Unit 7, 11 Preston Street
COMO, WA 6152

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Lodgement of Market Briefing

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Market Briefing

Medusa Mining Limited's CEO on March Q3 results and short term strategy

Interview with Boyd Timler (Chief Executive Officer, Medusa Mining Ltd)

In this Market Briefing interview, Boyd Timler, Medusa's newly appointed Chief Executive Officer, gives an update on:

- *March quarter results*
- *Infrastructure projects and AISC (all-in sustaining costs)*
- *Group strategy relating to resource conversion, near-mine exploration focus, and exploration projects*
- *June quarter (Q4) and full-year outlook*

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After only a short period at the helm of Medusa can you give us some early comments on what issues you see as having an effect on the company's performance?

Boyd Timler

I have certainly hit the ground running since my appointment, having spent a considerable time on site completing my own due diligence process on the project and its operations to investigate issues impacting production. As noted in the March Quarterly report, production over the period decreased to 21,980 ounces which is a reflection of culminating material management issues. As it stands, Co-O's production is bottlenecked by the mine shafts' hoisting capacity of 60,000 tonnes per month and an increase in development waste over the quarter, directly impacted the mine's capacity to bring ore to surface and delayed completion of the L8 drilling station. Having spent more than 15 years in operational roles on narrow vein underground gold projects I'm very familiar with the inherent issues associated with underground mining that make mine planning and strategic scheduling critical to an operation's success.

That said, YTD production is up 14% on the previous corresponding period and I expect the average production over this nine-month period is reflective of the mine's sustainable performance until necessary infrastructure projects are completed.

The second issue that drew my focus is the growing AISC. Given Co-O's cash costs remain comparably low within the sector, it highlights the importance of controlling sustaining capital costs given the work undertaken is also affecting current production levels, but needed for future efficiencies. Positive cash flows of US$800k in the March quarter and YTD cash flows of US$2.2M, whilst encouraging, are not greatly improving the balance sheet. More importantly, the operating free cash has covered the costs of the sustaining capital (YTD US$39M), plus Corporate overheads and has still generated positive cash flow.

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Medusa reported cash costs for March quarter of US$494 per ounce and AISC of US$1,033/oz. Can you explain the variance between these two numbers?

Boyd Timler

The AISC costs for the March quarter includes sustainable capital costs of US$10.5M attributable to the infrastructure Service Shaft, upgrading the primary ventilation system and underground development, including exploration development and reserve drilling. Upon completion, the Service Shaft will handle all manpower and materials movement, allowing the L8 Shaft to become a dedicated skipping shaft. These changes will increase the L8's current hoisting capacity by 40% but have added short-term capital costs to the project.

The completion of these projects removes material movement and development constraints, facilitating greater resource conversion and reserve definition at L8 drilling programs. The ventilation upgrade is on track for completion in the June quarter and the majority of the long-lead Service Shaft costs will be sunk by August 2016 so there will be a noticeable drop off in sustaining capital costs and AISC improving free operating cash flow after this date.

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In your short time as Medusa's CEO do you have an understanding of how you will focus the company's growth strategy?

Boyd Timler

In simple terms, refocussing Medusa's growth strategy is a matter of allocating our resources to highest percentage plays to build value in the short to medium term, generate additional cash flows and build a higher level of certainty around the life-of-mine plan (LOMP) at Co-O. Currently all production is from L8 and above but we know the epithermal vein system is open at depth and plunging to the east with Reserves drilled off to approximately level 10 and Indicated and Inferred Resources extending down to level 16. The immediate focus is to drill reserves between levels 10 and level 12 to underpin a robust LOMP for the coming 5+ years. From there we can further define the resources to L16 and convert them to reserves. Only then can we design and develop the full potential of the Co-O deposit.

To date, regional exploration projects have focused on company held tenements and exploration licences along the 80km mineralised trend that hosts the Co-O ore body. As reported, we will be releasing a JORC compliant resource for the Bananghilig (B1) Gold Deposit, followed by an economic scoping study. In the interest of conserving capital, we will limit additional field work until this study is completed. Given the low associated cost, the Agpan Coal Project drilling will be completed by August 2016 at which time we will have a preliminary resource, however any further work on the Lingig Copper Project for example is on hold due to low commodity prices. Given most of the regional exploration activities are transitioning into economic assessments, drilling in the near future will be limited.

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You seem to have a clear plan for the development of existing assets. Is there any blue sky exploration in the pipeline?

Boyd Timler

Exploration activities stepped away from the near-mine targets while Bananghilig and Lingig were being explored but the near-mine halo around Co-O has significant potential for smaller +100,000 ounce deposits that could augment the mill feed. The mill is currently at 80% utilization due to mine hoisting constraints so these types of deposits would make a lot of sense if they prove to be economical. The near-mine exploration will become a very definite focus area.

Additionally, the Board approved a generative exploration program in December beyond the Company's existing land position. It's well known that Medusa's experience and ability to do business in the Philippines is perhaps the Company's key differentiator for ASX listed gold producers, so assessing advanced green and brown-field projects along the country's major gold belts is the logical first priority. That said, the high grade, narrow vein deposits in the Philippines are synonymous with the broader geological setting of the Southeast Asian region, so for the first time we have expanded the scope of our exploration activities internationally which is very exciting. This is at a generative level at this time.

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The March quarter results reported YTD production at 83,149 ounces and full year guidance of 108,000 ounces. How confident are you in these numbers?

Boyd Timler

The constraints at Co-O are obviously disappointing, but I'm confident we are through the worst of it. The full year guidance of 108,000 ounces implies Q4 production of 25,000 ounces at AISC of US$900 to US$1000 per ounce which reflects increased production and lower sustaining costs in Q4.

In the December quarter Medusa engaged independent consultants with specialist knowledge in narrow vein, high grade reserves and narrow vein mining to conduct a long-range mine review to predicate the Company's shift in strategy and board restructure. The comprehensive review assessed the short, medium and long-term capital and infrastructure requirements, reserve depletion planning-scheduling and the resource conversion strategy. The findings of this review have fed into work currently underway at Co-O and support the full-year guidance announced in the March quarterly. Additionally, the review will be key in developing the 2016-17 budget and strengthening Medusa's medium to long term strategy.

What is critical for the short to medium term, is the completion of the mine capital projects as quickly and prudently as we can, alleviating infrastructure and production constraints at Co-O and enhancing our ability to convert resources to reserves.

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Thank you Boyd.