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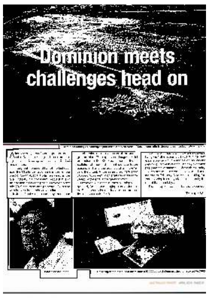

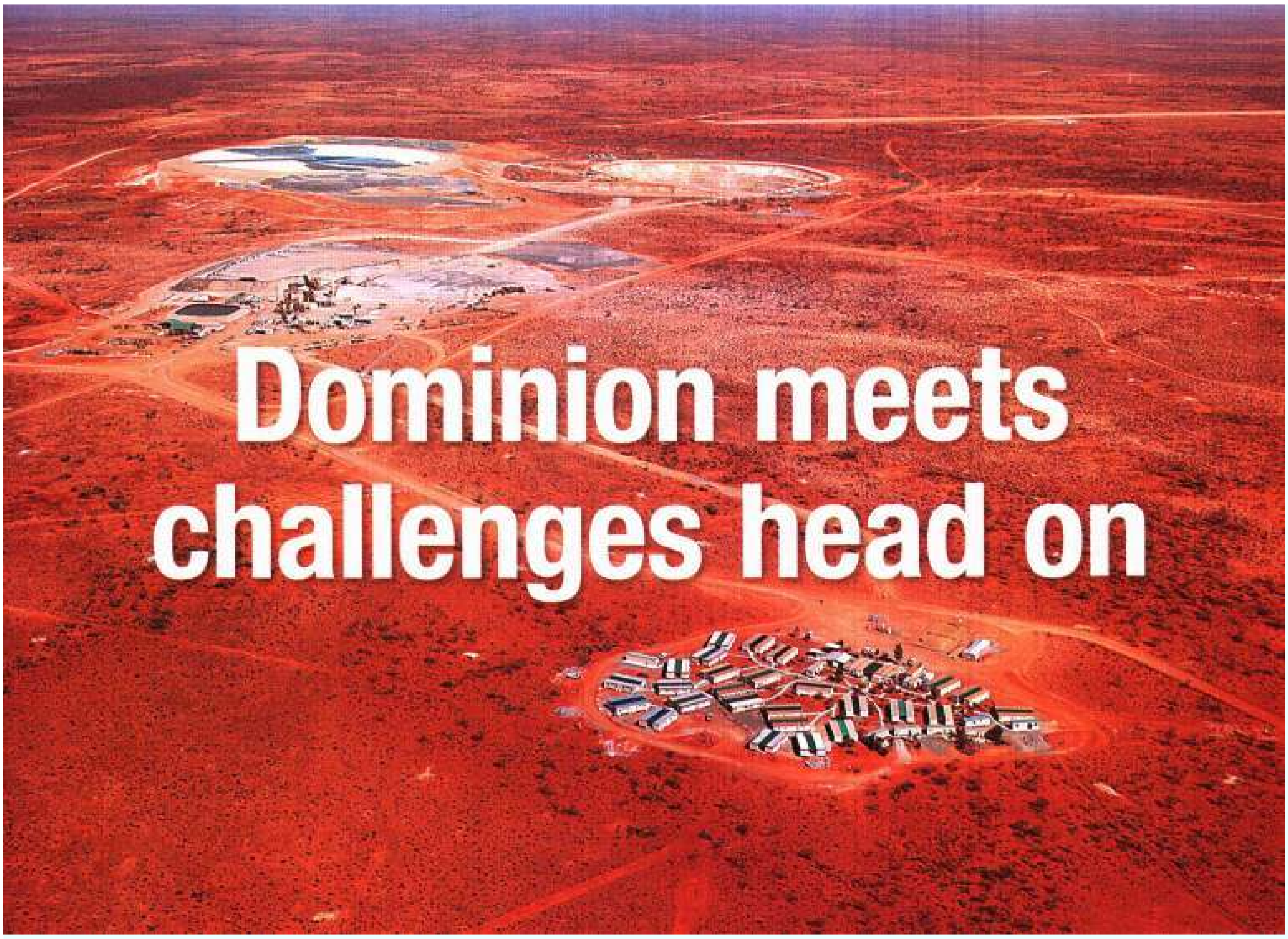

Dominion meets challenges head on

Dominion Mining's Challenger gold mine in the far west of South Australia is the nation's most remote mine site

After several years of serene production results, Dominion Mining Ltd's sole producing asset has lived up to its name in the last nine months.

Throughout the second half of the last decade, the Challenger gold mine in the remote west of South Australia was renowned in the gold industry for consistent production and an enviable cash cost profile. However, since mid-2009 the mine has presented Dominion with hurdles, both technical and financial.

In June of that year the company announced it had settled on an expansion of the underground mine. The expansion, designed to lift production to 120,000 ozpa comprised the installation of a second ball mill identical to the existing mill and the addition of a thickener onto the circuit. At the same time, installation of a new 760m ventilation shaft was to be completed by the end of the calendar year.

However, with those hurdles seemingly negotiated, Dominion managing director Jonathan Shellabear is looking forward to a productive and successful 2010.

"We are very happy with how the expansion has gone," Shellabear told **Paydirt**. "The plant expansion was on time and budget as was the installation of the thickener. The only exception has been the ventilation shaft which is running 3 ½ months late but even that was turned on at the end of February. Now we are looking forward to being in steady-state production by the end of the financial year."

The disruption caused by the expansion

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Jonathan Shellabear

Challenger has produced more than 550,000oz gold since production started in 2002

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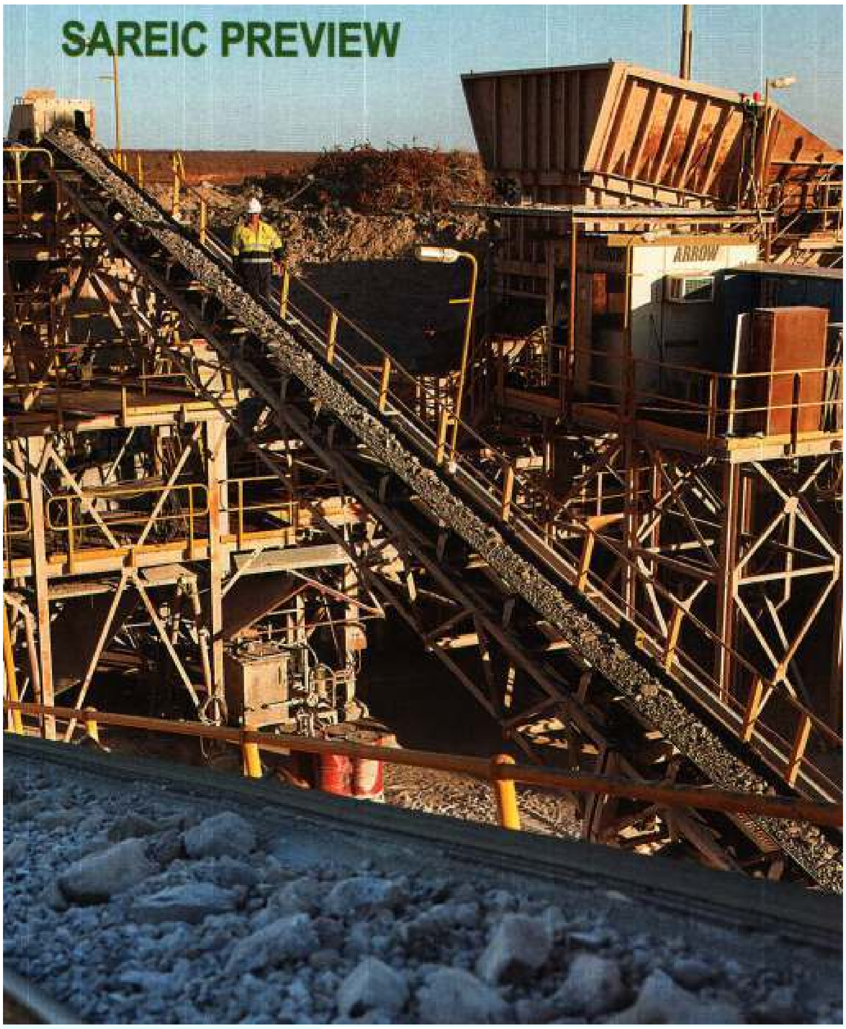

The plant has undergone an expansion to 120,000 ozpa capacity

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work – and in particular the delays in the ventilation shaft installation – inevitably impacted on Challenger's production performance, a problem magnified by questions posed by the orebody itself.

Through the period 2005-2008, the underground operation was producing 80,000-113,000 ozpa at cash costs of between $300 and $400/oz, at a time when others in the gold industry were struggling to break even in the face of ever-increasing input costs.

However, such impressive figures have been replaced over the last nine months by lower production figures and increasing cash costs. Dominion's December half-year report showed the dramatic changes in Challenger's production profile. Production was down to 37,687oz (from 52,283oz in the corresponding period in 2008) and operating cash costs were up 45% to $627/oz (from $431/oz).

Shellabear says the M1 shoot itself presented as many problems as the expansion and ventilation work. The last six months have seen M1, the operation's major source of ore feed throughout its life, return lower endowment in its lower levels which now reach 800m below the surface.

"The lower endowment at M1 certainly came as a surprise to us. Throughout its history the endowment has been cyclical in terms of tonnage and grade but this time around it is at a lower level than in the past. We are not running the business on the assumption that it will come back to those previous levels."

The Challenger expansion was always based on the M2 shoot becoming the main driver of production – with contributions down the line from other shoots – and somewhat ironically the coinciding of the lower endowment in M1 with the expansion programme may benefit the company in the longer term.

"In retrospect we have been lucky because at that stage we didn't know there was going to be lower endowment from M1. We needed to do the ventilation shaft anyway, even if not the expansion.

"It was perfect timing to do it really. Whenever you are looking forward you have to make assumptions but in hindsight I'm glad we did it when we did. It would maybe have been nice to do it six months previously but at that time we didn't have the information we needed on hand. For example when we committed to the expansion we had a better understanding of M2 which we had started stoping in July 2009."

The capital intensive period now over, Shellabear expects Challenger to improve its overall performance with a goal of reaching the 30,000oz per month production goal by the second half of the year.

On the ramp back up to full production, Shellabear says the company is starting on the back foot somewhat, but once at steady-state rates, he doesn't anticipate any further obstacles.

"The ventilation shaft means there is no ore sat at the plant. But we will ramp-up reasonably quickly and by the June quarter we expect to be in full production in terms of throughput for which we are looking at 1,800 tpd. The advantage we have is that we have two discrete mills, which mean if we have to do work on one, the second mill will not be affected. That means we are unlikely to ever have both mills down at the same time."

The company's forecast for the March quarter is 22,500oz before reaching 28,500oz in the following quarter.

"After that we will be up and around the 30,000oz mark throughout the second half of the year."

Those goals will be reached largely on the back of production from the M2 shoot.

"On the flipside to the problems in M1, M2 is getting better at depth, the gold endowment has essentially moved from one shoot to the other. Challenger is now a predominantly M2 producing mine with contributions from M1 and then M3 and other shoots."

The rough ride of the last nine months may seem in stark contrast to the plain sailing of Challenger's early years but Shellabear suggests underground gold mining can never be considered simple.

"Challenger is a complex orebody. It may seem all beer and skittles to the outside world but it is not. You need to be very focused and very much on your game. The guys on site have been very focused over the past few months, particularly with the changes to the mining schedule and so forth."

The issues surrounding performance at Challenger have inevitably led to an erosion in the Dominion share price – its 2009 high was $5.69 compared to around $2.70 at the time of print – but Shellabear is adamant that it was only his company's full and early disclosure of the problems being encountered that buffeted shareholders from further attrition.

"We flagged these issues early on – as far back as June – as soon as we were aware of them, and reiterated in the September quarterly that it would be a transitional period for Challenger. It is important for a publicly listed company to provide fulsome disclosure to the market and we certainly do that. We provide all of the relevant information. That is the job of the managing director, to keep the market fully informed.

"If we had kept that information quiet we would probably be at the same price today, however the fall would have been much more dramatic."

Shellabear is confident that with the plant back into ramp-up the share price has bottomed out and will see some appreciation in the coming months.

"We need to be in steady-state to prove that but we are very confident going forward. As you develop various levels your understanding

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Dominion's drill core farm is set to expand with more drilling planned at depth

improves as does your mining practices, which you can see over the last six months."

M2 contains about 60% of the 695,151oz of reserves at Challenger but the company has plans to increase those numbers with further underground drilling. The exploration team's main points of focus are the M3 and SEZ shoots.

"All of the drilling at Challenger is now underground. We stopped the surface drilling programme last year because resources were reverted back to the operational side of things."

The M3 shoot is already a small contributor to total reserves but may play a more significant role in the latter half of the year.

"We are actually preparing to stope M3 on the 560 level now and so that may come into the reserve at June 30. The reason we are stoping it is that if we don't take it now we won't get another opportunity until a lot later. We plan to start stoping it now and then we can go back to the M2 shoots.

"There are lots of little upsides like that around Challenger, ounces that just aren't in the reserves at this stage. For instance the SEZ shoot we have stoped on the 1020 level, even though it wasn't in the resource."

As well as the $5 million exploration budget for Challenger Dominion has similar commitments to its regional programmes, although Shellabear could barely hide his disappointment with the progress on the company's Challenger JV 12km to the south-east.

JV partner Southern Gold Ltd recently announced a maiden resource for the Golf Bore prospect. The inferred resource of 3.24mt @ 0.986 g/t for 102,583oz of gold failed to set pulses racing in the Dominion office.

"There are a number of conceptual targets that haven't been tested that we would like the exploration to focus on. The focus should be on those targets and not on the sub-economic resources such as Golf Bore."

While that deal may be failing to meet expectations for the time being, Dominion is still actively pursuing other opportunities. Shellabear is aware that the company could benefit from a second producing asset and says he has been on the lookout for some time.

"We came close a couple of times at the bottom of the market but unfortunately circumstances led to those deals not going ahead. The prime driver has to be the quality of the asset and whether we can reach a win-win outcome, which always has to be the case in any acquisition deal and, of course, whether or not it is value accretive for Dominion shareholders."

The search has been worldwide but Shellabear believes the most difficult part is finding value. "There are no bargains out there; in fact there are very few opportunities – that's the frustrating thing."

With gold projects attracting widespread interest, is it perhaps time for Dominion to spread its commodity focus?

"Gold is our principal focus; we would maybe look at copper-gold projects as well. It is highly unlikely that we would look outside our core commodities, although if something fell into our lap we would always consider it."

Such statements suggest Dominion shareholders won't be waking up to find they were no longer leveraged to the gold price but instead being led into a coal or uranium play in Central Asia any time soon.

"We are conscious of the need to have a second producing asset but we are patient and we are prepared to bide our time," Shellabear said.

It is a virtue that has served the company well in eight years at Challenger.

– Dominic Piper