

Regulatory Announcement

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Quarterly Report

MEDUSA MINING LIMITED
(AIM: MML)

QUARTERLY ACTIVITIES REPORT
PERIOD ENDED 31 DECEMBER 2008

Medusa Mining Limited ('Medusa' or the 'Company'), through its Philippines operating company Philsaga Mining Corporation ('Philsaga'), announces its Quarterly Activities Report for the period ending 31 December 2008.

Highlights:

Co-O MINE EXPANSION

- * Phase I expansion will raise gold production to 60,000 ozs per year in Q3 2009. Agsao shaft was completed to depth ahead of schedule with the first development ore expected in Q1 2009.
- * Phase II expansion to raise gold production from 60,000 ozs to 100,000 ozs per annum in early 2010 has commenced (this is independent of Phase I expansion);
- * Power line to the mine has been energised.

Co-O MINE PRODUCTION

- * The Company achieved in the quarter an increase of 76 % in gold production to 12,158 ounces at an average recovered grade of 15.84 g/t gold and average cash cost of US\$215 per ounce.

Co-O RESOURCES EXCEED 1.2 MILLION OZS

- * Resources increased by 341,000 ozs (40% increase) to 1,203,000 ounces at 13.3 g/t gold in 2,820,000 tonnes.

Co-O NEW HIGH GRADE VEIN DISCOVERED

- * Twelve drill holes into Great Hamish Vein averaged 61.84 g/t gold over an average intersection width of 2.23 metres.

LINGIG PORPHYRY COPPER DISCOVERY

- * Drilling is continuing. A comprehensive report will be provided in March 2009 after receipt of back-logged assays and completion of a revision of the geology.

KAMARANGAN PORPHYRY PROSPECT

- * Drilling is continuing. A comprehensive report will be provided after completion of first pass drilling.

CORPORATE

- * On 3 November 2008, Crosby Capital Limited announced that it had withdrawn its unsolicited, highly conditional off-market takeover offer for the entire issued share capital of Medusa.

Geoff Davis, Managing Director of Medusa, commented:

'We continue to make excellent progress at the Co-O Mine where we have increased production this quarter by 76% and recently announced a 40% increase in JORC resource to over 1.2 million ozs of gold. We are confident that the ongoing drilling programme will further increase this resource figure. We are on schedule to increase production to 100,000 ozs per annum in 2010 and, with an anticipated cash cost of US\$200 per ounce, the Company will be well positioned as a low cost gold producer.'

28 January 2009

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PROJECT OVERVIEW

The locations of the Company's projects are shown on Figures 1 and 2 (please see the link at the end of this announcement).

Co-O MINE

GOLD PRODUCTION

The production statistics for the current financial year are summarised in Table I.

Table I. Gold Production

Period	Gold produced (ozs)	Head grade (g/t gold)	Cash costs (US\$ per oz)	Comments
Jul to Sep 2008	6,986	10.42	243	On-vein development and stoping
Oct to Dec 2008	12,158	15.84	215	On-vein development and stoping
TOTAL	19,144	12.71	225	

An incremental production increase of 76% to 12,158 ounces at 15.84 g/t gold at a cash cost of US\$215 per ounce was achieved as a result of the Phase I expansion nearing completion.

Further incremental production increases are forecast in the coming quarters with the full benefits of the Phase I expansion to 60,000 ounces annualised production on track to flow through in the third quarter of 2009.

The mine was closed from 19 December 2008 to 4 January 2009 to enable repairs to be carried out on shafts, rails, tipping bays, equipment and other facilities. These were completed on schedule.

PHASE I MINE EXPANSION

Expansion works have proceeded well during the quarter with a total of 1,256 metres of development completed (previous quarter 1,637 metres). The connection of the 8E and Agsao Shafts is the last stage of the Phase I expansion.

The levels in the mine have recently been renamed as follows:

Level 1: adit level or 3150 metre level

Level 2: 3100 metre level

Level 3: 3050 metre level

Level 4: 3000 metre level

Level 5: 2950 metre level, etc

(a) Agsao Shaft

The new external Agsao Shaft, to an inclined depth of 240 metres (200 metres vertical) reached final depth in early December with the bottom of this shaft at Level 5. Cutting of the plat and installation of services are in progress with driving along vein to connect to the 8E (or Beta) internal inclined shaft at Level 5 expected to commence during January 2009.

(b) 8E(Beta) Shaft

The 8E Shaft to an inclined depth of 120 metres (100 metres vertical) is currently at 89.50 metres inclined depth. The timing of the completion of this shaft is being coordinated with the development driving from the Agsao Shaft so that correct drainage levels between the shafts can be set up.

PHASE II EXPANSION

Work on the Phase II expansion has commenced with the setting up of the collar and headframe for the Baguio Shaft at the western end of the mine. Sinking commenced in early October.

(a) Baguio Shaft

The Baguio Shaft is designed to provide ore from the western end of the mine above Level 3 for the production increase in 2010 to 100,000 ounces annualised. It is an inclined shaft with a revised inclined depth of approximately 240 metres. It is currently at a depth of 70.30 metres and, provided ground conditions are reasonable, completion is estimated in late 2009.

(b) Ventilation Shaft

The vertical ventilation shaft at the western end of the mine to link with the upper level workings has been completed at 80 metres depth and is now linked to the Levels 1 and 2 providing improved ventilation at the western end of the mine. This shaft will be set-up to haul ore derived from above Level 1.

(c) Hillview Shaft

A decision on the final position of this high capacity three compartment shaft is expected next quarter.

(d) Mill Expansion

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The construction of two new leach tanks at the mill (commenced in August) which will boost leaching capacity to approximately 750 tonnes per day is expected to be completed during the next quarter.

Budgets and quotes are being finalised for the installation of an expanded crushing circuit to reduce the feed size to the ball mill and increase ball mill throughput to approximately 1,000 tonnes per day depending on rock characteristics.

(e) Tailings Dam

Tailings dam quotes are currently being considered for raising the wall of the current dam.

MINE GRID POWER

The grid power line to the Co-O Mine has been energised and is performing satisfactorily. The arrival of electric compressors, to replace diesel compressors, for the eastern end of the mine is expected during the next quarter.

The power line is currently being extended to the western end of the mine where electric compressors will also be installed.

MINE RESOURCE EXPANSION

On 19 January 2009 the Company published a new resource estimate (Table II) for the Co-O Mine. The new estimation increases the resources by 341,000 ounces or 40% (from 862,000 ounces) after allowing for mine depletion since 12 August 2008. The main increase is from the new high grade discovery named the Great Hamish Vein which currently contains 318,000 ounces in 265,000 tonnes at 37.3 g/t gold.

Table II. Co-O Mine resource summary

Category	> 0 g/t gold		
	tonnes	g/t gold	ounces
Indicated	1,110,000	13.4	480,000
Inferred	1,710,000	13.2	723,000
Grand total	2,820,000	13.3	1,203,000

Estimation undertaken by Cube Consulting Pty Ltd (2009)

The Company is continuing drilling with a total of six surface rigs and three underground rigs. Two surface rigs were added in early December and one more underground rig.

Figure 3 shows the current three dimensional model of the vein system (please see the link at the end of this announcement).

Figure 4 shows a composite plan view of the vein system and surface extensions as outlined by recent mapping (please see the link at the end of this announcement).

DRILLING

On 1 December 2008 the discovery of the high grade Great Hamish Vein ('GHV') was announced.

The GHV has been defined over approximately 550 metres on the west side of the Oriental Fault and is interpreted to have been intersected on the east side of the fault in holes MD 87, 98, 108

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and 112 over a strike length of approximately 100 metres. The vein has consistent high grades and generally dips northwards around 60-70°.

The GHV has been intersected by drives on Levels 2 (50 metres below adit) and 3 (100 metres below adit), with driving on vein and sub-level development commenced.

Assays from the levels to date are:

Level 2: Level drive: 119 metres length at average width of 1.4 metres at 39.79 g/t gold
 Sublevel: 133 metres length at average width of 1.2 metres at 33.72 g/t gold

Level 3: Level drive: 87 metres length at average width of 1.2 metres at 92.00 g/t gold
 Sub-level: 82 metres length at average width of 1.0 metres at 70.09 g/t gold

Drill results

Table III lists the surface diamond drilling results greater than 3 g/t gold from the Co-O Mine for drill holes MD 85 to MD 113 which are included in the new resource estimate. Some intersections in MDs 85-88 have been previously reported on 11 August 2008. Other previous announcements on the Co-O drilling on 9 July, 15 May and 28 February 2007 contain information regarding drilling and surveying techniques, comments on vein interpretation and methodologies and assaying protocols.

Table III. Drill hole results >3g/t gold for holes MD 85 to 113 which are included in the new resource estimate. GHV intersections are highlighted with an #.

Hole	East	North	Dip (°)	Azimuth (°)	From (metres)	Width (metres)	Grade (uncut) (g/t gold)
EAST							
MD 87	614206	912994	-43	212	224.75	1.00	5.46
					277.20	5.00	3.50
					289.00	4.30	22.66
					313.00	1.00	23.19
					347.10	0.20	11.45
					376.30	2.00	29.20
					388.90	3.90	26.45
					406.90	0.60	11.65
					413.60	1.70	13.65
					419.40#	1.60#	19.55#
MD 98	614150	912993	-57	210	313.80	1.10	5.10
					340.45	0.20	28.04
					504.60	0.20	4.37

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					508.70#	4.90#	67.03	
							# (*)	
MD 108	613856	912812	-54	185	249.40	0.80	3.21	
					250.75	0.35	5.80	
					371.95#	0.25#	120.55	
							# (*)	
MD 112	614010	912889	-65	180	245.20	0.25	13.07 (*)	
					252.75	0.85	30.23 (*)	
					331.00	1.70	60.86 (*)	
WEST								
MD 85	613587	912868	-75	180	157.80	0.30	11.44	
					183.50	0.40	7.82	
					214.50	1.30	9.23	
					257.00#	2.50#	16.02#	
					264.30	0.40	6.56	
					277.65	1.05	8.09	
MD 86	613737	912855	-60	190	217.25#	2.65#	113.80#	
					287.80	0.50	33.26	
MD 88	613546	912850	-75	195	66.05	1.10	20.04	
					69.70	1.80	13.65	
					126.35	1.85	16.61	
					219.20	3.35	3.82	
					228.45	1.15	3.71	
					264.20	0.35	42.49	
					280.30	5.00	4.59	
					328.20	0.90	3.92	
					366.10#	1.45#	97.62#	
					399.50	0.85	13.79	
MD 91	613477	912845	-70	205	61.20	2.40	4.47 (*)	
					69.10	0.50	39.63 (*)	
					198.40#	1.00#	31.71#	
					287.95	0.35	11.50 (*)	
MD 92	613544	912844	-62	196	65.10	1.15	4.52	
					193.30	0.25	88.45	
					195.40#	1.60#	61.05#	

					211.60	0.75	14.97
					278.70	0.40	9.49
MD 97	613660	912837	-65	190	151.50	0.30	33.10
					172.40#	3.45#	43.26# (*)
					195.60	0.30	12.03
					201.05	0.20	40.76 (*)
					206.90	1.30	7.31 (*)
					295.90	0.60	43.59
					307.60	0.30	6.73
MD 100	613350	912846	-72	185	119.70	0.40	8.80 (*)
					155.60	2.50	17.31
					218.30	1.20	6.79
					223.40#	2.80#	31.09#
					249.00	0.75	7.57
					267.00	0.60	10.39
					277.80	1.20	4.89
					343.80	2.60	10.53
					357.65	1.00	5.49
					362.00	1.00	7.53
MD 103	613663	912782	-50	196	99.30#	0.30#	28.29#
MD 104	613840	912883	-60	168	202.00	1.10	14.96
					258.65#	2.25#	166.29#
MD 111	613766	912841	-70	180	161.00	0.60	4.50 (*)
					190.50	1.70	15.77 (*)
					248.85#	2.25#	28.10# (*)
					330.75	0.25	9.57
MD 112	614010	912889	-65	180	245.20	0.25	13.70 (*)
					252.75	0.85	30.23 (*)
					331.00	1.70	60.86 (*)
MD 113	613767	912847	-81	173	187.40	1.10	26.13 (*)
					420.45	0.55	7.10 (*)
					485.15	0.55	4.15 (*)
					544.70	1.00	5.93 (*)

Notes:

- (i) (*) denotes Philsaga assays;
- (ii) Independent laboratory McPhar assays are quoted in preference to Philsaga assays;
- (iii) Grid coordinates based on the Philippine Reference System 92;
- (iv) Intersection lower cut-off grade is 3 g/t gold;
- (v) Some previously reported intersection widths and grades may have changed as a result of check assaying by McPhar.

TAMBIS-BAROBO AREA

The Tambis project, currently comprising the Bananghilig and Kamarangan prospects, is operated under a Mining Agreement with Philex Gold Philippines Inc. over Mineral Production Sharing Agreement ('MPSA') application APSA-000022-XIII which covers 6,262 hectares.

BANANGHILIG

Drilling has been completed at the Bananghilig area for the time being. Detailed compilation of the results has been completed, and subject to further interpretative work demonstrating good continuity of mineralisation, an initial resource estimate may be undertaken.

KAMARANGAN PORPHYRY TARGET

An extensive area of weathered magnetite with secondary hematite skarn mineralisation was located early in 2008. The area is also marked by extensive alluvial gold workings from previous artisanal sluicing operations. Detailed descriptions and results are contained in an announcement dated 29 February 2008 and 14 August 2008.

The iron-rich skarn rocks, as well as other skarn types including epidote-silica skarns and sulphide-rich skarns, and hornfels rocks have been mapped as covering an area approximately 2,000 metres east-west by > 800 metres north-south. The skarns are developed in sub-vertical, banded limestones and associated sedimentary rocks.

Figure 2 shows the location of the Kamarangan area in the Tambis-Barobo region. Drill results from holes KAM 1 and 2 were provided in the September 2008 quarterly report. Drilling is continuing and a comprehensive report will be provided after the initial drilling campaign which is estimated to be completed in February.

LINGIG PORPHYRY COPPER DISCOVERY

The Lingig prospect is covered by a Mines Operating Agreement ('MOA') over MPSA application number APSA 024-XIII comprising two parcels situated to the north and to the east (the Lingig porphyry copper prospect) of the Co-O Mine and millsite as shown on Figure 2 (please see the link at the end of this announcement).

Detailed information on the Lingig porphyry copper prospect was provided in a release dated 13 November 2007 and in the December 2007 quarterly report.

Initial drill results from the first hole were provided in the September 2008 quarterly report. Drilling with one rig is continuing with some difficult ground conditions being encountered. The geology is being revised through comprehensive new mapping as previous maps have been found to be inaccurate and not supported by subsurface geology. On completion of this mapping, subsequent interpretations and receipt of a back-log of assays, a comprehensive update will be provided in March 2009.

ANOLING

The Mines Operating Agreement ('MOA') with Alcorn Gold Resources Inc. covers Mining Production Sharing Agreement ('MPSA') application number 039-XIII situated approximately 8 kilometres north from the millsite as shown on Figure 2 (please see the link at the end of this announcement). Processing of the Anoling MPSA is progressing.

Diamond drilling with one rig is continuing. Underground exploration has been discontinued and drilling may be increased in 2009 if rigs are available whilst the tenement application is progressed.

OTHER PROJECTS

* Abacus Project

The MOA with Abacus Consolidated Resources and Holdings Inc. covers Exploration Permit ('EP') application number 000028-XIII situated to the north of the Co-O mine and millsite as shown on Figure 2 (please see the link at the end of this announcement). Processing of the Abacus EP is being progressed.

* Saugon Project

The Saugon regional ridge and spur soil sampling programme is continuing.

* Bunawan Joint Venture (Medusa earning 70%)

The Company, through its Philippines operating company, Philsaga Mining Corporation ('Philsaga'), signed a joint venture agreement ('JVA') with Bunawan Mining Corporation ('Bunawan') on 23 August 2007, the Philippine operating company of ASX listed Sierra Mining Limited ('Sierra'), whereby Philsaga will earn a 70% joint venture interest in Exploration Permit application ('EPA') 000037-XIII and Mineral Production Sharing Agreement application ('APSA') 000003-XIII (together the 'Bunawan JV').

The Company through Philsaga Mining Corporation is continuing to fulfil its obligations under the JVA.

COMMUNITY PROGRAMMES

Work has commenced on a 16 bed hospital at the Co-O Mine and is expected to be operational around mid-year. A helipad for emergency evacuations will also be constructed adjacent to the hospital.

Construction of six new class rooms to be commenced at the Manabo Village serving the Co-O Mine will be completed for the new school year commencing in July.

The first full season of support for rice growers through interest-free micro-loans is underway. Initial field trials have established base line costs which have been incorporated into formal agreements between the Company's Foundation and the rice farmers.

CORPORATE

On 19 September 2008 Crosby Capital Limited ('Crosby') of Hong Kong announced a proposal to make an unsolicited and highly conditional takeover offer ('Offer Announcement') for the Company.

On 23 September 2008, the Medusa Board conducted an initial review of the proposed offer as outlined in the Offer Announcement and advised shareholders to take no action as the Board believed the offer was inadequate and opportunistic.

On 3 November 2008 Crosby withdrew its offer.

JORC COMPLIANCE - CONSENT OF COMPETENT PERSONS

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Medusa Mining Limited

Information in this report relating to Exploration results, is based on information compiled by Mr Geoff Davis, who is a member of The Australian Institute of Geoscientists. Mr Davis is the Managing Director of Medusa Mining Limited and has sufficient experience which is relevant to the style of mineralization and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Cube Consulting Pty Ltd

Information in this report relating to Mineral Resources has been estimated and compiled by Mark Zammit of Cube Consulting Pty Ltd. Mr Zammit is a member of The Australasian Institute of Mining & Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Zammit consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Cube Consulting is an independent Perth based resource industry consulting firm specialising in geological modelling, resource estimation and information technology.

Golder Associates Pty Ltd

The information in this report that relates to Ore Reserves is based on information compiled by Peter Onley MBA, MSc, BSc (Hons), FAusIMM, CP. Mr Onley is a full-time employee of Golder Associates Pty Ltd. Mr Onley has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Onley consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Golder Associates is a global consulting group employing more than 5500 staff offering services in earth engineering and environmental sciences.

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