



MEDUSA

MEDUSA MINING LIMITED

ABN 60 099 377 849

and Controlled Entities

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2019

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This report should be read in conjunction with Medusa's Annual Report for the year ended 30 June 2019 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 2019

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 2019

Results for announcement to the market

<u>Revenues and profits:</u>		US\$'000	US\$'000
Revenues from ordinary activities	up 29%	58,668	to 75,527
Profit from ordinary activities after tax attributable to members	up 194%	8,286	to 24,386
Net profit for the period attributable to members	up 194%	8,286	to 24,386

Dividends:

Interim dividend

Amount per security

Franked amount per security

- current period (half year ended 31 Dec 2019)

Nil

Nil

- previous period (half year ended 31 Dec 2018)

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 2019 was US\$0.706 (31 Dec 2018: US\$0.447)

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.

CHAIRMAN'S REPORT

Dear Shareholder,

I am very pleased to report on the positive progress the Company has achieved in the half year to 31 December 2019 ("Half Year") on delivering production, costs and infrastructure projects.

Gold production from the Co-O Mine for the Half Year was 48,307 ounces at an All-In Sustaining Cost ("AISC") of US\$1,147 per ounce. Lower than anticipated grades encountered during the December Quarter 2019 saw the Half Year production tracking at the lower end of annual guidance and AISC slightly above guidance. However, mine sequencing and remediation measures in place should put us back on track and the Company is maintaining its FY20 guidance of between 95,000 to 105,000 ounces at an AISC of between US\$1,025 to US\$1,125 per ounce.

Replacing and expanding Mineral Resources and Ore Reserves at Co-O remains a priority of the Company's strategy with more than 20,290 metres of drilling completed in the Half Year. Most of the drilling was directed into the definition of reserves, while resource drilling was somewhat curtailed as operational priorities limited the development and availability of drilling buddies. Drilling completed during the Half Year will be incorporated into an updated Mineral Resource and Ore Reserve statement, due for release in April 2020. The Co-O deposit remains open down-dip to the east and progressive step-out drilling will continue.

Regional exploration activities for the half year continue to focus on testing near mine targets. The second pass drilling program at the Royal Crowne Vein was completed providing a better understanding of the vein geology suggesting the presence of multiple mineralised veins. Geological interpretation and modelling are underway, with results expected in the March Quarter 2020.

Generative work has continued assessing advanced stage gold projects and quality greenfields projects throughout the Asia Pacific region. Notwithstanding the challenges associated with securing a high quality asset for fair value during a buoyant gold price environment, the Company is committed to its goal of achieving greater balance within its asset portfolio.

The Company maintained its high level of sustainability and environmental performance through the Half Year. All requirements of the Philippine Department of Environment and Natural Resources have been met or exceeded, including through the participation in numerous health, education and environmental programs with local communities and the regional government.

In January 2020, the Company reported the outcomes of a comprehensive study into a long-term infrastructure solution at the Co-O Mine ("Study"). The key objective of the Study was to underpin the long-term future of the mine by facilitating the best means of extracting gold-bearing ore from Level 12 and below, as well as providing a platform for more effective in-mine and near-mine exploration. The Study concluded that the establishment of a decline from surface was the best option for the Co-O Mine and the Board of Medusa has approved construction of a decline which is expected to commence in the second half of FY20. Developing a decline is expected to provide numerous long-term benefits, including enhanced access to deeper levels of the mine, more optimal positions for in-mine and near-mine exploration, greater operational flexibility, safety benefits and removing hoisting as the bottleneck on ore production.

In closing, I would like to thank the management team, both at site and the Perth office, and express our gratitude to the local communities and government agencies in the Philippines for their assistance during this period.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2019 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 Teo (Non-Executive Chairman)	since 15 Feb 2010
Mr Roy Daniel	since 25 Nov 2015
Executives:	
Mr Raul Villanueva	since 24 Jan 2013

FINANCIALS

Description	Unit	Dec 2019	Dec 2018	Variance	%
Revenues	US\$	\$75.5M	\$58.7M	\$16.8M	29%
EBITDA ⁽¹⁾	US\$	\$34.8M	\$22.7M	\$12.1M	53%
NPAT ^{(1) / (2)}	US\$	24.4M	\$8.3M	\$16.1M	194%
EPS (basic) ⁽²⁾	US\$	\$0.117	\$0.040	\$0.077	193%

Revenues of US\$75.5 million, an increase of 29% from US\$58.7 million in the previous corresponding period ("pcp"). This increase in revenues of US\$16.8 million is primarily attributable to a higher gold price received on the sale of gold.

Medusa is an un-hedged gold producer and received an average gold price of US\$1,484 per ounce from the sale of 47,449 ounces of gold for the half-year to December 2019 (pcp: 47,978 ounces at US\$1,219 per ounce).

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US\$34.8 million, up 53% from EBITDA of US\$22.7 million in the pcp.

NPAT of US\$24.4 million, up 194% on NPAT of US\$8.3 million from pcp.

Basic earnings per share ("EPS") up 193% to US\$0.117 from pcp EPS of US\$0.040.

The Company had total cash and cash equivalent in gold on metal account and bullion on hand of US\$24.6 million at 31 December 2019 (pcp: US\$14.6 million).

During the half year:

- Depreciation of fixed assets and amortisation of capitalised mine development and mine exploration was US\$9.8 million (pcp: US\$10.9 million).
- US\$3.2 million was expended on capital works (inclusive of new Service Shaft) and associated capital at mine and mill for the period (pcp: US\$5.9 million).
- Exploration expenditure, including underground diamond drilling was US\$3.7 million (pcp: US\$4.3 million). Capitalised mine development costs totalled US\$12.5 million (pcp: US\$13.6 million). Corporate overheads of US\$3.6 million (pcp: US\$2.8 million).

DIRECTORS' REPORT

CORPORATE

Dividend

No dividend will be payable for the half year to 31 December 2019 (No dividend was payable for the previous half year to 31 December 2018).

Co-O OPERATIONS

Production Guidance

As announced in the September Quarterly Report the Company maintains its FY20 guidance of between 95,000 to 105,000 ounces at an All-In-Sustaining-Costs ('AISC') of between US\$1,025 to US\$1,125 per ounce.

Co-O OPERATIONS

Description	Unit	Dec 2019	Dec 2018	Variance	(%)
Ore mined	WMT	310,135	283,743	26,392	9%
Ore milled	DMT	279,148	257,832	21,316	8%
Head grade	g/t	5.65	6.04	(0.39)	(6%)
Recovery	%	95.1%	94.5%	0.60%	1%
Gold produced	ounces	48,307	47,298	1,009	2%
Gold sold	ounces	47,449	47,978	(529)	(1%)
Cash costs	US\$/oz	\$694	\$558	\$136	24%
All-In-Sustaining-Costs	US\$/oz	\$1,147	\$1,141	\$6	1%
Avg gold price received	US\$/oz	\$1,484	\$1,219	\$265	22%

Co-O MINE

Underground mining at the Co-O Mine performed as planned during the half year, producing 310,134 wet tonnes (WMT) of ore at a mine head grade of 5.65 g/t gold. Tonnes mined were 9% higher on the same period from last year, even though the mined grade was lower.

The Co-O process plant throughput was in line with the plan for the half year, treating 279,148 dry tonnes for the period, 8% up on the same period from last year but the feed grade was lower resulting in only a 2% increase in gold being produced.

Mine development for the half year period has been in line with planned, achieving 17,284 metres of development, an increase of 15% on the same period from last year. Maintaining the overall mine development is critical for delivering long-term results. Opening up the resources below level 8 is critical for maintaining consistent production and grade.

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". During this half year diamond drilling continued from level 10, and a new drill cuddy is being developed. Achieved 20,290 metres of drilling for the half year, this includes 12,103 metres of resource definition drilling and 8,187 metres of reserve definition.

Projects

The Co-O mine infrastructure projects saw significant progress in the H1 period. The key pillars of development are development of internal winzes for hoisting, refurbishment of L8 Shaft structures, as well as continued improvements to the dewatering system and primary ventilation.

- The 35E winze reached level 12 in December. This allow access to levels 11 and 12. After completing the plats, loading chutes and change out of the winder the winze will be ready for hoisting material from the development of levels 11 and 12.
- Work has continued on the systematic refurbishment of the L8 shaft to improve its longevity as a key infrastructure at Co-O. Ground support work between levels 2 and 4 was completed. The next stage of the L8 shaft structure refurbishment project is the installation of support brackets. Sections of the structure are planned to be replaced during 2020. This work is planned to be completed on weekends when mine production is lower and therefore should have minimal impact on future production.
- Development commenced on the level 10 pump station and orders were placed for the initial pumps. This additional pump station is to cater for the future production activities on levels 9,10, 11 and 12.
- Development continued on new primary ventilation system in the eastern section of mine to cater for future production from the deeper levels. Raise were established from level 8 to level 6 and commenced on level 5.
- The study into accessing the resources below level 12 was completed and recommended the development of a decline from the surface down to level 14 as the best option for the extraction of resources below level 12.

REVIEW OF OPERATIONS

EXPLORATION

Regional

The company is on the lookout for prospective gold areas in the Philippines and Asia Pacific region. The compilation, screening and selection of potential projects remain an ongoing activity.

Near Mine Exploration (MinEX)

Previous data mining and review identified two potential drillable prospects located within a 3km distance from the Co-O Mine. These prospects are located within PMC's approved tenement designated as MPSA 262 Parcel 2, and referred to as the Royal Crowne Vein and Calavera projects.

The Royal Crowne Vein Prospect

Phase 3, a follow up resource definition and extension drilling program was completed in during H1. The program comprising of 21 holes with total metreage of 4,746 metres.

Geologic interpretation and modelling are underway prior to resource estimation, which is expected to be reported by the March 2020 quarter.

Calavera Prospect (MPSA 262-2008-XIII Parcel 2)

The Calavera prospect located about 2km south of Co-O Mine that has been the focus of exploration mapping in the past. Two vein sets trending east-west and NE-SW with projected strike lengths of 150 metres and 300 metres respectively were previously mapped and sampled. Eleven rock chip channel samples from this program returned grades above 1.0 g/t gold, and peak grade of 4.46 g/t gold.

A potential 200 metre sub-parallel vein structure was recently delineated by mapping and trenching in an area located approximately 200 metre south of the previously mapped Calavera vein. A total of eight trenches were completed and 12 trench samples collected. Partial assay results from 25 rock samples (i.e. 12 trench and 13 outcrops) range from 0.02 g/t gold to 8.40 g/t gold. A total of 10 samples returned grades above 1.0 g/t gold with the peak grade of 0.60 metres @ 8.40 g/t gold.

A proposal for follow up exploration work to include scout drilling is being considered.

REGIONAL EXPLORATION (NEW PROJECT GENERATION)

The compilation, screening and selection of potential new projects remain an ongoing activity.

Mt Clarke West and Hill 212 Gold Projects (Queensland, Australia)

In November 2019 the Company advised that after evaluating all results from the first round of drilling at the Hill 212 and Mt Clark West projects in Central Queensland, it had elected not to proceed to the next phase of the Earn-In-Agreement ("EIA") with Ellenkay Gold Pty Limited.

The Company continues to seek and evaluate other opportunities within the Asia Pacific Region with the objective of achieving greater balance in its project portfolio.

AUDITOR'S INDEPENDENT DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the half-year ended 31 December 2019.

ROUNDING OF AMOUNTS

The Group is of a kind referred to in ASIC Legislative Instrument 2016 /191 and accordingly, amounts in the Financial Report and Directors' Report have been rounded to the nearest \$1,000 or in certain cases, to the nearest dollar to reflect where rounding in '000 is not permitted.

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



Andrew Teo
Chairman

Dated this 28th day of February 2020

DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF MEDUSA MINING LIMITED

As lead auditor for the review of Medusa Mining Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Medusa Mining Limited and the entities it controlled during the period.



Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2020

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 31 December 2019

	31 Dec 2019	31 Dec 2018
Note	US\$ 000	US\$ 000
Revenue	75,527	58,668
Other income	38	-
Cost of sales	(44,459)	(37,936)
Gross Profit	31,106	20,732
Exploration & Evaluation Expenses	1(d) (1,065)	(558)
Administration expenses	(5,408)	(4,512)
Other expenses	(487)	(4,688)
Profit/(Loss) before income tax expense	24,146	10,974
Income tax (expense)/benefit	240	(2,688)
Profit/(Loss) for the period after income tax expense	24,386	8,286
Other comprehensive profit/(loss):		
Items that may be reclassified subsequently to profit or loss:		
Movement in other reserves		
Exchange differences on translation of foreign operations (net of tax)	(958)	2,281
Total comprehensive income/(loss)	23,428	10,567
<u>Overall operations:</u>		
Basic profit/(loss) per share	0.117	0.040
Diluted profit/(loss) per share	0.114	0.040

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		31 Dec 2019	30 Jun 2019
	Note	US\$ 000	US\$ 000
CURRENT ASSETS			
Cash & cash equivalents		24,596	18,109
Trade & other receivables		6,300	5,188
Inventories		12,840	12,739
Other current assets		298	789
Total Current Assets		44,034	36,825
NON-CURRENT ASSETS			
Trade & other receivables		30,576	28,506
Property, plant & equipment	4	16,175	15,743
Intangible assets		488	580
Mine Rehabilitation		1,508	1,793
Development expenditure	5	58,582	50,193
Deferred tax assets		20,364	18,427
Right-of-use assets		2,188	-
Total Non-Current Assets		129,881	115,242
TOTAL ASSETS		173,915	152,067
CURRENT LIABILITIES			
Trade & other payables		13,003	14,379
Borrowings	6	5,405	6,679
Provisions	7	441	401
Lease Liabilities		517	-
Total Current Liabilities		19,366	21,459
NON-CURRENT LIABILITIES			
Borrowings	6	313	150
Provisions	7	5,177	5,938
Deferred tax liability		176	778
Lease liabilities		1,673	-
Total Non-Current Liabilities		7,339	6,866
TOTAL LIABILITIES		26,705	28,325
NET ASSETS		147,210	123,742
EQUITY			
Issued capital	9	102,902	102,902
Reserves		5,861	6,779
Retained profits/(Accumulated losses)		38,447	14,061
TOTAL SHAREHOLDERS' EQUITY		147,210	123,742

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2019

	Share Capital Ordinary	Retained Profits/ Accumulated Losses	Share Option Reserves	Other Reserves	Foreign Currency Translation Reserve	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Balance at 01 Jul 2018	102,902	(21,370)	994	-	317	82,843
Net profit after tax	-	8,286	-	-	-	8,286
Other comprehensive income / (loss)	-	-	-	-	2,281	2,281
Total comprehensive profit for the period	-	8,286	-	-	2,281	10,567
Share options expensed	-	-	90	-	-	90
Transfer from share option reserve	-	657	(657)	-	-	-
Balance at 31 Dec 2018	102,902	(12,427)	427	-	2,598	93,500
Balance at 01 Jul 2019	102,902	14,061	202	310	6,267	123,742
Net profit after tax	-	24,386	-	-	-	24,386
Other comprehensive income / (loss)	-	-	-	-	(958)	(958)
Total comprehensive profit for the period	-	24,386	-	-	(958)	23,428
Share options expensed	-	-	40	-	-	40
Transfer from share option reserve	-	-	-	-	-	-
Balance at 31 Dec 2019	102,902	38,447	242	310	5,309	147,210

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2019

	31 Dec 2019	31 Dec 2018
	US\$ 000	US\$ 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	75,454	62,047
Payments to suppliers and employees	(49,042)	(34,087)
Payments for exploration expenditure and tenements	(1,065)	(557)
Interest received	69	83
Net cash provided by operating activities	25,416	27,486
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Property, Plant and Equipment	(3,435)	(5,377)
Payments for development activities	(15,097)	(19,273)
Net cash used in investing activities	(18,532)	(24,650)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payment of) / Receipt from bank loan	(505)	930
Net cash / (used in) provided by financing activities	(505)	930
Net increase / (decrease) in cash held	6,379	3,766
Cash at beginning of period	18,109	11,198
Exchange rate adjustments	108	(1,001)
Cash at end of period	24,596	13,963

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

Note 1: Basis of preparation

The interim consolidated financial statements of the Company as at and for the six months ended 31 December 2019 comprises the Company and its subsidiaries (together referred to as the "Group").

The functional currency of each of the Group's entities is the currency of the primary economic environment in which that entity operates. The Group's functional currencies include Australian dollars, US Dollars & Philippine Pesos. 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 A, Level 1, 1 Preston Street, Como 6152, Western Australia.

The consolidated annual financial report of the consolidated group as at and for the year ended 30 June 2019 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 2019 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 27th of February 2020.

(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 2019.

The accounting policies have otherwise been applied consistently throughout the Group for the purposes of preparation of these interim financial statements other than new accounting standards adopted - AASB 16.

Adoption of new and amended accounting standards

New or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting the following standard:

- AASB 16 Leases.

The impact of the adoption of the standard and the new accounting policies are disclosed below.

AASB 16 Leases replaces AASB 117 Leases and Interpretation 4 in determining whether an arrangement contains a Lease. In accordance with the transitional provisions of AASB 16, the Group has elected to adopt AASB 16 using the modified retrospective approach, where the lease liability is measured at the present value of future lease payments on the initial date of application, being 1 July 2019. In determining the present value, the discount rate is determined by reference to the group's incremental borrowing rate on the date of initial application of the standard (1 July 2019).

On transition to AASB 16 the Group has measured its right of use assets at the amount of the lease liability, adjusted for any lease prepayments or accruals recognised under the old leasing standard, AASB 117.

In applying the modified retrospective approach, the Group has taken advantage of the following practical expedients:

- A single discount rate has been applied to portfolios of leases with reasonably similar characteristics.
- Impairment losses on right-of-use assets as at 1 July 2019 have been measured by reference to the amount of any onerous lease provision recognised on 30 June 2019.
- Leases with a remaining term of 12 months or less from the date of application have been accounted for as short-term leases (i.e. not recognised on balance sheet) even though the initial term of the leases from lease commencement date may have been more than 12 months.

The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was 6.03%.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

The Group's operating lease commitment at 30 June 2019 can be reconciled to the aggregate lease liability recognised in the statement of financial position at 1 July 2019 as follows:

	US\$ 000
Operating lease commitment at 30 June 2019	448
Add:	
Adjustment as a result of recognising different treatment of extension options discounted at an annual rate of 5.35% & 6.25%	<u>1,947</u>
Lease liability recognised as at 1 July 2019	<u>2,395</u>

Changes in Accounting Policies

The following discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

AASB 16 Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a term of 12 months or less.

Initial recognition - Lease liability

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Initial recognition - Right-of-use asset

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is required to dismantle, remove or restore the leased asset.

Subsequent measurement - lease liability and right of use asset

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Subsequent measurement - changes in estimates

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate (being the interest rate implicit in the lease for the remainder of the lease term or, if that cannot be readily determined, the Group's incremental borrowing rate at the re-assessment date). An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

The carrying value of lease liabilities is also revised when the variable element of future lease payments

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

dependent on a rate or index is revised or there is a revision to the estimate of amounts payable under a residual value guarantee. In both cases an unchanged discount rate is used. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Subsequent measurement - modifications

When the group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, nor account separately for, any services provided by the supplier as part of the contract.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items such as IT-equipment and small items of office furniture.

Changes in Critical Estimates and Judgements

Judgements:

Leases – determining the lease term.

The Group has in place a number of leases of property and equipment with terms that can be renewed or extended, or, where no formal extension or renewal option exist, there is a practice of renewing or extending the lease.

In determining the lease term, management is required to determine

- Whether there is an actual or implied extension or renewal option. An implied extension or renewal option will exist if both the lessee and lessor would incur a more than insignificant penalty if the lease were not extended or renewed; and
- Whether the Group is reasonably certain to exercise any actual or implied extension options, taking into account all facts and circumstances relating to the lease.

Estimates:

Leases - determining the incremental borrowing rate.

Where the interest rate implicit in a lease is not known, the Group is required to determine the incremental borrowing rate, being the rate of interest the Group would have to pay to borrow a similar amount, over a similar term, with similar security to obtain an asset of similar value in a similar economic environment.

As this information may not be readily available, the Group is required to estimate its incremental borrowing rate using such information as is available and making adjustments to reflect the particular circumstances of each lease.

(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 2019.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

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 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.

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 9th of April 2019 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 are 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 mine 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 estimate of the provision for income taxes 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\$35.1 million that comprises tax credit certificates ("TCC") and VAT claimable for cash. The current asset portion of VAT US\$4.5 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\$30.6 million represents the estimated amount to be utilised in future periods against tax liabilities.

Key estimates - Deferred tax asset

Significant judgement is required in determining deferred tax assets and liabilities. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future forecast taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the relevant tax legislation associated with their recoupment.

The Group has recognised a deferred tax asset of US\$20.3 million at 31 December 2019. The utilisation of this deferred tax asset amount depends upon future taxable amounts in excess of profits arising from the reversal of temporary differences. The Group believes this amount to be recoverable based on taxable income projections.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

(d) Exploration and Evaluation Expenditure

Exploration and Evaluation expenditure ("E&E") incurred by or on behalf of the Group was 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.

The Company expenses all costs incurred in respect of the acquisition of exploration and evaluation activities and ongoing exploration activities in the period in which they are incurred. When production commences, the accumulated development for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of reserves.

(e) 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 at an average rate of 14.26% (2018:10.23%). 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. Where the life of the assets is 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.

(f) 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.

In the case of negative indicators of impairment, the Group assesses the recoverable amounts of its major cash-generating units ("CGU") relating to the Co-O mining operations, compares it to the carrying value of Non-Financial Assets relating to the CGUs and subsequently recognises an impairment charge if necessary.

It was decided that because there was no reduction in market capitalization, small decline in production ounces and an increase in price, no impairment was necessary.

(g) Comparative figures

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

(h) Rounding of amounts

The Group has applied the relief available to it under AISC Legislative Instrument 2016 /191 and accordingly, amounts in the Interim Financial Report and Directors' Report have been rounded to the nearest \$1,000 or in certain cases, to the nearest dollar to reflect where rounding in '000 is not permitted.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

	31 Dec 2019	31 Dec 2018
	US\$ 000	US\$ 000
Note 2: Profit/Loss 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	73	83
Gold and silver sales	75,454	58,585
Other	38	-
<u>Expense items:</u>		
Depreciation	2,778	1,391
Development Amortisation	6,709	8,863
Other Amortisation	639	651
Employee benefits and other expenses	5,551	4,465
Recognition of share-based payments	40	90
Value Added Tax (VAT) Write-off	304	4,645

Note 3: Dividends

No dividend was declared during or since the end of the half year (2019: No dividend was declared)

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

	31 Dec 2019 US\$000	30 Jun 2019 US\$000
Note 4: Property, Plant & Equipment		
Plant & equipment:		
At cost	197,063	195,854
<i>less</i> - provision for impairment	(132,064)	(132,064)
<i>less</i> - accumulated depreciation	(53,758)	(50,941)
Total plant & equipment at net book value	11,241	12,849
Capital works in progress:		
At cost	4,879	2,812
<i>less</i> - provision for impairment	-	-
Total capital works in progress at net book value	4,879	2,812
Furniture & fittings:		
At cost	1,161	1,143
<i>less</i> - provision for impairment	(254)	(254)
<i>less</i> - accumulated depreciation	(852)	(807)
Total furniture & fittings at net book value	55	82
Total carrying amount at end of year	16,175	15,743
Reconciliations:		
Plant & equipment:		
Carrying amount at beginning of year	12,849	1,421
<i>plus</i> - additions	1,142	4,681
<i>plus</i> - transfer from capital works in progress	-	10,819
<i>plus/less</i> - forex differences on translation	21	(171)
<i>less</i> - disposal	(38)	(6)
<i>less</i> - impairment	-	-
<i>less</i> - depreciation	(2,733)	(3,895)
Carrying amount at end of year	11,241	12,849
Capital works in progress:		
Carrying amount at beginning of year	2,813	11,449
<i>plus</i> - additions	2,066	2,182
<i>less</i> - transfer to plant and equipment	-	(10,819)
<i>less</i> - impairment	-	-
Carrying amount at end of year	4,879	2,812
Furniture & fittings:		
Carrying amount at beginning of year	82	87
<i>plus</i> - additions	18	51
<i>plus</i> - forex differences on translation	-	4
<i>less</i> - depreciation	(45)	(60)
Carrying amount at end of year	55	82
Total carrying amount at end of year	16,175	15,743

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

	31 Dec 2019 US\$000	30 Jun 2019 US\$000
Note: 5 Development expenditure:		
Co-O Development expenditure:		
At cost	426,508	412,103
<i>less</i> - provisions for impairment	(246,260)	(246,260)
<i>less</i> - accumulated amortisation	(123,165)	(116,456)
Net Co-O Development expenditure	57,083	49,387
Royal Crowne Vein Development expenditure:		
At cost	1,499	806
Net Royal Crowne Vein Development expenditure	1,499	806
Total carrying amount at end of year	58,582	50,193
Reconciliations:		
Co-O Development expenditure:		
Carrying amount at beginning of year	49,387	29,878
<i>plus</i> - costs incurred	14,405	33,692
<i>less</i> - amortisation expense	(6,709)	(14,189)
<i>less</i> - impairment	-	-
<i>less</i> - forex differences upon translation	-	6
Carrying amount at end of year	57,083	49,387
Royal Crowne Vein Development expenditure:		
Carrying amount at beginning of year	806	-
<i>plus</i> - costs incurred	693	806
Carrying amount at end of year	1,499	806
Total carrying amount at end of year	58,582	50,193
Note: 6 Borrowings		
Current borrowings:		
Interest bearing loan	5,405	6,679
Total current borrowings	5,405	6,679
Non-current borrowings:		
Interest bearing loan	313	150
Total non-current borrowings	313	150
Total Borrowings	5,718	6,829
Within the Borrowings are secured borrowing of US\$495,573 being bank loans secured by transportation equipment of the Group. Interest rates on the loans range between 6.25% to 7.89% (2018: 3.50% to 4%).		
Note: 7 Provisions		
Current provisions:		
Employee benefits	441	401
Total current provisions	441	401
Non-current provisions:		
Retirement benefit	1,698	2,459
Mine rehabilitation	3,479	3,479
Total non-current provisions	5,177	5,938

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

Note 8: 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 Mining, Exploration and Other. Currently the only operational mine is the Co-O mine.

	Mining	Exploration	Other	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Segment Revenue and Result				
<u>6 months to December 2019:</u>				
Segment revenue	75,454	-	111	75,565
Segment result	27,175	(1,065)	(1,724)	24,386
<u>6 months to December 2018:</u>				
Segment revenue	58,585	-	83	58,668
Segment result	10,300	(558)	(1,456)	8,286
Segment Assets and Liabilities				
<u>31 December 2019:</u>				
Segment assets	137,295	62	16,194	153,551
Reconciliation of segment assets to group assets				
add -				
Deferred tax assets	20,364	-	-	20,364
Total group assets				173,915
Segment liabilities	25,576	29	924	26,529
Reconciliation of segment liabilities to group liabilities				
add -				
Deferred tax liabilities	176	-	-	176
Provision for tax	-	-	-	-
Total group liabilities				26,705
<u>30 June 2019:</u>				
Segment assets	126,563	74	7,003	133,640
Reconciliation of segment assets to group assets				
add -				
Deferred tax assets	18,427	-	-	18,427
Total group assets				152,067
Segment liabilities	26,410	29	1,108	27,547
Reconciliation of segment liabilities to group liabilities				
add -				
Deferred tax liabilities	778	-	-	778
Total group liabilities				28,325

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

Note 9: Issued Capital

	31 Dec 2019 (shares)	30 Jun 2019 (shares)	31 Dec 2019 US\$ 000	30 Jun 2019 US\$ 000
Ordinary shares on issue	207,794,301	207,794,301	102,902	102,902

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	-	-	-	-
	207,794,301	207,794,301	102,902	102,902

The A\$ issue price per share has been converted using the exchange rate applicable on the date the funds were received.

Note 10: Share Based Payments

Share based options	31 Dec 2019		30 Jun 2019	
	Number of options & performance rights	Weighted average exercise price (A\$)	Number of options & performance rights	Weighted average exercise price (A\$)
Outstanding at start of period	2,025,000	1.3157	6,030,000	1.1782
Granted	-	-	-	-
Forfeited	-	-	840,000	1.5179
Expired	-	-	3,165,000	1.0000
Exercised	-	-	-	-
Outstanding at end of period	2,025,000	1.3157	2,025,000	1.3157
Vested at end of period	859,500	1.0417	859,500	1.0417

During the 6 months to 31 December 2019, no options expired (2018: 2,515,000).

The options outstanding at 31 December 2019 (all of which are unlisted) had a weighted average exercise price of A\$1.3157 and a weighted average remaining contractual life of 22.20 months.

Included under administration expense in the Statement of Profit or Loss and other Comprehensive Income is US\$39,952 (6 months to 31 December 2018: US\$89,637) and relates, in full, to equity-settled share-based payment transactions relating to employees.

Note 11: Contingent Liabilities

There have been no material changes in contingent liabilities in the period since the 30 June 2019 Annual Report.

Note 12: Commitments

There have been no material changes in commitments in the period since the 30 June 2019 Annual Report.

Note 13: 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 2019.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2019

Note 14: Events Subsequent to Reporting Date

- On 17 January 2020, the Company issued 167,000 performance rights in accordance with the Medusa Mining Limited Performance Rights Plan ("PR Plan") to Executives of the Company.

The issued securities represents on average approximately 60% of Executives' Short Term Incentives ("STI") award for the year ending 30 June 2019 and form part of the Executives' Remuneration Package. The remaining 40% of the executives' STI award was paid in cash.

The proposed STI's will automatically vest on 17 January 2021 and is conditional upon the Executives being employees of the Company at that time.

The PR Plan was approved by shareholders on 28 January 2015.

- On 31 January 2020, MML advised the ASX that the Company had approved construction of a Decline which was expected to commence in the first half of Calendar year 2020 and would take 36 months to complete.

The capital cost of excavations and underground development was estimated to be US\$48.6 million spent over three years. In addition, approximately a further US\$11 million would be required for associated infrastructure and mobile equipment.

DIRECTORS' DECLARATION

for the half-year ended 31 December 2019

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 2019 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 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Medusa Mining Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Medusa Mining Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company 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 internal control 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 half-year financial report based on our review. We conducted our review in accordance with 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 Group's financial position as at 31 December 2019 and its financial 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 the Group, 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.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Neil Smith'. The signature is written over a small, faint BDO logo.

Neil Smith

Director

Perth, 28 February 2020