



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(A) INTRODUCTION:

Deccan Gold Mines Limited is the only gold exploration Company in India listed on the Stock Exchange. It has been promoted by a group of Australian investors. It has entered into agreements to acquire large tenements of gold prospects on which it is undertaking exploration activities with a view to discovering economically viable gold deposits suitable for exploitation.

(B) INDUSTRY OVERVIEW:

India is amongst the world's leading producers of bauxite, bituminous coal, iron ore and zinc. It has however substantially lagged behind the rest of the world for gold production. The Republic of South Africa, followed by Australia and The United States of America were the world's leading gold producers contributing 17.3%, 10.6% and 10.2% respectively to the world mine production in 2003. India produces only about 3 tons of gold a year from gold ore and about 6 tons a year as a by product of copper mining. In comparison, Australia produces about 280 tons of gold a year, from 116 mines. According to World Gold Council, the total mine supply of gold, after net producer hedging, was 2303 tons in the year 2003. The total world gold demand in the same year was 3230 tons. The shortfall was met through official sector sales and old gold scrap.

India remains the largest consumer of gold in the world with demand running at about 800 tons a year or approximately a quarter of the total world gold demand. The Indian geological literature refers to hundreds of localities with known gold mineralisation, often marked by old gold workings, or where local inhabitants pan for gold. These localities mostly occur in the Southern Indian Dharwar Craton in Karnataka, Andhra Pradesh, Tamil Nadu, and in the Proterozoic provinces of Uttar Pradesh, Madhya Pradesh, Maharashtra and Bihar.

Until recently, the greenstone belts of the Dharwar Craton in Karnataka hosted India's only two major gold mines, at Kolar and Hutti. The Kolar mineralized system is 8 km in strike and 2 km wide. The mine is now shut down, after producing 800 tons of gold from 50 million tons of ore, at an average grade of 16g/t of gold. The Hutti mine has produced 100 tons of gold from its underground operations since 1898. Its mineralized system is 4 km in strike and 1 km wide. The Hutti ore body is currently being mined at a depth in excess of 800 metres.

The Kolar and Hutti gold ore bodies, combined, were approximately equal in size to the mineralized system known as the "Golden Mile", at Kalgoorlie in Western Australia. Originally mined by several separate underground operations, the Golden Mile is now a very large open pit operation, profitably working on a grade of 2 g/t gold- one fifth the historical grades of the underground mines.

Exploration for low grade gold deposits in Australia initially concentrated on known areas of old workings but exploration has now extended to buried "blind" deposits using sophisticated geophysical and geochemical techniques and deeper drilling. Drilling techniques to sample buried mineralisation have been greatly improved by the development of percussion and reverse circulation drills.

India has yet to see these innovations in prospecting for low grade gold ores. Further, there has been a kind of "tunnel vision" evident in the reports of most Indian gold exploration programs. Diamond drill cores are usually selectively sampled only for visible quartz veins, ignoring alteration haloes in wall rock which could host low grade but economic concentrations of gold.

India has also lacked the massive investments of capital raised on stock exchanges by individual entrepreneurs and companies, big and small, foreign and domestic, which funded the transformation of gold mining in Australia, Canada and elsewhere.

There can be little doubt that the application of modern intense exploration methods for gold, funded by substantial amounts of private risk capital, will result in the discovery and development of new gold



resources to feed India's seemingly insatiable demand for the yellow metal.

(C) PERFORMANCE:

During the year, the Company undertook exploration activities on 5 prospects, being transferred to the Company, namely - North Hutti, South Hutti, Mangalur and Dharwar-Shimoga belt in Karnataka and Ramagiri in Andhra Pradesh. The results to date from the exploration activities on all these prospects are very encouraging. Details on the activities undertaken, the results there from and future work to be undertaken by the Company on its prospects is provided under the heading "Report on Exploration Activities" at the beginning of this Annual Report.

The Company incurred a total expenditure of Rs 62,54,626 on exploration on its prospects for the year ended 31st March 2004. No such expenditure was incurred in the previous financial year. A break up of this expenditure is as follows. An amount of Rs 25,70,932 was spent on laboratory analysis of samples collected from the various prospects. An amount of Rs 26,75,259 was spent on preliminary drilling and the remainder of expenditure on general exploration work.

Administrative costs for the year ended 31st March 2004 were Rs. 2946660 compared to Rs. 212858 for the year ended 31st March 2003. The increase in costs reflects the increase in the level of activities undertaken by the Company during the year.

The net loss of the Company for the year ended 31st March 2004 was Rs. 3726420 compared to Rs. 779756 for the year ended 31st March 2003. Exploration companies by their very nature will not generate revenues until commencement of mining operations.

The Company's working capital position as at 31st March 2004 was Rs. 40075178 compared to Rs. 1039436 for the year ended 31st March 2003. The betterment in the working capital position was due to injection of funds into the Company through a rights issue. Whilst the present working capital is sufficient for the Company's foreseeable needs over the ensuing nine months, the Company is currently evaluating alternatives to secure additional future funding to supplement its working capital.

During the year, the Company completed its Rights Issue successfully and the funds raised are being utilized in undertaking exploration activities and providing working capital for the Company. Details of the enhanced capital structure of the Company and the funds raised pursuant to the Rights issue have been provided elsewhere in this report.

The Company is continuously searching for additional promising prospecting areas. The Company has also directly made Reconnaissance Permit (RP) applications over large areas covering the following belts-

South Hutti Belt in Karnataka: 1000 sq km

Mangalur Belt in Karnataka: 408 sq km

Harapanahalli block in Chitradurga Belt in Karnataka: 1370 sq km

Hiriyur block in Chitradurga Belt in Karnataka: 596 sq km

Ramagiri Belt in Andhra Pradesh: 2430 sq km

(D) RISKS AND CONCERNS

The Company is carrying out exploration activities on prospects which are yet to be transferred to the Company. The prospects will be transferred immediately upon execution of Prospecting Licences (PLs) in favour of companies associated with Deccan Gold Mines Ltd. Applications for the grant of PLs have been lodged by these associated companies with the various government authorities and in some cases have been pending with the authorities for several months. The progress of the PL applications is being monitored. Deccan Gold Mines Limited has received undertakings from these associated companies to transfer the PLs to the Company upon grant of PLs by the government authorities. The mining regulations permit the transfer of the PLs from one entity to another.

The Company is exposed to many technical and operational risks, such as unexpected ground conditions, inclement weather, industrial disruptions and incorrect estimates of geology and ore resources that are associated with any exploration project. The Company's projects may sometimes involve long gestation periods. Exploration is a speculative endeavor that may never result in finding economic deposits. There



is no guarantee that capital expended on exploration will result in further discoveries, or that such discoveries will be economically viable.

Changes in governments and their respective policies, bureaucratic processes that cause delays in the grant of approvals, a still developing private gold exploration sector with new regulations that are yet to be legally tested are just some of the risks that may affect investment.

The ability of the Company to benefit from its investment in the exploration sector would be dependent on market factors that control the world market prices for gold. There are many variables in the world market price equation and for this reason the gold prices may fluctuate over time. Investment and future returns or revenues will be exposed to these fluctuations. No assurance can be given that future funding will be available for the company on favorable terms or at all. If adequate funds are not available on acceptable terms the company may not be able to develop its projects.

Your directors however believe that they have adequate experience and access to expertise and capital sources that will enable the Company to successfully develop its projects.

(E) OUTLOOK AND OPPORTUNITIES

Funds raised from its Rights Issue during the year have enabled the Company to undertake exploration activities and early results from these activities are very encouraging. There is a close geological and metallogenic similarity between India and the gold producing nations of Australia and Africa. The opportunity to make economically viable gold discoveries within the areas being explored by the Company therefore remains quite strong. Exploration activities in India have been hitherto limited to the government agencies such as The Geological Survey of India. The entry of private sector investment into the exploration industry with its ability to bring more capital and expertise will considerably help in tapping into the gold resources known to exist in the country.

The Company has been approached by international gold mining houses wanting to enter into joint venture arrangements with the Company to fast track the development of the Company's projects. The Company has also approached Investment Bankers in the United Kingdom and Canada who have access to equity capital for exploration projects. The response from these Investment Bankers has been very encouraging. Internationally, the Company's gold projects are being rated highly and more particularly the results of our exploration work to date is attracting a lot of positive attention.

Gold's demand and supply factors are changing in gold's favour. A strong case can be made for significant growth in each of gold's demand components of jewellery, other fabrication uses, hedging repurchases and investment demand. At the same time forces are causing a major reduction in supply. Gold in the ground is a depletable resource. Over time, operating mines run out of ore and companies need to find and develop new mines. Additionally, the unwinding of the large hedge (short) position should both increase demand and reduce supply thereby putting strong upward pressure on the price of gold.

(F) ADEQUACY OF INTERNAL CONTROL SYSTEMS:

The Company maintains adequate internal control systems, which assure proper recording of transactions of its operations and also ensure protection against misuse or loss of the Company's assets. The Company has formed an Audit Committee and has assigned to it tasks that will further strengthen the internal audit system.

(G) CAUTIONARY NOTE:

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include the availability of economically viable deposits, changes in Government regulations, tax regimes, economic developments in India and other incidental factors.