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ANNOUNCEMENT

3 September 2015

ASSET IMPAIRMENT OF US$260M

(ASX: MML)

Medusa Mining Limited ("Medusa" or the "Company"), on 27 August 2015 reported a statutory after tax loss of US$218.1 million which included asset impairment losses of US$259.6 million.

This impairment loss is essentially a non-cash charge to the accounts and is done in accordance with Accounting Standards (AASB 136). *(see attached note on Impairment of Non-current assets as reported in the Company's 2015 Accounts)*

It is very important to note that this impairment charge has no effect whatsoever on the Company's operations and in particular the resources and reserves of the Co-O mine going forward.

The underlying profit of the Company for the year is approximately US$41.5 million compared to US$30.9 million the previous year (if the impairment charge is not taken into account). This represents an increase of 34% and is a good result camouflaged by the impairment.

Geoff Davis, Chief Executive Officer of Medusa, commented:

"Given that the carrying value of the Company's asset was considerable higher than its market capitalisation at 30 June 2015, the Company was compelled to perform an impairment test, which resulted in a charge of almost US$260M to its 2015 financials. (see table above for breakdown).

I wish to add that this is purely an accounting treatment and has no bearing on our JORC resources and reserves in the Co-O mine and therefore will not affect operations.

On the positive side, the impairment will decrease future depreciation and amortisation charges"

IMPAIRMENT NOTE

IMPAIRMENT OF NON-CURRENT ASSETS

In accordance with the Group's accounting policies and processes, the Group performs its impairment testing annually at 30 June. 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 30 June 2015 included;

- Updated life of mine ('LOM') plans resultant from the JORC 12 Compliance Statement Review;
- Increased expected future costs of production; and
- Reduction in the Group's market capitalisation relative to the carrying values of non-current assets.

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 2016 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.

ii) Key Assumptions

The table below summarises the key assumptions used in the 30 June 2015 carrying value assessments. Comparison to the prior period has been provided.

Assumptions	**2015** **2016-2020**	**2014** **2015-2019**
Gold (US$ per ounce)	1,200	1,300
Post-Tax Discount rate (%)	11.1	10
Probable reserves	590,000	820,000
Production capacity per annum	135,000-150,000	120,000

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.

IMPAIRMENT NOTE

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

Resource and Reserve ounces were based on JORC 2012 and disclosed in the Review of Operations section of the Group's Annual Report.

iii) Impacts

The estimated recoverable amount of the Group's Co-O mining operations CGU after reflecting the impairment write downs has resulted in a non-current assets impairment charge of $259.6million after tax, as summarised in the table below:

	Note	Carrying amount $'000	Impairment $'000	Balance $'000
Development	12	274,386	(187,339)	87,047
Plant & Equipment	11	113,148	(68,126)	45,022
Mineral properties	12	15,156	(4,130)	11,027
	3	402,691	(259,595)	143,096

b) Sensitivity Analysis

The impairment of the Co-O CGU has resulted in the recoverable amount of these assets being equal to their revised carrying amounts as at 30 June 2015. Variation movements in any key assumptions described above would result in a change to the estimated recoverable amount. Variations to the above assumption could have a negative impact on recoverable amount which could indicate 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 30 June 2015 statutory accounts:

Assumption changes	Effect on Impairment of Co-O CGU $'000
US $100 per ounce change in gold price	54,200
1 percent increase/decrease in the discount rate	4,780
5 percent increase in operating costs	36,700

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.