



Friday 19th September, 2008

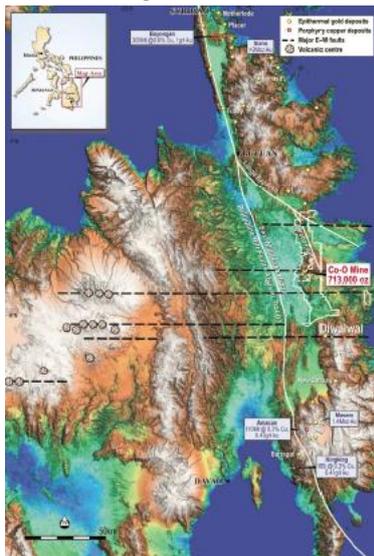
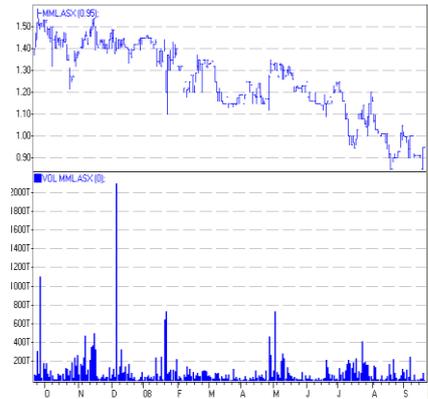
Medusa Mining Ltd *takeover update*

Unsolicited takeover bid at \$1.15 from Crosby Capital

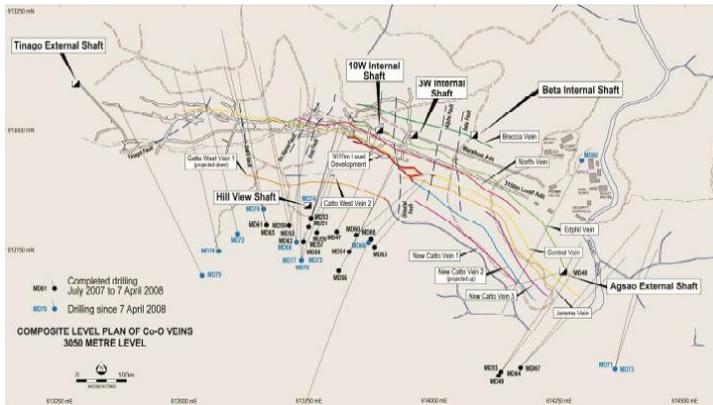
MML Last \$1.09 52wk Hi-Lo \$1.540-\$0.850 145M fpo shares
Cash balance at 30Jun: \$5M

Market Cap: \$158M

- Highly opportunistic bid that is unlikely to attract any takers.
- It is positive for MML shareholders as it focuses attention on the assets and increases market awareness of the stock.
- Crosby Capital is an independent merchant banking and asset management group listed on HKSE's GEM and London's AIM.
- Crosby's current aggregate holding in MML (through two arms' length entities) is ~4.9% (~7M shares)
- Medusa's VWAP over the past 12 months is **A\$1.29** (on 385,000 shares per week: 0.26% of the issued capital).
- VWAP over the past 6 months is **A\$1.13** (on 340,000 shares per week: 0.24% of the issued capital)
- VWAP over the past 3 months is **A\$1.03** (on 430,000 shares per week: 0.30% of the issued capital)
- Stated "Benefits of the Offer" in Crosby's bid are questionable for the reasons covered below.
- Crosby has an offer condition allowing it to withdraw the bid if gold falls below US\$750/oz for three consecutive trading days. With Co-O's cash costs below US\$250/oz, this condition is patently meaningless and reinforces our view that this offer should be ignored by MML shareholders.



- MML's main asset is the Co-O mine on the mineralised East Mindanao Ridge which runs north-south down the eastern side of Mindanao Island in the Philippines.
- MML also has extensive exploration targets in its 70km land bank, including several porphyry copper-gold prospects.
- Gold production for the Jun08 quarter from the Co-O mine was 5,187oz (~20,000ozpa) at cash costs of US\$247/oz.
- MML is thus amongst the world's lowest cost gold producers at a time when it is significantly expanding production.
- Stage 1 underground expansion at the mine is being commissioned. When fully operational in mid-2009, production should have increased threefold to an annualised rate of ~60,000oz, still at cash costs around or under US\$230/oz.
- The Sep08 quarter should see production starting to increase from the expansion program. We anticipate 7-8,000oz at cash costs consistent with previous quarters (~US\$240/oz).
- The Dec09 quarter should deliver further production growth to ~10,000oz, increasing to ~15,000oz by the Jun09 quarter.
- Assuming no material delays during commissioning, FY08-09 production is forecast at 38-45,000oz.
- Medusa is debt free and unhedged. Current production at 2,000-2,500oz per month should generate cash operating margin of US\$500-600/oz, for an operating cash surplus of US\$1-1.5M per month.
- As production increases, unit costs will drop towards US\$200/oz, so by Jun09 production at 5,000oz per month should be generating operating cash surpluses of at least US\$2.5-3.0M per month.
- Stage 2 underground expansion is targeting annualised production of 100,000oz by 2010, equating to annual cash operating surplus in the order of US\$60M (assuming current costs and gold price).
- Two London broking houses have produced valuations of Medusa in the past six months:
 - Fairfax (10-Mar-2008): £0.90 - £1.09 (when MML was trading at £0.59 / A\$1.20)
 - Mirabaud (22-Apr-2008): £0.904 (when MML was trading at £0.56 / A\$1.15)
- Both reports are available from Medusa's website: www.medusamining.com.au



- Co-O's resources stand at more than 800,000oz. This represents more than 7 years mine life.
- Exploration success continues to expand the resource base. Mineralisation is open laterally to the W and SE; to the SSW; and at depth (refer map at left).
- Potential gold endowment has been compared to the Diwalwal mine to the south and also to the Vatukoula mine in Fiji, each of which has historical gold production of >7 million ounces.

- Exploration continues at Lingig and Kamarangan for copper-gold porphyry systems with highly promising visual intersections from initial drilling.
- Assays from early holes at both projects are still awaited, with Cu-Au results of particular interest.
- The diagram at right gives an indication of the extent of Medusa's landholding and of the high degree of prospectivity contained within it.
- The initial bid from Crosby does not appear to have ascribed any tangible value to the exploration upside that these targets represent. The takeover announcement only mentions the Co-O mine.
- Market commentary today included a brief article by "DJ Market Talk" comparing MML to Indophil (IRN). Crosby is also party to the complicated series of bids trying to win control of the Tampakan porphyry copper-gold mine development, also in the Philippines and of which IRN holds 34.23%.
- The article notes that MML's assets and Tampakan are both on Mindanao, an "area frequently plagued by communist rebel strife". The Communist "New People's Army" objects to foreign companies like Xstrata effectively exporting Filipino resources.
- Tampakan is in SE Mindanao; Co-O is ~300kms NE in the safe, 99.5% Christian, Surigao province.
- The Philippines is perceived by many investors as high risk. MML has a long-standing social contract with the community, employing many hundreds of locals. It has refurbished two local schools and provides funding to several more. It has built local housing and has conducted and funded community health programs. It has recently established a fund to assist local rice growers to obtain finance for their crops. Medusa is not seen as exploiting Filipino resources: through its local operating company it is instead viewed as a welcome and valued member of the local community.
- A growing resource base and increasing production from recent underground expansion at Co-O offers investors significant upside as the market recognises the potential of MML's acreage.
- We strongly recommend against selling into this takeover offer. We believe current circumstances in the market together with MML's development plans may well force Crosby to raise its offer price.



BUY on fundamentals; BUY for anticipated increases to offer price.

---oo0oo---

In accordance with the Corporations Law, Hogan & Partners Stockbrokers Pty Ltd ("Hogan") gives notice that any recommendations contained in this document are issued as general securities advice and Hogan in preparing the advice did not take into account the investment objectives, financial situation and particular needs of any person and before making an investment decision on the basis of this advice, any potential investor needs to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. Hogan accepts no liability for any representations, errors or omissions on the part of Hogan, or their related or associated corporations or by any of their respective officers, employees or agents. All historical information is sourced from ASX company releases. Hogan and the author are not the source of this information and we expressly disclaim any belief in its truth or falsity, merely passing it on for what it is worth. Disclosure of Interest: Directors of Hogan and/or its employees may directly and indirectly have interests in companies mentioned herein.