MEDUSA

MEDUSA MINING LIMITED

ABN 60 099 377 849

Consolidated Entity

ANNUAL REPORT

2010

CONTENTS

Appendix 4E

Preliminary final report
Period ending 30 June 2010

Name of entity

MEDUSA MINING LIMITED

ABN or equivalent company reference	Half yearly (tick)	Preliminary final (tick)	Half year/ financial ended ("current period")
60 099 377 849		√	**30 June 2010**

Results for announcement to the market

Revenues and profits:				US$'000
Revenues from ordinary activities	up/~~down~~	121%	to	94,589
Profit from ordinary activities after tax attributable to members	up/~~down~~	131%	to	65,812
Net profit for the period attributable to members*	up/~~down~~	131%	to	65,812

* As a result of a timing issue, bullion awaiting shipment at year end that relate to current year's production has been re-classified from revenue to inventory at cost to comply with Australian Accounting Standards. This timing issue has had a material reduction of US$5.893 million to current year's profit. Refer Note 6 under Notes to the Financial Statements of the Company's consolidated financial statements for the year ended 30 June 2010 which accompany this report. Subsequent to year end the bullion has been shipped in July 2010 and proceeds relating to the sale has been received.

(All comparisons to the previous period ended 30 June 2009)

Dividends:

There was no dividend declared or paid in the previous period and the Directors have not recommended the payment of a dividend in respect of the current period.

Net tangible assets per share:

The net tangible assets per share as at 30 June 2010 was US$1.011 (30 June 2009: US$0.694)

Change in control of entities:

There has been no change in control, either gained or loss during the current period.

Associates and Joint Venture entities:

The Consolidated Group did not have a holding in any associates or joint venture entities during the period.

Other information:

This report is based on accounts which have been audited.

Except for the matters noted above, all disclosure requirements pursuant to ASX Listing Rule 4.3A are contained within the Company's consolidated financial statements for the year ended 30 June 2010 which accompany this report.

CORPORATE DIRECTORY

DIRECTORS

Peter Rhys Jones (Non-Executive Chairman)

Geoffrey John Davis (Managing Director)

Peter Gordon Hepburn-Brown (Operations Director)

Roy Philip Daniel (Finance Director)

Dr Robert Maurice Weinberg (Non-Executive Director)

Andrew Boon San Teo (Non-Executive Director)

COMPANY SECRETARIES

Mr Peter Stanley Alphonso

Mr Roy Philip Daniel

AUSTRALIAN BUSINESS NUMBER (ABN)

60 099 377 849

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Email: mail@sayce.org

STOCK EXCHANGE LISTINGS

- Australian Stock Exchange Limited (ASX) (Home Exchange)
- Alternative Investment Market (AIM, London)
- Toronto Stock Exchange (TSX)

ASX & AIM code: MML; TSX code: MLL

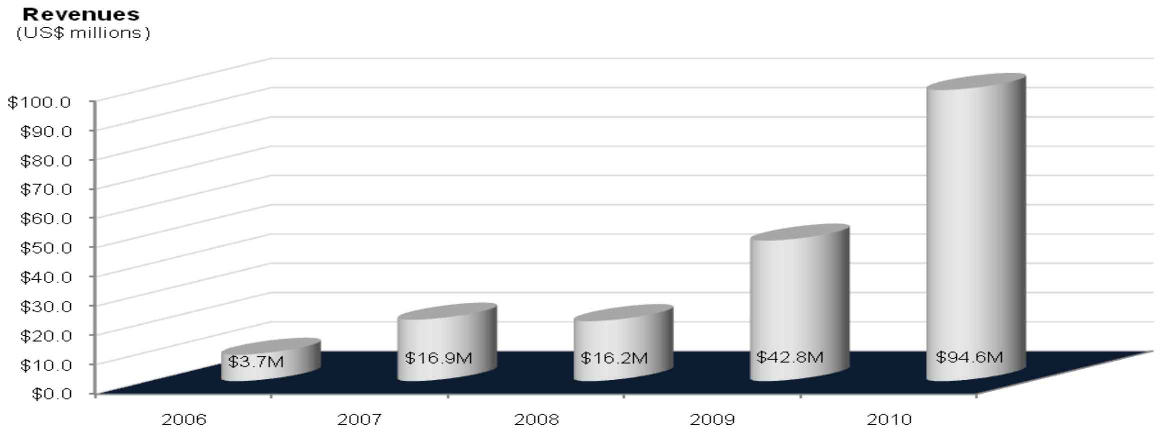
HIGHLIGHTS OF THE FINANCIAL YEAR

FINANCIALS

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US$73.7 million, up 142% (*adjusted underlying EBITDA of US$79.6 million, up162%*)
- Earnings per share ("EPS") of US$0.378 on a weighted average basis, based on net profit after tax ("NPAT") of US$65.8 million, up 102% (*adjusted underlying EPS of US$0.412, up 120% based on adjusted underlying NPAT of US$71.7 million*)
- Revenues increased 121% to a record US$94.6 million, due to increased gold production and a higher price received on sale of gold. Medusa is an un-hedged gold producer and received an average gold price of US$1,100 per ounce from the sale of 64,020 ounces of gold for the year (*adjusted underlying revenues totalled US$102.2 million, up 139%*)

Item	Jun 2010	Jun 2009	Variance
Revenues	US$94.6M	US$42.8M	121%
EBITDA	US$73.7M	US$30.4M	142%
Adjusted underlying EBITDA*	US$79.6M	US$30.4M	162%
NPAT	US$65.8M	US$28.5M	131%
Adjusted underlying NPAT*	US$71.7M	US$28.5M	152%
EPS	US$0.378	US$0.187	102%
Adjusted underlying EPS*	US$0.412	US$0.187	120%

* As a result of a timing issue, bullion awaiting shipment at year end that relate to current year's production has been re-classified from revenue to inventory at cost to comply with Australian Accounting Standards. This timing issue has had a material reduction of US$5.893 million to current year's profit. Refer Note 6, under Notes to the Financial Statements. Subsequent to year end the bullion has been shipped and sold in July 2010 and proceeds relating to the sale has been received.

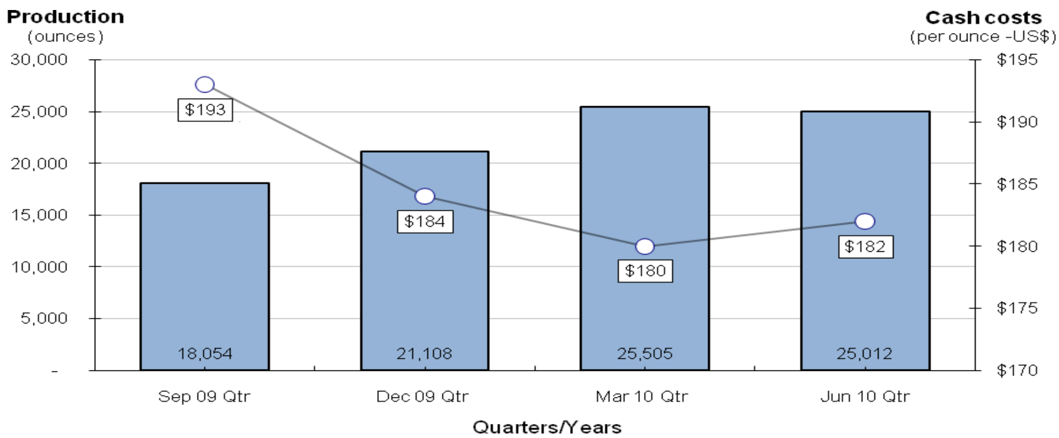


- The Company remains debt free and had total cash and bullion of US$55.8 million at year end (2009: US$26.5 million). *The adjusted underlying cash and bullion figure at year end was US$63.4 million*.

OPERATIONS

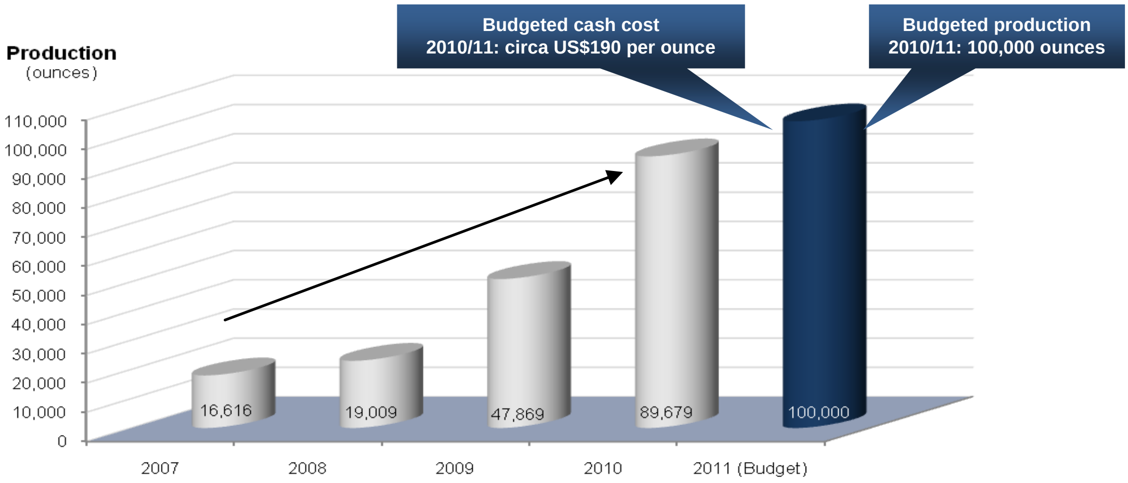
Co-O MINE

- The Company produced a record 89,679 ounces of gold for the year, an increase of 41,810 ounces or 87 % from the previous year's production of 47,869 ounces, at an average grade of 16.52 g/t gold (2009: 13.30 g/t gold) and cash costs* of US$184 per ounce (2009: US$213 per ounce).



* Cash costs refers to the cost of gold produced (net of development costs) and includes royalties and local taxes of US$46 per ounce for the year (2009: US$40 per ounce)

HIGHLIGHTS OF THE FINANCIAL YEAR

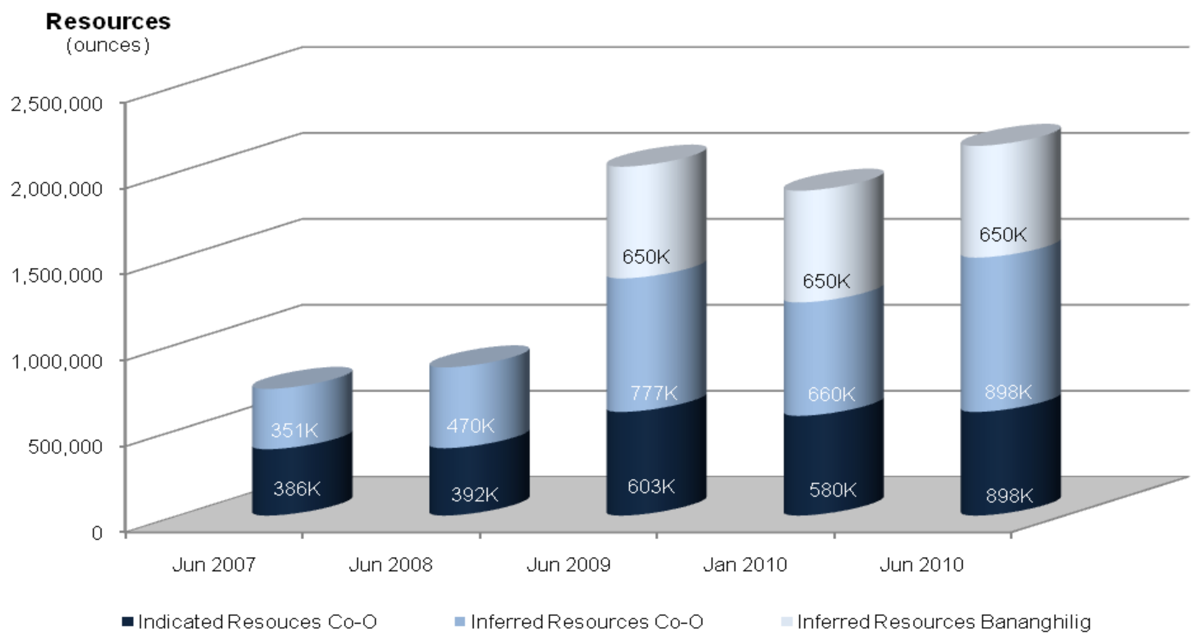


- The budget for the forthcoming fiscal year is to produce 100,000 ounces at cash costs of around US$190 per ounce

RESERVES AND RESOURCES

Co-O Reserves	Jun 2010	Jun 2009	Variance
Probable reserves	505,000	500,000	5,000
Co-O Resources	**Jun 2010**	**Jan 2010**	**Variance**
Indicated resources	603,000	580,000	23,000
Inferred resources	898,000	660,000	238,000
Bananghilig Resources	**Jun 2010**	**Jul 2009**	**Variance**
Inferred resources	650,000	650,000	-

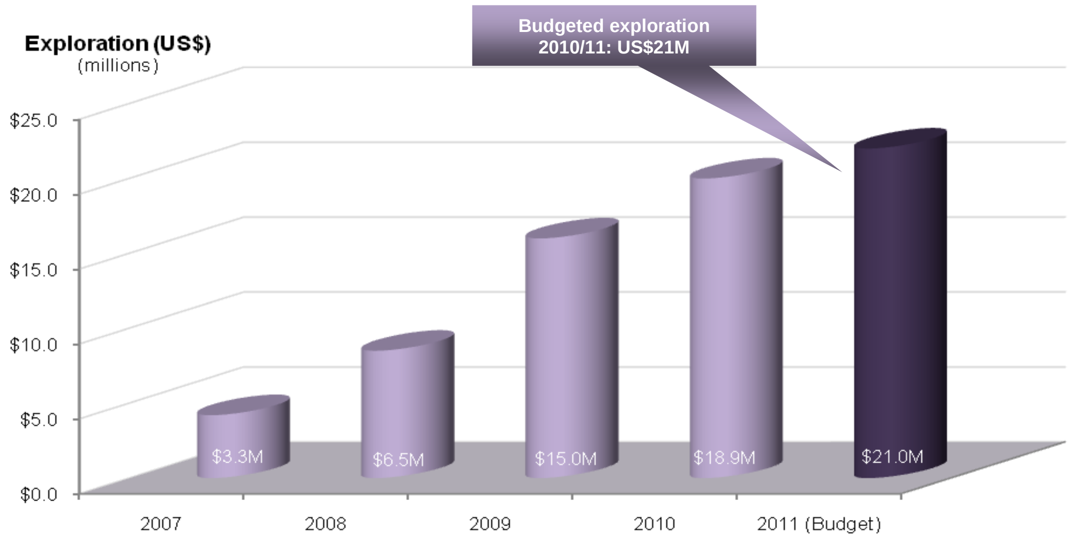
- Gold reserves at Co-O increased marginally to 505,000
- Co-O's gold resource at year end comprised of 603,000 indicated resource ounces and 898,000 inferred resource ounces, representing increases of 23,000 ounces and 238,000 ounces within the indicated and inferred categories respectively



HIGHLIGHTS OF THE FINANCIAL YEAR

EXPLORATION

- Contiguous tenement package maintained at >800km^2;
- Budgeted exploration for 2011 fiscal year of $21.0 million (2010 actual: US$18.9 million);
- Exploration highlights at **Co-O** include:
  - discovery of new veins and extensions to known veins;
  - extension along strike to approximately 1,500 metres;
  - extension across strike to approximately 500 metres;
  - demonstrating that mineralisation extends to over 500 metres below the mine's adit entrance; and
  - estimation of a Conceptual Exploration Target ** for the Co-O Mine of between 3 and 7 million ounces of gold



- At the **Bananghilig** disseminated gold deposit, drilling has commenced prior to establishing reserves as a basis for a feasibility study;
- At the **Lingig** copper prospect, drilling has identified a coherent body of basalt-hosted mineralisation requiring further drilling;
- Scout drilling is being planned at the newly discovered **Usa** copper-gold porphyry target; and
- At Saugon, re-drilling of the First Hit Vein is in progress

** 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.

MANAGING DIRECTOR'S REVIEW

Dear Shareholder,

This year has been both challenging and exciting in terms of growth with the Company completing a two phase expansion program on schedule in the March 2010 quarter, whilst producing a record 89,679 ounces of gold for the year at average cash costs (net of development costs, but inclusive of royalties and local taxes) of US$184 per ounce.

The Company is in the fortunate position of being a low cost gold producer in an economic climate where gold is trading near record highs. The margins generated from gold sales, as evidenced by the record adjusted underlying profit of US$71.7 million, will enable Medusa to fund ongoing development at its flagship Co-O Mine as well as continue its extensive exploration programme.

The Board's ambition is to grow into a mid-tier gold mining company producing 300 to 400,000 ounces per annum. We intend to achieve this objective via organic growth as we believe our landholding sits within one of the most prospective mineralised regions in the Philippines.

Medusa has aggressive exploration programmes in place to achieve that goal, having spent just under US$19 million to 30 June 2010 and we have budgeted US$21 million in the forthcoming year. The 12 surface rigs currently operating will be split between the Co-O Mine and surrounds, the Saugon Project, the Bananghilig Project and we also anticipate initial exploratory drilling at the Usa copper-gold porphyry prospect.

Work at the Co-O Mine has achieved our year’s objectives of increasing the global resources to approximately 1.5 million ounces and of maintaining the mine’s reserves at around 500,000 ounces. The plan going forward is to maintain resources and reserves at these current levels.

A conceptual exploration target for the Co-O Mine was estimated during the year at between 3 million and 7 million ounces over the life of the mine. This conceptual target size indicates that the Co-O Mine could be a long-lived asset providing funding for future growth.

Copper exploration continued during the year with drilling outlining a coherent body of mineralisation at Lingig which has potential to grow. Regional exploration discovered the Usa prospect where indications of a substantial copper-gold porphyry target have been identified.

Financially the Company is in a sound position, being debt free, un-hedged and with an extremely healthy cash and bullion balance. This year’s excellent adjusted underlying financial results set the benchmark for continued strong future earnings.

The Company continued its strong commitment to community programmes during the year by expanding education and agricultural programmes and initiating large-scale re-forestation using rubber plantations. With regards to education, of particular note is the provision of 11 classrooms at the Manabo Village School adjacent to the Co-O Mine, and providing a school bus service to enable high school students from the more remote areas to attend school on a regular basis.

The Company continuously reviews and updates work practices and procedures through training programmes with the objective of providing a safe working environment for all its employees and contractors.

Medusa has continued to evolve corporately with listing on the TSX achieved in late November 2009 and is currently awaiting approval from the UKLA to list on the Main Market of the LSE. During the year we have strengthened the Board and I welcome Peter Jones as Non-Executive Chairman, Peter Hepburn-Brown who joined initially as a Non-Executive Director and has recently become Executive Director - Operations, and Andrew Teo as a Non-Executive Director.

In closing, I would like to thank my fellow Directors, the dedicated leadership of Sammy Afdal and his management team and all employees and contractors in the Philippines and the small team in Perth who have worked tirelessly during the year to help the Company meet its objectives. We also express our sincere gratitude to the local communities and the relevant government agencies in the Philippines for their continued support.

Geoff Davis
Managing Director

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

HIGHLIGHTS

"The Company achieved record gold production, reached the 100,000 ounce annualised production milestone on schedule, increased the Co-O global resource base, and commenced work for potentially a second gold mining operation at Bananghilig."

The Co-O operation:

- produced 89,679 ounces of gold;
- achieved cash costs of US$184 per ounce (including royalties and local taxes of US$46 per ounce);
- completed on schedule, the Phase II expansion (to take production to 100,000 annualised ounces); and
- completed on schedule the expansion of the mill crushing circuit to 1,000 tonnes per day capacity.

At the Bananghilig Deposit:

- extensive geological field work around the current Inferred mineral resource of 650,000 ounces of gold at a grade of 1.3 g/t gold in 15,000,000 tonnes has resulted in a number of targets on which drilling has commenced with the aim of completing a feasibility study by late 2011.

On the Exploration front:

- the Lingig copper prospect drilling continued to return wide intersections of good grade within a basalt–hosted body and encouraging results in a porphyry-style setting;
- at the Usa prospect a new porphyry copper-gold target was discovered;
- at the Saugon prospect drilling is in progress at the First Hit Vein which returned encouraging drill results in 2004; and
- the Company has maintained its exploration area of more than 800 km^2.

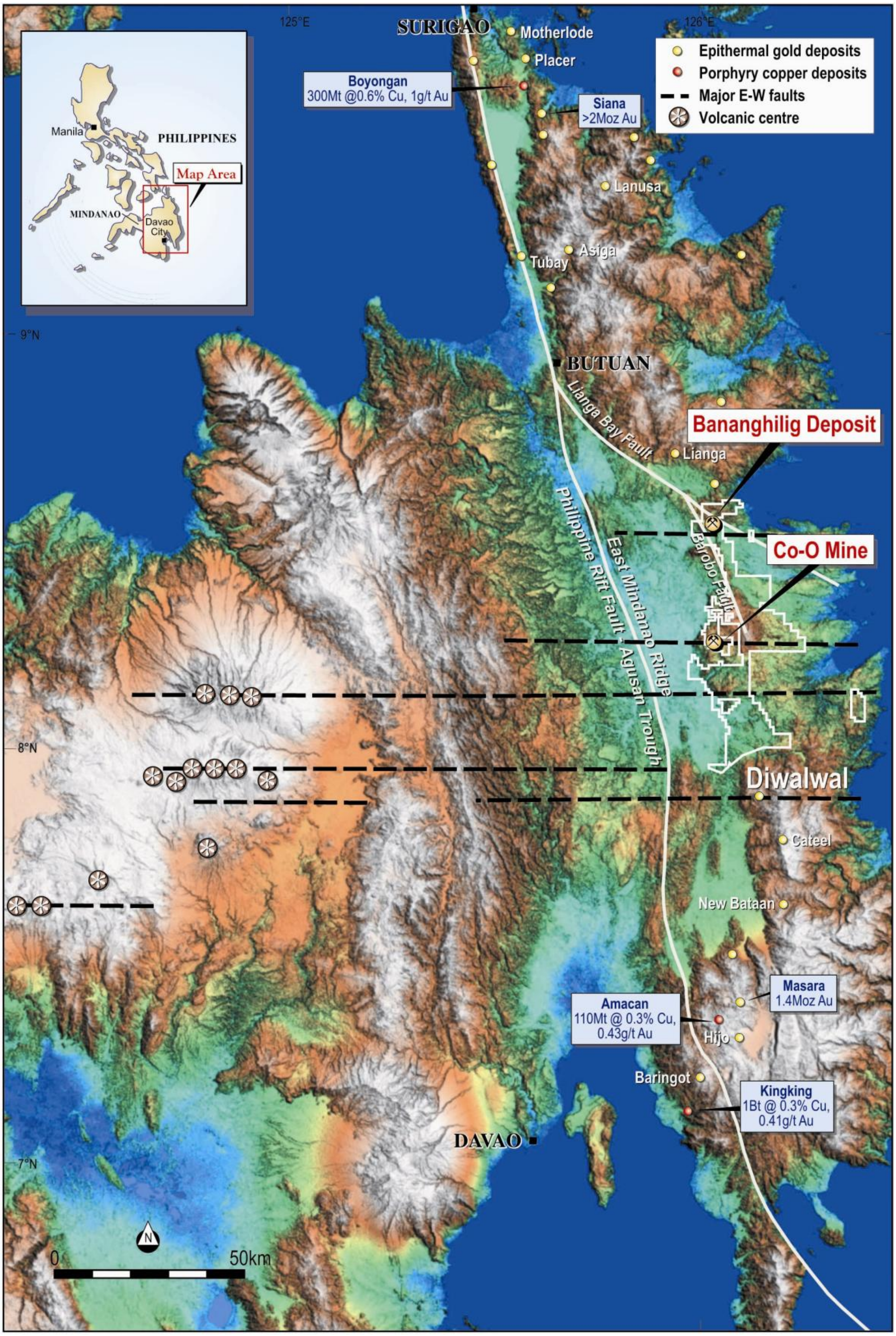


Figure 1: Locations of the Company's tenements.

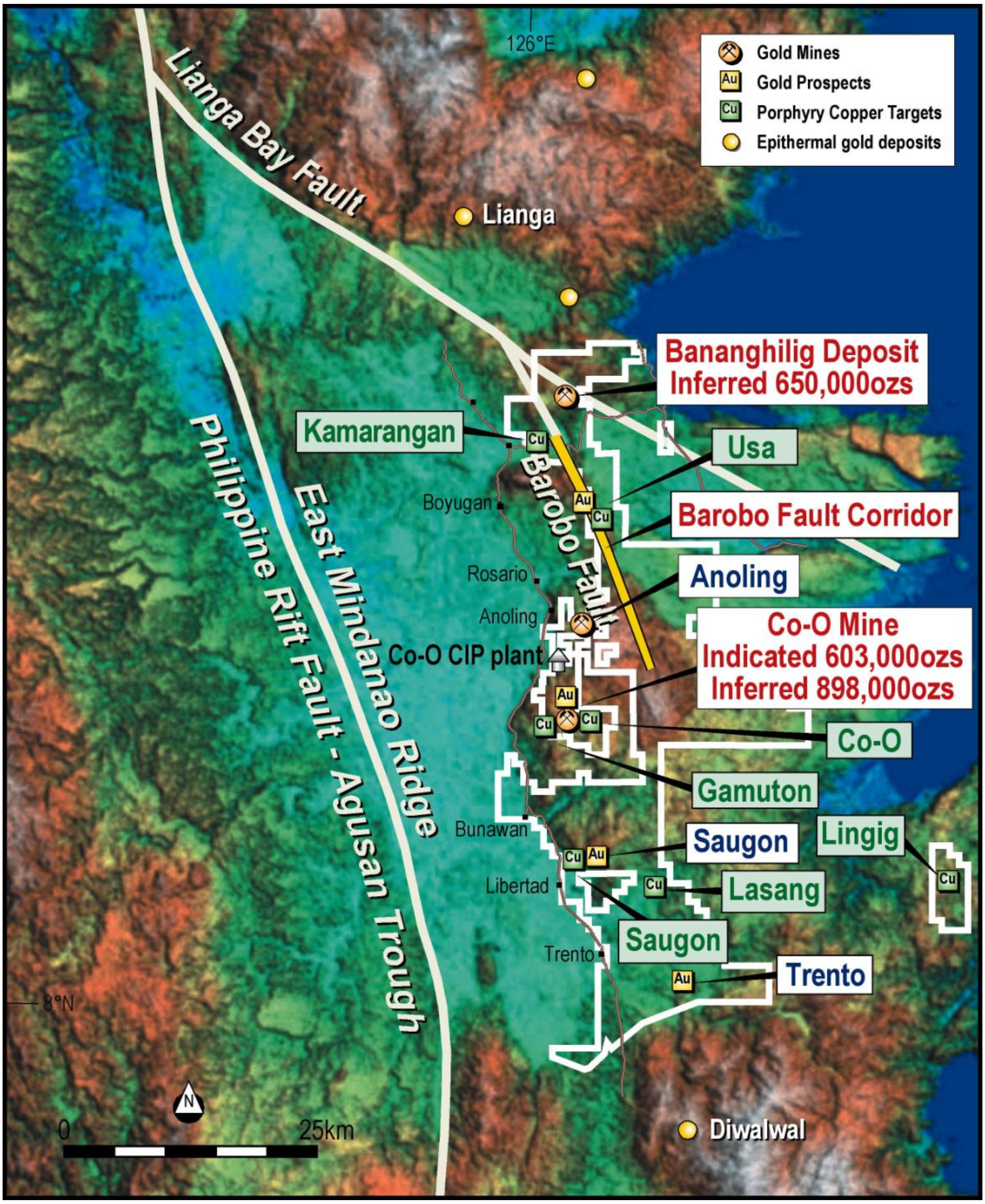


Figure 2: Tenement location map showing the mines and prospects (Note: excised areas east of Co-O mine and mill are small scale mining reservations).

CO-O OPERATIONS

GOLD PRODUCTION

"The Phase II expansion to 100,000 annualised ounces was completed on schedule in the March 2010 quarter with record production of 89,679 ounces for the full year."

Table I. Gold production statistics for financial years ended 30 June 2009 and 2010

Period	Unit	Year ended 30 June 2010	Year ended 30 June 2009
Tonnes mined (1)	wet tonnes	198,693	126,853
Ore milled	dry tonnes	179,609	116,451
Recovered grade	gpt	16.52	13.30
Recovery	%	94%	93%
Gold produced (2)	ounces	89,679	47,869
Cash costs (3)	US$	$184	$213
Gold sold	ounces	64,020	47,869
Average gold price received	US$	$1,100	$880

Notes:

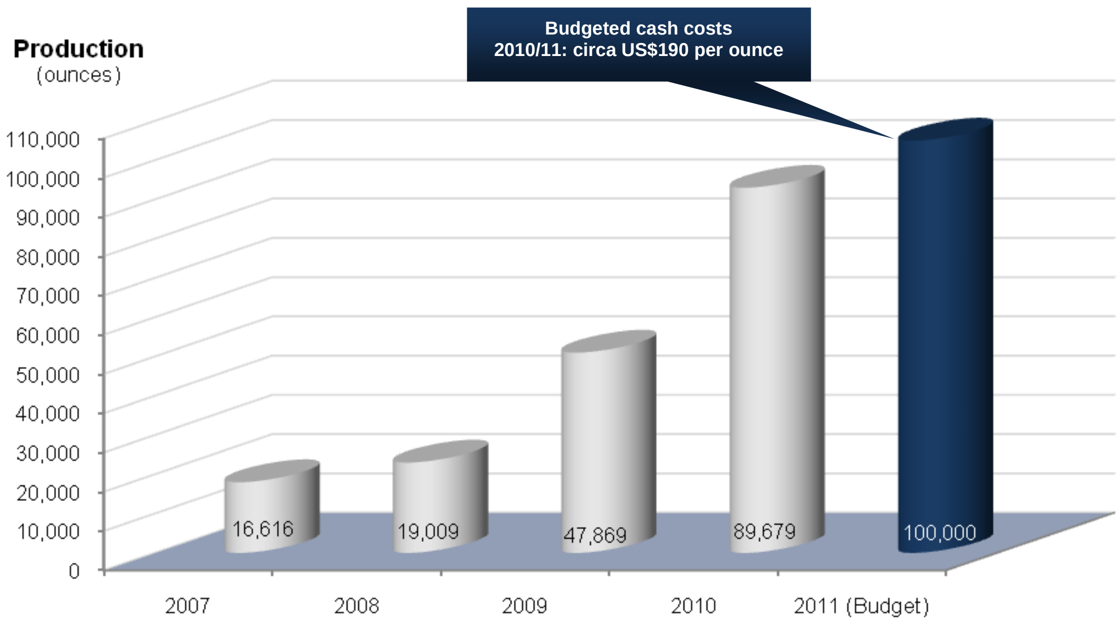
(1) The moisture content in wet tonnes range between 6 to 7%

(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

(3) Cash costs refers to the cost of gold produced (net of development costs) and includes royalties and local taxes of US$46 per ounce for the year (2009: US$40 per ounce)

The Company produced a record 89,679 ounces of gold for the year, an increase of 41,810 ounces or 87% above the previous year's production of 47,869 ounces, at a recovered grade of 16.52 g/t gold (2009: 13.30 g/t gold) and cash costs of US$184 per ounce (2009: US$213 per ounce)

With the expansion programme now completed the Company expects to produce approximately 100 000 ounces in the forthcoming fiscal year at cash costs circa US$190 per ounce (including royalties and local taxes). Annual historical production is shown in Graph 1.



Graph 1. Co-O annual production graph (actuals for fiscal years 2007 to 2010 and budget for 2011)

REVIEW OF OPERATIONS

Co-O MINE EXPANSION

Work on the Phase II expansion to increase production to 100,000 ounces (annualised) was completed on schedule in the March 2010 quarter.

Co-O OPERATIONS

Mine Operation

The Co-O Mine is a rail or tracked mine utilising battery driven electric locomotives and 1.2 to 1.5 tonne mine cars. The mine now operates using two adits, three inclined 60º internal shafts (8E, 10W and 3W) and two inclined external shafts (Agsao and Baguio) as marked on Figure 4. A fourth internal inclined shaft, the 6W Shaft, to a vertical depth of 50 metres has been completed from Level 5 to Level 6, and development is commencing on Level 6. A shaft location hole for a ventilation shaft has been drilled, the Mid Royal Shaft, and work will commence shortly.

Each fully timbered shaft has two and a half compartments comprising a ladder way, service compartment and a haulage way. Each shaft is equipped with a steel head frame and an electric winder. Rails have been installed on the lower side of each shaft up which 1.2 tonne and 1.5 tonne skips are hauled by an electric winder.

Conventional airleg or jackleg mining is used for level development and in narrow vein shrink stopes (which are backfilled with waste where possible). As the mine develops and wide zones with good strike lengths of vein material are located, long hole stoping is being used.

Mine Development

Rail level development of Levels 1 to 5 has proceeded during the year at approximately 500 metres per month. The levels are developed every 50 metres vertically. A new shaft, the 6W Shaft, from Level 5 to 6 was completed to depth in July 2010 and level development has commenced on Level 6. The Ventilation Shaft was completed and equipped with a haulage skip for hauling material derived from above Level 1.

A new vertical shaft (Proposed Mid Royal Ventilation Shaft) location hole has been drilled to 500 metres to the north of the two adit entrances (Fig. 4). Work has commenced on the surface preparations and shaft sinking is expected to commence soon.

Stoping and Development Production

Stoping during the year was carried out mainly on the Central, Great Hamish and Jereme veins. Stoping ore provided 50-70% of the mill feed.

Level development at the rate of approximately 500 metres per month is required to maintain a steady-state stope development cycle. Development ore from level development (which converts Inferred Resources to Indicated Resources which are then used to estimate the Probable Reserves) provides 30-50% of the mill feed.

The grade and ounces required to meet production targets are achieved by blending development ore with stope ore. It is planned that blending will maintain a mine head grade range of between 12 and 15g/t gold for the next fiscal year.

Mill Expansion

The installation of new primary, secondary and tertiary crushers in combination with a washing and screening plant were completed. Two fine ore bins were also completed which hold approximately 800 tonnes each. The plant was commissioned in the March 2010 quarter resulting in average daily throughput increasing by 46% in the June quarter to 660 tonnes per day from 454 tonnes per day and during the September quarter 2010 is anticipated to have a through put of 700 - 750 tonnes per day.

A thickener was completed in August 2010. During the coming year additional water storage tanks and two additional leach tanks are planned to be constructed.

Power

The mine and mill have been running on a combination of diesel and grid power due to overloading on the rural line supplying the project. A dedicated line to the project is under construction and expected to be completed during the December quarter 2010. Back-up diesel generators will remain in place after completion of the power line.

Tailings Dams

During the year construction of a 3 year tailings dam and an 8 year tailings dam were completed.

Co-O MINE RESOURCES

"Since 9 December 2009, the Co-O Mine Indicated Resources have increased by 4% to 603,000 ounces at 13.2 g/t gold (from 580,000 ounces) and the Inferred Resources have been increased by 36% to 898,000 ounces at 9.6 g/t gold (from 660,000 ounces)."

Re-estimation of the Co-O Mine resources (announced on 22 Jul 2010) resulted in the following:

Table II: Co-O Mine Resources as at 21 June 2010

Category	> 0 g/t gold		
	tonnes	g/t gold	ounces
Indicated	1,418,000	13.2	603,000
Inferred	2,905,000	9.6	900,000

Notes:
- A lower cut-off of 0 g/t gold has been applied
- Variable upper cuts up to 200 g/t gold has been applied to different veins
- Rounding to the nearest 1,000 may result in some slight discrepancies in totals

A total of 45 veins of varying sizes have now been modelled, many of which have the potential to become larger with more drilling and development.

It should be noted that a number of drill holes in a number of areas as indicated on Figure 4 are still to be included in resource estimates, and underground drilling will become more focused in some of these areas, and in some cases, in combination with development.

It is intended that future resource estimates will be undertaken annually in June/July.

Specific gravity

A programme of over 1,000 specific gravity ("SG") measurements has been completed on vein samples from drill core and rock samples. An SG of 2.62 is now used compared to 2.45 in previous resource estimates. The effect is that previous resource numbers have been under-estimated by approximately 7%.

Vein modelling

The 3D model of the veins in Figure 3 shows a strike persistent vein system which is open at depth and possibly east at depth and west beyond the Tinago Fault.

Cube Consulting Pty Ltd of Perth, Western Australia was contracted to undertake the resource estimations. A wireframe model of the vein system and the mine depletions were based on all available information as at 21 July 2010. A 2D longitudinal modelling approach was used and is based on an accumulation variable incorporating mineralised vein horizontal width and intercept grade. Variography was used to analyse the spatial continuity of the horizontal width and accumulation variables within the mineralised veins and to determine appropriate estimation inputs to the interpolation process. The accumulation variables were interpolated into blocks using Ordinary Kriging. High grade limits were applied to gold prior to the calculation of the accumulation variable. Mineral resources have been reported in accordance with The 2004 Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

REVIEW OF OPERATIONS

Co-O MINE RESERVES

"Since June 2009, the Co-O Mine reserves have been increased marginally to 505,000 ounces at 10.7 g/t gold."

The Probable Reserve as at 21 June 2010, now stands at 505,000 ounces contained in 1,465,000 tonnes at 10.7 g/t gold.

Conversion of resources during the year has maintained the Probable Reserve at a slightly higher level than that announced in July 2009 of 500,000 ounces at 14.9 g/t gold in 1,041,000 tonnes. This Probable Reserve will allow an approximate 5 year mine life at a production rate of 100,000 ounces per year.

Crosscut Consulting of Queensland, Australia was contracted to complete a reserve estimation based on the resource wireframe model provided by Cube Consulting Pty Ltd.

The Probable Reserve was estimated from an Indicated Resource of 1,418,000 tonnes at 13.2 g/t gold containing 603,000 ounces of gold. The estimate was based on a gold price of US$900 per ounce and a stope cut-off grade of 2.62 g/t gold.

Compared to the information available at the time of the previous reserve estimate at 14 June 2009, the reserve grade has reduced primarily due to:

- The Indicated Resource grade has reduced from 15 g/t gold as at 14 June 2009 to 13.2 g/t gold as at 21 June 2010, primarily due to the addition of more veins into the resource estimate, and the re-interpretation of the 3D vein model reported on 18 January 2010 which resulted in the reduced influence of the Catto Veins;
- The stope cutoff grade has been reduced from 3.3 g/t gold contained in the 17 August 2009 announcement to 2.62 g/t gold due to reduced average cash costs per ounce being US$213 for the year ending 30 June 2009 to US$184 for the year to 30 June 2010. This results in lower grade material being included in the reserve;
- Development during the year has added material from more veins, reducing the influence of the high grade veins; and
- Some of the new veins added to the reserve estimate are narrower than the minimum stoping width of 1.2 metres assumed for the reserve estimate, hence additional dilution has been introduced, particularly during on-vein level development.

Co-O EXPLORATION

Resource Drilling

Surface diamond drilling continued with holes between MD 165 to 260 completed for 52,437 metres and 4,865 metres in underground drilling. The 3D model developed during resource estimations for the vein system is shown in Figure 3 and a composite vein plan derived from the 3D model at Level 5 is shown in Figure 4. Announcements dated 9 December 2009, 29 March 2010 and 30 June 2010 contain details of the drill hole intersections achieved during the year.

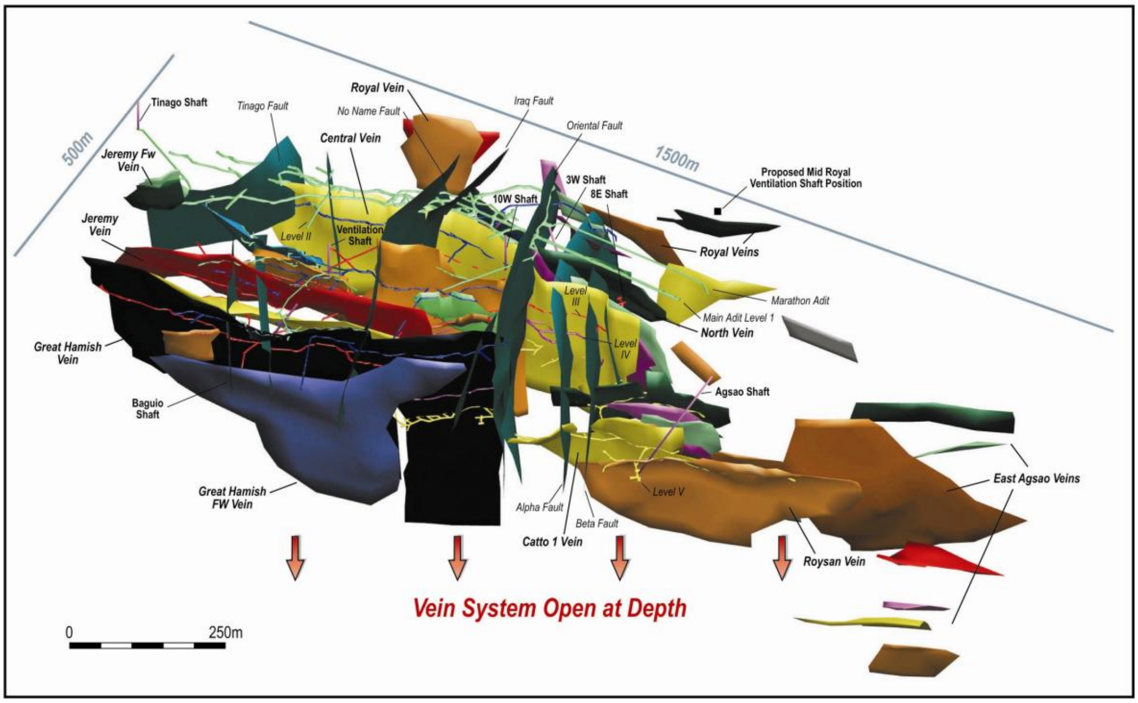


Figure 3. Co-O Vein 3D model.

"The drilling continues to expand the Co-O Vein system along a strike length of approximately 1,500 metres and across strike to approximately 500 metres wide, with new veins recently discovered along the north side of the vein system."

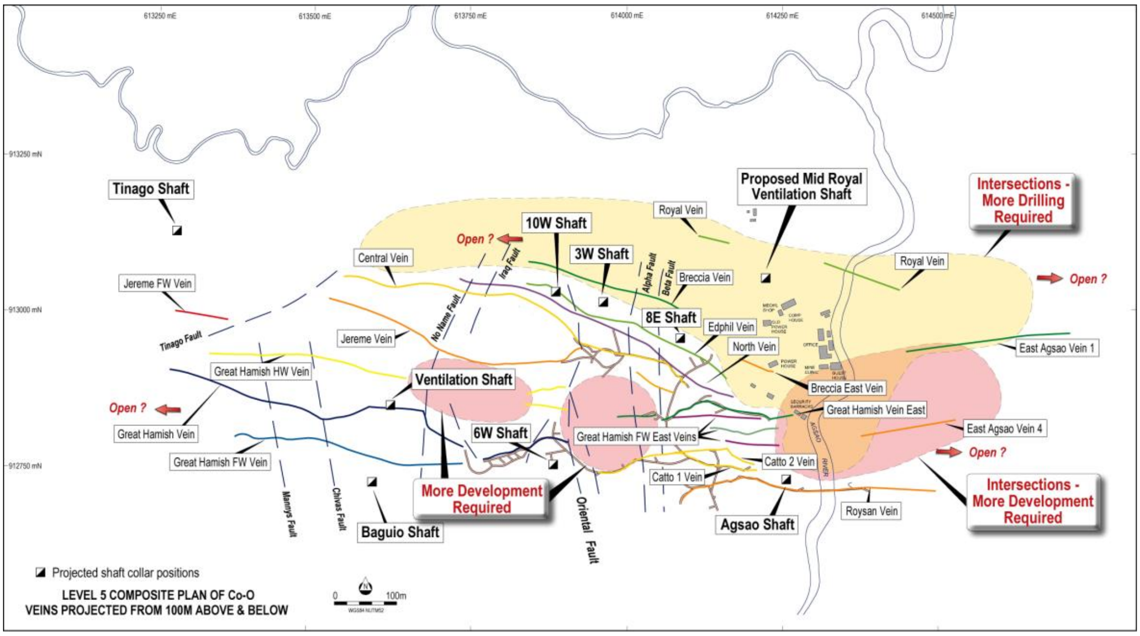


Figure 4. Composite vein map shows a Level 5 plan of the Co-O Mine.

REVIEW OF OPERATIONS

Co-O Mine Geology

The Co-O narrow vein underground gold mine consists of dominantly westerly trending, sub-vertical and lesser 30-50º dipping quartz vein sets within andesitic volcanics. The vein system is cut by north-northwesterly trending reverse faults of limited displacement (Fig. 4).

Drilling has now defined high grade mineralisation in multiple veins over a strike length of approximately 1.4 kilometres within a potential strike length of approximately 2 kilometres.

Quartz vein ore is typically grey to white quartz, colloform banded chalcedony and calcite vuggy in places and containing rare pyrite, galena and sphalerite as disseminated grains and cavity fillings. Gangue minerals may include calcite, barite and quartz crystals in open vughs. All gold is sub-microscopic.

Alteration of the wall rocks is generally argillic with fine grained pyrite and in some areas, silicic alteration. Other important features are:

- The Co-O veins are comprised of two gold bearing phases, the first being a quartz-chalcedony ± calcite phase deposited at a temperature of approximately 180ºC, and a second phase comprising blocky calcite-quartz ± barite likely deposited from boiling fluids in a temperature range of 200 to 250ºC, and
- The top of the Co-O mineralisation formed most probably within 300 metres of the surface and therefore the veins are essentially fully preserved (meaning the veins have been subjected to minimal erosion only). This implies that to date the drilling is in the upper parts of the vein system and that the vein system is still open at depth.

As announced on 30 June 2010, a possible new vein(s) discovery is indicated by intersections to the north of the Royal Vein which have been returned from MED 244 (0.40 metres at 17.20 g/t gold and 1.00 metre at 3.14 g/t gold), MED 252 (0.25 metres at 16.87 g/t gold and 0.20 metres at 16.11 g/t gold), and EXP 028 (0.35 metres at 10.59 g/t gold, 1.00 metre at 1.37 g/t gold and 0.20 metres at 2.39 g/t gold) in conjunction with a deep intersection in MD 68 which intersected 3.10 metres at 15.37 g/t gold at approximately 500 metres below Level 1 (announced 3 June 2008).

Research

A detailed study of the Co-O Mine and surrounds commenced in August 2008 through a two year agreement with the Centre for Exploration Targeting at the University of Western Australia. The final report for this work is expected during the September quarter 2010. This work has included temperature measurements and mineralogy and petrology studies for the Co-O vein system, studies on the alteration assemblages at Co-O and regionally and age dating of some of the intrusive rocks in the region.

REVIEW OF OPERATIONS

Co-O REGIONAL DRILLING

Using the Co-O Mine as a model, drill testing commenced in the September quarter of 2009 on veins in the vicinity of the Co-O Mine.

The Co-O vein system outcrops at surface on the western side of the Oriental Fault, where it was first discovered. The veins at surface rarely exceed 0.5 metres width and generally assay around 1 to 5 g/t gold (with possibly some supergene enrichment). Gold values start to increase significantly approximately 80 metres below surface.

Figure 5 shows the positions of the 28 holes completed to date. Results for EXP 001 to 012 were announced on 17 December 2009 and an update to EXP 022 was provided on 19 March 2010. Table III shows the results >1 g/t gold for all holes.

Table III. Co-O regional drill hole results >1g/t gold and >0.2 metres downhole for holes EXP 002-028.

Hole number	East	North	Dip (°)	Azimuth (°)	From (metres)	Width (metres)	Grade (uncut) (g/t gold)
EXP 002	613792	912724	-63	130	24.50	2.00	1.39 (*)
					62.55	1.35	1.72 (*)
				including	63.55	0.35	5.13 (*)
					179.30	1.00	1.60 (*)
EXP 010	614880	913266	-70	158	636.15	0.35	2.20 (*)
EXP 024	613551	914075	-47	270	547.40	1.00	2.48 (*)
EXP 027	613941	913554	-55	155	683.00	0.25	2.12 (*)
EXP 028	614180	913559	-56	157	704.70	0.35	10.59 (*)
					707.80	1.00	1.37 (*)
					724.90	0.20	2.39 (*)

Notes:

(i) Intersection widths are downhole drill widths not true widths
(ii) Assays denoted by (*) are by Philsaga Mining Corporation's laboratory, all other assays are by McPhar Geoservices Inc. in Manila
(iii) Grid coordinates based on the Philippine Reference System 92

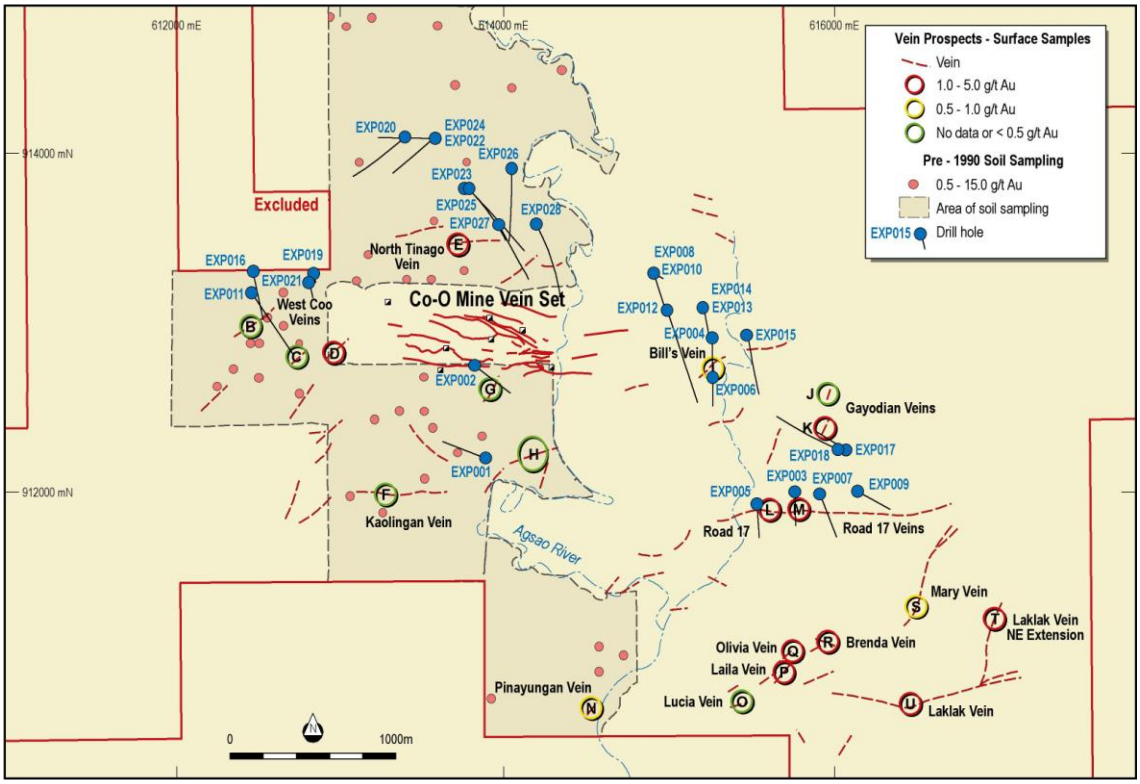


Figure 5. Co-O Mine area showing adjacent veins and regional exploration drill holes

Co-O MINE CONCEPTUAL TARGET SIZE**

Estimates, as detailed in the announcement dated 18 January 2010 (Table IV) have been undertaken for the Co-O Mine conceptual exploration target size** based on a drill-defined strike length of approximately 1,500 metres and up to 2,000 metres based on potential extensions.

In addition, aggregate across-strike widths of the veins of 5 and 8 metres (ie, adding the width of each individual vein across strike to give an aggregate vein width) have been used, as well as depths of between 500 and 750 metres below Level 1 (adit level) in the mine. Figure 6 shows a composite longitudinal projection of the Co-O Mine with drill hole intersection assay grades. The estimate has used a grade range of 9 to 11 g/t gold with a preferred average grade of 10 g/t gold.

Table IV. Co-O Mine conceptual target parameters and estimates **

Strike length (metres)	Depth below Level I (metres)	Aggregate vein width (metres)	Conceptual tonnes	Gold grade (g/t)	Conceptual contained ounces
1,500	500	5	9,375,000	10	3,125,000
		8	14,700,000	10	4,725,000
		10	18,750,000	10	6,250,000
	750	5	15,000,000	10	5,000,000
		8	22,050,000	10	7,000,000
		10	30,000,000	10	10,000,000
	1000	5	18,750,000	10	6,250,000
		8	29,400,000	10	9,450,000
		10	37,500,000	10	12,500,000
2,000	500	5	12,500,000	10	4,160,000
		8	19,600,000	10	6,300,000
		10	25,000,000	10	8,125,000
	750	5	20,000,000	10	6,660,000
		8	29,400,000	10	9,450,000
		10	40,000,000	10	11,815,000
	1000	5	25,000,000	10	8,125,000
		8	39,200,000	10	10,200,000
		10	50,000,000	10	16,250,000

Notes:

(i) SG of 2.45 used for all estimates;
(ii) Estimates rounded to nearest 1000; and
(iii) Highlighted cases indicate most geologically reasonable based on current knowledge

** 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.

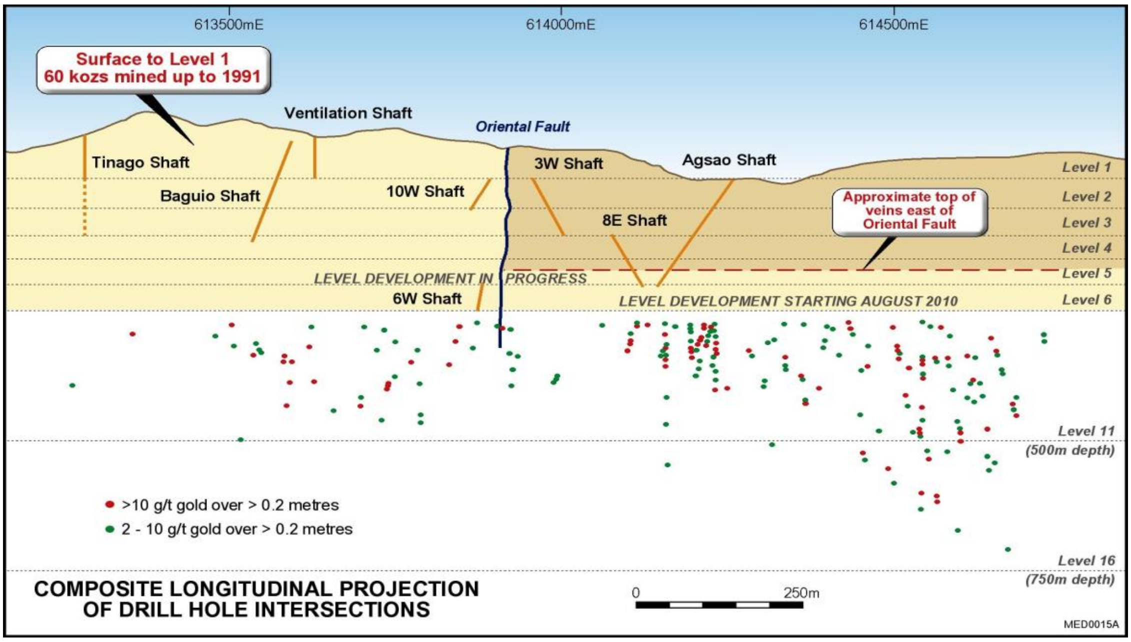


Figure 6. Co-O Mine composite longitudinal projection of drill hole intersection grades below Level 6

LINGIG COPPER DISCOVERY

"Drilling at Lingig has intersected thick, good grade copper mineralisation within basaltic host rocks."

The Lingig copper discovery is within the Das-Agan project which consists of Mineral Production Sharing Agreement ("MPSA") application number 000024-XIII situated in Surigao del Sur province in east Mindanao as shown on Figure 2. The MPSA application covers approximately 80 km² (8,019 hectares) in two blocks. The Lingig copper discovery is contained within the eastern most tenement block on Figure 2.

The Lingig discovery was located by an aid programme between Filipino and Japanese geologists and technicians in 1972 to 1974 over eastern Mindanao. An initial 3000 km² prospective area was located by geological and geochemical surveys and was subjected to additional geological mapping and geochemistry, followed by drilling of five diamond drill holes, each to 250 metres vertical depth.

GEOLOGICAL SETTINGS

Drilling has intersected copper mineralisation in two settings and the geology and results to date are shown on Figure 7. Additional information is contained in the announcement dated 9 October 2009 and 7 May 2010.

Basalt-hosted mineralisation (now called the **Basalt Prospect**) is hosted within the basaltic and doleritic rocks around the 1974 discovery area. This mineralisation appears to form a large north plunging body presumed to be still open to the north down-plunge. It is interpreted that the bottom of this mineralisation may be faulted-off by the underlying thrust fault and the rest of the mineralised zone is yet to be located. Further drilling is required.

Breccia-hosted mineralisation (now called the **Breccia Prospect**) has continued to be located associated with intense biotitic alteration in dioritic, polylithic hydrothermal breccias.

The breccia body is tabular and open to the south with copper mineralisation in intensely altered hydrothermal breccias with the most recent intersections of 154.7 metres at 0.19% copper in hole LIN 37 and 86.0 metres of 0.12% copper in hole LIN 40. Further drilling is required.

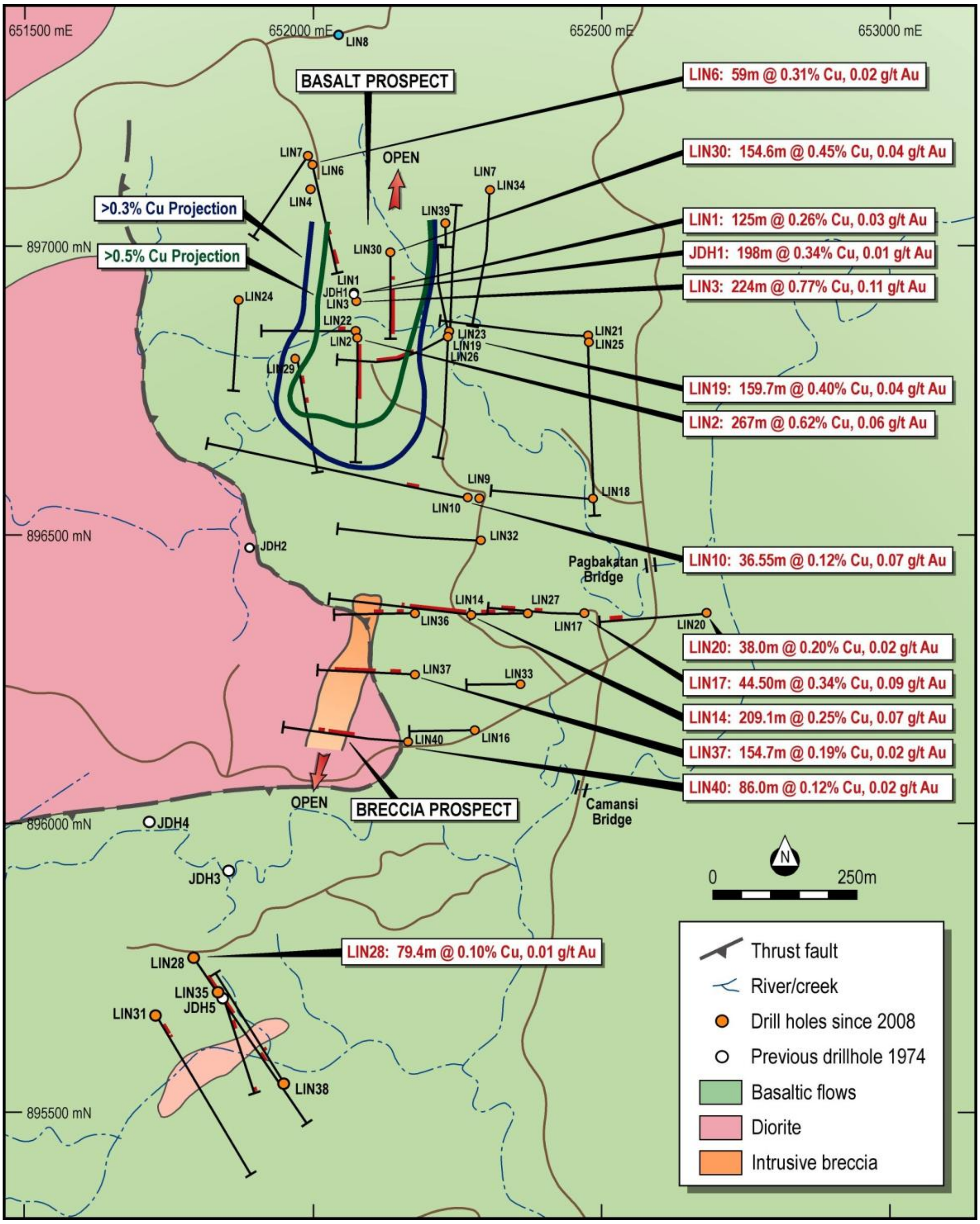


Figure 7. Geological map of the Lingig area showing all drill holes to date.

TAMBIS-BAROBO REGION

The Tambis Project, currently comprising the Bananghilig and Kamarangan prospects, is operated under a Mining Agreement with Philex Gold Philippines Inc. over Mineral Production Sharing Agreement ("MPSA") application APSA-000022-XIII which covers 6,262 hectares.

BANANGHILIG GOLD DEPOSIT

"Drilling has commenced on schedule on the Bananghilig Deposit 650,000 ounce Inferred Resource with the aim of extending it laterally and to depth. By the end of September, 5 rigs should be operating. It is currently planned to complete a Feasibility Study on the deposit by around the end of 2011."

Background

In the 1980s and 1990s a large amount of diamond and reverse circulation drilling totalling 29,477 metres in 344 holes was undertaken by various explorers to investigate a large area of known mineralisation.

In 2005 to 2007, Philsaga undertook underground exploration through a 50 metre deep shaft and development, adits, and underground and surface drilling totalling 7,715 metres in 31 holes.

Figures 2 and 8 show the location of the Bananghilig Deposit. Mapping and trenching during the year have extended the areas of surface mineralisation as shown in Figure 9 around the Bananghilig deposit.

Regional Geology

The Bananghilig Gold Deposit is located on the northern edge of a large aero-magnetically defined alteration zone measuring approximately 9.5 kilometres by 7.3 kilometres and which also contains the Kamarangan copper porphyry target. The Tambis District is generally underlain by fine to coarse-grained andesitic and dacitic flows of probable pre-Tertiary age that constitute the basement rocks. Locally, the basement rocks show agglomeratic features and in places are cut by andesite to dacite porphyry dykes and bodies of hydrothermal breccias of various shapes and sizes.

The southeastern part of the Tambis District is covered by a younger bedded sedimentary formation comprising basal mudstone, sandy clastics and agglomerates with massive white limestone to approximately 60 metres thick as the uppermost member. The limestone bounds the Bananghilig area along the southeast and extends and possibly dips to the southeast.

Structurally the Banaghilig Deposit is located near the intersection of the Barobo Fault (parallel to the Philippine Rift Fault) and the Lianga Bay Fault system.

Local Geology and Mineralisation

The Bananghilig Deposit is located partly within an elliptical-shaped diatreme breccia body measuring approximately 1,000 metres long and 750 metres wide and open (Fig.9) within a larger interpreted caldera measuring approximately 10 kilometres by 6 kilometres.

The diatreme breccia is open to the south beneath the younger massive white limestone rocks.

The gold mineralisation styles in the diatreme are generally associated with pyrite and sphalerite along and around vein-like zones, in fractures and/or breccia in-fill in milled/ fluidised muddy matrix breccia bodies and coarsely brecciated/fractured andesitic-dacitic wallrock. The mineralisation is also contained in intensely altered coarse-grained porphyritic (colloquially "peanut brittle") andesitic intrusive rocks located mainly on the northern margin of the diatreme breccia.

Widespread silica-clay-sericite-pyrite hydrothermal alteration affects the volcanic wallrocks, the various breccia bodies and the hypabbyssal intrusives associated with them. The alteration assemblage typifies that found in advanced argillic alteration systems.

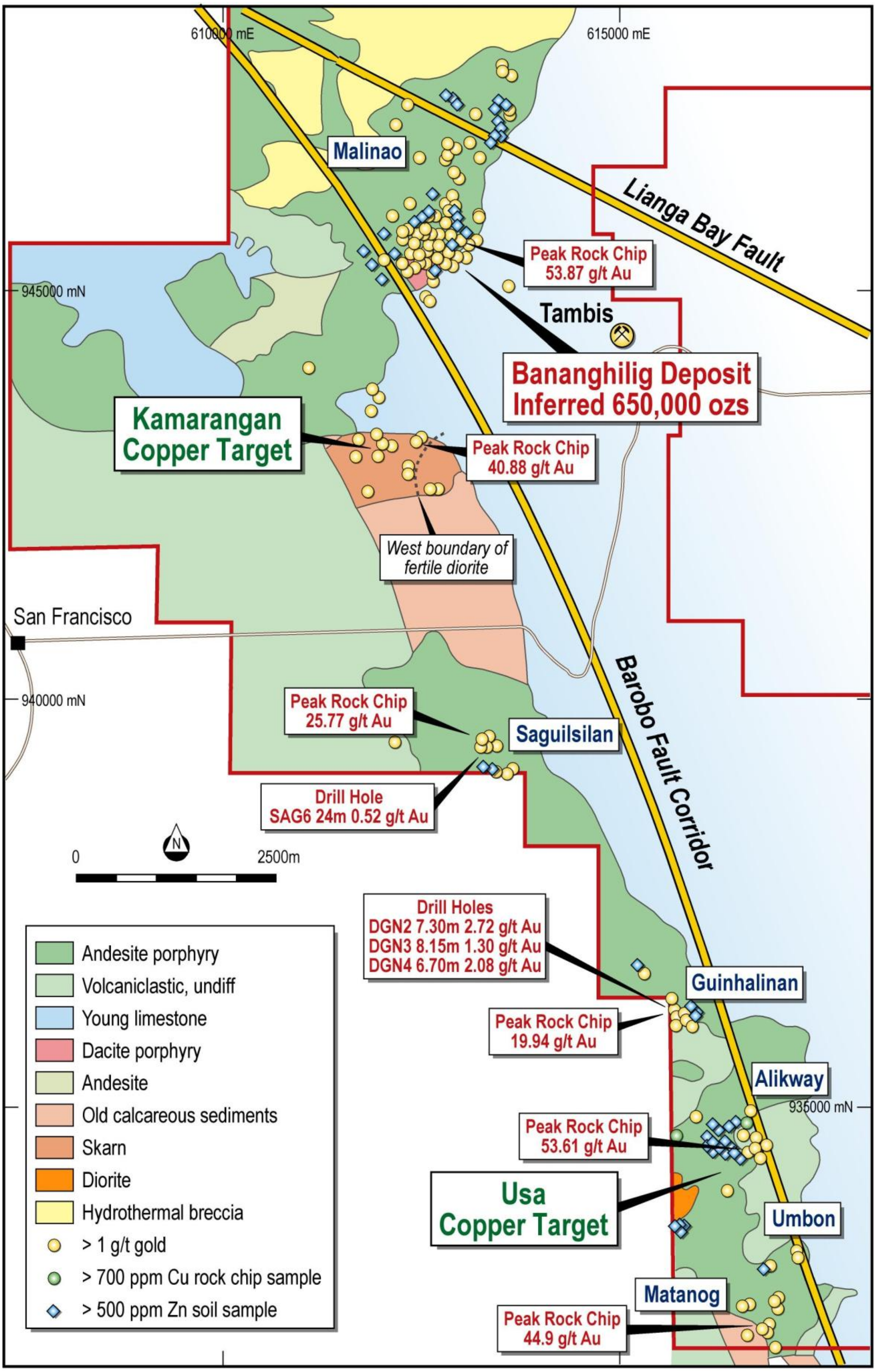


Figure 8. Barobo Corridor interpreted geology map

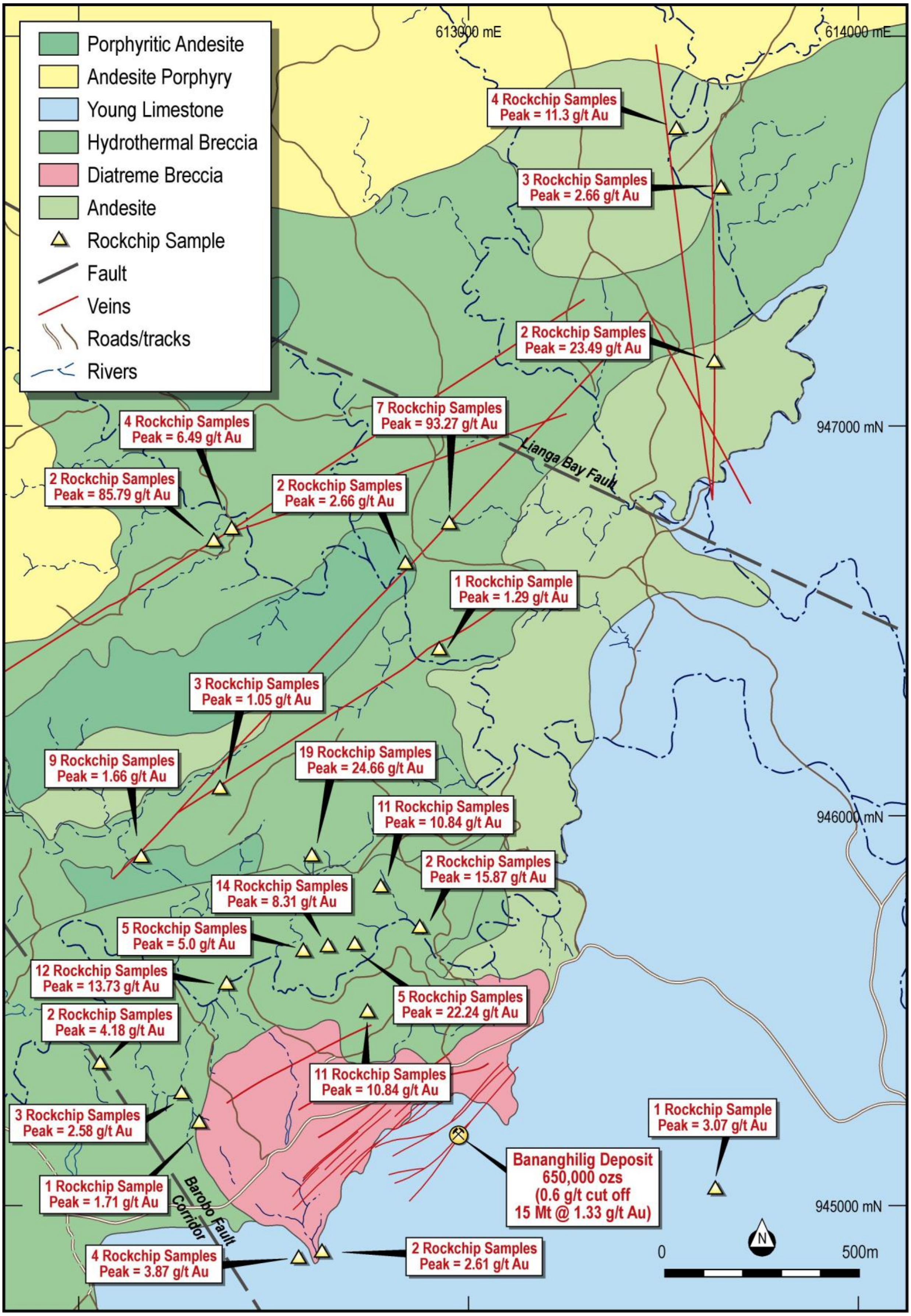


Figure 9. Bananghilig regional interpreted geology and regional grab sampling results

Work commenced

The work programme that commenced in July 2010 at Bananghilig will involve:

- Extensional drilling to increase the deposit size and determine its boundaries;
- Infill drilling to confirm previous drill results, upgrade the resource categories, extend and define higher grade zones;
- Metallurgical studies;
- Geotechnical studies; and
- Engineering studies.

REGIONAL MINERALISATION POTENTIAL - BAROBO FAULT CORRIDOR

Figure 8 shows the regional structure and geology highlighting the mineralisation potential in favourable limestone and calcareous clastic rocks along the Barobo Fault Corridor. This includes the Kamarangan porphyry copper prospect shown on Figure 8.

Regional mapping and sampling continued during the year resulting in the discovery of the Usa porphyry copper target as shown on Figure 10.

Usa Porphyry Copper-Gold Target

Background

The Usa prospect located within Mineral Production Sharing Agreement application (“APSA”) XIII-00077. The Company has a Memorandum of Agreement with Corplex Resources Inc (“Corplex”) whereby:

- Corplex will receive a 4% gross royalty on all production, or
- in the event of a major discovery and completion of a Scoping Study which demonstrates at least a five year mine life, Corplex can elect to,
  - (a) buy back a 30% interest by re-imbursing to the Company a sum equal to four times the expenditure on the tenement; and
  - (b) contribute to 30% of all on-going expenditure from the point of buy-back forwards.
  - (c) should Corplex elect not to contribute to all on-going expenditure, then Corplex can elect once only to dilute to a 15% non-contributing free carried interest to commencement of production, at which point the Company shall provide a loan to Corplex to fund its 15% interest; or
  - (d) in the event that Corplex does not exercise the buy-back, then Corplex will maintain its 4% gross royalty on production.

There are indications that the prospect extends eastwards into APSA XIII-00098 which is owned by Mindanao Philcord Mining Corporation which will receive a 1% Net Profits Interest from any production.

Regional Setting

Detailed information on the Usa prospect is contained in the announcement dated 4 May 2010. Figure 10 shows the current detailed geology and geochemistry contours of rock chip samples.

The Usa prospect is located adjacent to the west side of the Barobo Fault corridor. This fault is parallel to the Philippine Rift Fault located approximately 30 kilometres to the west of the Usa prospect. The Barobo Fault corridor has numerous gold prospects already located along or adjacent to it, including Guinhalinan, Umbon, Matanog and Alikway.

Local Geology and Mineralisation

The geology consists of a mineralised and altered diorite complex which is intruding andesitic volcanics, older limestone and calcareous sediments. The setting and style of mineralisation are very similar to that at the Kamarangan copper-molybdenum porphyry prospect to the north where chalcopyrite and magnetite bearing diorite was intersected over several hundred metres in two holes during a scout diamond drilling completed in late 2008 to early 2009 (see announcement dated 29 May 2009).

The fine- to medium-grained diorite is variably but strongly phyllic altered (white clay, sericite and pyrite) with variably dispersed hairline veinlets of fine-grained magnetite. Mineralisation is predominantly pyrite occurring as fracture filling grains disseminated grains and vein infill. The pyrite is accompanied with bornite, and with occasional chalcopyrite. Malachite stained limestone and calcareous sediments with sphalerite, pyrite and bornite veins, and weakly mineralised pyrite and chalcopyrite magnetite have been noted in drainage float samples to the north of the diorite.

Contouring of the rock chip copper results (>700 ppm Cu) and gold results (>0.1 g/t Au) are shown on Figure 9 which are in close spatial proximity. The relationship of the diorite body to the surrounding rocks suggests that it has been recently uncovered and is not deeply eroded.

Artisanal mining activity with small but consistent recoveries is common in the drainages overlying and downstream of the mineralised altered diorite. Less active artisanal mining activity is noted to the north where chlorite and clay altered, sulphide veined andesitic units occur.

A large grid based soil sampling program designed to delineate the extent of the gold and copper mineralisation should be completed during the 2010 September quarter.

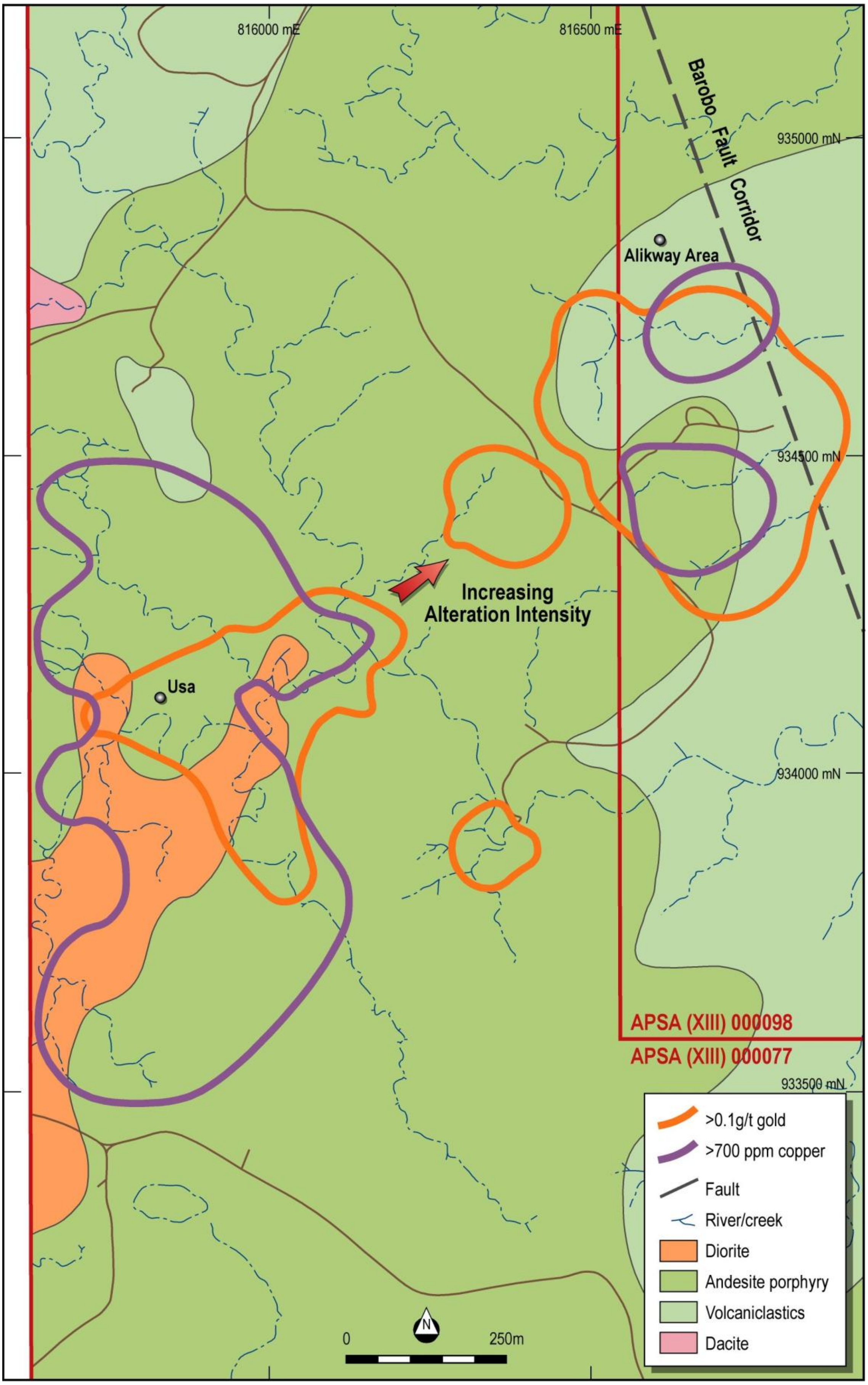


Figure 10. Geology and geochemistry of the Usa porphyry copper-gold prospect.

SAUGON

FIRST HIT VEIN

Background

The Saugon prospect is situated approximately 10 kilometres south of the Co-O Gold Mine and 28 kilometres by road from the Co-O Plant. Work commenced in early 2003 on the First Hit Vein which has been followed intermittently at the surface over 600 metres and which has been explored underground via a 40 metre deep winze, level development and drilling of 31 diamond drill holes.

Field work has been conducted throughout the year culminating with drilling with two rigs which commenced in the June quarter of 2010.

Regional Setting

Subsequent to the drilling in 2004, an aeromagnetic survey was completed which showed the First Hit Vein set are on the northern edge of a large, northeast-trending demagnetised zone over 2,000 metres wide and approximately 8,000 metres long, part of which is shown on Figure 10. A number of features within this zone were interpreted to be suggestive of intrusive bodies, possibly porphyry copper–related. Field work has established that outcropping areas of the northern side of this zone show intense clay-pyrite alteration, which is presumed to extend across the bulk of the zone under cover to the south.

Sections of the demagnetised zone are covered by younger sediments, some grits and shales at the base and capped by white, semi-massive to massive limestone. This appears to be a remnant of the same younger sequence that occurs elsewhere to the north in the Company's tenements.

Drilling

Drilling is in progress at the First Hit Vein with two rigs and will also test additional targets that have been outlined by recent field work. As the 2004 drill holes were not down hole surveyed in the early drilling, some holes will be repeated to establish the geometry of the mineralised system before step-out drilling is undertaken.

Table I. First Hit Vein drill hole results >3 g/t gold and >0.2 metres downhole

Hole number	East	North	Dip (°)	Azimuth (°)	From (metres)	Width (metres)	Grade (uncut) (**g/t gold**, g/t Ag, % Cu, %Pb, %Zn)
SDDH 2B	616944	899267	-55	316	108.50	1.00	**35.75**, 544, 0.38, 1.88, 1..62
SDDH 4	616912	899318	-59	290	89.50	0.20	**9.76**, 142, 0.30, 1.18, 0.40
SDDH 5	616964	899344	-54	345	71.80	0.95	**3.26**, 32, 0.20, 0.20, 0.61
SDDH 9	616979	899250	-67	319	176.20	0.20	**4.97**, 78, 0.74, 1.51, 1.54
SDDH 27	616921	899334	-73	300	60.80	1.00	**16.30**, 244, 1.32, 2.65, 4.97
					71.05	5.95	**9.63**, not assayed
SDDH 28	616922	899307	-70	300	89.95	2.05	**20.54,** not assayed
SDDH 29	616961	899315	-72	300	112.25	0.90	**15.32**, not assayed
SDDH 31	616922	899254	-75	315	174.25	0.75	**3.94**, not assayed
SDDH 34	617033	899279	-65	310	173.80	0.40	**6.87**, not assayed
SDDH 35	617000	899305	-65	310	128.20	0.85	**5.05**, not assayed

Notes:

(i) Intersection widths are downhole drill widths not true widths
(ii) All assays are by McPhar Geoservices Inc laboratory in Manila
(iii) Grid coordinates based on the Philippine Reference System 92
(iv) The drill holes have not been downhole surveyed

OTHER PROSPECTS

Paradise Prospect

Holes SDDH 19 and 22 were drilled at the Paradise Prospect which consists of an outcropping silica-barite cap with anomalous gold values. Drilling encountered a 1.60 metre wide barite vein containing 0.89 g/t gold. Extensive clay-pyrite alteration of volcanics was uncovered in road cuttings to the south and northeast of the silica outcrops.

Mabas Prospect

Holes SDDH 15,16,18,20, 21, 23 and 24 were drilled at the Mabas Prospect where there were some existing workings. The best drill-hole intersection below the workings was 1 metre at 5.64 g/t gold in SDDH 24. The workings were re-opened and developed. The mineralisation consisted of generally black chalcedonic silica with some lead-zinc mineralisation and gold values in the 6 to 8 g/t range. The silica appeared to be confined to a lens or boudin within the Mabas Shear zone.

Mabas South Prospect

The Mabas South Prospect has been discovered by recent field work, and whilst a narrow vein at <0.5 metres wide, has consistently returned gold values around 10 g/t gold in most samples. This vein will be drilled to test for grade and thickness at depth.

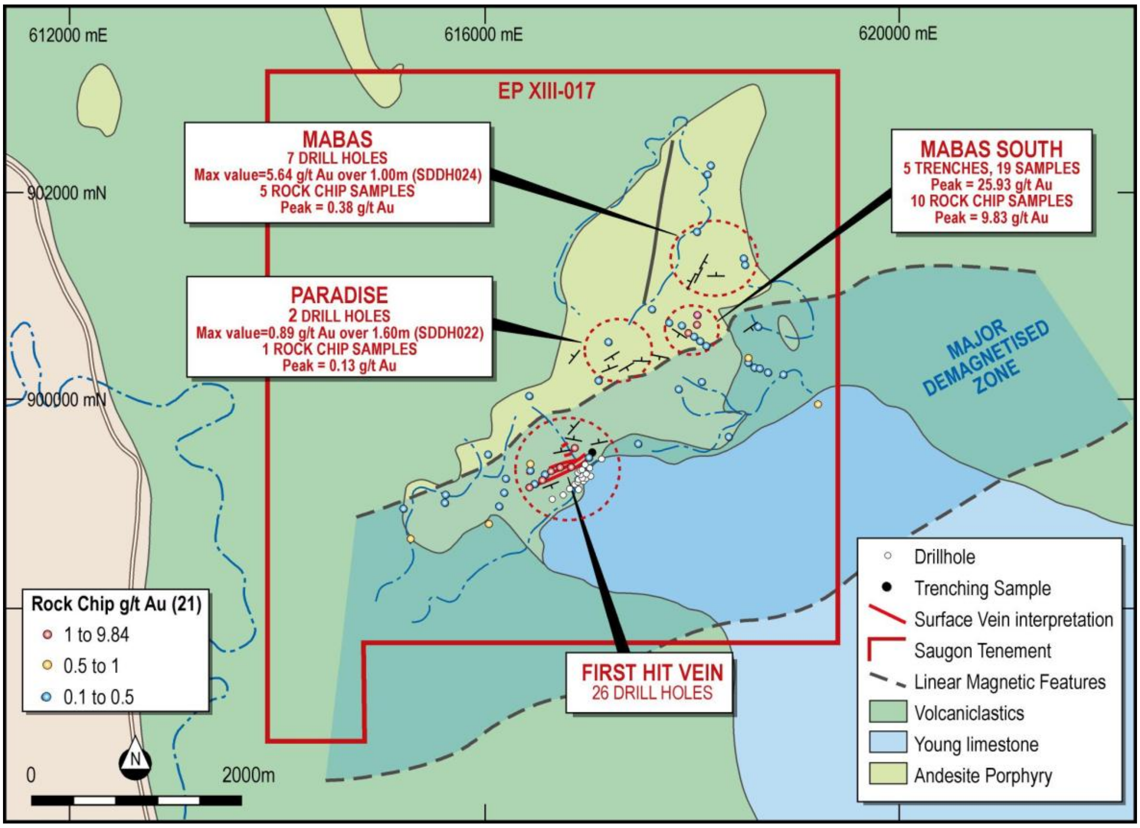


Figure 9. Saugon regional geology showing the First Hit Vein set and the location of the drill holes

REVIEW OF OPERATIONS

ANOLING

The Mines Operating Agreement ("MOA") with Alcorn Gold Resources Inc. covers Mining Production Sharing Agreement ("MPSA") application number 039-XIII situated approximately 8 kilometres north from the millsite as shown on Figure 2. Processing of the Anoling MPSA is progressing.

The Anoling project is located approximately 8 kilometres by road from the Co-O Plant and is operated under a Mines Operating Agreement with Alcorn Gold Resources Inc. over MPSA application number 039-XIII.

The Anoling Mine area consisted of a large number of artisanal workings and old mines on narrow veins dating back to pre-World War II. The veins generally consist of banded quartz-carbonate material within clay-chlorite-pyrite gouge zones with both types of material carrying gold values.

Considerable progress has been made towards the granting of the MPSA during the year.

APICAL (Medusa earning 70%)

A Joint Venture Agreement ("JVA") with MRL Gold Phils., Inc. ("MRL") and an underlying claim owner covers MPSA application number 0028-XIII situated in the provinces of Agusan del Sur and Surigao del Sur in east Mindanao to the north of the Co-O Mine and Plant. The MPSA comprises approximately 20.84 km^2 (2084 hectares) in the Tambis area MRL is the Philippine operating company of Mindoro Resources Ltd, a public company listed on the TSX Venture Exchange in Canada.

The Company is advancing the tenement for granting.

CORPLEX

The Company through Philsaga has two Memoranda of Agreement ("MOA") with Corplex Resources Incorporated ("CRI") on two separate parcels of ground immediately south of the Tambis Project, being an application for Financial and Technical Assistance Agreement (FTAA 000004-XIII) comprising approximately 162 hectares and an application for Mineral Production Sharing Agreement (APSA 000077-XIII) comprising approximately 810 hectares.

A supplementary MOA was signed with CRI to incorporate additional areas of AFTA 000004 - XIII. The additional areas total 2,106 hectares and CRI will receive a 4% gross royalty.

The tenements are being progressed towards granting.

GOLDEN PROJECT

The Company through Philsaga has an agreement over the Golden Project ("JEG") covering an application for Mineral Production Sharing Agreement (APSA 000033-XIII) comprising approximately 162 hectares.

The Company is advancing the tenement applications.

SURSUR PROJECT

A Mines Operating Agreement ("MOA") was signed between Philsaga Mining Corporation ("Philsaga") and Sursur Mining Corporation ("Sursur") for Exploration Permit applications XIII - 00176, 000180 and 000181 with a total area of 15, 825 hectares. Sursur will receive a 3% gross royalty and Philsaga is responsible for all tenement processing and expenditures.

DRILL HOLE SAMPLING AND ASSAYING PROCEDURES

Samples were taken from mainly HQ sized (hole outside diameter 96mm, hole inside diameter 63.5mm) and some NQ sized (hole outside diameter 75.8mm, hole inside diameter 47.6mm) drill core. The selected sample intervals were halved by diamond saw and half the core was bagged, numbered and sent to the Company laboratory. In a small number of cases to confirm the geological logging, the selected interval was re-split and ¼ core re-submitted for assay.

Initial sample preparation and assaying was undertaken at the Company's on–site laboratory. Samples were dried at 105ºC for 6 to 8 hours, crushed to less than 1.25 cm by jaw crusher, re-crushed to less than 3 mm using a secondary crusher followed by ring grinding of 700 to 800 grams of sample to nominal particle size of less than 200 mesh. Barren rock wash is used between samples in the preparation equipment. The samples were assayed by fire assay with Atomic Absorption Spectrometer (AAS) finish on a 30 gram sample. All assays over 5 g/t gold were re-assayed using gravimetric fire assay techniques on a 30 gram sample.

Check assaying of samples used in the resource estimate update and which contain more than 0.5 metres at more than 2 g/t gold have been undertaken by McPhar Geoservices Phils Inc ("McPhar"), a NATA and ISO 9001/2000 accredited laboratory in Manila. The pulps were airfreighted to McPhar who fire assayed 30 grams of sample using AAS finish and a selected number of samples were checked using gravimetric fire assay techniques. Duplicate samples and standards are included in each batch of check samples.

When reporting results, where available, the assays of McPhar as an independent laboratory have been given priority over the Company laboratory's results.

COMMUNITY PROJECTS, PROGRAMMES AND BENEFITS

COMMITMENT

Philsaga since 2001, in conjunction with the Mindanao Philsaga Foundation Inc., has established an enviable record in the local communities in which it operates. This record is acknowledged by local and regional governments, and at a national level.

It is the Company's objective to build on this record and strengthen reciprocal relationships between the Company and the communities in which it operates.

EDUCATION

Scholarships

The Company supports 2 scholarship programmes which commenced in 2003 benefiting an on-going total of 67 students. eight more students graduated during the year bringing the total to 32 graduates:

- Full scholarships under which the benefits provided to students include payment of tuition fees, a monthly allowance and book and school uniform allowances; and
- Educational assistance under which students are provided with a monthly allowance.

Company school and Adopt-a- school programme

The Company has expanded its "adopt–a-school" from 12 schools to 14 schools benefiting in excess of 2,000 students and 70 teachers. During the year, the Company:

- Constructed four additional classrooms (with another four planned) as well as teachers' living quarters at the Company's high school which currently has 520 students and financed repairs at 2 other schools;
- In conjunction with its partner agencies, provided school supplies for 4,438 students;
- Provided instructional materials and paid the salaries for 29 teachers;
- Supported training seminars for teachers to upgrade their teaching skills; and
- During the year a total of 11 class rooms were turned over to the elementary school adjacent to the Co-O Mine.

LIVELIHOOD PROJECTS

Livestock

The Company provides goat breeding stock to qualified farmers to provide additional sources of income and raise meat availability in local communities.

Rice production financing

The aim of this project is to develop debt free farming communities through the provision of financing arrangements by the Company's Foundation to qualified farmers. Following trial plantings and resolution of costs and contractual arrangements, the programme is in its fourth cropping season and is now supporting 100 hectares of rice growing per cropping.

Organic fertiliser production

The Company has expanded its organic fertiliser production programme and demonstration cropping plots are underway. The aim is to address the issue of increasing acidification of rice fields and other crop growing areas caused by the continued use of artificial fertilisers.

COMMUNITY DEVELOPMENT AND ASSISTANCE PROGRAMMES

The Company continued to provide assistance with a number for community-based projects.

Water projects

The Company has provided materials for the installation and repair/rehabilitation of water supplies in close co-operation with local governments in five locations.

Day care centres

The Company continued to support day care centres by providing salaries for 7 day care teachers.

Community health

The Company provides general health and dental services to its employees and dependants and undertakes minor surgical and dental missions to nearby villages within its sphere of operation.

The Company completed a 16 bed hospital for the benefit of employees and their families at the Co-O Mine site which is 11 kilometres by road from the Company-run clinic at the mill site. The Company employs 3 full time doctors, nurses and other support staff at the hospital.

Annual health check-ups are mandatory for all employees.

ENVIRONMENTAL MONITORING

Philsaga's operations have been present in the local communities since inception in 1988. It owns established processing facilities which are subject to regular inspections by the various authorities and which have achieved a high level of recognition for adherence to statutory requirements. Water samples are taken on a monthly basis to monitor water quality in and around the Company's facilities.

Philsaga's mining operations are underground resulting in very small surface 'footprints" for each operation. Rehabilitation of any disturbed areas around new operations is part of the Company's normal operating procedure.

EMPLOYMENT, LOCAL SUPPLIERS & PAYMENT OF LOCAL TAXES AND WAGES

The Company employs over 600 staff at its operations and up to approximately 900 contractors depending on the work programmes in progress. The Company is one of the largest tax payers in the district and the province of Agusan del Sur and also pays a 1% gross royalty on gold production to indigenous groups.

The Company has a strong policy of "buy and manufacture locally" whenever possible for the provision of goods and services to the project to maximise the multiplier effect locally.

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 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.

Crosscut Consulting

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 August 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 report 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.

NOTICE TO CANADIAN SHAREHOLDERS

Medusa is a "designated foreign issuer" as defined in National Instrument 71-102 - *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* of the Canadian Securities Administrators. As such, and on the basis of compliance with the regulatory requirements in Australia of the Australian Stock Exchange (ASX) and Australian Securities and Investments Commission (ASIC) and the filing of required Australian disclosure documents in Canada on SEDAR, Medusa and its insiders are exempt from many of the continuous disclosure, insider reporting and other requirements applicable to reporting issuers and insiders of reporting issuers in Canada.

CORPORATE GOVERNANCE

Medusa, as a listed entity, must comply with the Corporations Act 2001(Cth) ("*Corporations Act"*), the Australian Securities Exchange ("*ASX*") Listing Rules ("*ASX Listing Rules*") and other Australian and international legal, regulatory and governance requirements.

The Board of Directors of the Company (*"Board"*) is committed to achieving and maintaining high standards of corporate governance. The Board operates in accordance with a set of corporate governance principles that take into account the relevant good practice recommendations. These include the ASX Corporate Governance Council's ("*ASXCGC")* second edition of the Corporate Governance Principles and Recommendations ("ASXCGC *Recommendations*").

The Company's practices are largely consistent with the ASXCGC Recommendations and, except as disclosed below, the Company believes it complied with each of those recommendations throughout the financial year ended 30 June 2010 and to the date of this report. Details of the Company's compliance with the ASXCGC Recommendations are set out below, including details of specific disclosures required by a ASXCGC Recommendation.

Further information on the Company's corporate governance policies and practices is available on the Company's website at www.medusamining.com.au.

1. BOARD OF DIRECTORS

Role and Responsibilities of the Board

ASXCGC Recommendations 1.1, 1.3

The Board has adopted a Board Charter that sets out, among other things, its specific powers and responsibilities and the matters delegated to the Managing Director and those specifically reserved for the Board. The Board Charter provides that the Board's primary role is to guide and monitor the business and affairs of the Group on behalf of the shareholders by whom the Board is elected and to whom it is accountable.

In addition to the matters required by law to be approved by the Board, the following key duties and responsibilities are reserved for the Board:

- oversight of the Company, including its control and accountability systems;
- appointing and removing the Chief Executive Officer or Managing Director (as applicable) in respect of his or her executive role;
- ratifying the appointment and removal of the Company Secretary;
- providing input into and final approval of the corporate strategy of the Company;
- providing input into and final approval of the annual operating and capital budget of the Company;
- approving and monitoring the progress of acquisitions and divestments (as applicable);
- reviewing and ratifying systems of risk management and internal compliance and controls, codes of conduct, continuous disclosure, legal compliance and other significant corporate policies;
- monitoring senior management's performance and implementation of strategy and policies, and ensuring appropriate resources are available to senior management; and
- approving and monitoring financial and other reporting to the market, shareholders, employees and other stakeholders.

The Board has delegated responsibilities for the day to day operational, corporate, financial and administrative activities of the Group to the Managing Director and the Finance Director.

CORPORATE GOVERNANCE

Composition of the Board

The Board is comprised of three Non-Executive Directors and three Executive Directors, namely the Managing Director, Finance Director and Operations Director.

ASXCGC Recommendation 2.6

Details of the skills, experience and expertise relevant to the position of each Director who is in office at the date of this report, and their terms of office, are included in the Directors' Report on pages 41 to 43.

In assessing the composition of the Board, the Directors have regard to the following principles:

- the Chairperson should be an independent Non-Executive Director;
- the role of the Chairperson and the Managing Director should not be exercised by the same person;
- the Board should comprise at least four Directors, increasing where additional expertise is considered desirable in certain areas, when an outstanding candidate is identified, or to ensure a smooth transition between outgoing and incoming Non-Executive Directors; and
- the Board should comprise Directors with an appropriate range of qualifications and expertise.

The Board will review its composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will endeavour to select appropriate candidates with the relevant qualifications, skills and experience.

Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter are subject to re-election in accordance with the Company's constitution.

ASXCGC Recommendations 2.1, 2.2, 2.6

The Board has determined (according to the criteria below) that Peter R. Jones (the Chairman of the Company), Robert Weinberg, and Andrew Teo are independent Non-Executive Directors.

When determining whether a Director is independent, the Board considers that a Director will be independent if he or she is a person who:

- is not a substantial shareholder of the Company, or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- has not, within the last three years, been employed in an executive capacity by Medusa;
- has not, within the last three years, been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company, other than as a Director; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interest of the Company.

As the Board is comprised of three Directors who are determined to be independent and three Executive Directors, the Board is not comprised of a majority of independent Directors as recommended by ASXGCR Recommendation 2.1.

The Board is fully committed to good corporate governance and will seek to appoint a further Non-Executive Director when a suitable candidate has been identified in order to comply with ASXGCR Recommendation 2.1 that the majority of the Board should be independent Directors.

The test of whether a relationship or business is material is based on the nature of the relationship or business and the circumstances and activities of the Director. Materiality is considered from the perspective of the Company, the persons or organisations with which the Director has an affiliation and from the perspective of the Director. To assist in assessing the materiality of a supplier or customer the Board has adopted the following materiality thresholds:

- a material customer is a customer of the Company that accounts for more than 5% of the Group's consolidated gross revenue; and
- a supplier is material if the Company accounts for more than 5% of the supplier's consolidated gross revenue.

Chairperson and Managing Director

ASXCGC Recommendation 2.3

The role of Chairperson and Managing Director are separate roles and undertaken by different people.

The Chairperson is responsible for leadership and effective performance of the Board and overseeing the provision of information by management to the Board and ensuring the adequacy of that information. The Managing Director is responsible for the day-to-day management of the Company.

The Chairperson's and Managing Director's responsibilities are set out in more detail in the Board Charter, which is available on the Company's website at www.medusamining.com.au.

Performance evaluation

ASXGCR Recommendation 1.2, 1.3, 2.5, 2.6

The Company's Nomination Committee Charter requires the Board to establish evaluation methods of rating the performance of the Directors and to conduct assessments of Directors as to whether they have devoted sufficient time in fulfilling their duties as Directors.

No formal performance evaluation of the Board was conducted for the year ended 30 June 2010 as the Board did not believe that the Group was of a size to warrant such an exercise.

The Board will, however, consider adopting appropriate performance evaluation processes for the 2011 financial year. It is envisaged that such processes will be designed to effectively review the performance of the Board and its Audit Committee against the requirements of their respective charters and the individual performance of the Chairman and each Director. The Board will consider the appointment of an independent consultant to develop, assist and implement these processes.

Details of the process for evaluating the performance of Senior Executives and Executive Directors, and the conduct of that process in the reporting period, are included in the Remuneration Report, which forms part of the Directors' Report on pages 47 to 49.

Details of Directors' attendance at Board meetings are set out in the Directors' Report on page 44.

Board access to independent advice

ASXCGC Recommendation 2.6

Each Director is entitled to seek such independent professional advice as they consider necessary in the furtherance of his or her duties as a Director at the Company's expense. Any Director seeking independent advice must first discuss the request with the Chairperson, who will facilitate obtaining such advice.

2. BOARD COMMITTEES

Nomination Committee

ASXCGC Recommendations 2.4, 2.6

ASXGCR Recommendation 2.4 provides that "the board should establish a nomination committee". Such a committee is typically mandated with reviewing, assessing and recommending changes to a company's process for evaluating, selecting and appointing Directors.

The Board believes that the Group is not of a size to warrant the establishment of a Nomination Committee.

Notwithstanding its reasons for not establishing a Nomination Committee, the Board has approved a formal Nomination Committee Charter that sets out the Nomination Committee's role and responsibilities. The entire Board undertakes this role and these responsibilities. A copy of the Nomination Committee Charter is available on the Company's website at www.medusamining.com.au.

The Board will meet annually to review whether the establishment of a Nomination Committee is warranted.

Remuneration Committee

ASXGCR Recommendations 8.1, 8.3

The Board established a Remuneration Committee on 7 October 2009, which operates under a Remuneration Committee Charter approved by the Board. A copy of the Remuneration Committee Charter is available on the Company's website at www.medusamining.com.au.

The role of the Remuneration Committee is to assist the Board in fulfilling its corporate governance responsibilities with respect to remuneration by reviewing and making appropriate recommendations on:

- remuneration packages of Executive Directors, Non-Executive Directors and Senior Executives;
- employee incentive plans and benefit programs, including the appropriateness of performance hurdles and total payments proposed;
- recruitment, retention and termination policies and procedures;
- superannuation arrangements; and
- employee equity based plans and schemes.

The Remuneration Committee consists of Robert Weinberg (as Chairman), Andrew Teo and Peter R. Jones, who have been determined to be independent Non-Executive Directors. 1 meeting of the Remuneration Committee were held during the financial year. Details of the attendance of the members of the Remuneration Committee at meetings of the Remuneration Committee are included in the Directors' Report on page 44.

The Board had not established a Remuneration Committee prior to 7 October 2009 as recommended by ASXGCR Recommendation 8.1. However, the Board had approved a Remuneration Committee Charter and the role and responsibilities of the Remuneration Committee prior to that date were undertaken by the whole Board. The Board has now established a Remuneration Committee in compliance with ASXGCR Recommendation 8.1.

The Board's policy is that reviews of remuneration packages and policies applicable to Executive Directors, Non-Executive Directors and Senior Executives be conducted on an annual basis by the Remuneration Committee.

Details on the Company's remuneration policies, including how the structure of the remuneration of Non-Executive Directors is distinguished from that of Executive Directors and Senior Executives, are included in the Remuneration Report within the Directors' Report on page 49.

Audit Committee

ASXGCR Recommendations 4.1, 4.2, 4.3, 4.4

The Board established an Audit Committee on 12 August 2009, which operates under an Audit Committee Charter approved by the Board. A copy of the Audit Committee Charter is available on the Company's website at www.medusamining.com.au.

The role of the Audit Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, compliance with legal and regulatory requirements, internal control framework and audit functions.

The Audit Committee consists of Andrew Teo (as Chairman), Robert Weinberg and Peter R. Jones, who have been determined to be independent Non-Executive Directors. Details of the qualifications of the members of the Audit Committee are included in the Directors' Report on pages 41 to 42.

The Board had not established an Audit Committee prior to 12 August 2009 as recommended by ASXGCR Recommendation 4.1. However, the Board had approved an Audit Committee Charter and the role and responsibilities of the Audit Committee prior to that date were undertaken by the Company Secretary reporting to the whole Board. The Board has now established an Audit Committee in compliance with ASXGCR Recommendation 4.1.

2 meetings of the Audit Committee were held during the financial year. Details of the attendance of the members of the Audit Committee at meetings of the Audit Committee are included in the Directors' Report on page 44.

3. PROMOTING ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

ASXGCR Recommendation 3.1

The Company has a formal Code of Conduct, which outlines the Company's commitment to appropriate and ethical corporate practices.

The Code of Conduct describes how the Company expects its Directors and employees to behave in the conduct of the Company's business activities. The Code of Conduct covers matters including:

- General principles
- Compliance with laws and regulations
- Political contributions
- Unacceptable payments
- Protection of Company assets
- Proper accounting
- Dealing with auditors
- Unauthorised public statements
- Conflict of interest
- The use of inside information
- Trading of the Company's shares
- Alcohol and drug abuse
- Equal opportunity and employee discrimination
- Environmental responsibilities
- Occupational health and safety
- Economy and efficiency

A copy of the Code of Conduct is available on the Company's website at www.medusamining.com.au.

Share Trading Policy

ASXGCR Recommendation 3.2

Whilst the Board encourages its Directors and employees to own securities in the Company, it is also mindful of the responsibility of the Company, its Directors and employees not to contravene the Corporation Act's "insider trading" provisions.

The Board has approved a Share Trading Policy that applies to all Directors and all employees of the Company.

In summary, the policy prohibits Directors and employees from trading in the Company's securities:

- when aware of non-public price sensitive information, until such time as that information as become generally available, and
- as part of active trading with a view to deriving profit related income.

As the Company is also listed on the AIM market of the London Stock Exchange, Directors and applicable employees are subject to the rules of that Exchange. These rules currently provide that Directors and applicable employees do not deal in the Company's shares during a close period.

A Director or employee wishing to deal in the Company's shares must first notify the Managing Director and confirm that the employee is not aware of any non-public price sensitive information.

A copy of the Share Trading Policy is available on the Company's website at www.medusamining.com.au.

4. RISK MANAGEMENT

ASXGCR Recommendations 7.1, 7.2

The Board recognises that risk oversight is a core function of the Board that serves in protecting and enhancing shareholder wealth.

The Board has approved a Risk Management Policy that outlines the Company's policies for the oversight and management of material business risks and the design, implementation and monitoring of an internal compliance and control framework. A copy of the Risk Management Policy is available on the Company's website at www.medusamining.com.au.

The Board is ultimately responsible for the oversight and management of material business risks. However, the design and implementation of the risk management policy and the day to day management of risk is the responsibility of the Managing Director, with the assistance of senior management.

The Managing Director is responsible for reporting directly to the Board on all matters associated with risk management and in fulfilling his duties, the Managing Director has unrestricted access to all company employees, contractors and records and may obtain independent expert advice on any matters he deems appropriate.

Whilst the Board acknowledges that it is responsible for the overall internal control framework, it is also cognisant that no cost-effective internal control system will preclude all errors and irregularities.

The Company's main business risks are determined by the nature of its business activities and assets. There are numerous factors (both external and internal) that could influence the risk profile of the Company.

External risk factors that could influence the risk profile of the Company include:

- Exposure to gold price
- Exchange rate fluctuations
- Geographical location
- Political issues
- Nature of operations

Internal risk factors that could influence the risk profile of the Company include:

- Operational performance
- Compliance
- Commercial dealings and relationships
- Financial control
- Information systems and technology
- People and skills
- Quality of management

The Company's risk management system is continuously developing and will evolve with the evolution and growth of the Company's activities.

Managing Director and Finance Director assurance

ASXGCR Recommendations 7.2, 7.3, 7.4

Before the adoption by the Board of the of the Company's financial statements for the year ended 30 June 2010, that Board received written declarations from the Managing Director and Finance Director that the financial records of the Company have been properly maintained in accordance with section 286 of the Corporations Act and that the Company's financial statements and notes comply with the accounting standards and present a true and fair view of the consolidated entity's financial position and performance for the financial period.

The Managing Director and Finance Director have also stated in writing to the Board that the above declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

In addition, the Managing Director and Finance Director have reported to the Board as to the effectiveness of the Company's management of its material business risks.

5. CONTINUOUS DISCLOSURE

ASXGCR Recommendations 5.1, 5.2

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and the Corporations Act. Subject to limited exceptions, the Company must immediately notify the market, through ASX, of any information that a reasonable person would expect to have a material effect on the price or value of its securities. The Board has approved a Continuous Disclosure Policy to reinforce the Company's commitment to complying with its continuous disclosure obligations and outline management's accountabilities and the processes to be followed for ensuring compliance. A copy of the Continuous Disclosure Policy is available on the Company's website at www.medusamining.com.au.

The Managing Director and Company Secretary are responsible for ensuring that the Continuous Disclosure Policy is implemented and enforced, and that the Company complies with its continuous disclosure obligations.

6. SHAREHOLDER COMMUNICATION

ASXGCR Recommendations 6.1, 6.2

The Board has approved a Shareholder Communications Policy to promote effective communications with its shareholders and encourage effective participation at General Meetings. In accordance with this policy the Company maintains a website at www.medusamining.com.au on which the Company provides the following information:

- Company announcements released to ASX for disclosure and related information (including presentations and briefings to analysts and media)
- Notices of meetings and explanatory materials
- Quarterly reports, containing details of the Company's activities and consolidated statements of cash flows
- Half-yearly reports, containing consolidated financial information and a brief overview of the Company's activities
- Annual reports, which include a review of the Company's operations and financial results for the year.

Annual reports are distributed in hard copy to shareholders who have registered their election with the Company's share registry to receive the annual report in hard copy.

The Board encourages participation of shareholders at general meetings of the Company. The Company's external auditor attends the Company's annual general meeting to answer shareholder questions about the conduct of the audit, the preparation and content of the audit report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

A copy of the Shareholder Communications Policy is available on the Company's website at www.medusamining.com.au.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Medusa Mining Limited ("Medusa" or the "Company"), being the Company and its controlled entities, for the year ended 30 June 2010, and the Auditor's Report thereon.

DIRECTORS' REPORT

1. DIRECTORS

The names of Directors in office at any time during or since the end of the financial year are:

Name of Director	Period of Directorship
Non-Executive Directors:	
Mr Peter R. Jones (Chairman)	Appointed 08 July 2010
Dr Robert Weinberg	Since 01 July 2006
Mr Andrew Teo	Appointed 15 February 2010
Mr Kevin Tomlinson	Resigned 13 January 2010
Executive Directors:	
Mr Geoffrey Davis (Managing Director)	Since 05 February 2002
Mr Peter Hepburn-Brown (Operations Director)	Appointed 15 September 2009
Mr Roy Daniel (Finance Director)	Since 13 April 2006

Each of the Directors, unless otherwise stated above, has been in office since the start of the financial year to the date of this report.

2. DIRECTORS' INFORMATION

Mr. Peter Rhys Jones
Graduate Camborne School of Mines and Banff School of Advanced Management
Professional Engineer, Canada
Independent Non-Executive Chairman

Mr Jones is a retired Canadian based mining engineer with over 40 years progressive experience in operations management, consulting and projects. His experience includes 18 years with Cominco Ltd. and 10 years with Hudson Bay Mining and Smelting Co., Limited (HBMS) previously a wholly owned subsidiary of Anglo American.

He has held senior positions in both underground and open pit operations, consulting roles in many countries and has managed a number of new mine projects and plant expansions. At HBMS, where he was CEO, he was instrumental in funding HudBay Minerals Inc's. (HudBay) purchase of HBMS in 2004 and subsequently became HudBay's President and CEO. In 2006 he was named prairie region entrepreneur of the year by Ernst and Young LLP.

He has been President of the Mining Association of Manitoba as well as Chairman of the Mining Association of Canada where he was actively involved in worldwide challenges facing mining companies including sustainability, community of interest and aboriginal issues. Mr Jones is a strong advocate of corporate governance and a framework which promotes the interests of shareholders and the functioning of the Board.

Mr Jones is a member of both the Audit and Remuneration Committees.

Dr Robert Weinberg
BA (Hons) Geology, MA, DPhil, FGS, FIMMM
Independent Non-Executive Director

London based Dr Robert Weinberg who gained his doctorate in geology from Oxford University in 1973, has more than 30 years experience in the international mining industry and is an independent mining research analyst and consultant. He is a Fellow of the Geological Society of London and also a Fellow of the Institute of Materials, Minerals and Mining.

Dr Weinberg brings a wealth of gold marketing and investment banking experience to the Company having held executive positions that include being Managing Director, Institutional Investments at the World Gold Council, Director of Gold Bullion Securities, Director of the Investment Banking & Equities division at Deutsche Bank in London, Head of the Global Mining Research team at SG Warburg Securities. Robert has also held senior positions within Societe Generale and was head of the mining team at James Capel & Co. He was also formerly marketing manager of the gold and uranium division of Anglo American Corporation of South Africa Ltd.

Dr Weinberg is currently a Non-Executive Director of Solomon Gold plc, a company listed on the Alternative Investment Market, London and Kasbah Resources Ltd, an ASX listed entity. Dr Weinberg has been a Board member of Solomon Gold plc since 22 November 2005, and a Board member of Kasbah Resources Ltd since 15 November 2006.

Dr Weinberg is Chairman of the Remuneration Committee and a member of the Audit Committee.

2. DIRECTORS' INFORMATION (continued)

Mr Andrew Boon San Teo
B.Com, UWA, (CPA)
Independent Non-Executive Director

Mr Teo is an accountant with 33 years of extensive and diversified experience in accounting, treasury, corporate, legal and business administration across several industries. He is currently the CFO/Executive Director of BGC (Australia) Pty Ltd, one of Australia's largest privately owned companies, with annual turnover in excess of $2 billion and 7,000 plus staff (including sub-contractors).

Mr Teo is Chairman of the Audit Committee and a member of the Remuneration Committee.

Mr Kevin Tomlinson
Grad Dip Finance, MSc, BSc (Hons), FSI, ASIA
Independent Non-Executive Chairman
(resigned 13 January 2010)

Mr Kevin Tomlinson is currently Managing Director - Investment Banking in London for Thomas Weisel Partners (UK) Limited, an international broking house.

Mr Tomlinson's 28 years of experience includes senior executive and management roles in several mining commodities including gold, nickel and base metals, plus a broad range of experience in other areas including corporate start-ups, capital raisings, company listings and project evaluation. He possesses strong conceptual and analytical capabilities and a thorough understanding of the market and corporate issues that affect growing companies.

As Head of Research, working for Hartleys Limited in Perth and subsequently Williams de Broe in London, he was involved in investment relationships with corporate clients, the facilitation of Australian and International introductions to institutions, broking houses and funds, as well as promotion through the media and road shows in Australia, Canada, UK and Europe. Mr Tomlinson brings a wealth of experience to the Company that will enhance the marketability of Medusa in the international resources market.

Within the three years prior to the commencement of the financial year, Mr Tomlinson also served as a Non-Executive Chairman of Dragon Mountain Gold Limited (a company listed on the Australian Securities Exchange) from 27 January 2007 until 8 October 2008.

Mr Tomlinson resigned from the Board of Medusa on 13 January 2010.

Mr Geoffrey Davis
M.Sc, Mining and Exploration Geology, B. Sc (Hons), Geology,
Member, Australian Institute of Geoscientists.
Managing Director

Mr Geoff Davis worked initially with BHP for 10 years following his graduation in 1972, before becoming a consultant in 1980 to numerous mining and exploration companies in Australia, Asia and South America. This work specialised in epithermal precious metal and porphyry copper-gold opportunities, and included project acquisition, assessment and exploration. Since 1990, most of his work has been with junior explorers where he has been Exploration Manager to a number of these companies.

In more recent times he has also held Directorships and senior executive positions in a number of listed and unlisted Australian, Asian and London based exploration and mining companies. Mr Davis has been Managing Director of Medusa since its inception on 5 February 2002.

During the past three years, Mr Davis also served as a Non-Executive Director of Pan Pacific Gold Limited (subsequently renamed Dragon Mountain Gold Limited and listed on the ASX in July 2007) from 28 September 2004 until 28 December 2006.

<u>Philippines experience:</u>

Mr Davis first started work in the Philippines in 1980 until late 1981 as the Regional Manager for BHP based in Manila, focussed on exploring for epithermal gold deposits under the guidance of a consultant who specialised in epithermal gold deposits. Subsequently he has consulted in the Philippines, including from 1999-2000 managing the restructure and financial recovery of a group of companies which included the sale of the Co-O Gold Project to Philsaga Mining Corporation in August 2000. Over his 28 years of experience in the Philippines, he has developed a network of contacts in the mining, exploration, legal and tenement management sectors of the industry, which are highly valuable in developing the Company's business interests in the Philippines.

2. DIRECTORS' INFORMATION (continued)

Mr Peter Gordon Hepburn-Brown
BAppSc-Mining Engineering (1980), Grad Dip Human Resources(1996), Member of Inst of Engineers, Australia
Executive Director - Operations

Mr Peter Hepburn-Brown was appointed to the Board of Medusa on 15 September 2009 and as Executive Director - Operations on 27 July 2010.

Peter is a mining engineer with 28 years of experience in a wide range of mining situations, commodities and overseas jurisdictions. He has held senior management positions such as Executive Director Operations for Harmony Gold Australia, General Manager Operations for Great Central Mines, as well as other executive, operational and consulting positions.

Mr Hepburn-Brown's experience includes hands-on shaft sinking and airleg mining in narrow vein mines, experience that is well suited to the Company's current operations in the Philippines, as well as mining large open pit, disseminated ore bodies. Mr Hepburn-Brown has a proven track record at operational levels and his skills and experience will complement his fellow Board members.

Mr Hepburn-Brown is a current Board member of ASX listed entities, Alloy Resources Limited (appointed 2 June 2004) and Morning Star Gold NL (appointed 18 February 2010).

Mr Roy Daniel
B.Com, UWA
Executive Director - Finance

Mr Roy Daniel, who has also been Joint Company Secretary since 6 December 2004, was appointed Executive Director - Finance of the Company on 13 April 2006. He has been associated with the resource and mining industry for over 30 years and has held various senior management and accounting positions with overseas and Australian companies.

Mr Daniel has considerable experience in accounting matters, business development, financial evaluations & modelling, feasibility studies, project funding, treasury management and company secretarial functions and brings his expertise in these matters to the Company.

In his capacities as Finance Director and Joint Company Secretary, Mr Daniel is responsible for all day to day financial, administrative and corporate functions of the Company.

Philippines experience:

Mr Daniel also possesses work experience in the Philippines having streamlined the finance, administration and corporate activities of Filipino operations for an AIM listed entity.

3. COMPANY SECRETARIES

The position of Company Secretary is shared jointly by Messrs Peter Alphonso and Roy Daniel and they held that position at the end of the financial year.

Mr Peter Alphonso
B.Com, UWA (CPA)

Mr Peter Alphonso was appointed Joint Company Secretary on 11 December 2007.

Mr Alphonso's 29 years experience has included associations with the auditing, engineering and communications industries, with the majority of his experience centred on the gold and nickel sectors of the mining industry. Mr Alphonso's experience has included associations with Coopers and Lybrand, Western Mining Corporation, Great Central Mines and Tiwest Joint Venture and he has also consulted to government departments on research projects.

In his capacity as joint Company Secretary, Peter is responsible for the secretarial functions of the Company. His responsibility extends to assisting the Finance Director with all financial and statutory reporting of the Company and the directing and monitoring of the financial aspects of the Company's overseas operations.

4. MEETINGS OF DIRECTORS

The number of meetings held during the financial year by Company Directors and the number of those meetings attended by each Director was:

Name of Director	Board of Directors Meetings		Audit Committee (established 12 Aug 09)		Remuneration Committee (established 07 Oct 09)	
	No. eligible to attend (1)	No. attended	No. eligible to attend (1)	No. attended	No. eligible to attend (1)	No. attended
Kevin Tomlinson (2)	4	4	1	1	1	1
Geoffrey Davis	9	9	-	-	-	-
Roy Daniel	9	9	-	-	-	-
Robert Weinberg	9	8	2	2	1	1
Peter Hepburn-Brown (3)	7	6	2	2	1	1
Andrew Teo (4)	4	3	1	1	-	-
Peter R. Jones (5)	-	-	-	-	-	-

(1) Number of meetings held during the time the Director held office during the year
(2) Resigned on 13 January 2010
(3) Appointed 15 September 2009
(4) Appointed 15 February 2010
(5) Appointed 08 July 2010

For the reasons set out in the Corporate Governance Statement on page 35, the Board has not established a Nomination Committee and undertakes the role and responsibilities of the Nomination Committee.

5. PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were mineral exploration, evaluation, development and mining/production of gold. There were no significant changes in the nature of the activities of the Group during the year.

6. OPERATING RESULTS

The net consolidated profit for the financial year attributable to members of Medusa Mining Limited after provision of income tax was US$65.812 million [2009: US$28.508 million].

The underlying net consolidated profit for the financial year attributable to members of Medusa Mining Limited after provision of income tax was US$71.705 million.

The material difference of US$5,893 million between statutory and adjusted underlying profits is due to the accounting treatment as a result of re-classifying bullion awaiting shipment that relate to current year's production from revenues to inventory at cost to comply with Australian Accounting Standards. Refer Note 6 - Adjusted Underlying Profits under Notes to the Financial Statements.

Key financial results:

Key Results	30 June 2010	30 June 2009	Variance	(%)
Revenues	US$94.6M	US$42.8M	US$51.8M	121%
EBITDA	US$73.7M	US$30.4M	US$43.3M	142%
Ajusted underlying EBITDA*	US$79.6M	US$30.4M	US$49.2M	162%
NPAT	US$65.8M	US$28.5M	US$37.3M	131%
Adjusted underlying NPAT*	US$71.7M	US$28.5M	US$43.2M	152%
EPS (basic)	US$0.378	US$0.187	US$0.191	102%
Adjusted underlying EPS (basic)*	US$0.412	US$0.187	US$0.225	120%

* As a result of a timing issue, bullion awaiting shipment at year end that relate to current year's production has been re-classified from revenue to inventory at cost to comply with Australian Accounting Standards. This timing issue has had a material reduction of US$5.893 million to current year's profit. Refer Note 6, under Notes to the Financial Statements. Subsequent to year end the bullion has been shipped and sold in July 2010 and proceeds relating to the sale has been received.

- Revenues increased 121% to a record US$94.6 million, due to increased gold production and a higher price received on sale of gold. Medusa is an un-hedged gold producer and received an average gold price of US$1,100 per ounce from the sale of 64,020 ounces of gold for the year (*adjusted underlying revenues totalled US$102.2 million, up 139%*);
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US$73.7 million, up 142% (*adjusted underlying EBITDA of US$79.6 million, up162%*);

6. OPERATING RESULTS (continued)

- Net profit after tax of US$65.8 million representing basic earnings per share ("EPS"), of US$0.378 on a weighted average basis, up102% (*adjusted underlying EPS of US$0.412, up 120%, on adjusted underlying NPAT of US$71.7 million, up 152%*);
- The Company remains debt free and had total cash and bullion of US$55.8 million at year end (2009: US$26.5 million). *The adjusted underlying cash and bullion at year end was US$63.4 million*;
- The Co-O Mine produced a record 89,679 ounces of gold for the year, an increase of 41,810 ounces or 87% at an average recovered grade of 16.52 g/t gold (2009: 13.30 g/t gold) and cash costs of US$184 per ounce (2009: US$213 per ounce);
- Depreciation and amortisation of fixed assets, capitalised mine development and capitalised mine exploration was US$7.8 million (2009: US$3.6 million);
- Capitalised mine development (including shaft sinking) costs totalled US$7.9 million for the year (2009: US$7.8 million) ;
- The Company is committed to an extensive exploration programme and incurred a total of US$18.9 million for the year (2009: US$12.125 million), of which US$13.8 million was spent on Co-O and surrounding areas, including underground exploration. The remaining US$5.1 million was incurred regionally;
- US$7.7 million was incurred on capital works associated with the mine/mill expansion and sustaining capital (2009: US$8.7 million);
- The outlook for the forthcoming year is to produce 100,000 ounces at estimated cash costs of US$190 per ounce.

7. REVIEW OF OPERATIONS

A review of and information about the Group's operations and exploration activities for the financial year and the results of those operations are set out in the Managing Director's Review and Review of Operations which are included with these financial statements.

8. DIVIDENDS

There was no dividend paid or declared by the Company since the end of the previous financial year and the Directors have not recommended the payment of a dividend in respect of the financial year under review.

9. SIGNIFICANT CHANGE IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

- Medusa was added to the S&P/ASX200 and S&P/ASX All Australian 200 Index after the close of business on 7 July 2009;
- Mr Peter Hepburn-Brown was appointed Non-Executive Director of Medusa on 15 September 2009;
- The Company on 27 November 2009 officially commenced trading on the Toronto Stock Exchange under the trading code of MLL;
- Mr Andrew Boon San Teo was appointed Non-Executive Director of Medusa on 15 February 2009;
- On 8 March 2010, the Company announced a "one for every ten" bonus issue of shares to all shareholders of the Company. 17,037,951 ordinary shares were issued for nil consideration pursuant to the issue.
- The Company announced to the market on 15 April 2010 that it intends to apply for admission of its ordinary share capital to the Official List of the UK Listing Authority ("Official List") and to trading on the London Stock Exchange's Main Market for listed securities.

  Fairfax I.S.PLC was appointed Financial Adviser and Broker in relation to the move to the Official List.

  The admission process is continuing and the Company is currently awaiting the finalisation of documentation and approval from the UK Listing Authority.

In the opinion of the Directors, there was no other significant changes in the state of the affairs of the Group that occurred during the financial year.

10. EVENTS SUBSEQUENT TO BALANCE DATE

- Mr Peter R. Jones was appointed Non-Executive Chairman on 08 July 2010;
- Mr Peter Hepburn-Brown was appointed Executive Director - Operations on 27 July 2010.

Other than the matter described above, there has not arisen in the interval between the end of the financial year and the date of this Directors' Report that, in the opinion of the Directors has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

11. FUTURE DEVELOPMENTS, BUSINESS STRATEGIES AND PROSPECTS

The Group will continue to pursue its policy of organic growth within its land-holdings in the Philippines and test attractive mineral properties with a view to developing properties capable of economic mineral production.

12. DIRECTORS' INTEREST

The relevant interest of each Director in the share capital of the Company as notified by the Directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Name of Director	No. of fully paid ordinary shares	No. of options over ordinary shares
Peter R. Jones	-	-
Geoffrey Davis	5,052,750	-
Peter Hepburn-Brown	-	-
Roy Daniel	1,397,006	-
Robert Weinberg	57,475	-
Andrew Teo	55,000	-

13. REMUNERATION REPORT

(a) Details of Directors and Executive Officers (including Key Management Personnel)

Other than the Executive Directors and Executive Officers, no other person is concerned in, or takes part in, the management of the Group; or has authority or responsibility for planning, directing and controlling the activities of the Group. As such, during the financial year, the Group did not have any person, other than Directors and Executive Officers, within the meaning of "Key Management Personnel" for the purposes of AASB124 or "Company Executive" or "Relevant Group Executive" for the purposes of section 300A of the Corporations Act 2001 ("Corporations Act"). Remuneration details of the Company Secretary are disclosed as section 300A(1B)(a) of the Corporations Act defines a "Company Executive" to specifically include a Secretary of the Group.

Directors

<u>Non-Executive Directors:</u>

Peter R. Jones - Chairman (appointed 8 July 2010)

Robert Weinberg - Director

Andrew Teo - Director (appointed 15 February 2010)

Kevin Tomlinson (resigned 13 January 2010)

<u>Executive Directors:</u>

Geoffrey Davis - Managing Director

Peter Hepburn-Brown - Executive Director – Operations (appointed 15 September 2009)

Roy Daniel - Executive Director - Finance and Joint Company Secretary

Executive Officers

Peter Alphonso - Joint Company Secretary, Medusa Mining Limited

Samuel Afdal - President, Philsaga Mining Corporation

William Phillips - Operations Director, Philsaga Mining Corporation (resigned 30 June 2010)

(b) Directors' and Executives' remuneration (Company and consolidated)

The following tables provides the details of all Directors and Executives of the Group and the nature and amount of the elements of their remuneration (in US$'s) for the year ended 30 June 2010 and the previous financial year.

		Short term benefits				Post-employment benefits		Long-term benefits		Equity-settled share-based payments		Cash-settled share-based payments	Termin-ation benefits		Proportion of remuneration performance related	Value of options as proportion of remunerat'n
Name	Year	Salary/ fees	Directors' fees	Non-monetary	Bonus	Super-annuation	Other	Incentive plans	LSL	Shares/ units	Options/ rights			TOTAL		
Directors																
Non-Executive Directors																
Kevin Tomlinson [1]	2010	-	42,105	-	-	-	-	-	-	-	-	-	-	42,105	-	-
	2009	-	65,579	-	-	-	-	-	-	-	-	-	-	65,579	-	-
Robert Weinberg	2010	-	43,536	-	-	-	-	-	-	-	-	-	-	43,536	-	-
	2009	-	43,171	-	-	-	-	-	-	-	-	-	-	43,171	-	-
Peter Hepburn-Brown [2]	2010	45,257	46,647	-	-	-	-	-	-	-	-	-	-	91,904	-	-
	2009	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Andrew Teo [3]	2010	-	15,906	-	-	-	-	-	-	-	-	-	-	15,906	-	-
	2009	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Executive Directors																
Geoffrey Davis	2010	470,800	-	-	213,327	-	-	-	-	-	-	-	-	684,127	31.2%	-
	2009	358,623	-	-	-	-	-	-	-	-	-	-	-	358,623	-	-
Roy Daniel	2010	332,772	-	-	163,577	42,025	-	-	-	-	-	-	-	538,374	30.4%	-
	2009	189,133	-	-	-	74,830	-	-	-	-	-	-	-	263,963	-	-
Executives																
Peter Alphonso	2010	168,067	-	-	6,301	18,057	-	-	-	-	-	-	-	192,425	-	-
	2009	113,305	-	-	5,986	15,839	-	-	-	-	25,532	-	-	160,662	3.7%	15.9%
Samuel Afdal	2010	300,000	-	-	-	-	-	-	-	-	-	-	-	300,000	-	-
	2009	120,000	-	-	-	-	-	-	-	-	-	-	-	120,000	-	-
William Phillips [4]	2010	300,000	-	-	-	-	-	-	-	-	-	-	-	300,000	-	-
	2009	300,000	-	-	-	-	-	-	-		-	-	-	300,000	-	-
Total	2010	1,616,896	148,194	-	383,205	60,082	-	-	-	-	-	-	-	2,208,377	17.4%	-
	2009	1,081,061	108,750	-	5,986	90,669	-	-	-	-	25,532	-	-	1,311,998	0.5%	1.9%

(1) Resigned 13 January 2010
(2) Appointed 15 September 2009
(3) Appointed 15 February 2010
(4) Resigned 30 June 2010

13. REMUNERATION REPORT (continued)

(c) Remuneration options

No options were granted by the Company as remuneration during or since the end of the financial year.

(d) Shares issued on exercise of options granted as remuneration

During the financial year, 800,000 fully paid ordinary shares were issued on the exercise of options previously granted as remuneration at the following exercise prices:

Name	Number of shares issued	Amount paid per share
Directors		
Geoffrey Davis	600,000	A$0.4334
Executives		
Peter Alphonso	200,000	A$0.7128

There are no amounts unpaid on the shares issued as a result of the exercise of the options.

(e) Option holdings

The movement during the year in the number of options over ordinary shares in Medusa Mining Limited held directly, indirectly or beneficially, by each Director and Executive, including their personally related entities is as follows:

Name	Balance 01/07/09	Options granted as remunerat'n	Options exercised	Options not exercised and lapsed	Balance held 30/06/10	Vested & exercisable 30/06/10 [2]	Total not exercisable 30/06/10 [3]
Directors							
Kevin Tomlinson[3]	-	-	-	-	-	-	-
Geoffrey Davis	600,000	-	(600,000)	-	-	-	-
Peter Hepburn-Brown[4]	-	-	-	-	-	-	-
Roy Daniel	-	-	-	-	-	-	-
Robert Weinberg	-	-	-	-	-	-	-
Andrew Teo[5]	-	-	-	-	-	-	-
Executives							
Samuel Afdal	-	-	-	-	-	-	-
William Phillips[6]	-	-	-	-	-	-	-
Peter Alphonso	280,000	-	(200,000)	-	80,000	40,000	40,000

1. Options vested and exercisable are all the options vested at the reporting date;
2. Options that are not exercisable have not vested at the reporting date
3. Resigned 13 January 2010
4. Appointed 15 September 2009
5. Appointed 15 February 2010
6. Resigned 30 June 2010

(f) Remuneration policies

Remuneration levels are competitively set to attract, retain and motivate appropriately qualified and experienced Directors and Executives.

In determining the level and make up of remuneration levels for Executives of the Group, the remuneration policy has been structured to increase goal congruence between shareholders and Executives and includes the payment of bonuses based on achievement of specific goals related to the performance of the Group and also the issue of options to encourage alignment of personal and shareholder interests.

The Board obtains independent advice from external consultants in the form of a written report detailing market levels of remuneration for comparable executive roles in resource based international corporations.

Executive remuneration packages:

The Company's aim is to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward Executives for Company and individual performances; and
- ensure total remuneration is competitive by international market standards.

In determining the level and make-up of Executive remuneration, the Board sets remuneration levels that reflect the market salary for a position and individual of comparable responsibility and experience.

Remuneration consists of a fixed remuneration and long term incentive portion as considered appropriate.

13. REMUNERATION REPORT (continued)

(f) Remuneration policies (continued)

Fixed Remuneration:

Fixed remuneration consists of base salary, any non-financial benefits and employer contributions to superannuation funds.

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board and the process involves the review of Company and individual performance, and relevant comparative remuneration in the international market.

In addition, the Board engages the services of an external consultant to provide analysis and independent advice to ensure that Directors and Executives' remuneration levels are competitive in the international market place.

Performance linked remuneration:

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive is an 'at risk' bonus provided in the form of cash whilst the long-term incentive is provided as options over ordinary shares.

<u>Short-term incentives ("STI")</u>

Each year, the Board sets key performance indicators ("KPIs") for key management personnel. The KPIs generally include measures relating to the Group, the relevant segment, and the individual, and include financial, people, strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPIs of the Group and to its strategy and performance.

At the end of the financial year the Board assesses the actual performance of the Group, the relevant segment and individual against the KPIs set at the beginning of the financial year. Should the Group achieve the set KPIs, the Board will reward the key management personnel with a bonus during the salary review. A percentage of a pre-determined maximum amount is awarded depending on results. No bonus is awarded where performance falls below the minimum.

This method of assessment was chosen as it provides the Board with an objective assessment of the individual's performance.

<u>Long-term incentive ("LTI")</u>

LTIs granted to key management personnel are in the form of options over ordinary shares.

All key management personnel have been incentivised with options and the Board does not consider it necessary to establish an Executive Share Option Plan. The Board will reassess whether such a plan should be adopted on an annual basis.

The primary objective of option based remuneration, is to reward key management personnel in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Non-Executive remuneration packages:

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Non-Executive Directors of the highest calibre.

Non-Executive Directors' fees are paid within the aggregate amount approved by shareholders from time to time. Total remuneration for all Non-Executive Directors, last approved by shareholders on 18 November 2009, is not to exceed A$400,000 per annum. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually.

The Board considers the amount of Director fees being paid by comparable international resource companies with similar responsibilities, and the experience of each Non-Executive Director when undertaking the review process. Directors' fees cover all main Board activities and membership of Board Committees. No retirement benefits are provided for any Non-Executive Director's retirement or termination and Non-Executive Directors do not receive performance related compensation remuneration.

Fees currently paid to Non-Executive Directors are as follows:

- Peter R. Jones (Non-Executive Chairman) receives Director's fees of A$75,000 per annum;
- Dr Robert Weinberg (Non-Executive Director) receives Director's fees of A$50,000 per annum;
- Andrew Boon San Teo (Non-Executive Director) receives Director's fees of A$50,000 per annum.

13. REMUNERATION REPORT (continued)

(g) Company performance

In considering the Company's performance and benefits for shareholder wealth, the Remuneration Committee take into account the following indices in respect of the current financial year and the previous four financial years.

Year ended 30 June	Note	2006	2007	2008	2009	2010
Basic earnings per share (EPS)	(1)	(A$0.046)	A$0.095	(A$0.009)	US$0.187	US$0.378
Share price at 30 June		A$0.63	A$1.27	A$1.24	A$2.20	A$3.90
Share price increase	(2)	(A$0.05)	A$0.64	(A$0.03)	A$0.96	A$1.70
Total shareholder returns (TSR)	(3)	(7.4%)	102.0%	(2.4%)	77.4%	77.3%

(1) Basic EPS is calculated as net profit after tax divided by the weighted average number of ordinary shares;

(2) Share price movement during the financial year;

(3) TSR is defined as the growth/decline (in percentage terms) in the share price over the previous financial year ending 30 June. No dividends were paid or capital returned in the respective periods.

13. **REMUNERATION REPORT** (continued)

(h) Employment contracts

Executive Directors

Geoffrey Davis (Managing Director)

Contract description:	Consultancy agreement between the Company and Harvest Services Aust Pty Ltd ("Consultant") in respect of the provision of services by Geoffrey Davis.
Term:	An initial term ending on 31 December 2011 (subject to earlier termination) ("Initial Term"). If not terminated on or prior to 31 December 2011, the agreement will continue until terminated.
Services:	The Consultant will provide the services of Geoffrey Davis as Managing Director of the Company, who will be responsible for the management of the Company (subject to the direction of the Board); and its operations and strategic development.
Fees:	A$550,000 per annum, subject to annual review by the Board. During the review, the Board will consider the progress of the Company and comparable industry standard fees. The review will also consider whether bonuses should be payable (and the quantum of any bonus) as and when the Company achieves specific milestones in the context of the market conditions.
Termination:	Termination by the Company During the Initial Term (other than as set out below in relation to a "Material Diminution" or default by the Consultant), the Company may terminate the agreement by notice or payment in lieu of notice of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 6 months, if the number of months remaining in the Initial Term is less than 6. The Company may immediately terminate the agreement in certain circumstances, including if the Consultant is in default of its obligations and does not remedy that default in addition to other standard default situations.
	Termination by the Consultant The Consultant may terminate the agreement at any time by giving 6 months' written notice or immediately in certain circumstances, including if the Company is in default of its obligations and does not remedy that default and in certain other standard default situations, in which case the Consultant will be entitled to payment in lieu of notice.
	Termination by reason of Material Diminution A "Material Diminution" is a change in Geoffrey Davis's status as Managing Director of the Company, including a material change in his authority in respect of the business of the Company or any member of the Company's group; or a change in his reporting relationship with the Board. If a Material Diminution occurs, within 3 months of this occurring, the Consultant may give the Company 2 weeks' written notice of termination of this agreement. Subject to the Corporations Act, the Company must make a payment in lieu of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 6 months, if the number of months remaining in the Initial Term is less than 6. After expiration of the Initial Term, the Company must make a payment to the Consultant in lieu of a notice period equal to 12 months.
Protection of the Company's interests:	Geoffrey Davis is restrained from providing services to any party involved or likely to be involved in a business which competes with the Company's business, without the Board's prior consent.

13. REMUNERATION REPORT (continued)

(h) Employment contracts (continued)

Executive Directors (continued)

Peter Hepburn-Brown (Operations Director)

Contract description:	Employment contract between the Company and Peter Hepburn-Brown ("Employee").
Term:	An initial term ending on 31 July 2013 (subject to earlier termination) ("Initial Term"). If not terminated on or prior to 31 July 2013, the agreement will continue until terminated.
Role:	The Employee is initially employed in the role of Operations Director and may subsequently be employed in other comparable roles as determined by the Employer. In his role as Operations Director, the Employee will manage all operational and technical aspects of the Company's operations in the Philippines.
Remuneration:	A$450,000 per annum, subject to annual review by the Board. During the review, the Board will consider the progress of the Company and comparable industry standard. The review will also consider whether bonuses should be payable (and the quantum of any bonus) as and when the Company achieves specific milestones in the context of the market conditions.
Termination:	Termination by the Company During the Initial Term (other than as set out below in relation to a "Material Diminution" or default by the Employee), the Company may terminate the agreement by notice or payment in lieu of notice of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 12 months, if the number of months remaining in the Initial Term is less than 12. The Company may immediately terminate the agreement in certain circumstances, including if the Employee is in default of its obligations and does not remedy that default in addition to other standard default situations.
	Termination by the Employee The Employee may terminate the agreement at any time by giving 3 months' written notice or immediately in certain circumstances, including if the Company is in default of its obligations and does not remedy that default and in certain other standard default situations, in which case the Consultant will be entitled to payment in lieu of notice.
	Termination by reason of Material Diminution A "Material Diminution" is a change in the Employee's status as Finance Director of the Company, including a material change in his authority in respect of the business of the Company or any member of the Company's group; or a change in his reporting relationship with the Board. If a Material Diminution occurs, within 3 months of this occurring, the Employee may give the Company 2 weeks' written notice of termination of this agreement. Subject to the Corporations Act, the Company must make a payment in lieu of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 12 months, if the number of months remaining in the Initial Term is less than 12. After expiration of the Initial Term, the Company must make a payment to the Employee in lieu of a notice period equal to 12 months.
Protection of the Company's interests:	The Employee's contract also contains provisions for the protection of the Company's interest in such areas as confidentiality, conflict of interests and business dealings.

13. REMUNERATION REPORT (continued)

(h) Employment contracts (continued)

Executive Directors (continued)

Roy Daniel (Finance Director and Joint Company Secretary)

Contract description:	Employment contract between the Company and Roy Daniel ("Employee").
Term:	An initial term ending on 30 September 2011 (subject to earlier termination) ("Initial Term"). If not terminated on or prior to 30 September 2011, the agreement will continue until terminated.
Role:	The Employee is initially employed in the role of Finance Director and may subsequently be employed in other comparable roles as determined by the Employer. In his role as Finance Director, the Employee will be responsible for the day to day management of all financial, administrative and corporate functions of the Company.
Remuneration:	A$425,000 per annum, subject to annual review by the Board. During the review, the Board will consider the progress of the Company and comparable industry standard. The review will also consider whether bonuses should be payable (and the quantum of any bonus) as and when the Company achieves specific milestones in the context of the market conditions.
Termination:	Termination by the Company During the Initial Term (other than as set out below in relation to a "Material Diminution" or default by the Employee), the Company may terminate the agreement by notice or payment in lieu of notice of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 12 months, if the number of months remaining in the Initial Term is less than 12. The Company may immediately terminate the agreement in certain circumstances, including if the Employee is in default of its obligations and does not remedy that default in addition to other standard default situations.
	Termination by the Employee The Employee may terminate the agreement at any time by giving 3 months' written notice or immediately in certain circumstances, including if the Company is in default of its obligations and does not remedy that default and in certain other standard default situations, in which case the Consultant will be entitled to payment in lieu of notice.
	Termination by reason of Material Diminution A "Material Diminution" is a change in the Employee's status as Finance Director of the Company, including a material change in his authority in respect of the business of the Company or any member of the Company's group; or a change in his reporting relationship with the Board. If a Material Diminution occurs, within 3 months of this occurring, the Employee may give the Company 2 weeks' written notice of termination of this agreement. Subject to the Corporations Act, the Company must make a payment in lieu of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 12 months, if the number of months remaining in the Initial Term is less than 12. After expiration of the Initial Term, the Company must make a payment to the Employee in lieu of a notice period equal to 12 months.
Protection of the Company's interests:	The Employee's contract also contains provisions for the protection of the Company's interest in such areas as confidentiality, conflict of interests and business dealings.

13. REMUNERATION REPORT (continued)

(h) Employment contracts (continued)

Samuel Afdal (President, Philsaga Mining Corporation)

On 01 January 2010, Philsaga executed a management consultancy agreement with Samuel G Afdal.

Under the terms of the management consultancy agreement, Philsaga has engaged Mr Afdal to provide Philsaga or the Group with management and advisory services on milling, administration and industrial relations matters for the Co-O Mine and any other mining activities in the Philippines together with other required complimentary services.

The engagement of Mr Afdal by Philsaga is for a term of 1 year and is renewable thereafter for 1 year periods by mutual agreement between the parties. During the initial term, Philsaga may only terminate the agreement upon limited events akin to misconduct and incapacity. The management consultancy agreement does not provide for specified periods of notice to terminate the agreement and does not provide for termination payments.

Philsaga will pay Mr Afdal the sum of US$25,000 per calendar month. Philsaga will additionally reimburse Mr Afdal for all expenses reasonable incurred in the performance of his services including relating to entertainment, accommodation, meals, telephone and travelling.

Peter Alphonso (Joint Company Secretary, Medusa Mining Limited)

Mr Peter Alphonso executed an employment agreement with Medusa on 30 June 2009.

Under the terms of the employment agreement, which has no fixed term, the remuneration of Mr Alphonso is reviewed annually and maintained at a level that reflects the progress of the Company as well as the maintenance of industry standards for similar positions and responsibilities. The annual review will also take into consideration the payment of bonuses.

Mr Alphonso's current salary package is A$205,000 per annum.

Under the terms of the employment contract, Mr Alphonso may be terminated by:

(1) Mr Alphonso, at anytime on giving 3 months notice;
(2) Medusa, at anytime on giving 3 months notice;
(3) The Company, immediately in the event of misconduct.

In circumstances where Mr Alphonso's employment is terminated by the Company due to redundancy, the Company will pay Mr Alphonso, by way of redundancy payment, the greater of 6 months pay or 4 weeks pay for each completed year of service.

Alternatively, if there is a change in Mr Alphonso's status as Company Secretary, including without limitation:

(a) a material change in Mr Alphonso's authority in respect of the business of the Company; or

(b) a change in Mr Alphonso's reporting relationship with the Finance Director,

then within a period not greater than three months after that change, Mr Alphonso may give notice to terminate his employment, in which event the Company will be liable to pay him, by way of redundancy payment, the greater of 6 months pay or 4 weeks pay for each completed year of service.

Mr Alphonso's employment contract also contains provisions for the protection of the Company's interest in such areas such as confidential information and business dealings.

14. OPTIONS

Un-issued shares under option

At the date of this report, details of un-issued ordinary shares of the Company under option are as follows:

Expiry date	Exercise price	No. of options	No. of shares issued if options exercised (1)
31 March 2011	A$1.2500	190,000	209,000
22 January 2012	A$1.2500	1,000,000	1,100,000

(1) The number of shares includes participation in the 1 for 10 bonus issue on 8 March 2010;

Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows:

Option expiry date	Exercise price	No. of options exercised	No. of shares issued (1)
19 December 2009	A$0.7128	800,000	800,000
23 December 2009	A$0.4334	600,000	600,000
31 March 2011	A$1.2500	290,000	290,000
31 March 2011	A$1.2500	150,000	165,000 (2)

(1) There were no amounts unpaid on the shares issued;
(2) The number of shares includes participation in the 1 for 10 bonus issue on 8 March 2010.

15. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company has agreed to indemnify the following current Directors of the Company, Messrs Jones, Davis, Hepburn-Brown, Daniel, Teo and Dr Weinberg and the following former Directors Messrs Cato, Mein, Tomlinson and Dr Schiller against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a wilful breach of duty or improper use of information to gain a personal advantage.

No amount has been paid under any of these indemnities during the financial year under review.

Insurance premiums

During the year, the Company paid an insurance premium for Directors' and Officers' Liability Insurance policy, which cover all Directors, Company Secretaries and other Officers of the Company and its related entities. Details of the nature of the liabilities covered and the amount of premium paid in respect of the Directors' and Officers' Liability Insurance policy are not disclosed, as such disclosure is prohibited under the terms of the policy.

16. ENVIRONMENTAL REGULATIONS

The Group's operations are subject to a number of environmental regulations in relation to its exploration, mining and processing activities in the Philippines.

The Directors are not aware of any significant breaches during the period covered by this report.

17. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

DIRECTORS' REPORT

18. NON-AUDIT SERVICES

During the year, Grant Thornton Audit Pty Ltd ("Grant Thornton"), the Company's auditors, performed certain other services in addition to their statutory duties.

The Board has considered and is satisfied that the provision of non-audit services during the year by the auditor is compatible with and did not compromise, the auditor independence requirements of the Corporations Act for the following reasons:

a) all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

b) the nature of the non-audit services provided do not compromise the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Grant Thornton for non-audit services provided during the year ended 30 June 2010.

	2010 (US$)	2009 (US$)
Taxation services	5,705	8,228
Financial reporting advice	10,966	5,325
Total non-audit services	16,671	13,553

19. AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration for the year ended 30 June 2010 has been received and can be found on page 56 of the Financial Report.

20. ROUNDING OFF AMOUNTS (ASIC Class Order 98/100)

The Company is an Entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors

Geoffrey Davis
Managing Director

Dated at Perth this 30th day of August 2010

AUDITOR'S INDEPENDENCE DECLARATION

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

	Note	Consolidated 2010 US$000	2009 (restated) US$000
Revenue	2	94,508	42,825
Other income	2	81	4
Cost of sales		(22,455)	(12.970)
Exploration & evaluation expenses	11	(294)	(60)
Administration expenses		(2,853)	(1,760)
Other expenses		(3,133)	(1,246)
Profit before income tax expense		65,854	26,793
Income tax (expense)/income	4	(42)	1,714
Profit attributable to members of the Company	6,22	65,812	28,507
Other comprehensive income:			
Exchange differences on translation of foreign operations		2,311	(480)
Total comprehensive income		68,123	28,027
Overall operations:			
Basic earnings per share	5	0.378	0.187
Diluted earnings per share	5	0.377	0.186

The accompanying notes form part of these financial statements

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STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

		Consolidated		
		2010	**2009** (restated)	**2008** (restated)
	Note	US$000	US$000	US$000
CURRENT ASSETS				
Cash & cash equivalents	22	32,457	26,510	4,648
Trade & other receivables	7	34,895	5,006	2,102
Inventories	8	5,511	1,164	900
Other current assets	9	468	128	320
Total Current Assets		73,331	32,808	7,970
NON-CURRENT ASSETS				
Property, plant & equipment	10	34,595	29,823	23,050
Exploration, evaluation & development expenditure	11	75,978	52,722	36,988
Deferred tax assets	13	73	69	1,902
Total Non-Current Assets		110,646	82,614	61,940
TOTAL ASSETS		183,977	115,422	69,910
CURRENT LIABILITIES				
Trade & other payables	12	8,272	9,193	6,582
Total Current Liabilities		8,272	9,193	6,582
NON-CURRENT LIABILITIES				
Deferred tax liability	13	279	313	3,481
Total Non-Current Liabilities		279	313	3,481
TOTAL LIABILITIES		8,551	9,506	10,063
NET ASSETS		175,426	105,916	59,847
EQUITY				
Issued capital	15	70,906	69,776	51,999
Reserves	16	6,878	4,310	4,525
Retained profits	21	97,642	31,830	3,323
TOTAL EQUITY		175,426	105,916	59,847

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

	Note	Share Capital Ordinary US$000	Retained Profits US$000	Option Reserve US$000	Foreign Currency Translation Reserve US$000	Total US$000
CONSOLIDATED						
Balance at 30 June 2008 (*restated*)		**51,999**	**3,323**	**1,312**	**3,213**	**59,847**
Net profit after tax		-	28,507	-	-	28,507
Other comprehensive income		-	-	-	(480)	(480)
Total comprehensive income for the year		-	28,507	-	(480)	28,027
Shares issued during the period	15	18,610	-	-	-	18,610
Share transaction costs	15	(833)	-	-	-	(833)
Share options issued during the period in accordance with AASB 2 - share based payment	17	-	-	265	-	265
Balance at 30 June 2009 (*restated*)		**69,776**	**31,830**	**1,577**	**2,733**	**105,916**
Net profit after tax		-	65,812	-	-	65,812
Other comprehensive income		-	-	-	2,311	2,311
Total comprehensive income for the year		-	65,812	-	2,311	68,123
Shares issued during the period	15	1,191	-	-	-	1,191
Share transaction costs	15	(61)	-	-	-	(61)
Share options issued during the period in accordance with AASB 2 - share based payment	17	-	-	257	-	257
Balance at 30 June 2010		**70,906**	**97,642**	**1,834**	**5,044**	**175,426**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2010

	Note	Consolidated 2010 US$000	2009 (restated) US$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		78,220	42,651
Payments to suppliers & employees		(40,124)	(12,233)
Interest received		623	174
Net cash provided by operating activities	22(b)	38,719	30,592
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant & equipment		(7,741)	(7,506)
Payments for exploration & evaluation activities		(18,924)	(9,181)
Payment for development activities		(7,907)	(4,205)
Net cash used in investing activities		(34,572)	(20,892)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,187	18,610
Transaction costs from issue of shares		(57)	(834)
Net cash provided by financing activities		1,130	17,776
Net increase in cash and cash equivalents held		5,277	27,476
Cash & cash equivalents at the beginning of the financial year		26,510	4,648
Exchange rate adjustment		670	(5,614)
Cash & cash equivalents at the end of the financial year	22(a)	32,457	26,510

The accompanying notes form part of these financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report covers the Group of Medusa Mining Limited ("Medusa") and controlled entities. Medusa is a listed public company, incorporated and domiciled in Australia.

The financial statements were authorised by the Directors on 27 August 2010.

Basis of preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Principles of consolidation

A controlled entity is any entity over which Medusa has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities during the year ended 30 June 2010 is presented in note 18.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All intra-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(b) Comparative figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(c) Change in accounting policy

From 1 July 2009 the Group has adopted the following Standards for the reporting periods beginning on or after 1 July 2009. Adoption of these standards did not have any effect on the financial position or performance of the Group. However, the adoption of AASB 8 has caused the Group to revise its segment reporting. See note 27 for details of the reportable segments and applicable accounting policies.

- AASB 8 Operating Segments

  AASB 8 requires a management approach to the identification, measurement and disclosure of operating segments.

- AASB 101 Revised Presentation of Financial Statements

  AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Non-owner changes in equity require presentation in the Statement of Comprehensive Income.

  The revised AASB 101 requires all income and expenses to be presented in either one Statement of Comprehensive Income or a separate Income Statement and a Statement of Comprehensive Income. The Group's financial statements contain a Statement of Comprehensive Income.

  As a consequence of a change in functional currency the Group has included a third period for the Statement of Financial Position and accompanying notes for the year ended June 2008.

(d) Change in functional and presentation currency

The functional currency for a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial report. Till June 2009, the presentation currency of the Group was Australian dollars.

AASB 121, The Effects of Changes in Foreign Exchange Rates, suggests that a primary factor in determining the functional currency of an entity is the currency that mainly influences sales price for goods and services.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's gold sales, which are in US dollars, significantly outweigh all the expenses of the Group. In order to better reflect the Company's and Group's financial position and operations the Group has decided to change its presentation currency for financial reporting to US dollars. The Group has determined the date of transition of the presentation currency from Australian dollars to US dollars as 1 July 2009.

In order to derive US dollar comparatives the Group has converted the Statement of Financial Position at 30 June 2009 at US$/Philippine Peso of 48.369 for Philippine subsidiaries except Medusa Mineral Processing and Refining Corporation ("MMPRC") while the parent entity has been converted at US$/A$ of 0.8931. The Statement of Comprehensive Income for the year ended 30 June 2009 have been converted at an average rate of US$/Philippine Peso 47.594 for Philippine subsidiaries except MMPRC and US$/A$ 0.8704 for the Parent Entity.

Equity Balances have been maintained at historical exchange rates relating to the date of transaction. As described in the above mentioned reasons management have decided that MMPRC, a 100% owned subsidiary of the Company, would change its functional and presentation currency from Philippine Pesos to US dollars commencing 1 July 2009.

(e) Revenue recognition

Revenue from the sale of goods is recognised in the relevant reporting period when there has been a significant transfer of risks and rewards to the customer and no further processing is required by the Group's operations. In addition, the quality and quantity of the goods must be determined with reasonable accuracy, the price is known or determinable and collectability is probable. The point, at which risk passes, for the Group's sales, is for the majority of the time, upon receipt of the bill of lading or equivalent when the commodity is actually delivered for shipment.

Revenue is measured at the fair value of the consideration received or receivable.

Gold and silver sales

Revenue from the production of gold and silver is recognised when the group has passed control and risk to the buyer.

Interest Revenue

Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets, is the rate inherent in the instrument.

(f) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(g) Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Plant and equipment (excluding Co-O mine and milling equipment) is depreciated applying the straight line method over their estimated useful lives, commencing from the time the asset is held ready for use.

Co-O mine and milling equipment 's useful life is estimated to approximate the expected life of the mine, the depreciation rate is based on a charge proportional to the depletion of estimated recoverable gold ounces contained in indicated and inferred resources.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation method	Depreciation rate (%)
Plant and equipment (excluding Co-O mine & milling equipment)	Straight line	20% to 33%
Office furniture and fittings	Straight line	7.5% to 20%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income.

(h) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use i.e. discounted cash flows, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(j) Payables

Payables are initially recognised at fair value and due to their short term nature they are measured at amortised cost and not discounted.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any provision for impairment.

(l) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises direct costs and does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Exploration expenditure for each area of interest is carried forward as an asset provided the rights to tenure of the area of interest are current and one of the following conditions is met:

- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in , or in relation to, the area of interest are continuing.

Exploration expenditure is written off when it fails to meet at least one of the conditions outlined above or an area of interest is abandoned.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount the impairment loss will be measured and disclosed in accordance with AASB 136 Impairment of Assets.

When a decision is made to develop an area of interest, all carried forward exploration expenditure in relation to the area of interest is transferred to development expenditure.

(m) Development expenditure

Development expenditure represents the accumulated exploration, evaluation, land and development expenditure incurred by or on behalf of the Group in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production. All horizontal development drives which include permanent rail and associated infrastructure are capitalised.

Amortisation of costs is provided on the unit-of-production method with separate calculations being made - for each mineral resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the estimated recoverable reserves. In some circumstances, where conversion of resources into reserves is expected, some elements of resources may be included. Development and land expenditure still to be incurred in relation to the current reserves are included in the amortisation calculation. Where the life of the assets are shorter than the mine life their costs are amortised based on the useful life of the assets.

The estimated recoverable reserves and life of the mine and the remaining useful life of each class of asset is reassessed at least annually. Where there is a change in the reserves/resources amortisation rates are correspondingly adjusted.

(n) Rehabilitation costs

Rehabilitation costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure and other costs associated with the rehabilitation of the site.

These estimates of the rehabilitation obligation are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. Any changes in the estimates are adjusted on a progressive basis. In determining the rehabilitation obligations, the entity has assumed no significant changes will occur in the relevant Federal, State or foreign legislation in relation to rehabilitation of such minerals projects in the future. At balance date, the group does not consider it has any significant unsatisfied obligations in respect to rehabilitation costs.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

Provision is made for the Group liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within 12 months together with entitlements arising from wages, salaries and annual leave which will be settled after 12 months, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Other employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Group to several employee superannuation funds and are charged as expenses when incurred.

(p) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“GST”), except where the amount of GST incurred is not recoverable from the Australian Tax Office (“ATO”). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(q) Operating Segments

Operating Segments are identified on the basis of internal management reports that are regularly reviewed by the entity’s chief operating decision maker, for the purposes of allocating resources and assessing performance.

Segment revenues and expenses are those directly attributable to the segments. Segment assets consist principally of cash, receivables, other financial assets, property, plant and equipment, net of allowances and accumulated depreciation and mineral properties. Segment liabilities consist principally of accounts payable and provisions.

(r) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members of the Company for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with potential ordinary shares, by the weighted average number of ordinary shares and potential ordinary shares adjusted for any bonus issue.

(s) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group’s entities is the currency of the primary economic environment in which that entity operates. Though the Company’s functional currency is Australian dollars the presentation currency is US dollars. Refer note 1(d).

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit before income tax in the Statement of Comprehensive Income.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period where this approximates rate at the transaction date; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the other comprehensive income within the Statement of Comprehensive Income in the period in which the operation is disposed.

The functional currency of the parent entity, Medusa Mining Limited is Australian dollars, Mindanao Mineral Processing and Refining Corporation is United States dollars and the remaining entities are Philippine pesos.

(t) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents include:

- cash on hand and at call deposits with bank or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 30 days to maturity.

These amounts are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(u) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value or amortised cost using the effective interest rate method. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost *is* calculated as:

(a) the amount at which the financial asset or financial liability is measured at initial recognition;

(b) less principal repayments;

(c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and

(d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

iii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Statement of Comprehensive Income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(v) Inventories

Raw materials and stores, ore stockpiles and work in progress and finished gold stocks are physically measured or estimated and valued at the lower of cost and net realisable value. Net realisable value less costs to sell is assessed annually based on the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure and depreciation and amortisation relating to mining activities, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories of consumable supplies and spare parts expected to be used in production are valued at the lower of weighted average cost, which includes the cost of purchase as well as transportation and statutory charges, or net realisable value. Any provision for obsolescence is determined by reference to specific stock items identified.

During the exploration and development phase, where the cost of extracting the ore exceeds the likely recoverable amount, work in progress inventory is written down to net realisable value,

(w) Share based payments

The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price.

The fair value of options is ascertained using a Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates - Impairment of non-financial assets

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of non-financial assets (refer note 1(i)). Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. Refer to details of key elements and carrying values of non-financial assets at note 10.

Key estimates - Recoverability of long lived assets

Certain assumptions are required to be made in order to assess the recoverability of long-lived assets. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of ore reserves. In addition, cash flows are projected over the life of mine, which is based on proved and probable ore reserves. Estimates of ore reserves in themselves are dependent on various assumptions, in addition to those described above, including cut-off grades. Changes in these estimates could materially impact on ore reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount.

Key estimates - Determination of ore reserves and remaining mine life

The Company estimates its ore reserves and mineral resources based on information compiled by Competent Persons (as defined in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised December 2004 (the JORC code)). Reserves determined in this way are taken into account in the calculation of depreciation, amortisation, impairment, deferred mining costs, rehabilitation and environmental expenditure.

In estimating the remaining life of the mine for the purpose of amortisation and depreciation calculations, due regard is given, not only to the amount of remaining recoverable gold ounces contained in proved and probable ore reserves, but also to limitations which could arise from the potential for changes in technology, demand, and other issues which are inherently difficult to estimate over a lengthy time frame.

Where a change in estimated recoverable gold ounces contained in proved and probable ore reserves is made, depreciation and amortisation is accounted for prospectively,

The determination of ore reserves and remaining mine life affects the carrying value of a number of the consolidated entity's assets and liabilities including deferred mining costs and the provision for rehabilitation.

Key estimates - Exploration and evaluation expenditure

The consolidated entity's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the Statement of Comprehensive Income.

Key estimates - Development expenditure

Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project is economically viable. In exercising this judgment, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the Statement of Comprehensive Income.

(y) Rounding of amounts

The Company has applied the relief available to it under Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded to the nearest $1,000

		Consolidated	
		2010	**2009** (restated)
		US$000	US$000
2.	**REVENUE**		
	Operating activities:		
	Gold and silver sales	93,882	42,649
	Non-operating activities:		
	Interest revenue	622	174
	Other	4	2
	Total revenue	94,508	42,825
	Other Income		
	Gain on disposal of asset	81	4
3.	**EXPENSES**		
	Profit before income tax expense/(income) has been determined after charging/(crediting) the following items:		
	Depreciation of non-current assets (Note 10)	3,594	1,906
	Amortisation expense (Note 11)	4,256	1,676
	Total depreciation & amortisation	7,850	3,582
	Employee benefits expense	4,127	2,117
	Impairment losses:		
	- Assets written off	-	225
		-	225
	Operating lease rental:		
	- minimum lease payments	49	34

	Consolidated 2010 US$000	Consolidated 2009 (restated) US$000
4. TAXATION		
(a) The components of tax expense comprise:		
Current tax	89	-
Deferred tax (*refer note 13*)	(47)	(1,714)
	42	(1,714)
(b) The prima facie tax on loss before income tax is reconciled to the income tax as follows:		
Operating profit before income tax	65,854	26,793
Prima facie income tax (expense)/credit at 30% (2009: 30%) on operating profit	19,756	8,038
less - tax effect of:		
Other non-deductible expenses	788	302
Difference of effective foreign income tax rates	(20,502)	(10,054)
Income tax (expense)/income	42	(1,714)
The applicable weighted average effective tax rates are as follows	0%	(6)%

The reason for the 0% weighted average effective tax rate for the current year is due to the impact of the tax free holiday in Mindanao Mineral Processing and Refining Corporation, a subsidiary of the parent entity, through which sales of bullion are recorded. In the previous year the decrease in the weighted average effective consolidated tax rate for 2010 was a result of utilising available tax losses and the impacts of foreign tax concessions.

	2010 US$000	2009 (restated) US$000
(c) Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(f) occur:-		
- Temporary differences	109	90
- Australian tax losses	775	741
- Philippine tax losses	11	54
	895	885

The benefit of tax losses will only be obtained if:

(i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised; or the benefit can be utilised by another company in the Group in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the Group continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Group in realising the benefit.

	Consolidated 2010 US$000	Consolidated 2009 (restated) US$000
5. EARNINGS PER SHARE		
Earnings used to calculate basic and diluted EPS	65,812	28,507
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	173,598,847	152,723,201
Weighted average unlisted options outstanding	1,125,994	479,874
Weighted average of ordinary shares diluted as at 30 June 2010	174,724,841	153,203,075

	Consolidated 2010 US$000
6. ADJUSTED UNDERLYING PROFIT	
As at 30 June 2010, 6,368 gold ounces of current year's production was not dispatched and has been treated as inventory to comply with Australian Accounting Standards. Subsequent to year end these gold ounces were shipped in July 2010 and proceeds relating to the sale were received. If the gold bullion was actually shipped before 30 June 2010, the reported net profit for 2010 financial year would be as follows:	
Profit attributable to members as per Statement of Comprehensive Income	65,812
Net profit attributable to bullion awaiting shipment to current year's production but not included in Statement of Comprehensive Income	5,893
Adjusted Underlying Profit	71,705
Earnings per share based on Adjusted Underlying Profit:	
Basic earnings per share	US$ 0.412
Diluted earnings per share	US$ 0.410

	Consolidated 2010 US$000	Consolidated 2009 (restated) US$000	Consolidated 2008 (restated) US$000
7. CURRENT RECEIVABLES			
Bullion awaiting settlement	23,365	-	-
GST/VAT receivables	7,270	3,281	1,333
Other receivables	4,260	1,725	769
Total current receivables	34,895	5,006	2,102
Refer ageing analysis in Financial Instruments note 23(b).			
8. INVENTORIES			
Consumables - at cost	1,887	833	726
Ore stockpile - at cost	1,454	58	-
Gold in circuit - at cost	443	273	174
Bullion awaiting shipment at cost	1,727	-	-
Total inventories	5,511	1,164	900
9. OTHER CURRENT ASSETS			
Prepayments	468	128	320

	Consolidated		
	2010 US$000	**2009** (restated) US$000	**2008** (restated) US$000
10. PROPERTY, PLANT & EQUIPMENT			
Plant & equipment:			
At cost	43,342	34,971	26,806
less - accumulated depreciation	(8,883)	(5,252)	(3,858)
Total plant and equipment at net book value	34,459	29,719	22,948
Furniture & fittings:			
At cost	269	192	155
less - accumulated depreciation	(133)	(88)	(53)
Total furniture & fittings at net book value	136	104	102
Total carrying amount at end of year	34,595	29,823	23,050
Reconciliations:			
Plant and equipment:			
Carrying amount at beginning of year	29,719	22,948	23,168
plus - additions	7,668	8,747	1,820
less - disposal of assets	-	(17)	(168)
plus/(less) - forex differences on translation	620	(94)	307
less - depreciation	(3,548)	(1,865)	(2,179)
Carrying amount at end of year	34,459	29,719	22,948
Furniture and fittings:			
Carrying amount at beginning of year	104	102	92
plus - additions	73	61	41
less - disposal of assets	-	(2)	(6)
plus/(less) - forex differences on translation	4	(16)	(8)
less - depreciation	(45)	(41)	(17)
Carrying amount at end of year	136	104	102

	Consolidated		
	2010	**2009** (restated)	**2008** (restated)
	US$000	US$000	US$000
11. EXPLORATION , EVALUATION & DEVELOPMENT EXPENDITURE			
Exploration and evaluation expenditure:			
At cost	17,904	12,288	10,449
Development expenditure:			
At cost	64,837	42,940	27,713
less - accumulated amortisation	(6,763)	(2,506)	(1,174)
Net development expenditure	58,074	40,434	26,539
Total carrying amount at end of year	75,978	52,722	36,988
Reconciliations:			
Exploration and evaluation expenditure:			
Carrying amount at beginning of year	12,288	10,449	18,812
plus - costs incurred	5,060	3,391	6,458
less - transferred to development	-	-	(15,193)
less - expenditure written off	(294)	(60)	(513)
plus/(less) - forex differences upon translation	850	(1,492)	885
Carrying amount at end of year	17,904	12,288	10,449
Development expenditure:			
Carrying amount at beginning of year	40,434	26,539	6,096
plus - costs incurred	21,769	16,618	6,116
plus - transferred from exploration	-	-	15,193
less - amortisation expense	(4,256)	(1,677)	(1,064)
plus/(less) - forex differences upon translation	127	(1,046)	198
Carrying amount at end of year	58,074	40,434	26,539
12. TRADE & OTHER PAYABLES			
Current:			
Creditors and accrued expenses	8,003	9,013	6,428
Accrued employee benefits	269	180	154
Total current trade & other payables	8,272	9,193	6,582

13. DEFERRED TAX

	Consolidated			
	Opening Balance	**Forex on translation**	**Credit/ (charged) to Income**	**Closing Balance**
	US$000	US$000	US$000	US$000
Consolidated Group				
30 June 2010				
Deferred tax liability				
Capitalised exploration & evaluation expenditure	313	14	(48)	279
Deferred tax assets				
Carried forward tax losses	69	3	1	73
Consolidated Group				
30 June 2009 *(restated)*				
Deferred tax liability				
Capitalised exploration and evaluation expenditure	3,170	(226)	(2,631)	313
Unrealised forex gains	311	(22)	(289)	-
	3,481	(248)	(2,920)	313
Deferred tax assets				
Carried forward tax losses	1,902	(627)	(1,206)	69

	Consolidated 2010 US$000	2009 (restated) US$000
14. AUDITOR'S REMUNERATION		
Remuneration received or due and receivable by the Company's auditors, Grant Thornton Audit Pty Ltd for:		
• auditing or reviewing the financial reports	116	89
• other services:		
- Financial reporting advice	11	4
- other services provided by related practice of auditor - taxation and compliance	6	6
Total auditor's remuneration	133	99
Remuneration of other auditors of the Company's Philippine subsidiaries for:		
• auditing or reviewing the financial reports	48	33
• other services:		
other services provided by related practice of auditor - legal and taxation	51	11
Total auditors remuneration	99	44

	Consolidated 2010 US$000	2009 (restated) US$000	2008 (restated) US$000
15. ISSUED CAPITAL			
187,529,911 ordinary shares (30 June 2009: 168,691,960; 30 Jun 2008: 145,057,548)	75,269	74,082	55,472
less - issue costs	(4,363)	(4,306)	(3,473)
Total issued capital	70,906	69,776	51,999
Ordinary shares			
Balance at beginning of year	69,776	51,999	50,279
3,020,000 options exercised at various prices	-	-	875
Transfer from option reserve	-	-	845
23,634,412 shares issued and options converted at various prices	-	17,777	-
Ordinary shares issued during the year:			
(i) 390,000 options converted @ A$1.25 each	428	-	-
(ii) 800,000 options converted @ A$0.7128 each	526	-	-
(iii) 600,000 options converted @ A$0.4334 each	237	-	-
(iv) 17,047,951 bonus shares issued on the basis of 1 for every 10 shares held.	-	-	-
less - issue costs	(61)	-	-
Balance at end of year	70,906	69,776	51,999

	Consolidated		
	2010 Number	**2009** (restated) Number	**2008** (restated) Number
Ordinary shares			
Balance at beginning of year	168,691,960	145,057,548	142,037,548
Ordinary shares issued during the year:			
14 December 2007	-	-	20,000
21 December 2007	-	-	3,000,000
10 September 2008	-	250,000	-
26 September 2008	-	1,000,000	-
05 March 2009	-	20,300,000	-
27 March 2009	-	2,000,000	-
05 June 2009	-	84,412	-
01 September 2009	100,000	-	-
05 October 2009	50,000	-	-
18 November 2009	750,000	-	-
18 November 2009	190,000	-	-
30 December 2009	600,000	-	-
31 March 2010	17,027,845	-	-
28 April 2010	10,106	-	-
8 June 2010	110,000	-	-
Balance at end of year	187,529,911	168,691,960	145,057,548

Capital Management

Management controls the capital of the group by monitoring performance against budget to provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital, options and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements as the Group has no debt during the year and/or no debt outstanding at reporting date.

Management effectively manages the group’s capital by assessing the group’s financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

	Consolidated		
	2010	**2009** (restated)	**2008** (restated)
	US$000	US$000	US$000
16. RESERVES			
Option reserve	1,834	1,577	1,312
Foreign currency translation reserve	5,044	2,733	3,213
Total reserves	6,878	4,310	4,525

(a) Option reserve

The option reserve records items recognised as expenses on valuation of share based payments.

Unlisted options over ordinary shares at 30 June 2010 (unless otherwise stated, all unlisted options have full vesting rights)

240,000 options expiring 31 Mar 2011 and exercisable at $1.25 cents each (All options are vested at balance date)

1,000,000 options expiring 22 January 2012 and exercisable at $1.25 each (500,000 options are vested at balance date).

The above unlisted options do not entitle the holders to participate in any share issue of the Company.

(b) Foreign Currency Translation Reserve

The foreign currency translation reserve for the group records exchange differences arising on translation of foreign controlled subsidiaries.

17. SHARE BASED PAYMENTS

The following share based payment arrangements existed at 30 June 2010:

(i) On 23 June 2004, Mr Geoffrey Davis, Managing Director of the Company became entitled to 600,000 options exercisable at $0.4334 per option. The grant of options which was approved at the Company's Annual General Meeting on 11 November 2004, hold no voting or dividend rights. At balance date, all options were exercised.

(ii) On 19 December 2006, the Company issued 800,000 unlisted options over the shares of the Company to certain employees. The options which hold no voting or dividend rights have an expiry date of 19 December 2009 and are exercisable at $0.7128 per option.

Under the terms of the issue, the employees would be required to remain in the employment of the Company at 19 December 2007 to achieve 50% vesting of the options, with full vesting if they remain employees of the Company a year later on 19 December 2008. During the financial year all options were exercised.

(iii) On 18 April 2008, the Company issued 630,000 unlisted options over the shares of the Company to certain employees. The options which hold no voting or dividend rights have an expiry date of 31 March 2011 and are exercisable at $1.25 per option.

Under the terms of the issue, the employees would be required to remain in the employment of the Company at 31 March 2009 to achieve 50% vesting of the options, with full vesting if they remain employees of the Company a year later on 31 March 2010. At balance date 240,000 options remained unexercised.

(iv) On 23 January 2009 the Company issued 1,000,000 unlisted options over the shares of the Company to certain employees. The options which hold no voting or dividend rights have an expiry date of 22 January 2012 and are exercisable at $1.25 per option.

Under the terms of the issue, the employees would be required to remain in the employment of the Company at 22 January 2010 to achieve 50% vesting of the options, with full vesting if they remain employees of the Company a year later on 22 January 2011. At balance date all options remained unexercised.

Share based options

	Consolidated					
	2010		2009		2008	
	Number of options	Weighted average exercise price (A$)	Number of options	Weighted average exercise price (A$)	Number of options	Weighted average exercise price (A$)
Outstanding at start of year	3,030,000	1.0538	6,431,446	1.0100	6,821,446	0.7258
Granted	-	-	1,000,000	1.2500	2,630,000	1.2500
Forfeited	-	-	(1,151,446)	1.1277	-	-
Exercised	(1,790,000)	(0.7362)	(3,250,000)	(1.1015)	(3,020,000)	(0.5769)
Outstanding at year end	1,240,000	1.2500	3,030,000	1.0538	6,431,446	1.0100
Exercisable at year end	740,000	1.2500	1,715,000	0.9034	5,401,446	1.0041

A total of 1,790,000 options were exercised during the year ended 30 June 2010.

The options outstanding at 30 June 2010 (all of which are unlisted) had a weighted average exercise price of A$1.25 and a weighted average remaining contractual life of 17 months. The exercise price of all options outstanding at 30 June 2010 was A$1.25.

Included under administration expense in the Statement of Comprehensive Income is U$256,797 (2009: US$265,077) and relates, in full, to equity-settled share based payment transactions.

18. INVESTMENT IN CONTROLLED ENTITIES

The following companies are controlled entities of Medusa Mining Limited as at 30 June 2010:

Controlled Entities	Date of incorporation	Country of incorporation	% interest held 2010	% interest held 2009
Medusa Exploration & Development Corporation (Note 1)	29 May 2003	Philippines	40%	40%
Phsamed Mining Corporation (Note 2)	23 Apr 2003	Philippines	40%	40%
Medusa Overseas Holding Corporation (Note 3)	08 May 2003	Philippines	64%	64%
Philsaga Mining Corporation (Note 4)	17 May 2001	Philippines	78%	78%
Mindanao Mineral Processing and Refining Corporation	03 Nov 2005	Philippines	100%	100%

Note 1.

Medusa Exploration and Development Corporation ("MEDC") is 40% owned by Medusa Mining Limited ("Medusa") There are agreements in place which deal with the relationship between Medusa and the other shareholders in MEDC effectively limiting those outside shareholders' rights to an insignificant notional return of share capital. In such circumstances, the assets and liabilities of MEDC and its subsidiaries have been attributed 100% to the Consolidated Entity and no minority interests are therefore brought to account in the consolidated financial report.

Note 2.

Phsamed Mining Corporation is 100% owned by MEDC.

Note 3.

Medusa Overseas Holding Corporation ("MOHC") is 60% owned by MEDC and 40% owned by Medusa. There are agreements in place which deal with the relationship between Medusa Mining Limited ("Medusa") and MEDC effectively limiting those outside shareholders' rights to an insignificant notional return of share capital. In such circumstances, the assets and liabilities of MOHC and its subsidiaries have been attributed 100% to the Consolidated Entity and no minority interests are therefore brought to account in the consolidated financial report.

Note 4.

Philsaga Mining Corporation ("PMC") is 60% owned by MOHC and 40% owned by Medusa. There are agreements in place which deal with the relationship between Medusa Mining Limited ("Medusa") and MOHC effectively limiting those outside shareholders' rights to an insignificant notional return of share capital. In such circumstances, the assets and liabilities of PMC and its subsidiaries have been attributed 100% to the Consolidated Entity and no minority interests are therefore brought to account in the consolidated financial report.

19. KEY MANAGEMENT PERSONNEL REMUNERATION

This note is to be read in conjunction with Remuneration section of the Directors' Report.

(a) Remuneration

The totals of remuneration paid to Key Management Personnel of the group are as follows:

	Consolidated 2010 US$000	Consolidated 2009 (restated) US$000
Short-term benefits	2,148,295	1,195,797
Post-employment benefits	60,082	90,669
Long-term benefits	-	-
Termination benefits	-	-
Share based payments	-	25,532
	2,208,377	1,311,998

(b) Option holdings

The movement during the year in the number of options over ordinary shares in Medusa Mining Limited held directly, indirectly or beneficially, by each Director and Executive, including their personally related entities is as follows:

Name	Balance 01/07/09	Options granted as remuneration	Options exercised	Options not exercised and lapsed	Balance held 30/06/10	Vested & exercisable 30/06/10 (1)	Total not exercisable 30/06/10 (2)
Directors							
Kevin Tomlinson(3)	-	-	-	-	-	-	-
Geoffrey Davis	600,000	-	(600,000)	-	-	-	-
Peter Hepburn-Brown(4)	-	-	-	-	-	-	-
Roy Daniel	-	-	-	-	-	-	-
Robert Weinberg	-	-	-	-	-	-	-
Andrew Teo(5)	-	-	-	-	-	-	-
Executives							
Peter Alphonso	280,000	-	(200,000)	-	80,000	40,000	40,000
Samuel Afdal	-	-	-	-	-	-	-
William Phillips(6)	-	-	-	-	-	-	-

(1) Options vested and exercisable are all the options vested at the reporting date;
(2) Options that are not exercisable have not vested at the reporting date
(3) Resigned 13 January 2010
(4) Appointed 15 September 2009
(5) Appointed 15 February 2010
(6) Resigned 30 June 2010

Name	Balance 01/07/08	Options granted as remuneration	Options sold, acquired, exercised	Options lapsed	Balance 30/06/09	Vested & exercisable 30/06/09	Total not exercisable 30/06/09
Directors							
Kevin Tomlinson	1,000,000	-	(750,000)	(250,000)	-	-	-
Geoffrey Davis	600,000	-	-	-	600,000	600,000	-
Roy Daniel	500,000	-	(500,000)	-	-	-	-
Robert Weinberg	750,000	-	-	(750,000)	-	-	-
Executives							
Peter Alphonso	200,000	80,000	-	-	280,000	200,000	80,000
Samuel Afdal	-	-	-	-	-	-	-
William Phillips	-	-	-	-	-	-	-

(c) Share holdings

The movement during the year in the number of ordinary shares in Medusa Mining Limited held directly, indirectly or beneficially, by each Director, including their personally related entities is as follows:

Name	Balance 01/07/09	Shares held at appointment	Bonus Issue[4] of shares	Shares purchased	Options exercised	Shares sold	Balance 30/06/10
Directors							
Kevin Tomlinson[1]	782,950	-		-	-	(782,950)	-
Geoffrey Davis	4,902,500	-	550,250	-	600,000	(1,000,000)	5,052,750
Roy Daniel	1,270,007	-	126,999	-	-	-	1,397,006
Robert Weinberg	52,250	-	5,225	-	-	-	57,475
Peter Hepburn-Brown[2]	-	-					
Andrew Teo[3]	50,000	-	5,000	-	-	-	55,000
Executives							
Peter Alphonso	5,000	-	19,500	-	200,000	(52,000)	172,500
Samuel Afdal	4,520,000	-	340,000	-	-	(1,320,000)	3,540,000
William Phillips[5]	13,915,271	-	-	-	-	(13,915,271)	-

(1) Resigned 13 January 2010
(2) Appointed 15 September 2009
(3) Appointed 15 February 2010
(4) A one for 10 Bonus Issue of Shares declared by the Company on 8 March 2010
(5) Resigned 30 June 2010

Name	Balance 01/07/08	Shares held at appointment	Shares purchased	Options exercised	Shares sold	Balance 30/06/09
Directors						
Kevin Tomlinson	32,950	-	-	750,000	-	782,950
Geoffrey Davis	4,902,500	-	-	-	-	4,902,500
Roy Daniel	770,007	-	-	500,000	-	1,270,007
Robert Weinberg	52,250	-	-	-	-	52,250
Executives						
Peter Alphonso	5,000	-	-	-	-	5,000
Samuel Afdal	4,520,000	-	-	-	-	4,520,000
William Phillips	14,600,000	-	-	-	(684,729)	13,915,271

20. RELATED PARTIES

Related parties transactions of Medusa Mining Limited fall into the following categories:-

Key Management Personnel related parties

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors

Non-Executive Directors:

Peter R Jones - Chairman (appointed 8 July 1010)

Robert Weinberg - Director

Mr Andrew Teo - Director (appointed 15 February 2010)

Kevin Tomlinson (resigned 13 January 2010)

Executive Directors:

Geoffrey Davis - Managing Director

Mr Peter Hepburn-Brown - Executive Director - Operations (appointed 15 September 2009)

Roy Daniel - Executive Director - Finance and Joint Company Secretary

Executives

Peter Alphonso – Joint Company Secretary, Medusa Mining Limited

Samuel Afdal - President, Philsaga Mining Corporation

William Phillips - Operations Director, Philsaga Mining Corporation (resigned 30 June 2010.)

Details of Key Management Personnel's' remuneration, shareholdings and option holdings are set out in the Remuneration Report section of the Directors' Report.

Apart from the Key Management Personnel related transaction with the Company or its controlled entities disclosed in this note, no Key Management Personnel has entered into a material contract with the Company since the end of the financial year and there were no material contracts involving Management Personnel's' interests subsisting at year end.

Related parties:	Peter R Jones, Geoffrey Davis, Roy Daniel, Robert Weinberg, Peter Hepburn-Brown, Andrew Teo, Kevin Tomlinson
Type of transaction:	Director Protection Deed ("Deed")
Transaction details:	The Deed entered into by the Company with each of the Directors of the Company, indemnifies the Directors to the extent permitted by law, against any liability, which he may incur whilst carrying out his duties as a Director of the Company and against any costs and expenses incurred in defending legal proceedings brought against him as a Director. The Deed requires the Company to maintain in force Directors' and Officers' Liability Insurance, with an agreed cover level, for the duration of the Directors' term of office and a period of 7 years thereafter. The Deed also provides for the Directors to have access to the Company's documents (including Board papers) for a period of 7 years after he ceases to be a Director, subject to certain confidentiality and other requirements being observed.

Related party:	Cedardale Holdings Pty Ltd
Nature of relationship:	Director related entity (Geoffrey Davis)
Type of transaction:	Lease of office premises
Transaction details:	The Company occupies and leases its office premises (inclusive of parking bays) from Cedardale Holdings Pty Ltd at a rate of A$5,555; (2009: A$4,132) per month. During the year, Cedardale Holdings Pty Ltd charged the Company A$56,153; (2009: A$45,381) for the lease of office premises. No amounts were outstanding at year-end (2009: nil).

Related party:	Harvest Services Aust Pty Ltd
Nature of relationship:	Director related entity (Geoffrey Davis)
Type of transaction:	Consultancy Services Agreement
Transaction details:	Under the terms of this Consultancy Services Agreement, Harvest Services Aust Pty Ltd ("Harvest Services"), a Company associated with Geoffrey Davis, agrees to provide the services of Geoffrey Davis to the Company, commensurate with that of a Managing Director for a period of 3 years from 1st January 2009. Harvest is entitled to receive a consultancy fee (subject to annual reviews) of A$45,833 (2009: A$40,417) per month (excluding GST) and the reimbursement of out of pocket expenses incurred in the course of providing services to the Company Either of the Company, Harvest Services or Mr Davis as the parties to the consultancy services contract may terminate the contract by providing 6 months written notice to the other parties. During the year, Harvest Services charged the Company A$776,247 which included a bonus approved by the Board of Directors (2009: A$479,250) in fees. No amount remains outstanding at year end (2009: nil).
Related party:	Mindanao Philcord Holdings Corporation
Nature of relationship:	Executive related entity (William Phillips)
Type of transaction:	Management Consultancy Agreement (renewed 1 January 2010)
Transaction details:	Under the terms of this Management Consultancy Agreement, Mindanao Philcord Holdings Corporation ("Mindanao Philcord"), a Company associated with William Phillips, agrees to provide the services of William Phillips to Philsaga Mining Corporation ("Philsaga"), a related entity of the Company, commensurate with that of a Director Operations for a period of 1 years from January 2010. Mindanao Philcord is entitled to receive a consultancy fee of US$25,000 per month and the reimbursement of out of pocket expenses incurred in the course of providing services to the Company. Philsaga may only terminate the agreement upon limited events akin to misconduct or incapacity. During the year, Mindanao Philcord charged Philsaga US$300,000 (2009: US$300,000) in fees. No fees remain outstanding at year end (2009: nil).
Related parties:	Secdea Philippines Holdings Corporation & Advanced Concepts Holdings Limited
Nature of relationship:	Executive related entities (Samuel Afdal and William Phillips)
Type of transaction:	Royalty Deed of Agreement
Transaction details:	On 4 December 2006, Philsaga Mining Corporation ("Philsaga"), a related entity of Medusa, executed a royalty agreement with the Secdea Philippines Holdings Corporation (a company associated with Samuel Afdal), Yandal Investments Pty Ltd and Advanced Concepts Holdings Limited (a company associated with William Phillips) [collectively the "Royalty Vendors"]. Under the terms of the royalty deed of agreement, Philsaga has agreed to pay the Royalty Vendors a royalty of US$20 per ounce of recovered gold obtained from extensions of the Co-O Mine system mined on the eastern side of the Oriental Fault up to a limit of US$10 million. The royalty will be payable on a quarterly basis. During the year, US$409,636 (2009: nil) was paid. US$84,072 (2009: US$293,285) remained outstanding at year end.

Related party:	SBF Philippines Drilling Resources Corporation
Nature of relationship:	Executive related entities (William Phillips and Samuel Afdal)
Type of transaction:	Drilling Services Agreement
Transaction details:	On 4 December 2006, Philsaga Mining Corporation ("Philsaga"), a related entity of Medusa, entered into a drilling services agreement with SBF Philippines Drilling Resources Corporation ("SBF Drilling"), a company associated with Bill Phillips and Samuel Afdal. Under the terms of the drilling services agreement, Philsaga has engaged SBF Drilling to provide Philsaga or the Medusa group of companies, with drilling services for the Co-O Mine and area and further provide equipment, labour and expertise with respect to drilling services. The engagement of SBF Drilling by Philsaga is for an initial term of 3 years and is renewable thereafter for 1 year periods by mutual agreement between the parties. In consideration of SBF Drilling providing the services, Philsaga will pay SBF Drilling commercial rates for its services. During the year, SBF Drilling charged Philsaga US$15,298,335 (2009: US$10,747,044) in fees. US$2,874,133 (2009: US$6,008,733) remains outstanding at year end.
Related party:	Philsaga Mining Corporation ("Philsaga") and Mindanao Mineral Processing and Refining Corporation ("MMPRC")
Nature of relationship:	Subsidiaries of holding company
Type of transaction:	Management fees charged by Medusa Mining Limited
Transaction details:	During the financial year management fees of A$720,000 (2009: A$720,000) was charged to each of Philsaga and MMPRC.

	Consolidated		
	2010	**2009** (restated)	**2008** (restated)
	US$000	US$000	US$000
21. RETAINED PROFITS			
Retained profit / at start of year	31,830	3,323	4,377
Net profit /(loss) attributable to members of Company	65,812	28,507	(1,054)
Retained profits at end of year	97,642	31,830	3,323

	Consolidated		
	2010	**2009** (restated)	**2008** (restated)
	US$000	US$000	US$000

22. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of cash:

For the purposes of the Statement of Cash Flows, cash includes cash on hand and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:-

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
Cash at bank	32,456	26,509	4,647
Cash on hand	1	1	1
Total cash assets	32,457	26,510	4,648

(b) Reconciliation of profit after income tax to net cash provided by operating activities:

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
Profit after income tax	65,812	28,507	
add/(less) - non-cash items:			
- Depreciation/ amortisation	7,850	3,582	
- Exploration expenses written off	294	60	
- Recognition of share based expenses	257	265	
- Bad debts written off	-	51	
- Foreign exchange losses	-	206	
	74,213	32,671	
add/(less) - changes in assets and liabilities			
- (Increase) in trade and other receivables	(29,890)	(2,904)	
- (Increase)/ decrease in prepayments	(340)	192	
- (Increase)/ in inventories	(4,347)	(264)	
- Increase/ (decrease) in trade & other payables	(921)	2,611	
- Increase/ (decrease) in deferred taxes payable	4	(1,714)	
Net cash provided by/ (used in) operating activities	38,719	30,592	

23. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Policies

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not speculate in the trading of derivative instruments.

i. Treasury risk management

Senior executives of the group regularly analyse financial risk exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Group's overall risk management strategy is outlined in the Corporate Governance Statement in the Director's Report.

ii. Financial risk exposures and management

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed by investing cash with major financial institutions in both cash on deposit and term deposit accounts. Interest rates on major deposits that are re-invested, are at a fixed rate on a monthly basis.

Price risk

The Group sells its gold produced at spot rate and no forward contracts or hedging is utilised. Whilst the Group is cognisant of its exposure to fluctuations in the gold price, the current policy of the Board is not to hedge primarily because the Group produces gold in the current economic environment at a very low cash cost. The Board's risk management policy acknowledges that as market factors are dynamic in nature all risk positions are monitored to ensure that the Group's activities are consistent with the approach and strategy approved by the Board. The Board therefore regularly reviews the spot price of gold to consider whether it should adopt any measures to mitigate risk.

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

Credit risk refers to the risk that counterparty will default on, its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The maximum credit risk on financial assets of the Group which have been recognised in the Statement of Financial Position, other than investment in shares, is generally the carrying amount, net of any provisions for doubtful debts.

There are no other material amounts of collateral held as security.

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk can be measured by performing a sensitivity analysis that quantifies the impact of different assumed exchange rates on the Group's forecast cash flows.

Whilst the Group is aware of its exposure to fluctuations in foreign currency, the current policy of the Board is not to hedge.

(b) Financial instruments

i. Financial instrument composition and maturity analysis:

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

	Weighted Average Effective interest		Floating Interest Rate		Within 1 Year		Non Interest Bearing		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	%	%	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
Consolidated Group										
Financial Assets										
Cash & cash equivalent	2.4	2.7	21,557	26,509	-	-	10,900	1	32,457	26,510
Loans and receivables	-	-	-	-	-	-	34,895	5,006	34,895	5,006
			21,557	26,509	-	-	45,795	5,007	67,352	31,516
Financial Liabilities										
Financial liabilities at amortised cost										
Trade & sundry payables	-	-	-	-	-	-	8,003	9,013	8,003	9,013
			-	-	-	-	8,003	9,013	8,003	9,013

	Consolidated	
	2010	**2009** (restated)
	US$000	US$000
Receivables are expected to be collected as follows:		
Less than 6 months	27,102	965
6 months to 1 year	7,793	4,041
1 – 5 years	-	-
Over 5 years	-	-
	34,895	5,006

As at 30 June 2010 and 2009, all receivables were neither past due nor impaired.

	2010	2009
Trade and sundry payables are expected to be paid as follows:		
Less than 6 months	8,003	9,013
6 months to 1 year	-	-
1 - 5 years	-	-
Over 5 years	-	-
	8,003	9,013

ii Net fair values

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and liabilities approximates their carrying value. The net fair value of financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Listed equity investments have been valued by reference to market prices prevailing at balance date. For unlisted equity investments, the net fair value is an assessment by the Directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

iii. Sensitivity analysis

The group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated	
	2010	**2009** (restated)
	US$000	US$000
Change in profit before income tax / equity		
- increase in interest rate by 100 basis points	214	265
- decrease in interest rate by 100 basis points	(214)	(265)

Foreign currency risk sensitivity analysis

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the consolidated entity's functional currency. The consolidated entity operates internationally and is exposed to foreign exchange risk arising from the United States dollar. No programs for hedging foreign exchange risk were implemented by the consolidated entity in the 2010 financial year.

Change in profit before income tax / equity		
- Strengthening of A$ to US$ by 15%	(1,397)	(1)
- Strengthening of Philippine Peso to US$ by 15%	(186)	(272)
	(1,583)	(273)
- Weakening of A$ to US$ presentation by 15%	1,397	1
- Weakening of Philippine Peso to by 15%	186	272
	1,583	273

Price risk sensitivity analysis

The policy of the Company is to sell gold at spot price and has not entered in hedging contracts. The Company's revenues were exposed to fluctuations in the price of gold. If the average selling price of gold of US$1,125 (2009: US$890) for the financial year had increased/decreased by 10% the change in the profit before income tax for the consolidated group would have been an increase/decrease of US$9.375million (2009: US$2.383 million).

The above interest rate, foreign exchange rate and price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

	Consolidated		
	2010	**2009** (restated)	**2008** (restated)
	US$000	US$000	US$000

24. COMMITMENTS

(a) Exploration commitments:

The Company has certain obligations to perform minimum exploration work to maintain rights of tenure to its exploration tenements. These obligations may vary from time to time in accordance with tenements held and are expected to be fulfilled in the normal course of operations of the Group so as to avoid forfeiture of any tenement. These obligations are not provided in the financial report and are payable:

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
- no later than 1 year	78	63	38
- 1 year or later and no later than 5 years	161	317	80
Total exploration commitments	239	380	118

(b) Operating lease expense commitments:

Non-cancellable operating lease contracted for but not capitalised in the financial statements.

The Group leases office premises under an operating leases expiring in 31 July 2011. Under the terms of the operating leases, the Group is provided with a right of renewal and the lessor has the right to increments in lease payments on an annual basis based on movements in the Consumer Price Index.

These obligations are not provided in the financial report and are payable:

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
- no later than 1 year	79	57	57
- 1 year or later and no later than 5 years	7	41	21
Total operating lease expense commitments	86	98	78

(c) Other contractual commitments:

(i) There is a consultancy agreement with Harvest Services Aust. Pty Ltd ("Harvest"). A Company associated with as Director, whereby Harvest has agreed to provide the services of Geoffrey Davis to act as Managing Director of the Company for a period of 3 years, terminating on 31 December 2011.

These commitments are not provided in the financial report and are payable:

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
- no later than 1 year	471	390	220
- 1 year or later and no later than 5 years	236	585	-
Total other commitments	707	975	220

(ii) On 26 March 2008, Philsaga was granted Mineral Production Sharing Agreement ("MPSA") number 262-2008-XIII over the Co-O mine. Under the terms of the Agreement Philsaga is committed to mine related expenditure in the Philippines as follows:.

These commitments are not provided in the financial report and are payable:

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
- no later than 1 year	7,293	7,259	6,713
- 1 year or later and no later than 5 years	64,641	34,363	12,117
Total other commitments	71,934	41,622	18,830

25. EVENTS SUBSEQUENT TO BALANCE DATE

On 8 July 2010 the Board of Directors of Medusa appointed Peter Rhys Jones as a Non Executive Chairman.

On 27 July 2010 the Board of Directors of Medusa appointed Peter Hepburn-Brown as Executive Director of Operations.

Other than the matters described above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and/or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

26. CONTINGENT LIABILITIES

Under a Heads of Agreement ("HOA") between Sierra Mining Limited ("SML") and Medusa signed in August 2007, Medusa had agreed to take a 9.9% placement in Sierra of 4.85 million shares (at an issue price of A$0.25, totalling A$1.21 million) with 2.425 million unlisted attaching options exercisable at A$0.30 each with an expiry date of 4 years from the date of completion of due diligence.

On 8 April 2008 Sierra advised the ASX that Sierra would not be proceeding with the placement of 9.9% of Sierra shares to Medusa under the HOA, and Medusa agreed not to take up the placement in an announcement to the ASX and AIM markets.

Subsequently, on 23 June 2008, Sierra has made a claim against Medusa relating to the HOA and has demanded that Medusa subscribes for the securities. Medusa denies it has any obligation to take up the proposed placement and will defend any legal proceedings that may be commenced.

27. SEGMENT INFORMATION

The Consolidated Group has identified its reportable operating segments based on the internal management reports that are reviewed and used by the Managing Director (the chief operating decision maker) and his management team in assessing performance and in determining the allocation of resources.

The Group segments are structured as Mine, Exploration and Other. Currently the only operational mine is the Co-O mine.

Segment Result, Segment Assets and Segment Liabilities

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes.

Segment Result is based on the net of revenues and expenditure corresponding to the specific segment.

Segment Revenues represent gold and silver sales at spot prices.

Segments Assets are allocated to segments based on their nature and physical location.

Segment Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment Liabilities include trade and other payables.

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- income tax expense;
- gain on disposal of assets;
- deferred tax assets and liabilities;
- interest revenue;
- intercompany receivables and payables.

	Mining US$000	Exploration US$000	Other US$000	Total US$000
12 months to June 2010:				
Segment revenue	93,882	-	-	93,882
Reconciliation of segment revenue to Group revenue				
add:				
Interest income				622
Other				4
Group Revenue				94,508
Segment result	69,978	(18)	(4,813)	65,147
Reconciliation of segment result to group result:				
add back:				
Gain on disposal of asset				81
Other revenue				4
Interest revenue				622
less:				
Income tax expense				(42)
Group profit				65,812
Segment assets	157,782	3,545	22,577	183,904
Reconciliation of segment asset to group assets:				
plus: Deferred tax assets				73
Total Group assets				183,977
Segment liabilities	7,343	11	918	8,272
Reconciliation of segment liabilities to group liabilities				
plus: Deferred liabilities				279
Total Group liabilities				8,551
12 months to June 2009:				
Segment revenue	42,649	-	-	42,649
Reconciliation of segment revenue to Group revenue				
plus: Interest revenue				174
Other income				2
Group Revenue				42,825
Segment result	28,901	(42)	(2,240)	26,619
Reconciliation of segment result to group result:				
plus:				
Income tax expense				1,714
Interest revenue				174
Group profit				28,507
Segment assets	97,616	3,428	14,309	115,353
Reconciliation of segment asset to group assets:				
Add: deferred tax assets				69
Total Group assets				115,422
Segment liabilities	8,728	7	458	9,193
Reconciliation of segment liabilities to group liabilities:				
Plus: Deferred liabilities				313
Total Group liabilities				9,506

Revenue and Non-current assets by geographical region

	Australia US$000	Philippines US$000	Total US$000
12 months to June 2010:			
Segment revenue	-	93,882	93,882
Non Current Assets	39	110,534	110,573
12 months to June 2009:			
Segment revenue	-	42,649	42,649
Non Current Assets	37	82,508	82,545

In accordance with AASB 8 disclosure requirements Non Current Assets shown in geographical information include tangible and intangible assets but exclude financial instruments, deferred tax assets, post employment benefit assets and rights arising under insurance contracts.

The Group sells it gold on the open market. Selection of a customer is at the Group's discretion and there is no commitment to exclusive sales to a particular customer. During the financial year ended 30 June 2010, US$ 51,901 million or 55% of the Group's revenues depended on a single customer (2009: US$26,518 million or 73%).

28. PARENT COMPANY INFORMATION

	2010 US$000	2009 (restated) US$000	2008 (restated) US$000
Parent Entity:			
Current Assets	22,538	14,273	2,211
Total Assets	71,228	67,347	55,276
Current Liabilities	919	458	1,171
Total Liabilities	919	458	1,171
Net Assets	70,309	66,889	54,105
Issued Capital	70,906	69,776	51,999
Option Premium Reserve	1,834	1,577	1,312
Foreign Exchange Reserve	8,606	3,982	8,332
Accumulated Losses	(11,036)	(8,446)	(7,538)
Total Equity	92,382	83781	152,962
Profit/(loss) for the year	(2,590)	908	
Total Comprehensive Income/(loss)	2,033	(3,441)	

Contractual (capital) commitments

There are no contractual capital commitments as at the date of this report

Contingent Liabilities

Refer Contingent Liabilities Note 26

Payable under Service Arrangements

Refer Related Parties Note 20

Related Party Guarantees Provided by the Parent Entity

The Parent entity has guaranteed that it will indemnify any third party for the full amount outstanding in case of default of payment of overdue debts by any of its subsidiaries to that third party.

29. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value. AASB 2009-11 is applicable for annual reporting periods ending on or after 31 December 2013.

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project. The standard is applicable for annual reporting periods ending on or after 31 December 2010.

AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters makes amendments to ensure that entities applying Australian Accounting Standards for the first time will not face undue cost or effort in the transition process in particular situations. AASB 2009-9 is applicable for annual reporting periods ending on or after 31 December 2010.

AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments. The standard is applicable for annual reporting periods ending on or after 31 January 2011.

AASB 2009-13 - Amendments to AASB 1 arising from Interpretation 19 . This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19. The standard is applicable for annual reporting periods ending on or after 30 June 2011.

AASB 2009-14 - Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14). This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. The standard is applicable for annual reporting periods ending on or after 31 December 2011.

AASB 2010-01- Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7). These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards. The standard is applicable for annual reporting periods ending on or after 30 June 2011.

Interpretation 19 - Extinguishing Financial Liabilities with Equity Instruments. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as 'debt for equity swaps'. The Interpretation is applicable for annual reporting periods ending on or after 31 December 2011.

AASB 2010-3 - Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139 . This amendment limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value; requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e. split between consideration and post combination expenses; clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated; and eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments. This amendment is applicable for annual reporting periods ending on or after 30 June 2011.

AASB 2010-4 - Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]. This amendment emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments; clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements; provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions; and clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken in account. This amendment is applicable for annual reporting periods ending on or after 31 December 2011.

30. FRANKING ACCOUNT

The Company has no franking credits available.

31. COMPANY DETAILS

The registered office and principal place of business of the Company is:

Suite 7
11 Preston Street
Como
Western Australia 6152.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Medusa Mining Limited (the "Company"):

   (a) the financial statements and notes set out on pages 57 to 94 and the remuneration disclosures that are contained in pages 45 to 53 of the Remuneration Report in the Directors' Report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

      (iii) complying with International Financial Reporting Standards as disclosed in Note 1.

   (b) the remuneration disclosures that are contained in page 45 to 53 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the Directors:

Dated this 30th day of August 2010

Geoffrey Davis
Managing Director

INDEPENDENT AUDIT REPORT

INDEPENDENT AUDIT REPORT

INDEPENDENT AUDIT REPORT

TENEMENT SCHEDULE

Name	Tenement ID	Registered Holder	Medusa's Interest	Royalty	Area (hectares)
Co-O Mine	MPSA No. 262-2008-XIII	Philsaga	100.00%	-	2,538.7919
	MPSA No.299-2009-XIII	Philsaga	100.00%	-	2,200.3595
Co-O	APSA No. 00012-XIII	BMMRC	100.00%	-	339.8000
	APSA No. 00087-XIII	Samuel Afdal	100.00%	-	846.4371
	APSA No. 00088-XIII	Phsamed	100.00%	-	7,303.7327
	APSA No. 00098-XIII	Philcord	100.00%	1% net profit	1,184.3821
	APSA No. 00099-XIII	Philcord	100.00%	1% net profit	1,607.4299
Saugon	EP-XIII-017	Philsaga	100.00%	-	3,132.3100
	EPA No. 00064-XIII	Philsaga	100.00%	-	3,978.5401
	EPA No. 00065-XIII	Philsaga	100.00%	-	3,047.5336
	EPA No. 00066-XIII	Philsaga	100.00%	-	6,769.1267
	EPA No. 00067-XIII	Samuel Afdal	100% (assignment)	-	1,692.6910
	EPA No. 00069-XIII	Phsamed	100.00%	-	7,789.7976
	EPA No. 00087-XIII	Philsaga	100% (assignment)	-	764.2000
Anoling	APSA No. 00039-XIII	Alcorn	100.00%	8% gross	405.0000
	SSMP-ADS-05-10-06	Phsamed	100.00%	8% gross	20.0000
	SSMP-ADS-05-11-06	Phsamed	100.00%	8% gross	20.0000
Tambis	APSA No. 00022-XIII	Philex	100.00%	7% net smelter	6,207.6210
	XIII-SDS-SSMP-002-05-R	Philsaga	100.00%	7% net smelter	20.0000
	XIII-SDS-SSMP-003-05-R	Philsaga	100.00%	7% net smelter	20.0000
Das-Agan	APSA No. 00024-XIII	Das-agan	100.00%	3% gross	3,809.5500
Apical	APSA No. 00028-XIII	APMEDORO	Earning 70% (JV)	-	2,084.0900
Corplex	APSA No. 00054-XIII	Corplex	100%	3% net smelter	2,118.1600
	APSA No. 00056-XIII	Corplex	100.00%	-	162.0000
	APSA No. 00077-XIII	Corplex	100.00%	4% gross	810.0000
	EPA No. 00186-XIII	Corplex	100.00%	3% net smelter	7,111.3463
Golden	APSA No. 00033-XIII	J & E Golden	100.00%	2% gross	162.0000
Tagbina	EPA No. 00176-XIII	Sursur	100.00%	3% gross	3,823.0000
	EPA No. 00180-XIII	Sursur	100.00%	3% gross	5,948.0000
	EPA No. 00181-XIII	Sursur	100.00%	3% gross	6,118.0000
Sinug-ang	EPA No. 00114-XIII	Salcedo	100.00%	-	190.3815

Abbreviations:

Tenement types -

MPSA	- Mineral Production Sharing Agreement	APSA	- Application for Mineral Production Sharing Agreement
EP	- Exploration Permit	EPA	- Exploration Permit Application
SSMP	- Small Scale Mining Permit	AFTA	- Application for Financial Technical Assistance Agreement

Registered Holder -

Philsaga	- Philsaga Mining Corporation	Alcorn	- Alcorn Gold Resources Corporation
BMMRC	- Base Metals Mineral & Resources Corporation	Philex	- Philex Gold Philippines Inc
Phsamed	- Phsamed Mining Corporation	Das-Agan	- Das-Agan Mining Corporation
Philcord	- Mindanao Philcord Mining Corporation	Apmedoro	- APMEDORO Mining Corporation
Corplex	- Corplex Resources Inc	Sursur	- Sursur Mining Corporation
J&E Golden	- J & E Golden Resources Corporation	Salcedo	- Neptali P. Salcedo