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Medusa Mining Limited

Annual Report and Financial Statements

29 August 2012

Medusa Mining Limited ("Medusa" or the "Company") advises that its annual report and financial statements for the year ended 30 June 2012 has been published. The document can be accessed through the link at the end of this announcement and is available on the Company's website (www.medusamining.com.au).

A copy of this report has been filed with the National Storage Mechanism and will be available for inspection shortly at www.hemscott.com/nsm.do.

HIGHLIGHTS OF THE FINANCIAL YEAR

Medusa presents its full year financial results for the year ended 30 June 2012, with a Net Profit After Tax of US\$49.2 million.

Financials

- Revenues of US\$81.2 million compared to US\$149.6 million for the previous year, due to a decrease in gold production as a result of accelerated development at the mine to prepare for future production increase, limited shaft haulage capacity and reduced availability of the milling circuit due to adverse weather conditions on two separate occasions.
- Medusa is an un-hedged gold producer and received an average gold price of US\$1,658 per ounce from the sale of 55,446 ounces of gold for the year (2011: 96,217 ounces at US\$1,371 per ounce);
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US\$58.0 million,

(US\$120.7 million in the previous year);

- Basic earnings per share ("EPS") of US\$0.261 on a weighted average basis, based on NPAT of US\$49.2 million (2011: EPS of US\$0.587 based on NPAT of US\$110.4 million);
- The Company remains debt free and had total cash, cash equivalent in gold on metal account and bullion on hand of US\$51.8 million at year end (2011: US\$102.1 million);
- Medusa paid un-franked dividends (in two equal instalments) totalling A\$0.10 per share during the year.

Description	Unit	30 June 2012	30 June 2011	Variance	(%)
Revenues	US\$	US\$81.2M	US\$149.6M	(US\$68.4M)	(46%)
EBITDA	US\$	US\$58.0M	US\$120.7M	(US\$62.7M)	(52%)
NPAT	US\$	US\$49.2M	US\$110.4M	(US\$61.2M)	(55%)
EPS (basic)	US\$	US\$0.261	US\$0.587	(US\$0.326)	(56%)
Dividend paid	A\$	A\$0.10	A\$0.10	-	-

Operations

Description	Unit	30 June 2012	30 June 2011
Tonnes mined	WMT	274,185	262,610
Ore milled	DMT	253,138	266,613
Recovered grade	gpt	8.10	12.63
Recovery	%	92%	94%
Gold produced	ounces	60,595	101,474
Cash costs ⁽¹⁾	US\$/oz	\$261	\$189

(1) Net of development costs and includes royalties and local business taxes but no by-product credits

- The Company produced 60,595 ounces of gold for the year, compared to the previous year's production of 101,474 ounces, at an average recovered grade of 8.10 g/t gold (2011: 12.63 g/t gold);
- The average cash cost for the year of US\$261 per ounce, was higher than the previous year's average cash costs of US\$189 per ounce due primarily to reduced ounces produced.

Production Guidance

- The production guidance for the forthcoming year is between 100,000 to 120,000 ounces at cash costs of around US\$210 per ounce. There is currently a heavy emphasis on mine development to prepare the Co-O Mine for future production increase.
- Subsequent to year end, on 22 August, the Company reported that fire had caused damage to the Baguio Shaft, putting it out of action temporarily for approximately three months. To offset the anticipated loss in production from the Baguio Shaft and maintain the stated production guidance for 2012/13, the Company has commenced processing stockpiles of settling pond fines.
- Preliminary estimates for repairs and re-furbishment of the Baguio Shaft is approximately US\$500,000. The Company is also in discussions with its insurers regarding the incident and lost production from the shaft.

Reserves and Resources

Co-O Reserves	Jun 2012	Jun 2011	Variance
Probable reserves	568,000	502,000	66,000
Co-O Resources	Jun 2012	Jun 2011	Variance
Indicated resources	715,000	616,000	99,000
Inferred resources	1,304,000	1,344,000	(40,000)
Bananghilig Resources	Jun 2012	Jun 2011	Variance
Inferred resources	1,100,000	650,000	450,000

- Gold reserves at Co-O increased to 568,000 ounces representing an increase of 66,000 ounces;
- Co-O's gold resources comprised of 715,000 indicated and 1,304,000 inferred resource ounces, representing an increase of 99,000 and decrease of 40,000 ounces within the indicated and inferred categories respectively.
- Bananghilig's inferred resources increased by 69% to 1,100,000 ounces

Exploration

- Contiguous tenement package maintained at >800km²;
- Budgeted exploration for fiscal year 2013 of US\$25.0 million (2012 actual: US\$35.1 million);
- Exploration highlights at Co-O include:
 - the global resources passes 2 million ounces and is still open at depth, to the east, north and to the west beyond the Tinago Fault;
 - discovery of extensions to the west of the Tinago Fault;
 - extension along strike to the east by 400 metres to approximately 2 kilometres;
 - demonstrating that mineralisation extends to at least 1 kilometre below the mine's adit entrance; and
 - the Conceptual Exploration Target ** for the Co-O Mine of between 3 and 7 million ounces of gold continues to be validated with global resources and mined ounces now totalling in excess of 2.5 million ounces;
 - ** The potential target size and grade of the Co-O Mine is conceptual in nature and there has been insufficient exploration to define a mineral resource. It is also uncertain if further exploration will result in the target being defined as a mineral resource.
- At the Bananghilig disseminated gold deposit, drilling has confirmed more than 1 million ounces of Inferred Resources which is being converted to Indicated Resources to form the basis for pit optimisation and feasibility studies;
- At Saugon, re-drilling of the First Hit Vein has produced encouraging results with the mineralisation possibly open at depth; and
- Induced Polarisation and ground magnetics geophysical programme have been completed over the Tambis intrusive-breccia complex, Kamarangan, Usa, Saugon and is almost complete at Lingig. Surveying is in progress for the same geophysical programme for the Co-O area.

New Co-O Mill

In November 2010, the Board approved the construction of a new plant with capacity to produce 200,000 ounces of gold per year based on processing up to 750,000 tonnes per year. The Capex was subsequently estimated at approximately US\$70M for the new mill and mine expansion. The Environmental Clearance Certificate for 2,500 tonnes per day for the new mill is in progress.

The current status of activities is:

- Priority was given to the returning the tilting leach tanks back into service which has been achieved;
- Construction of the new large leach tank should be completed by mid-August;
- Foundations for the new crushing and grinding sections are advancing on schedule;
- The de-toxification unit foundations are completed and form work is on schedule;
- Approximately 50% of the SAG mill components have been delivered;

The new electrical supply systems to the mine and mill are advanced and the last stage will be completed when the mine is re-wired through the Saga Shaft.

Preliminary Development Timetable

Please see the link at the end of this announcement to view the full annual report and financial statements which contains the Preliminary Development timetable on page 6.

Dividend

The Company declared a final un-franked dividend payment of A\$0.02 per share payable to shareholders on 4 October 2012.

The relevant dates for the final dividend are as follows:

Dividend Record Date	: 14 September 2012
Ex-Dividend Date (ASX purposes)	: 10 September 2012
Ex-Dividend Date (LSE purposes)	: 12 September 2012
Dividend Payment Date	: 4 October 2012

There is no foreign conduit income attributed to the dividend.

The Board considers it prudent to temporarily reduce dividends from A\$0.05 per share to A\$0.02 per share until production levels increase at the Co-O Mine, so as to maintain a positive cash balance as it nears completion of the Co-O mill/mine expansion and also the need for additional CAPEX for upgrading/replacing existing infrastructure including new administration and accommodation buildings, new surface fleet maintenance workshops, new core farm and an exploration only laboratory.

The Board wishes to add that until such time as the Saga Shaft is completed towards the end of calendar year 2012, production levels will continue to be flat as the Company strives to balance production with development, as a direct consequence of limited haulage capacity.

In addition, the Company has also reviewed all its discretionary related expenditures and has decided to re-prioritise its exploration activities, by reducing the number of drilling rigs to 14 for the current financial year, most of which will continue to be active at Co-O. In the past, the Company's main focus was on exploration drilling, deploying up to 22 drilling rigs, at any one time.

Peter Hepburn-Brown, Managing Director of Medusa, commented:

"We all recognise that the last financial year has indeed been challenging as we sought to balance production and development and that the year's results have also been adversely impacted by two weather events beyond our control.

The 2012-13 year will be one of consolidation as we build on the previous year's hard work. However our focus has not changed, and that has been to complete the Saga Shaft on schedule in the December 2012 quarter. This will be a game changer for the Company as we commence the task of opening up Level 8 at 350 metres below surface.

We are also very aware of maintaining a strong positive cash balance as we complete the Co-O Mine and Mill expansion. The decision to temporarily reduce dividends was extremely difficult but prudent nevertheless, and we expect that once the expansion activities are completed and production improves, we will be in a position to increase dividends".

Contacts:

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AUDITED FINANCIAL STATEMENTS EXTRACTED FROM THE 2012 ANNUAL REPORT

Statement of Comprehensive Income for the year ended 30 June 2012

	Consolidated	
	2012	2011
	US\$000	US\$000
	-----	-----
Revenue	81,188	149,587
Cost of sales	(20,793)	(29,687)
Exploration & evaluation expenses	-	(18)
Administration expenses	(10,750)	(4,903)
Other expenses	(1,569)	(4,497)
	-----	-----
Profit before income tax expense	48,076	110,482
Income tax benefit/(expense)	1,108	(127)
	-----	-----
Profit attributable to members of the Company	49,184	110,355

Other comprehensive income, net of income tax:

Exchange differences on translation of foreign operations and other comprehensive income for the year	6,830	8,146
	-----	-----
Total comprehensive income for the year	56,014	118,501
	-----	-----

Overall operations:

Basic earnings per share (US\$ per share)	0.261	0.587
	-----	-----
Diluted earnings per share (US\$ per share)	0.260	0.585
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Statement of Financial Position as at 30 June 2012

	Consolidated	
	2012	2011
	US\$000	US\$000
	-----	-----
CURRENT ASSETS		
Cash & cash equivalents	12,468	62,431
Trade & other receivables	55,964	57,112
Inventories	14,643	8,136
Other current assets	707	509
	-----	-----
Total Current Assets	83,782	128,188
	-----	-----
NON-CURRENT ASSETS		
Property, plant & equipment	63,929	40,008
Exploration, evaluation & development expenditure	182,897	116,382
Deferred tax assets	1,632	78
	-----	-----
Total Non-Current Assets	248,458	156,468
	-----	-----

TOTAL ASSETS	332,240	284,656
CURRENT LIABILITIES		
Trade & other payables	14,876	7,704
Provisions	920	567
Total Current Liabilities	15,796	8,271
NON-CURRENT LIABILITIES		
Deferred tax liability	257	257
Provisions	520	239
Total Non-Current Liabilities	777	496
TOTAL LIABILITIES	16,573	8,767
NET ASSETS	315,667	275,889
EQUITY		
Issued capital	73,070	71,990
Reserves	23,760	14,879
Retained profits	218,837	189,020
TOTAL EQUITY	315,667	275,889

Statement of Changes in Equity for the year ended 30 June 2012

	Share Capital Ordinary US\$000	Retained Profits US\$000	Other Reserves US\$000	Foreign Currency Translation Reserve US\$000	Total US\$000
CONSOLIDATED					
Balance at 30 June 2010	70,906	97,642	1,834	5,044	175,426
<i>Comprehensive Income</i>					
Net profit after tax	-	110,355	-	-	110,355
Other comprehensive income	-	-	-	8,146	8,146
Total comprehensive income for the year	-	110,355	-	8,146	118,501
<i>Transactions with owners, in their capacity as owners, and other transfers</i>					
Shares issued during the period	779	-	-	-	779
Share options issued during the period in accordance with AASB 2 - share based payment	-	-	160	-	160
Transfer from Option Reserve to Share Capital	305	-	(305)	-	-
Sub-total	71,990	207,997	1,689	13,190	294,866
Dividends paid or provided for	-	(18,977)	-	-	(18,977)
Balance at 30 June 2011	71,990	189,020	1,689	13,190	275,889
<i>Comprehensive Income</i>					
Net profit after tax	-	49,184	-	-	49,184
Other comprehensive income	-	-	-	6,830	6,830
Total comprehensive income for the year	-	49,184	-	6,830	56,014
<i>Transactions with owners, in their capacity as owners, and other transfers</i>					
Shares issued during the period	789	-	-	-	789
Share options issued during the period in accordance with AASB 2 - share based payment	-	-	2,342	-	2,342
Transfer from Option Reserve to Share Capital	291	-	(291)	-	-
Sub-total	73,070	238,204	3,740	20,020	335,034
Dividends paid or provided for	-	(19,367)	-	-	(19,367)

Balance at 30 June 2012	73,070	218,837	3,740	20,020	315,667
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Statement of Cash Flows for the year ended 30 June 2012

	Consolidated	
	2012	2011
	US\$000	US\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	92,545	131,939
Payments to suppliers & employees	(30,354)	(36,244)
Interest received	370	808
Net cash provided by operating activities	62,561	96,503
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for plant & equipment	(26,353)	(9,429)
Payments for exploration & evaluation activities	(14,345)	(11,698)
Payment for development activities	(46,986)	(31,127)
Net cash (used in) investing activities	(87,684)	(52,254)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,079	779
Transaction costs from issue of shares	-	-
Payments for dividends	(19,367)	(18,977)
Net cash (used in) financing activities	(18,288)	(18,198)
Net (decrease)/increase in cash and cash equivalents held	(43,411)	26,051
Cash & cash equivalents at the beginning of the financial year	62,431	32,457
Exchange rate adjustment	(6,552)	3,923
Cash & cash equivalents at the end of the financial year	12,468	62,431

JORC COMPLIANCE - CONSENT OF COMPETENT PERSONS**Medusa Mining Limited**

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.

Cube Consulting Pty Ltd

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 Australian Institute of Geoscientists 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". 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.

Carras Mining Pty Ltd

Information in this report relating to Ore Reserves is based on information compiled by Dr Spero Carras, FAusIMM of Carras Mining Pty Ltd. Dr Carras has 30 years of experience which 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". Dr Carras consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DISCLAIMER

This announcement contains 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.

The full annual report and financial statements for the year ended 30 June 2012 are available on the Company's website (www.medusamining.com.au) and can be accessed via the following link:

http://www.rns-pdf.londonstockexchange.com/rns/9732K_-2012-8-29.pdf

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