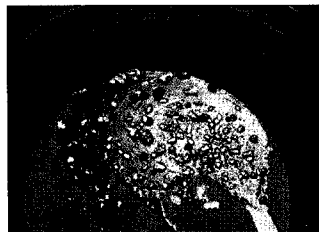
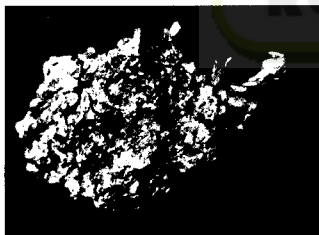


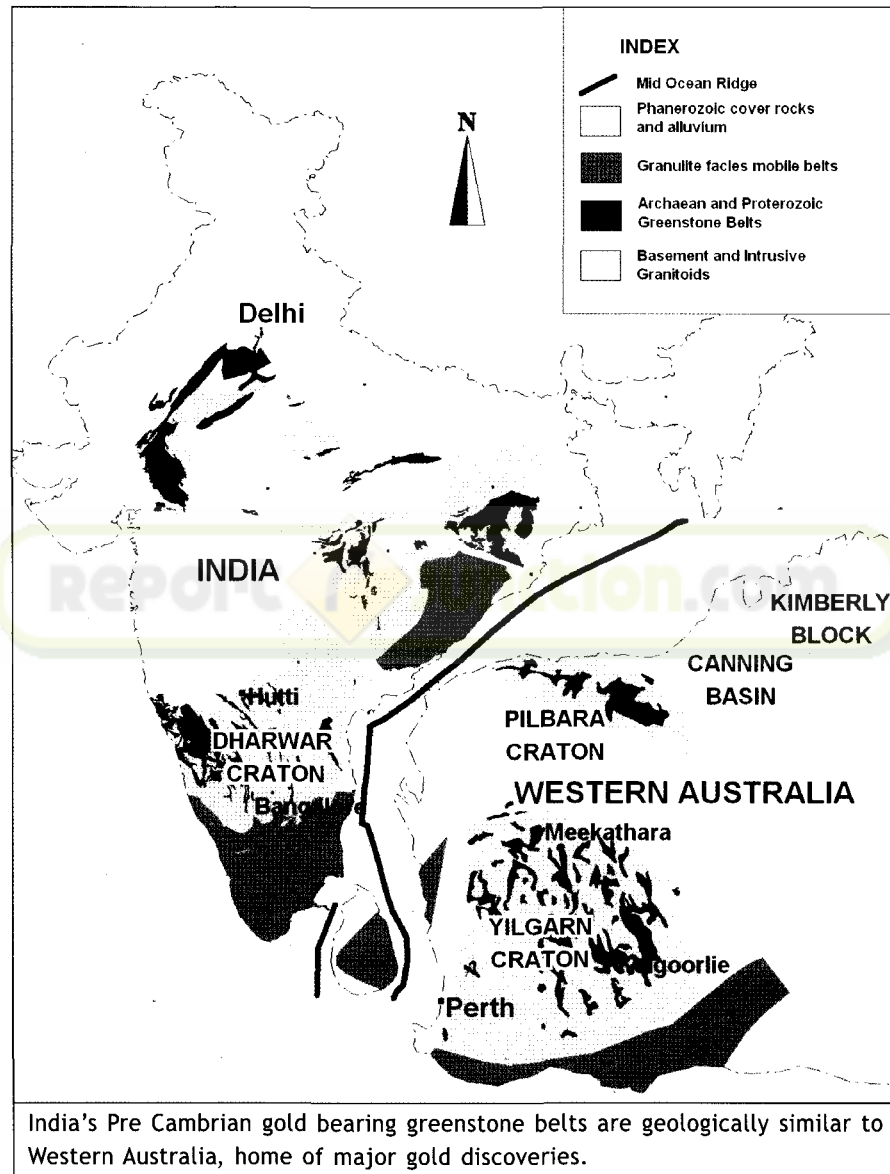


DECCAN GOLD MINES LIMITED

ANNUAL REPORT - 2006



Report  junction.com



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Chairman	Mr. Charles E.E. Devenish
Managing Director	Mr. Sandeep Lakhwara
Directors	Mr. Vaidyanathan Sivakumar Mr. Taveesh Pandey Dr. M. Ramakrishnan Mr. K.R. Krishnamurthy Prof. V.K. Gaur
Company Secretary	Mr. S. Subramaniam
Auditors	M/s. V.K. Beswal & Associates Chartered Accountants, Mumbai.
Legal Advisors	M/s. Dua & Associates 130/1, 2 nd Floor, Ulsoor road, Bangalore – 560 042.
Registrars & Share Transfer Agents	Intime Spectrum Registry Limited Pannalal Silk Mills Compound, C-13, LBS Marg, Bandhup (West), Mumbai – 400 078. Tel : 91-22-55555454 Fax : 91-22-55555353 Email: isrl@vsnl.com
Bankers	Standard Chartered Grindlays Bank
Registered Office	49A, Nariman Bhavan, Nariman Point, Mumbai – 400 021. Tel : 91-22-22026026/22874839 Fax : 91-22-22020820 Email : info@deccangoldmines.com Web : www.deccangoldmines.com
Corporate Office	# 12, SBI Colony, 7 th Main, 3 rd Block, Koramangala, Bangalore – 560 034. Fax : 91-80-25506973 Email : info@deccangoldmines.com

It has been a very eventful year in several respects. We made a preferential allotment of 70,00,000 shares at Rs 15.1 per share to Sun Mining and Exploration Ltd., a Cyprus based company, part of the US \$2 billion Sun group of companies, majority owned by the Khemka family with interests in mining and oil and gas projects in India and internationally. Sun has also acquired 110,77,027 warrants with the right to convert them into shares over the next 18 months.

We have identified gold resources with strong mining potential within our Hirenagnur, Ganajur and now Attapadi prospects. Details are contained in the section titled "Report on exploration activities" in this Annual Report. The prospects require detailed drilling to substantiate and enhance the gold resources identified through our first phase of exploration activities. We have therefore approached several Indian and International drilling contractors to undertake this drilling. The drilling companies have presented their quotes and the drilling contracts for both diamond core and non core drilling are currently being addressed. We have also appointed an Australian mineral resource expert and authority holder from the Joint Ore Resources Committee (JORC) to guide us through this detailed drilling phase, which if successful, will lead to feasibility studies on the economics of mining the gold deposits.

Such work however can only be undertaken upon grant of Prospecting and/or Mining Licences applied for by our 100% owned subsidiary Indophil Resources Exploration services Pvt Ltd and associate Geomysore Services (India) Pvt Ltd. Details on the status of our applications has been provided in the section titled "Exploration Permits and Applications" in this Annual Report. The Mining Licence (ML) applications cover an area of 3.18 sq kms in the States of Rajasthan and Karnataka. Most of our Prospecting and/or Mining Licences were applied for a long time ago.

I am pleased to report that our Prime Minister, Dr Manmohan Singh, according to an article published in the National Herald, New Delhi on October 1, 2006 has directed the Mining Minister, Mr. Sis Ram Ola to address the delays in the grant of permits and finalise the new mining policy before the winter session of Parliament. It would be fair to say that the delays in the grant of licences have considerably hindered the progress of our company. We have been unable to undertake the level of work required to prove up gold deposits and move into mining operations.

Worldwide, gold reserves are on the decline and demand for gold is on the increase. There is a shift from central banks selling gold to these banks buying gold. Investors and speculators are becoming more active in gold acquisition and trading, gold producers are de hedging their inventories, more gold is being fabricated into jewellery, and other factors such as a weak US \$, real negative interest rates in the US, and worldwide geopolitical tensions are propelling the price of gold upwards. In this environment of rising gold prices coupled with increasing demand and dwindling supplies, any discovery of the metal should have a major impact on the valuation of the discoverer company.

It is my belief that based on the results of our exploration work to date we are very close to making discoveries of mineable gold deposits within our prospects. Of course, we are yet to undertake the detailed drilling and feasibility studies so urgently needed to establish the gold reserves and consider the economics of mining these reserves. Such work will be undertaken upon grant of the licences.

I take this opportunity to thank our dedicated staff members for their extremely valuable contribution to the performance of our company and to our shareholders for continuing to show faith in our ability to create substantial value in the long term.

Warm Regards,

Charles E E Devenish

CHARLES E.E. DEVENISH

Chairman

Charles Devenish was the founder and first chairman of two publicly listed companies in the 1980's and 1990's that pioneered diamond exploration in Australia. For 38 years, he was the Principal of Charles Edward Jewellers, one of Australia's leading specialist retail and wholesale outlets with international links in Europe, Middle East and USA. He also acted as an advisor to the Government of Vietnam on the development of that country's gemstone mining and cutting industry. Devenish moved to Delhi, India in August, 2002 and has been actively liaising with various Government Departments and providing support and guidance to progress the development of gold exploration and mining industry in India.

SANDEEPLAKHWARA

Managing Director

Sandeep Lakhwara has several years experience advising junior Australian exploration and mining companies on development strategies. Educated at Curtin University in Western Australia, and a member of the Australian Society of Certified Practising Accountants (CPAs), Sandeep has been a principal and partner of several Australian based accounting practices specializing in capital raisings for the mineral industry, financial planning and corporate regulatory requirements for publicly listed companies. He has lived in Australia for the last 25 years, headed various organizations in the past, at times taking small start-ups to fully developed successful businesses, and moved to Bangalore, India a couple of years ago to oversee the development of Australian Indian Resources Pty Ltd., (AIR) projects in India. He is primarily responsible for the acquisition and development of Deccan Gold Mines Limited. He is Managing Director of AIR and Deccan Gold Mines Limited. Sandeep has made various presentations on factors influencing gold pricing, the operation and business model of international mineral exploration companies, and is regularly called upon to contribute articles on the gold mining industry to various newspapers and magazines.

VAIDYANATHAN SIVAKUMAR

Director

Mr. Vaidyanathan Sivakumar spent several years in equity and credit research in public markets with Crosby Securities, Peregrine Capital and CRISIL where his roles ranged from Analyst to Head of Research and functions included stock analysis, asset allocation and investment strategy and building and managing research teams and products. He also has six years industrial experience with ICI India where he worked in several commercial functions. Mr. Sivakumar holds engineering and management degrees from the Indian Institute of Technology and Indian Institute of Management, Ahmedabad respectively

TAVEESH PANDEY

Director

Mr. Taveesh Pandey was associated with International Finance Corporation (the private sector arm of the World Bank group) where he led some of IFC's unique transactions in the Telecom and IT Services domain and was instrumental in increasing IFC's equity exposure to the Indian market.

Prior to IFC, Mr. Taveesh was with CRISIL (India's leading credit rating agency and now part of Standard & Poor's) where he developed CRISIL's analytical framework and business flow for Indian telecom service providers and created & commercially launched innovative rating products. Mr. Taveesh holds an MBA from the Indian Institute of Management (Ahmedabad) and a first degree in Economics (Honours) from the University of Delhi

DR. M. RAMAKRISHNAN

Director

Dr. Ramakrishnan is a well known Precambrian Geologist. He was earlier Senior Deputy Director General of the Geological Survey of India. He is a Fellow of the Indian Academy of Sciences and Vice President of the Geological Society of India.

K.R. KRISHNAMURTHY

Director

K.R. Krishnamurthy is a well known Mining Engineer. He was General Manager of Chitradurga Copper Company and Manager at Ashanti Gold Fields, Ghana for 10 years. He was also Mining Consultant to Bharat Gold Mines Limited and many mineral based industries in India and abroad.

PROF. V. K. GAUR

Director

Professor V.K. Gaur is an eminent geoscientist of this country. He is a former Director of the National Geophysical Research Institute. He is a Distinguished Scientist of the Council of Scientific and Industrial Research and Distinguished Professor at the Indian Institute of Astrophysics.



CHIEF CONSULTING GEOLOGIST

DR. V.N. VASUDEV

Dr. V.N. Vasudev is Chief Geologist. Dr. Vasudev has published several papers on the geology structure, gold and sulphide mineralization in Archean greenstone belts of Dharwar Craton. He has also undertaken overseas research in Southeast Greenland and was associated with Russian geologists in a research project on Kolar Gold Fields, India. He was with Government of Karnataka, Department of Mines and Geology as a Senior Geologist and Mining Geologist of Chitradurga Copper Company Limited. He has carried out extensive literature research and field reconnaissance throughout India for the Company.

TECHNICAL ADVISOR

DR. R. SRINIVASAN

Dr. Srinivasan was Senior Earth Scientist at the National Geophysical Research Institute, Hyderabad. Earlier to that, he had 13 years of experience in Mineral and Ground Water prospecting and geotechnical investigations. Has more than 35 years of research experience on Precambrian Crustal Evolution. Areas of expertise are structural geology, sedimentology, geochemistry, geochronology, Precambrian paleobiology, heat flow and helium emanometry as applied to academic problems and mineral exploration. He has worked in different parts of India and has also carried out field studies in USA, Canada, Russia, Western Australia and Ceylon. He is a Fellow of all the three National Science Academies of the country.

GEOLOGICAL CONSULTANT

S.C.R. PESHWA, M.Sc., FGS

Mr. Peshwa worked as a Mining & Exploration Geologist for 13 years up to 1996 with the Bharat Gold Mines Limited. From 1996 to 2002 worked as a Project Manager with ACC Limited and was involved in exploration of gold and other minerals. He successfully carried out gold prospecting in Red Sea hills region of Sudan. Mr. Peshwa is responsible for all the Company's projects in the Hutti region.

GEOLOGICAL CONSULTANT

DR. MODALI H. PRASAD

Dr. Prasad has 8 years of experience as Geologist in Geological Survey of India. He has carried out geological mapping and mineral resources assessment particularly gold, copper and nickel in the supra crustal belts in parts of Mahakoshal belt, Betul and Sakoli belt in Central India.

GEOLOGICAL CONSULTANT

DR. SALEEM AHMED KHAN

Mr. Khan has over 27 years of field experience in geological mapping of different terrains ranging from high grade granulites and granite-greenstone, belts of South India to the Tertiary sediments occupying the mountainous North Eastern Himalayas. He has succeeded in locating, delineating and establishing gold and silver reserves in Chitradurga, schist belt, besides delineating several prospects in Dharwar-Shimoga belts in Karnataka. He is presently engaged in the task of delineating gold bearing zones in North Kolar Areas.

COMPANY SECRETARY

S. SUBRAMANIAM, B.Sc., M.A., ACS

Mr. Subramaniam is an Associate Member of the Institute of Company Secretaries of India. He has 10 years of experience in the field of Company Law and other corporate laws. During his career, he has handled mergers, amalgamations, joint ventures, foreign collaborations etc., He is in charge of the legal and company secretarial matters and also functions as the Compliance Officer of the Company.

I. HUTTI BELT PROJECT

Hutti Greenstone Belt: Host to a world class gold deposit (Fig.1):

Gold is being mined by The Hutti Gold Mines Ltd (HGML), a Government of Karnataka undertaking, near Hutti village in northern Karnataka. The mine is developed on a classic Archaean lode gold deposit, similar to those in Australia, Canada and South Africa. Gold mining activity in the belt has been known since pre-Ashokan time, about 3000 years ago. Modern gold mining commenced in the Hutti area around 1947.

Exploration was carried out by DGML under two Reconnaissance exploration Licences (RPs) covering a total area 851 sq km of the most prospective part of the Hutti belt.

Our exploration comprised Geophysical surveys by geophysical techniques involving about 9 line km of Induced Polarization(IP) and 145 line km of magnetic surveys in selected areas. Surface geochemical exploration involved the collection and analysis of 347 samples of stream sediments, 85 samples of termite mound, 819 soil, 4933 bedrock chip samples and 1646 channel profile samples. Based on results from the geophysical and geochemical investigations, reconnaissance reverse circulation drilling and diamond core drilling have been carried out. A total of 2296 drillhole samples were analysed for gold. These studies led to defining 21 potential gold bearing blocks for detailed prospecting under Prospecting Licences (PLs) for which applications have been filed with the Government of Karnataka. The P.L. blocks identified are shown in Fig.1.

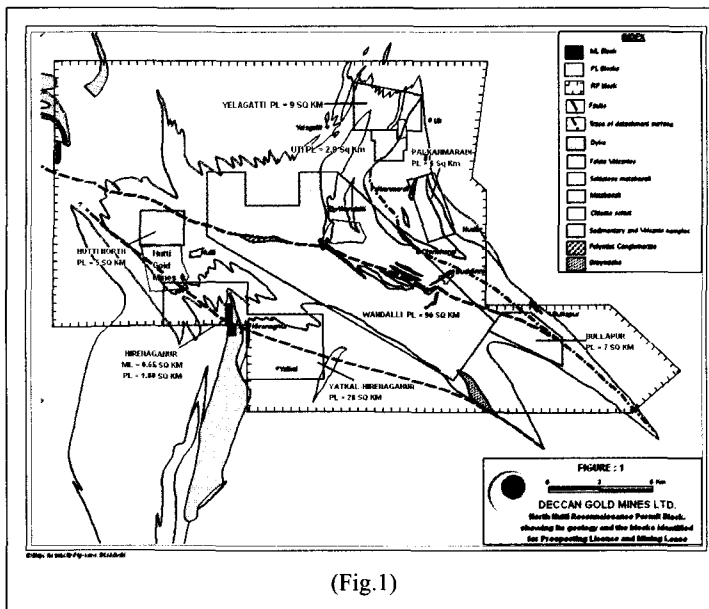
Among the 21 gold prospects so far recognised, the most important are the *Hutti Mine North prospect* located immediately north of the currently operating Hutti mine, *Hirenagnur Prospect*, *Yathkal Prospect*, *Uti south prospect*, *Chinchergi-Topaldoddi prospect*, *Bullapur prospect*, *Buddini old mine prospect*, *Sanhal-Maski prospect*. Highlights of these prospects are presented in the following:

A. Hutti Mine North p prospect (Fig.2):

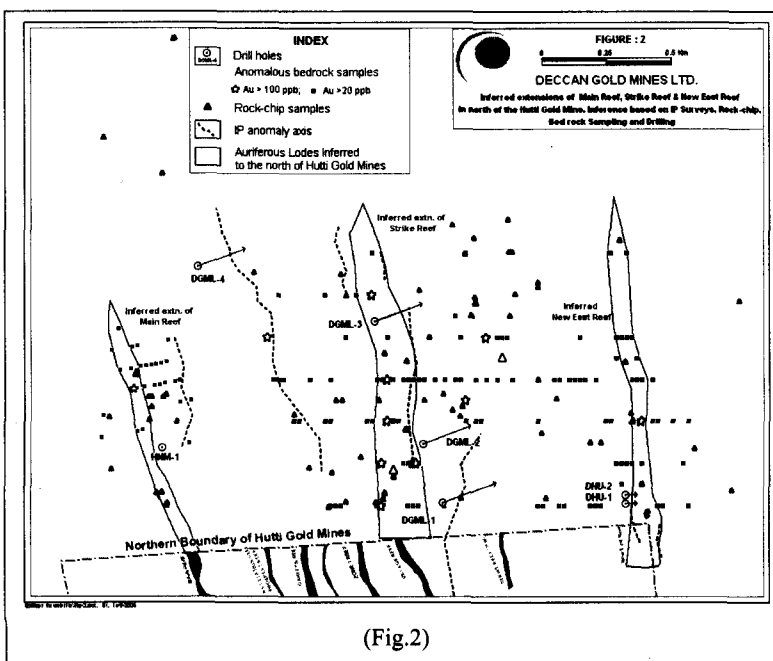
This block is located immediately north of the currently operating Hutti Gold Mine. Eight parallel gold bearing quartz-sulphide veins known as **Reefs or lodes** are known to exist in the currently operating Hutti Mines. These lodes were speculated to extend northwards into our exploration ground for about 2.0 km beyond the northern boundary of the Hutti mines.

The objective of our exploration was to prove the extension of the lodes. Since most parts of this prospect is under cover of black cotton soil, IP geophysical survey was carried out which revealed chargeability anomalies. Follow up drilling in the eastern side revealed the possible extension of the Strike Reef with intersections of 5.3g/t gold for 2.05m width, 3.19g/t for 2.71m width and 0.65g/t for 6.3g/t width. The geophysical anomalies taken together with the drill intersections including the earlier GSI's drilling data confirmed the possibility of the northward continuity of the gold-bearing reefs.

Follow up, prospect-wide bed rock profile sampling revealed anomalous gold values between 20 to 90 ppb over a 180m wide zone along the inferred northern extension of the **Main Reef** of the Hutti Mines. Few samples of exposed quartz veins gave up to 16 g/t gold on the possible extension of this reef. The most significant observation was the possible continuation of the **New East Reef** with 9.4 to 10 g/t gold over a width of 1m as revealed by channel sampling over the



(Fig.1)



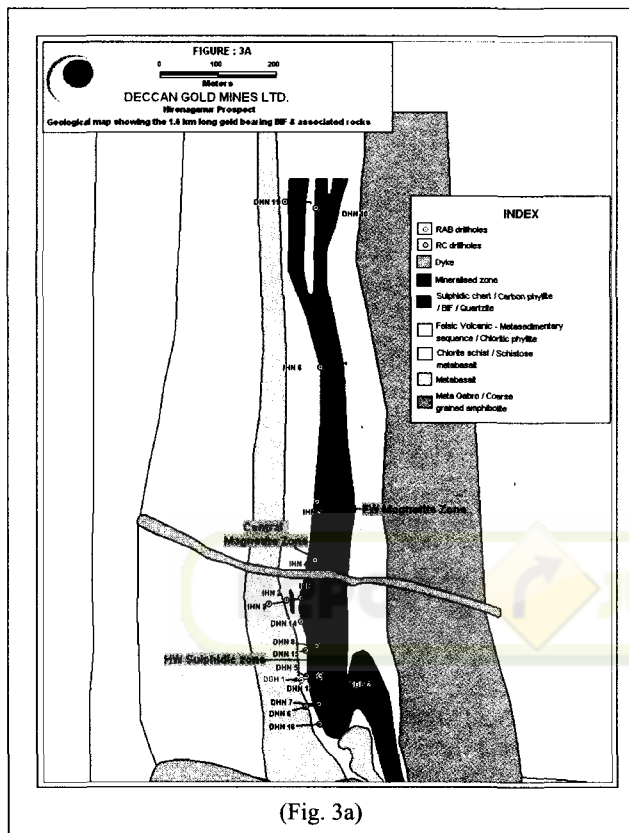
(Fig.2)

geophysically anomalous zone. The extension of the **Zone 1 Reef** was also recognised in drilling but it did not give a significant grade at the point of intersection. All the inferred extensions are shown in **Fig.2**.

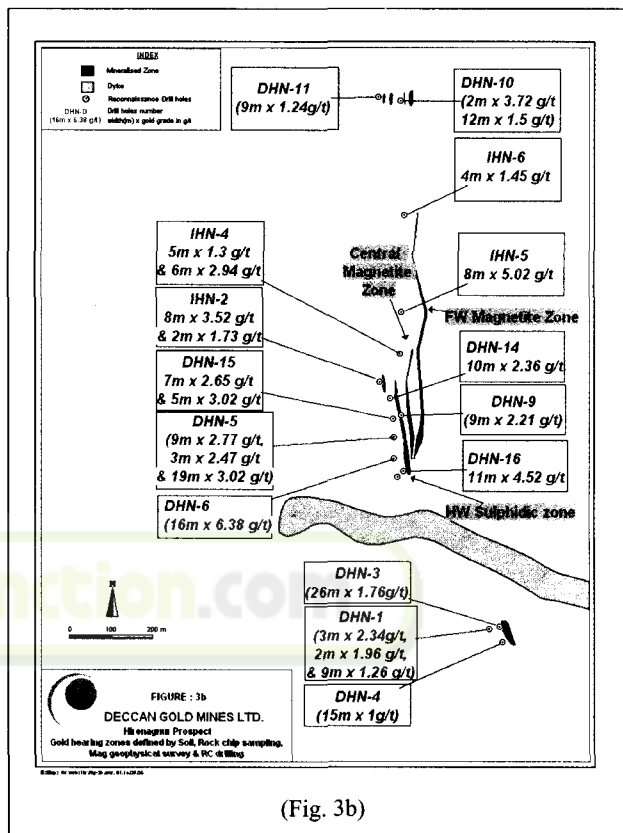
A PL application has been lodged over the prospect, grant of which will enable us to take up a detailed drilling programme needed to define the subsurface extensions and grades of mineralized zones.

a) Hirenagur Prospect (Fig.3a, b):

One of the highlights of our exploration work has been the establishment of a 2 km long and 50 m wide gold bearing zone in the Hirenagur Prospect, located 5 km SE of the Hutti Gold Mines. This prospect is an open ended N-S trending, zone revealed initially by a single rock-chip sample and subsequently by systematic bed-rock sampling and ground magnetic surveys along eleven profiles.



(Fig. 3a)



(Fig. 3b)

Analysis of 473 bedrock samples collected at 10 m intervals along E-W profiles spaced 40m apart revealed presence of highly anomalous gold values of 56 to 461ppb in banded iron formation. Further follow up rock chip samples showed values of up to 7.78 g/t gold. Channel sampling across the 50m wide zone, identified sub-parallel mineralized zones of 2 to 15 m width with gold grades of 1 to 3 g/t.

These coincident geophysical and geochemical anomalies encouraged drilling. A total of 1078 m of RAB and RC drilling were successful in defining 4 parallel gold bearing zones having a cumulative strike length of 1030 m (**Fig.3b**).

The current shallow reconnaissance drilling has tested the depth persistence of lodes up to 60 m from the surface. Extension of the lodes both along strike and depth are open for future detailed drilling.

Hirenaganur prospect is a structurally controlled mineralization. Therefore, the continuity of gold bearing structures is expected up to several hundred metres. Applications have been filed for both PL as well as a Mining Lease.

Ore beneficiation tests are underway at the Indian Bureau of Mines. A Prospecting Licence application has been lodged, upon grant of which Deccan Gold will undertake further detailed drilling to test the deeper extensions of the zones.

b) Uti mine lodes- Southern and Northern continuity:

The Uti Mine is owned and operated, as an open pit mine, by the Hutti Gold Mines Ltd. Bed rock sampling at 20 m intervals along 9 profiles southwest of Uti mine and along 3 profiles north of the mine have revealed gold anomalous zone in strike continuity of Uti mine lodes for about 3.5 km to the SW and also towards north.