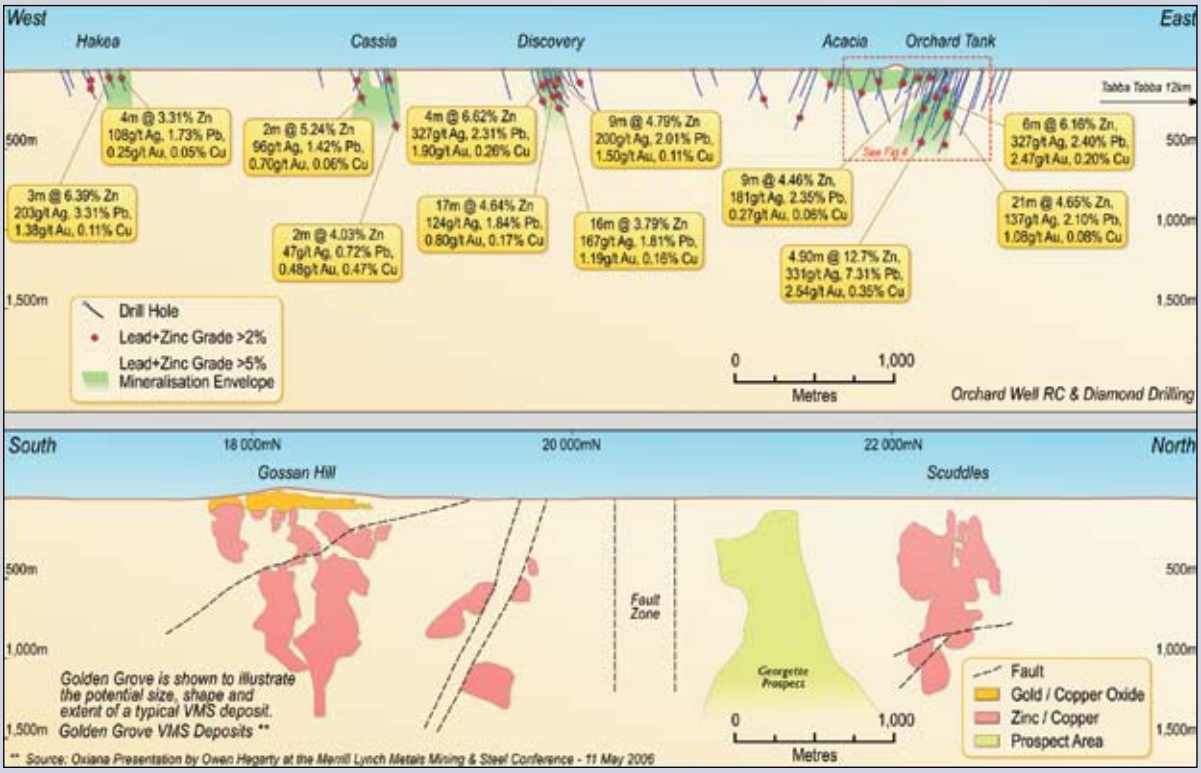
The steeply dipping mineralisation is hosted within foliated, sericite-altered felsic schist (originally felsic volcanic units). The high grade of the polymetallic mineralisation and the contribution of each metal to the overall grade can be illustrated by expressing all metals in terms of a 'Zinc Equivalent*'. The recent Orchard Tank intersection:

WADH012: 4.90 metres at 12.7% zinc, 331g/t silver, 7.31% lead, 2.54g/t gold and 0.35% copper from 514.4 metres

has a 'Zinc Equivalent'* grade of 21.5%, with zinc contributing 50%, lead 28%, silver 16%, and gold 6% to the overall grade of the intersection. At current metal prices, zinc, lead then silver constitute the main economic metals with significant gold and minor copper.

**'Zinc Equivalent' grade calculated in accordance with JORC guidelines using recent metal price ratios and measured recoveries from the metallurgical test work completed at Orchard Tank*

*Figure 3: Orchard Well RC and Diamond drilling results in comparison with a typical VMS Deposit.*




De Grey is well-placed to gain value from the discovery of VMS mineralisation as it holds tenements over a total strike length of 75 kilometres along the Tabba Tabba Greenstone Belt.



*as reported on 3rd April 2007. Source economic data: Kitco New York metal prices on 25th July 2007 which are: Zinc US$1.646/lb; lead US$1.456/lb; silver US$13.09/oz; gold US$674.90/oz and copper US$3.572/lb. Recovery factors for each metal are: zinc: 85%; lead: 93%; silver: 90.6%; gold 80.3% and copper 0%.*

This year significant intersections of zinc-silver-lead-gold-copper were returned from the first diamond drilling programs at Orchard Tank, extending the VMS system to 450 metres vertical depth. RC drilling returned encouraging intersections from the Tabba Tabba and Acacia Prospects and showed that the Acacia and Orchard Tank Prospects are linked to form a 400 metres long mineralised system.

The Hakea VMS Prospect was discovered during the year, taking the total to six zones of VMS mineralisation identified over a strike length of 20 kilometres (Figure 2).

Figure 3 illustrates the early stage of De Grey's exploration over this small section of the belt, versus the geometry and extent of Oxiana's Golden Grove VMS deposits at the same scale.

Mineralisation remains open down dip at all prospects and in many cases also along strike. RC and diamond drilling will continue this year to test for extensions to this high grade mineralisation.

Regional exploration has focused on VMS target generation elsewhere along the Tabba Tabba Greenstone Belt away from the known prospects.

Geophysical surveys including gravity, Induced Polarisation (IP) and Versatile Airborne Electro Magnetic (VTEM) were completed during the year. These, together with existing aeromagnetic data, geological mapping, augered soil sampling surveys and initial reconnaissance RAB drilling have already identified new regional targets coincident with felsic volcanic horizons and including new zones of base metal anomalism near surface.

VMS exploration is set to continue this year and De Grey are optimistic that further zones of mineralisation may be discovered with more drilling.

Results to date from the six individual VMS Prospects are discussed below.

largely composed of pyrite and usually contains only anomalous base and precious metal mineralisation. The intersection below is an exception to this general rule (see Figure 5).

| 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 |

Note: Drill holes marked * in this Annual Report were drilled prior to the current July 2006 to June 2007 reporting year

Geologically this pyrite horizon shows consistent continuity over a one kilometre strike length, indicating the significant extent of the VMS hydrothermal system. The Pyrite Lode was not specifically targeted by new drilling programs t his year.

The Central Lode lies 50 metres to the north of the Pyrite Lode and is the most strike extensive mineralised zone located to date, although it



## ORCHARD TANK - ACACIA PROSPECT

Additional drilling this year has shown the Orchard Tank and Acacia Prospects to be part of one mineralised system. They represent the most extensive zone of zinc-lead-silver-gold-copper mineralisation located to date with a strike length of 400 metres and the highest grade intersection also being the deepest at 450 metres below surface (see long section Figure 4).

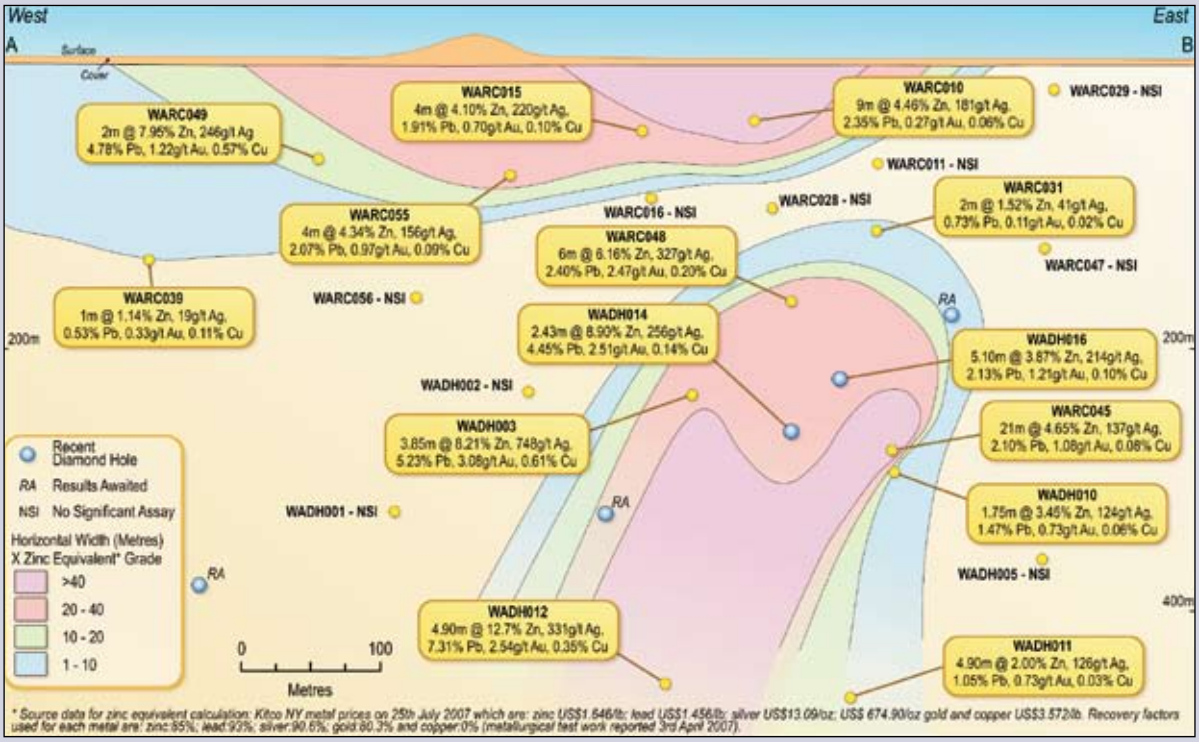
The original prospects were discovered by systematic lag sampling followed up by gossan sampling, RAB and RC drilling. The VMS mineralisation at Orchard Tank consists of three sub vertical lodes that strike approximately east-west. The southern, or Pyrite Lode, is

pinches out at depth below 140 metres from surface. Drilling this year has extended this near-surface mineralisation to a strike length of 400 metres (see Figure 4).

Intersections from the Central Lode include:

| Drill Hole | Intersection |
|---|---|
| WARC010*: | 9 metres at 4.46% zinc, 181g/t silver, 2.35% lead, 0.27g/t gold and 0.06% copper from 45 metres |
| WARC049*: | 2 metres at 7.95% zinc, 246g/t silver, 4.78% lead, 1.22g/t gold and 0.57% copper from 88 metres |
| WARC055: | 4 metres at 4.34% zinc, 156g/t silver, 2.07% lead, 0.97g/t gold and 0.09% copper from 107 metres |

*Figure 4 – Orchard Tank Long Section*



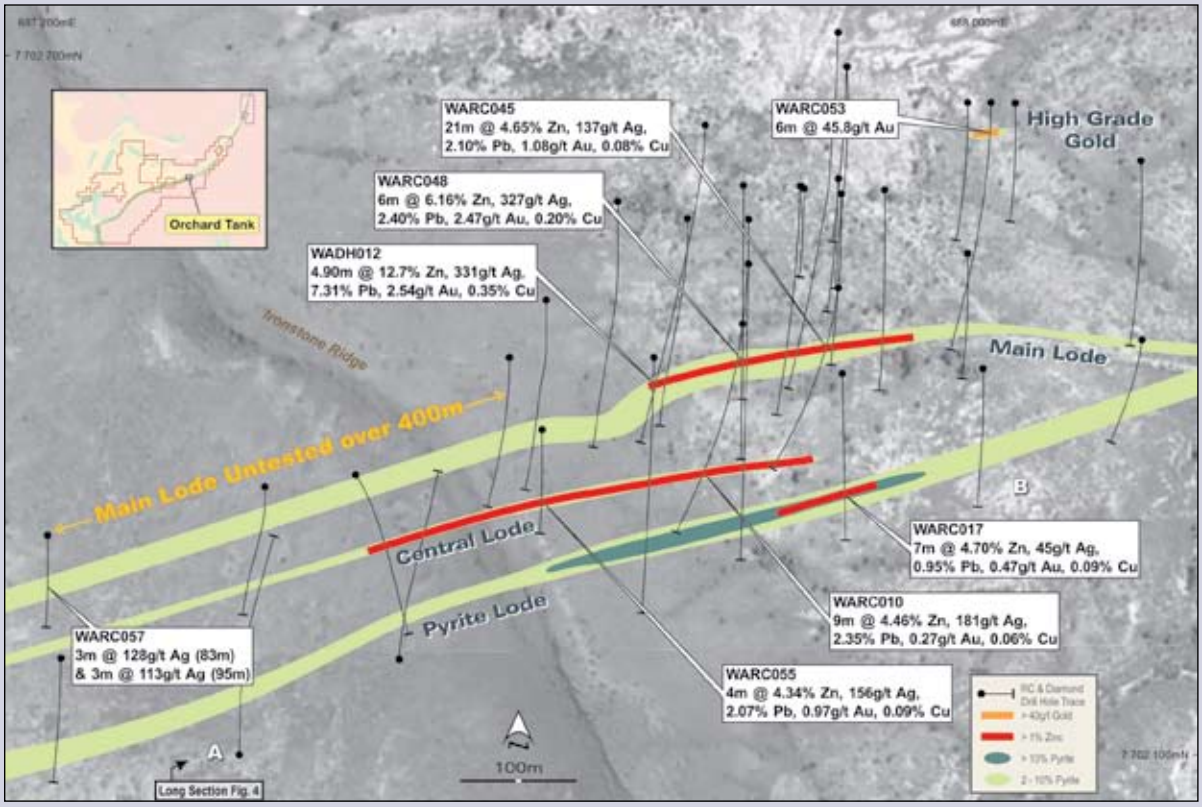

VMS exploration is set to continue this year and De Grey are optimistic that further zones of mineralisation may be discovered with further drilling.

The initial two diamond drilling programs were completed at Orchard Tank, targeting extensions to the Main Lode, which is located 95 metres north of the Central Lode. The Main Lode is geologically blind, commencing from 150 metres below surface. This year's diamond drilling shows that this high-grade lens is continuous over a strike length of approximately 200 metres and extends to 450 metres below surface. Intersections include:

| Drill Hole | Intersection |
|---|---|
| WADH003: | 3.85 metres at 8.21% zinc, 748g/t silver, 5.23% lead, 3.08g/t gold and 0.61% copper from 276.8 metres |
| WADH012: | 4.90 metres at 12.7% zinc, 331g/t silver, 7.31% lead, 2.54g/t gold and 0.35% copper from 514.4 metres |
| WADH014: | 2.43 metres at 8.90% zinc, 256g/t silver, 4.45% lead, 2.51g/t gold and 0.14% copper from 308.27 metres |
| WADH016: | 5.10 metres at 3.87% zinc, 214g/t silver, 2.13% lead, 1.21g/t gold and 0.10% copper from 269.9 metres |

The sub-vertical sphalerite-galena mineralisation is hosted by highly foliated quartz-sericite schist. Results from a further three diamond holes recently completed at Orchard Tank are currently awaited.

*Figure 5 – Orchard Tank Prospect Plan*






Previous intersections from the Main Lode include:

| Drill Hole | Intersection |
|---|---|
| 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 |
| 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 Main Lode appears to be increasing in tenor with depth and remains open down dip and to the west (see Figure 5). Additional drilling is planned this year to define the near surface Central Lode in more detail and target the main Lode where it remains open along strike to the west at depth.

Diamond drilling of the Main Lode provided the necessary samples for preliminary metallurgical evaluation of metal recoveries in concentrates. The flotation test work returned very encouraging results with high recoveries and concentrate grades indicated from standard flotation techniques. The test work was completed by reputable Perth metallurgical testing laboratory Ammtec Ltd.

A series of flotation tests were completed to determine the correct grind size, flotation reagent scheme and other process parameters for this mineralisation. The best concentrate grade and recovery result is given in the table below at a 75µm grind:

The high metal recoveries provide confidence that the type of zinc-silver-lead-gold-(copper) sulphide mineralisation present at Orchard Tank is suitable for the production of concentrates by standard flotation methods that will be attractive to smelters.

During the year the RC pre-collar to diamond hole WADH005 targeting the Main Lode intersected a high grade gold zone at approximately 170 metres below surface:

| Drill Hole | Intersection |
|---|---|
| WADH005: | 6 metres at 45.8g/t gold and 66g/t silver from 193 metres |

Gold mineralisation is situated on the sheared contact between a talc chlorite schist and dolerite, 110 metres north of the VMS horizon (Figure 5). Follow-up drill holes 20 metres east and west confirmed a zone of gold-silver anomalism at the same depth below surface at a maximum level of:

| | |
|---|---|
| WARC053: | 3 metres at 1.54g/t gold and 142g/t silver from 211 metres |

The relationship of this precious metal mineralisation to the VMS system to the south will be investigated further as additional pre-collars to diamond holes targeting the Main Lode transect the area.

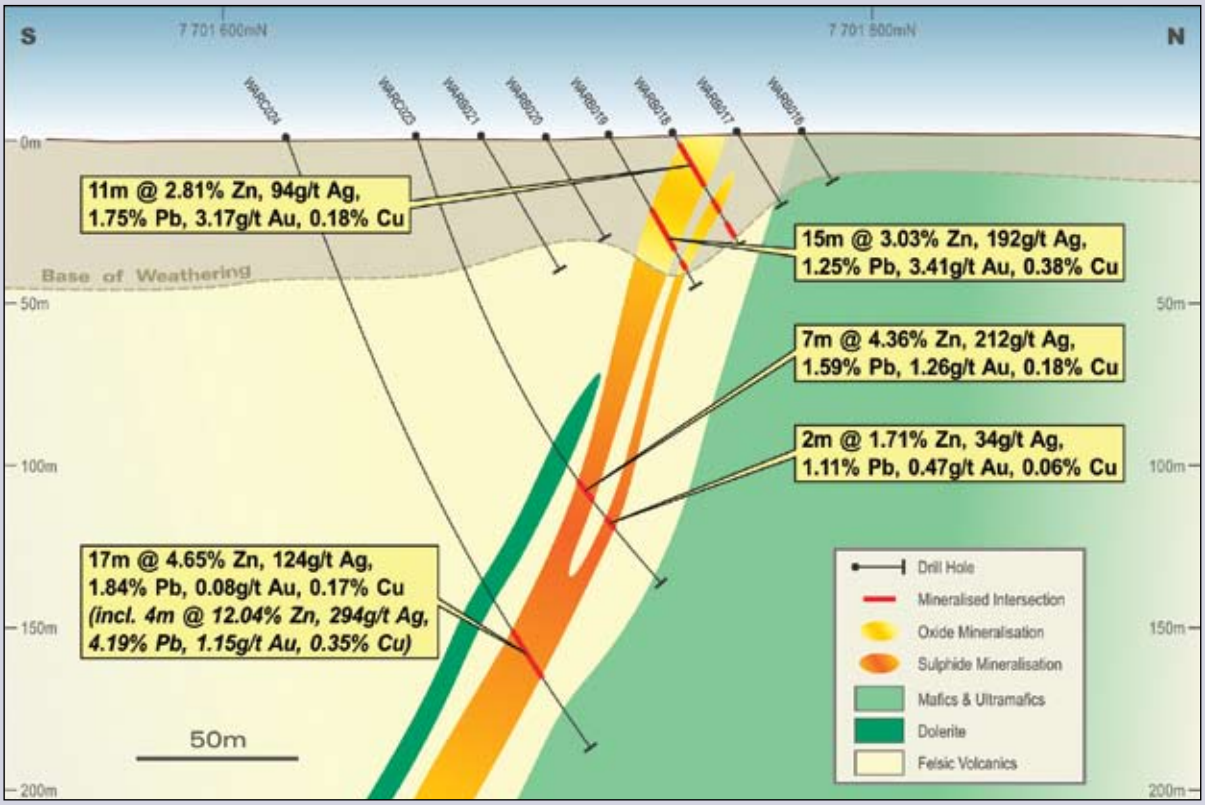


## Preliminary Lead and Zinc Concentrate Flotation Test Results*

| | Concentrate Grade | | | | Metal Recovery, % | | | |
|---|---|---|---|---|---|---|---|---|
| Concentrate | Lead% | Zinc% | Gold g/t | Silver g/t | Lead | Zinc | Gold | Silver |
| Lead | 61.8 | 8 | 35 | 3981 | 93.0 | 6.12 | 80.3 | 90.6 |
| Zinc | 0.61 | 60.0 | 1.6 | 58 | 1.7 | 85.0 | 6.8 | 2.4 |
| | | | | **Total Metal Recovery %:** | **94.7** | **91.1** | **87.1** | **93.0** |

*The head grade of the composite sample tested was 7.6% zinc, 260g/t silver, 4.2% lead and approximately 2.1g/t gold. Grind size = 75µm.

*Figure 6 – Cross section through the Discovery Prospect*






## DISCOVERY PROSPECT

Mapping and rock sampling of an area of high lead and zinc identified from a surface geochemical lag sampling program in 2005 identified 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 metres depth (Figure 6). 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 82 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 |
| 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

Mineralisation at Discovery has a horizontal width of up to 13 metres and extends over a 100 metres strike length as defined by intersections greater than 7 metres at 4.5% combined zinc plus lead. Silver grades average 142g/t.

A single diamond hole was completed during the 2006-2007 year to test the interpreted down plunge extension of the mineralisation 200 metres below surface. The hole clipped the western margin of the interpreted high grade zone and returned:

| Drill Hole | Intersection |
|---|---|
| WADH013: | 1.50 metres at 7.92% zinc 199g/t silver 3.65% lead 1.09g/t gold and 0.12% copper from 230.5 metres |

The Discovery Prospect contains the widest mineralisation discovered to date and has been tested to just 250 metre depth compared to 450 metres at Orchard Tank. Further RC and diamond drilling is envisaged with the aim of extending the boundaries of the known mineralisation.

## HAKEA PROSPECT

The Hakea Prospect, located 2.9 kilometre along strike to the east of Discovery, is a new VMS discovery made towards the end of the 2006/2007 year by RAB and follow-up RC drilling beneath a veneer of transported alluvial sand.

Similar to the Orchard Tank, Discovery and Tabba Tabba VMS Prospects, mineralisation at Hakea is hosted by sericite-altered, highly foliated felsic schist and includes intersections of:

| Drill Hole | Intersection |
|---|---|
| WARC064: | 21 metres at 2.05% zinc, 46g/t silver, 1.10% lead, 0.37g/t gold and 0.05% copper from 21 metres |

This includes a higher grade zone of:

3 metres at 6.39% zinc, 203g/t silver, 3.31% lead, 1.38g/t gold and 0.11% copper from 21 metres

WARC064 also contains a second zone of: 1 metres at 4.60% zinc, 273g/t silver, 2.46% lead, 0.62g/t gold and 0.08% copper from 54 metres.

WARC070: 4 metres at 3.31% zinc, 108g/t silver, 1.73% lead, 0.25g/t gold and 0.05% copper from 37 metres

Drill hole WARC070 is the most eastern hole completed to date at Hakea and intersected the mineralisation predominantly in the weathered zone. Drilling at other VMS prospects along strike indicates that base metal grades can be of higher tenor in primary sulphide minerals beneath the partially leached oxide zone. There is currently no RC drilling between Hakea and the Cassia Prospect, located another 1.2 kilometres along strike to the east.

Further RC holes are planned to test down dip beneath the weathered zone and along strike to the east of WARC070.

## CASSIA PROSPECT

Located 1 kilometre west of Discovery, the Cassia gossan contains up to 1.34g/t gold, 23g/t silver, 5.77% lead and 0.21% zinc. 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 (see Figure 3). Future drilling will target these potential extensions with the aim of discovering wider zones of this mineralisation.

## TABBA TABBA PROSPECT

In July 2006 the company exercised its option with Attgold Pty Ltd to acquire the tenement EL45/2364 by the issue of 500,000 fully paid ordinary shares or cash equivalent to Attgold together with a royalty of $1/t up to a maximum of $750,000. This added 74 square kilometres to De Grey's 100% owned Turner River Project.

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).

VMS mineralisation at Tabba was first discovered by lag sampling that identified lead-zinc-copper-gold anomalies over two outcropping gossans. The gossans, one of which can be traced for 400 metres along strike, returned up to 7.42% lead, 0.72% zinc, and 11g/t silver in rock chip samples. This Tabba Tabba Prospect lies 12 kilometres to the east of Orchard Tank, 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 at the Tabba Tabba Prospect is hosted by a sericite-altered felsic schist two metres beneath a 10 metres thick massive pyrite zone, which also carries up to 70g/t silver and 1.80% zinc. The above intersections test the mineralisation to 110 metres below surface. Results are currently awaited from a deeper diamond hole recently completed to intersect the mineralisation at a depth of 250 metres.

An additional gossan sub crop was located during recent geological mapping 180 metres north of the Tabba 2 gossan. Sampling of the gossan returned 1.41% zinc, 22g/t silver, 0.80% lead, 0.13g/t gold and 0.26% copper. A single reconnaissance RC hole completed to test beneath the weathered zone intersected:

| Drill Hole | Intersection |
|---|---|
| TTRC011: | 3 metres at 3.53% zinc, 28g/t silver, 0.54% lead, 0.04g/t gold and 0.04% copper from 45 metres |



The Tabba Tabba Prospect lies 12 kilometres to the east of Orchard Tank, illustrating the wide-spread nature of the mineralised VMS horizons at Turner River.

This shallow sulphide intersection is important as it substantially extends the Tabba Tabba VMS Prospect to 500 metres strike length with no RC drilling along to the north. Additional RC drilling is planned to test for further strike and down-dip extensions to the Tabba Tabba mineralisation.

## REGIONAL VMS EXPLORATION

VMS exploration at Turner River has predominantly focused on the 18 kilometre strike length of felsic volcanic stratigraphy between Hakea and Tabba Tabba. Exploration is at an early stage in other areas. VMS mineralisation tends to cluster in districts with anywhere from 4 to 11 separate mineralised bodies typical over strike lengths of 10 to over 40 kilometres.

With landholdings that cover over 75 kilometre strike of the Tabba Tabba Greenstone Belt, De Grey is strategically well positioned to explore and realise the potential upside of its discovery of this style of mineralisation.

A variety of geophysical surveys including gravity, Induced Polarisation (IP) and Versatile Airborne Electro Magnetic (VTEM) were completed during the year to progress the regional evaluation of the project for additional occurrences of VMS mineralisation. Data obtained from these surveys, together from existing aeromagnetic surveys, geological mapping, new augered soil sampling and initial reconnaissance RAB drilling have already identified new regional targets coincident with felsic volcanic horizons including new zones of base metal anomalism near surface.

An augered soil sampling program completed over the Tabba area over an 11 kilometre strike length of the target sericitic felsic schist horizon identified several new zones of base metal anomalism. One anomaly has a strike length of 500 metres and peak values of 1,520ppm zinc, 100ppm lead and 188ppm copper. This compares well with the maximum response over the outcropping Tabba Tabba gossan of 845ppm zinc, 85ppm lead and 154ppm copper.

Wide-spaced shallow RAB drilling across these anomalies identified two new areas of shallow base metal anomalism in the weathered zone. A single reconnaissance RC hole confirmed the presence of sulphide zinc-lead mineralisation 200 metres south of the Tabba 1 gossan outcrop:

| Drill Hole | Intersection |
|---|---|
| TTRC012: | 3 metres at 1.56% zinc, 31g/t silver, 0.49% lead, 0.28g/t gold and 0.25% copper from 76 metres |

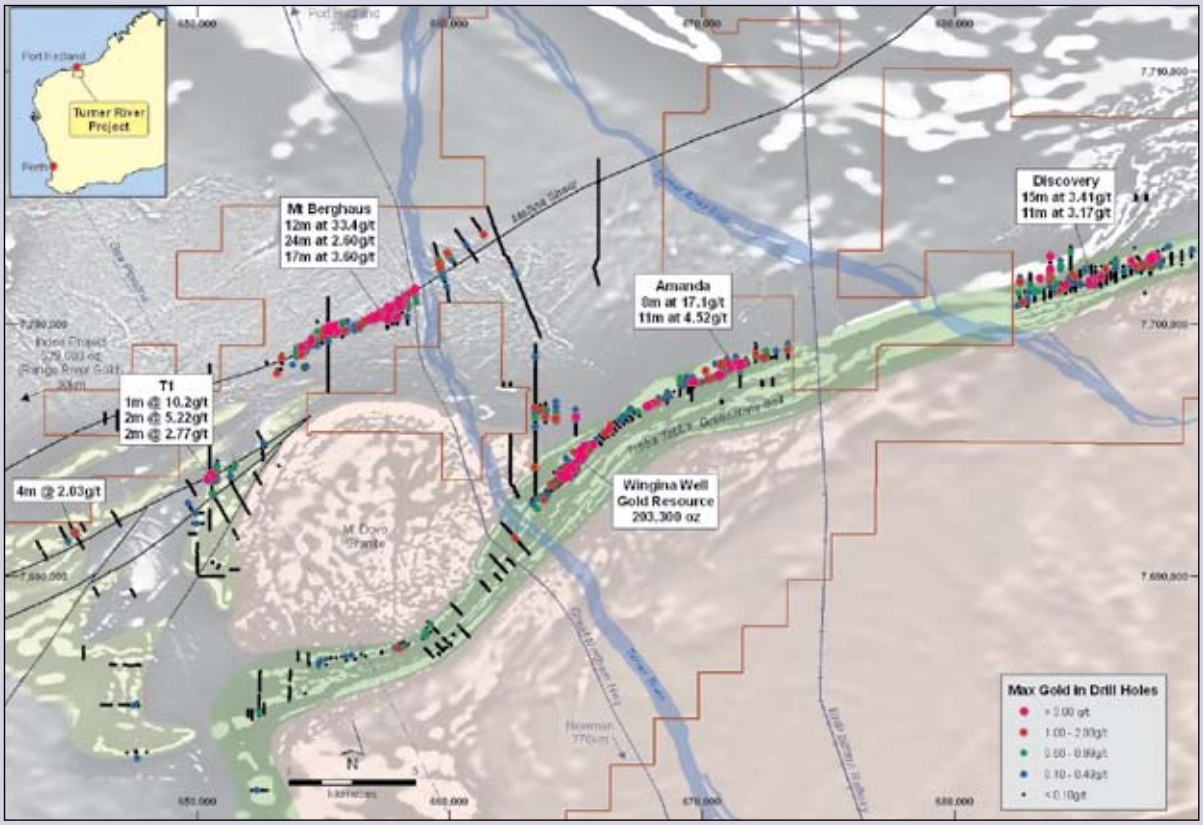
This single RC hole is the only test of the fresh sulphide zone beneath the leached weathered horizon over the 1,100 metre strike length of base metal anomalism in RAB-aircore drilling. Further infill aircore drilling is planned to better define and possibly extend these targets prior to additional RC drilling.

Augered soil sampling programs were also completed over VTEM anomalies beneath shallow transported cover to the west of Orchard Well. Base metal soil anomalies up to 1,440ppm zinc, 460ppm lead and 322ppm copper were returned from two new areas 12 kilometres and 29 kilometres along strike to the west of the Discovery Prospect. These anomalies have been tested by wide-spaced shallow RAB drilling that intersected sericite-altered felsic schists containing up to 6 metres at 0.14% zinc with accompanying anomalous lead and silver.

Exploration is at a very early stage in these areas and anomalies remain open along strike. Although low level, these shallow results are encouraging as they indicate the potential occurrence of additional zones of VMS mineralisation in as yet only sparsely tested areas of the Turner River Project. An additional 26 kilometres of the Tabba Tabba Greenstone Belt within De Grey's leases lies beneath shallow transported cover and, in terms of VMS potential, remains completely untested by drilling.

Regional VMS exploration is set to continue this year with follow-up drilling planned in these early stage areas. De Grey are optimistic that further zones of mineralisation may be discovered with more drilling.

*Figure 7 – Gold Prospects Summary – Turner River*






## 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 (Figure 7). The discovery of additional gold resources will add significant value to De Grey's current gold resource base at Wingina Well and bring the Company's objective of a gold mining operation at Turner River closer. For this reason, De Grey are committed to following a dual target strategy for both VMS-style base and precious metals and gold at Turner River.

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 2007/2008 is to identify further resource targets. Additional small 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 new 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 3 below summarises the gold resource at Wingina.

## 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.

## PRELIMARY RESOURCE ESTIMATE FOR WINGINA WELL

Wingina Well Cut Off Grade 0.5g/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 |
|---|---|---|---|---|---|---|---|
| | Grade Tonnes | (g/t) | Grade Tonnes | (g/t) | Grade Tonnes | (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.

## MT BERGHAUS GOLD PROSPECT

Mt Berghaus is located 10 kilometres north-west of Wingina Well (Figure 7) along the Mallina Shear Zone, 35 kilometres along strike to the east of the 529,000oz Indee gold deposits, where Range River Gold 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, there was no drilling at Mt Berghaus this financial year.

Previous work by De Grey has 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 kilometres 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 85 metres |
| BGRC101*: | 29 metres at 2.20g/t gold from 6 metres including: |
| | 2 metres at 14.9g/t from 22 metres |

The Mt Berghaus gold anomalism remains open along strike to the west, north and down-dip. Another important untested target is the 4 kilometres strike length of the main Mt Berghaus structure immediately west of the Gt Northern Highway, where it remains untested beneath shallow transported cover. An isolated small hill of Mallina quartzite located on this trend shows carbonate alteration and associated gold - arsenic soil anomalism (Figure 8).

These targets will be tested by reconnaissance Aircore drilling in the 2007-2008 financial year.

## MALLINA GOLD TARGETS

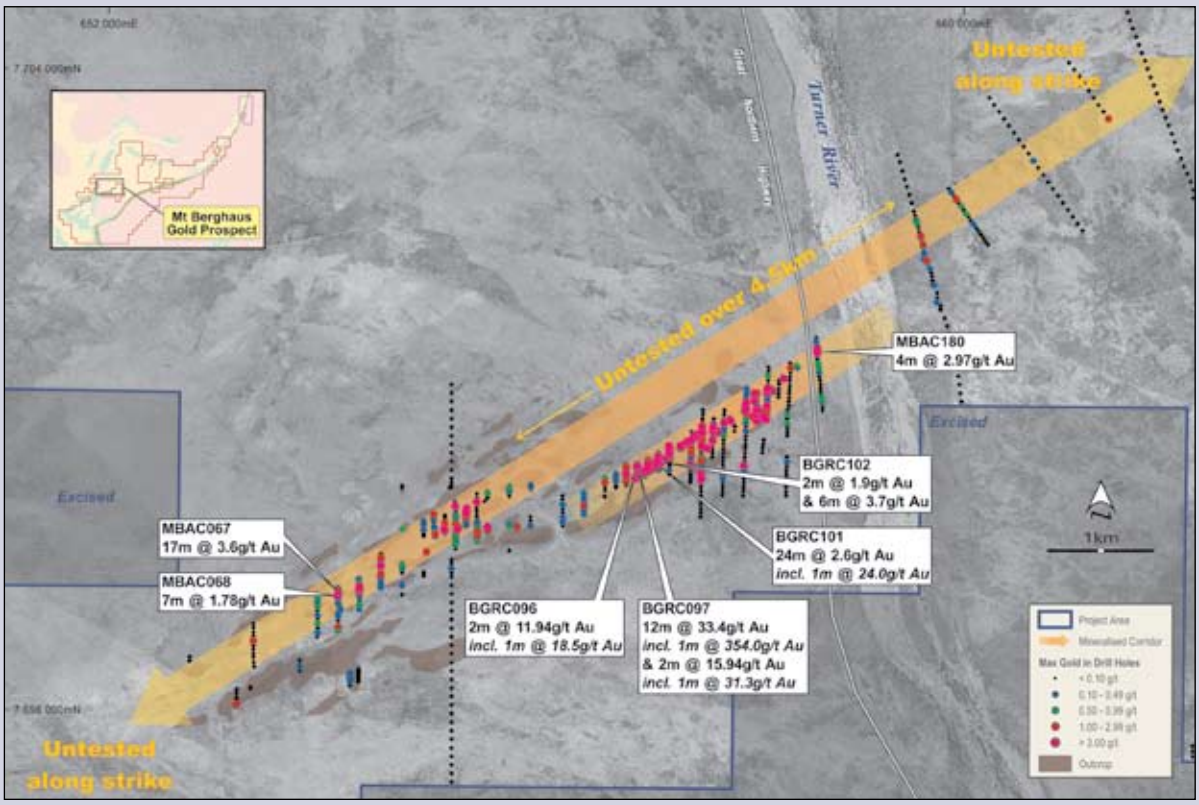
The Mallina Shear and associated splays are major regional structures that host gold mineralisation over a 75 kilometres strike length from Range River Gold Ltd's 529,000oz Indee Gold Project to the west, to De Grey's Mt Berghaus Prospect in the east.

The intersections of these structures with magnetic dolerites within the Mallina sediments in areas covered by recent sand and clay sediments represent significant untested exploration targets within the Turner River Project (Figure 7). Superficial deposits of sand and clay would have screened off the gold-prospective Archaean rocks from prospectors and previous explorer's activities. Massive, iron-rich dolerites (similar to those hosting the Golden Mile gold mineralisation at Kalgoorlie) are a better host for gold mineralisation than the Mallina shales and sandstones that host high grade though erratic gold mineralisation at Mt Berghaus and Indee.

Support for this large deposit exploration model is provided by the T1 Gold Prospect. Here a small area of gold-arsenic anomalism lies beneath 20 metres of transported cover. Previous blade refusal Aircore drilling by De Grey



*Figure 8 – Mt Berghaus Gold Prospect Targets*




Gold exploration in this western portion of the Turner River Project is at an early stage with large areas beneath thin transported cover remaining completely untested.

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. Gold anomalism forms wide dispersion zones within saprolite above the structural contact between Mallina shale and Millindinna Suite of differentiated mafic dykes.

A modest number of reconnaissance aircore drill traverses were completed over several such target zones this year. Results of the vertical blade refusal drilling identified several new zones of gold-arsenic anomalism in this geological setting and provided further validation of the exploration model. New gold anomalous intersections included:

| Drill Hole | Intersection |
|---|---|
| T1AC196: | 4 metres at 1.25g/t gold from 48 metres |
| T1AC236: | 8 metres at 1.28g/t gold from 24 metres |
| T1AC250: | 10m at 0.48g/t gold from 32 metres (end of hole intersection) |

Gold exploration in this western portion of the Turner River Project is at an early stage with large areas beneath thin transported cover remaining completely untested (Figure 7). A detailed aeromagnetic survey is planned early next financial year over a further 36 square kilometres area to aid the structural interpretation and identification of the magnetic dolerite bodies. This will be used to target additional reconnaissance aircore traverses. Infill aircore programs and deeper RC drilling will test the highest priority zones of gold-arsenic anomalism in saprolite.

## PGE – NICKEL – COPPER EXPLORATION

Platinum Group (Platinum, Palladium and Gold = PGE) mineralisation at the Joshua Prospect (Figure 1) was discovered by De Grey in 2002. Mineralisation is hosted by a large differentiated mafic-ultramafic dyke-like body of the Millindinna Suite near the boundary of the pyroxenite and peridotite phases. The sub vertical mineralisation has and has been traced by drilling over a strike length of 12 kilometres immediately south of the Mt Dove Granite. 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 |

This is further supported by rock sampling by De Grey and previous explorer Utah Development Company in the 1970's. Continuous rock chipping over five metre intervals returned values up to 0.85% copper from Utah's work, whilst De Grey rock sampling over an outcrop 3.2 kilometres to the east returned up to 2.08% nickel from rock grab sampling of a gossanous stringer zone. A single rock sample of 2.5% copper was also returned from Gray Hills, located another 2 kilometres to the south.

De Grey plans to confirm these encouraging copper and nickel anomalies before planning ground geophysical surveys in an attempt to locate sulphide mineralisation in this area. The aeromagnetic survey planned for gold exploration (see Mallina Gold Targets above) will also provide the high definition magnetic data necessary to assist with the planning of future work.



A 9 kilometres strike length of the prospective ultramafic body remains untested to the east of Joshua. Another 13 kilometres strike length of linear magnetic anomalies interpreted to be similar differentiated dykes lie beneath shallow transported cover to the west and remain completely untested.

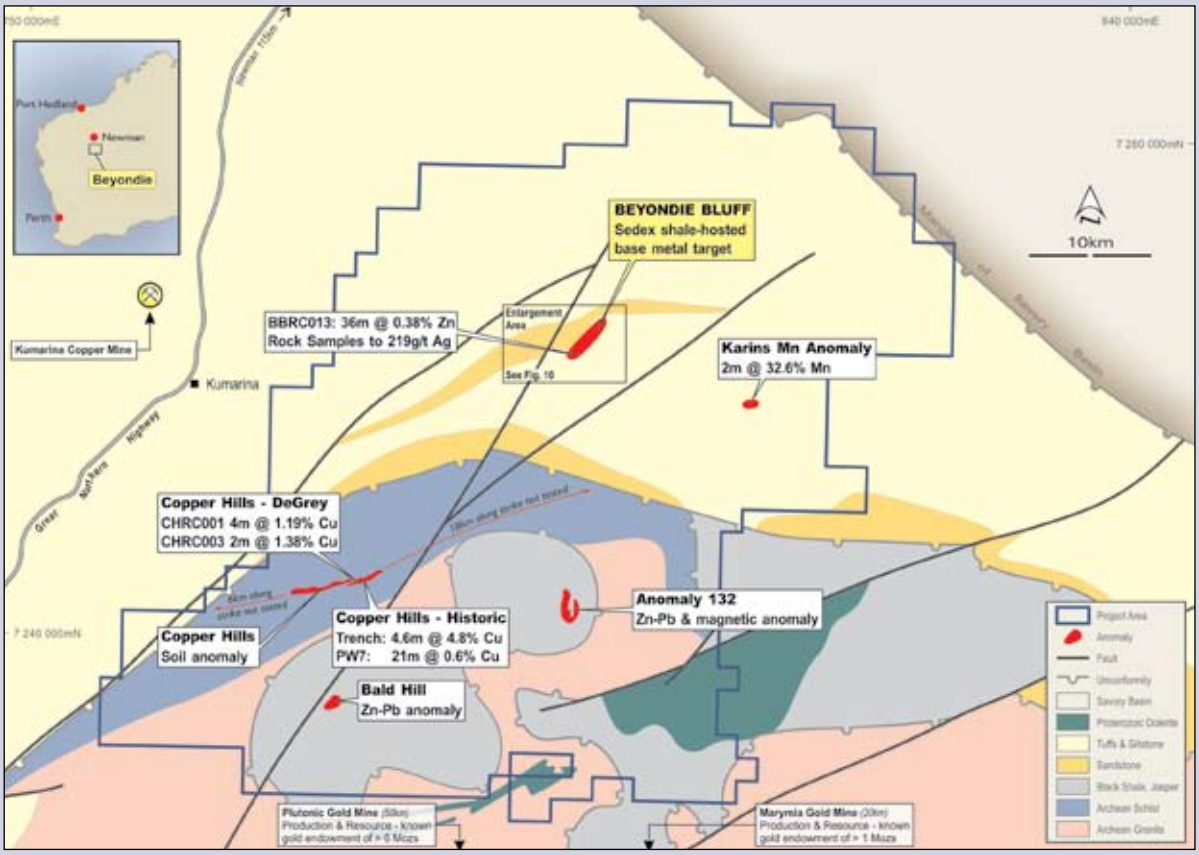
The same differentiated intrusions also have potential for nickel and copper mineralisation. Drill holes targeting the PGE mineralisation at Joshua intersected wide zones of 0.10 to 0.25% copper above the PGE horizon together with nickel values of 0.25% within the peridotite. Although sub-economic, these levels are anomalous and suggest potential for copper or nickel sulphide mineralisation within the Millindinna Suite intrusive bodies.

## BEYONDIE PROJECT

De Grey Mining Ltd holds 100% of the 2,445 square kilometre Beyondie Base and Precious Metals Project, located 160 kilometres south of Newman and 50 kilometres east of the Kumarina copper deposits (Figure 9). 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.

*Figure 9 – Beyondie Project – Prospect Location Map*




Drilling at both the Beyondie Bluff and Copper Hills has advanced the prospectivity of these areas this year.

De Grey's work at Beyondie has identified the geological environment and significant geochemical anomalism to support two major base metal deposit styles:

1) Major sedimentary exhalative Proterozoic shale hosted (Sedex) base and precious metals (Beyondie Bluff)
2) Archaean chlorite schist hosted copper (Copper Hills)

Drilling at both the Beyondie Bluff and Copper Hills has advanced the prospectivity of these areas this year. Each area is discussed on the following pages.

## BEYONDIE BLUFF AND ZINC SHALE

The Beyondie Bluff area and associated zinc-rich shales is the highest priority exploration target for De Grey within the Beyondie Project. A major exploration target of Sedex-style (sedimentary exhalative) shale-hosted base metal mineralisation of the Mt Isa and McArthur River style is the focus of De Grey's exploration. Widespread base metal and silver anomalism in shales has been identified by preliminary work at the foot of the quartzite–capped Beyondie Bluff in similar aged Proterozoic rocks and geological environment to that of the major Queensland zinc-lead-silver deposits.

Rock chip sampling over a 16 kilometre strike length at Beyondie Bluff (Figure 10), has returned highly anomalous metal values up to 219g/t silver 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.

4 kilometre by 1.5 kilometre area at approximately 1 kilometre drill spacing to determine if a potential vector to higher grade base and precious metal mineralisation at the Bluff is present. Zinc anomalous intersections returned from this program included:

BBRC018: 7m at 0.59% zinc from 31m

BBRC019: 10m at 0.81% zinc from 47m

BBRC020: 8m at 0.83% zinc from 50m

Two holes (BBRC019 and BBRC020) contain coincident zinc, nickel (up to 10 metres at 0.15%) and copper (10 metres at 0.13%) anomalism. The intersection in BBRC019 also contains 2 metres at 0.22g/t gold from 53 metres and 10 metres at 3g/t silver from 45 metres further illustrating the poly metallic nature of the metalliferous shale.

These recent results are encouraging as they show an increase in tenor of zinc anomalism in the shale from the south west to the north east, with anomalism remaining open to the north and

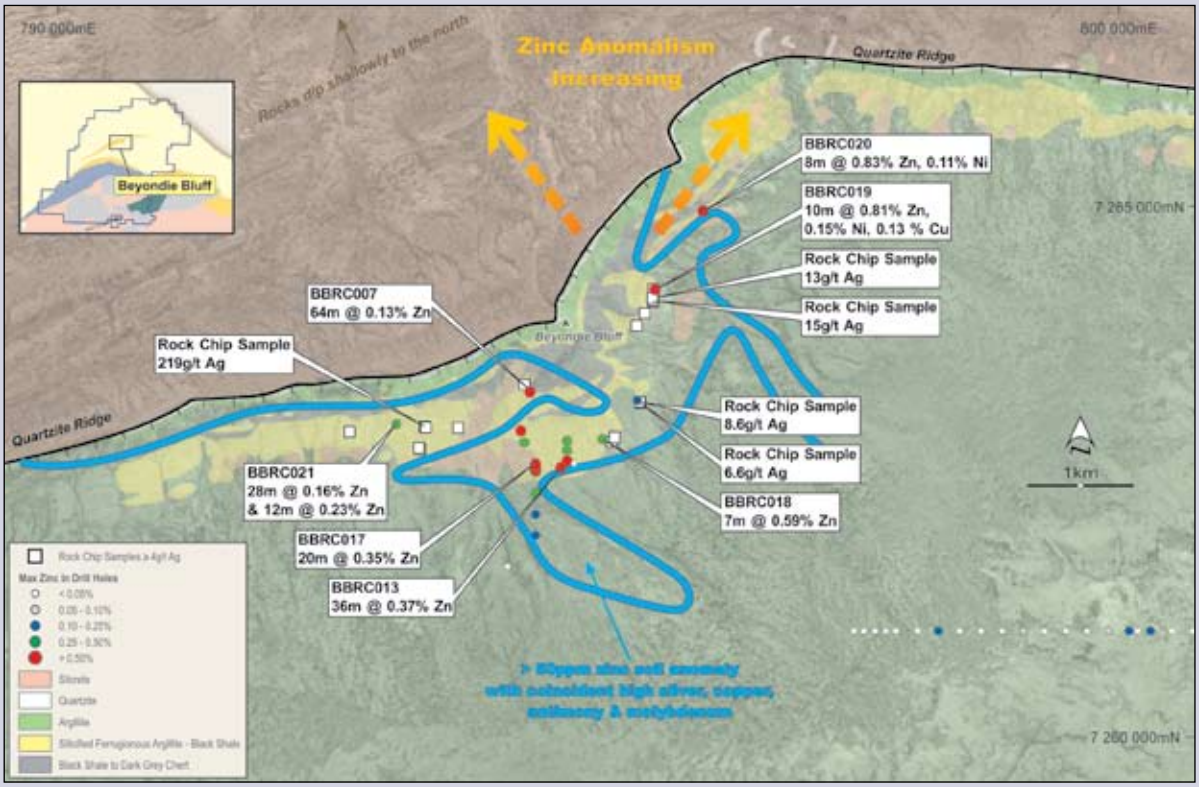


A Magstream sampling program was also completed over the Bluff area last year and identified a strongly anomalous gold, silver, zinc, cadmium, antimony, arsenic and molybdenum trend over a northeast orientated structure. Moderately anomalous lead, platinum and uranium were also identified. This metal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

Previous RC drilling by De Grey returned up to 36 metres at 0.37% zinc from 44 metres (hole BBRC013) from shale at the foot of the Bluff. A small reconnaissance RC drilling program during the current 2006/2007 reporting year tested a

east (see Figure 10). Two of this year's planned holes on top of the Bluff failed due to drilling difficulties and results in the upper shale horizon immediately beneath the Bluff Quartzite remain untested to date. Future wide-spaced step-out RC drilling will test these target areas in the coming year.

*Figure 10 – Beyondie Bluff Stratiform Zinc Target*




## COPPER HILLS PROSPECT

The Copper Hills Prospect is located 26 kilometres southwest of the Bluff within Archaean chloritic schist and banded iron formation (Figure 9). Reconnaissance rock chip sampling completed by De Grey in 2005/2006 returned 2.6% copper gold and 0.65g/t gold from gossanous breccias within the highly foliated schist.

Previous exploration in the early 1970's identified a 7 kilometre long copper and zinc soil anomaly on the northern edge of an east-west orientated outcrop of chlorite-sericite altered schist. Follow-up wide-spaced trenching and drilling at the time returned up to 4.6 metres at 4.34% copper in trench MPB and 9.1 metres at 1.01% copper in hole PW07 from a sericite alteration zone.

In April 2007 De Grey reported drill results from its first RC drill program at Copper Hills. Two holes from a 372 metre, three hole reconnaissance program intersected sulphide mineralisation up to:

| Drill Hole | Intersection |
|---|---|
| CHRC001: | 4 metres at 1.19% copper from 59m including 1m at 2.19% copper |
| CHRC003: | 2 metres at 1.38% copper from 42 metres |

These early results confirm the occurrence and style of copper mineralisation at Copper Hills.

An orientation soil sampling program was completed over the known mineralisation at late in 2006/2007 in preparation for a more widespread regional survey. The Archaean schist that hosts the copper anomalism at Copper Hills extends untested for an additional 6 kilometres along strike to the west and 18 kilometres to the east within De Grey's Beyondie Project.

Future soil sampling programs will target these untested outcropping and sub cropping areas. Additional drilling will then be completed to test the highest tenor geochemical anomalies together with strike extensions beneath wind blown sands, where soil sampling will not be effective.

## DRILL INTERSECTION DETAILS

## TURNER RIVER PROJECT

Selected RC and Diamond Drill Intersections

VMS Prospects

| Prospect | HOLE ID | East | North | From (m) | To (m) | Interval (m) | Zinc % | Silver g/t | Lead % | Gold g/t | Copper % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Acacia | WARC049 | 687,471 | 7,702,343 | 88 | 90 | 2 | 7.95 | 246 | 4.78 | 1.22 | 0.57 |
| | WADH003 | 687,750 | 7,702,560 | 276.80 | 280.65 | 3.85 | 8.21 | 748 | 5.23 | 3.08 | 0.61 |
| | WADH012 | 687,765 | 7,702,640 | 514.4 | 519.3 | 4.90 | 12.7 | 331 | 7.31 | 2.54 | 0.35 |
| Orchard Tank | WARC010 | 687,798 | 7,702,370 | 45 | 54 | 9 | 4.70 | 45 | 0.95 | 0.47 | 0.09 |
| | WARC017 | 687,880 | 7,702,430 | 166 | 173 | 7 | 4.70 | 45 | 0.95 | 0.47 | 0.09 |
| | WARC045 | 687,880 | 7,702,580 | 301 | 322 | 21 | 4.65 | 137 | 2.10 | 1.08 | 0.08 |
| | | | (including | 307 | 311 | 4 | 10.58 | 309 | 5.90 | 3.15 | 0.15) |
| | WARC048 | 687,800 | 7,702,560 | 208 | 214 | 6 | 6.16 | 327 | 2.40 | 2.50 | 0.20 |
| | WARC055 | 687,625 | 7,702,379 | 107 | 111 | 4 | 4.34 | 156 | 2.07 | 0.97 | 0.09 |
| | WADH012 | 687,765 | 7,702,640 | 514.4 | 519.3 | 4.9 | 12.7 | 331 | 7.31 | 2.54 | 0.35 |
| | WADH014 | 687,800 | 7,702,600 | 308.27 | 310.70 | 2.43 | 8.90 | 256 | 4.45 | 2.51 | 0.14 |
| | WADH016 | 687,847 | 7,702,588 | 269.90 | 275.00 | 5.10 | 3.87 | 214 | 2.13 | 1.21 | 0.10 |
| Discovery | WARC009 | 685,400 | 7,701,660 | 82 | 95 | 13 | 3.11 | 58 | 1.36 | 1.19 | 0.19 |
| | WARC014 | 685,480 | 7,701,670 | 83 | 92 | 9 | 4.79 | 200 | 2.01 | 1.50 | 0.11 |
| | WARC022 | 685,480 | 7,701,630 | 165 | 181 | 16 | 3.73 | 167 | 1.81 | 1.19 | 0.16 |
| | | | | 175 | 178 | 3 | 11.23 | 308 | 5.62 | 2.20 | 0.27 |
| | WARC024 | 685,440 | 7,701,620 | 165 | 182 | 17 | 4.64 | 124 | 1.84 | 0.80 | 0.17 |
| | | | (including | 166 | 170 | 4 | 12.04 | 294 | 4.19 | 1.15 | 0.35) |
| | WADH013 | 685,381 | 7,701,545 | 230.5 | 232 | 1.50 | 7.92 | 199 | 3.65 | 1.09 | 0.12 |
| | WARB418 | 685,440 | 7,701,740 | 3 | 14 | 11 | 2.81 | 94 | 1.75 | 3.17 | 0.18 |
| | WARB419 | 685,440 | 7,701,720 | 25 | 40 | 15 | 3.03 | 192 | 1.25 | 3.41 | 0.38 |
| Hakea | WARC064 | 682,720 | 7,700,830 | 21 | 42 | 21 | 2.05 | 46 | 1.10 | 0.37 | 0.05 |
| | | | | 21 | 24 | 3 | 6.39 | 203 | 3.31 | 1.38 | 0.11 |
| | | | | 54 | 55 | 1 | 4.60 | 273 | 2.46 | 0.62 | 0.08 |
| | WARC070 | 682,800 | 7,700,850 | 37 | 41 | 4 | 3.31 | 108 | 1.73 | 0.25 | 0.05 |
| Cassia | WARC025 | 684,400 | 7,701,370 | 367 | 369 | 2 | 4.03 | 47 | 0.72 | 0.48 | 0.47 |
| | WARC043 | 684,205 | 7,701,320 | 207 | 209 | 2 | 5.24 | 96 | 1.42 | 0.70 | 0.06 |
| Tabba Tabba | TTRC001 | 698,321 | 7,708,936 | 52 | 58 | 6 | 3.37 | 44 | 0.78 | 0.17 | 0.35 |
| | TTRC002 | 698,343 | 7,709,003 | 47 | 52 | 5 | 3.76 | 79 | 0.95 | 0.25 | 0.26 |
| | TTRC007 | 698,290 | 7,709,033 | 128 | 135 | 7 | 4.51 | 81 | 1.05 | 0.28 | 0.21 |
| | TTRC011 | 698,523 | 7,709,299 | 45 | 48 | 3 | 3.53 | 28 | 0.54 | 0.04 | 0.04 |
| | TTRC012 | 696,550 | 7,706,900 | 76 | 79 | 3 | 1.56 | 31 | 0.49 | 0.28 | 0.25 |

Note: Coordinates are MGA zone 50. Holes drilled to the south at approximately -600 (Orchard Tank, Tabba) or north (Hakea, Discovery, Cassia, Acacia). Intersections calculated using a 1% zinc or 1g/t gold lower cut-off with up to 2 metre internal dilution. Samples are 1m riffle split RC chips or half core between 0.50 to 1 metre in length. Analysis is by Ultra Trace Laboratories using Fire Assay analysis for gold and Inductively Coupled Plasma (ICP) on mixed acid digest for zinc, silver, lead and copper.

## TURNER RIVER PROJECT

Selected RC Drill Intersections

High Grade Gold and Silver at Orchard Tank

| Prospect | HOLE ID | East | North | From (m) | To (m) | Interval (m) | Gold g/t | Silver g/t |
|---|---|---|---|---|---|---|---|---|
| Orchard Tank | WADH005 | 688,010 | 7,702,659 | 193 | 199 | 6 | 45.8 | 66 |
| | WARC053 | 687,991 | 7,702,660 | 211 | 214 | 3 | 1.54 | 142 |

Note: Coordinates are MGA zone 50. Holes drilled to the south at approximately -600. Intersections calculated using a 50g/t silver or 0.50g/t gold lower cut-off with no internal dilution. Samples are 1 metre riffle split RC chips or half core between 0.50 to 1 metre. Analysis is by Ultra Trace Laboratories using Fire Assay analysis for gold and Inductively Coupled Plasma (ICP) on mixed acid digest for silver.

## TURNER RIVER PROJECT

Selected RC and Aircore Drill Intersections

Gold Prospects

| Prospect | HOLE ID | East | North | From (m) | To (m) | Interval (m) | Gold g/t |
|---|---|---|---|---|---|---|---|
| Amanda | AMRC001 | 670,646 | 7,697,960 | 62<br>63 | 73<br>65 | 11<br>2 | 4.52<br>15.8 |
| | | | 7,702,660 | 41<br>44 | 49<br>55 | 8<br>11 | 17.13<br>46.4 |
| | | | | | | | |
| Mt Berghaus | BGRC097 | 19,780 | 50,400 | 4<br>8<br>13<br>19 | 16<br>9<br>14<br>20 | 12<br>1<br>1<br>1 | 33.4<br>24.6<br>354.00<br>31.3 |
| | BGRC099 | 19,780 | 50,440 | 85 | 95 | 10 | 2.00 |
| | BGRC101 | 657,153 | 7,700,318 | 6<br>22 | 35<br>24 | 29<br>2 | 2.20<br>14.9 |
| | | | | | | | |
| T1 | T1AC196 | 645,140 | 7,691,740 | 48 | 52 | 4 | 1.25 |
| | T1AC236 | 645,160 | 7,691,705 | 24 | 32 | 8 | 1.28 |
| | T1AC250 | 650,580 | 7,693,320 | 32 | 42eoh | 10 | 0.48 |

Note: Co ordinates are MGA zone 50. 'AC' prefix holes at T1 are vertical blade refusal Aircore. Samples are 4 metre speared composite Aircore chips. Analysis is by Ultra Trace Laboratories using Aqua Regia and ICP analysis. Intersections calculated using a 0.10g/t gold lower cut-off with no internal dilution. Eoh= 'end of hole' intersection.

'RC' prefix holes at Amanda and Mt Berghaus are angled RC, at approximately -600. Intersections calculated using a 1g/t gold lower cut-off with no internal dilution. Analysis is by Ultra Trace Laboratories using Fire Assay analysis of 1 metre riffle split RC chip samples.

## TURNER RIVER PROJECT

Selected RC Intersections

PGE Prospects

| Prospect | HOLE ID | East | North | From (m) | To (m) | Interval (m) | PGE* g/t |
|---|---|---|---|---|---|---|---|
| Joshua | IERC04 | 658,120 | 7,687,295 | 75 | 81 | 6 | 1.58 |
| | IERC05 | 658,025 | 7,687,236 | 28 | 43 | 15 | 1.39 |
| | IERC46 | 659,050 | 7,687,661 | 58 | 72 | 14 | 1.32 |

Note: Co ordinates are MGA zone 50. *PGE=platinum+palladium+gold, g/t Intersections calculated using a 0.5 g/t PGE lower cut-off for all intervals with no internal dilution. Samples are 1m riffle split RC chips. Analysis by Ultra Trace Perth using 40g Fire Assay.

## BEYONDIE PROJECT

Selected RC Intersections

Beyondie Bluff Zinc Shale

| HOLE ID | East | North | From (m) | To (m) | Interval (m) | Zinc % | Nickel % | Copper % |
|---|---|---|---|---|---|---|---|---|
| BBRC018 | 795,135 | 7,262,810 | 31 | 38 | 7 | 0.59 | 0.06 | 0.01 |
| BBRC019 | 795,630 | 7,264,220 | 47 | 57 | 10 | 0.81 | 0.15 | 0.13 |
| BBRC020 | 796,083 | 7,264,960 | 50 | 58 | 8 | 0.83 | 0.11 | 0.00 |

Note: Co ordinates are MGA zone 50, RC holes are vertical. Intersections calculated using a 0.5% zinc lower cut-off with maximum 2 metre internal dilution. Samples are 1 metre riffle split RC chips. Analysis is by Ultra Trace Laboratories using Inductively Coupled Plasma (ICP) on mixed acid digest.

## BEYONDIE PROJECT

Selected RC Intersections

Copper Hills Prospect

| Prospect | HOLE ID | East | North | Depth (m) | From (m) | To (m) | Interval (m) | Copper g/t | Zinc % | Silver g/t |
|---|---|---|---|---|---|---|---|---|---|---|
| Copper Hills | CHRC001 | 777,480 | 7,244,493 | 132 | 59 | 63 | 4 | 1.19 | 0.03 | 2 |
| | | | | | 59 | 60 | 1 | 2.19 | 0.04 | 4 |
| | CHRC003 | 777,527 | 7,244,475 | 132 | 42 | 44 | 2 | 1.38 | 0.19 | 7 |

Note: Co ordinates are MGA 50, holes drilled to south at approximately 600. Intersections calculated using a lower grade copper cut-off of 0.4% and maximum internal dilution of 1m. Samples are 1 metre rifle split. Analysis is by Ultra Trace Laboratories using Mixed Acid Digest and Inductively Coupled Plasma (ICP) determination.

*The information in the report to which this statement is attached that relates to Mineralisation is based on information complied by Mr David Hammond, who is a Member of the Australian Institute of Mining and Metallurgy. Mr Hammond has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 JORC Code Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves." Mr Hammond consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of De Grey Mining Limited and the entities it controlled at the end of, or during, the year ended 30 June 2007.

## 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 current and former 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 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. 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], Azure Minerals Limited [9/2003 to 6/2007] Universal Resources Ltd [director since 3/2002] and Castle Minerals Ltd [director since 9/2005].

**Darren Townsend,** *B.Eng (Mining) – Hons, EMBA (Managing Director)*

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.

**Gary Brabham,** *BAppSc (app Geol), MSc (Geol), PGCert (Geostats), MAusIMM, MAIG (Non Executive Director, 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, 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 is currently a director of Western Areas NL [director since 12/2006] and is a former director of NKWE Platinum Limited [7/2003 to 1/2006] within the last 3 years.

**Denis O'Meara** was a director from the beginning of the financial year until his retirement on 17 July 2007.

**Ron Manners** was a director from the beginning of the financial year until his retirement on 3 July 2006.

## COMPANY SECRETARY

**Dennis William Wilkins,** *B.Bus, AICD, ACIS*

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 have 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 Bonaparte Diamond Mines NL, Key Petroleum Limited, Marengo Mining Limited, Minemakers Limited and South Boulder Mines Limited. Mr Wilkins 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:

| | Ordinary Shares | Options over Ordinary Shares |
|---|---|---|
| Campbell Ansell | 190,000 | - |
| Darren Townsend | 261,981 | 6,500,000 |
| Gary Brabham | - | 2,000,000 |
| Craig Oliver | - | 2,000,000 |

## PRINCIPAL ACTIVITIES

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

There was no significant change in the nature of the Group's activities during the year.

## DIVIDENDS

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

OPERATING AND FINANCIAL REVIEW
Operating Results for the Year

The operating loss after income tax of the Group for the year ended 30 June 2007 was $6,096,080 (2006: $13,032,034). Included in this loss figure is an amount of exploration expenditure ($5,473,769). Refer notes to the financial statements note 1(n).
Summarised operating results are as follows:

| | 2007 | |
|---|---|---|
| | Revenues $ | Results $ |
| Geographic segments | | |
| Australia | 1,187,598 | (6,096,080) |
| Consolidated entity revenues and loss from ordinary activities before income tax expense | 1,187,598 | (6,096,080) |

Shareholder Returns

| | 2007 | 2006 |
|---|---|---|
| Basic loss per share (cents) | (3.4) | (9.4) |

## 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

Significant changes in the state of affairs of the Group during the financial year were as follows:

- In September 2006 the company raised $2 million by way of a placement of 18,181,868 ordinary shares at 11cents per share.
- In October 2006 the company raised $2.4 million via a share purchase plan to existing shareholders resulting in the issue of 21,789,250 ordinary shares at 11 cents per share.
- In February 2007 the company raised $3.35 million by way of a placement of 26,835,000 ordinary shares at 12.5 cents per share.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 24, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

## ENVIRONMENTAL REGULATION AND PERFORMANCE

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

The Group 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 Group are not aware of any breach of environmental legislation for the year under review.

## REMUNERATION REPORT

### The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 1024 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.



### A Principles used to determine the nature and amount of remuneration (audited)

#### *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 Group'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 Group.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group 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, performance and experience) and superannuation. The board reviews executive packages annually by reference to the Group'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 and retain 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 methodology.

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 Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

### *Performance based remuneration*

The company currently has no 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 the direct positive relationship between shareholders investment objectives and directors and executives performance. 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 to note 17 of the financial statements.

### *B Details of remuneration (audited)*

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of De Grey Mining Limited and the De Grey Mining Group are set out in the following table.

The key management personnel of De Grey Mining Limited and the Group include the directors and company secretary as per page 3 above and the following executive officer who has authority and responsibility for planning, directing and controlling activities within the Group:

David Hammond – Exploration Manager

Given the size and nature of operations of De Grey Mining Limited and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the Corporations Act 2001.

Key management personnel and other executives of De Grey Mining Limited and the Group

| | Short-Term | | Post Employment | | Share-based Payments | Total |
|---|---|---|---|---|---|---|
| | Salary & Fees $ | Non Monetary $ | Superannuation $ | Retirement Benefits $ | Options $ | $ |
| **Directors** | | | | | | |
| Campbell Ansell | | | | | | |
| 2007 | **96,250** | **-** | **8,662** | **13,006** | **-** | **117,918** |
| 2006 | 45,000 | - | 4,050 | 147,150 | - | 196,200 |
| Darren Townsend | | | | | | |
| 2007 | **250,000** | **-** | **22,500** | **-** | **269,200** | **541,700** |
| 2006 | 239,462 | - | 21,552 | - | - | 261,014 |
| Denis O'Meara (retired 17 July 2007) | | | | | | |
| 2007 | **45,000** | **-** | **4,050** | **-** | **82,000** | **131,050** |
| 2006 | 250,000 | - | 22,500 | - | 33,572 | 306,072 |
| Gary Brabham | | | | | | |
| 2007 | **56,250** | **-** | **5,062** | **-** | **82,000** | **143,312** |
| 2006 | 16,019 | - | 1,442 | - | - | 17,461 |
| Craig Oliver | | | | | | |
| 2007 | **55,385** | **-** | **4,985** | **-** | **82,000** | **142,370** |
| 2006 | - | - | - | - | - | - |
| Ron Manners (resigned 3 July 2006) | | | | | | |
| 2007 | **-** | **-** | **15,225** | **-** | **-** | **15,225** |
| 2006 | 106,250 | - | 9,562 | 252,063 | - | 367,875 |
| Michael Baker (resigned 6 April 2006) | | | | | | |
| 2006 | 45,742 | - | 4,117 | 143,871 | - | 193,730 |

| | Short-Term | | Post Employment | | Share-based Payments | Total |
|---|---|---|---|---|---|---|
| | Salary & Fees $ | Non Monetary $ | Superannuation $ | Retirement Benefits $ | Options $ | $ |
| **Other key management personnel** | | | | | | |
| Dennis Wilkins | | | | | | |
| 2007 | **126,885** | **-** | **-** | **-** | **-** | **126,885** |
| 2006 | 126,441 | - | - | - | - | 126,441 |
| David Hammond | | | | | | |
| 2007 | **167,115** | **-** | **15,044** | **-** | **41,550** | **223,709** |
| 2006 | 5,769 | - | 519 | - | - | 6,288 |
| Neil Lithgow (Exploration Manager, resigned 12 May 2006) | | | | | | |
| 2006 | 156,594 | - | 13,271 | - | - | 169,865 |
| **Total key management personnel compensation** | | | | | | |
| 2007 | **796,885** | **-** | **75,528** | **13,006** | **556,750** | **1,442,169** |
| 2006 | 991,277 | - | 77,013 | 543,084 | 33,572 | 1,644,946 |

### *C Service agreements (audited)*

The details of service agreements of the key management personnel of De Grey Mining Limited and the Group are as follows:

Darren Townsend, Managing Director:

- Term of agreement – 3 months notice of termination required by either party.
- Base salary, exclusive of statutory superannuation, of $267,000 to be reviewed annually 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, Director/Company Secretary:

- Term of agreement – 3 months notice of termination required.
- Mr Wilkins' firm, DWCorporate, is engaged to provide book-keeping, accounting and company secretarial services. A fixed fee of $63,000 was paid during the period 1July 2006 to 31 December 2006. From 1 January 2007 the services have been billed at an hourly rate with the fee totalling $63,885 for the six months to 30 June 2007.



### *D Share-based compensation (audited)*

Options are issued to directors and executives 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 to increase goal congruence between executives, directors and shareholders. The following options were granted to or vesting with key management personnel during the year:

| Remuneration | Grant Date | Granted Number | Vesting Date | Exercise Price Expiry Date | Value per option at grant date (cents) | Exercised (cents) | % of Number | |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Darren Townsend | 13/07/2006 | 1,000,000 | 13/07/2006 | 30/06/2011 | 30.0 | 8.2 | N/A | 15.1 |
| Darren Townsend | 13/07/2006 | 1,000,000 | 13/07/2006 | 30/06/2012 | 30.0 | 9.2 | N/A | 16.9 |
| Darren Townsend | 13/07/2006 | 1,000,000 | 13/07/2006 | 30/06/2013 | 35.0 | 9.6 | N/A | 17.7 |
| Denis O'Meara | 13/07/2006 | 1,000,000 | 13/07/2006 | 10/07/2011 | 30.0 | 8.2 | N/A | 62.6 |
| Gary Brabham | 13/07/2006 | 1,000,000 | 13/07/2006 | 10/07/2011 | 30.0 | 8.2 | N/A | 62.6 |
| Craig Oliver | 13/07/2006 | 1,000,000 | 13/07/2006 | 10/07/2011 | 30.0 | 8.2 | N/A | 57.6 |
| **Executives** | | | | | | | | |
| David Hammond | 13/07/2006 | 500,000 | 13/07/2006 | 31/12/2010 | 25.0 | 8.3 | N/A | 18.6 |

### *E Additional information - unaudited*

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

During the year the company held eight meetings of directors. The attendance of directors at meetings of the board were:

| | Directors Meetings | | Meetings of Committees Audit | | Remuneration | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Campbell Ansell | 8 | 8 | - | - | 1 | 1 |
| Darren Townsend | 8 | 8 | * | * | * | * |
| Denis O'Meara | 6 | 8 | 1 | 1 | * | * |
| Gary Brabham | 7 | 8 | 1 | 1 | 1 | 1 |
| Craig Oliver | 7 | 8 | 1 | 1 | 1 | 1 |

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.

## SHARES UNDER OPTION

At the date of this report there are 15,925,000 unissued ordinary shares in respect of which options are outstanding.

| | Number of options |
|---|---|
| Balance at the beginning of the year | 3,030,000 |
| **Movements of share options during the year** | |
| Issued, exercisable at 25 cents, on or before 31 December 2010 | 500,000 |
| Issued, exercisable at 30 cents, on or before 10 July 2011 | 3,000,000 |
| Issued, exercisable at 30 cents, on or before 30 June 2011 | 1,000,000 |
| Issued, exercisable at 30 cents, on or before 30 June 2012 | 1,000,000 |
| Issued, exercisable at 35 cents, on or before 30 June 2013 | 1,000,000 |
| **Total number of options outstanding as at 30 June 2007** | **9,530,000** |
| Options cancelled subsequent to year end | (9,030,000) |
| Options issued subsequent to year end | 15,425,000 |
| **Total number of options outstanding at the date of this report** | **15,925,000** |

The balance is comprised of the following:

| Expiry date | Exercise price (cents) | Number of options |
|---|---|---|
| 31 March 2009 | 50.0 | 500,000 |
| 4 July 2010 | 20.0 | 9,175,000 |
| 4 July 2011 | 25.0 | 6,250,000 |
| Total number of options outstanding at the date of this report | | 15,925,000 |

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.

## 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.

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Butler Settineri (Audit) Pty Ltd or associated entities.

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 2001. 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 amount for the provision of non-audit services:

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| Tax compliance services | 1,300 | 9,735 |

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

## ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial statements have been rounded to the nearest $1 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

Darren Townsend
Managing Director

Perth, 25 September 2007

# Auditor's Independence Declaration

As lead auditor for the audit of De Grey Mining Limited for the year ended 30 June 2007, 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

LUCY P GARDNER
Director

Perth
Date: 25 September 2007

# Corporate Governance Statement

## 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 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 four directors, three 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. |
| 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:<br>3.1.1 the practices necessary to maintain confidence in the company's integrity<br>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. |

| | 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 | Structure the audit committee so that it consists of:<br>• Only non executive directors<br>• A majority of independent directors<br>• An independent chairperson who is not the chairperson of the board<br>• At least three members | A | |
| 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.<br>Determined areas of risk which are regularly considered include:<br>• performance and funding of exploration activities<br>• budget control and asset protection<br>• status of mineral tenements<br>• land access and native title considerations<br>• compliance with government laws and regulations<br>• safety and the environment<br>• 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:<br>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<br>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.<br>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 to enable investors to understand (i) the costs and benefits of those policies and (ii) 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.<br>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 (in part) | |
| **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.<br>The board continues to review existing procedures over time to ensure adequate processes are in place.<br>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*

# Income Statements Year Ended 30 June 2007

| | Notes | Consolidated 2007 $ | Consolidated 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| **REVENUE FROM CONTINUING OPERATIONS** | 4 | **1,187,598** | 387,371 | **1,187,598** | 387,371 |
| **EXPENDITURE** | | | | | |
| Depreciation expense | | **(113,156)** | (123,812) | **(113,156)** | (123,812) |
| Employee benefits expense | | **(481,420)** | (1,330,282) | **(481,420)** | (1,330,282) |
| Impairment expense | | **-** | - | **(1,315,497)** | (12,617,875) |
| Exploration expenditure | | **(5,473,769)** | (11,225,379) | **(4,160,336)** | (3,797,493) |
| Corporate expenses | | **(170,050)** | (179,722) | **(167,986)** | (177,657) |
| Occupancy expenses | | **(85,555)** | (84,783) | **(85,555)** | (84,783) |
| Consulting expenses | | **(150,818)** | (145,797) | **(150,818)** | (145,797) |
| Investor relations and advertising expenses | | **(84,741)** | (77,024) | **(84,741)** | (77,024) |
| Administration expenses | | **(157,432)** | (149,411) | **(157,432)** | (149,411) |
| Share based payment expense | 27 | **(556,750)** | (88,713) | **(556,750)** | (88,713) |
| Other expenses | | **(9,987)** | (14,482) | **(9,987)** | (14,482) |
| **LOSS BEFORE INCOME TAX** | | **(6,096,080)** | (13,032,034) | **(6,096,080)** | (18,219,958) |
| **INCOME TAX BENEFIT / (EXPENSE)** | 6 | **-** | - | **-** | - |
| **NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF DE GREY MINING LIMITED** | | **(6,096,080)** | (13,032,034) | **(6,096,080)** | (18,219,958) |
| Basic and diluted loss per share for loss attributable to the ordinary equity holders of the company (cents per share) | 26 | **(3.4)** | (9.4) | | |

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

# Balance Sheets At 30 June 2007

| | Notes | Consolidated 2007 $ | Consolidated 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | 7 | **5,865,388** | 4,542,165 | **5,865,388** | 4,542,165 |
| Trade and other receivables | 8 | **50,842** | 49,553 | **50,842** | 49,553 |
| Other financial assets | 9 | **80,941** | 57,594 | **80,941** | 57,594 |
| **TOTAL CURRENT ASSETS** | | **5,997,171** | 4,649,312 | **5,997,171** | 4,649,312 |
| **NON-CURRENT ASSETS** | | | | | |
| Other financial assets | 10 | **1,518,000** | 51,000 | **1,518,000** | 51,000 |
| Plant and equipment | 11 | **353,067** | 367,568 | **353,067** | 367,568 |
| **TOTAL NON-CURRENT ASSETS** | | **1,871,067** | 418,568 | **1,871,067** | 418,568 |
| **TOTAL ASSETS** | | **7,868,238** | 5,067,880 | **7,868,238** | 5,067,880 |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | 12 | **741,448** | 546,493 | **741,448** | 546,493 |
| Provisions | 13 | **229,803** | 536,276 | **229,803** | 536,276 |
| **TOTAL CURRENT LIABILITIES** | | **971,251** | 1,082,769 | **971,251** | 1,082,769 |
| **TOTAL LIABILITIES** | | **971,251** | 1,082,769 | **971,251** | 1,082,769 |
| **NET ASSETS** | | **6,896,987** | 3,985,111 | **6,896,987** | 3,985,111 |
| **EQUITY** | | | | | |
| Contributed equity | 14 | **37,583,745** | 30,029,539 | **37,583,745** | 30,029,539 |
| Reserves | 15(a) | **1,584,050** | 130,300 | **1,584,050** | 130,300 |
| Accumulated losses | 15(b) | **(32,270,808)** | (26,174,728) | **(32,270,808)** | (26,174,728) |
| **TOTAL EQUITY** | | **6,896,987** | 3,985,111 | **6,896,987** | 3,985,111 |

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

# Statements in Changes in Equity Year Ended 30 June 2007

| | Notes | Consolidated 2007 $ | Consolidated 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| **TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR** | | **3,985,111** | 10,442,317 | **3,985,111** | 15,630,241 |
| Employee share options | 15 | **556,750** | 88,713 | **556,750** | 88,713 |
| Available-for-sale Reserve | 15 | **897,000** | (8,000) | **897,000** | (8,000) |
| **NET INCOME RECOGNISED DIRECTLY IN EQUITY** | | **1,453,750** | **80,713** | **1,453,750** | **80,713** |
| **LOSS FOR THE YEAR** | | **(6,096,080)** | (13,032,034) | **(6,096,080)** | (18,219,958 |
| **TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF DE GREY MINING LIMITED** | | **(4,642,330)** | (12,951,321) | **(4,642,330)** | (18,139,246) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Shares issued during the year | 14 | **7,823,698** | 6,964,115 | **7,823,698** | 6,964,115 |
| Transaction costs | 14 | **(269,492)** | (470,000) | **(269,492)** | (470,000) |
| | | **7,554,206** | 6,494,115 | **7,554,206** | 6,494,115 |
| **TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR** | | **6,896,987** | 3,985,111 | **6,896,987** | 3,985,111 |

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

# Statements of Cash Flows Year Ended 30 June 2007

| | Notes | Consolidated 2007 $ | Consolidated 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Payments to suppliers and employees | | **(1,404,229)** | (1,490,190) | **(1,402,164)** | (1,489,011) |
| Interest received | | **324,892** | 387,371 | **324,892** | 387,371 |
| Payments for exploration and evaluation expenditure | | **(5,292,387)** | (4,217,127) | **(3,978,955)** | (3,361,753) |
| Research and development tax offset received | | **110,750** | - | **110,750** | - |
| NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES | 25(a) | **(6,260,974)** | (5,319,946) | **(4,945,477)** | (4,463,393) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Payments for plant and equipment | | **(147,844)** | (112,186) | **(147,844)** | (112,186) |
| Proceeds on disposal of plant and equipment | | **150,335** | - | **150,335** | - |
| Proceeds on sale of tenements | | **100,000** | - | **100,000** | - |
| Advances to related parties | | **-** | - | **(1,315,497)** | (856,551) |
| NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES | | **102,491** | (112,186) | **(1,213,006)** | (968,737) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issues of ordinary shares | | **7,751,198** | 6,964,115 | **7,751,198** | 6,964,115 |
| Payment of share issue costs | | **(269,492)** | (470,000) | **(269,492)** | (470,000) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | **7,481,706** | 6,494,115 | **7,481,706** | 6,494,115 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **1,323,223** | 1,061,983 | **1,323,223** | 1,061,983 |
| Cash and cash equivalents at the beginning of the financial year | | **4,542,165** | 3,480,182 | **4,542,165** | 3,480,182 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | 7 | **5,865,388** | 4,542,165 | **5,865,388** | 4,542,165 |

The above Statements of Cash Flows should 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 and domiciled in Australia.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Interpretations and the Corporations Act 2001. The financial report is presented Australian Dollars. The financial report of De Grey Mining Limited for the year ended 30 June 2007 was authorised for issue by the directors on 25 September 2007.

*Statement of Compliance*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of De Grey Mining Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Disclosure and Presentation.

*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, which have been measured at fair value.

### (b) Principles of consolidation

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of De Grey Mining Limited ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. De Grey Mining Limited and its subsidiaries together are referred to in this financial report as the Group or consolidated entity.

Subsidiaries are all of those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

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

*(ii) Joint ventures*

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of joint venture activities have been incorporated in the financial statements under the appropriate heading. Details of the joint ventures are set out in note 24.

### (c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

### (d) Revenue recognition

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

Interest Revenue

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (e) Income tax

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

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (h) Cash and cash equivalents

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

### (i) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

### (j) Investments and other financial assets

***Classification***

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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. Loans and receivables are included in trade and other receivables in the balance sheet.

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

*(iv) Available-for-sale financial assets*

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.

***Recognition and derecognition***

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.



***Subsequent measurement***

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

***Fair value***

The fair values of quoted investments are based on last trade prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

***Impairment***

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (k) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost, net of their residual values, over their estimated useful lives. The rates vary between 20% and 40% 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 (note 1(g)).

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.

### (l) Exploration and evaluation costs

Exploration and evaluation costs are expensed as they are incurred.

### (m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid on normal commercial terms.



### (n) Employee benefits

*Wages and salaries, annual leave and other 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.

### (o) 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'), refer to note 27.

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 internal 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.

## (p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

## (q) Earnings per share

*(i) Basic earnings per share*

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

*(ii) Diluted earnings per share*

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

## (r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

## (s) New accounting standards and interpretations



Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.

*(ii) AASB-I 10 Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

*(iii) AASB 8 Operating Segments*

AASB 8 replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.

*(iv) AASB 2007-3 Amendments to Australian Accounting Standards [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]*

AASB 2007-3 amendments arise from AASB 8 and are applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8. This standard is only expected to impact disclosures contained within the financial report.

*(v) AASB-I 11 AASB 2 Share-based Payment – Group and Treasury Share Transaction*

AASB-I 11 addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. AASB-I 11 will become mandatory for the Group's 2008 financial report. AASB-I 11 is not expected to have any impact on the financial report.

*(vi) AASB 2007-1 Amendments to Australian Accounting Standards [AASB 2]*

Arising from AASB-I 11, AASB 2007-1 amends AASB 2 to insert the transitional provisions of IFRS 2, previously contained in AASB 1. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated or parent entity financial report.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

*(vii) AASB-I 12 Service Concession Arrangements*

AASB-I 12 addresses the accounting for service concession operators, but not guarantors, for public to private service concession arrangements. AASB-I 12 will apply for the Group's 2009 financial report. The potential effect on the financial report has not yet been determined. At this time an entity must adopt the revised AASB-I 4 and AASB-I 129.

(viii) AASB 2007-2 Amendments to Australian Accounting Standards [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]

AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as AASB-I 12. AASB 2007-2 also amends references to "UIG Interpretation" to interpretations (AASB-I). This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

### (t) Significant accounting judgements, estimates and assumptions

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

*(i) Significant accounting judgements*

In the process of applying the Group's accounting policies, management has made the following judgement:

***Exploration expenditure***

Exploration and evaluation costs are expensed as they are incurred.

*(ii) Significant accounting estimates and assumptions*

***Share based payment transactions***

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 27.



***Impairment of assets***

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(g).

## 2. FINANCIAL RISK MANAGEMENT

### (a) Interest rate risk

The Group 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 only financial asset or financial liability of the Group that is exposed to interest rate risk is the cash balance of $5,865,388 (2006: $4,542,165). The weighted average effective interest rate is 6.0% (2006: 5.6%).

### (b) Net fair values

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

### (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.

### (d) Liquidity risk exposures

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

### (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.

## 3. SEGMENT INFORMATION

Description of segments

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

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |

## 4. REVENUE

| | | | | |
|---|---|---|---|---|
| **From continuing operations** | | | | |
| *Other revenue* | | | | |
| Interest | **332,464** | 387,371 | **332,464** | 387,371 |
| Net gain on sale of tenement | **641,994** | - | **641,994** | - |
| Net gain on disposal of plant and equipment | **102,390** | - | **102,390** | - |
| Research and development tax offset | **110,750** | - | **110,750** | - |
| | **1,187,598** | 387,371 | **1,187,598** | 387,371 |

## 5. EXPENSES

Loss before income tax includes the following specific expenses:

| | | | | |
|---|---|---|---|---|
| Rental of premises under operating lease | **71,151** | 71,073 | **71,151** | 71,073 |
| Contributions to superannuation funds | **132,302** | 400,186 | **132,302** | 400,186 |

## 6. INCOME TAX

| | | | | |
|---|---|---|---|---|
| **(a) Income tax expense** | | | | |
| Current tax | **-** | - | **-** | - |
| Deferred tax | **-** | - | **-** | - |
| Adjustments for current tax of prior years | **-** | - | **-** | - |
| | **-** | - | **-** | - |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | | | |
| Loss from continuing operations before income tax expense | **(6,096,080)** | (13,032,034) | **(6,096,080)** | (18,219,958) |
| Prima facie tax benefit at the Australian tax rate of 30% (2006: 30%) | **(1,828,824)** | (3,909,610) | **(1,828,824)** | (5,465,987) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Share-based payments | **167,025** | 26,614 | **167,025** | 26,614 |
| Capital raising fees | **(57,084)** | (141,000) | **(57,084)** | (141,000) |
| Expenditure on mining interests | **-** | 2,120,176 | **-** | 148,422 |
| Research & Development expenditure claimed | **45,716** | 55,622 | **45,716** | 55,622 |
| Impairment of non-current assets | **-** | - | **394,649** | - |
| Sundry items | **(98,981)** | 136,224 | **(98,981)** | 136,224 |
| | **(1,772,148)** | (1,711,974) | **(1,377,499)** | (5,240,105) |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | **1,772,148** | 1,711,974 | **1,377,499** | 5,240,105 |
| Income tax expense | **-** | - | **-** | - |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |

## 6. INCOME TAX (cont.)

**(c) Unrecognised deferred tax assets**

*(i) Unrecognised deferred tax liability*

| | | | | |
|---|---|---|---|---|
| Available-for-sale financial assets | **266,700** | - | **266,700** | - |
| Gross deferred tax liability | **266,700** | - | **266,700** | - |
| *(ii) Unrecognised deferred tax assets* | | | | |
| Provisions | **74,660** | 179,314 | **4,602,818** | 179,314 |
| Capital raising fees | **174,178** | 150,414 | **174,178** | 150,414 |
| Other | **-** | 1,861 | **-** | 1,861 |
| Carry forward tax losses | **8,944,187** | 7,110,111 | **8,549,538** | 7,110,111 |
| Gross deferred tax assets | **9,193,025** | 7,441,700 | **13,326,534** | 7,441,700 |
| Set-off of deferred tax liability (refer (c)(i) above) | **(266,700)** | - | **(266,700)** | - |
| Net deferred tax assets | **8,926,325** | 7,441,700 | **13,059,834** | 7,441,700 |

No deferred tax asset has been recognised for the above balance as at 30 June 2007 as it is not considered probable that future taxable profits will be available against which it can be utilised.

**(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.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |

## 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

| | | | | |
|---|---|---|---|---|
| Cash at bank and in hand | **689,669** | 805,173 | **689,669** | 805,173 |
| Short-term deposits | **5,175,719** | 3,736,992 | **5,175,719** | 3,736,992 |
| Cash and cash equivalents as shown in the balance sheet and the statement of cash flows | **5,865,388** | 4,542,165 | **5,865,388** | 4,542,165 |

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.

| | Notes | Consolidated 2007 $ | Consolidated 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|

## 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

| | | | | | |
|---|---|---|---|---|---|
| Sundry debtors | 8(a) | **50,842** | 19,845 | **50,842** | 19,845 |
| Goods and Services Tax receivable | | **-** | 29,708 | **-** | 29,708 |
| | | **50,842** | 49,553 | **50,842** | 49,553 |

**(a) Terms and conditions**

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

## 9. CURRENT ASSETS – OTHER FINANCIAL ASSETS

| | | | | | |
|---|---|---|---|---|---|
| Prepayments | | **80,941** | 57,594 | **80,941** | 57,594 |

## 10. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

| | | | | | |
|---|---|---|---|---|---|
| Shares in controlled entities – at cost | 22 | **-** | - | **3,500,279** | 3,500,278 |
| Loans to controlled entities | | **-** | - | **11,593,582** | 10,278,085 |
| Provision for impairment | | **-** | - | **(15,093,861)** | (13,778,363) |
| Shares and Options in listed companies | | **1,518,000** | 51,000 | **1,518,000** | 51,000 |
| | | **1,518,000** | 51,000 | **1,518,000** | 51,000 |

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

## 11. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

| | | | | |
|---|---|---|---|---|
| **Plant and equipment** | | | | |
| Cost | **604,723** | 561,742 | **604,723** | 561,742 |
| Accumulated depreciation | **(251,656)** | (194,174) | **(251,656)** | (194,174) |
| Net book amount | **353,067** | 367,568 | **353,067** | 367,568 |
| | | | | |
| **Plant and equipment** | | | | |
| Opening net book amount | **367,568** | 379,194 | **367,568** | 379,194 |
| Additions | **147,844** | 171,751 | **147,884** | 171,751 |
| Disposals | **(49,189)** | (59,565) | **(49,189)** | (59,565) |
| Depreciation charge | **(113,156)** | (123,812) | **(113,156)** | (123,812) |
| Closing net book amount | **353,067** | 367,568 | **353,067** | 367,568 |

## 12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

| | | | | |
|---|---|---|---|---|
| Trade payables | **122,036** | 337,353 | **122,036** | 337,353 |
| Other payables and accruals | **619,412** | 209,140 | **619,412** | 209,140 |
| | **741,448** | 546,493 | **741,448** | 546,493 |

## 13. CURRENT LIABILITIES - PROVISIONS

| | | | | |
|---|---|---|---|---|
| Employee benefits | | | | |
| Annual leave | **69,647** | 137,063 | **69,647** | 137,063 |
| Retirement benefit | **160,156** | 399,213 | **160,156** | 399,213 |
| | **229,803** | 536,276 | **229,803** | 536,276 |

## 14. CONTRIBUTED EQUITY

### (a) Share capital

| | Notes | 2007 Number of shares | 2007 $ | 2006 Number of shares | 2006 $ |
|---|---|---|---|---|---|
| Ordinary shares fully paid | 14(b), 14(d) | **206,531,738** | 37,583,745 | **139,225,620** | 30,029,539 |
| Total contributed equity | | **206,531,738** | 37,583,745 | **139,225,620** | 30,029,539 |
| **(b) Movements in ordinary share capital** | | | | | |
| Beginning of the financial year | | **139,225,620** | 30,029,539 | **104,405,042** | 23,535,424 |
| Issued during the year: | | | | | |
| Issued for cash at 11 cents per share | | **39,971,118** | 4,396,823 | **-** | - |
| Issued for cash at 12.5 cents per share | | **26,835,000** | 3,354,375 | **-** | - |
| Issued as consideration for the acquisition of tenements at 14.5 cents per share | | **500,000** | 72,500 | **-** | - |
| Issued to satisfy underwriting fee at 20 cents | | **-** | - | **625,000** | 125,000 |
| Issued for cash at 20 cents per share | | **-** | - | **10,000** | 2,000 |
| Issued on exercise of options | | **-** | - | **34,185,578** | 6,837,115 |
| Less: Transaction costs | | **-** | (269,492) | **-** | (470,000) |
| End of the financial year | | **206,531,738** | 37,583,745 | **139,225,620** | 30,029,539 |

### (c) Movements in options on issue

| | Number of options 2007 | Number of options 2006 |
|---|---|---|
| Beginning of the financial year | **3,030,000** | 49,977,428 |
| Issued during the year: | | |
| Exercisable at 50 cents, on or before 22 Nov 2010 | **-** | 1,000,000 |
| Exercisable at 25 cents, on or before 31 Dec 2010 | **500,000** | 1,620,000 |
| Exercisable at 30 cents, on or before 30 Jun 2011 | **1,000,000** | - |
| Exercisable at 30 cents, on or before 10 Jul 2011 | **3,000,000** | - |
| Exercisable at 30 cents, on or before 30 Jun 2012 | **1,000,000** | - |
| Exercisable at 35 cents, on or before 30 Jun 2013 | **1,000,000** | - |
| Less: Options exercised (20 cents, 5 Jul 2005) | **-** | (35,977,428) |
| Less: Options lapsed (50 cents, 5 Jul 2005) | **-** | (5,000,000) |
| Less: Options lapsed (45 cents, 30 Jun 2006) | **-** | (7,500,000) |
| Less: Options cancelled (25 cents, 31 Dec 2006) | **-** | (1,090,000) |
| End of the financial year | **9,530,000** | 3,030,000 |

### (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 | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |

## 15. RESERVES AND ACCUMULATED LOSSES

**(a) Reserves**

| | | | | |
|---|---|---|---|---|
| Available-for-sale reserve | **889,000** | (8,000) | **889,000** | (8,000) |
| Share-based payments reserve | **695,050** | 138,300 | **695,050** | 138,300 |
| | **1,584,050** | 130,300 | **1,584,050** | 130,300 |

**Movements:**

| | | | | |
|---|---|---|---|---|
| *Available-for-sale reserve* | | | | |
| Balance at beginning of year | **(8,000)** | - | **(8,000)** | - |
| Revaluation – Shares and Options in listed companies | **897,000** | (8,000) | **897,000** | (8,000) |
| Balance at end of year | **889,000** | (8,000) | **889,000** | (8,000 |
| *Share-based payments reserve* | | | | |
| Balance at beginning of year | **138,300** | 49,587 | **138,300** | 49,587 |
| Option expense | **556,750** | 88,713 | **556,750** | 88,713 |
| Balance at end of year | **695,050** | 138,300 | **695,050** | 138,300 |

**(b) Accumulated losses**

| | | | | |
|---|---|---|---|---|
| Balance at beginning of year | **(26,174,728)** | (13,142,694) | **(26,174,728)** | (7,954,770) |
| Net loss for the year | **(6,096,080)** | (13,032,034) | **(6,096,080)** | (18,219,958) |
| Balance at end of year | **(32,270,808)** | (26,174,728) | **(32,270,808)** | (26,174,728) |

**(c) Nature and purpose of reserves**

*(i) Available-for-sale reserve*

The available-for-sale reserve is used to record changes in fair value on available-for-sale financial assets.

*(ii) Share-based payments reserve*

The share-based payments reserve is used to recognise the value of equity benefits provided to either employees or directors as remuneration or to suppliers as payment for products and services.

## 16. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

## 17. KEY MANAGEMENT PERSONNEL DISCLOSURES

**(a) Details of key management personnel**

*(i) Directors*

The following persons were directors of De Grey Mining Limited during the financial year:

| | | |
|---|---|---|
| Campbell Ansell | Non Executive Chairman | |
| Darren Townsend | Managing Director | |
| Denis O'Meara | Non Executive Director | |
| Gary Brabham | Non Executive Director | |
| Craig Oliver | Non Executive Director | |
| Ron Manners | Non Executive Chairman | *Resigned 3 July 2006* |

*(ii) Other Key Management Personnel*

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| | |
|---|---|
| Dennis Wilkins | Company Secretary |
| David Hammond | Exploration Manager |

**(b) Key management personnel compensation**

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Short-term benefits | **796,885** | 991,277 | **796,885** | 991,277 |
| Post employment benefits | **88,534** | 620,097 | **88,534** | 620,097 |
| Other long-term benefits | **-** | - | **-** | - |
| Termination benefits | **-** | - | **-** | - |
| Share-based payments | **556,750** | 33,572 | **556,750** | 33,572 |
| | **1,442,169** | 1,644,946 | **1,442,169** | 1,644,946 |

The company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 5 to 7.

**(c) Equity instrument disclosures relating to key management personnel**

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on page 7.

*(ii) Option holdings*

The numbers of options over ordinary shares in the company held during the financial year by each director of De Grey Mining Limited and other key management personnel of the Group, including their personally related parties, are set out below:

| | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| ***Directors of De Grey Mining Limited*** | | | | | | | |
| Campbell Ansell | - | - | - | - | - | - | - |
| Darren Townsend | - | 3,000,000 | - | - | 3,000,000 | 3,000,000 | - |
| Denis O'Meara | 2,000,000 | 1,000,000 | - | - | 3,000,000 | 3,000,000 | - |
| Gary Brabham | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | - |
| Craig Oliver | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | - |
| ***Other key management personnel of the Group*** | | | | | | | |
| Dennis Wilkins | - | - | - | - | - | - | - |
| David Hammond | - | 500,000 | - | - | 500,000 | 500,000 | - |

All vested options are exercisable at the end of the year.

| | Balance at start of the year | Granted as compensation | Exercised | Other changes | Balance at end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| **2006** | | | | | | | |
| ***Directors of De Grey Mining Limited*** | | | | | | | |
| Campbell Ansell | 200,000 | - | (200,000) | - | - | - | - |
| Darren Townsend | - | - | - | - | - | - | - |
| Denis O'Meara | 1,000,000 | 1,000,000 | - | - | 2,000,000 | 2,000,000 | - |
| Gary Brabham | - | - | - | - | - | - | - |
| Craig Oliver | - | - | - | - | - | - | - |
| ***Other key management personnel of the Group*** | | | | | | | |
| Dennis Wilkins | - | - | - | - | - | - | - |
| David Hammond | - | - | - | - | - | - | - |

*(iii) Share holdings*

The numbers of shares in the company held during the financial year by each director of De Grey Mining Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| | Balance at start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| **2007** | | | | |
| ***Directors of De Grey Mining Limited*** | | | | |
| **Ordinary shares** | | | | |
| Campbell Ansell | **150,000** | **-** | **40,000** | **190,000** |
| Darren Townsend | **56,526** | **-** | **205,455** | **261,981** |
| Denis O'Meara | **2,444,742** | **-** | **(34,545)** | **2,410,197** |
| Gary Brabham | **-** | **-** | **-** | **-** |
| Craig Oliver | **-** | **-** | **-** | **-** |
| ***Other key management personnel of the Group*** | | | | |
| **Ordinary shares** | | | | |
| Dennis Wilkins | **-** | **-** | **-** | **-** |
| David Hammond | **-** | **-** | **-** | **-** |

| | Balance at start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| **2006** | | | | |
| ***Directors of De Grey Mining Limited*** | | | | |
| **Ordinary shares** | | | | |
| Campbell Ansell | 50,000 | 200,000 | (100,000) | 150,000 |
| Darren Townsend | - | - | 56,526 | 56,526 |
| Denis O'Meara | 1,950,001 | - | 494,741 | 2,444,742 |
| Gary Brabham | - | - | - | - |
| Craig Oliver | - | - | - | - |
| ***Other key management personnel of the Group*** | | | | |
| **Ordinary shares** | | | | |
| Dennis Wilkins | - | - | - | - |
| David Hammond | - | - | - | - |

## 17. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont.)

**(d) Loans to key management personnel**

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

**(e) Other transactions with key management personnel**

**Services**

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 included as part of Mr Wilkins compensation.

## 18. REMUNERATION OF AUDITORS

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

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| **(a) Audit services** | | | | |
| Butler Settineri (Audit) Pty Ltd - audit and review of financial reports | **25,784** | 12,000 | **25,784** | 12,000 |
| Total remuneration for audit services | **25,784** | 12,000 | **25,784** | 12,000 |
| **(b) Non-audit services** | | | | |
| Butler Settineri Chartered Accountants - tax compliance services | **1,300** | 9,735 | **1,300** | 9,735 |
| Total remuneration for other services | **1,300** | 9,735 | **1,300** | 9,735 |

## 19. CONTINGENCIES

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



## 20. 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:

| | | | | |
|---|---|---|---|---|
| within one year | **479,536** | 963,700 | **448,087** | 963,700 |
| later than one year but not later than five years | **828,866** | 3,854,800 | **752,199** | 3,854,800 |
| later than five years | **-** | - | **-** | - |
| | **1,308,402** | 4,818,500 | **1,200,286** | 4,818,500 |

**(b) Lease commitments: Group as lessee**

Operating leases (non-cancellable):

| | | | | |
|---|---|---|---|---|
| Minimum lease payments | | | | |
| within one year | **84,079** | 71,073 | **84,079** | 71,073 |
| later than one year but not later than five years | **-** | 71,073 | **-** | 71,073 |
| later than five years | **-** | - | **-** | - |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | **84,079** | 142,146 | **84,079** | 142,146 |

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 section C of the remuneration report on page 7 that are not recognised as liabilities and are not included in the key management personnel compensation.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| within one year | **71,500** | 178,969 | **71,500** | 178,969 |
| later than one year but not later than five years | **-** | - | **-** | - |
| later than five years | **-** | - | **-** | - |
| | **71,500** | 178,969 | **71,500** | 178,969 |

## 21. RELATED PARTY TRANSACTIONS

### (a) Parent entity

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

### (b) Subsidiaries

Interests in subsidiaries are set out in note 22.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 17.

### (d) Loans to related parties

| | | | | |
|---|---|---|---|---|
| *Loans to subsidiaries* | | | | |
| Beginning of the year | **-** | - | **-** | 9,421,533 |
| Loans advanced | **-** | - | **1,315,497** | 856,552 |
| Loan repayments received | **-** | - | **-** | - |
| Provision for impairment | **-** | - | **(1,315,497)** | (10,278,085) |
| End of year | **-** | - | **-** | - |

De Grey Mining Limited has provided unsecured, interest free loans to its wholly owned subsidiaries, Beyondie Gold NL, Domain Mining NL and Winterwhite Resources Pty Ltd. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries and the market in which the subsidiaries operate to determine whether there is objective evidence that the loans are impaired. When such objective evidence exists, the company recognises an allowance for the impairment loss.

## 22. SUBSIDIARIES

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

| Name | Country of Incorporation | Class of Shares | Equity Holding* | |
|---|---|---|---|---|
| | | | 2007 % | 2006 % |
| Beyondie Gold NL | Australia | Ordinary | **100** | 100 |
| Domain Mining NL | Australia | Ordinary | **100** | 100 |
| Winterwhite Resources Pty Ltd** | Australia | Ordinary | **100** | - |

*The proportion of ownership interest is equal to the proportion of voting power held.

**Winterwhite Resources Pty Ltd was incorporated in Western Australia on 23 April 2007 with De Grey Mining Limited the sole shareholder.

## 23. INTERESTS IN JOINT VENTURES

**(a) Wallareenya Prospect**

In September 2005 the company entered into an agreement to farm out 100% of the iron ore rights in tenements hosting the Wallareenya Prospect, located 50 km south east of Port Hedland, to Atlas Iron Limited (formerly Atlas Gold Limited), an Australian publicly listed company. In consideration De Grey received an initial 100,000 shares in Atlas on signing of the agreement to evaluate the prospect, and a further 1,000,000 shares when Atlas exercised their option. De Grey has retained a 2% gross sales revenue royalty and retains a one off right to claw back 30% equity for two times Atlas' exploration spend across the prospect if Atlas defines a resource exceeding 3 mt. The joint venture has a carrying value of nil.

**(b) Tabba Tabba Shear**

In November 2005 the company entered into separate agreements with Thundelarra Exploration Limited and Attgold Pty Ltd to acquire an extra 22 kilometres of strike along the Tabba Tabba Shear in the company's Turner River Province, 60 kms south of Port Hedland. Under the agreement with Thundelarra (tenement E45/2611) the company is to reimburse Thundelarra $10,000 on signing of the agreement, and can earn a 60% interest by exploration expenditure of $180,000 within 2 years of grant. The agreement with Attgold (tenement ELA45/2364) required a payment of $50,000 to Attgold on signing of the option, after which De Grey had 18 months to decide if they wish to acquire the tenement. In February 2007 De Grey acquired 100% of the tenement by exercising the option and issuing 500,000 fully paid ordinary shares to Attgold and granting Attgold a royalty of $1/t up to a maximum of $750,000. Both agreements relate to gold, base and precious metals, and the joint venture has a carrying value of nil.

## 24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Following the General Meeting of the Company held on 4 July 2007 8 million unlisted options held by directors were cancelled, and 12.5 million unlisted options in the capital of the Company were issued. Also in July 2007, a further 1,030,000 unlisted options previously issued in accordance with the Employees and Contractors Option Plan (ECOP) were cancelled, and 2,925,000 unlisted options were subsequently issued under the ECOP.

No other matter or circumstance has arisen since 30 June 2007, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.



| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |

## 25. CASH FLOW STATEMENT

**(a) Reconciliation of net loss after income tax to net cash outflow from operating activities**

| | | | | |
|---|---|---|---|---|
| Net loss for the year | **(6,096,080)** | (13,032,034) | **(6,096,080)** | (18,219,958) |
| **Non-Cash Items** | | | | |
| Depreciation of non-current assets | **113,156** | 123,812 | **113,156** | 123,812 |
| Exploration and evaluation expenditure | **-** | 7,008,252 | **-** | 435,244 |
| Exploration expense settled by the issue of shares | **72,500** | - | **72,500** | - |
| Impairment expense | **-** | - | **1,315,497** | 12,617,876 |
| Net gain on disposal of plant and equipment | **(102,390)** | - | **(102,390)** | - |
| Net gain on sale of tenements | **(641,994)** | - | **(641,994)** | - |
| Option expense | **556,750** | 88,713 | **556,750** | 88,713 |
| **Change in operating assets and liabilities, net of effects from purchase of controlled entity** | | | | |
| (Increase)/decrease in trade and other receivables | **(18,753)** | 468,482 | **(18,753)** | 468,482 |
| (Increase)/decrease in other financial assets | **(5,883)** | - | **(5,883)** | - |
| (Decrease)/increase in trade and other payables | **168,193** | (451,061) | **168,193** | (451,949) |
| (Decrease)/increase in employee entitlement provisions | **(306,473)** | 473,890 | **(306,473)** | 473,890 |
| Net cash outflow from operating activities | **(6,260,974)** | (5,319,946) | **(4,945,477)** | (4,463,393) |

**(b) 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 |
| Facilities unused at reporting date | | | | |
| - Bank feasibility finance facility | **-** | 5,000,000 | **-** | 5,000,000 |

### (c) Non-cash investing and financing activities

The company received 1,000,000 Atlas Iron Ltd shares valued at $570,000 as consideration for the sale of iron ore rights in respect to mining tenements. These shares were market valued at balance date to $1,380,000.

The company issued 500,000 ordinary shares to Attgold Pty Ltd at a deemed market value of $72,500 as consideration for the acquisition of mining tenements.

| | Consolidated | |
|---|---|---|
| | 2007 $ | 2006 $ |

## 26. LOSS PER SHARE

### (a) Reconciliation of earnings used in calculating loss per share

| | | |
|---|---|---|
| Loss attributable to the ordinary equity holders of the company used in calculating basic and diluted loss per share | **(6,096,080)** | (13,032,034) |

| | Number of Shares | Number of Shares |
|---|---|---|

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

| | | |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share | **177,853,602** | 138,587,194 |

### (c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2007, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

## 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 date 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:

| Grant date | Expiry date | Exercise price Cents | Balance at start of the year Number | Granted during the year Number | Cancelled during the year Number | Balance at end of the year Number | Vested and exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|
| **Consolidated and Parent Entity - 2007** | | | | | | | |
| 1 Jul 2004 | 25 Mar 2009 | 50 | **500,000** | **-** | **-** | **500,000** | **500,000** |
| 17 Nov 2004 | 6 Nov 2009 | 50 | **1,000,000** | **-** | **-** | **1,000,000** | **1,000,000** |
| 2 Dec 2005 | 22 Nov 2010 | 50 | **1,000,000** | **-** | **-** | **1,000,000** | **1,000,000** |
| 6 Apr 2006 | 31 Dec 2010 | 25 | **530,000** | **-** | **-** | **530,000** | **530,000** |
| 13 Jul 2006 | 31 Dec 2010 | 25 | **-** | **500,000** | **-** | **500,000** | **500,000** |
| 13 Jul 2006 | 11 Jul 2011 | 30 | **-** | **1,000,000** | **-** | **1,000,000** | **1,000,000** |
| 13 Jul 2006 | 30 Jun 2011 | 30 | **-** | **3,000,000** | **-** | **3,000,000** | **3,000,000** |
| 13 Jul 2006 | 30 Jun 2012 | 30 | **-** | **1,000,000** | **-** | **1,000,000** | **1,000,000** |
| 13 Jul 2006 | 30 Jun 2013 | 35 | **-** | **1,000,000** | **-** | **1,000,000** | **1,000,000** |
| | | | **3,030,000** | **6,500,000** | **-** | **9,530,000** | **9,530,000** |

## 27. SHARE-BASED PAYMENTS (cont.)

**Consolidated and Parent Entity - 2006**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1 Jul 2004 | 25 Mar 2009 | 50 | **500,000** | **-** | **-** | **500,000** | **500,000** |
| 17 Nov 2004 | 6 Nov 2009 | 50 | **1,000,000** | **-** | **-** | **1,000,000** | **1,000,000** |
| 2 Dec 2005 | 22 Nov 2010 | 50 | **-** | **1,000,000** | **-** | **1,000,000** | **1,000,000** |
| 6 Apr 2006 | 31 Dec 2010 | 25 | **-** | **1,620,000** | **(1,090,000)** | **530,000** | **530,000** |
| | | | **1,500,000** | **2,620,000** | **(1,090,000)** | **3,030,000** | **3,030,000** |

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 3.9 years (2006: 3.8 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 8.6 cents (2006: 7.7 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

| | 2007 | 2006 |
|---|---|---|
| Weighted average exercise price (cents) | **30.4** | 34.5 |
| Weighted average life of the option (years) | **5.42** | 4.85 |
| Weighted average underlying share price (cents) | **16.5** | 19.6 |
| Expected share price volatility | **70%** | 70% |
| Risk free interest rate | **5.75%** | 5.40% |

Historical volatility has been used as 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 | | Parent Entity | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Options issued to employees and contractors | **556,750** | 203,024 | **556,750** | 203,024 |
| Expense written back on cancellation or exercise of options | **-** | (114,311) | **-** | (114,311) |
| | **556,750** | 88,713 | **556,750** | 88,713 |

# Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 16 to 38 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 5 to 7 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

Darren Townsend
Managing Director

Perth, 25 September 2007

# Independent Audit Report To the Members of De Grey Mining Limited

## 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 2007 as set out on pages 16 to 39 comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures under the heading "remuneration report" on pages 5 to 7 of the directors' report and not in the financial report.

## 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 establishing 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. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of De Grey Mining Limited on 25 September 2007 would be in the same terms if provided to the directors as at the date of this auditor's report.

## Auditor's Opinion on the financial report

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 2007 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.

## Auditor's Opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained on pages 5 to 7 of the directors' report comply with AASB 124.

BUTLER SETTINERI (AUDIT) PTY LTD

LUCY P GARDNER
Director

Perth
Date: 26 September 2007

# ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 24 September 2007.

### (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| | Ordinary shares | |
|---|---|---|
| | Number of holders | Number of shares |
| 1 - 1,000 | 53 | 34,959 |
| 1,001 - 5,000 | 380 | 1,351,579 |
| 5,001 - 10,000 | 408 | 3,600,678 |
| 10,001 - 100,000 | 1,420 | 59,669,292 |
| 100,001 and over | 314 | 141,875,230 |
| | 2,575 | 206,531,738 |
| The number of shareholders holding less than a marketable parcel of shares are: | 448 | 1,468,271 |

### (b) Twenty largest shareholders

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

| | | Listed ordinary shares | |
|---|---|---|---|
| | | Number of shares | Percentage of ordinary shares |
| 1 | Lion Selection Group Ltd | 13,805,908 | 6.68 |
| 2 | Yandal Investments Pty Ltd | 6,750,000 | 3.27 |
| 3 | Bougainvillaea Holdings Pty Ltd <Judith Isobel Bake> | 6,457,910 | 3.13 |
| 4 | ANZ Nominees Ltd <Cash Income A/C> | 5,839,306 | 2.83 |
| 5 | Karari Aust Pty Ltd | 5,100,000 | 2.47 |
| 6 | Hewson John Sutton & R A <Hewson Super/Fund> | 4,450,000 | 2.15 |
| 7 | Macquarie Bank Ltd | 3,527,500 | 1.71 |
| 8 | Mannwest Group Pty Ltd | 2,500,000 | 1.21 |
| 9 | Manners Ronald Brown | 2,000,000 | 0.97 |
| 10 | Tapp A J & Polymeneas M <Super Account> | 2,000,000 | 0.97 |
| 11 | Pegmont Mines Ltd | 1,892,000 | 0.92 |
| 12 | O'Meara Denis William | 1,690,196 | 0.82 |
| 13 | Bougainvillaea Holdings Pty Ltd <S/F A/C> | 1,675,455 | 0.81 |
| 14 | Szalacki Henry | 1,494,930 | 0.72 |
| 15 | W Brooks Investments Pty Ltd <B & P S/F A/C> | 1,300,000 | 0.63 |
| 16 | Archem Trading NZ Ltd | 1,300,000 | 0.63 |
| 17 | House of Dare Pty Ltd | 1,200,000 | 0.58 |
| 18 | Forty Traders Ltd | 1,195,455 | 0.58 |
| 19 | Button P S & Nicol P A <Christopher Jordan> | 1,145,455 | 0.55 |
| 20 | Creasy Mark Gareth | 1,000,000 | 0.48 |
| | | 66,324,115 | 32.11 |

### (c) 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 | 13,805,908 |

### (d) Voting rights

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

### (e) Schedule of interests in mining tenements

| Location | Tenement | Percentage held / earning |
|---|---|---|
| Beyondie Base & Precious Metals | E52/1806 | 100% |
| Beyondie Base & Precious Metals | E52/1470 | 100% |
| Beyondie Base & Precious Metals | E52/1491 | 100% |
| Beyondie Base & Precious Metals | E52/2026 (A) | 100% |
| Beyondie Base & Precious Metals | E52/2027 (A) | 100% |
| Beyondie Base & Precious Metals | E52/2028 (A) | 100% |
| Beyondie Base & Precious Metals | E52/2029 (A) | 100% |
| East Sulphur Springs | E45/2940 (A) | 100% |
| East Sulphur Springs | E45/2941 (A) | 100% |
| East Sulphur Springs | P45/2623 (A) | 100% |
| East Sulphur Springs | P45/2624 (A) | 100% |
| East Sulphur Springs | P45/2625 (A) | 100% |
| East Sulphur Springs | P45/2626 (A) | 100% |
| East Sulphur Springs | P45/2627 (A) | 100% |
| East Sulphur Springs | P45/2628 (A) | 100% |
| Marble Bar North | E45/2942 (A) | 100% |
| Marble Bar North | P45/2621 (A) | 100% |
| Marble Bar North | P45/2622 (A) | 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 | 100% |
| Turner River | E45/2611 | Earning 60% |
| Turner River | E45/2432 (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 | P45/2655 (A) | 100% |
| Turner River | E45/2995 (A) | 100% |
| Turner River | G45/272 (A) | 100% |
| Toomey Hill | E39/1152 | 100% |
| Toomey Hill | P39/4345 (A) | 100% |
| Paterson | E45/3042 (A) | 100% |
| Paterson | E45/3043 (A) | 100% |
| Paterson | E45/3044 (A) | 100% |
| Paterson | E45/3045 (A) | 100% |
| Paterson | E45/3046 (A) | 100% |
| Paterson | E45/3047 (A) | 100% |

**De Grey Mining Limited**
5 Bishop Street
Jolimont WA 6014
Telephone: +61 8 9285 7500
Facsimile: +61 8 9285 7599