



**MEDUSA**

# QUARTERLY ACTIVITIES REPORT

## PERIOD ENDED

### 30 SEPTEMBER 2010

#### Snapshot of Medusa:

- ❑ Un-hedged, low cost, dividend paying gold producer focused on organic growth in the Philippines
- ❑ 3 to 5 years growth path to production of 300,000 to 400,000 ozs per year
- ❑ Growth underpinned by strong cashflow from Co-O Mine (narrow vein underground)
  - FY 2010/11: targeted production of 100,000 ozs at cash costs circa US\$190 per oz
  - FY 2011/12: targeted production of 120,000 to 130,000 ozs at cash costs circa US\$190 per oz
- ❑ Current Mineral Resources comprise
  - Co-O Mine: Indicated 603k ozs at 13.2 g/t gold; Inferred 898k ozs at 9.6 g/t gold
  - Bananghilig: Inferred 650k ozs at 1.3 g/t gold
- ❑ Current Probable Reserves : Co-O Mine 505k ozs @ 10.7 g/t gold
- ❑ Co-O Mine Resources and Reserves to be maintained at current levels
- ❑ Conceptual exploration target size \*\* of Co-O Mine of 3 to 7 million ozs
- ❑ Excellent exploration upside: high grade vein and disseminated bulk gold targets, plus seven copper targets
- ❑ 820 km<sup>2</sup> of tenements and exploration budget for FY 2010/11 of US\$21M

#### Board of Directors:

**Peter R. Jones** (Non-executive Chairman)

**Geoffrey Davis** (CEO)

**Peter Hepburn-Brown** (COO)

**Roy Daniel** (CFO)

**Robert Weinberg** (Non-executive Director)

**Andrew Teo** (Non-executive Director)

#### Capital Structure:

Ordinary shares: 187,584,911

Unlisted options: 1,190,000

#### Listings:

**ASX and LSE** (Code: MML), **TSX** (Code: MLL)

#### Address and Contact Details:

PO Box 860  
Canning Bridge WA 6153  
Telephone : +618 9367 0601  
Facsimile : +618 9367 0602  
Email : admin@medusamining.com.au  
Website : www.medusamining.com.au

#### OVERVIEW:

##### Co-O MINE PRODUCTION & DEVELOPMENT

- Quarterly production of 25,004 ounces at an average grade of 15.77 g/t at cash cost of US\$187 per ounce
- Commenced the new vertical, 3-compartment Saga Shaft (previously Mid-Royal Ventilation Shaft) to Level 5 (200 metres below surface)

##### Co-O MINE & REGIONAL DRILLING

- Drilling is continuing with six surface rigs and four underground rigs for resource definition, delineation of new veins to the north of the current resources and extensions of known veins
- A drilling update is expected during the next quarter

##### BANANGHILIG DEPOSIT

- Drilling is underway with two rigs and with up to four more rigs to be added during the next quarter

##### SAUGON PROJECT

- Drilling with three rigs has continued with a drilling update planned during the next quarter

##### FINANCIALS & CORPORATE

- Total cash and gold on metal account at end of quarter of approximately US\$69.4 million (unaudited)
- A maiden unfranked dividend of A\$0.05 per share declared by the Board, will be paid to all shareholders on 8 November 2010.
- The Company was admitted to the standard listing segment of the Official List of the UK Listing Authority and commenced trading of its ordinary shares on the Main Market of London Stock Exchange plc on 28 October 2010.

*\*\* The potential target size and grade is conceptual in nature, and there has been insufficient exploration to define a mineral resource, and it is uncertain if further exploration will result in the target being defined as a mineral resource. Refer to Stock Exchange announcement dated 18 January 2010.*



## PROJECT OVERVIEW

The locations of the Company's projects are shown on Figures 1 and 2.

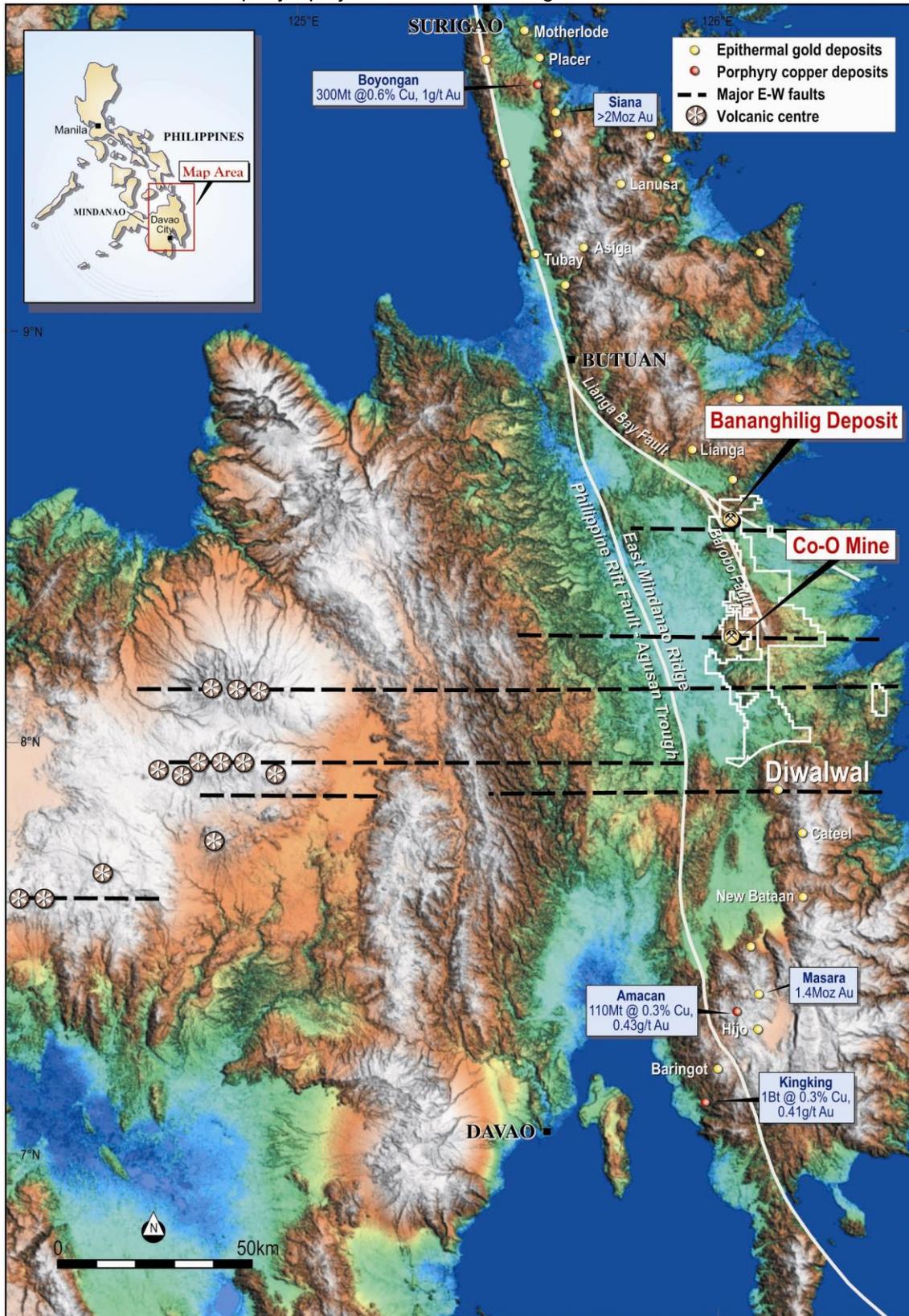


Figure 1. Location diagram showing the Company's tenement areas and prominent East-West structures

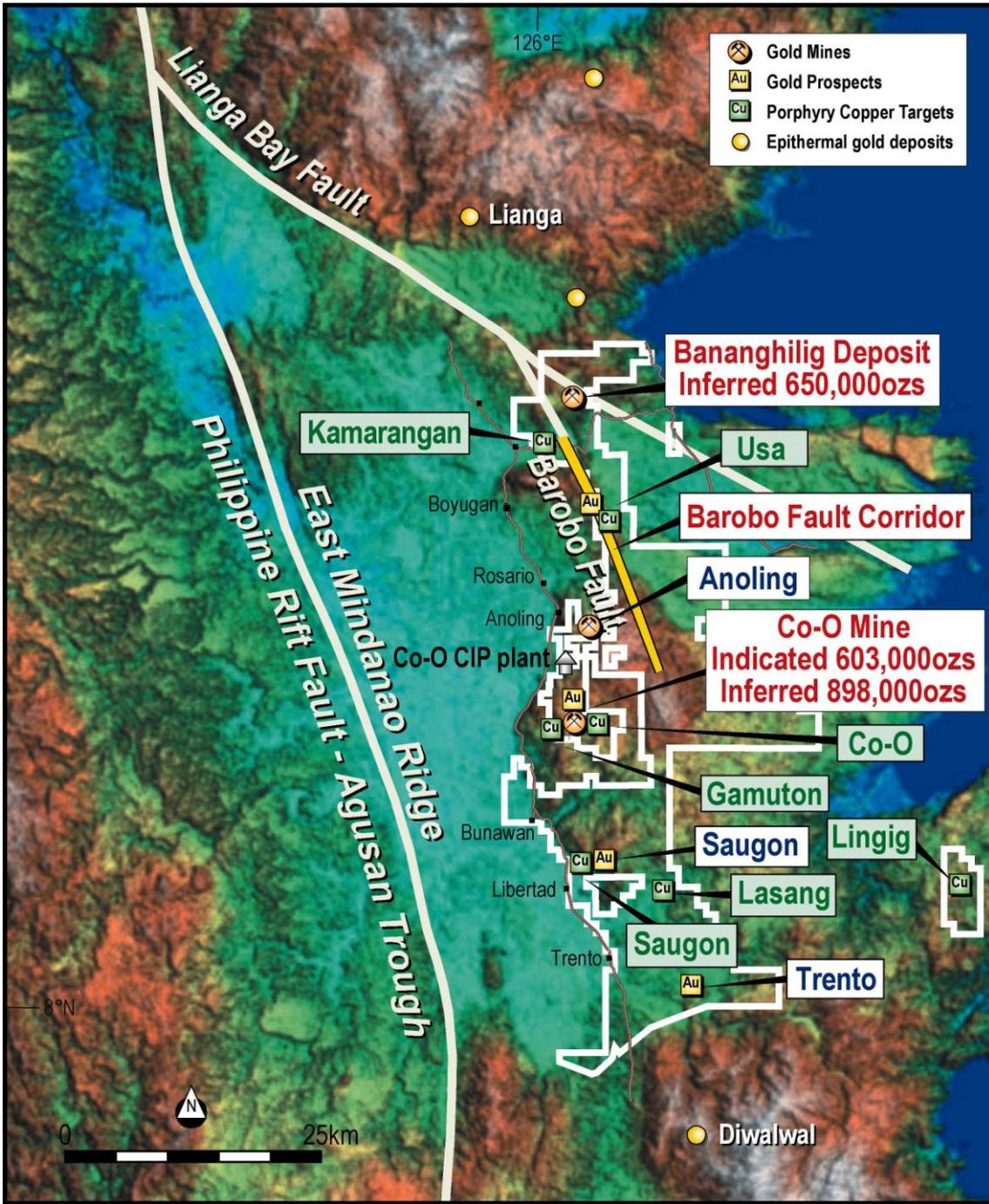


Figure 2. Regional tenement map showing mines and prospects

## Co-O MINE

### Gold Production

The production statistics for the September 2010 quarter with comparatives for the previous four quarters are summarised in Table I.

**Table I.** Gold production statistics

Period	Unit	Qtr ended 30 Sep 10	Qtr ended 30 Jun 10	Qtr ended 31 Mar 10	Qtr ended 31 Dec 09	Qtr ended 30 Sep 09
Tonnes mined (1)	WMT	60,367	53,872	51,512	54,222	43,287
Ore milled	DMT	52,463	60,611	40,943	37,588	40,467
Recovered grade	gpt	15.77	13.65	20.61	18.68	14.78
Recovery	%	94%	94%	94%	94%	94%
Gold produced (2)	ozs	25,004	25,012	25,505	21,108	18,054
Cash costs (3)	US\$	\$187	\$182	\$180	\$184	\$193
Gold sold	ozs	25,659	24,858	-	21,108	18,054
Average gold price received	US\$	\$1,208	\$1,182	-	\$1,111	\$975

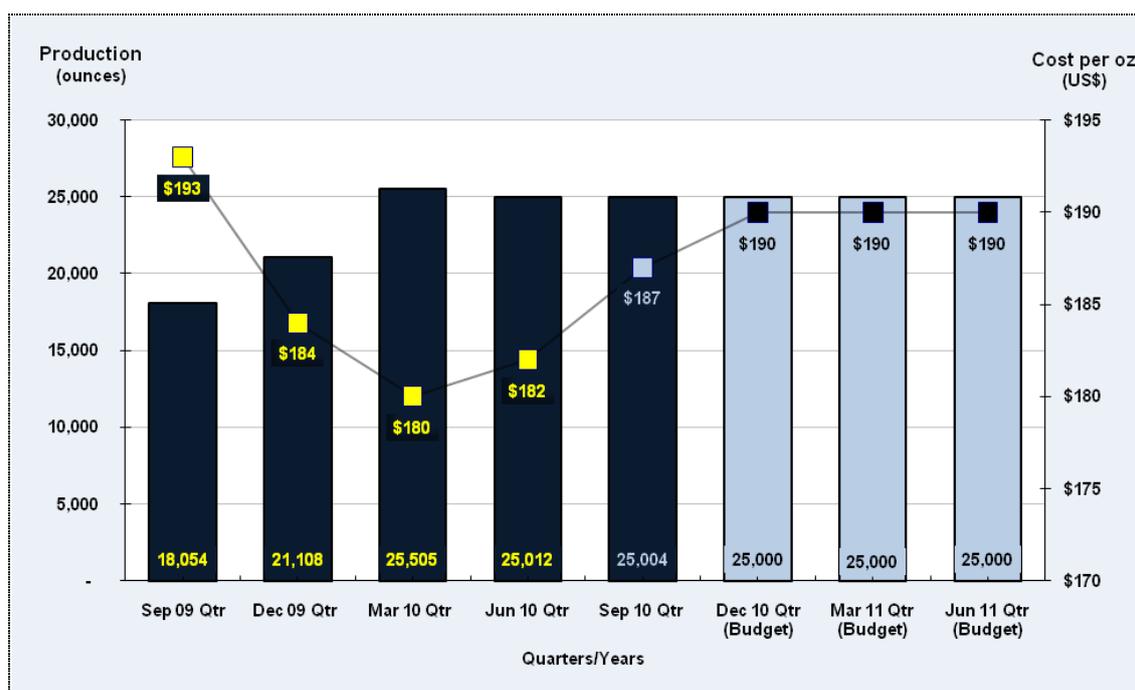
**Note:**

- (1) The moisture content in wet tonnes ranges between 6 to 7%
- (2) Gold production is actual gold poured (and requires no further processing) during the period and does not reflect changes in the balance of gold in circuit. It includes any gold awaiting shipment
- (3) Cash costs refers to the cost of gold mined (net of development costs), produced but not necessarily sold and includes royalties and local business taxes of US\$50 per ounce for the Sep 2010 qtr (Jun 2010 qtr: US\$46/oz, Mar 10 qtr: US\$48/oz, Dec 2009 qtr: US\$48/oz, Sep 2009 qtr: US\$34/oz, YTD: US\$46/oz)

Gold production for the quarter was in-line with budget at 25,004 ounces, at an average grade of 15.77 g/t gold and cash costs of US\$187 per ounce, inclusive of royalties and local business taxes of US\$50 per ounce. The marginal increase in cash costs is a direct result of an increase in royalty payments which is based on gold sales.

Medusa, an un-hedged gold producer, sold 25,659 ounces of gold at an average price of US\$1,208 per ounce during the quarter.

A breakdown of actual and forecasted production ounces and cost per ounce by quarters for the last five quarters and the remaining three quarters of this fiscal year is highlighted in graph 1.



Graph 1. Co-O quarterly production graph with unit costs (Actuals for fiscal year 2009/10 and forecast for fiscal year 2010/11)

## **Co-O Mine**

### **Mine Development**

The new 60 metre inclined Sabor Shaft (previously 6W) to the Level 6 (250 metres below surface) has been completed and development on Level 6 commenced in August. The development is focused mainly to the east from the shaft.

Construction has commenced of a vertical 3-compartment shaft with a double drum winder named the Saga Shaft (previously the Mid-Royal Ventilation Shaft) with site works well advanced and emplacement of the collar underway. It is intended that this shaft will initially be sunk to Level 5 and will result in improved transport of men and materials and ore haulage. Completion to Level 5 is likely in the 3rd quarter 2011.

The Alimak rise to link Level 3 to the Tinago Shaft is approximately 20 metres excavated. A new power line is being installed to the Tinago Shaft followed by additional exhaust fans.

### **Mine Production**

Production has continued uninterrupted at the mine. Surface stockpiles are approximately 24,000 tonnes of ore.

### **Mill Expansion**

The new thickener been completed and commissioning is in progress.

Construction of a new water storage tank for mill water has commenced.

Excavation of footings is underway for the installation of two new leach tanks to raise the leaching capacity to approximately 1,000 tonnes per day.

### **Power**

Construction of the dedicated power line from the San Francisco sub-station to the mill is progressing well and is expected to be energised on schedule in late November 2010.

### **Drilling**

Surface drilling with four rigs has continued at the Co-O Mine, mainly along the north side of the deposit on the Royal Veins. Underground drilling with four rigs is on-going for resource drilling and pre-development drilling.

Regional surface drilling around the Co-O Mine with two rigs is continuing, with a drilling update expected in the next quarter.

## **TAMBIS-BAROBO REGION**

The Tambis project, currently comprising the Bananghilig Gold Deposit and the Kamarangan copper-molybdenum porphyry prospect (Fig. 2), is operated under a Mining Agreement with Philex Gold Philippines Inc. over Mineral Production Sharing Agreement ("MPSA") application XIII-000022 which covers 6,262 hectares. Processing of the application is well advanced.

### **Bananghilig Gold Project**

Figure 2 shows the location of the Bananghilig Deposit. Drilling commenced in July 2010 with two rigs now operating and additional rigs to be added. There have been delays with respect to rigs completing other programmes and on the delivery of two man-portable rigs are expected to arrive during the next quarter for drilling on some of the steeper slopes.

Detailed geological re-mapping of the diatreme breccia and surrounds, re-logging of old drill core and other activities, including initiating base-line environmental studies, are underway as a precursor to scoping studies.

The aim is to increase the resources to a level which could provide a 5 year minimum mining life at a production rate of approximately 200,000 ounces per year.

## **Usa Porphyry Copper-Gold Prospect**

The Company has a Memorandum of Agreement with Corplex Resources Inc. over the Usa prospect which is located within MPSA application XIII-00077

A programme of soil sampling over the favourable geology is in progress.

## **ANOLING**

The Mines Operating Agreement with Alcorn Gold Resources Inc. covers MPSA application XIII-039 situated approximately 8 kilometres north from the millsite as shown on Figure 2. Processing of the MPSA application is progressing.

Mapping and sampling is continuing. Drilling will recommence when the MPSA is granted.

## **SAUGON PROJECT**

A detailed summary of previous exploration conducted in 2004 was published on 20 April 2010.

Drilling with three rigs continued during the quarter. One rig will shortly be transferred to Bananghilig. A drilling update is expected to be published in the next quarter.

## **FINANCIALS** (unaudited)

As at 30 September 2010, the Company which is debt free, had total cash and cash equivalent in gold on metal account of approximately US\$69.4 million (30 Jun 2010: US\$55.8 million).

During the quarter,

- the Company sold 25,659 ounces of gold at an average price of US\$1,208 per ounce (Jun 2010 qtr: 24,858 ounces of gold at an average price of US\$1,182 per ounce);
- incurred exploration expenditure of US\$4.9 million (Jun 2010 qtr: US\$5.4 million);
- expended US\$2.2 million on capital works associated with the dedicated power line/sub-station and sustaining capital (Jun 2010 qtr: US\$1.8 million); and
- spent US\$3.1 million in capitalised mine development (inclusive of shaft sinking) costs (Jun 2010 qtr: US\$3.0 million).

In addition, the Company reduced its June 2010 creditors balance by approximately US\$3 million.

## **CORPORATE**

### **Maiden Dividend**

Following a General Meeting of members on 6 October 2010, whereby the resolution was passed to amend the Company's Constitution to remove the restriction that dividends can only be paid out of profits, the Board confirmed an unfranked maiden dividend payment of A\$0.05 per share. Payment of this dividend will be on 8 November 2010.

### **Admission to Official List of the LSE and Cancellation on AIM**

The Company's entire issued ordinary share capital of 187,584,911 ordinary shares of nil par value (the "Ordinary Shares") was admitted to the standard listing segment of the Official List of the UK Listing Authority and to London Stock Exchange plc's main market for listed securities ("Admission") on 28 October 2010. Cancellation of trading in the Ordinary Shares on AIM took place simultaneously with Admission to the main market.

## **Managing Director, Geoff Davis commented:**

*"I am pleased to report on an operational level a steady level of production in line with advice to the market of 25,004 ounces for the first quarter of the financial year. Completion of a thickener at the mill, commencement of a new water storage tank, site works for two additional leach tanks and commencement of work for the new three-compartment Saga Shaft attest to the on-going capital works programme to improve the operational efficiencies and capacity of the operation.*

*Subsequent to quarter end, shareholders of the Company at a General Meeting approved amendments to the Company's Constitution, allowing Directors to declare an unfranked maiden dividend of A\$0.05 per share, which will be paid to all shareholders on 8 November 2010*

*In addition, the Company earlier today achieved its listing and admission to trading on the main market of the London Stock Exchange, successfully graduating from AIM."*

### **For further information please contact:**

#### **Australia**

##### **Medusa Mining Limited**

+61 8 9367 0601

Geoffrey Davis, Managing Director

Roy Daniel, Finance Director

#### **United Kingdom**

##### **Fairfax I.S. PLC**

+44 (0)20 7598 5368

Financial Adviser and Broker

Ewan Leggat/Laura Littley

##### **Lothbury Financial Services Limited**

+44 (0)20 7868 2010

Michael Padley/Libby Moss

#### **Canada**

Nicholas Sayce, Investor Relations

+1 416 822 4404

Information in this report relating to **Exploration Results** has been reviewed and is based on information compiled by Mr Geoff Davis, who is a member of The Australian Institute of Geoscientists. Mr Davis is the Managing Director of Medusa Mining Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a "Competent Person" as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and is a "Qualified Person" as defined in "National Instrument 43-101" of the Canadian Securities Administrators. Mr Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Information in this report relating to **Mineral Resources** has been estimated and compiled by Mark Zammit of Cube Consulting Pty Ltd of Perth, Western Australia. Mr Zammit is a member of The Australasian Institute of Mining & Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and is a "Qualified Person" as defined in "National Instrument 43-101" of the Canadian Securities Administrators. Mr Zammit consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Information in this report relating to **Ore Reserves** is based on information compiled by Declan Franzmann, B Eng (Mining), MAusIMM. Mr Franzmann is a full-time employee of Crosscut Consulting. Mr Franzman has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and is a "Qualified Person" as defined in "National Instrument 43-101" of the Canadian Securities Administrators. Mr Franzmann consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Refer to the revised Technical Report which was filed on SEDAR in March 2010 for further discussion of the Co-O Deposit's geology, structural controls, drilling, sampling and assaying information, and any known material environmental, permitting, legal, title, taxation, socio-political, marketing or other relevant issue.

**DISCLAIMER**

This announcement may contain certain forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Medusa, and its officers, employees, agents and associates, that may cause actual results to differ materially from those expressed or implied in such statements.

Actual results, performance or outcomes may differ materially from any projections and forward-looking statements and the assumptions on which those assumptions are based.

You should not place undue reliance on forward-looking statements and neither Medusa nor any of its directors, employees, servants or agents assume any obligation to update such information.