MEDUSA MINING

PHILIPPINE INVESTMENT A WINNER FOR MEDUSA

Most miners would be overjoyed if they could produce gold at a cash cost of only $US198 an ounce given the state of the global economy and the pressure of rising costs.

ADD THE ADDITIONAL ingredients of no debt, hedge-free and a gold price hovering around the $US950 mark and you have a sure-fire recipe for success.

The envy of most of its peers, Australian miner Medusa Mining has achieved this outstanding result after paying $46 per ounce in business taxes and royalties.

In a gross understatement Medusa managing director Geoff Davis told *RESOURCESTOCKS* that while it may have taken the company a while to get where it is, Medusa now has a very robust gold project.

Robust is a fairly conservative description of the Co-O gold mine in the Philippines. The project has lifted the miner from a position of explorer to be the sixth biggest Australia-listed gold producer – after Dominion and Avoca – by market capitalisation.

Listed in December 2003 with a joint venture with the Philsaga Mining Corporation, of the Philippines, Medusa found the relationship worked so well that the company acquired Philsaga in December 2006.

At the time Philsaga had acquired the old Co-O mine and tenements located in central-eastern Mindanao, accessed by a network of gravel roads formerly used for timber haulage and the national highway to Davao City.

"At that time the Co-O mine had a resource of about 250,000 ounces," Davis said.

"The mine was started in the late 1980s by an Australian company. It's narrow vein and they made the mistake of mechanising and diluting it quite substantially in the upper levels of the mine.

"Their head grade into the mill was about 5.4 grams to the tonne and when they didn't make any money in the first two years, they closed it down and placed it on care and maintenance throughout the 1990s until Philsaga bought it in 2000."

Today the mine resources stand at 1.38 million ounces at 10.8 grams per tonne gold with reserves of 500,000oz at 14.9gpt. Annualised production has jumped to 60,000oz with a target of 100,000oz in the first quarter of 2010.

Davis said the carbon-in-pulp (CIP) plant, originally designed and built by BHP, will need to be upgraded. Work being undertaken onsite is due for completion in December, while mine expansion work is almost finished.

"We only have to produce 750 tonnes a day at 13-15 grams to the tonne to get 100,000 ounces, so it's not a big materials handling exercise," he added.

"It's all narrow vein, high grade. We averaged 14 grams to the tonne last quarter and our anticipated long-term head grade is between 13 and 15 grams to the tonne. Some months it may be a little lower and some months it may be a little higher, depending on what we're mining, but we should be able to sustain the target production.

"I think the lowest-grade vein is about 4.5 grams to the tonne, but we've also got some big ones.

"The Great Hamish vein has about 300,000 ounces in it at an ounce to the tonne so we mine that as we need it."

Another plus for the company is that the Co-O ore is very clean, gold with a bit of silver, but no arsenic mercury and a very low sulfide content.

The Co-O mine has an estimated life of five years at 100,000oz per annum, if you base it purely on the JORC reserves.

"Ongoing development should replace what is mined each year, so we can see the 500,000-ounce level being maintained for at least 10 years," Davis added.

"Under the JORC code you're only allowed to convert your indicated resources, but if you apply the same conversion factor to the balance of the resources, then you're looking at plus-10 years mine life.

"The resources are still expanding."

The strategy has been to increase the production capacity of the mine. This focus enabled Medusa to lift production from 40,000oz annualised production to 60,000oz with the benefits starting to flow in the September quarter last year when production was just under 7000oz.

It has been increasing incrementally to the point where the annual production almost hit 48,000oz compared to market guidance of 45,000oz.

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Philippines in the 1980s, the country was ranked fourth in world gold production as well as a big producer of copper concentrate.

"It's a very richly mineralised country," he said. "Mining started in the United States era before World War II.

"A lot of mines started up and continued to operate into the 1990s, but many fell away due to falling commodity prices and a lack of government support.

"Since about 2002 the current administration has been actively trying to reactivate mining, quite successfully. There are quite a few companies working there now and some of them have progressed through to production or near production."

The low cash costs for gold production at Co-O can be attributed to several factors: the availability of skilled labour; the high ore grade; the availability of reasonably-priced power; and the stable exchange rate for the Philippine peso.

A key factor in the company's move to upgrade the mill is that an abundance of skilled workers means that fabrication of rail wagons, head frames, the mill expansion and maintenance can be carried out onsite instead of in an engineering workshop in a remote location, and that most ongoing requirements such as rail wagons, head frames, as well as maintenance, are also carried out onsite.

One of the key platforms in the company's activities in the Philippines has been a commitment to the local community.

Medusa, through its board of directors, has continued the policy started before Medusa's involvement of providing better education to local children through scholarships, adopt-a-school and health programs, and also giving interest-free micro loans to rice farmers.

More than 2000 students are benefiting from the program and more than 100 hectares of rice will be farmed this year through a foundation established by the company that offers interest-free micro-loans to rice farmers to help them become financially independent.

Davis said the Philippines was increasingly being seen as an attractive place to do business, with other foreign companies now looking to invest big numbers in new projects.

Medusa is ideally placed with a total tenement area of more than 880 square kilometres at East Mindanao, recognised as one of the best mineralised districts in Southeast Asia with the rich gold mining area of Diwalwal to the south.

Davis is confident that Medusa has the best concentration of mineralised structures within more than 70km of strike on the company's ground, which represents about 20% of the total strike length of East Mindanao.

"We can see that in the years to come we'll be able to grow the company from our own tenement holding, there's a lot of opportunities there," he explained.

"We are looking forward to developing a pipeline of both gold and copper over the next 12-18 months, eventually ending up with a number of production centres on our land holding.

"We cover a very big area so we're not going to be able to truck ore all over the place."

Medusa has identified multiple high-grade vein targets and six porphyry copper-gold targets, some of which have already returned some good anomalies.

Davis said the main copper targets were Kamarangan and Lingig while a maiden inferred resource of 650,000 ounces of gold in 15 million tonnes at 1.3 grams to the tonne has been announced for the Bananghilig gold deposit in the Tambis District.

"The Bananghilig deposit has the potential to grow and propel the company to upper mid-tier gold producer status through the development of a second gold mine," he said.

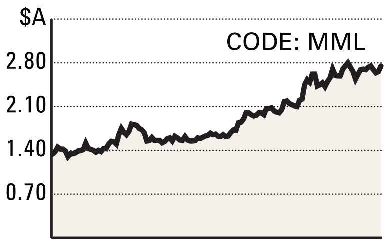
"We've put down 10 scout holes at Kamarangan and found a porphyry host rock that's got good, strong anomalous copper and some molybdenum, which could be a copper-moly system.

"Lingig was discovered in 1974 with one hole getting some pretty good results and we've drilled around that and got some encouraging intersections up to about 260 metres at 0.6 per cent to 0.7 per cent copper, and we've now got three rigs around that now on a 200-metre grid basis to determine whether there's sufficient grades and tonnes to make it a worthwhile project."

With a very big tenement holding in a proven gold mining region, excellent infrastructure and projected long-term cash costs of around $US200/oz, Medusa Mining has the ability to maintain a strong cash flow and, unlike many of its peers, withstand any downturns in the price of gold. RS

Co-O mine infrastructure

MEDUSA MINING AT A GLANCE



6 months ending August 12, 2009

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MARKET CAPITALISATION
$A462 million (at press time)

MAJOR SHAREHOLDERS
Directors and management 15.68%
Rex Harbour & Associates 11.30%
Metalloinvest Holdings 10.50%
Advanced Concept 8.76%

