

# Packer's foray a fillip for explorer

Very few investors get to thank Australia's richest man for the value he left on the table after walking away from a deal. But that is just what shareholders in Medusa Mining should be doing as they watch the price of their stock rise strongly. **By Tim Treadgold**



Medusa Mining chief executive Geoff Davis: "We have developed a very promising pipeline of projects which ensure that Medusa will grow strongly."

**D**riving the upward move of Medusa's share price is ownership of the Co-O goldmine in the Philippines, once an asset of the Kerry Packer-controlled Musselbrook Holdings.

Packer's involvement with Co-o dates back to the 1980s when the media magnate was keen on mining. It ended in 1991 after an estimated \$22 million had been spent on the mine and a BHP-designed and constructed processing facility.

Musselbrook's problem had nothing to do with the gold grades in the mine, which remain high, or the high-quality mill; it was all to do with the mining style of the rich-but-narrow veins of the classic epithermal system, and the high rates of ore dilution.

One man's problem is another man's opportunity, as the saying goes, and that is just what is happening at Medusa where a combination of history, personalities with long-term associations, a bit of fresh capital, a better mining method, and a large tract of exploration ground have made Medusa one of the most attractive stocks on the Australian market.

"There is quite a bit of history involved," said Medusa chief executive, Geoff Davis. "That's part of the interest in what we're doing, but the real interest is in the rising level of production and the excellent exploration prospects we have close to Co-O, and at other projects in the Philippines."

Davis, a career geologist with an intimate knowledge of the Philippines after a career that includes time with BHP in that country stretching over 25 years, is confident that Medusa is on track to substantially increase gold production at Co-O, and bring into production the other projects, which include the Saugon gold/silver project, the Dizon tailings project, the Barlo copper/gold/zinc project, and the Panaon Island gold project.

"We have developed a very promising pipeline of projects which ensure that Medusa will grow strongly," Davis said. "The starting point is Co-O, but as the others kick in you will see a substantial rise in output."

To understand his enthusiasm, and the optimistic future for the company, it is

worth looking back at how Medusa evolved and why it is significantly more advanced than many of the other new floats that hit the market over the past two years.

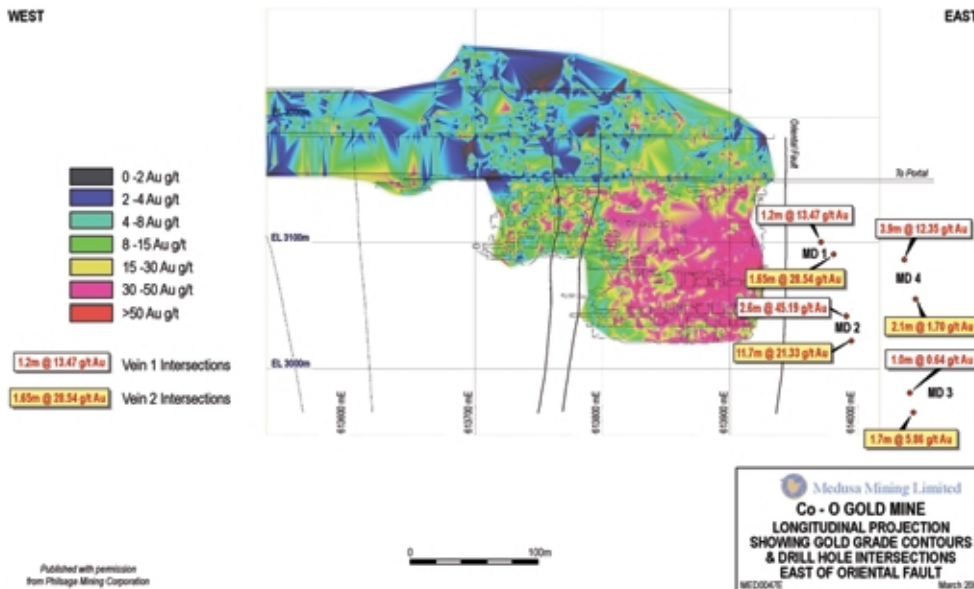
"It really started around 1999 when I was a director of an AIM [Alternative Investment Market]-listed company called Philippines Gold," Davis said. "It was ultimately controlled by Willy McLucas [a British financier] who asked me to look after it, but when I got there I found a business with \$US4.5 million worth of creditors, more than 3000 in number, 37 court cases afoot, 700 illegal miners on its main mine-site — and a few other problems as well.

"Among the assets was Co-O, and bless Kerry Packer's cotton socks, he had spent about \$22 million developing it as a mechanised underground mine on narrow veins, which diluted the hell out of the ore. It never made much money under those conditions, and he closed it in 1991."

For the next few years, an assortment of potential investors looked at Co-O, including its 550-tonne-a-day BHP-built and designed mill, which was kept in very good working order by the resident manager, Sammy Afdal. Part of the job given to Davis back then was to sell Co-O, which he did in early 2000 to long-term Kalgoorlie identity, Bill Phillips. "He was looking for a project and had looked at a few, but when he saw Co-O he said this was one of the easiest he had seen," Davis said.

That deal with Phillips (and Afdal, who became his partner) was done in August 2000, a tough time for goldmining, leading to the introduction of another key player in the evolution of Medusa, Australia's busiest prospector, Mark Creasy, who played a silent role as a financier to the re-birth of Co-O.

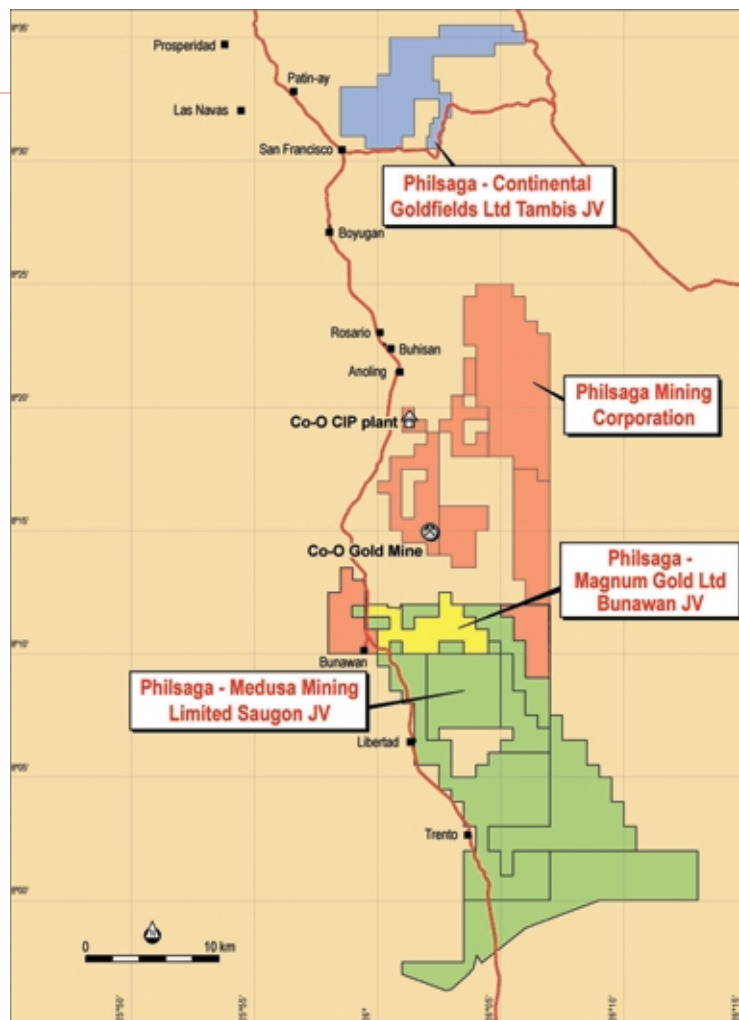
While Phillips proceeded to re-develop Co-O, aided with limited on-going advice from Davis on questions of tenure and local conditions, a separate business was being created in Australia that became



Drilling to the east of Co-O's oriental fault has returned some strong high-grade intersections.



Medusa's Philippines gold projects.



Medusa is aiming to triple gold output out of Co-O to 60,000ozpa.

Medusa Mining. "Back then we were totally separate," said Davis. "We assembled six projects around Australia, raised \$400,000 in seed [capital] by July 2002. The market turned down, so we sat on our money and went looking for something that was close to production."

That led to a re-connection with Phillips after he pointed out the Saugon tenements to the south of Co-O as a potential project for joint venture. While this was underway, Medusa moved to float at the end of 2003 with the first drill hole starting on float day of December 23 – and within days reported a 1m intersection assaying 34 grams per tonne of gold and more than 400gpt of silver.

The proximity of Co-O with the Saugon discovery and the long association between the two groups, led quickly to talk about a merger. "Bill needed more capital and exploration expertise. We were looking for production. That led to October last year when we started working up the deal, which has led to the two groups coming together, and we end up as a happy team because we really have assembled a good group of people."

After the deal settles, the Phillips group of four investors (including Creasy) will own about one-third of Medusa, which is now investing in lifting Co-O from production of around 20,000oz a year to 60,000ozpa at a cash cost of less than \$US200 per ounce. The budget in two years time is for production of 80,000ozpa from just two shafts at Co-O, a target seen as

conservative as additional ground is developed and as exploration results come in, such as the hit of 3.9m at 12.35gpt reported in late-March.

Expansion beyond that initial target is expected with exploration continuing to uncover additional epithermal veins. There is also a confident expectation that additional material will be found at depth. Work to date has been down to around 250m, with a nearby mine worked by another company successfully mining its vein system down to 600m.

Co-O, important as it is because of the cash generation, is just a start for Medusa. A call of the company card looks like this:

- Barlo, north-west of Manila, has a production history, and a series of anomalies around the mine ready for drilling.
- Dizon, also north-west of Manila, is a tailings project containing 1Moz of gold plus magnetite, copper and silver. Metallurgical tests are underway. The target is the gold and magnetite.
- Panaon, a long-established mining area, with Medusa in discussions with a partner to fund the first \$US1 million to get a small plant working.

While they're all promising projects the real interest will be in Co-O and the adjoining Saugon tenements where Medusa is sitting on 540 square kilometres of ground, and in the process of securing more. In geological terms, Medusa controls about 70km of strike in what is widely regarded as one of the

most mineralised areas of Asia. In political terms, the company's projects are far removed from the ethnic unrest in the south-west of the country. **RS**

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

Source: Patersons Securities Limited

**HEAD OFFICE**  
Unit 7, 11 Preston Street  
Como WA, 6152  
Ph: 08 9367 0601  
Fax: 08 9367 0602  
Email: admin@medusamining.com.au  
Web: www.medusamining.com.au

**DIRECTORS**  
Jeffrey Schiller, Geoffrey Davis,  
Edward Mein, Simon Cato

**MARKET CAPITALISATION**  
\$18 million (at press time)

**MAJOR SHAREHOLDERS**  
Geoffrey and Susan Davis 5.39%  
Edward Mein 4.42%  
Platinum Investment Corporation 4.14%  
Yarandi Investments 3.26%