

News

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Medusa Mining Is London-Bound To Spread The News About The Co-O Gold Mine In The Philippines

By Our Man in Oz

Expect a few polite utterings of “I told you so” when Medusa Mining’s Australian-based chief executive, Geoff Davis, pays courtesy calls and makes the odd presentation in London over the next few days. Davis himself might be too polite to use those exact words. But his supporters are certainly entitled to, and these include among their number Minesite itself. Last September this website was one of the first to alert readers to the emerging success of Medusa at its Co-O gold mine in the Philippines, and at an even more impressive copper discovery called Lingig. At the time, Medusa was trading at A99 cents and the wheels of the commercial world were about to come flying off courtesy, of the Lehman Brothers collapse and ensuing global financial crisis.

Undeterred by the chaos on world markets, and by a cheeky takeover attempt launched by those masters of the incomplete bid, Crosby Capital, Minesite persevered with its Medusa love affair – despite the prospects of being turned into stone as per Greek legend. In early November, Minesite again sang the praises of Medusa despite a fall in the share price to around A66 cents, with rising gold production starting to catch the attention of a few seasoned professional investors.

Look today, and Medusa has bolted away to trade at around A\$1.55, down slightly on an all-time high of A\$1.83 reached in late March. The easier gold price will have taken some of the steam out of Medusa’s share price, but the latest upward run from a first sale this year at A68 cents means that believers in the Medusa story have more than doubled their money in less than four months, and that’s after the company successfully raised a fresh A\$24.5 million in working capital on February 26 via a placement to professionals at A\$1.21.

Cash from the placement is being tipped directly into expansion of Co-O, where production is being ratcheted up from around 60,000 ounces a year to a target of 100,000 ounces from the first quarter of next year. More impressive than the higher output is the falling cost per ounce, a trick achieved largely because Co-O has that most desirable of qualities in a goldmine, grade. Cost per ounce of the 12,716 ounces produced in the March quarter was US\$211 thanks to the grade of 13.05 grams a tonne, and very low Philippines labour costs. The long term target is to get the cash cost per ounce down to US\$200, which will confirm Co-O’s position as one of the world’s lowest cost gold producers.

Minesite had hoped to catch Davis before he left his Perth office for London duties, but missed him by a few hours. Right now he is probably catching a morning coffee in a Starbucks cafe somewhere in the West End. But, in the interests of helping out it seemed appropriate to do a little premature Medusa spruiking, especially as Davis was kind enough to post his proposed London presentation on the Medusa website (and file it at the Australian Securities Exchange) before heading over.

Before looking at his presentation it is worth re-visiting what Davis said when announcing the February capital raising, largely because in a handful of words the Medusa story is told: “We are an unhedged, high-margin gold producer with an exciting future as we grow our production,” Davis said. “I believe the market is starting to recognise our potential.”

The first key to understanding Medusa is a recognition of the nature of the gold-rich epithermal mineralised systems which are found around the “ring of fire” which circles the Pacific Ocean. Co-O is one of those systems, located inside, or on the edge of, an ancient “caldera”, the collapsed magma chamber of a volcano which has, literally, “blown its top”. Sometimes found radiating out from such events are rich veins of mineralisation, sometimes only a few centimetres wide, but often several metres thick. It’s these veins which are being tapped by Medusa, as Davis will explain on a slide showing a three-dimensional model which highlights the point that exploration for mineralised veins can be a tricky business, but that once an explorer understands the structures being pursued the results can be richly rewarding.

Medusa’s expansion work at Co-O is notionally divided into several phases. Phase one, consists of extending underground drives and connecting shafts. Phase two is also underway and consists of digging additional shafts down to the vein systems, as well as expanding the ore processing mill and raising the wall of the tailings dam, along with other essential works. Boosting gold output is one part of the expansion work, adding to reserves and resources is another key step. Currently, there are six surface rigs pinpointing gold veins, with high hopes held for the potentially very large Great Hamish Vein, and for a number of veins east of the Agsao River.

Davis said in his March quarter report, filed at the ASX last Wednesday, that a drilling update would be available in June, with a resource estimate ready in July and a fresh reserve estimate in August. As things now stand, Co-O contains an indicated and inferred resource of 2.82 million tonnes of ore averaging 13.3 grams a tonne and giving 1.2 million ounces. It’s a fair bet that all of those numbers will rise substantially, which adds to interest in the proposed timetable of announcements. It means Davis has mapped out a logical sequence of “news flow”, starting with his latest marketing trip (a tour of duty highly recommended for all Australian miners).

The flow will not be solely about Co-O. The Philippines itself will become more of a newsworthy topic as its “mining friendly” legal system becomes better known. Medusa will also have plenty to say about the large systems of copper mineralisation contained in so-called porphyry structures. Essentially, these are large blobs of volcanic (igneous) rock sometimes containing vast amounts of copper and other minerals, with low-grades offset by huge tonnage. Lingig, the first of a potential seven outlined by magnetic surveys is already showing indications analogous to the nearby Atlas orebody which contains 1.53 billion tonnes of material assaying 0.41% copper.

Best drill hits, so far, at Lingig include 224 metres at 0.77% copper plus 0.11 grams of gold a tonne, and 267 metres at 0.62% copper plus 0.06 grams a tonne of gold – results, which if found to be widespread, have the potential to drown the news flow even from Co-O.