

# Co-O on the go

Cash flow beckons from Medusa Mining's high-grade Co-O gold project. **By Olivia White**



Medusa Mining managing director Geoff Davis: "We are aiming late next year to be a 100,000 ounce producer ... obviously that would make us very strong cash producers."

**P**hilippines-focused gold miner Medusa Mining is ramping up production at the high-grade Co-O gold mine, with the mine marked as the catalyst to swing the company into the ranks of mid-tier gold producers.

Perth-based Medusa has been working in the Philippines for the past six years with its local partner Philsaga Mining Corporation, which owns the Co-O mine in the Mindanao region in the southeast of the country.

An upgrade and redevelopment of the Co-O mine and refurbishment of the plant for early July is on track, while an agreed merger of the two companies is still pending, waiting on the resolution of a tenement issue with respect to an overlapping timber concession.

As in Australia, under the Regalian Doctrine which is incorporated into the Philippines' constitution, mineral rights and surface rights are separate and Davis is confident the issue will be resolved in the coming months, clearing the way forward for the merger.

Philsaga has won the case in two lower courts, but the case was elevated to the

Supreme Court with the litigant trying to prevent the Mines and Geosciences Bureau from issuing the tenement.

Davis said the Philippines government has a positive attitude towards the resources industry and was encouraging foreign mining companies to invest in the industry.

While the Philippines may be welcoming Australians as investors into the developing sector, Australian investors have shown some reticence about putting their investment dollars into the Philippines.

Consequently many companies operating in countries perceived as high risk do not always receive a fair market value.

"There are a lot of Australian companies moving offshore and that's where the exploration potential is, but the investment community doesn't give them the full benefit they should," Davis said.

"Australia has its own mines and a strong mining industry, and many Australians have been spoilt by that."

This is in contrast to the more risk-tolerant investment markets of Europe

and the United Kingdom, where Medusa is considering a listing on AIM.

"The English and European investors are much more used to investing in companies that have to operate in higher risk areas," he told **RESOURCESTOCKS** after a recent visit to London.

Davis doesn't consider the Philippines to be high risk, saying the benefits of the country, including low cost structures and available labour, offset many perceived difficulties.

"I'm very familiar with it so there's not many things that worry me and I have a good network of people I can call on to solve most problems," he said.

"Not that there have been any major problems."

The integration of local partner Philsaga into the local communities through well planned community programs and benefits, says Davis, mitigates many of the issues of operating in a foreign country.

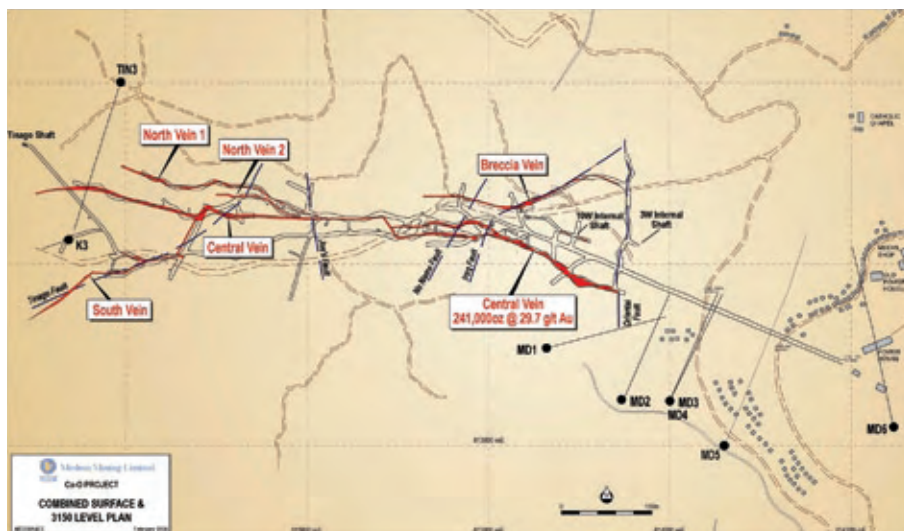
Following a landmark Supreme Court ruling in 2004, foreign companies can hold 100% of projects with a minimum investment requirement of \$US25million.

Medusa's operation doesn't require this level of capital expenditure and operates under the well-established 40% foreign ownership requirements with local partner Philsaga.

"It is a unique situation that Medusa has as it is merging and working with an established Philippines company," he said.

"It (Philsaga) has an excellent track record, has management in place that will remain in place, has all the equipment and expertise to develop the Co-O mine ... that will be the main engine driving the initial production."

The Co-O mine is an underground operation that has been explored to a depth of 270 metres below surface. Co-O's total resources of 252,000 tonnes run at the high grade of 29.7 grams per tonne gold, containing 241,000 ounces.



Medusa's local partner has all the equipment and infrastructure and expertise to develop the Co-O mine.



## COMPANY SNAPSHOT

- Listed Dec 2003  
ASX: MML, MML0

### Strategy

- Mine & explore high grade gold deposits

### Focus

- Production/exploration in the Philippines

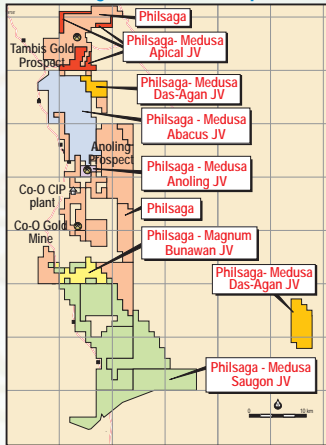
### Financial

- Market Cap A\$30M  
Cash end Q3 A\$1.4M

### Capital Structure

- 53.99M shares  
27.52M options

### Regional Tenement Map



## EXPLORATION POTENTIAL

- 70km of strike
- 700 km<sup>2</sup> of area
- Potential for:
  - Many high grade veins
  - +10Moz Au equiv porphyry copper-gold deposits
  - Sediment hosted gold deposits
- No modern exploration

## Co-O PROJECT STATUS

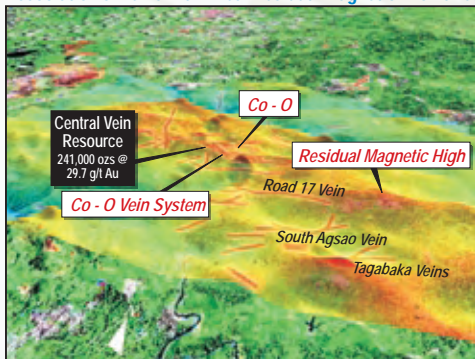
### Current status

- Acquired cashflow through Co-O Plant Lease & Option from 1 October 2005
- Philsaga Mining Corporation granted permit for full scale mining operation
- Philsaga as contract miner & mill manager
- Imminent merger with partner Philsaga will provide mine, mill and tenement ownership

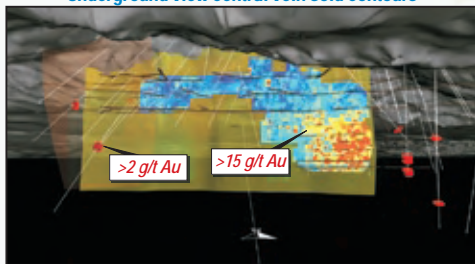
### Forward plans

- Production of +40,000 annualised early Q3 2006 at <US\$200/oz
- Increase production levels late 2006
- Increase resources during 2006 from 240,000 oz @ 29.7 g/t Au

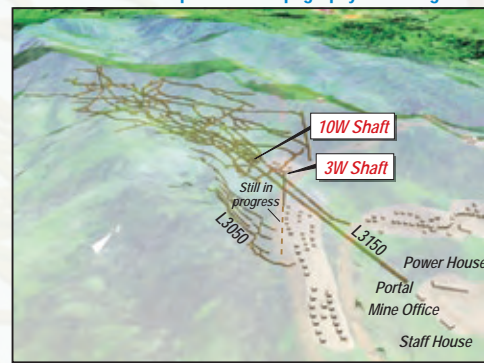
### Co - O Mine Association Of Veins with Linear Residual Magnetic Anomalies



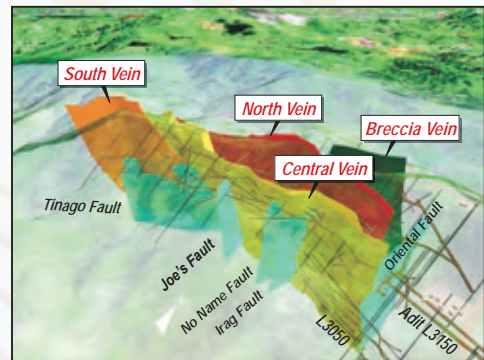
### Co - O Mine Underground View Central Vein Gold Contours



### Co - O Mine - Oblique View Of Topography & Workings



### Co - O Mine - Veins And Faults



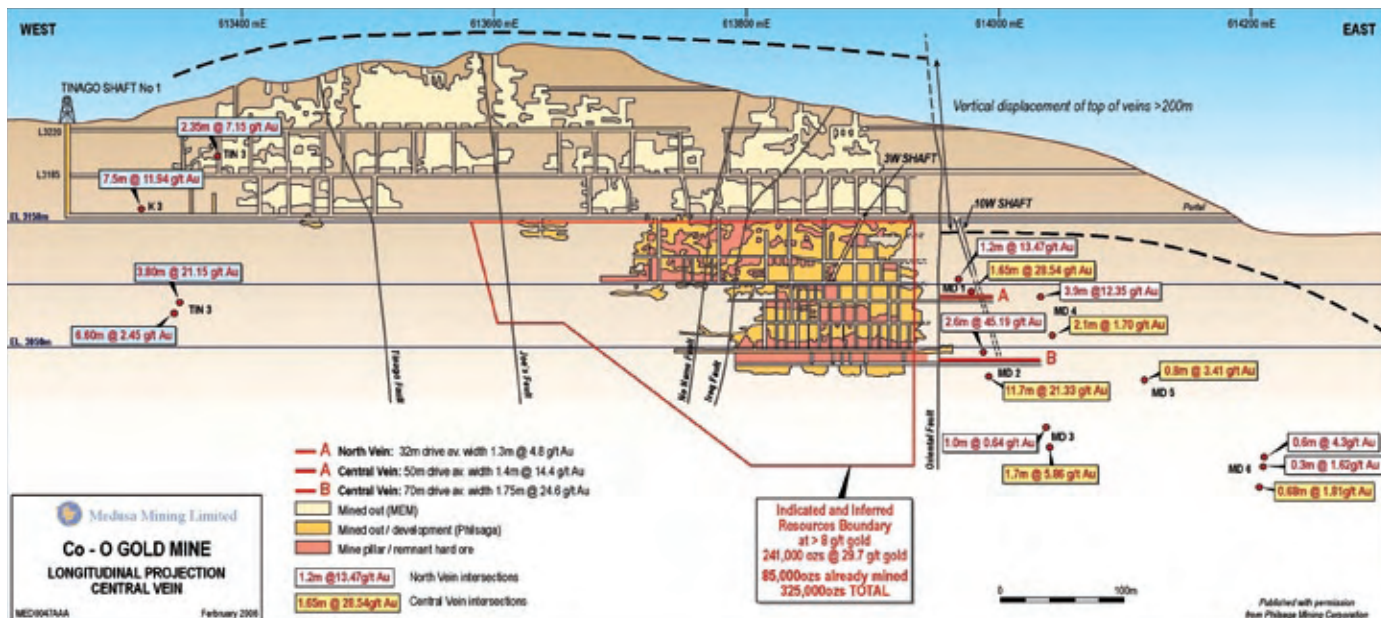
## LOW COST PRODUCER

Reasons why low cost-high margin ounces can be maintained

- Long term depreciating currency
- Fixed costs for air & power independent of rise in tonnage
- Minimal effect/oz from fuel price increases
- Labour intensive mining using local skilled workforce
- Power for mill from hydro-electric grid power line
- Cost per ounce expected to remain << US\$200

## SUMMARY

- Medusa elevated to gold producer.
- Low cost - high margin ounces.
- Specialist narrow vein miner.
- Annualised production to increase from +40,000 ozs in Q3.
- Region-scale belt with unlimited exploration potential.
- Project is an integral part of the community.
- The Board and Management have extensive country experience.



A long-section of the Co-O mine.

Last August, Medusa and Philsaga signed an agreement that would see Medusa leasing the existing treatment plant for three years with an option to acquire it anytime during that period.

When Medusa and Philsaga complete their merger, Medusa will issue 25 million shares and make a cash payment of A\$13 million to the Philsaga vendors.

Philsaga and Medusa are aiming to have the project annualised at an initial 40,000 ozs of gold production from July 2006.

The large ball mill at the Co-O Plant has sat silent since 1991 and Medusa is now completing a mill refurbishment which will have an initial capacity throughput of more than 300 tonnes a day.

This can then be expanded to 1000 tonnes per day at a small capital cost to support the 100,000 ounces a year ambitions of Medusa.

"We are aiming late next year to be a 100,000 ounce producer ... obviously that would make us very strong cash producers," Mr Davis said.

"Our production costs are anticipated to be less than \$US200 an ounce ... at today's gold price that's pretty significant."

In the March quarter, development ore from the mine produced 1,613 ounces of gold at an average cost of \$US307 an ounce, generating Medusa \$US890,000 in income.

Davis said the mine was on track for an improved report card for the April-June quarter, but again most of the ore would be generated by development.

Resource analyst Carey Smith, from State One Stockbroking, has forecast Medusa turning a profit of \$15.6 million in 2007/08.

Smith said that as an unhedged gold producer and with the forecast ramp up in production, Medusa was well positioned to take advantage of the

booming gold price. Medusa is also working to expand its resources in the area surrounding the Co-O mine, and Davis said there was lots of potential for both copper and gold in the adjacent tenements.

"We have the ability to be able to bring in multiple mines and feed a central plant (Co-O)," he said.

"We expect to find a lot more high grade veins, but we also have the potential to discover porphyry copper gold systems."

He said much of the Philippines had a very high mineral endowment.

"It's very richly endowed and where we are — in eastern Mindanao — is regarded as one of the most intensely mineralised districts in south-east Asia," he said.

"It may well become the future centre of mining in the Philippines."

Testament to the prospective nature of the Mindanao region is the presence of the high-profile Tampakan project — believed to be one of the largest unexploited copper and gold deposits in the south east Asian region. Tampakan is a joint venture between Swiss-based global miner Xstrata and junior Australian explorer Indophil Resources.

Medusa is working towards consolidating its landholding in the area, which currently sits at around 700 square kilometers, and recently signed a deal covering the Das-Agan project area to the north and east of Co-O.

Das-Agan covers the Lingig prospect which was generated from an aid program between Filipino and Japanese geologists in the early 1970s. An early drill hole returned an encouraging 148m grading 0.5% copper, ending in two metres grading 4.93% copper and 0.5 grams per tonne gold.

Another high-grade exploration target is the recently acquired Masapelid gold project, on an island of the

same name, about 180 kilometres north of Co-O.

The project has a history of narrow vein mining before the Second World War and was later explored by a number of groups from the early 1990s, but there has been no recent focus on the high-grade veins.

If exploration at Masapelid was successful, Medusa would consider constructing a single treatment facility to treat ore from the mine and the nearby Panaon project, joint ventured to Goldsearch Limited. **RS**

**medusa mining**  
... at a glance

**STOCK PRICE (AUD\$)**
**ASK CODE: MML**

8 June 2005 - 12 June 2006

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**MARKET CAPITALISATION**  
\$35.9 million (at press time)

**MAJOR SHAREHOLDERS**  
Forty Traders Limited 4.79%  
William Douglas Goodfellow 4.78%  
Yarandi Investments Pty Ltd 4.14%