

## **IRIS Interview - 25th September 2006**

What are the prospects of gold mining in India? Give us your outlook for the sector? The prospects for gold mining in India are very strong based on the following criteria

- Ancient gold mining activity
- Geological environment
- Exploration history
- Modern exploration

### Ancient gold mining activity

The Indian gold mining story dates back to several thousand years with mining activity being reported in almost all the States of the Indian Union. Even today thousands of locals are engaged in panning for gold along hundreds of streams and river courses. The two most prolific gold producers in India have been the Kolar and Hutti Gold mines in Karnataka which together have produced more than 800 tonnes of gold. Historically, scenes of intensive mining activity are always a good pointer to finding additional deposits in the vicinity of areas mined earlier.

### Geological Environment

Geologically, the greenstone belts which occupy a considerable portion of Peninsular India present the ideal setting for hosting rocks containing gold. Similar greenstone terrains have hosted some large gold deposits the world over. The geological setting in India is very similar to the North American Cordillera, the Yilgarn craton of Western Australia, the Slave province of the Canadian shield and Kaapvaal and Rhodesian Archean cratons of Southern Africa, all of which are known for a number of producing mines and a high rate of success in gold exploration. All these cratons including Peninsular India formed part of the Super continent namely Gondwana land suggesting all these continents had the same geological and ore deposit history.

### Exploration History

Exploration for gold gained momentum over the last 50 years when GSI mapped and prospected many of the greenstone belts where extensive gold mining activity was observed. Such exploration has resulted in identifying a number of areas where small and medium size gold deposits exist. Deccan Gold has made applications over several such areas which will be intensively explored upon grant of Prospecting Licences to the company.

### Modern exploration

Systematic exploration undertaken by companies like Deccan Gold in recent times has further confirmed the potential to unearth gold mines. The company has been successful in upgrading the potential of several known prospects as well as discovering new potential prospects where there is a distinct possibility of establishing small and medium scale mining activity.

What kind of competition do you for see in the sector and how do you plan to face the same?

At this stage, we do not foresee any major competition in the sector. Until the Mining Regulations in India are upgraded and the actual grant of permits is fast tracked, certainly foreign investors will shy away from the country and this industry.

In any event, we really have some of the best gold areas in India totally tied up. In addition, we have developed a great team of geologists over a long period of time, we understand the geological terrain, we understand how the country works, and we have consolidated our funding by making a preferential allotment to Sun Mining and Exploration Ltd. All of these factors should keep us well ahead of any potential competition in the future.

What is the influence of foreign players and FDI in the mining sector? How do you position Indian Companies vis--vis Multinational companies in the sector?

The influence of foreign players and FDI in the exploration sector is very strong. In fact, a large percentage, in excess of 75% of the exploration expenditure incurred in India since the opening up of this sector to FDI has come from multinational companies like De Beers, Rio Tinto, BHP Billiton, Anglo American, and of course our own company. All of these multinationals have Indian subsidiaries through whom exploration activities are conducted. Mining activities will be undertaken by these companies upon discovery of deposits further increasing the quantum of investment via the FDI route.

There are very few Indian companies showing interest in gold and other precious minerals (Diamonds, PGE, Nickel) exploration. Indian investment in the mining sector has been confined to minerals like limestone, iron ore, manganese, bauxite etc where exploration risks are limited and the gestation period between exploration and mining is far less than it is for metals like gold. The precious minerals exploration and mining sector was closed to private investment until about a decade ago. Hence, unlike the multinational companies Indian companies did not receive any exposure to this sector.

What are your expectations from the New Mining Policy? Due to think the tedious policy of granting Prospecting Licence (PL) will be relaxed?

The proposed amendments to the existing mining regulations, if implemented in letter and spirit at the State and Central levels, should help in considerably reducing the hurdles impeding the development of the industry.

The main thrust of the amendments is the introduction of Large Area Prospecting License (LAPL) and seamless transfer from Reconnaissance Permit (RP) to LAPL to Prospecting License (PL) and then to Mining License (ML), though there is no exclusivity at RP stage. The seamless transfer will be a very encouraging development.

Another important development will be the availability of the exploration area for a total of 8 years. Exploration programs can therefore be planned more objectively.

Security of tenure is now more assured especially for LAPL holder to get PL and subsequently ML.

It remains to be seen how long it will take for the implementation of the new mining policy.

What is your progress in De Beers JV. Are you planning more such tie ups?

Our existing arrangement with De Beers is proceeding smoothly. Both of our companies are meeting regularly and providing inputs to the other on their areas of expertise. Yes, we are open to more such tie ups in the future.

Which regions are you specifically concentrating on for exploration?

The main focus of our attention are areas in Karnataka and Andhra Pradesh- Dharwad Shimoga belt, The Hutti Goldfields, The Ramagiri Goldfields. We also have a team working in the Attapadi region in Kerala

What is your strategy in acquiring new rigs?

Whilst the Reverse Circulation rig we acquired a couple of years ago has been very useful, it is not our intention to acquire additional rigs at this stage. We will instead outsource our drilling requirements. In this respect, we are talking to a drilling company in Perth, Western Australia with a number of years' experience in all types of drilling to come to India and assist us with our drilling requirements.

We have plans for intensive drilling within certain prospects upon grant of Prospecting Licences. The total quantum of drilling could run into several hundred thousand meters over a period of time. We will need to employ many rigs at a time. The key to identifying good gold deposits lies in drilling. It is therefore very important that we employ the best expertise available whether in India or internationally to ensure that we find those deposits that are capable of being mined.

How much investment are you planning for the next 2-3 years? How are you planning to raise the amount? What debt equity ratio are you comfortable with going forward?

The investment would depend upon how soon our Prospecting Licence and Mining Licence applications are processed. Our budgeted expenditure on exploration and feasibility studies over the next two years however is in the vicinity of Rs 27 crore. We have already entered into agreements with Sun Mining and Exploration Ltd to fund this amount. The bulk of this expenditure will be spent on drilling and undertaking feasibility studies.

Several options can be contemplated when more funding will be required, particularly for mine development. We could consider a Rights Issue to shareholders, we could look at funding through a global bank specializing in mine development, or we could consider joint venture with major international gold producers. The funding route chosen would have to be in the best interest of our shareholders. It is too early to comment on the comfort levels of our debt to equity ratio.

When do you expect the company to break-even?

The timing will be dependent on how soon our applications get processed and granted by the Government. Once our PL applications are granted, we will need approximately two years to undertake our feasibility studies and mine development, following which we can go into production. With the price of gold currently at US \$600 per ounce and expected to continue

moving upwards and the cost of production pegged at say US \$200 an ounce, we expect to break even within the very first year of production.