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MEDUSA

MEDUSA MINING LIMITED

ABN 60 099 377 849

and Controlled Entities

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2016

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This report should be read in conjunction with Medusa's Annual Report for the year ended 30 June 2016 and any announcements made by the Company during the interim reporting period, as it does not include all the notes of the type normally included in an annual financial report.

Appendix 4D

Half year report
For the 6 months ended 31 December 2016

Name of entity

MEDUSA MINING LIMITED

ABN or equivalent company reference

60 099 377 849

Half yearly (tick)

√

Preliminary final (tick)

Half year/ financial ended ("current period")

31 December 2016

Results for announcement to the market

<u>Revenues and profits:</u>		<u>US\$'000</u>		<u>US\$'000</u>
Revenues from ordinary activities	down 28%	69,013	to	49,848
Profit from ordinary activities after tax attributable to members	down 230%	31,373	to	(40,778)
Net profit for the period attributable to members	down 230%	31,373	to	(40,778)

(All comparisons to the previous period ended 31 December 2015)

Dividends:

Interim dividend

Amount per security

Franked amount per security

- current period (half year ended 31 Dec 2016)

Nil

Nil

- previous period (half year ended 31 Dec 2015)

Nil

Nil

No dividend will be paid in the current period.

Net tangible assets per share:

The net tangible assets per share as at 31 Dec 2016 was US\$0.902 (31 Dec 2015: US\$1.066)

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 current period.

Description of any modified opinion, emphasis of matter or other matter paragraph contained in the independent auditor's review report:

The independent auditor's review report has been modified in relation to comparative balances. The independent auditor's review report is attached to the Interim Financial Report.

MANAGING DIRECTOR'S ADDRESS

Dear Shareholders,

My address to shareholders of Medusa Mining Limited as the Managing Director reflects the ongoing changes and revitalization of the company's core assets. Change is needed to ensure the future sustainability of the Co-O mining operations and a re-focus on the Company's green fields and brown fields exploration activities for future growth. Success is not just measured on short-term production results, but also in adhering to the Company's growth strategy for longer-term results.

The 2016 half-year strategy remains as presented at the start of the year. The Co-O mine infrastructure projects are critical to the mines future performance. Significant progress has been made on the five focus areas or five pillars of development;

- E15 Service Shaft,
- Mine Ventilation Upgrade,
- Mine De-Watering Expansion,
- Level 8 Drilling Stations for resource expansion and
- Prioritized Mine Development.

The impact of some of these expansion projects will start returning results in the H2 period, where other projects will be completed in the next reporting year, like the E15 Shaft.

Production was effected in the half year, mostly impacted by the additional maintenance work required for the L8 Production Shaft, lowering the shaft's overall availability in the December quarter. The shaft guide wear-rates required additional maintenance and for safety reasons Medusa put this work ahead of short-term production goals. This will continue into the March 2017 quarter, thus the necessity to revise the FY 2016-17 guidance. The revised guidance range is between 85,000 to 95,000 ounces at All-In-Sustaining Costs of between US\$1,250 to US\$1,350 per ounce of gold.

The September 2016 release of the re-estimated resources was 961,000 ounces of gold for the Co-O mine, still a robust number considering its 10-year production history and last year's gold production of 108,578 ounces. The H1 resource drilling of approximately 23,000 metres is a significant investment in expanding the down dip potential at the Co-O mine. This rate of drilling will continue throughout H2 with the intent to re-building the resource and reserve base at the Co-O Mine.

The Company's exploration activities for H1 have been aligned to a new strategy, with the focus now centred on near-mine exploration activities. Regional target areas that have not returned expected results will be rationalized. The regional focus also includes exploration prospects outside of Medusa's tenement position.

During the 6 months' period, the Philippine Department of Environment and Natural Resources ("DENR") conducted audits of all mining operations in the Philippines. Throughout the DENR audit process the Co-O operations have not been effected, and has not been listed by the DENR as an impacted or suspended mine site, with its latest listing as of 14th February, 2017.

The Co-O operations had become ISO 14001 certified and compliant in June 2016, prior to the DENR's audit process.

At the end of the half year, the Company had total cash and cash equivalent in gold on metal account and bullion on hand of US\$12.9 million. The commitment to our infrastructure development strategy has made significant progress on the five main infrastructure projects (pillars). This has drawn down the 30 June 2016 cash reserves. Two-thirds of this is attributed to the capital projects and a third to the production shortfall. We expect the L8 Shaft hoisting availability to be resolved in the March quarter, allowing us to deliver to the back-end loaded full-year plan, albeit later than the original guidance.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2016 and the review report thereon:

DIRECTORS

The Directors of the Company at any time during or since the end of the half-year are:

<u>Name</u>	<u>Period of Directorship</u>
Non-Executives:	
Mr Andrew Boon San Teo (Non-Executive Chairman)	since 15 February 2010
Mr Ciceron A Angeles	since 28 June 2011
Mr Roy Daniel	since 25 November 2015
Executives:	
Mr Boyd Timler (Managing Director)	appointed 9 January 2017
Mr Raul C Villanueva	since 24 January 2013

FINANCIALS

Description	Unit	Dec 2016	Dec 2015	Variance	(%)
Revenues	US\$	\$50.1M	\$69.7M	(\$19.6M)	(28%)
EBITDA (*)	US\$	(\$32.7M)	\$40.4M	(\$73.1M)	(181%)
NPAT (*)	US\$	(\$40.8M)	\$31.4M	(\$72.2M)	(230%)
EPS (basic)	US\$	(\$0.196)	\$0.151	(\$0.347)	(230%)

(*) includes asset impairment losses totaling US\$55.0 million.

Revenues of US\$50.1 million, a decrease of 28% from US\$69.7 million in the previous corresponding period ("pcp"). This drop is attributable to a significant decrease in gold production, marginally offset by a higher average price received on sale of gold.

Medusa is an un-hedged gold producer and received an average gold price of US\$1,271 per ounce from the sale of 39,061 ounces of gold for the half-year to December 2016 (pcp: 62,011 ounces at US\$1,109 per ounce).

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of (US\$32.7 million), and includes asset impairment losses totalling US\$55.0 million, down 181% from US\$40.4 million in the pcp.

NPAT of (US\$40.8 million), down 230% on pcp from US\$31.4 million

Basic earnings per share ("EPS") down 230% to (US\$0.196) (pcp: US\$0.151).

The Company had total cash and cash equivalent in gold on metal account and bullion on hand of US\$12.9 million at 31 December 2016 (pcp: US\$16.0 million).

During the half year:

- Depreciation of fixed assets and amortisation of capitalised mine development and mine exploration was US\$6.1 million (pcp: US\$9.0 million).
- US\$8.2 million was expended on capital works (inclusive of new Service Shaft) and associated capital at mine and mill for the period (pcp: US\$9.5 million).
- Exploration expenditure, including underground diamond drilling was US\$4.9 million (pcp: US\$4.7 million).
- Capitalised mine development costs totalled US\$13.6 million (pcp: US\$14.2 million).
- Corporate overheads of US\$3.7 million (pcp: US\$3.1 million).

CORPORATE

Dividend

No dividend will be payable for the half year to 31 December 2016 (No dividend was payable for the previous half year to 31 December 2015).

Corporate

Subsequent to period end, Mr Boyd Timler, then Chief Executive Officer (“CEO”) of the Company joined the Board on 9 January 2017 and was appointed Managing Director.

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REVIEW OF OPERATIONS

Co-O OPERATIONS

Description	Unit	Dec 2016	Dec 2015	Variance	(%)
Ore mined	WMT	284,134	325,769	(41,635)	(13%)
Ore milled	DMT	253,102	295,586	(42,484)	(14%)
Head grade	g/t	5.02	6.80	(1.78)	(26%)
Recovery	%	94.3%	94.0%	0.3%	-
Gold produced	ounces	38,507	61,169	(22,662)	(37%)
Gold sold	ounces	39,061	62,011	(22,950)	(37%)
Cash costs	US\$/oz	\$607	\$436	\$171	39%
All-In-Sustaining-Costs	US\$/oz	\$1,408	\$951	\$457	48%
Avg gold price received	US\$/oz	\$1,271	\$1,109	\$162	15%

The Company produced 38,507 ounces of gold for the half-year, compared to 61,169 ounces from the previous corresponding period, at an average recovered grade of 5.02 g/t gold (pcp: 6.80 g/t gold).

The average cash costs of US\$607 per ounce, inclusive of royalties and local business taxes was higher than the previous period's average cash costs of US\$436 per ounce.

All in Sustaining Costs ("AISC") for the half year was US\$1,408 compared to the previous period's AISC of US\$951 per ounce of gold.

Production Guidance

The Company's production guidance for FY2016-17, initially set at between 105,000 to 115,000 ounces of gold at All-In-Sustaining-Costs ("AISC") of between US\$1,000 to US\$1,100 per ounce has now been revised to between 85,000 to 95,000 ounces of gold at AISC of between US\$1,250 to US\$1,350 per ounce.

The Co-O mine delivered 21,157 ounces of gold at AISC of US\$1,334 per ounce for the September 2016 quarter, with the December 2016 quarterly gold production at 17,350 ounces and AISC's of US\$1,498 per ounce of gold. The original guidance profile for FY16-17 was presented as being back-end loaded, but with the poor results for the December 2016 quarter, the production plan for the second half of the year does not have the flexibility to recover lost production and match the original guidance.

The poor production for the December 2016 quarter and revised mid-year production guidance can be attributed to the following factors:

The reduced grade for the quarter relates to the increased amount of development ore in the mill feed blend. The overall mine production output has been below plan. The tonnage shortfall relates to much higher L8 mine-shaft maintenance requirements, thus impacting the hoisting availability for the quarter. This relates to the wear rate of the L8 Shaft guides.

For safety reasons the mine will continue with an accelerated L8 Shaft guide replacement strategy through the March 2017 quarter, resulting in overall lower shaft availability. The mine site has arranged through a third-party service provider to conduct a full assessment of the L8 Shaft in late January 2017.

The L8 shaft availability has an overall impact on the mines performance including; manpower movements, materials movements and rock hoisting capabilities. The higher planned production rates for the March quarter will be pushed out by a few months, thus requiring the revised guidance.

Co-O MINE

Underground mining at Co-O during the half year produced 284,134 tonnes (WMT) of ore at a mine head grade of 5.02 g/t Au. Tonnes were down on the same period from last year by 13%, effected by material movements in the L8 shaft. This was due to higher than normal levels of maintenance on the shaft guides, effecting L8 Shaft availability, causing ore skipping constraints. For safety reasons, Medusa put shaft guide replacement work ahead of the short-term production goals. The ounce production was down 37% from previous reporting period. Ore tonnes processed accounted for 1/3rd of this drop, whereas the feed grade had a bigger impact accounting for 2/3rds of the change. To maintain the longer-term production plan, it was decided not to reduce the rate of mine development, thus the mill feed had disproportionately higher amounts of lower grade development ore for H1. Even with these lower grades, the mill maintained its recoveries above the 94% level.

The Co-O process plant throughput was 253,102 tonnes for the period. The tailing storage facility #5 (TSF #5) became operational during the half year, with final work continuing on the fresh water by-pass spillway into H2. TSF#5 is rated for five years of storage capacity at current production rates.

For the half year period, there were 10,105 metres of development completed. This is a 10% increase over the previous 6 months. Maintaining the overall mine development is critical for delivering long-term results once the expansion projects are completed. Opening up the resources below level 8 is critical. For the H1 period, 716 meters of development has been completed on L9 from the three new winzes, including the commencement of production stoping. The 12E Winze also reached L10 in the period.

Medusa has placed a high importance on understanding the Co-O ore body and its resource potential. A clear understanding of the resources drives a robust "life of mine plan". The level 8 diamond drill stations were established in the June and the September 2016 quarters. For the 2016 half year, the resource definition drilling continues from underground, focussing on adding to the current resource base. Diamond drilling during the half year totalled 89 drill holes for an advance of 29,187 metres, of which resource definition drilling totalled 57 drill-holes for an advance of 15,322 metres. This is a significant increase from the corresponding period last year (almost double) and continues to improve the geological understanding of the Co-O vein systems at depth.

The re-estimated Resources and Reserves statement was released in September 28 2016, based on a 30th June 2016 data cut-off point. Co-O mineral resources are 2.77 million tonnes @ 10.80 g/t gold for 961,000 contained ounces of gold. Inclusive of this is a Co-O ore reserve of 1.67 million tonnes @ 6.99 g/t gold for 376,000 contained ounces of gold. One of the strategic pillars of development is to expand the Co-O resources and convert the resources to reserves below L8. The H1 resource definition drilling of 15,322 metres was completed after the June 30th cut-off date, thus not included in the September 28th 2016 published document. The results from this drilling and similar levels for H2 will be in the subsequent resource re-estimation slated for 30 June 2017.

The site experienced a moderate 5.4 scale earth quake on the 4th September, caused only minor superficial damage, though it did cause minor disruption to the processing plant operations. The SAG mill power cell control system tripped on repeating safety faults. All PLC connects were refitted or replaced over a week period to eliminate the false alarms.

Infrastructure Projects

The Co-O mine infrastructure projects saw significant progress in the H1 period. The key pillars of develop are; E15 Service Shaft, Mine Ventilation Upgrade, Mine De-Watering Expansion, as well as the level 8 resource expansion drilling and prioritized Mine Development.

- The E15 Service Shaft progress in the 6 months has been significant. The Headframe erection, the Winder House and the installation of the Main Winder, Stage Winders (sinking winders), ropes, Collar Doors and hanging of the Sinking Stage was completed in the September Quarter. The complete sinking hardware and headgear was fully commissioned by November 2016. Shaft sinking resumed by December. This was a major milestone considering the unexpected delays experienced when the final shipment of electronic controls and safety switch gear was delayed by 6 weeks due to the shipping courier going into receivership.

- The Mine Ventilation upgrade was effectively completed by the end of H1. All of the primary develop work has been completed, with main fans and bulkheads installed. The mine has now been divided into two ventilation regimes. The upper regime was operating to design by July 2016, doubling the air-flow delivered to level 5 and above. The lower regime (below level 6) was operational by October 2016, requiring extra ground support to refurbish some key areas on levels 6 and 7. The second primary centrifugal fan was commissioned in November, but with the two fans running at 30%, due to a faulty vibration sensor. The lower regime is currently running with double the airflow and once the sensor is replaced in February 2017 the fans will run at 80% efficiency, tripling the overall airflow.
- The de-watering project pumps have been received, the sump chamber on level 8 is blasted, ground supported and shotcreted. Once the sump chamber is completed, pump install is all that remains. The project will improve the overall efficiency of the mine by eliminating the operation and maintenance of the multiple level sumps that are subject to flooding.

EXPLORATION

Regional

Regional exploration work has been rationalized for the first half of the year. The Bananghilig resources have been re-estimated as of 30 June 2016, to JORC 2012 standards resulting in a reduced resource of 7.78 million tonnes @1.73 g/t gold. Further work has been stopped while Bananghilig is being evaluated. The other regional target areas have been consolidated with the activities shifted to the Co-O Mine near-mine exploration.

Near Mine Exploration (MinEX)

Detailed geological mapping, trenching and sampling programmes are continuing proximal to the Co-O Mine environs, targeting the West Co-O, Calavera, Gamuton and Tandawan prospects that are all within two kilometres of the Co-O Mine and Mill sites.

Coal Exploration

The coal project resource drilling was completed in the September quarter, with technical assessment finalized in December. No further work is planned on the coal project at this time as the Co-O mine's power supply reliability issues have been resolved, not requiring an alternate source for power.

The coal type within our Coal Operating Contract ("COC") grounds is lignitic to sub-bituminous with low to medium sulphur and medium to high ash content. A technical presentation was given to the Philippine Department of Energy ("DOE") on 2nd December 2016, covering the results of the company's coal exploration program. The Company is now waiting on the DOE to schedule and complete a verification survey on the COC.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 11 for the half-year ended 31 December 2016.

ROUNDING OF AMOUNTS

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

This report is signed in accordance with a resolution of the Board of Directors.



Andrew Teo
Chairman

Dated this 28th day of February 2017

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AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration To The Directors of Medusa Mining Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Medusa Mining Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads "GRANT THORNTON" in all capital letters.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink that reads "MAREK" in a stylized, cursive font.

M A Petricevic
Partner - Audit & Assurance

Perth, 28 February 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the half-year ended 31 December 2016

		31 Dec 2016	31 Dec 2015
	Note	US\$ 000	US\$ 000
Revenue	2	50,101	69,711
Cost of sales		(29,833)	(34,952)
Administration expenses		(3,679)	(3,180)
Impairment expense	12	(55,000)	-
Other expenses		(545)	(206)
Profit before income tax expense		(38,956)	31,373
Income tax expense		(1,822)	-
Profit for the period after income tax expense		(40,778)	31,373
 <u>Other comprehensive income/(loss):</u>			
<u>Items that may be reclassified subsequently to profit or loss</u>			
Exchange differences on translation of foreign operations (net of tax)		(2,367)	(46)
Total comprehensive income/(loss)		(43,145)	31,327
 <u>Overall operations:</u>			
Basic (loss)/earnings per share		(0.196)	0.151
Diluted (loss)/earnings per share		(0.196)	0.148

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the half-year ended 31 December 2016

	Note	31 Dec 2016 US\$ 000	30 June 2016 US\$ 000
CURRENT ASSETS			
Cash & cash equivalents		8,802	9,517
Trade & other receivables		23,069	25,977
Inventories		19,617	24,304
Other current assets		1,790	636
Total Current Assets		53,278	60,434
NON-CURRENT ASSETS			
Trade & other receivables		17,324	22,915
Property, plant & equipment	12	43,489	53,064
Intangible assets		532	552
Exploration, evaluation and development expenditure	12	99,461	119,353
Deferred tax assets		1,683	2,208
Investment		49	0
Total Non-Current Assets		162,538	198,092
TOTAL ASSETS		215,816	258,526
CURRENT LIABILITIES			
Trade & other payables		12,814	13,438
Borrowings		6,633	6,064
Provisions		297	346
Total Current Liabilities		19,744	19,848
NON-CURRENT LIABILITIES			
Borrowings		419	1,503
Provisions		3,836	245
Deferred tax liability		245	2,591
Total Non-Current Liabilities		4,500	4,339
TOTAL LIABILITIES		24,244	24,187
NET ASSETS		191,572	234,339
EQUITY			
Issued capital	5	102,902	102,902
Reserves		3,163	5,152
Retained profits		85,507	126,285
TOTAL SHAREHOLDERS' EQUITY		191,572	234,339

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2016

	Share Capital Ordinary	Retained Profits	Other Reserves (refer note 6)	Foreign Currency Translation Reserve	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Balance at 01.07.2015	102,902	82,493	304	6,309	192,008
Net profit after tax	-	31,373	-	-	31,373
Other comprehensive income /(loss)	-	-	-	(46)	(46)
Total comprehensive income for the period	-	31,373	-	(46)	31,327
Shares option expensed	-	-	274	-	274
Transfer from Option Reserve	-	-	-	-	-
Sub-total	102,902	113,866	578	6,263	223,609
Dividends paid or provided for (refer note 3)	-	-	-	-	-
Balance at 31.12.2015	102,902	113,866	578	6,263	223,609
Balance at 01.07.2016	102,902	126,285	739	4,413	234,339
Net loss after tax	-	(40,778)	-	-	(40,778)
Other comprehensive income /(loss)	-	-	-	(2,367)	(2,367)
Total comprehensive loss for the period	-	(40,778)	-	(2,367)	(43,145)
Shares option expensed	-	-	378	-	378
Transfer from Option Reserve	-	-	-	-	-
Sub-total	102,902	85,507	1,117	2,046	191,572
Dividends paid or provided for (refer note 3)	-	-	-	-	-
Balance at 31.12.2016	102,902	85,507	1,117	2,046	191,572

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2016

	31 Dec 2016	31 Dec 2015
	US\$ 000	US\$ 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	58,187	68,995
Payments to suppliers and employees	(32,956)	(42,033)
Interest received	15	14
Net cash (used in) / provided by operating activities	25,246	26,976
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments of non-current assets	(8,897)	(9,468)
Payments of intangibles	-	-
Payments for exploration expenditure and tenements	(5,375)	(4,721)
Payments for development activities	(11,865)	(14,205)
Net cash (used in) / provided by investing activities	(26,137)	(28,394)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank loan	-	-
Receipt from bank loan	854	224
Net cash (used in) / provided by financing activities	854	224
Net (decrease) / increase in cash held	(37)	(1,194)
Cash at beginning of period	9,541	9,987
Exchange rate adjustments	(702)	748
Cash at end of period	8,802	9,541

The accompanying notes form part of these financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

Note 1: Basis of preparation

The Condensed interim consolidated financial statements of the Company as at and for the six months ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "Group") and the consolidated Group's interests in associates and jointly controlled entities.

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 Group's functional currencies include Australian dollars and Philippines Peso, the presentation currency for the Group is US dollars.

Medusa Mining Limited is the Group's ultimate parent company. It is a limited liability company incorporated and domiciled in Australia. The address of its registered office is Suite 10, 100 Mill Point Road, South Perth, Como.

The consolidated annual financial report of the consolidated group as at and for the year ended 30 June 2016 is available on the company's website.

(a) Statement of compliance

These general purpose interim financial statements have been prepared in accordance with requirements of the Corporations Act 2001 and AASB 134 (Interim Financial Reporting).

They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated annual financial statements of the Group for the year ended 30 June 2016 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001

The consolidated interim financial statements were approved by the Board of Directors on 27 February 2017.

(b) Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2016.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements

(c) Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2016 with the exception of the following:

Key estimates - Recoverability of long lived assets

Certain assumptions are required to be made in order to assess the recoverability of capitalised development expenditure. 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.

The Group has used the Reserve Statement released in September 2016 taking into account ore utilised throughout the period and replenished to estimate the recoverable amount of long lived assets.

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 impact on ore reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount. Refer to Note 12 for further details.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

Key estimates - Determination of ore reserves and remaining mine life

The Group estimates its ore reserves and mineral resources based on information compiled on the 28th of September 2016 by Competent Persons (as defined in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised June 2012 code (the JORC code)). Reserves determined in this way are taken into account in the calculation of depreciation of mining plant and equipment, amortisation of capitalised development expenditure, and impairment relating to these assets.

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 – Provision for Rehabilitation

The Group estimates its rehabilitation costs expected to be incurred and provides for these costs as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the restoration. These costs are recognised gradually over the life of the facility as the phases occur. These estimates of the rehabilitation obligation are based on anticipated technological changes and legal requirements and future costs which have been discounted to their present value. Any changes to the estimates are adjusted on a prospective basis. At the reporting date, the group does not consider it has any significant unsatisfied obligations in respect to rehabilitation costs.

Key estimates - Provision for income tax and GST/VAT

The only exception is the estimate of the provision for income taxes which is determined in the interim financial statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The Group has net GST/VAT of US\$38.6 million that comprises tax credit certificates (TCC) and VAT claimable for cash. The current asset portion of VAT US\$21.6 million comprises amounts that are estimated to be utilised by TCC to offset various indirect taxes within the current period. The non-current amount of VAT receivable of US\$17.0 million represents the estimated amount utilised in future periods against tax liabilities.

(d) Significant events and transactions

The Group's objectives and policies for managing capital, credit risk and liquidity risk are described in its recent annual financial statements.

(e) Comparative figures

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

(f) Rounding of amounts

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases, to the nearest dollar.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

	31 Dec 2016	31 Dec 2015
	US\$ 000	US\$ 000
Note 2: Profit for the period		
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
<u>Revenue items:</u>		
Interest revenue	15	12
Gold and silver sales	49,806	68,976
Other	280	716
<u>Expense items:</u>		
Depreciation	716	4,174
Amortisation	5,383	4,791
Employee benefits expense	4,860	4,856
Recognition of share based payments	378	274
Note 3: Dividends		
No dividend was declared (2015: No dividend was declared)	-	-

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

Note 4: Segment Information

The Consolidated Group has identified its reportable operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (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.

	Mining US\$ 000	Exploration US\$ 000	Other US\$ 000	Total US\$ 000
Segment Revenue and Result				
<u>6 months to December 2016:</u>				
Segment revenue	49,806	-	295	50,101
Segment result (*)	(39,155)	(8)	(1,615)	(40,778)
<u>6 months to December 2015:</u>				
Segment revenue	68,976	-	735	69,711
Segment result	32,470	(7)	(1,090)	31,373
Segment Assets and Liabilities				
<u>31 December 2016:</u>				
Segment assets	209,655	1,027	3,451	214,133
Reconciliation of segment assets to group assets add -				
Deferred tax assets				1,683
Total group assets				215,816
Segment liabilities	23,417	1	581	23,999
Reconciliation of segment liabilities to group liabilities add -				
Deferred tax liabilities				245
Total group liabilities				24,244
<u>30 June 2016:</u>				
Segment assets	252,942	1,038	2,338	256,318
Reconciliation of segment assets to group assets add -				
Deferred tax assets				2,208
Total group assets				258,526
Segment liabilities	23,116	9	817	23,942
Reconciliation of segment liabilities to group liabilities add -				
Deferred tax liabilities				245
Total group liabilities				24,187

(*) Included within the result of this segment is a \$55m impairment charge. Refer to Note 12

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

	31 Dec 2016 (shares)	30 Jun 2016 (shares)	31 Dec 2016 US\$ 000	30 Jun 2016 US\$ 000
Note 5: Issued Capital				
Ordinary shares on issue	207,794,301	207,794,301	102,902	102,902
Opening balance	207,794,301	207,794,301	102,902	102,902
add -				
Shares issued during the period	-	-	-	-
Transfer from option Reserve	-	-	-	-
	<u>207,794,301</u>	<u>207,794,301</u>	<u>102,902</u>	<u>102,902</u>
Movement in ordinary shares during the half-year:				
- Balance at beginning of the period	207,794,301	207,794,301	102,902	102,902
- Ordinary shares issued	-	-	-	-
	<u>207,794,301</u>	<u>207,794,301</u>	<u>102,902</u>	<u>102,902</u>

The A\$ issue price per share has been converted using the exchange rate applicable on the date the funds were received and rounded to four decimal places.

	31 Dec 2016 (options)	30 Jun 2016 (options)	31 Dec 2016 US\$ 000	30 Jun 2016 US\$ 000
Note 6: Option and Performance Rights Reserve				
Option and Performance Rights Reserve	4,940,500	4,200,000	-	-
Opening balance	3,740,500	4,200,000	739	304
less -				
Options forfeited	-	(459,500)	-	-
Options expired	-	-	-	-
Options granted	1,200,000	-	-	-
Transfer to retained earnings	-	-	-	-
Share options and performance rights recognised during the period in accordance with AASB 2 - share based payments	-	-	378	435
	<u>4,940,500</u>	<u>3,740,500</u>	<u>1,117</u>	<u>739</u>

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

Note 7: Share Based Payments

On 24 November 2016, Medusa Mining Limited announced to the market that 1,200,000 options were issued to the Company's Chief Executive Officer, Boyd Timler (later appointed Managing Director). The options which hold no voting or dividend rights have an expiry date of 24 November 2020 and are exercisable at the prices disclosed below. Under the terms of the Issue Mr Timler would be required to remain in the employment of the Company in accordance with the vesting dates of each tranche. At reporting date, all options remain unexercised.

Options Issued:

Tranche	Number of Options	Exercise price
A	300,000	A\$1.00
B	300,000	A\$1.25
C	300,000	A\$1.50
D	300,000	A\$1.75
Total	1,200,000	

Vesting provisions:

Tranche	Exercise price	Year 1 (30% vesting)	Year 2 (30% vesting)	Year 3 (40% vesting)
A	A\$1.00	90,000	90,000	120,000
B	A\$1.25	90,000	90,000	120,000
C	A\$1.50	90,000	90,000	120,000
D	A\$1.75	90,000	90,000	120,000
Total		360,000	360,000	480,000

Share based options	31 December 2016		30 June 2016	
	Number of options and performance rights	Weighted average exercise price (A\$)	Number of options and performance rights	Weighted average exercise price (A\$)
Outstanding at start of year	3,740,500	1.0000	4,200,000	1.0000
Granted	1,200,000	1.6250	-	-
Forfeited	-	-	(459,500)	1.0000
Expired	-	-	-	-
Outstanding at 31 December 2016	4,940,500	1.0911	3,740,500	1.0000
Exercisable at 31 December 2016	-	-	1,245,000	1.0000

During the 6 months to 31 December 2016 no options expired (2016: nil).

The options outstanding at 31 December 2016 (all of which are unlisted) had a weighted average exercise price of A\$1.09 and a weighted average remaining contractual life of 29.94 months.

Included under administration expense in the Statement of Profit or Loss and other Comprehensive Income is US\$377,892 (6 months to 31 December 2016: US\$274,193) and relates, in full, to equity-settled share based payment transactions relating to employees.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

Note 8: Contingent Liabilities

There have been no developments in the period since the 30 June 2016 annual report.

Note 9: Commitments

There has been no change to the commitments as disclosed in the Group's 30 June 2016 annual report.

Note 10: Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the Company's annual report for the year ended 30 June 2016.

Note 11: Events subsequent to reporting date

There has not arisen in the interval between the year ended 30 June 2016 and the date of this report any other item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Group, the results of those operations, or the state of affairs of the Consolidated Group, in subsequent financial periods.

Note 12: Impairment of Non- Current Assets

Non-financial assets are reviewed at each reporting period to determine whether there is an indication of impairment.

When indicators of impairment exist, a formal estimate of the recoverable amount is made. External and internal indicators of impairment as at 31 December 2016 included;

- *long range planning and scheduling meeting the JORC 12 Compliances;*
- *increased development costs incurred during forecast periods and increased future costs of production; and*
- *reduction in the group's market capitalisation relative to the carrying values of non-current assets.*
- *Reduction in the gold price forecasts*

Due to the indicators above, the Group assessed the recoverable amounts of its major cash-generating unit ("CGU"), relating to the Co-O mining operations.

a) Impairment testing

i) Methodology

Impairment is recognised when the carrying amount exceeds the recoverable amount. The recoverable amount being the value in use of the CGU has been estimated using the discounted cashflows method based on the Group's recoverable minerals.

Value in use is estimated based on discounted cash flows using market based commodity price, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements. When Life of Mine (LOM) plans fully utilise the existing mineral resource and the Group have demonstrated an ability to replenish resources, an estimated replenishment rate has been applied to unmined resources.

The estimates in the value in use calculation are considered to be level 3 measurements as they are derived from valuation techniques that include inputs that are not based on observable market data. The Group considers the inputs and the valuation approach to be consistent with the approach taken by similar market participants.

Estimates of quantities of recoverable minerals, production levels, operating costs and capital requirements are sourced from the Group planning and budgeting process, mill capacity levels and mining plans for the following year. The 2017 budget and mine plan were developed in the context of the current gold price environment.

Significant judgements and assumptions are made by the Group to determine value in use. This includes assessing variable key assumptions such as gold market prices, cost structures, production utilisation and capacity, available minerals and discount rates. Any change in these variable assumptions can cause adverse changes in one or more of the assumptions used to estimate value in use.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

ii) Key Assumptions

The table below summarises the key assumptions used in the 31 December 2016 carrying value assessments. Comparison to the prior period has been provided.

Assumptions	Unit	31 December 2016 (2017-2023)	30 June 2016 (2017 – 2021)
Gold price	US\$/ounce	1,250	1,350
Average AISC	US\$/ounce	945	820
Post-Tax Discount rate (%)	%	11.1	11.1
Probable reserves	ounces	376,000	427,000
Production range per annum	ounces	90,000-128,000	105,000 - 130,000

Commodity prices

Commodity prices are estimated with reference to external market forecasts and reviewed at least annually. The price applied has taken into account observable market data.

Discount rate

The future cash flows of the CGU are discounted by the estimated real after tax weighted average cost of capital (WACC), pursuant to the Capital Asset Pricing Model. This has been estimated based on the Group level WACC rate as the Co-O mining operation is the Group's primary asset.

Production activity and operating and capital costs

Life of mine production activity and operating and capital cost assumptions are based on the Group's latest budget, including the five-year budget and separately estimated LOM plan. Discounted cash flows include expected cost improvements and sustaining capital requirements. Estimated production is assumed consistent with the capacity constraint of the Co-O mill taken into account while assuming a constant recovery rate.

Resources and reserves

The 31 December 2016 Resource and Reserve ounces have been based on the Group's JORC 2012 compliant Annual Resource and Reserve Update Statement announced to the Australian Stock Exchange on 28 September 2016. The resource and reserves estimates for 30th June 2016 financial statements were based on the 28th September 2016 Resource and Reserve estimate and the September 2015 life of mine plan.

iii) Impacts

The result of the impairment indicated the recoverable amount of the Group's major cash-generating unit ("CGU"), relating to the Co-O mining operations, indicated the estimated carrying amount exceeded the recoverable amount. As such an impairment charge, has been recognised in relation to the Group's Co-O mining operations CGU based on the following:

Description	Dec 2016			30 June 2016		
	Carrying amount (\$'000)	Impairment (\$'000)	Balance (\$'000)	Carrying amount (\$'000)	Impairment (\$'000)	Balance (\$'000)
Development	111,897	(33,000)	78,897	108,610	-	108,610
Plant & equipment	60,489	(17,000)	43,489	53,064	-	53,064
Inventory	18,961	(5,000)	13,961	-	-	-
Total	191,077	(55,000)	136,347	161,674	-	161,674

The Group has concluded that it is impracticable to determine the period-specific effects of the changes in the assumptions in Note 12(a)(ii) on the comparative information and as such no retrospective adjustment has been made.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2016

b) Sensitivity Analysis

Variation movements in any key assumptions may result in a change to the estimated recoverable amount which may indicate an additional impairment to non-current assets.

The changes to estimated key assumptions would have the following approximate impact on the recoverable amount of the CGU in its functional currency that has been subject to impairment in the 31 Dec 2016 statutory accounts:

Assumption changes	Dec 2016	30 June 2016
	Effect on recoverable amount (\$'000)	Effect on recoverable amount (\$'000)
US \$100 per ounce increase/decrease in gold price	40,158	31,235
1% increase/decrease in the discount rate	4,332	4,649
5% increase in operating costs	27,634	17,239

In addition to the above, the level of production activity is also a key assumption in the determination of recoverable amount. Should the Group recognise decreases/increases in processing capacity, changes in recoverable amount estimates may arise. Due to the number of factors that could impact production activity, assessment to sensitivity has not been determined for these factors.

The sensitivities above assume specific assumption moves are in isolation, whilst all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions may accompany a change in another assumption.

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DIRECTORS' DECLARATION

In the opinion of the Directors of Medusa Mining Limited:

- (a) The consolidated interim financial statements and notes of Medusa Mining Limited are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of its financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
 - (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Andrew Teo
Chairman

Dated this 28th day of February 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MEDUSA MINING LIMITED

We have reviewed the accompanying half-year financial report of Medusa Mining Limited (the Company), which comprises the consolidated financial statements being the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Medusa Mining Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Medusa Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Basis for Qualified Conclusion

A limitation in scope of our review work exists for the reasons described below:

On 30 September 2016 we issued a qualified audit report with respect to the 30 June 2016 financial statements of the consolidated entity in relation to the impairment assessment at that date. As at 31 December 2016 the Directors have undertaken an impairment assessment in accordance with *AASB 136: Impairment of Assets* to assess the carrying value of property, plant and equipment and development expenditure. As a result of the impairment assessment the consolidated entity has recognised an impairment charge in the current period's consolidated statement of profit or loss and other comprehensive income of US\$55.000m. Note 12 to the half-year financial report includes the estimates and assumptions used in determining the recoverable amount of these assets. The consolidated entity has concluded that it is impracticable to determine any period-specific effects on the recoverable amount of these assets due to the changes in estimates and assumptions and has therefore been unable to determine the extent and quantum of any impairment charge that may relate to 30 June 2016.

Accordingly we are unable to determine the portion of the impairment charge recognised in the current period which could be attributable to the prior financial year.

Qualified Conclusion

Based on our review, which is not an audit, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the half-year financial report of Medusa Mining Limited is not in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M A Petricevic
Partner - Audit & Assurance

Perth, 28 February 2017