6th September, 2006

Shri A K D Jadhav, IAS
Secretary, Ministry of Mines
Shastri Bhavan
New Delhi, India.

Dear Shri. Jadhav,

The purpose of this letter is to seek your help in developing the Indian gold and other precious metals exploration and mining industry, along similar lines to that in countries like Australia so that, wherever possible, similar success levels are attained both in terms of discoveries and mine production.

More specifically, it is to create awareness, through you, amongst the regulatory authorities in India on practices being adopted by the International Stock Exchanges of major metal producing countries like Australia, Canada, the United States of America which encourage and facilitate the listing and fund raising requirements of exploration companies, but at the same time provide adequate protection for investors in these companies.

The unique feature, which distinguishes these exploration companies from others, is that until such companies make discoveries and commence mining operations, they do not record profits or pay dividends. Yet they need substantial funds for exploration, prior to making discoveries and generating revenue, which internationally have been accessed through the public listing route.

It is hoped that circulation of this letter will at the very least spark debate on whether and how best such practices can be adopted in India. The regulatory authorities to whom this letter could be circulated should include The Securities Exchange Board of India (SEBI), the Mumbai Stock Exchange (BSE), and The National Stock Exchange (NSE). To illustrate how such practices have helped fast track the development and realization of mining potential in other countries, I firstly provide a comparison of the Indian gold mining industry with its counterpart in Australia and then address the ability of international exploration companies to raise funds via the public listing route.

<u>Background- India vs Australia</u>

1) India produces only 3 tons of gold directly plus about 6 tons as a by product of copper mining per annum today. Australia produces about 300 tons of gold per annum. Yet about three decades ago, India and Australia were producing almost similar quantities of gold. India has therefore regressed in gold production. The Australian gold production has increased substantially.

2) India imports almost 25% of world gold production, or around 700 tons of gold. Australia exports about 12% of world mine production

3) The amount of funds spent on exploration in Australia exceeds the estimated amount in India by a factor of 10 times. The bulk of such funds have been raised through the public listing route. In India, estimates suggest that the total amount spent on precious metals exploration over the last two decades has averaged a low US $35 million per year. A study by the Western Australian Department of Treasury and Finance indicated that if investment on mineral exploration were to increase by US $ 100m and be maintained for 5 years, projected cumulative benefits over the next 20 years for the State would be $10.4 billion in investment, $45.8 billion in export revenue, $32 billion in gross State product and $1.7 billion in State Government revenue. In addition, several thousand new jobs and ancillary industrial units will be created. The benefit to India of increased exploration spending is therefore obvious.

4) Geologically, the Indian terrain is largely comprised of precambrian rocks. Similar rocks are known to contain large quantities of gold in parts of Western Australia, Canada, Africa, South America and China. It is estimated that from a total of 127,242 tons of gold metal produced in the world, 76,500 tons came from Precambrian terrains, yet India's contribution to the Precambrian gold resource is a meager 1.17% or 1488 tons of which 900 tons came from a single Precambrian belt – The Kolar Goldfields.

In the light of the above statistics, the question that begs being answered is "Why does India lag so far behind the rest of the world in production of gold (and other precious metals) inspite of being endowed with similar geological terrain to those of major gold producing countries? The answer lies in three key aspects in which India is deficient:

1) The exploration and mining regulations being investor friendly
2) The quantum of exploration expenditure being spent to make discoveries
3) The ability of exploration and mining companies to raise funds for exploration and development of mines via the public listing route from the Indian bourses

The above three aspects are not exclusive, but interdependent. The quantum of exploration expenditure is directly related to the ability of a company to raise exploration funds which is related to the exploration and mining regulatory environment, delays in the receiving of permits, the degree of corruption, the stability of the country's currency and the country's economic, political and the tax regime. In a survey prepared by Behre Dolbear, a company with projects in 40 countries, the highest score of 59 points out of a possible 70 points was achieved by Australia in the 2006 ranking of countries for mining investment. The same survey revealed that India ranked 4th in the list of 25 countries with the longest delays in grant of permits.

The ability to raise funds for exploration via The Stock Exchanges

The scope of my letter is limited to addressing this ability of exploration companies to raise funds in India through listings on the BSE or NSE.

Statistics reveal that there are about 540 listed exploration and mining stocks, including junior companies seeking first time funds for exploration, on the Australian Stock Exchange (ASX) which have at some point during their development raised funds from the Australian public to help develop their exploration or mining projects.

In India, the only gold exploration company listed on BSE is Deccan Gold Mines Ltd (DGML), of which the writer is Managing Director. DGML has raised a limited amount of funds from the Indian public and has recently entered into a funding agreement with a multinational group of Indian origin, The Sun Group, majority owned by the Delhi based Khemka family.

Several factors contribute to this anomaly between the number of listed exploration and mining companies in India and Australia. I only propose to address what could be considered the single most important regulatory factor and that is Australia permits. Initial Public Offerings (IPOs) of mineral exploration companies, whereas India places several restrictions on such IPOs. The business model of junior exploration companies is generally such that when seeking funds through IPOs for development of exploration prospects, the companies do not have a track record of profits or dividend distribution and due to their early stage of development are very unlikely to attract institutional investors. In India, this track record is given very high priority and is critical for approval to be granted by the regulatory authorities. Alternatively, attracting institutional investors with equity percentages stipulated in the regulations, helps reduce the dependency on profits and dividend distribution in the eyes of the regulators.

There needs to be more exposure of the Indian regulators to the international norms prevailing for raising funds for exploration through the Stock Exchanges of countries like Australia, Canada, The United States of America and UK. The Alternative Investment Market (AIM) in London, for example, monitored by The London Stock Exchange (LSE) encourages junior exploration companies to list on AIM and raise funds from the public for exploration. Whilst adequate investor protection is provided by its regulations and the mandatory requirement to appoint accredited expert consultants to authenticate the whole listing and/or fund raising process, these companies generally would not satisfy the very stringent listing and fund raising norms of the LSE. An alternative opportunity is thus created for exploration companies seeking to develop its exploration projects by tapping the capital markets in UK for funding.

Similarly, whilst the ASX enables and encourages junior exploration companies, generally without a track record of profits or dividend payouts to list and raise funds in Australia, it also provides enhanced investor protection by ensuring compliance with regulations specifically tailored to the peculiarities in the business model of exploration companies. In addition, the Joint Ore Reserves Committee (JORC) of The Australasian

Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, expects, monitors and in cooperation with the regulatory authorities and the Australian Judiciary, ensures strict reporting requirements of exploration and mining companies listed on the ASX. Some of these cover announcements on price sensitive issues such as drill results and discoveries within mineral prospects.

The aim of this letter as noted earlier is to create more awareness amongst the Indian regulators of practices being followed internationally to enable exploration companies to raise funds through the public listing route and how such fund raising has contributed to an increase in exploration expenditure on prospects which has in turn led to major discoveries being mined. The addressing of such issues will encourage other explorers to enter India and make serious efforts to exploit its mining potential. This letter is by no means a comprehensive study of all the issues involved when addressing an issue of such importance. At best, it is intended to spark debate on the topic through the creation of some more awareness.

I would be very happy to be part of and/or provide more information on the specific regulations adopted by the International Stock Exchanges to achieve their dual aim of providing investor protection and enabling the raising of exploration funds via the public listing route.

Yours sincerely,

Sandeep Lakhwara
Managing Director
AIR Group of Companies