Handsome profit forecast based on early drilling indicators

Medusa Mining Ltd. was formed in February 2002 to participate in mining and exploration opportunities. Medusa Mining has a strong portfolio of exploration projects in Western Australia and the Philippines that were acquired with a view to producing an early cash flow from mining.

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Geoffrey John Davis, Managing Director, spoke with *Wall Street Reporter Magazine* on May 27, 2004.

WSR: *Could you begin with an overview and brief timeline of the company?*

MML: Medusa was formed in 2002. We rapidly collected six properties in Australia, which were advanced exploration except for one that was what you would call a 'grass roots' property. The others all had drill-hole intersections with mineralization or outcropping mineralization. The company then proceeded to raise some seed capital, which was completed in July 2002; we raised $350,000 just as the market started to turn downwards. We then hung on to our money, kept our properties in good order, did some work on the grass roots project and decided that we did not wish to pursue it and relinquished it. The market at that stage was saying you need something that's going to go to cash flow, and due to my previous associations in the Philippines we were invited by associates to joint venture on a project in the Philippines called the Saugon Gold-Silver Project. In mid-2003, the company raised some additional seed. The first seed was at 10 cents, the additional seed was at 12.5 cents and we then proceeded to float in December, last year and we floated on December 23 just before Christmas, so it was a nice Christmas present. We raised $2.5 million and we put out 12.5 million shares to the market at AUS20 cents and we ended up with a total shares on issue of 35 million. Subsequently we had a one-cent, one-for-two options issue to keep our shareholders in the stock until we had a story to tell. Those options were issued about three months after we listed and were very successful in achieving that objective. Though the shares traded in the range from 25 cents on the day of listing up to 60 cents just before the anticipated release of the options, subsequently we've been trading around the 38- to 45-cent range and our options are trading in the low 20's at this stage.

WSR: *Could you expand a bit more on some of the company's core projects and properties and give us a better idea in terms of where you are with exploration and development?*

MML: Our main focus is on the Philippines. We are in joint venture on a project in Southeastern Mindanao. Eastern Mindanao is an extremely mineralized belt. At the northern end of it in the Surigao District you have the Anglo-American Boyongan high-grade gold porphyry discovery, which has the equivalent as I understand of around about 20-million ounces contained gold. I think the grade is about 0.7 gold and 1.1 copper, something in that range, but certainly a very large and new discovery. A lot of other previous historical mining has taken place since before World War II in the Surigao District in which Boyongan Porphyry Copper-Gold Deposit sits. Then, at the southern end of the belt in the Davao District, porphyry coppers and various high level epithermal gold deposits have been mined over the years, includ-

SUMMARY

Medusa Mining Ltd. (ASX: MML) is engaged in a joint venture to develop a property in an "extremely" rich copper/gold belt of the Philippines. Early drilling indicates high-grade gold and silver; additional development continues. Since the partner already has a mill nearby, production could start as early as late 2004, after which time the company's 50% interest should translate into annualized profits of $4 million. Additional prospects on the property are contemplated. The company also owns five relatively advanced Australian properties, all with demonstrated mineralization. The company's recent Australian IPO was well subscribed and management is confident in its ability to become a 100,000-ounce producer by 2006 or so.

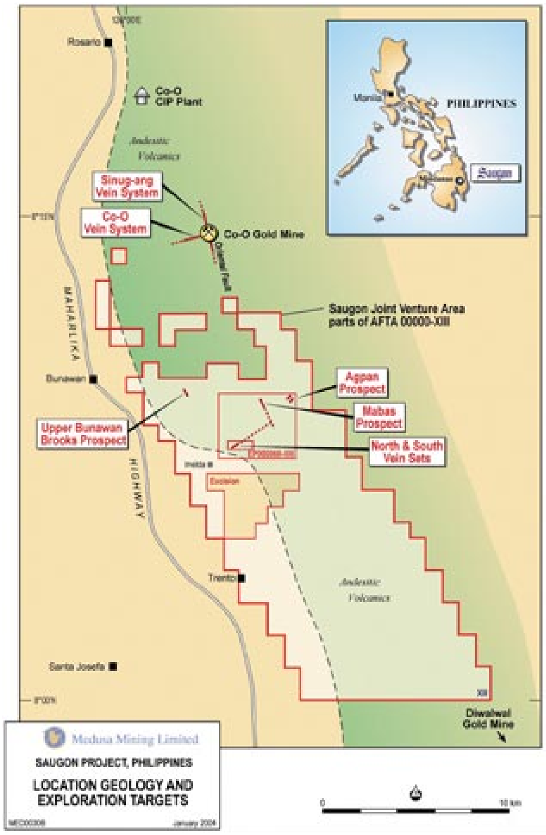
ing a vein deposit called Diwalwal located 50km south of Saugon. Diwalwal has an estimated unconfirmed production of 7.5 million ounces or more. Its anyone's guess as to the average grade as no official records are available, but at the centre of the deposit approximately 400m below surface, the widest stope was 19 meters running over three ounces of gold per tonne and the deposit went to over 600 meters deep. Our focus is on similar deposits to Diwalwal, and these commonly occur at surface as insignificant narrow veins with low grades accompanied by clay-pyrite alteration. There is currently an operating mine called the Co-O Mine approximately 10km to the north of us, which our joint venture partners own, which is showing similar trends. In other words, it's increasing in grade and width as you go to depth. That particular mine is at 250 meters depth, the grade is in the order of 25 to 30 grams and the vein there now has gone from little skinny veins near surface to being on an average about three meters wide. At our Saugon property nearby, the same model seems to be working. We commenced work there the day we listed with commencement of drilling. We've got some pretty encouraging drill results so far with the first hole intersecting high grade gold and silver values over mineable widths. We are also putting down an exploration winze and the winze is returning good results with the first level development scheduled to commence about mid-July. We intend to explore with a combination of underground mining or underground exploration as well as the drilling. The drilling is designed to locate where the structures are and, all going well; we would be in production towards the end of the year, early 2005. In our joint venture we are spending AUS$1.2 million to earn a 50% interest. We then share expenses after that with our partners and all going well, we should be producing for around about that $1.2 million or not much more. Based on the models of the mineralization in the district, we would like to anticipate producing a head grade of around about 20 grams. Medusa's 50% share of our initial output which is aimed to be 150-ton-per-day would make a handsome profit for Medusa on an annual basis of about $4 million. Obviously, there are a lot more veins in the district and we anticipate ending up with multiple mines, not just the first one. From our point of view it's an excellent opportunity because our partner has a 700-tpd mill that is only 25 kilometers up the road. They have power and a workforce. They have miners, machinery, drillers, drilling machines, bulldozers, graders, everything that you need for a mining operation. Longer term, we obviously intend to try and cement our place in the district by picking up additional ground and doing additional deals. So our main focus is high-grade deposits, which will have a low operating cost and a low capital cost because our partners provide the facilities and for Medusa it's obviously an excellent opportunity.

WSR: *As we look at the company, what are the characteristics that differentiate the company in the marketplace today?*

MML: I think the fact that our joint venture partner is a specialist underground miner and it's also different, we're not just with a Filipino partner, but our Filipino partner has an Australian content. The principals of the company, Philsaga Mining Corporation are Bill Phillips from Australia and Col Samuel Afdal, a very well respected and essential ingredient to Philsaga's successful track record. Bill has been a miner in Kalgoorlie in Western Australia for over 35 years. He specialized in narrow vein mines and worked a considerable number for himself as well as for a number of other public companies. We think we're in a position to occupy a niche in Southeast Asia because Bill has over 3 years mining experience in Indonesia and now has been operating for nearly 4 years in the Philippines. I have over 20 years of experience in Indonesia as well as the Philippines, but between us we think we're in a position take on projects that people don't like to do these days, i.e., narrow vein high grade underground mines. In Southeast Asia where labor is plentiful and skilled, handheld mining is the way to go and can be done because labor costs are not over the top like they are in many developed countries. We think that we can develop a niche position in the mining industry in Southeast Asia, looking at narrow vein mines very profitably, and with the expertise that we have access to, are comfortable doing so. Between both parties, we also have a well developed network of professionals who are able to assist in navigating local mining law and other requirements. Philsaga is also an excellent local citizen, and makes a very conscious effort and a considerable contribution locally by involving and providing for the local communities, with clinics, water supplies, schools and educational scholarships and assistance.

WSR: *What can you tell us about the present management team currently in place at Medusa Mining?*

MML: Medusa itself is very low cost, there is myself as Managing Director and I have a secretary. We have another director, Ted Mein, a mining engineer with many years of experience, from narrow veins to large open pits, from running all sorts of operations as well as feasibilities both large and small. Between Ted as a consultant to the company and myself, Medusa has very low operating costs and basically with the Philippine operation at this



stage, all we do is contribute the funds because our partner, Philsaga, have in place a complete management group. They have geologists, mining engineers, miners, all the administration facilities, their own mill etc. So basically we're teaming up with essentially another mining company even though it's privately owned, and probably better equipped than many public mining companies. So for Medusa that's an excellent opportunity.

WSR: *Do you feel the investment community fully understands the company and the potential here at this point given the current stock price in today's marketplace?*

MML: I think some of our key investors do, because we have obviously had very good support in the market as demonstrated by our share price. Medusa was the second best performing new listing last year in the Australian market. There was only one other company whose share price performed better than ours. We have a very loyal shareholder base that believes in the long-term future of the company. We intend to be a major gold producer within a couple of years. We are aiming for plus 100,000 ounces and we're looking predominantly at high-grade deposits and as I mentioned, we see a niche position for us in narrow vein underground mines, which other people aren't particularly keen to take on these days. So I think that differentiates us and the fact that I think we can expand. Ultimately the company is very desirous of paying dividends to shareholders, not just to put all the money back into exploration, but all our projects as we take on new ones will have to stand on their own feet. They will be funded as a business unit and then if those projects make good profits then those profits will be at least partly returned to our shareholders.

WSR: *As we begin to wrap up, paint us a picture. What is the long-term vision here for Medusa? What are the specific key goals and strategies in place to ensure future success at the company?*

MML: Our main focus is to develop high-grade, low operating costs and obviously high margin, essentially narrow vein mines. We can do that because we have the advantage of being associated with a group that specializes in these styles of operation and we think that we can grow to being a plus 100,000-ounce-per-year producer within a couple of years. Our aim with our immediate project, the Saugon project, is to have cash flow by the end of the year and that would be quite an achievement, to achieve cash flow within 12 months of floating from a raw prospect. We know we are in a very highly mineralized district that is totally unexplored æ there have never been any regional surveys. Nobody really fully understands the potential of the district, but we think we're into a new goldfield and that as time goes by there'll be multiple mines, most of them high-grade narrow vein underground mines.

WSR: *In closing, let's recap a bit. Why is Medusa Mining Limited a company investors should continue to follow and track in the near term and beyond?*

MML: The company today is beginning on a growth curve of production, the beginning of which we are confident we will achieve by about the end of the year. Following that, as I mentioned, we are in the process of consolidating our land holding and developing multiple mines within the district around our Saugon project. We have access to milling facilities so we don't have high capital costs and because of that we can afford to build our portfolio of gold mines. It is basically a matter of developing each mine. We have the expertise and we are confident that within a couple of years, we will be a plus 100,000-ounce gold producer and there are not many people in Southeast Asia that produce that amount of gold. Our model company is Kingsgate in Thailand, which has achieved that sort of level of production over a period of about eight years. We think we can do that within two to three years and for considerably less cost than Kingsgate. Kingsgate is trading at about AUS$3.20 to $3.50 and we think that by achieving similar levels of gold production we should be valued at a similar amount within that period. ●