

it has discussed whether approaches might be made to other types of institutions that might be interested in Membership, such as research companies and central banks. However, the Committee concluded that although applications from such companies would be welcomed, the LBMA would not proactively encourage them to apply.

Reference Materials Project

Both the gold and silver phases of the project are now complete, and the materials have been sent to all those companies that had pre-ordered and paid for them. In addition, sales have been made to companies, including those that are interested in applying for Good Delivery accreditation. Details of the materials (both the technical specifications and the sales prices) can be found on the website.

Annual General Meeting

The LBMA Annual General Meeting was held in the Armourers Hall, in Coleman Street in the City of London, on 23 June. In addition to the formal business of approving the accounts and appointing the auditors, the meeting received reports from the Chairman and the chairs of the four Subcommittees. The following members were elected to the Management Committee:

Philip Aubertin (UBS)
Simon Churchill (Brinks)
Kevin Crisp (Mitsubishi)
David Gornall (Natixis)
Raymond Key (Deutsche Bank)
John Levin (HSBC)
Steven Lowe (Bank of Nova Scotia)
Martyn Whitehead (Barclays)

The new Committee then met and chose Kevin Crisp as Chairman and David Gornall as Vice Chairman. Interestingly, this is the first time in the LBMA's history that both these offices have been held by representatives of Ordinary Members.

The London Gold Market Fixing Limited has announced that there will be no afternoon gold fixings on Christmas Eve, Friday 24 December, and New Year's Eve Friday 31 December, 2010.

Biennial Dinner

The Biennial Dinner this year will be held on the evening of 25 November. The venue will again be the splendid Goldsmiths' Hall. Details of the event (including the price) will be circulated to all Members and Associates nearer the time.

On the afternoon of the same day, the LBMA is organising a seminar that will address a number of topical issues, including some that will be of interest to the many official sector representatives who are expected at the dinner as guests of the Association.

REACH

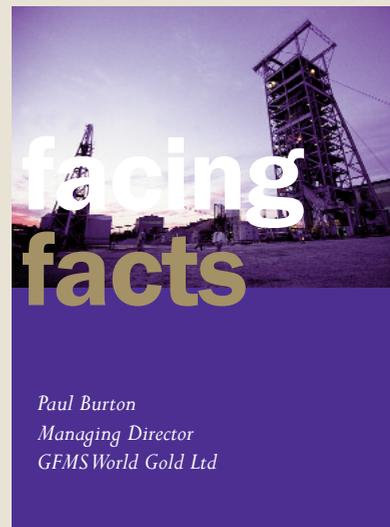
The LBMA's work on REACH is almost complete, at least for the moment. Pre-registered companies will shortly be contacted by the Brussels-based Precious Metals Consortium about how they can gain access to the necessary Registration Dossier to complete their registration (and importantly, the cost of obtaining it).

Chief Executive Presentations

The Chief Executive has made a number of presentations at industry events in the past quarter, mostly on the Good Delivery List and the role of the London Bullion Market, especially in relation to the burgeoning investment market for gold and silver:

1. SACHS Investment Conference in London
2. Dubai City of Gold Conference The Ninth Biennial Gold Symposium, Lima
3. The 7th Shanghai Futures Exchange Derivatives Market Forum
4. ETF Securities Conference Call.

He would like to thank all the organisations for their invitations. Copies of his presentations can be found on the website. ■



Juniors are risky investments, but essential players in the gold industry

Few Alchemist readers will be familiar with what we in the industry call the 'the junior mining sector'.

Individually, 'juniors' do not contribute much, if anything, to annual mine supply and, even collectively, their impact is hardly noticeable in an industry dominated by multimillion ounce producers.

But juniors, which include junior explorers, are vital components of the gold-mining industry and represent a compelling investment class for investors with a high propensity for risk.

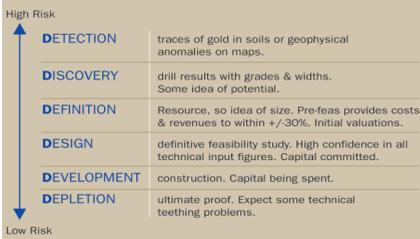
Junior explorers are the exploration pioneers in lands where major gold companies may fear to tread. They act as the vanguard for their more conservative and larger contemporaries.

In recent years, it has been the juniors that are collectively spending over 50% of the global exploration budget and that are responsible for making the bulk of discoveries.

They comprise, in most cases, small geology-led outfits with a passion for exploration and boundless energy and enthusiasm. What they often lack, however, is money, and the need to refill the treasury can be a constant headache for management. Exploration companies, you see, don't generate any income, although they are very adept at spending it. They have no gold production; no sales revenue; only a long list of expenses and salaries to pay. Their only asset, apart from a right to explore a certain piece of ground, is the intellectual capital of the team.

Thus, exploration companies can be considered as performing the critical research and development function for the industry.

6D Model of Mining



As mentioned before, it is important to stress that exploration companies don't generate income – they consume it – and those investors that supply the necessary funds for the company's activities have no guarantee that they will ever see their money again, let alone get a decent return on their investment. Compounding the problem for would-be investors is the fact that, by definition, the explorers generally confine themselves to the earliest and highest risk phases of the industry life cycle – the Detection and Discovery stages, as described in the diagram above, which uses World Gold Analyst's 6D notation.

The diagram illustrates the levels of risk involved in the mining cycle as the process moves from Detection through to the Depleting phase.

How juniors can minimise the technical and geological risk associated with gold exploration is by gaining a thorough understanding of the deposit geology and its regional setting through a comprehensive programme of desk and field reconnaissance. Such a programme should involve a phased and systematic evaluation, using all methods available, and appropriate pauses to digest and assess the results of each stage and redirect their efforts, if necessary.

The company may, of course, be forced sometimes to suspend temporarily its activities if it runs out of money and new funds are not immediately forthcoming. Bearing in mind that the company relies on investors buying its shares as the sole source of funds, it must constantly promote its merits and the attractiveness of its projects in a competitive marketplace. This can often lead to unsophisticated investors being duped if they don't carry out sufficient due diligence before they stump up their savings.

Luckily, there are stock exchange rules and regulations that guide companies in appropriate behaviour so that situations as described by Mark Twain below seldom occur these days, but even so, the investor places a great deal of trust in the management of the company if he doesn't possess a considerable knowledge of geology himself.

"I little knew, then, that the custom was to hunt out the richest piece of rock and get it assayed. Very often, that piece... was the only fragment in a ton that had a particle of metal in it – and yet the assay made it pretend to represent the average value of the ton of rubbish it came from!" Samuel Clemens (*Mark Twain* 1872). And management is the key at the early project stage. The investor must ultimately trust that the geologists and directors have investigated the deposit correctly and that their interpretation is sound. The best way to do this is to check the credentials and track record of senior management. These days, through the internet, this is a relatively simple task. The investor should also meet with management and quiz them face-to-face about how investors' money is being spent.

Is it going into the ground or funding a director's lavish lifestyle? Management owning a substantial shareholding is also a positive sign as it generally means that the aims of insiders and outsiders are aligned.

Furthermore, an inexperienced investor should get professional help. Whereas, in the first instance, this may mean talking to World Gold Analyst, if their investing experience has proved to be too stressful, this may mean the professional concerned wears a white coat and has a couch in his office! ■

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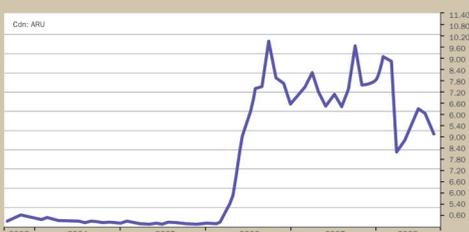


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Historic Chart for CDn: ARU by Stockwatch.com

604.687.1500 · (c) 2008 · Mon Sep 1 2008 0p = 5.70 Hi = 6.73 Lo = 4.11 Cl = 4.94 Vol = 11,734,750 Year Hi = 10.75 lo = 0.10



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