DEEP YELLOW

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MIKADO GOLD MINE - UPDATE

The Mikado Gold Mine, near Laverton, Western Australia has been in production for over two months and performance to date can now be assessed.

As of May 20th, a total of 13,998 tonnes at 3.78 g/t gold has been mined as indicated by grade control, 13,240 tonnes has been trucked to Tarmoola and 11,337 tonnes have been crushed and processed. Gold recovery details are not yet available. This is approximately 10% of the total expected to be mined over the life of the project.

Ore recovered from the Mikado pit is currently approximately 18% below that indicated by the reserve model. This is due to mineralisation being less continuous than thought, a small overestimation of ore density and the absence of several ore blocks. Head grade indicated by grade control match reserve grades and reconciliation on the first 6,400 tonnes mined against mill head grades indicates that actual grades are 5% lower, this is probably due to greater than predicted mining dilution, especially on small ore blocks. Operating costs have been above budget due to a higher proportion of mining via drill and blast than estimated.

In the smaller Aztec pit, the grades and tonnages are significantly below reserve model predictions due to mineralisation geometry differing from the reserve model.

A number of measures have been implemented to improve performance:

- An RC grade control programme will be instituted at Mikado to better predict continuity of ore blocks, especially in the vicinity of historic stopes.
- Mining at Aztec has been temporarily suspended pending RC grade control drilling to confirm predicted high-grade blocks.
- Mining designs and schedules have been modified to focus on ore production within the Mikado starter pit to maximise cash flow.
- Improved geological understanding from mining, grade control data and RC grade control drilling will permit a re-evaluation of the reserve model and permit modifications to the mine plan.

The mine plan recognised that production at Mikado would be cash flow negative for the initial period of mining, however the tonnage shortfall has resulted in this period being longer than expected. The measures implemented should put the project on an immediate positive cash flow footing and the change in grade control method will permit better planning of production to maximise short-term cash flow.

- END -

PLEASE DIRECT ENQUIRIES TO:

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