



**MEDUSA MINING LIMITED**

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**ANNOUNCEMENT**

21 October 2016

**2016 ANNUAL REPORT**

(ASX: MML)

Please find attached a pdf version of Medusa's 2016 Annual Report which is also viewable on the Company's website [www.medusamining.com.au](http://www.medusamining.com.au)

For further information please contact:

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MEDUSA **2016**

# ANNUAL REPORT



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# CORPORATE DIRECTORY

## DIRECTORS

**Andrew Boon San Teo**  
Non-Executive Chairman

**Raul Conde Villanueva**  
Executive Director

**Ciceron Angeles**  
Non-Executive Director

**Roy Philip Daniel**  
Non-Executive Director

## COMPANY SECRETARY

**Peter Stanley Alphonso**

## EXECUTIVE MANAGEMENT

**Boyd Timler**  
Chief Executive Officer

**Raul Conde Villanueva**  
President Philippines subsidiaries

**Peter Stanley Alphonso**  
Chief Financial Officer

## AUSTRALIAN BUSINESS NUMBER (ABN)

60 099 377 849

## PRINCIPAL & REGISTERED OFFICE

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Website: [www.medusamining.com.au](http://www.medusamining.com.au)

## STOCK EXCHANGE LISTING

**Australian Stock Exchange Limited (ASX)**  
Trading Code: MML

## AUDITORS

### Australia:

**Grant Thornton Audit Pty Ltd.**  
Level 1  
10 Kings Park Road  
West Perth WA 6005

### Philippines:

**RSB & Associates**  
18 Floor Cityland Condominium 10 - Tower 1  
Makati City Philippines 1200

## SOLICITORS

### Australia:

**Ashurst Australia**  
Level 32, Exchange Plaza  
2 The Esplanade  
Perth WA 6000

### Philippines:

**BMD Law Offices**  
18 Floor Cityland Condominium 10 - Tower 1  
Makati City Philippines 1200

## BANKERS

**Commonwealth Bank**  
150 St George's Terrace  
Perth WA 6000

## SHARE REGISTRY

**Computershare Investor Services**  
Level 11, Reserve Bank Building  
172 St George's Terrace  
Perth WA 6000

Telephone: + 618 9323 2000  
Facsimile: + 618 9323 2033  
Investor enquiries: 1300 557 010

Shareholders who require information about their shareholdings, dividend payments or related administrative matters should contact the Company's share registry.



# HIGHLIGHTS OF THE FINANCIAL YEAR

## Financials

Description	Unit	30 June 2016	30 June 2015 <sup>(1)</sup>	Variance	(%)
Revenues	US\$	US\$128.1M	US\$123.2M	US\$4.9M	4%
EBITDA <sup>(1)</sup>	US\$	US\$69.6M	(US\$186.8M)	US\$256.4M	N/A
NPAT <sup>(1)</sup>	US\$	US\$43.8M	(US\$218.1M)	US\$261.9M	N/A
EPS (basic)	US\$	US\$0.211	(US\$1.050)	US\$1.261	N/A

(1) includes asset impairment losses totalling US\$259.6 million for year ended 30 June 2015

- Revenues of US\$128.1 million compared to US\$123.0 million for the previous year, an increase of 4%.
- Medusa is an un-hedged gold producer and received an average gold price of US\$1,173 per ounce from the sale of 108,529 ounces of gold for the year (2015: 97,200 ounces at US\$1,220 per ounce);
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US\$69.6 million, (2015: EBITDA of (US\$186.8) million, which includes asset impairment losses totalling US\$259.6 million);
- Basic earnings per share ("EPS") of US\$0.211 on a weighted average basis, based on NPAT of US\$43.8 million (2015: EPS of (US\$1.050) based on NPAT of (US\$218.1 million);
- The Company had total cash and cash equivalent in gold on metal account of US\$22.0 million at year end (2015: US\$14.6 million);
- Depreciation of fixed assets and amortisation of capitalised mine development and mine exploration was US\$23.4 million (2015: US\$31.7 million);
- US\$17.2 million was expended on capital works associated with the new mill construction and infrastructure, mine expansion and sustaining capital at the mine and mill (2015: US\$11.2 million);
- Exploration expenditure, inclusive of underground diamond drilling was US\$9.3 million (2015: US\$11.3 million);
- Capitalised mine development costs totalled US\$25.6 million for the year (2015: US\$37.7 million); and
- Corporate overheads of US\$5.9 million (2015: US\$8.2 million).

## Operations

Description	Unit	June 2016	June 2015	Variance	(%)
Ore mined	WMT	623,659	659,495	(35,836)	(5%)
Ore milled	DMT	561,192	582,311	(21,119)	(4%)
Head grade	g/t	6.40	5.61	0.79	14%
Recovery	%	94%	93%	1%	1%
Gold produced	ounces	108,578	98,359	10,219	10%
Cash costs <sup>(1)/(2)</sup>	US\$/oz	\$466	\$385	(\$81)	(21%)
Gold sold	ounces	108,529	97,200	11,329	12%
Avg gold price received	US\$/oz	\$1,173	\$1,220	(\$47)	(4%)

(1) Net of development costs and includes royalties and local business taxes of approximately US\$82/oz

(2) New methodology on allocation of total mining costs from 1 July 2016, resulting in higher overall cash costs but lower capitalized mine development costs.

- The Company produced 108,578 ounces of gold for the year, compared to 98,359 ounces from the previous corresponding period, at an average recovered grade of 6.40 g/t gold (June 2015: 5.61 g/t gold).
- The average cash costs of US\$466 per ounce, inclusive of royalties and local business taxes was higher than the previous year's average cash costs of US\$385 per ounce, primarily due to a change in methodology on the allocation of total mining costs introduced in July 2016.
- All-In sustaining Costs ("AISC") for the half year was US\$999 per ounce of gold and includes discretionary exploration expenditure of US\$9.3 million.

## Production Guidance (2016/17)

The production guidance for 2016/17 at the Co-O mine is expected to be:

- between 105,000 to 115,000 ounces; and
- at an AISC of between US\$1,000 to US\$1,100 per ounce.

The production guidance profile, quarter by quarter will be slightly back-end loaded for the forthcoming financial year, driven by the higher level of development ore and infrastructure project waste rock required in the first 2 quarters.

An Independent Operations Review was completed in the June quarter, laying the foundation for the life of mine Planning process ("LOMP"); consolidating the mines long-range planning, scheduling with the Co-O mines long-range capital development infrastructure planning, to support the LOMP. This study supports the FY16-17 guidance numbers.

The Co-O mine remains hoist capacity constrained until the E15 Service Shaft is completed by June 2017. Once completed the Service Shaft will take over 100% of manpower and materials movement, freeing up the L8 Production Shaft to be a 100% dedicated skipping shaft. For the next quarter the mine ventilation upgrade and mine dewatering project will be close to completion. Once completed we will start seeing a reduction in the sustaining capital project cost component of the AISC's, mostly driven by the Service Shaft completion in June 2017.

## Reserves and Resources

New Reserves and Resources estimates for year ended 30 June 2016 are shown in the "Review of Operations" Section of this Annual Report.

## Corporate

### Dividend:

No dividends were declared nor paid during the year.

### Management changes:

- Mr Andrew Teo, Non-executive Chairman, assumed the role of Chief Executive Officer ("CEO") on an interim basis following the retirement of Mr Geoff Davis on 12 November 2015.
- Mr Boyd Timler was appointed CEO on 21 March 2016.

### Board appointment/resignations:

- Mr Roy Daniel joined the Board as a Non-Executive Director on 25 November 2015.
- Dr Robert Weinberg resigned from the Board of Medusa on 1 December 2015.

# CHIEF EXECUTIVE OFFICER'S REVIEW

Dear Shareholders,

It is my pleasure to present to you Medusa Mining Limited's Annual Report for the Financial Year ended 30 June 2016. FY16 was a year in which the Company positioned itself for future growth, having completed an operational review, progressed mine infrastructure projects to increase production, and strengthened the leadership of the Company through Board and management changes, including my appointment as CEO in March 2016.

I am pleased to report that the gold production of 108,578 ounces in FY16 was the highest annual production achieved in the Co-O mine's 10-year history. This was achieved at All-In-Sustaining-Costs ("AISC") of US\$999 per ounce, inclusive of cash operating costs of US\$466 per ounce, annual sustaining capital costs, project expansion costs undertaken in the reporting year and all exploration costs.

The Company's FY16 financial results show significant improvement over the previous financial year, with revenue of US\$128.1 million (up 4% on FY15), EBITDA of US\$69.5 million and NPAT of US\$43.8 million. The company remained unhedged and ended the financial period with US\$22.0 million in cash and cash equivalents, a US\$7.4 million improvement from last year. The company will continue with its strategy of self-financing future expansion capital projects from free operating cash flow.

The Company's community support and environmental stewardship program, and its focus on employee health and safety, has always been ingrained in how we conduct ourselves with the local community and other key stakeholders. We have continued supporting the local community with health services, education improvements in infrastructure and quality, and environmental improvement programs. The Company has a strong safety culture and risk management programs throughout our operations. In March, our Philippine affiliates; PMC and MMPRC both completed the requirements for a successful ISO 14001 audit and received registered certification on 23 June 2016.

While FY16's production result of 108,578 ounces was the highest ever achieved at Co-O, the shaft constraints in relation to hoisting capacity impacted the result due to a number of infrastructure projects that were in varying advanced stages during the reporting period.

The Co-O mine infrastructure projects that were in progress included:

- E15 Service Shaft
  - Alimak Raise completed from L8 to above L3, but stopped early due to deteriorating ground conditions for safety reasons
  - Surface Collar Ring poured, shaft was blind sunk to 83 metres
  - Winderhouse, offices and shop, headframe were +75% erected
- Mine Ventilation Project
  - A mine-wide primary ventilation project was advanced to 80% completion, with the intent for separating the mine into upper and lower ventilation districts for overall efficiency improvements
  - Connections from surface to Level 5 were completed, with the L6-7 and L7-8 raises partially completed
  - Two new 85Kw centrifugal fans were installed on surface with one fan operational, the second awaiting completion of the L8 to L6 development
- Level 8 exploration development and drill stations
  - Considerable lateral development was completed including the L8-64E drill station

The above mentioned infrastructure projects all place additional hoisting pressure on the L8 Production Shaft, as the L8 Production Shaft has to allocate approximately one third of its available time to manpower and material movements, thus restricting skipping capabilities.

The Co-O process plant expansion was completed in 2014 and has performed to design through the year, but remained underutilized at 78% due the mining constraints. For the year, recovery improved from 93% to 94%. The Tailing Storage Facility ("TSF") #5 was completed this year and is a "life-of-mine" asset, giving the mill 5 years of storage capacity at full throughput rates.

The slight reduction in resources and reserves as at 30 June 2016 is a reflection of mining depletion (mined ounces in FY16) and insufficient resource definition drilling done during the period, which is purely a timing issue related to the Level 8 drill stations not being completed until late in the year, thus pushing the drilling into the next reporting period. For a narrow vein epithermal ore deposit with a 10-year production history, resources of 0.961 million ounces and reserves of 376,000 ounces are still respectable numbers and the Co-O deposit is still open at depth and to the east, showing no geological constraints at this time. The decision to drill out the deposit's down dip potential from Level 8 and not with long costly surface holes was a prudent decision, albeit resulting in a short-term decrease in resources.

On the regional scale, the resources at the Bananghilig Project have been re-estimated applying the JORC 2012 code/standards. This has resulted in a reduction in the resource ounces when the model was applied to a constrained pit shell. With this new estimation, our focus is firmly on the Co-O deposit and its near-mine exploration potential.

The FY16-17 guidance has been set at 105,000 to 115,000 ounces produced at AISC of US\$1,000 to US\$1,100 per ounce. This assumes similar production levels and costs for the Co-O mine as this year, while the key infrastructure projects are completed.

The Co-O mine expansion projects scheduled for completion in FY16-17 are:

- E15 Service Shaft
  - installation of headframe and winders completed Aug 2016
  - Shaft commissioned to re-start sinking in Sep 2016
  - Strip Alimak raise to L8; Sep 2016 to Jan 2017
  - Sink from L8 to L10; Feb 2017 to Jun 2017
  - Mine Ventilation Project
  - Complete remaining L6 to L8 development and commission 2nd primary subsequent to end of FY 2016
- Mine de-watering
  - Water pumping system installed on L8 to lift dirty water to surface in single stage, Dec 2016
- Level 8 exploration development and drill stations
  - L8-85E Drill station completed Sep 2016
  - L8-105E Drill station completed Mar 2017
  - Three diamond drills dedicated to resource definition below L8

As the various infrastructure projects are completed, the capital costs will progressively decline for the year. The production guidance FY16-17 is back-end loaded as there will be more impacts on hoisting limitations in the first two quarters of the year as expansion projects are completed. Upon the completion of the E15 Service Shaft, the L8 Production Shaft becomes a dedicated skip-only production shaft, increasing the mines total hoisting capacity by 20% and enabling the mine output to match the processing plant's throughput capacities.

Our aim is to complete the infrastructure projects in progress, in particular the E15 shaft, so that hoisting constraints at the mine are alleviated. This should result in increased productivity and costs reductions. The Company will continue to focus on the Level 8 definition drilling to improve our understanding of the resources at depth and the mine life.

FY16-17 will be a pivotal year for Medusa Mining Limited, and on behalf of the Medusa team I would like to thank you for your continued support.



# REVIEW OF OPERATIONS

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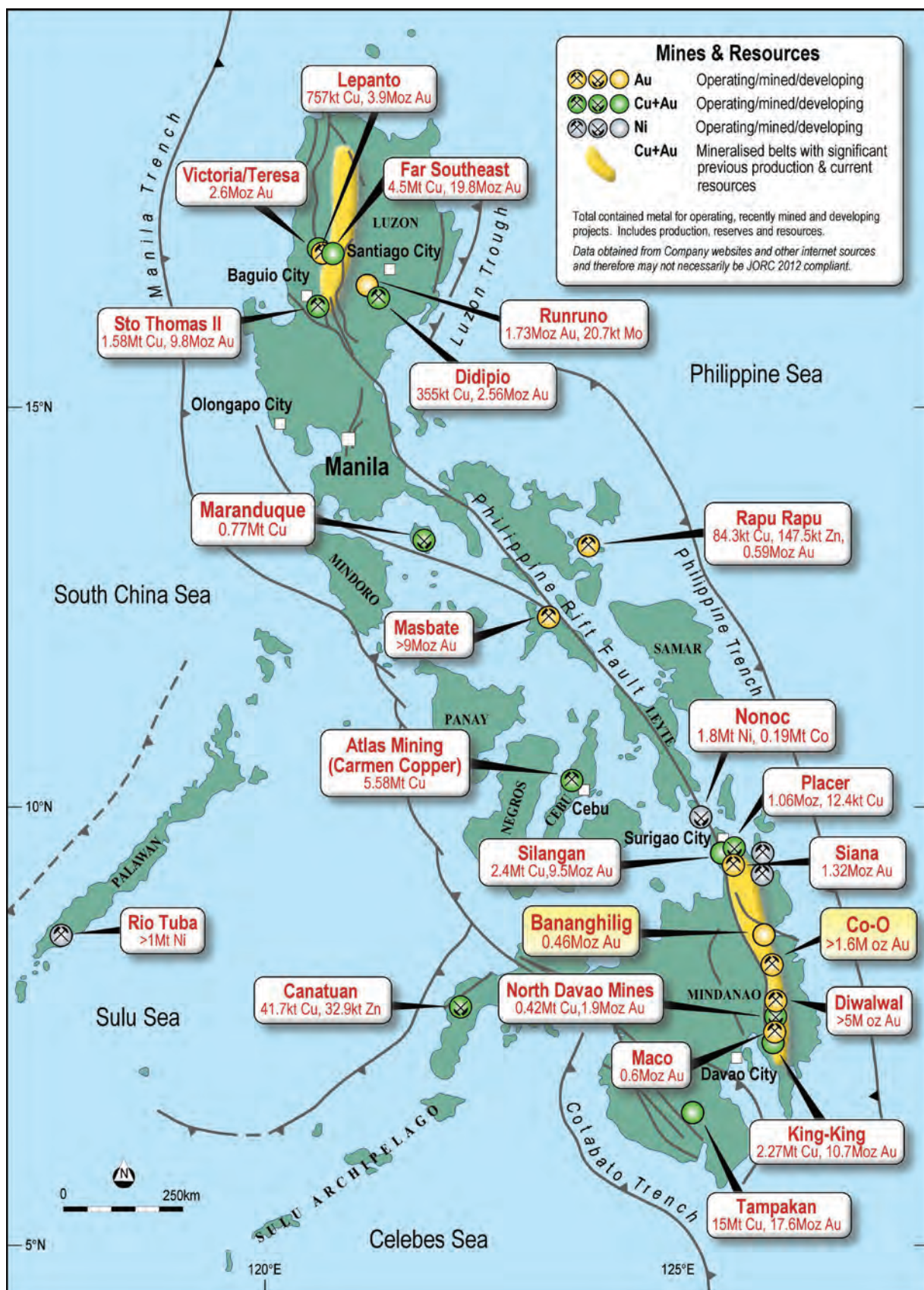


Figure 1: Location diagram of the Company's main project areas in relation to the significantly mineralised belts of the Philippines

# REVIEW OF OPERATIONS

## HIGHLIGHTS

**“For the financial year ending 30 June 2016, the Company produced 108,578 ounces of gold, an improvement of approximately 9% over the previous year.”**

### MINERAL RESOURCES AND ORE RESERVES:

**“The Company’s ore reserves currently stands at 376,000 ounces, after mining depletion, compared to FY2015 reserve ounces of 427,000. Current drilling is expected to add sufficient Reserves to bring it back in line with the Company’s strategy of maintaining Resources and Reserves at levels equivalent to 5 year LOM.”**

Table I. Total Mineral Resources and Ore Reserves estimates at 30 June 2016

Deposit	Category	Tonnes <sup>4</sup>	Grade <sup>4</sup> (g/t gold)	Gold <sup>4</sup> (ounces)
<b>MINERAL RESOURCES <sup>1,2</sup></b>				
<b>Co-O Resources <sup>1</sup></b> (JORC 2012)	Indicated	1,564,000	10.90	548,000
	Inferred	1,203,000	10.68	413,000
<b>Total Co-O Resources</b>	<b>Indicated &amp; Inferred</b>	<b>2,767,000</b>	<b>10.80</b>	<b>961,000</b>
<b>Bananghilig Resources <sup>3</sup></b> (JORC 2012)	Indicated	7,580,000	1.66	406,000
	Inferred	200,000	4.42	29,000
<b>Total Bananghilig Resources</b>	<b>Indicated &amp; Inferred</b>	<b>7,780,000</b>	<b>1.73</b>	<b>435,000</b>
<b>Saugon Resources <sup>3</sup></b> (JORC 2004)	Indicated	47,500	7.0	10,700
	Inferred	34,000	4.6	5,000
<b>Total Saugon Resources</b>	<b>Indicated &amp; Inferred</b>	<b>81,500</b>	<b>6.0</b>	<b>15,700</b>
<b>TOTAL RESOURCES</b>	Indicated	9,191,500	3.26	964,700
<b>TOTAL RESOURCES</b>	Inferred	1,437,000	9.67	447,000
<b>TOTAL RESOURCES</b>	<b>Indicated &amp; Inferred</b>	<b>10,628,500</b>	<b>4.13</b>	<b>1,411,700</b>
<b>ORE RESERVES <sup>2</sup></b>				
<b>Co-O Reserves <sup>2</sup></b> (JORC 2012)	Probable	1,670,000	6.99	376,000
<b>TOTAL RESERVES</b>	<b>Probable</b>	<b>1,670,000</b>	<b>6.99</b>	<b>376,000</b>

**Notes:**

1. Mineral Resources are inclusive of Ore Reserves.

2. Co-O and Bananghilig Mineral Resources and Co-O Ore Reserves estimated under guideline of JORC 2012.

3. Saugon Mineral Resources were previously prepared and first disclosed under the JORC 2004, and have not been updated to comply with JORC 2012 on the basis that the information has not materially changed since it was last reported.

4. Rounding to the nearest 1,000 may result in some slight apparent discrepancies in totals

## MINERAL RESOURCES:

### Co-O:

- a minimum lower block cut-off of 3.2 gram\*metres/tonne accumulation, which incorporates minimum mining widths of 1.25m or 1.5m (depending on vein attitude) above cut-off grade, in its derivation;
- various high cut gold grades, up to 300 g/t gold, have been applied to different veins, and
- a gold price of US\$1,500 has been applied

### Bananghilig:

- Indicted Resource: a lower block cut-off of 0.75 g/t gold has been applied to mineralisation within a US\$1,500/oz Whittle pit shell, reflective of open pit mining costs.
- Inferred Resource: a lower block cut-off of 3.0 g/t gold has been applied to mineralisation outside of the US\$1,500/oz Whittle pit shell, to a maximum depth of 100 metres below the pit shell walls and base, reflective of underground mining costs.
- a high cut of 40 g/t gold has been applied to all mineralisation.
- Allowance for artisanal mining depletion of 18,300 oz gold applied within the Whittle pit shell
- a gold price of US\$1,500 has been applied

### Saugon:

- a lower cut-off of 2.0 g/t gold has been applied
- a gold price of US\$1,500 has been applied

## ORE RESERVES:

Ore Reserves are a subset of Mineral Resources

### Co-O:

- minimum mining widths of 1.25 metres (stopes  $\geq 50^\circ$ ) and 1.5 metres (stopes  $< 50^\circ$ ) have been applied, and where the vein width was equal to, or greater than, the minimum mining width, an extra 0.25 metres dilution was added to the hanging wall,
- a further 10% dilution has been allowed for slabbing in mining of low angle stopes under draw,
- shape dilution of 7% of extra tonnage at 2 g/t gold applied, to reflect pinch and swell of veins, and faulting,
- an allocation for extra development 'on-vein' at a grade of 2 g/t gold has been applied.
- an allocation for extra development 'off-vein' at a grade of 1 g/t gold has been applied.
- 85% mining recovery for stopes  $< 10$  g/t gold,
- 90% mining recovery for stopes  $\geq 10$  g/t gold,
- 80% average recovery factor for pillars in empty stopes are included in reserve, for the three major veins, at the grade of their respective stopes, to reflect improved current pillar robbing mining practice, together with high grade pillars for minor veins.
- stopes containing  $< 500$  tonnes were removed to account for ore loss,
- a cut-off grade of 4.4 g/t gold has been applied to all stopes,
- a gold price of US\$1,250/oz has been applied.

## Co-O OPERATIONS:

- ◇ Annual gold production totalled 108,578 ounces, with annual gold sales of 108,529 ounces at cash costs of US\$466 per ounce.
- ◇ The annual AISC was US\$999 per ounce, with the capital costs portions related to the infrastructure projects progressed in FY15-16 as a significant re-investment back into the Co-O mining operations.
- ◇ Mill recoveries improved by 1% to 94%
- ◇ Tails Storage #5 Facility was completed as a capital project giving the mine a five-year storage capacity.
- ◇ The E15 Service Shaft surface was blind sunk to level 3 and completed and 70% of the head gear was installed, including the; head frame, winder house, sinking stage, winders and ropes.
- ◇ The ventilation system upgrades were 80% complete with the upper levels above L6 seeing double the air flow and the only two of the remaining raises between L8 and L6 needing partial completion. All of the new primary fans have been installed.
- ◇ Three Winzes (internal inclined shafts) were completed below L8. Two to L9 and one to L10. Stope block developed on L9 was started by FY-end.
- ◇ The Main L8-64E diamond drilling station was completed by March, allowing for the main resource definition drilling program to be started in the June 2016 quarter.

# REVIEW OF OPERATIONS

## SUMMARY OF EXPLORATION ACTIVITIES:

**“The Company’s tenement portfolio covers approximately 596 km<sup>2</sup> of the richly endowed and highly prospective Central Pacific Cordillera of Eastern Mindanao.”**

### ◇ Co-O MINE

Underground drilling primarily focussed on upgrading Inferred Resources to the Indicated Resources category, with minimal drilling aimed at delineating additional resources peripheral to current mining operations, due to infrastructure and operations priorities; and

The major ‘deeps’ drilling programme commenced during the June 2016 quarter, from Level 8, to delineate down-plunge and eastern extensions to the resources, primarily between Levels 8-16.

### ◇ Co-O REGIONAL

Surface exploration activities continued outside of Co-O Mine environs and concentrated on the Road 17 and West South Agsao areas.

### ◇ BANANGHILIG GOLD DEPOSIT:

An exhaustive review of the Bananghilig deposit, including a detailed program of surface and underground mapping and re-logging of some 70,000 metres of drill core to link surface and underground observations with drill hole interpretations were undertaken.

Following a complete review of the data from this program and re-interpretation of the mineralisation styles, a total Indicated and Inferred Mineral Resources for the Bananghilig Gold Deposit has been estimated, in compliance with JORC 2012, at 7.78 million tonnes at a grade of 1.73 g/t gold for a total 435,000 ounces contained gold.

### ◇ GUINHALINAN PROSPECT

Extensive corridor of high-order ‘gold in soil’ anomalies outlined over approximately 5 kilometres of strike. Mapping established strike continuity of silica-gold ‘carbonate replacement’ style of mineralisation in stratabound calcareous horizons over at least 1.8 kilometres.

Scout drilling was disappointing, and project is being re-evaluated to determine if further work is warranted.

### ◇ COAL PROJECT

Scout drilling of the two Coal Operating Contracts awarded in December 2014, commenced during the December 2015 quarter. Results to date are promising, with drilling intercepting several coal seams containing sub-bituminous coal.

Surface mapping identified several zones of multiple sub-bituminous coal seams up to 2.3 metres thickness, and strike lengths of up to 3 km.



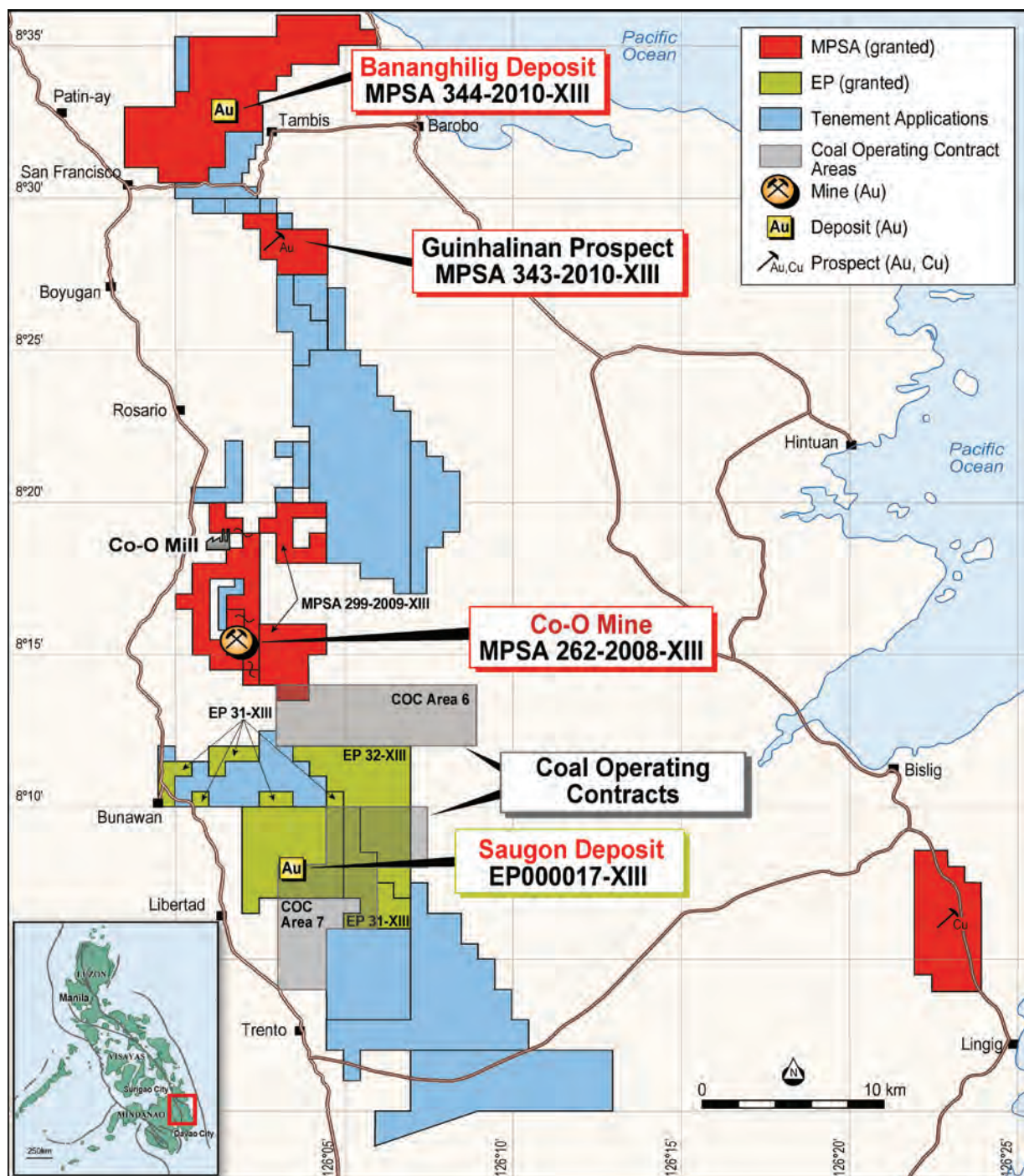


Figure 2: Eastern Mindanao tenement location plan, showing consolidated tenement outlines, mines, deposits and prospect

# REVIEW OF OPERATIONS

## Co-O PROJECT

The Co-O Gold Mine (Figures 1 and 2) is operated by Philsaga Mining Corporation under Mineral Production Sharing Agreements ("MPSA") 262-2008-XIII and 299-2009-XIII, covering a total 4,739 hectares.

### Co-O GOLD PRODUCTION

**Table II: Co-O gold production statistics for financial years ended 30 June 2015 and 2016**

Description	Unit	June 2016	June 2015	Variance	(%)
Ore mined	WMT	623,659	659,495	(35,836)	(5%)
Ore milled	DMT	561,192	582,311	(21,119)	(4%)
Head grade	g/t	6.40	5.61	0.79	14%
Recovery	%	94%	93%	1%	1%
Gold produced	ounces	108,578	98,359	10,219	10%
Cash costs <sup>(1)/(2)</sup>	US\$/oz	\$466	\$385	(\$81)	(21%)
Gold sold	ounces	108,529	97,200	11,329	12%
Average gold price received	US\$/oz	\$1,173	\$1,220	(\$47)	(4%)

(1) Net of development costs and includes royalties and local business taxes of approximately US\$82 per ounce

(2) New methodology on allocation of total mining costs from 1 Jul 2016, resulting in higher overall cash costs but lower capitalized mine development costs.

- The Co-O Mine produced 108,578 ounces of gold at an average recovered grade of 6.40 g/t gold for the year, compared to the previous year's gold production of 98,359 ounces of gold at an average feed grade of 5.61 g/t. This was a 9.4% improvement in ounces and a 12.3% improvement in mill feed grade, slightly offset by a moderate reduction in ore tonnes processed, down by 3.8% from the previous year.
- The average cash cost for the year of US\$466 per ounce, was higher than the previous year due primarily to the change in methodology on the allocation of total mining costs. Allocation was based on meters of development type, where in the previous year it was on pro-rated tonnage allocation.
- All-In-Sustaining-Costs ("AISC") for the year was US\$999 per ounce of gold and includes discretionary exploration expenditure of US\$9.3 million.

### FY2016-17 PRODUCTION GUIDANCE

The production guidance for 2016/17 at the Co-O mine is expected to be between 105,000 to 115,000 ounces at AISC of between US\$1,000 to US\$1,100 per ounce.

The production guidance profile, quarter by quarter will be back-end loaded for the forthcoming financial year, driven by the higher level of development ore and infrastructure project waste rock required in the first 2 quarters.

An Independent Operations Review was completed in the June quarter, laying the foundation for the life of mine Planning process ("LOMP"); consolidating the mines long-range planning, scheduling with the Co-O mines long-range capital development infrastructure planning, to support the LOMP. This study supports the FY16-17 guidance numbers.

The AISC will remain high until primary capital infrastructure projects are completed progressively throughout the year. The primary projects are the completion of the; E15 Service Shaft, the main ventilation upgrade, the mine de-watering system and the level 8 exploration drives and drill station excavations. Once completed in the FY16-17 they will become life-of-mine infrastructure assets, thus AISC will reduce progressively through the FY as the project work is finalized. These capital infrastructure projects are all linked to improved operational efficiencies and production upgrades, thus in subsequent years will result in a further reduction of AISC's related to production levels and not just capital spend.

## Co-O MILL

The Co-O Processing Plant is a conversational gold mill, comprising a single stage jaw crusher, SAG mill and conventional CIL circuit, with a gravity gold & intense cyanide leach system. Tailings are treated and thickened before discharged to a multi-celled tails storage facility.

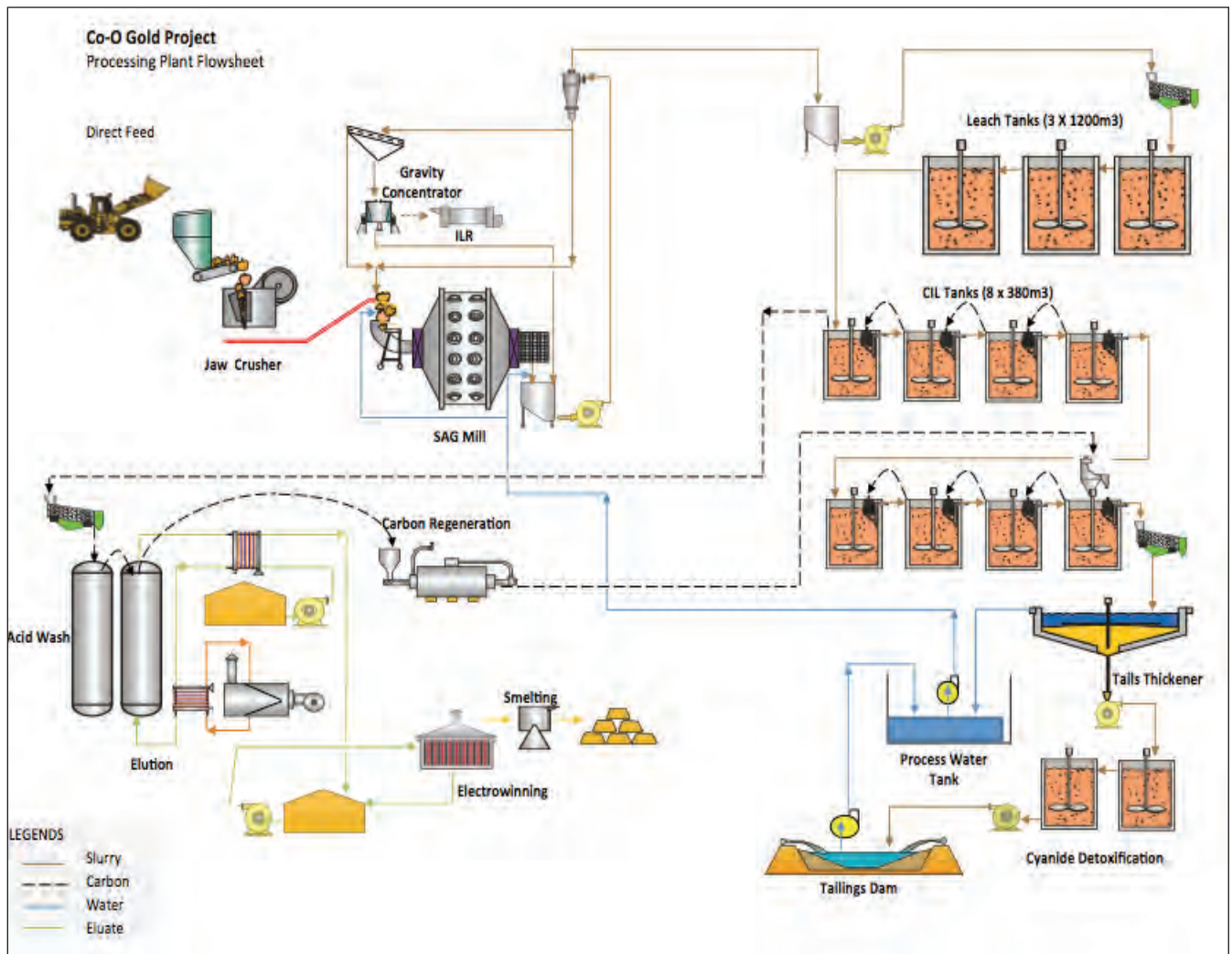


Diagram 1: Co-O Process Plant flow chart

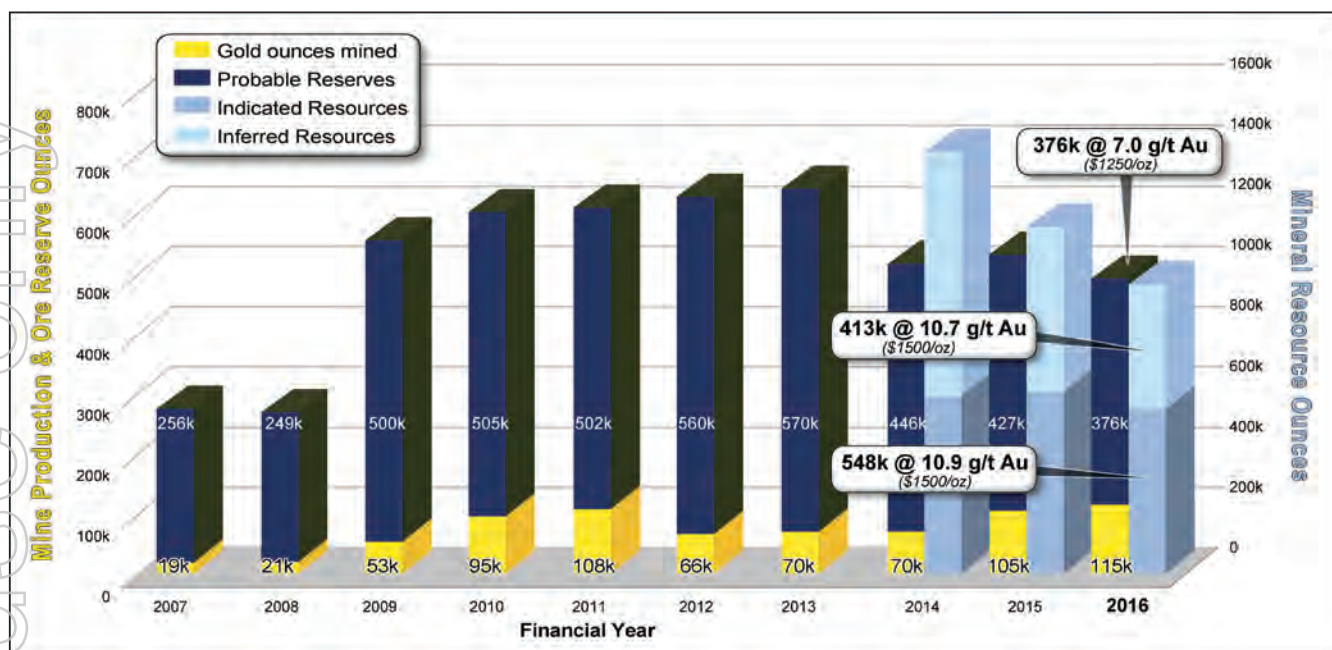
The Co-O mine is 6 km from the process plant, with a 12 km haulage route due to the geography and topography.

The processing plant is powered from the regional grid, but also has its own dedicated gensets that can run the plant at full capacity if required. The majority of the power is from the area grid.

The Co-O Mill performed efficiently throughout the fiscal year with a constant mill recovery of 94%. This was a 1% improvement over the FY14-15 period, driven by the increase in the mill feed grade of 12.3% and improved grinding efficiencies. The mill throughput rate dropped slightly from H1 to H2 due to hoisting constraints at the Co-O mine. Mill throughputs by quarter are shown on graph 1.



# REVIEW OF OPERATIONS



Graph 1: Showing the mill throughputs and feed grades by quarter for FY15-16

The mill averaged a utilization rate of 78%, well below its annual placard rating of 720,000 tonnes. This allowed all plant maintenance to be completed during normal operating hours and limited the need for contract labour for major re-lines or repairs. This also allowed for a slightly finer grind, also contributing to the 1% overall recovery improvement.

For the FY16-17 period the mill will continue to be underutilized until the E15 Service Shaft is completed by June 2017. The focus will be to maintain mill feed grades above 6.0 g/mt to ensure the FY16-17 production guidance is met.

The Mill which was expanded in late 2014, does not require any major works, upgrades or refurbishments for the current life-of-mine plan ("LOMP"). Tails storage facility ("TSF") dam #5 was completed in this year. This facility was fully costed as part of the AISC's and has a 5-year capacity at full mill throughput rates. TSF#5 is also a LOMP facility based on current reserves.



Picture 1: Co-O Mill crush and grinding area



Picture 2: shows tails storage facility #5 downstream of main dam showing freshwater spillway still under construction

## Co-O MINE

The Co-O Mine is a shaft access, underground track mine, utilising battery powered electric locomotives and 1.2 tonne mine cars. Ore and waste is mined using air-leg mining and is extracted from the mine via the main L8 Production Shaft and two 60 degree inclined shafts; Baguio and Agsao. Some material is still extracted from the original portal. Diagram 2 is a representative drawing of the primary infrastructure of the Co-O mine. The primary levels from 1 to 8 normally average 1,000 meters from west to east. Levels are developed 50 meters apart vertically, putting Level 8 approximately 400 meters below surface. For the FY15-16 period, three internal winzes have been started from level 8 down to levels 9 and 10. These three, plus a fourth will be completed down to L10 in FY16-17. The E15 Service Shaft will also be completed in this period.

The L8 shaft is currently capable of hoisting 1,200 tonnes per day ("tpd"), Agsao shaft capacity is 300 tpd, Baguio shaft capacity is 250 tpd and the Main portal is 250 tpd. Current hoisting capability is 2,000 tpd. The mines hoisting capacity has been the main production constraint for FY15-16 and prior years. The completion of the E15 Service Shaft will enable the L8 Production Shaft to become a dedicated skip only shaft rated at 1,700 tpd, thus increasing future mine output to 2,500 tpd.

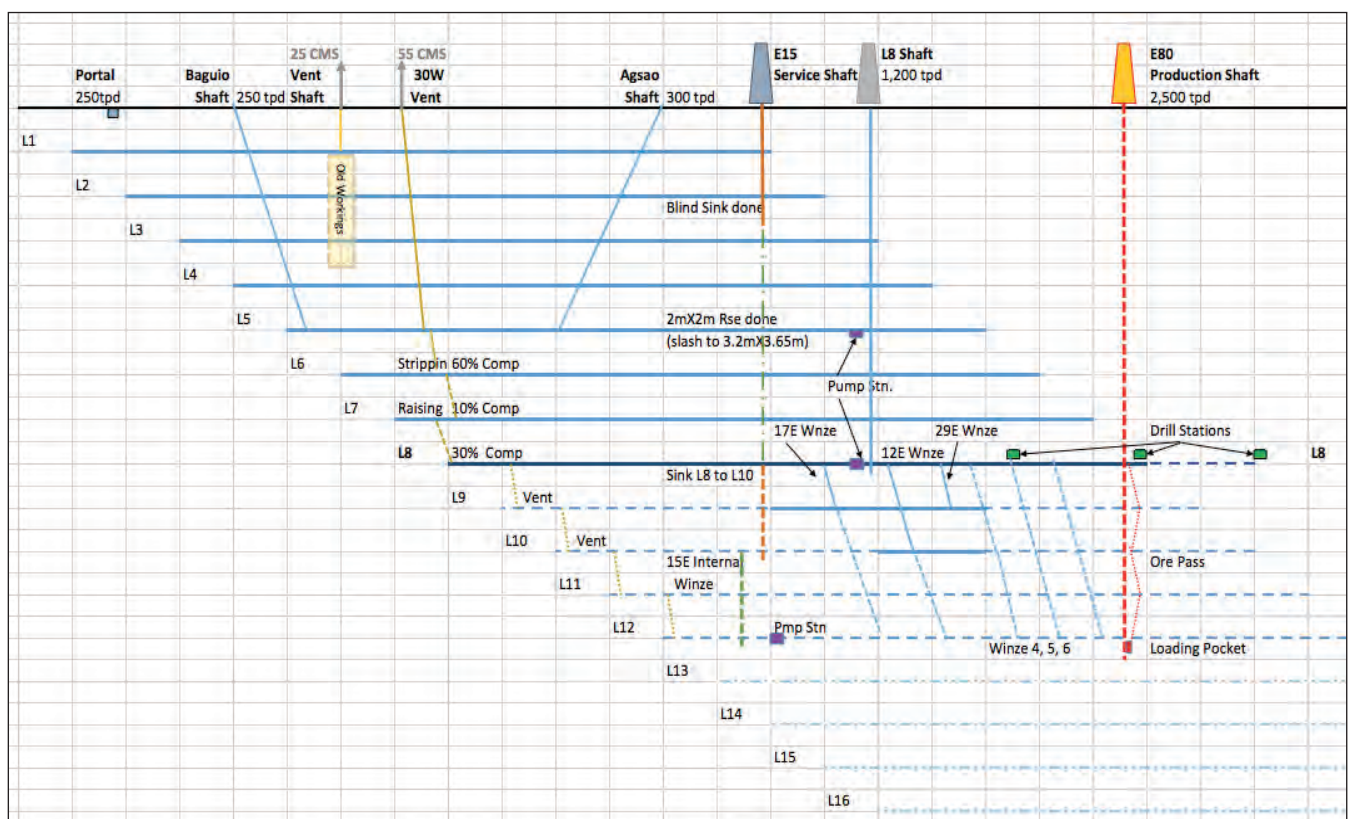


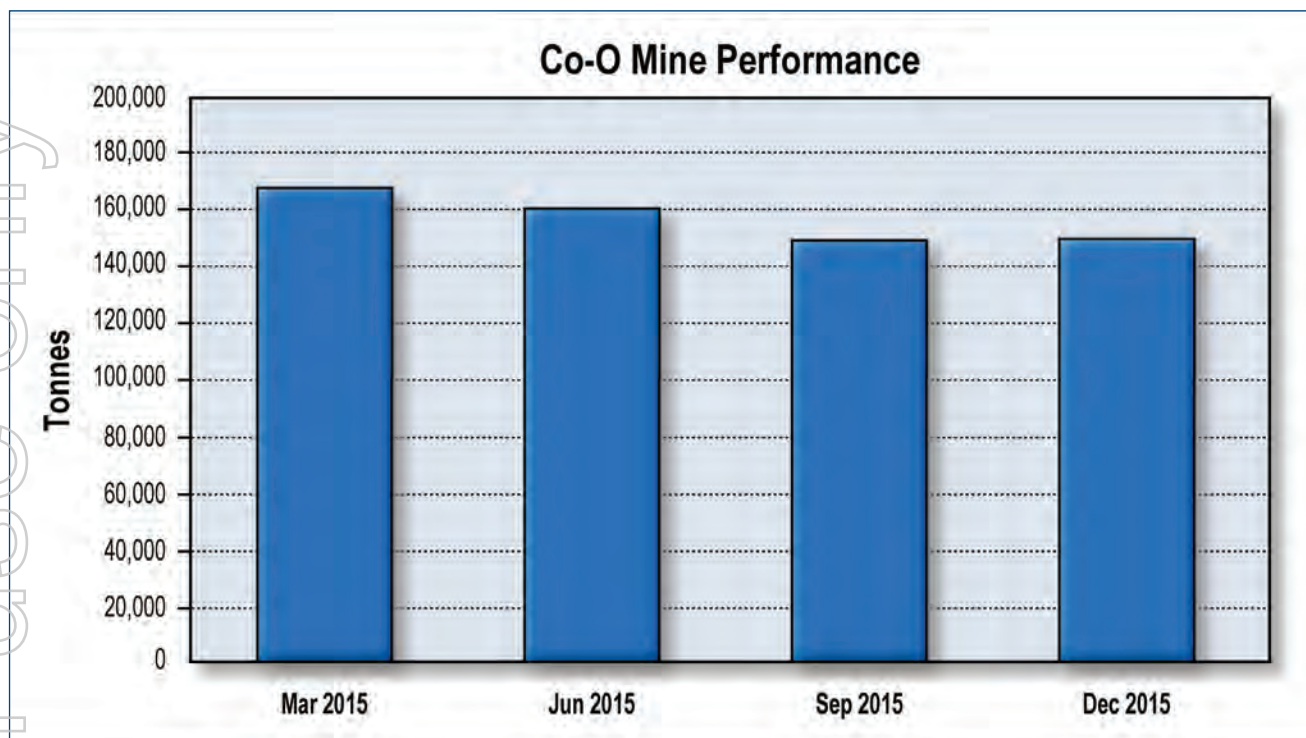
Diagram 2: Shows location of major infrastructure in the Co-O mine

Major operational changes from the previous year that have continued into this reporting period, include:

- establishment of a tighter grade control management system contributed to improvement in feed grade by 12.3% from the previous year.
- improvements to the L8 Shaft utilization were completed, but ultimately limited by the volume of non-skipping movements that were required
- progressive improvements in material tramming, with systems established to ensure material movements are priorities. A locomotive gearbox preventive maintenance system was introduced, extending the availability between major repairs by 60%. This has taken significant pressure off of the L8 shaft, with less equipment movements to surface.
- integration of the long-range planning, short-range planning and mine geology data has improved the planning and scheduling process of the mine.



# REVIEW OF OPERATIONS



Graph 2: Co-O Mine: Ore Tonnes Mined for FY15-16 by quarter

The mine produced approximately 150,000 tonnes (wet) on a quarterly basis. The constraining factor was the hoisting limitations. To improve this, where possible mine waste is backfilled into the old stopes, but this is only effective in the upper levels.

## STOPING METHODS

Two mining methods are currently utilised at the Co-O Mine:

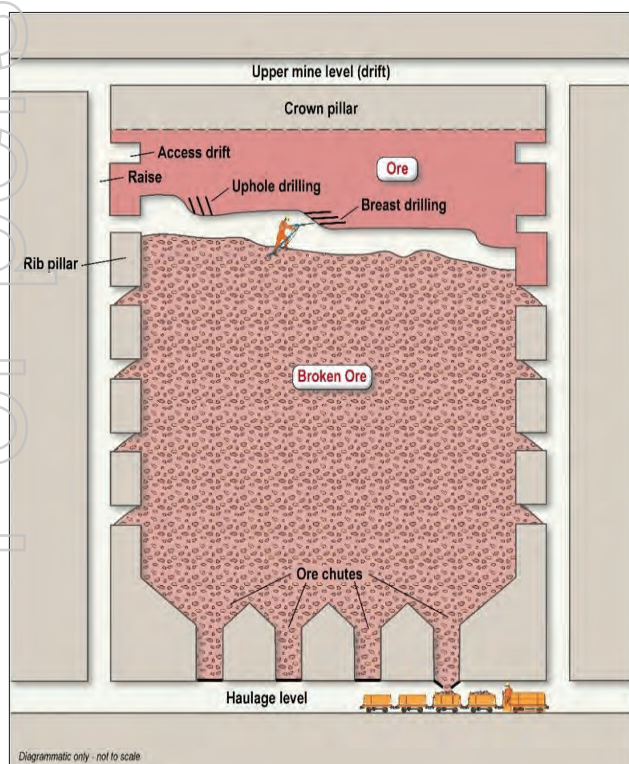


Diagram 3: Schematic diagram of a shrink stope

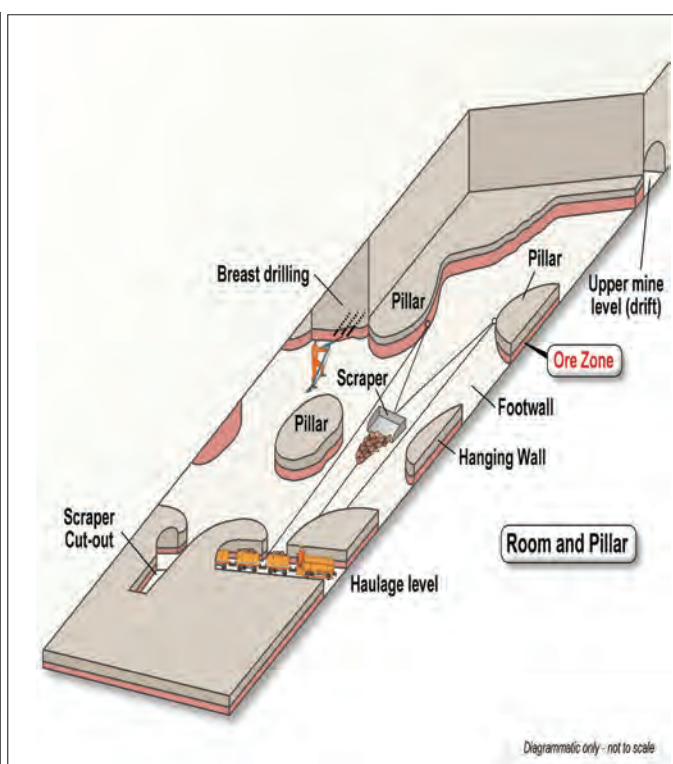


Diagram 4: Schematic diagram of a room and pillar (slot) stope

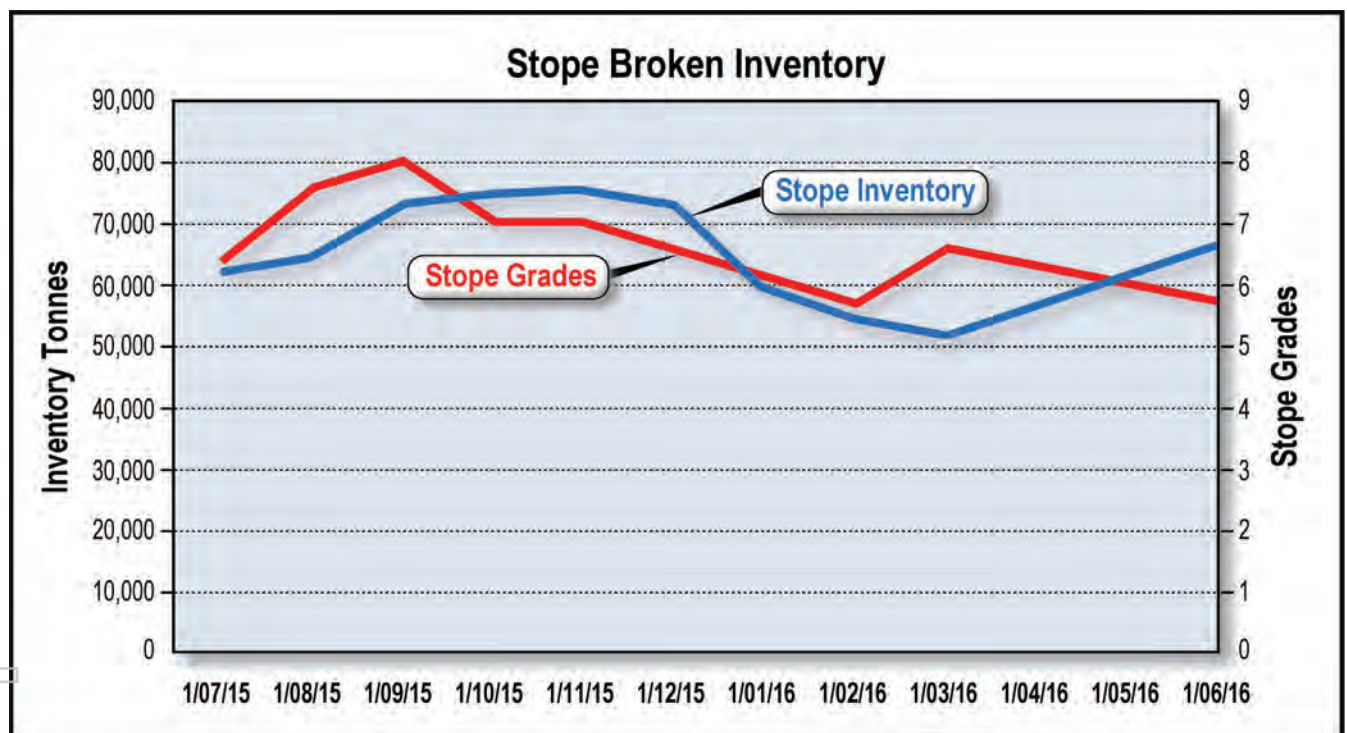
(i) **Shrink stope mining**

This method is predominantly used on steeply dipping veins with a minimum mining width of 1.25 metres. (Dia.3). Mining commences from the bottom and progresses upwards and the broken ore is left in the stope to provide ground support. The volume of ore expands after blasting by about 30% and this material needs to be progressively drawn from the stope during operation. Once blasting has reached the crown pillar, the remaining 70% of ore can be drawn quickly at low cost.

(ii) **Room and pillar (slot) mining**

This method is used on the low-angle veins where the ore would not naturally flow to the draw points. (Dia. 4). The broken ore needs to be scraped to the haulage level by mechanical slushers, and pillars need to be left behind for ground support. The minimum mining width for low angle veins is 1.5 metres, hence the higher dilution is partly responsible for the overall lower than average grade achieved from the upper parts of the mine where the low angle veins are prominent. The ratio of room and pillar stopes to shrink stopes will likely decrease with depth.

Graph 3 depicts the amount of in-stope broken stockpiles to 30 June, 2016. The mine has maintained a broken stockpile of approximately 60,000 tonnes with grades varying do to stope sequencing and access restrictions. Development ore accounts for +40% of the overall mill feed blend, thus 60,000t of broken stockpile gives the mine over 2 months in-stope mill feed stockpiles, thus flexibility.



Graph 3: In stope broken inventory to 30 June 2016

A number of operational improvements were completed or in progress for the FY15-16 included a number of critical infrastructure expansions and upgrades:

## DEVELOPMENT

Development and stoping continued on all levels (Levels 1 to 8) during the year, as well Winzes (internal shafts) from level 8 down to Levels 9 and 10. Most development is conducted on ore with waste development being confined to cross-cuts, ventilation raises, internal shafts and infrastructure requirements.

A total of 21,872 metres of horizontal and vertical development was completed in FY15-16. This was an increase of more than 700 metres over the previous year. Currently the mine production is achieved from approximately 60 development headings and approximately 100 stopes at an approximate 40:60 tonnage ratio.



# REVIEW OF OPERATIONS

## L8 SHAFT

The L8 Shaft continues to operate satisfactorily since the upgrade was completed in January 2015. However, the increased movement of materials, required for greater production from the lower levels, competes with skip ore hoisting time. This will continue until such time as the construction of the E15 Service Shaft is completed. The L8 Shaft hoisting capacity will increase from 1,200 tpd to 1,700 tpd as it will become a dedicated skip-only hoisting shaft. Currently L8 shaft is utilized a minimum of 8 hours per day to move manpower or materials in additional to a dedicated maintenance time window each day and Sundays.

## E15 SERVICE SHAFT

The E15 Service Shaft is being built for the transportation of manpower and materials to Levels 5, 6, 7, 8, 9 and 10. Upon completion, this will allow L8 Shaft to become a dedicated skip-only hoisting conveyance, thus constraining the mines hoisting requirements. The upper levels will continue to be accessed through the portal and Baguio-Agsao shafts.

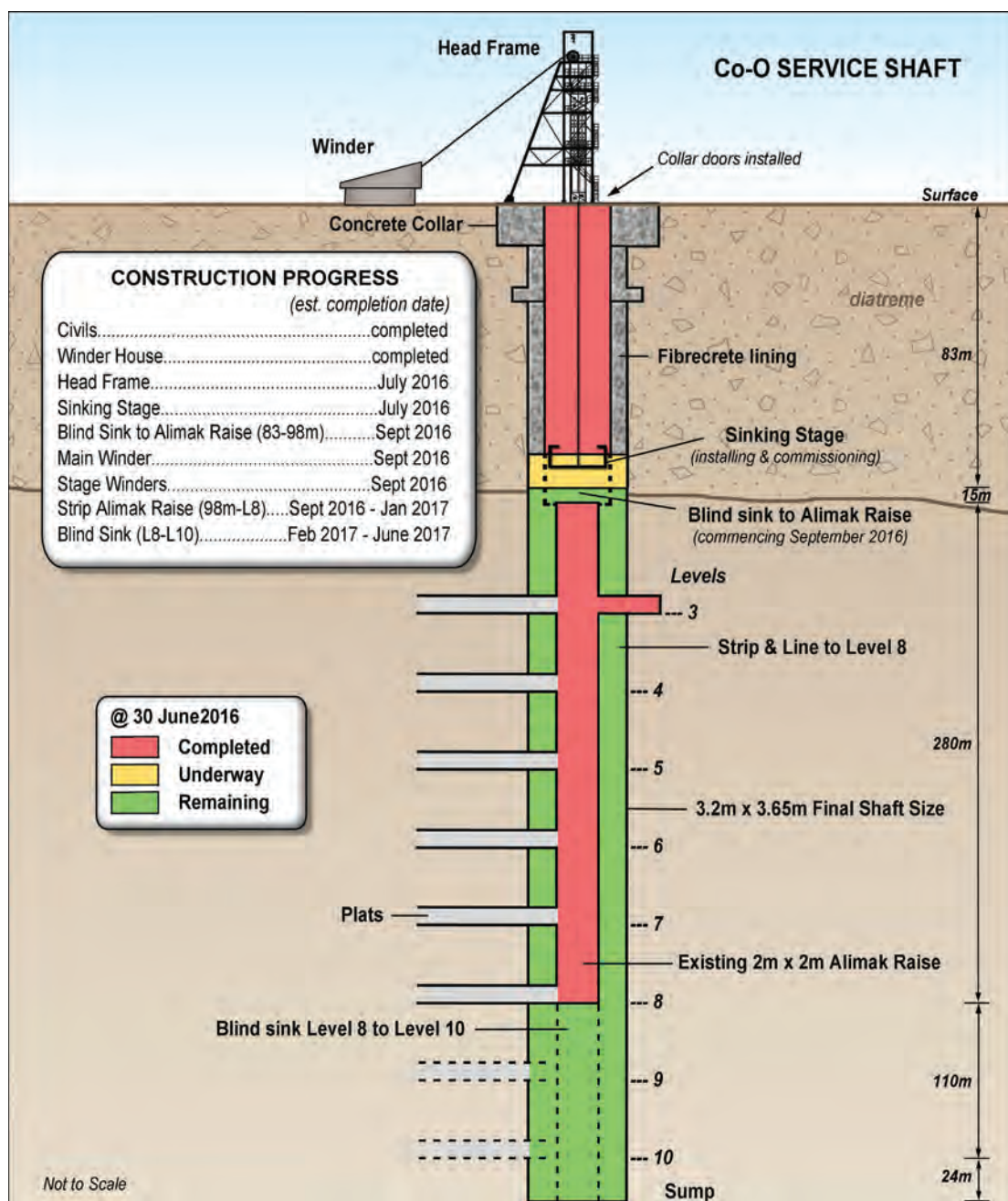


Diagram 5: E15 Service Shaft arrangement drawing and schedule

The E15 Service Shaft was started in 2014, with the following progress completed in FY15-16:

- The Alimak (2 metres x 2 metres) raise has completed from Level 8 up to just above Level 3 (approximately 300 vertical meters).
- On surface the shaft collar was completed and blind sinking to the -83 metre elevation, utilizing a 65 tonnes crane and sinking deck. The blind sinking was stopped on May 2016 at 83 meters to leave 10 metre safety pillar above the Alimak raise opening. The first 83 metres has been fully bolted and shotcreted for ground support.
- The shaft headframe, winder house, offices and shop were installed by the end of the FY. This include having the sinking stage hung below the collar doors (headframes as completed in early July 2016).
- The main winder was at the port by year-end, with the stage winders, sinking gear, ropes (including cable guides) were all in-transit by year-end. The completion date of June 2017 was tracking on-schedule as of 30 June 2016.
- The FY16-17 project milestones are as illustrated on diagram 5:
  - Completion of Headframe Jul 2016
  - Main Winder commissioned Aug 2016
  - Stage winders commissioned early Sep 2016
  - Commission Sinking stage and mine out safety pillar, late September 2016.
  - Strip the 2 metre by 2 metre Alimak Raise to 3.2 metres by 3.65 metres from Sep to Jan 2017.
  - Blink sink from L8 to L10 and install rope guides from Feb to Jun 2017.
  - Commission Shaft late Jun 2017.



Picture 3: E15 Head Frame at 80% completion

On commissioning, all men and material movement will be transferred via the Service Shaft on L5 to L10, with L8 Production Shaft to be used exclusively to hoist ore, to attain its planned capacity of 1,700 tonnes per day.

E15 Service Shaft will also have the capacity of hoisting 300 tpd by utilizing a 2.4 tonne ore car in the service cage once manpower and material movements are completed each shift. This capacity has not been factored into the FY16-17 mine plan, thus remains as a contingency for the schedule.

# REVIEW OF OPERATIONS



Picture 4: Winder House (centre) and Offices (left) from top of Head Frame

## INTERNAL WINZES (SHAFTS) FROM L8 TO L10

By FY-end three primary Winzes (internal inclined shafts) were sunk. 17E and 29E Winzes were completed from L8 to L9 and L9 is currently developed out to where 3 stope blocks are being developed. The 12E Winze has also been sunk to L10 by FY-end.

The FY16-17 mine plan is to have L9 partially developed from 17E and 29E Winzes for stoping in advance of the E15 Service Shaft being developed to L10. 12E Winze will be upgraded to from 1.2t to a 2.4t skip and electric winder to facilitate faster development on L10 towards the E15 Service Shaft breakthrough. There will be a fourth Winze started in FY16-17.

The four L8 Winzes plus L8 tramming is rated to feed the L8 Production Shaft at 1,700 tpd once the E15 Service Shaft is completed.

## PRIMARY VENTILATION

The primary ventilation circuit was upgraded in the previous year by installing a parallel 85kW Axial Fan adjacent to the existing sole 85kW Axial Fan. To further expand the ventilations system, new 225kW Centrifugal Fans (2 fans) were installed in March 2016. One fan was commissioned in June 2016, with the 2<sup>nd</sup> fan to be commissioned by September 2016. This upgrade also included the completion of a series of raises from L8 up to L1. With installed bulkheads the primary ventilation system will be segregated into two distinct ventilation districts. The two 85kW Axial fans will support District 1 from L1 to L5. The Centrifugal Fans will support L6 to L8 and eventually down to L9-10 as the mine progressively deepens.

By FY-end the L1 to L5 ventilation district was operating at more than double the previous airflow as per the design. The L6 to L8 ventilation district was operating at 50% with one of the two centrifugal fans commissioned at FY-end due to development restrictions. The raise development was completed down to L6 with the L8-L7 raise at 50% and the L7 to L6 raise at 20% completion, thus only one fan could be energized. The raise development will be completed in September 2016 allowing the second centrifugal fan to be started. This will more than double the airflows in the L6 to L8 district once the regulator doors are installed above L6.

Once the 2 District Ventilation system are fully commissioned the overall air flows will increase almost 3-fold. This will unconstrain development and stoping areas that are at the peripheral limit of the old system due to secondary ventilation limitations. Once fully commissioned there will be added savings as the primary ventilation flows will allow for a significant reduction in secondary fans and a reduction in compressed air usage.

Diagram 1 illustrates the new system and the future expansion as deeper levels are added to the lower district via ventilation raises below L8.





Picture 5: The 2 new Centrifugal Fans before commissioning

### PRIMARY MINE DE-WATERING SYSTEM

The currently mine de-watering system is a legacy of top down level by level development. This has resulted in an inefficient staged system. The system is susceptible to cascade failures should a key pump go off-line. The new system will have primary sumps located on L8 and L5 with water pumped directly to surface through the L8 Shaft Rising Main. The pumps have been selected to manage dirty water, thus eliminating the need for silt catchment sumps. The system will treat the suspended solids in a surface filtration system. Elimination of the sump cleaning and subsequent material handling in the L8 Shaft will also improve the L8 Shaft skipping utilization.

By FY-end the main sumps were 30% excavated and the long-lead items ordered. The system will be operational by December 2016.

# REVIEW OF OPERATIONS

## Co-O MINE GEOLOGY

Detailed discussions and interpretations of the Co-O geology and mineralisation were initially reported on 14 August 2012 and are also contained, with plans and sections, in the 2012, 2013, 2014 and 2015 Annual Reports.

During the past 12 months, the Company has continued with an intensive review of the Co-O Mine geology, with particular attention to the identification of structures and vein textures and their relationships with mineralisation and gold grades.

The key points from the extensive review, re-interpretations and re-modelling of the underground geology of the Co-O Mine over the last 3 years continue to be:

- (i) The 3 main veins, Central, Jereme and GHV are the major veins with the best widths, grades and highest degree of continuity.
- (ii) The horizontal strike of the Co-O vein system is approximately 800 to 1,000 metres for each of the major veins, and the overall plunge of the 'ore corridor' is to the east at approximately  $-20^\circ$  from horizontal (Figure 3). Mineralisation does occur outside the ore corridor, but is less consistent, with erratic grades and less favourable vein textures, and typically uneconomic to mine.
- (iii) The Co-O diatreme breccia disrupts the up-dip sections of some of the north dipping vein mineralisation in some down-plunge positions (Figure 4). In addition, a 'shatter zone' of approximately 50-100 metres in width, occurs peripheral to the diatreme, within which the veins' continuity and characteristics become less consistent, as the vein approaches the diatreme.
- (iv) Proximal to the eastern part of the Co-O vein system, the near surface underside of the diatreme and shatter zone's flare dips shallowly at approximately  $10^\circ$  to the south, and becomes steeper to approximately  $50^\circ$  dip with increasing depth, diverging away from the north-dipping veins, and hence the veins are interpreted to be predominantly open down-plunge, beneath the flare of the diatreme (Figure 4).

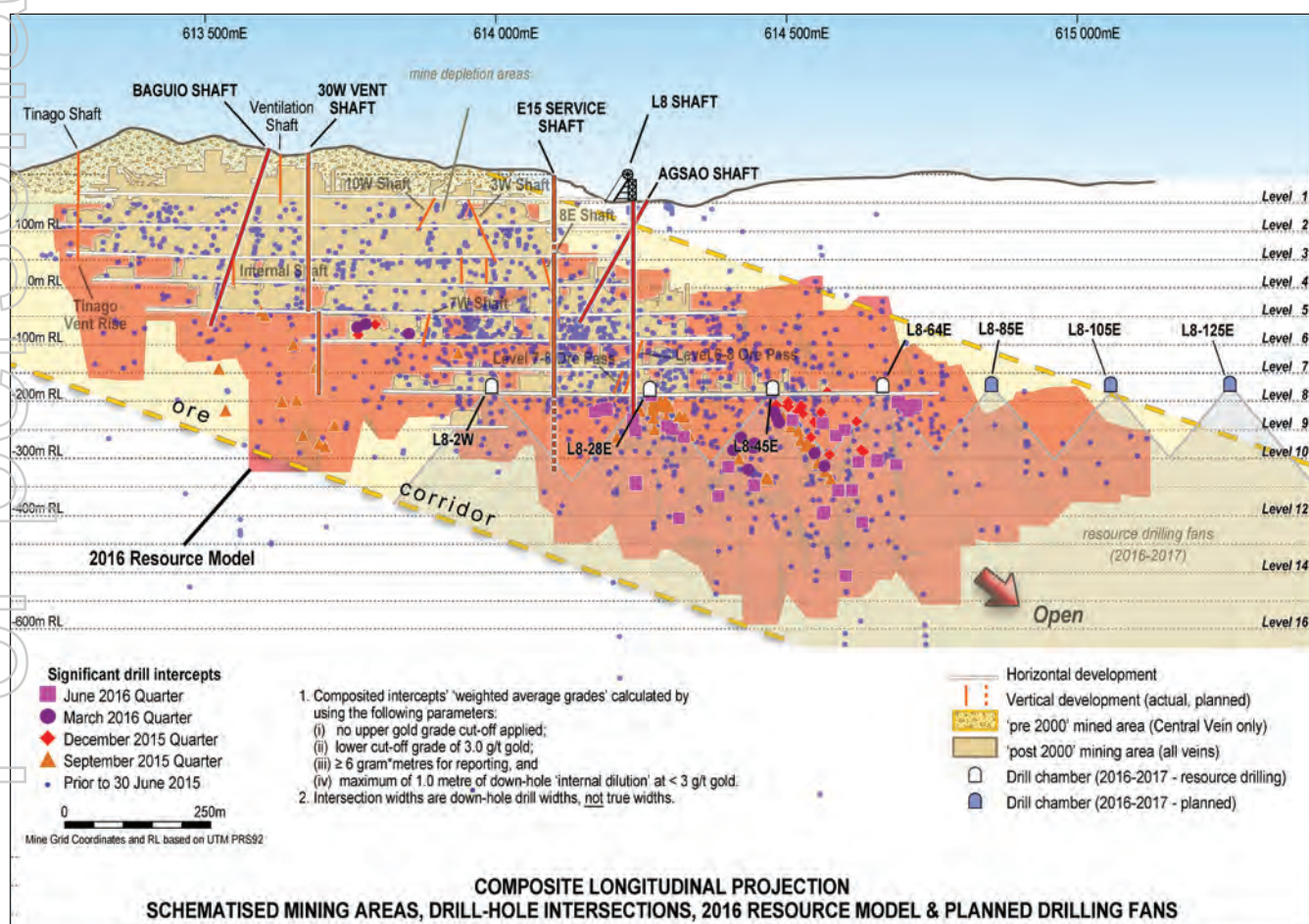


Figure 3: Co-O Mine composite longitudinal projection showing the locations of reported significant drill intercepts (since 2010), underground development, E15 Service Shaft, and locations of current and planned drill chambers for the 2015-2017 resource drilling program. The 2016 Indicated and Inferred resource model (red) is also shown, demonstrating the potential for down-plunge extensions at depth, limited by lack of drilling.



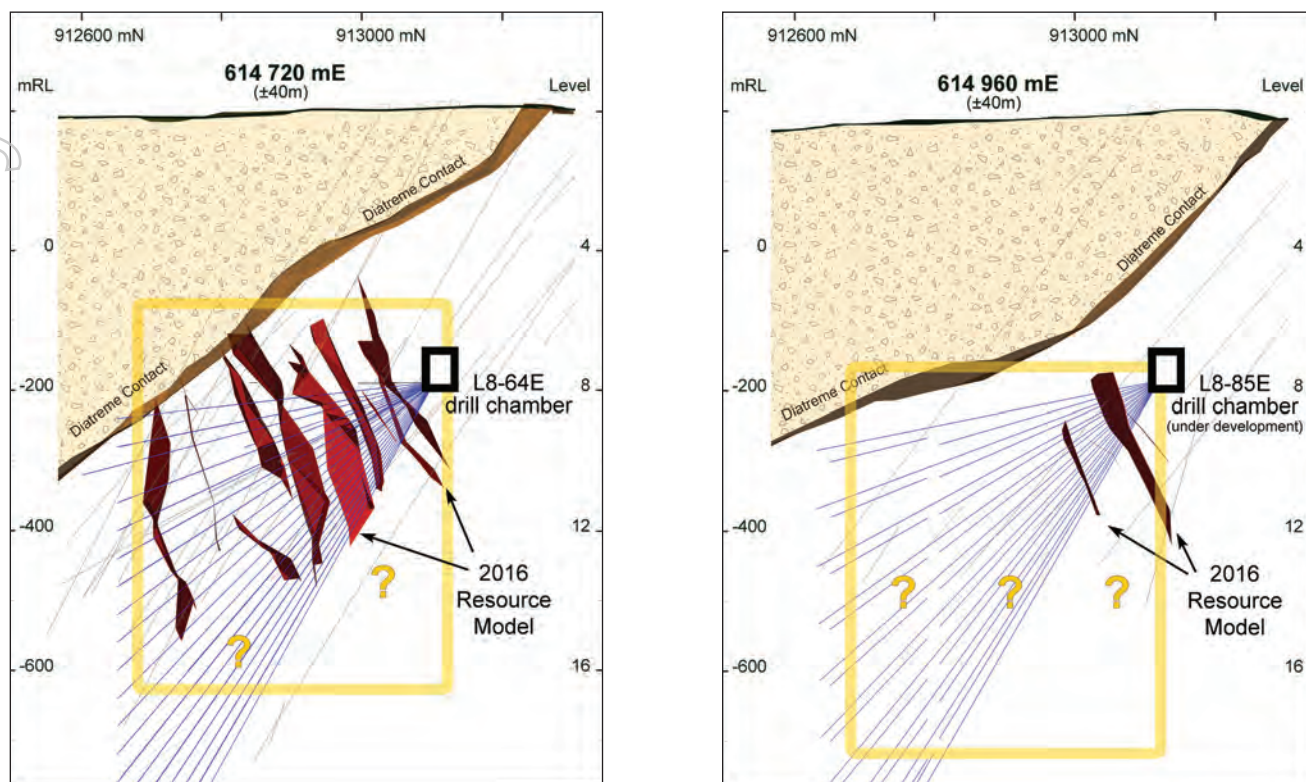


Figure 4 (a) and (b): Cross-sections at 614720mE (±40m) and 614960mE (±40m), through the L8-64E and proposed L8-85E Drill Chamber positions respectively, showing the ore corridor (yellow rectangle), its proximity to the diatreme, the potential extensions to the Co-O vein systems, and the existing drilling (grey hole traces) and proposed drilling (blue hole traces)

## GROUP MINERAL RESOURCES AND ORE RESERVES

The Annual Mineral Resources Update Statement and Annual Ore Reserves Update Statements for the Company were released on 28 September 2016, and include Material Information for the individual deposits, including a Material Information Summary pursuant to ASX Listing Rules 5.8 and 5.9 and the Assessment and Reporting Criteria in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC 2012").

The Mineral Resources and Ore Reserves Statements have been prepared in accordance with the JORC 2012 for the Co-O Mine and the Bananghilig B1 deposit, however the Saugon Mineral Resources was prepared and first disclosed under JORC 2004 and has not been updated to comply with JORC 2012 on the basis that the information has not materially changed since it was last reported.

Refer to the Company's Annual Update Statement of Mineral Resources and Ore Reserves dated 28 September 2016 for background information and material information relating to the resources and reserves estimates.

The Company conducts regular internal and external reviews of Mineral Resource and Ore Reserve estimation procedures to validate the quality and integrity of these procedures. External consultants are also regularly contracted to conduct independent reviews of Mineral Resource and Ore Reserve estimation procedures and results. The reviews have not identified any material issues with these procedures or results.

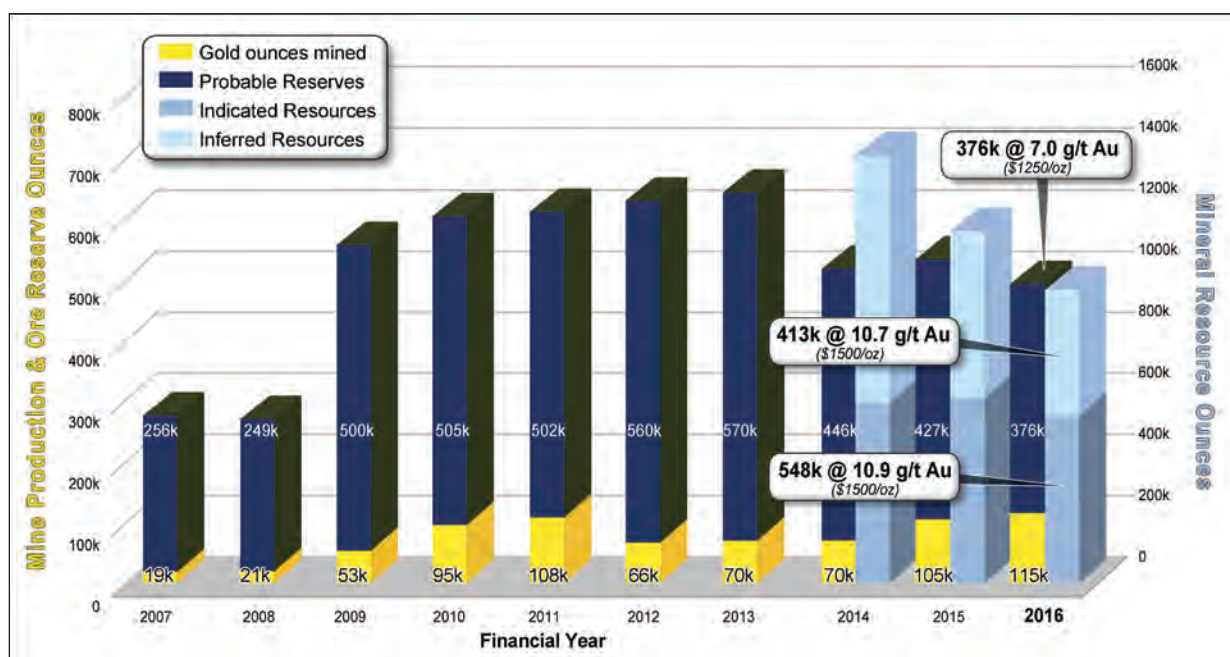
The Co-O Mine has a long history of Ore Reserve replacement by way of diamond drilling and conversion of Indicated Resources (Graph 4). The Company remains confident in the long-term future of the Co-O Mine given the current Mineral Resource inventory, the nature of the geology and mineralisation and the historic high conversion rate (~70%), after allowance for mining recovery, of Indicated Mineral Resources to Ore Reserves. The Co-O Mine continues to maintain a minimum 2.5-year mine plan, for Indicated Resource, but well in excess of a 5-year life, considering the resource endowment. This is typical of the way these types of narrow vein, high-grade gold mines have operated for many years.

# REVIEW OF OPERATIONS

## MINERAL RESOURCE AND ORE RESERVE ASSUMPTIONS

Mineral Resources are reported inclusive of Ore Reserves and includes all exploration and resource definition drilling information up to 30 June 2016, and has been depleted for mining to 30 June 2016. Gold price assumptions used to estimate Mineral Resources and Ore Reserves are:

- Mineral Resources: US\$1,500 per ounce gold
- Ore Reserves: US\$1,250 per ounce gold



Graph 4: Production, Ore Reserves and Mineral Resources status since 2007, demonstrating the Co-O Mine's history of increasing resources and replacing mine depletion

### Notes:

FY2007 to FY2013 - Ore Reserve ounces are classified under JORC 2004 guidelines;

FY2014 to FY2016 - Mineral Resource and Ore Reserve ounces are classified under JORC 2012 guidelines; and

FY2016 reserves estimated using gold price of \$1,250 per ounce (FY2015 reserves at \$1,150 per ounce)

## Co-O MINE MINERAL RESOURCES

Total Inferred and Indicated Mineral Resources for the Co-O Mine are now estimated at 2.77 million tonnes at an average grade of 10.8 g/t gold for a total 0.96 million ounces contained gold, compared to the 30 June 2015 estimate of 3.50 million tonnes at an average grade of 10.2 g/t gold for a total 1.15 million ounces contained gold (Table III).

The changes in the Co-O Mine's Mineral Resources (net reduction of 188,000 ounces) are primarily due to mining depletion of 115,500 ounces (108,578 ounces recovered), and the following adjustments:

- revision of recoverability of some remnant stope areas of the mine due to restricted access and discontinuities;
- insufficient new drilling, as a result of delays to developing the new drilling chambers on Level 8, to define further resources to compensate for the mining depletion;
- addition of FY2016 underground drilling results and mining development resulting in revised vein interpretations, and the addition of a proportion of internal waste to interpreted wireframes, to reflect the discontinuous nature of some veins, resulting in some material dropping in grade to below cut-off.

Despite the mining depletion of 115,500 ounces in FY2016, the amount of ounces in the Indicated Resource category has been reduced by only 9%, albeit at a lower grade, and the amount of ounces in the Inferred Resource category has been reduced by 24%, but at an increased grade of 24%. This is primarily a result of conversion from Inferred to Indicated by infill drilling and development, rather than extensional resource drilling. The overall grade of the total combined Indicated Resource plus Inferred Resource has increased slightly by 6%.

Traditionally the Co-O Mine has mined material from outside of the Indicated Resource. This material comes from the Inferred Resource category, and from unclassified mineralised veins exposed through development, at a proportion of up to 25% of ore supply to the mill. No attempt has been made in the estimation of Indicated Resource or Ore Reserve to make an allowance for this activity.

**Table III: Comparison summary of total undiluted Co-O Mineral Resource estimates for 30 June 2015 and 2016**

Mineral Resource Category <sup>1</sup>	30 June 2015			30 June 2016			Variance		
	Tonnes	Au (g/t)	Au (oz)	Tonnes	Au (g/t)	Au (oz)	Tonnes	Au (g/t)	Au (oz)
Indicated <sup>2</sup>	1,546,000	12.20	604,000	1,564,000	10.90	548,000	+1.2%	-10.7%	-9.3%
Inferred <sup>2</sup>	1,958,000	8.60	545,000	1,203,000	10.68	413,000	-38.6%	+24.2%	-24.2%
<b>Total</b>	<b>3,504,000</b>	<b>10.2</b>	<b>1,149,000</b>	<b>2,767,000</b>	<b>10.80</b>	<b>961,000</b>	<b>-20.0%</b>	<b>+5.9%</b>	<b>-16.4%</b>

Notes:

<sup>1</sup> Mineral Resources are reported inclusive of Ore Reserves.

<sup>2</sup> Resources are reported to Level 14 (-500m RL)

Figure 5 presents various views of the Co-O Mine's resource model showing the major veins (GHV, Jereme and Central Veins) in colour and associated sub-parallel and link veins in translucent grey, plus underground development and production shafts as at 30 June 2016.

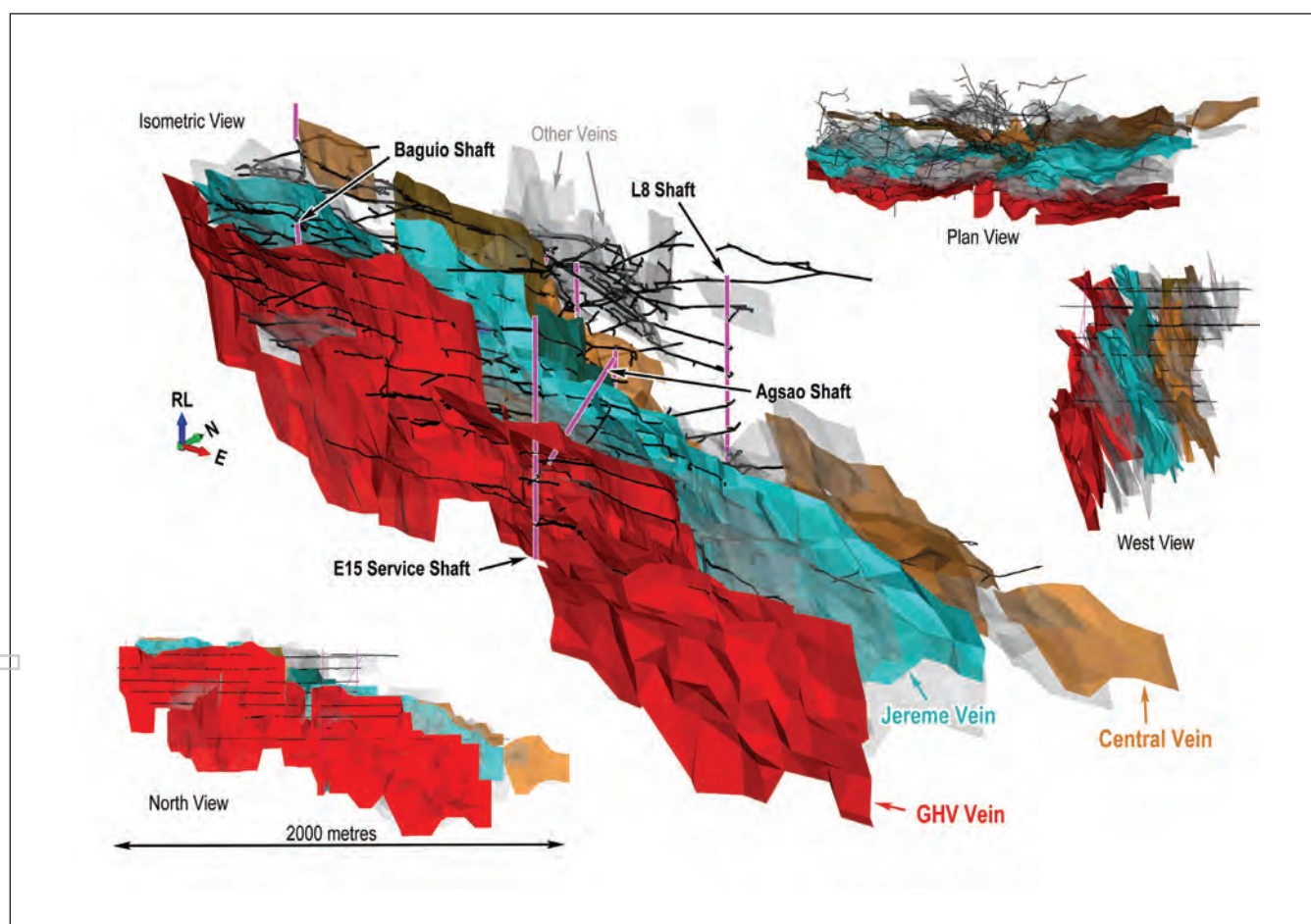


Figure 5: Isometric and Orthogonal views of the Co-O Mine's 2016 resource model, major veins and underground development



# REVIEW OF OPERATIONS

## Co-O MINE ORE RESERVES

A detailed review of all Co-O Mine and milling production data, including mining and metallurgical performances to determine appropriate physical mining parameters, cut-off grades and dilutions has been completed for this latest update to the Mineral Resource and Ore Reserve statement (Table I).

The Co-O Mine Probable Ore Reserves are now estimated at 1.67 million tonnes at a grade of 6.99 g/t gold for a total 376,000 ounces contained gold, compared to the 30 June 2015 estimate of 1.81 million tonnes at a grade of 7.33 g/t gold for a total 427,000 ounces contained gold.

A comparison between the current Ore Reserves and that stated for 30 June 2015 shows a net decrease in Probable Ore Reserves of 12% or 51,000 ounces contained gold.

The changes in the Co-O Mine Ore Reserves are primarily due to: mining depletion; modified vein interpretations through increased geological knowledge of the different vein sets obtained by further underground mapping and drilling; revision of mine-ability of remnant ore in some stopes, and a restriction of recoverable pillars mostly to the three major veins in the mine (i.e. GHV, Jerome & Central veins), with some high grade pillars from minor veins. The Co-O Ore Reserves are reported using a gold price of US\$1,250 per ounce.

Carras Mining Pty Ltd ("Carras") of Perth, Western Australia, was contracted to undertake the Co-O Mine Ore Reserves estimate for FY2016. Carras was assisted by Philsaga's long-term planning engineers and senior underground mine geologists.

**Table IV: Comparison summary of the Co-O Mine Ore Reserve estimates for 30 June 2015 and 30 June 2016.**

Ore Reserve Category	30 June 2015			30 June 2016			Variance		
	Tonnes	Au (g/t)	Au (oz)	Tonnes	Au (g/t)	Au (oz)	Tonnes	Au (g/t)	Au (oz)
Probable <sup>1</sup>	1,811,000	7.33	427,000	1,670,000	6.99	376,000	-7.8%	-4.6%	-11.9%
<b>Total</b>	<b>1,811,000</b>	<b>7.33</b>	<b>427,000</b>	<b>1,670,000</b>	<b>6.99</b>	<b>376,000</b>	<b>-7.8%</b>	<b>-4.6%</b>	<b>-11.9%</b>

<sup>1</sup> Ore Reserves are reported to Level 12 (~400m RL).

## Co-O EXPLORATION

**"Underground drilling during 2016-17 will continue to focus on converting wide-spaced intersections in the down-dip and down-plunge vein extensions between Levels 8 to 16 into resources, and upgrading Inferred Resources to Indicated status, from new drill chambers being developed on Level 8."**

### RESOURCE DEFINITION DRILLING

In FY2016, the focus of underground drilling and development was primarily to upgrade resources, which had previously been classified as Inferred, into the Indicated category. This drilling was carried out from Level 5 and Level 8 drilling chambers. A total of 43 underground diamond drill holes were completed to 30 June 2016 for a total advance of 16,483 metres, as summarised in Table V. As a result, the current Indicated Resource is only reduced by 51,000 ounces compared to the FY2015 Indicated Resource, despite the fact that 115,500 ounces gold had been depleted by mining during FY2016.

The planned development of drilling chambers (L8-64E, L8-85E, L8-105E and L8-125E) to the east, on Level 8, was delayed as a result of mine infrastructure and production priorities, and as a consequence, there was limited drilling of the eastern and down plunge extensions to the deposit. Consequently, there has not been an overall increase in the total mineral resources.

Current development is focussing on establishing the planned drill chambers on Level 8, targeting additional strike extensions to the east and down plunge extensions of the current resource base down to Level 12 and then Level 16 (Figures 3 & 4).

**Table V: Summary of Co-O Mine underground drilling**

Project	Purpose	Number of Holes	Meterage
Co-O Mine	Resource Underground	43	16,483
	Pre-Development	48	3,936
<b>GRAND TOTAL</b>		<b>91</b>	<b>20,419</b>

Details of significant intersection results obtained during the FY2016 have been reported in the September 2015, December 2015, March 2016 and June 2016 quarterly reports. Table VI below summarises the more significant drill intersections obtained during the year.

**Table VI: Co-O Mine - significant underground drill hole results of  $\geq 6$  gram-metres.**

Hole Number	East <sup>5</sup>	North <sup>5</sup>	RL <sup>5</sup>	Depth (metres)	Azim (°)	Dip (°)	From (metres)	Width <sup>2</sup> (metres)	Grade <sup>1,3,4</sup> (uncut) (g/t gold)
<b>UNDERGROUND RESOURCE DRILLING - LEVEL 3</b>									
L3-17W-010	613897	913226	51	419.4	171	-31	313.40	1.40	12.69
<b>UNDERGROUND RESOURCE DRILLING - LEVEL 5</b>									
L5-17W-002	613829	913084	-42	373.5	221	-23	58.00	1.00	7.38
							107.30	1.00	8.07
L5-17W-004	613834	913084	-42	277.6	164	-31	74.00	0.90	7.97
L5-17W-005	613830	913083	-43	405.1	237	-19	84.90	2.10	8.68
L5-40W-014	613595	913079	-38	521.7	150	-48	327.05	0.45	36.78
L5-40W-015	613596	913079	-39	380.6	149	-39	18.40	1.00	7.88
							339.25	0.70	10.26
L5-40W-016	613596	913079	-41	512.6	162	-42	333.30	1.30	7.96
L5-40W-017	613596	913079	-41	412.6	165	-29	331.35	0.70	55.50
L5-40W-018	613595	913079	-41	401.9	148	-27	138.45	1.00	20.72
							233.10	0.80	18.11
L5-40W-020	613595	913079	-41	348.2	194	-38	292.90	1.00	50.70
<b>UNDERGROUND RESOURCE DRILLING - LEVEL 8</b>									
L8-19E-022	614214	913136	-193	432.7	172	-30	117.20	0.55	20.54
							426.30	0.40	16.13
L8-19E-024	614214	913136	-193	488.0	173	-35	263.60	1.00	7.45
							271.25	0.70	10.88
L8-19E-025	614217	913136	-193	452.2	144	-22	144.20	1.10	19.11
							160.60	0.30	83.88
							198.50	1.80	18.50
							345.30	2.40	11.12
L8-19E-026	614217	913136	-193	458.2	149	-30	432.85	0.50	14.01
							362.00	1.00	21.52
L8-28E-002	614270	912864	-190	364.8	141	-30	1.35	2.15	17.02
L8-28E-003	614271	912863	-190	104.3	149	-16	2.00	0.35	21.27
L8-28E-004	614271	912864	-191	271.0	158	-17	24.80	0.80	112.81
							73.60	0.40	126.02
							126.80	1.50	20.26
L8-28E-005	614270	912864	-190	220.5	177	-17	19.15	0.50	20.38
							67.65	2.35	9.85
							141.05	0.25	97.90
							153.50	2.10	11.41
L8-28E-006	614270	912864	-190	221.2	174	-18	53.65	0.35	24.63
							69.35	0.80	35.31
							85.30	0.95	10.64
							89.55	1.00	20.03
							136.50	1.00	14.62
							204.70	0.25	70.85

# REVIEW OF OPERATIONS

Hole Number	East <sup>5</sup>	North <sup>5</sup>	RL <sup>5</sup>	Depth (metres)	Azim (°)	Dip (°)	From (metres)	Width <sup>2</sup> (metres)	Grade <sup>1,3,4</sup> (uncut) (g/t gold)
L8-28E-007	614269	912864	-190	230.5	203	-24	69.45	0.35	117.60
							72.40	0.40	16.76
							74.00	0.60	64.08
							100.90	2.35	68.91
							187.75	0.20	81.35
L8-28E-008	614270	912864	-190	254.4	163	-17	70.65	0.30	25.46
							239.65	0.20	136.63
L8-28E-009	614271	912866	-190	375.0	132	-25	11.35	0.45	50.07
							48.10	0.35	147.55
							348.40	0.80	15.95
							354.80	1.15	9.68
L8-28E-010	614271	912866	-190	380.4	130	-30	13.40	0.30	19.29
							32.55	0.65	13.30
L8-28E-011	614268	912864	-190	350.0	220	-11	119.95	0.35	45.77
L8-28E-012	614270	912868	-189	350.0	228	-13	3.30	1.30	31.56
							107.35	7.45	10.43
							122.05	0.90	46.75
							136.95	0.45	63.60
L8-45E-004	614469	913041	-190	136.5	124	3	121.35	0.45	166.98
L8-45E-007	614464	913036	-190	412.9	160	-24	142.00	0.65	17.33
							227.25	0.65	29.82
							304.10	2.25	14.46
							346.45	0.90	20.90
L8-45E-008	614464	913036	-191	415.3	155	-23	154.90	1.50	7.44
							199.90	0.50	20.62
							209.65	1.65	16.04
L8-45E-011	614464	913036	-190	392.0	164	-8	143.45	0.20	32.12
							145.20	4.50	8.08
							209.00	1.40	26.55
							238.20	0.80	12.50
							349.80	4.65	10.44
L8-45E-012	614464	913037	-190	387.2	157	-7	92.00	0.90	29.39
							146.10	0.50	65.80
							149.90	2.25	35.12
							229.70	1.80	19.28
							372.95	1.90	23.74
L8-45E-013	614464	913036	-190	400.3	154	-18	52.10	4.20	10.81
							142.80	0.85	7.77
							145.60	1.15	26.53
							149.50	1.10	12.35
							245.35	0.55	13.11
							350.55	0.85	13.33
L8-45E-014	614464	913036	-190	425.4	147	-16	160.90	0.30	60.34
							165.15	1.05	30.49
							325.15	0.30	28.56
							334.30	1.00	251.92
							370.00	1.00	11.93
L8-45E-015	614464	913036	-190	398.4	174	-14	115.25	0.50	19.64
							188.20	0.50	13.30
L8-45E-018	614468	913037	-191	200.3	124	-45	139.00	2.95	22.16

Hole Number	East <sup>5</sup>	North <sup>5</sup>	RL <sup>5</sup>	Depth (metres)	Azim (°)	Dip (°)	From (metres)	Width <sup>2</sup> (metres)	Grade <sup>1,3,4</sup> (uncut) (g/t gold)
L8-45E-020	614465	913036	-189	181.4	200	-50	105.80	3.35	81.86
							116.25	1.35	32.11
							163.00	3.10	87.34
L8-45E-021	614464	913036	-191	272.4	215	-44	104.95	0.60	18.76
							137.05	0.55	295.30
L8-64E-001	614726	913101	-188	487.3	186	-26	42.40	1.00	11.91
							61.35	1.75	19.11
							157.95	1.00	6.03
							244.70	0.30	51.87
							277.25	2.05	23.31
L8-64E-002	614722	913104	-187	547.3	213	-14	54.80	2.80	26.38
							61.35	1.75	19.11
							157.95	1.00	6.03
							244.70	0.30	51.87
							277.25	2.05	23.31
L8-64E-003	614726	913101	-188	523.8	191	-29	42.10	0.90	11.23
							248.05	0.50	12.73
L8-64E-004	614722	913104	-188	629.0	209	-25	44.45	3.20	28.76
							221.90	1.20	7.88
							254.05	1.00	6.52
							352.40	1.40	14.03
							423.85	0.45	30.37
L8-64E-005	614725	913102	-188	616.5	199	-28	430.45	1.15	22.87
							51.35	0.65	11.77
							239.35	0.45	57.73
							242.80	1.80	31.86
L8-64E-007	614722	913104	-188	559.9	201	-36	49.30	0.95	7.50
							358.60	0.80	21.33
							499.35	0.35	266.90

**Notes:**

- Composited intercepts' 'weighted average grades' calculated by using the following parameters:
  - no upper gold grade cut-off applied;
  - $\geq 3$  gram\*metres, and
  - a maximum of 1.0 metre of down-hole internal dilution at  $\leq 3$  g/t gold.

Only down-hole intercepts with composited grades  $\geq 6$  gram\*metres are reported in the above table.
- Intersection widths are down-hole drill widths not true widths.
- Analysis by Classical Fire Assay technique and AAS finish, and carried out by Philsaga Mining Corporation's on site laboratory.
- Some results reported above may differ slightly from those previously reported, as a result of the inclusion of subsequent additional check analyses, which forms part of the Company's ongoing QAQC protocols.
- Grid coordinates and elevation in metres relative to the Mine Datum.

# REVIEW OF OPERATIONS

## CO-O REGIONAL EXPLORATION

As a consequence of the depressed gold prices in the first half of FY2016, a decision was made to curtail exploration activities and limit to surface reconnaissance activities, at least until 30 June 2016. Budgets have been developed for FY2017, and include a proposed increase in exploration activities in the Co-O region, including drilling of targets already identified and those anticipated to be defined from future work.

Regional exploration concentrated on areas proximal to the Co-O Mine environs to investigate mineralisation previously encountered during surface mapping and drilling. Activities included detailed and reconnaissance geological mapping, trenching and sampling programmes in the South Agsao and

West Road 17 prospects (Figure 6), where a number of veins have been verified from previous work. Drilling targets have so far been defined from this work at the West Road 17 prospect, although the timing of the drilling programme is dependent on budgets.

Reconnaissance mapping and sampling programmes will continue throughout the Co-O group of granted tenements.

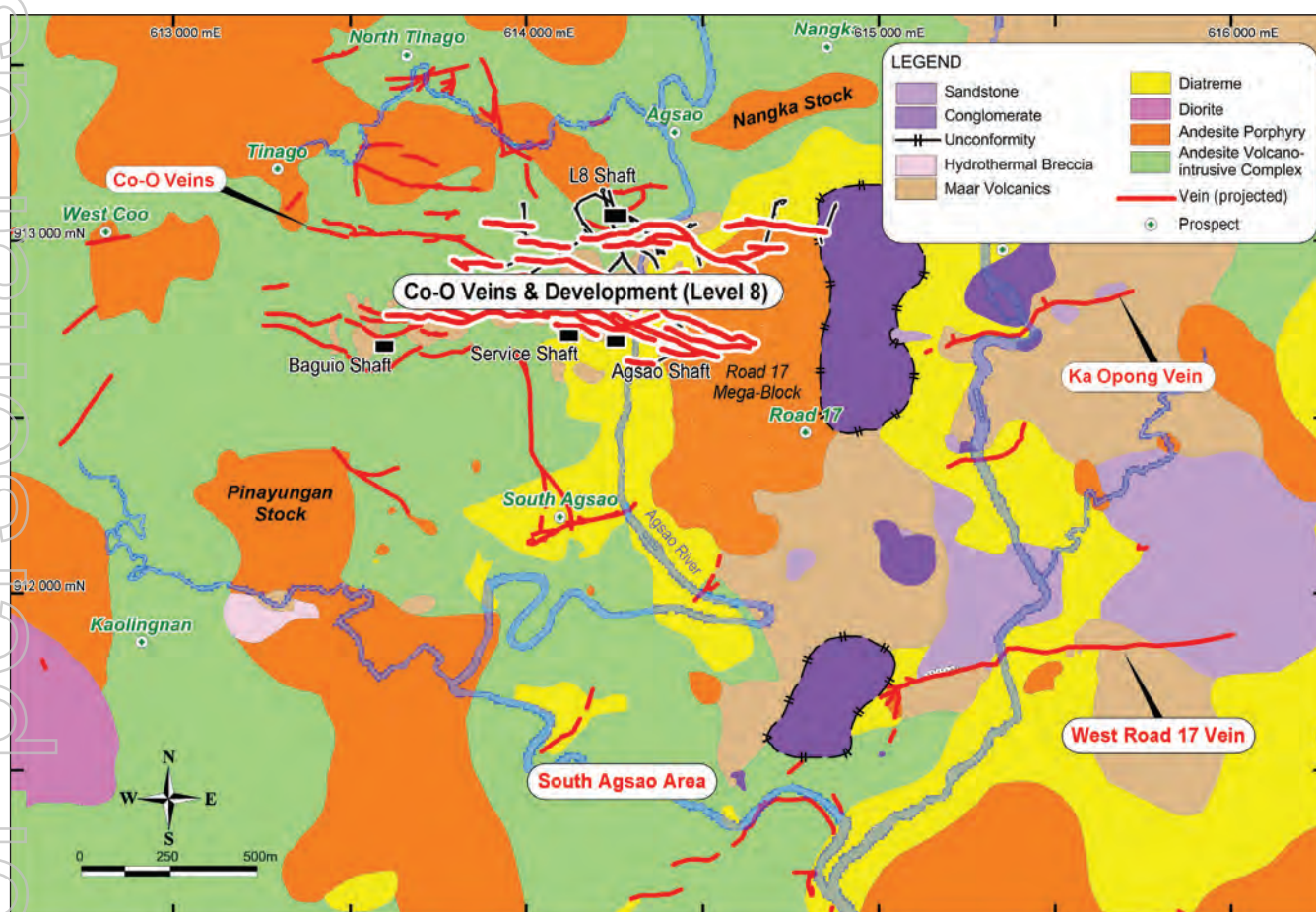


Figure 6: Co-O regional geology plan showing Co-O vein system (Level 8), interpreted surface geology and exploration prospect locations.



## TAMBIS PROJECT

The Tambis Project, comprising the Bananghilig B1 Gold Deposit ("Bananghilig") and the B2 Discovery area (Figs 2 and 8), is operated under a Mining Agreement with Philex Gold Philippines Inc. over Mineral Production Sharing Agreement ("MPSA") 344-2010-XIII, which covers 6,262 hectares.

### BANANGHILIG GOLD DEPOSIT

On 8<sup>th</sup> August 2013, a total combined Indicated and Inferred Resources was reported for the Bananghilig B1 ("Bananghilig") deposit of 24.52 million tonnes containing 1,136,000 ounces at a grade of 1.44 g/t gold, including an Indicated Resource of 16.06 million tonnes containing 766,000 ounces at a grade of 1.48 g/t gold, using a 0.8 g/t gold lower cut-off applied to the resource estimate. This information was prepared and first disclosed under the JORC 2004.

The Company has recently completed an exhaustive two-year review of the Bananghilig deposit. This included, but was not limited to, a comprehensive program of underground mapping of the artisanal workings, re-logging of some 70,000 metres of diamond core, database validation and QAQC studies. This work has enabled the breakdown of the deposit into 6 major domains within which there are 12 structural domains (Figure 7).

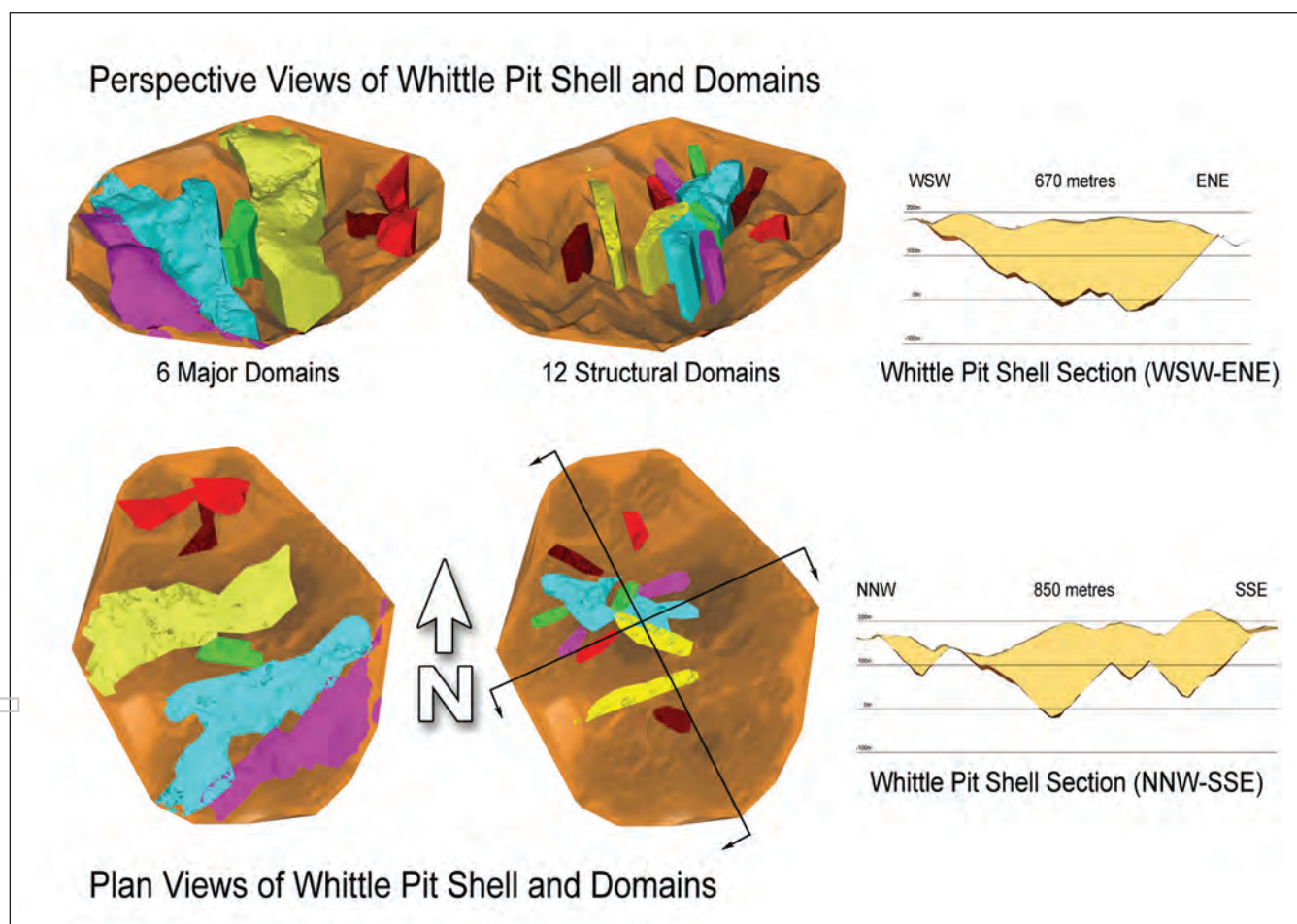


Figure 7: Bananghilig Resource model domains and Whittle Pit Shell in Plan and Perspective Views, and Orthogonal Sections through the deepest parts of the pit shell.

The orientation of the 6 major domains is predominantly in a NE-SW orientation with steep dips to the NW. The 12 structural domains within the 6 major domains have varying orientations and dips. Drill hole orientation (azimuth 130°, dip -60°) is considered to be the most appropriate orientation to intersect the mineralisation and associated structures.

Gold estimation of material was carried out using Indicator Kriging within the 6 major domains and also within the 12 structural domains.

# REVIEW OF OPERATIONS

## BANANGHILIG GOLD DEPOSIT (continued)

The total Indicated and Inferred Mineral Resources for the Bananghilig Gold Deposit has been estimated at 7.78 million tonnes at a grade of 1.73 g/t gold for a total 435,000 ounces contained gold, using a lower cut-off grade of 0.75 g/t gold (Indicated) for mineralisation constrained within a Whittle pit shell, and 3.0 g/t gold (Inferred) for mineralisation situated outside of the pit shell.

The reduction in the Bananghilig total Mineral Resources (Table VII) is primarily due to the application of the JORC 2012 criteria, where:

- the Indicated Resource category is restricted to a Whittle pit shell at a nominal gold price of US\$1,500/ounce and reported at a cut-off grade of 0.75 g/t gold, and
- the Inferred Resource category has been restricted to mineralisation located outside of the Whittle pit shell, to a maximum depth of about 100 metres below the pit shell walls and base. A block cut-off grade of 3.0 g/t gold has been applied for reporting. This is due to the Inferred component being accessed by underground rather than open pit methods, as per JORC 2012 guidelines.

It should be noted that the application of the same Whittle pit shell to the previous JORC 2004 resource estimate resulted in a similar result. Therefore, the apparent reduction of the total Mineral Resources is attributed mainly to the amount of mineralisation that cannot be classified under JORC 2012. The unclassified mineralisation is still present but cannot be reported under JORC 2012.

**Table VII: Comparison summary of total undiluted Bananghilig Mineral Resource estimates at 30 June 2015 & 2016**

Mineral Resource Category	30 June 2015			30 June 2016			Variance		
	Tonnes	Au (g/t)	Au (oz)	Tonnes	Au (g/t)	Au (oz)	Tonnes	Au (g/t)	Au (oz)
Indicated	16,060,000	1.48	766,000	7,580,000	1.66	406,000	-52.8%	+12.2%	-47.0%
Inferred	8,460,000	1.36	370,000	200,000	4.42	29,000	-97.6%	-225.0%	-92.2%
<b>Total</b>	<b>24,520,000</b>	<b>1.44</b>	<b>1,136,000</b>	<b>7,780,000</b>	<b>1.73</b>	<b>435,000</b>	<b>-68.3%</b>	<b>+20.1%</b>	<b>-61.7%</b>

## B2 DISCOVERY AREA

The B2 discovery area was first encountered in 2013 during sterilisation drilling, and has been the subject of wide spaced drilling, plus a small programme of close spaced drilling. The significance of this discovery is that the diatreme complex hosting the Bananghilig Deposit extends beneath the limestone cover and hosts the B2 mineralisation. To date, the southern and eastern margins of the Tambis Diatreme Complex have not yet been defined, thus constituting a large complex with the potential to significantly increase the size of the current resource base.

No activities were carried out on the B2 area as activities were focussed on the main Bananghilig deposit.

## TAMBIS REGIONAL

There is a limited ongoing programme of geological mapping, trenching and sampling throughout the granted tenements of the Tambis Regional Project area, including the areas encompassing the Bananghilig Deposit and the Guinhalinan Prospect (Figs 2 and 8). No significant results have been reported for these activities, although numerous mineralised areas have been encountered but not yet fully evaluated.

## GUINHALINAN GOLD PROSPECT

### Background

The Guinhalinan Gold Project location is located within the northern block of granted MPSA 343-2010-XIII (Figures 2 & 8), and is subject to a Mines Operating Agreement with Das-Agan Mining Corporation, subject to a 3% gross royalty on all production from the MPSA.

The mineralisation is generally associated with silicification of limestone-rich horizons within a sequence of calcareous grits and siltstones. The outcrops of silicified material vary from massive fine-grained silica replacement with sphalerite, chalcopyrite and galena, to friable, limonitic and siliceous material in sub-crop.

The sediments comprise an old calcareous sequence, which dips eastwards towards the projected position of the Barobo Fault. This sequence has been traced for at least 12.5 kilometres and hosts extensive skarn alteration at Kamarangan, approximately 6 kilometres to the north.

The Usa porphyry copper and the Alikway base metal skarn prospects are located 2 kilometres and 1.5 kilometres respectively to the south and southeast of Guinhalinan and adjacent to the projected position of the Barobo Fault.

The Guinhalinan prospect area comprises strata-bound sediment-hosted carbonate replacement style gold+silver+base-metal (CRG) mineralisation and lesser associated intermediate sulphidation, epithermal quartz-calcite gold±base-metal veins.

A 1,200 metre NW-trending zone of sub-cropping CRG-related mineralisation, inferred from the presence of: CRG float; weak to moderate 'gold in soil' geochemistry anomalies, detailed geological and regolith mapping, sampling and trenching were initially drill tested in late 2006, and more recently from October 2015 to January 2016.

Details of the completed soil geochemistry sampling program are contained in the 28 January 2015 announcement and the December 2014 and March 2015 quarterly reports.

CRG mineralisation is generally focused proximal to the contact of the limestone with calcareous siltstone/shale. Mineralisation within the limestone, however, is typically of a lower tenor.

### Exploration

Scout drilling targets were defined during the September 2015 quarter and diamond drilling of these commenced in October 2015. A total of 5 diamond drill holes have been completed for an advance of 757.0 metres.

Results of this recent drilling program were disappointing, especially given the size and tenor of the 'gold in soil' geochemistry anomalies and the previous (ca. 2006) drilling results. Only one drill hole (DGN005) returned assays greater than 0.3 ppm Au (i.e. 0.6m @ 0.97 g/t Au from 65.4m depth, and 1.0m @ 0.39 g/t Au from 8.75m depth).

The project is currently under review to determine if the anomalies have been sufficiently tested, and if future exploration efforts are warranted in this area, given the poorer than expected results.



# REVIEW OF OPERATIONS

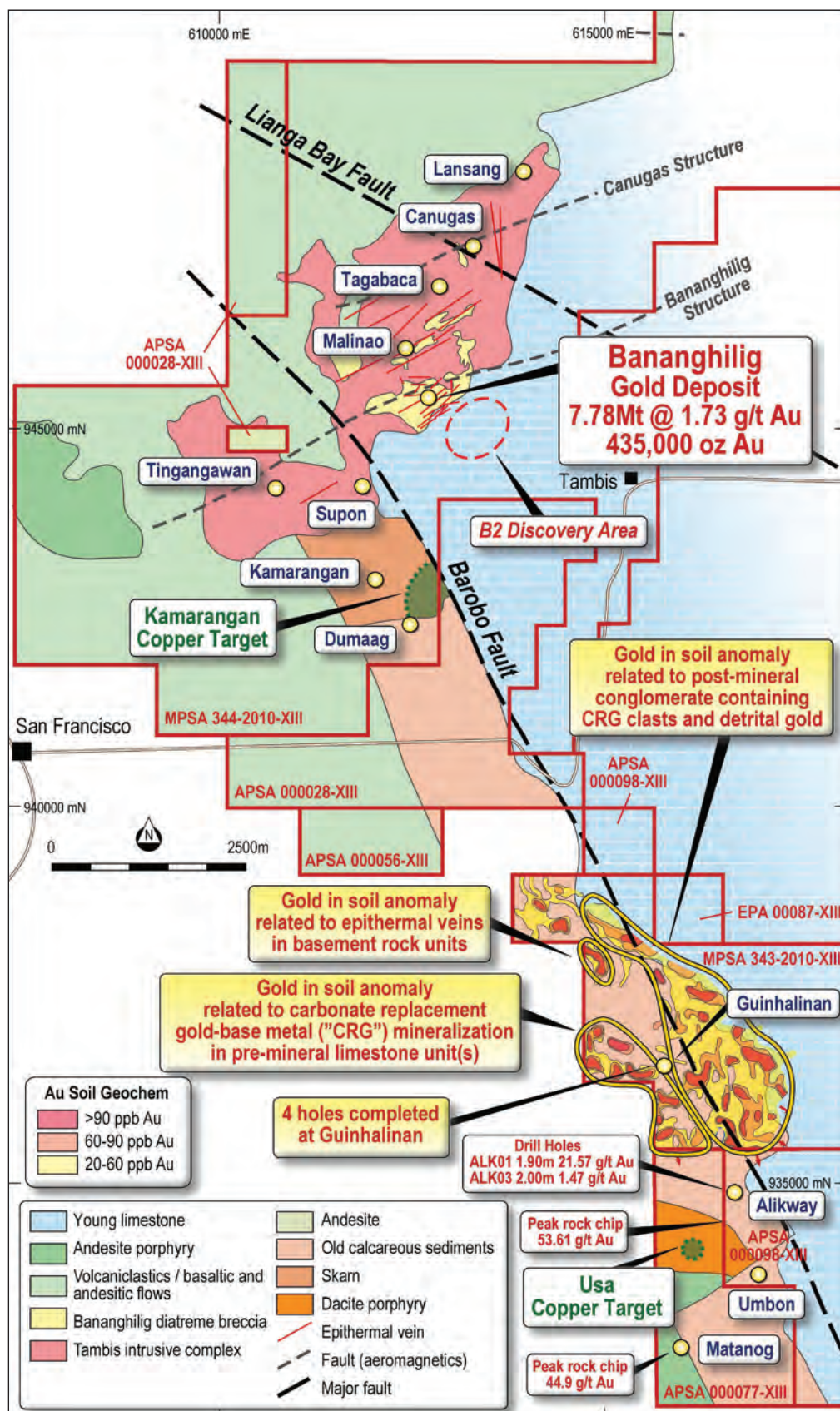


Figure 8: Tambis regional map showing the Bananghilig B1 Deposit and the Guinhalinan prospect with contoured gold in soil geochemistry anomalies and location of drilling.



# LINGIG COPPER PROJECT

The Lingig copper discovery is located within MPSA 343-2010-XIII, situated in Surigao del Sur province of Eastern Mindanao (Figure 2).

The MPSA is registered under Das-Agan Mining Corporation and 100% rights are assigned to Philsaga Mining Corporation subject to a gross royalty of 3% payable to Das-Agan. It covers a total of approximately 80 km<sup>2</sup> (8,019 hectares) in two separate blocks, of which the Lingig copper prospect is located in the south-eastern block.

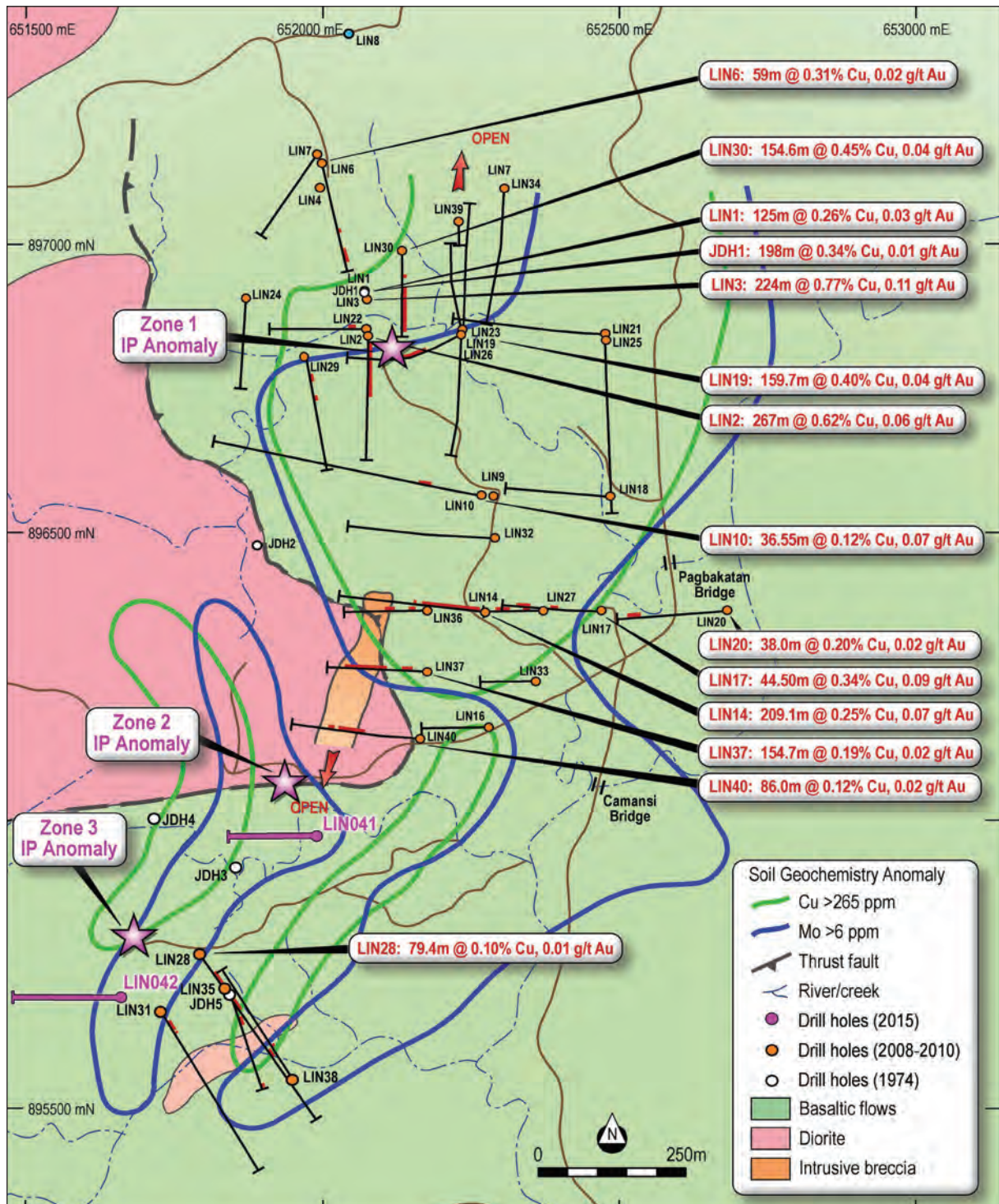


Figure 9: Lingig interpreted geology showing drill hole locations, copper (Cu) and molybdenum (Mo) soil geochemistry anomalies, three IP anomalies and the follow-up drilling locations

# REVIEW OF OPERATIONS

## LINGIG COPPER PROJECT (continued)

### Geology & Mineralisation

Previous drilling has intersected two styles of copper mineralisation, located in three zones in Lingig, namely Zone 1 (Au-bearing porphyry related Cu), and Zones 2 and 3 (magmatic-hydrothermal breccia-hosted Cu with porphyry-related Cu) as shown in Figure 9.

#### *Gold-bearing porphyry-related copper mineralisation*

The porphyry-related Cu mineralisation at Zone 1 is gold-bearing, and is hosted mainly in basalt. Mineralisation consists predominantly of chalcopyrite-pyrite fracture fills and disseminations and minor occurrences of thin ( $\leq 1$  cm)  $\pm$ quartz $\pm$ calcite $\pm$ sulphide veins and veinlets. It is interpreted that the bottom of this mineralisation is truncated by an underlying thrust fault and potentially the rest of the mineralised zone is yet to be located. The mineralised diorite porphyry intruding the basalt and the barren hornblende quartz diorite beneath the thrust fault are all propylitically altered. One of the Company's previous drill holes (LIN002) is well mineralised, starting at 2 metres below surface and containing 267.3 metres at 0.52% Cu and 0.06 g/t Au down to the basal thrust zone.

#### *Breccia-hosted copper mineralisation*

Magmatic-hydrothermal breccia pipes have been recognized in Zones 2 to 3. They are carrot-shaped, wide at the upper parts and narrowing down and even disappearing at depth. They consist of angular to sub-rounded, pebble to boulder-sized basalt and diorite clasts in a quartz diorite plutonic matrix. The basalt clasts sometimes have quartz-sulphide veinlets and are cut again by later veinlets. The mineralisation consists of pyrite $\pm$ chalcopyrite fracture fills, quartz-sulphide veinlets and/or breccia fills up to 2 cm wide. Copper grades are generally 0.1 to 0.3% Cu with negligible gold. Both the host quartz diorite and the breccia pipes are variably altered to potassic, chlorite $\pm$ sericite $\pm$ epidote and propylitic alteration types. The zone containing the breccia bodies is tabular and open to the south where the copper mineralisation is in intensely altered hydrothermal breccias with previous drill hole intersections returned 154.7 metres at 0.19 % copper in hole LIN037 and 86.0 metres of 0.12 % copper in hole LIN040.

The three mineralised zones (Zones 1, 2 & 3) identified to date are located along a northeast-trending structure associated with (i) a moderate to high IP chargeability anomaly and (ii) the eastern boundary of the NE-trending high resistivity anomaly centered on the quartz diorite stock.

There is a coincident Cu-Mo soil anomaly approximately 1km x >1km in size with mineralised Zones 1 and 2 and still open to the north. This strengthens the opportunity to locate porphyry-related copper mineralisation to the north.

### Exploration

A diamond drilling programme commenced in September to investigate the two aligned NE-trending IP chargeability anomalies identified from the geophysical survey completed in 2013.

Two holes were completed for an advance of 692 metres.

The location of the first diamond drill hole (LIN041) was sited just south of the IP Zone 2 anomaly (Fig.5) and was completed to a depth of 354 metres. The hole intersected predominantly chlorotic basalt, magmatic hydrothermal breccia, andesite porphyry, and narrow quartz diorite dykes.

Logging of LIN041 observed extensive propylitic alteration (chlorite  $\pm$  epidote), with lesser smectite, argillic, silicic and potassic alteration. Mineralisation is typically represented by early sulphide veinlets and blebs, followed by quartz-sulphide veins and veinlets and latter quartz- calcite stockwork, and comprising predominantly pyrite (0-5%, locally up to 20%)) with lesser chalcopyrite (0-1%)  $\pm$  minor molybdenite.

A second hole was completed in October to a depth of 338 metres. Logging identified similar mineralisation as for LIN041, albeit at a lower tenor. The most significant results are tabulated in Table VIII.

The IP/resistivity anomalies are considered to have been adequately drill tested, and readily explained by the pyrite content in the drill core. Copper mineralisation has been encountered in both holes, however the tenor of mineralisation is not sufficient to warrant further work in this current economic climate and thus the project has been put on hold.

**Table VIII. Lingig Copper Project - best drill hole results of  $\geq 3\text{m}$  @  $\geq 0.1\%$  copper**

Hole Number	East <sup>4</sup>	North <sup>4</sup>	RL <sup>4</sup>	Depth (metres)	Azim (°)	Dip (°)	From (metres)	Width <sup>2</sup> (metres)	Copper <sup>1,3</sup> ppm Cu (% Cu)
LINO41	651989	895968	137	353.6	270	-60	28.00	80.00	2088 (0.21%)
LINO42	651657	895693	184	338.1	270	-50	115.10	4.00	1618 (0.16%)

**Notes:**

1. Compositing intercepts' 'weighted average grades' calculated by using the following parameters:
  - (i) analyses by mixed acid digest, ICP;
  - (ii) no upper copper grade cut-off applied;
  - (iii) lower cut-off grade of 1000 ppm copper;
  - (iv) minimum downhole thickness of 3.0 metres, and
  - (v) maximum of 3.0 metre of down-hole internal dilution at  $\leq 1000$  ppm copper.
2. Intersection widths are downhole drill widths not true widths;
3. Assays are by Interek's Surigao and Manila laboratories; and
4. Grid coordinates and RL are rounded and based on PTM PRS92.

## SAUGON GOLD PROJECT

The Saugon Project comprises three granted exploration permits (EP 017-XIII, 031-XIII and 032-XIII) and four exploration permit applications (EPA 00066-XIII, 00067-XIII, 00069-XIII and 00087-XIII) covering a combined total 27,174 hectares (Figure 2). The granted tenements and tenement applications are registered under Philsaga Mining Corporation, excepting EPA 00069-XIII which is registered under Phsamed Mining Corporation.

### FIRST HIT VEIN DEPOSIT

#### Background

The First Hit Vein (FHV) is situated within Exploration Permit XIII-017, approximately 10 kilometres south of the Co-O Gold Mine and 28 kilometres by road from the Co-O Mill. Work commenced in early 2003 on the First Hit Vein deposit which has been followed intermittently at the surface over 600 metres and which has been explored underground via a 40 metre deep winze, level development and drilling of 31 diamond drill holes.

Cube Consulting Pty Ltd completed a resource estimate for the FHV (refer March 2013 Quarterly Report). A lower cut-off of 2 g/t gold was used for reporting, resulting in an Indicated Resource of 47,000 tonnes at 6.99 g/t gold containing 10,700 ounces and an Inferred Resource of 34,000 tonnes at 4.55 g/t gold containing 5,000 ounces. This information was prepared and first disclosed under the JORC 2004. It has not been updated since to comply with the JORC 2012 on the basis that the information has not materially changed since it was last reported.

#### Exploration

Limited exploration activities continued on a minimal basis throughout the Saugon tenements and tenement applications. No work was carried out on the Saugon gold deposit and is effectively 'on hold' subject to re-evaluation.

## OTHER PROJECTS

The Company's tenement portfolio comprises a large component of tenement applications being progressed towards granting. This process has been protracted and although they are progressing there is no certainty as to if and when they will be granted.

The following projects are included in those tenement applications being progressed towards granting. Detailed descriptions regarding the geology and mineralisation for these projects are contained in one or more the Company's previous Annual Reports, and announcements.

### APICAL PROJECT (Medusa earning 70%)

A Joint Venture Agreement ("JVA") with MRL Gold Phils, Inc. ("MRL") and an underlying claim owner covers an application for Mineral Production Sharing Agreement ("APSA") number 0028-XIII, situated in the provinces of Agusan del Sur and Surigao del Sur in east Mindanao, and located to the north of the Co-O Mine and Mill. The APSA comprises approximately 2,084 hectares in the Tambis Region area. MRL is the Philippine operating company of Mindoro Resources Ltd, a public company listed on the TSX Venture Exchange in Canada and the ASX in Australia.



# REVIEW OF OPERATIONS

## CORPLEX PROJECTS

The Company, through Philsaga, has Memoranda of Agreement (“MOA”) with Corplex Resources Incorporated (“CRI”) on four tenement applications, viz: APSA 000054-XIII covering approximately 2,118 hectares; APSA 000056-XIII covering 162 hectares; APSA 000077-XIII covering approximately 810 hectares (including the Usa copper prospect described below), and Exploration Permit application (“EPA”) 0000186-XIII covering 7,111 hectares.

## USA PORPHYRY COPPER-GOLD PROJECT

The Usa prospect located within Mineral Production Sharing Agreement application (“APSA”) XIII-00077. The Company has a Memorandum of Agreement with Corplex Resources Inc (“Corplex”). Further details regarding the agreement are contained in the 2011 Annual Report.

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

Detailed information regarding the prospect is contained in the 2011 Annual Report.

## COAL PROJECT

On 18 December 2014, the Company announced, through its Philippine operating company, Philsaga Mining Corporation (“PMC”), that PMC signed contracts with the Department of Energy (“DOE”) for 9,000 hectares of Coal Operating Contracts (“COCs”) containing well-defined coal measures immediately to the east of the Co-O gold mining and milling operations (Figure 2).

### Background

The sedimentary basin contains a regionally extensive, dominantly late Oligocene to Pleistocene carbonate sequence overlapping the late Eocene to early Pliocene magmatic and volcanic complex basement rocks containing the Company’s gold mining tenements and operations on the west, and Cretaceous to Eocene basement rocks on the east containing the Company’s Lingig copper prospect.

The coal measures contain multiple coal seams, which are contained in the basal parts of the sequence within the late Oligocene to early Miocene Bislig Formation comprising basal conglomerates, sandstones, limestone and carbonaceous mudstones.

The coal measures have previously been scout drilled in the 1970s, by at least 5 diamond holes, test pitted in 4 locations and outcrop sampled in numerous locations by previous explorers. As the coal seams outcrop, it is anticipated that sufficient volumes of open pitable material will potentially be available for the duration of the Company’s mining operations.

The coal in Area 6 has been previously classified as sub-bituminous B to high volatile bituminous A coal rank using the American Society for Testing and Materials (“ASTM”) classification scheme. On average the coal in Area 6 has heating values of 6,500BTU/lb as returned by samples from 2 drill holes and 27 outcrops. Seam thicknesses of economic importance are commonly between 1 and 2 metres.

The coal in Area 7 has been previously classified as sub-bituminous B to high volatile bituminous A coal rank using the ASTM classification scheme. Outcrops with a thickness of more than 1 metre have heating values of 7,000 to 8,200 BTU/lb. Samples from 1 drill hole returned heating values of 6,499 BTU/lb and 7,994BTU/lb.

### Exploration

Reconnaissance mapping continued within the COCs, outlining additional areas with multiple seams of outcropping coal, with a best individual seam identified to date ranging from 0.2 metres up to 3.1 metres in thickness. Some coal seams have so far been identified with strike lengths of more than 3 kilometres.

A reconnaissance diamond drilling program commenced at the end of November 2015 and was completed in May 2016. A total of 23 diamond drillholes were completed for a total advance of 2,441 metres. Locations of the drillholes are shown in Figures 10, 11 and 12. Numerous seams have been intercepted, with thicknesses ranging from 0.2 metres to 2.35 metres. Sampling of the coal seams intercepted is ongoing. A summary of significant intercepts for the first batch of samples is included below in Table IX. No results were received during the June 2016 quarter for the second batch of samples, and it is anticipated that all results will be received sometime during the September 2016 quarter and reported accordingly.

Table IX: Coal Project - significant drill intercepts obtained to 31 March 2016

Hole Number	East <sup>4</sup>	North <sup>4</sup>	RL <sup>4</sup>	Depth (m)	Dip	From (m)	Width <sup>2</sup> (m)	Total Moisture (%)	Ash (%)	Volatile Matter (%)	Fixed Carbon (%)	Total Sulfur (%)	Heating Value (kcal/kg)
AGDH02	619991	900627	63	142	-90	16.60	0.70	6.7	47.9	21.7	23.8	0.6	3241
						73.70	0.40	9.1	48.0	22.1	20.8	0.5	3043
AGDH03	619413	900693	99	100	-90	52.10	0.80	8.6	35.7	25.6	30.2	0.8	4305
RIDH01	622069	907417	85	150	-90	70.12	0.43	21.9	15.0	30.1	33.0	0.4	4589
						71.17	1.91	20.6	32.0	23.9	23.5	0.2	3307
						111.50	0.56	22.0	28.7	23.6	25.7	0.2	3414
RIDH02	622221	907386	108	182	-90	113.66	1.24	20.5	18.5	28.9	32.1	0.5	4361
						149.74	0.42	19.7	32.8	23.7	23.7	0.5	3196
RIDH04	622002	907830	83	80	-90	51.70	1.00	21.9	30.8	23.5	23.8	0.3	3280

Notes:

- Composited intercepts' 'weighted average' analysis calculated by using the following parameters:
  - Minimum downhole intercept length of 0.3 metres;
  - Minimum Heating Value of 3,000 kcal/kg;
  - Maximum Total Sulphur content of 1%;
- Drillholes are collared vertical and deviate no more than 2° from vertical
- Intersection widths are downhole drill widths not true widths;
- Quality analysis is carried out by Inspectorate (Philippines) Corporation, a Bureau Veritas Group Company.
- Grid coordinates and elevation are rounded and based on PTM PRS92.

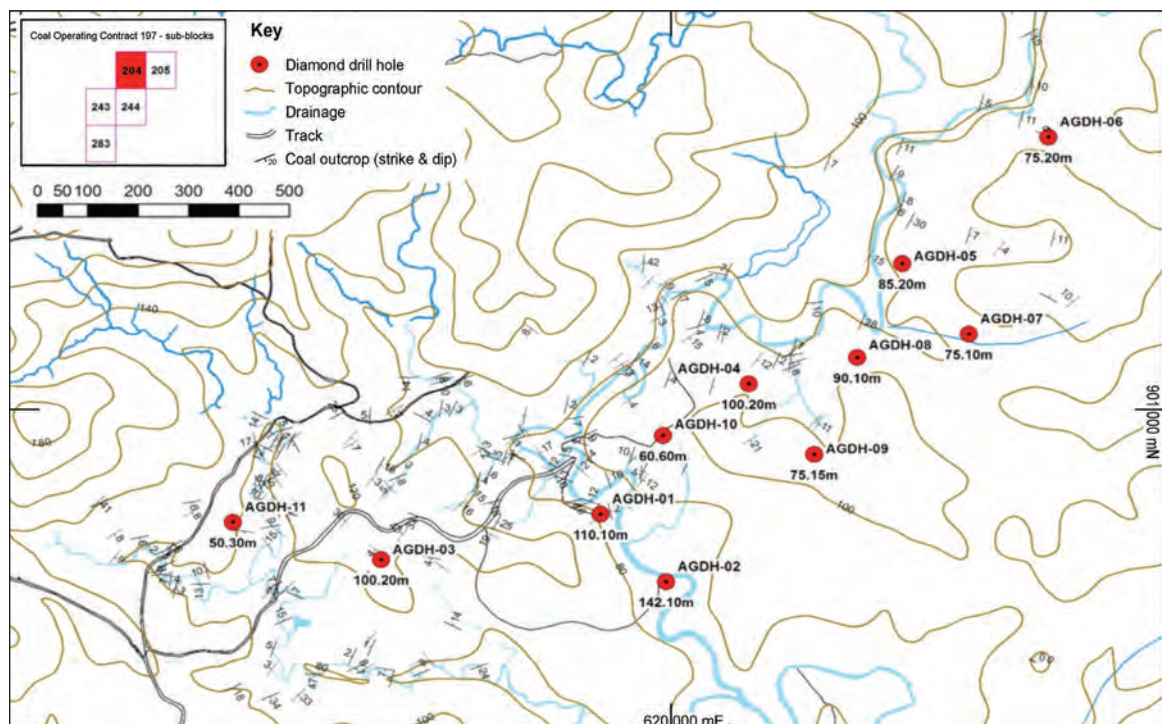


Figure 10: Coal Project - COC 197 - drill hole locations (AGDH01-AGDH11).

# REVIEW OF OPERATIONS

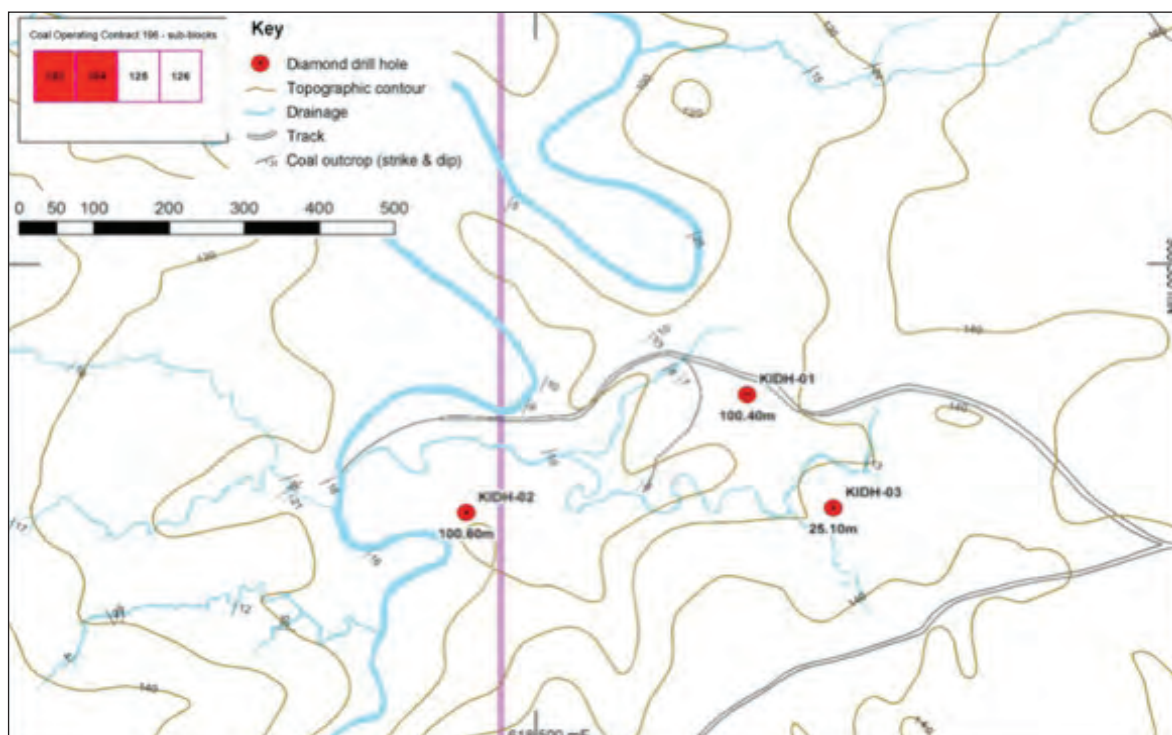


Figure 11: Coal Project - COC 196 - drill hole locations (KIDH01-KIDH03)

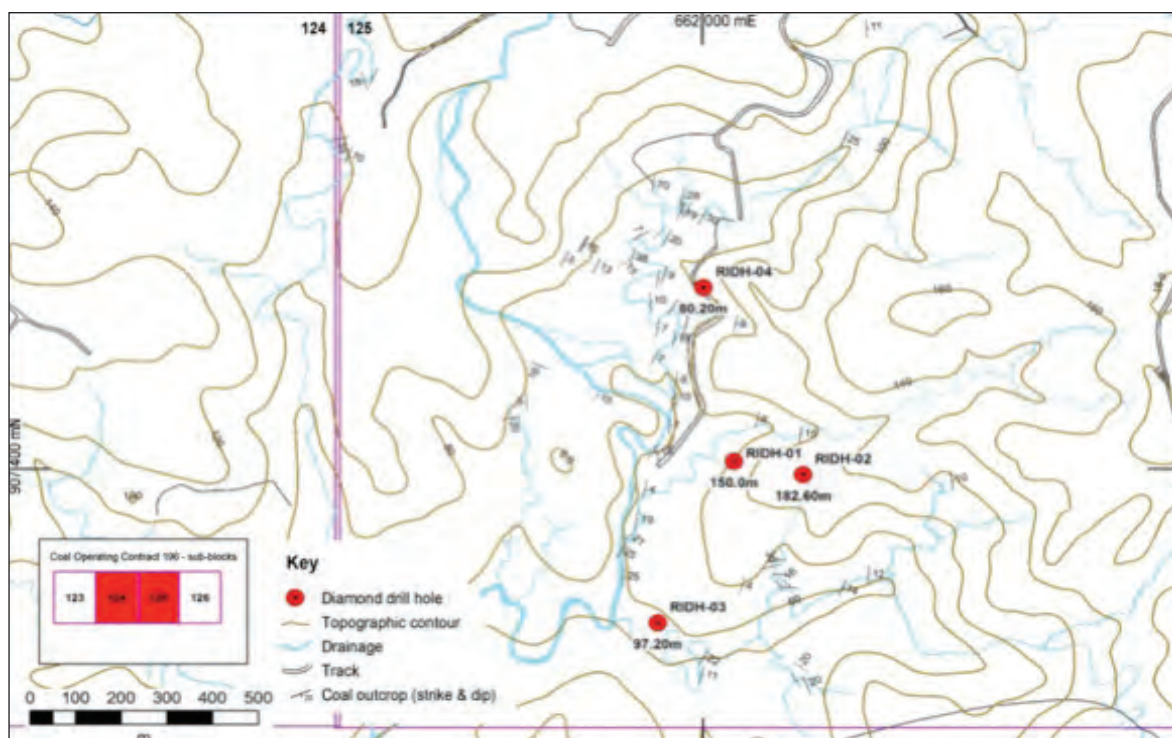


Figure 12: Coal Project - COC 196 - drill hole locations (RIDH01-RIDH04)

## NEW PROJECTS GENERATION

The Company is in the process of reviewing various opportunities to acquire gold ( $\pm$  base metals) resource projects outside of the current tenement portfolio, to provide additional mill feed to the Co-O CIL mill. In addition, the Company will be reviewing opportunities elsewhere in the Philippines and South East Asia region with the potential to develop stand alone mining operations in the medium term, as part of the Company's growth strategy.



## SUSTAINABILITY

The Company continue to believe that its business should be founded on four key components that encompass our commitment to all stakeholders. Improvements are still being made to organisational coherence, proper internal procedures, regular checks and balances, performance and efficiencies. The four key components are:

- ◇ Health and Safety;
- ◇ Environmental Protection, Management and Monitoring;
- ◇ Work sustainability; and
- ◇ Community Participation, Development Programmes and Benefits

### HEALTH AND SAFETY

During the year the following practices were undertaken:

- Comprehensive safety awareness at the mine and mill sites, including traffic regulation;
- Comprehensive emergency preparedness plans and programs at mine and mill sites;
- Regular comprehensive health checks for all employees;
- Expanded mining and safety training activities for all underground personnel;
- Conducted 4 Basic Life Support and Standard First Aid Training seminars for all mine and mill employees for use at work and in the home;
- Continued regular training, INCLUDING ROPE RESCUE, and equipping for mine rescue and fire- fighting teams, with the teams participating in annual national competitions;
- Regular safety meetings that emphasise workforce participation in ensuring safety and hazard minimisation; and,

The 12 month Lost Time Accident Frequency Rate from July 1, 2014 to June 30, 2015 was 0.247 and from July 1, 2015 to June 30, 2016 was 0.53, which is better than industry standards for manually intensive, narrow vein, underground mines and shows the continuing progress achieved in Safety during the year.

The Company hospital has been operating as a fully staffed and functional hospital during the year with services available for Company personnel and their families, and other local residents.



Photo: Basic Life Support & First Aid Training



Photo: First Aid Training



# REVIEW OF OPERATIONS



Photo: Fire Drill Training



Photo: Fire Brigade Training

## ENVIRONMENTAL PROTECTION, MANAGEMENT AND MONITORING

The Company is committed to its environmental protection, management and to complying with all applicable statutory and regulatory environmental obligations.

### Code of Conduct

Environmental responsibility forms an important part of the Company's Code of Conduct. The Code of Conduct outlines the Company's commitment to appropriate and ethical corporate practices and describes how the Company expects its Directors and employees to behave in the conduct of the Company's business activities.

In accordance with the Code of Conduct, the Company:

- is fully aware of its obligations to comply with relevant statutory and regulatory requirements with respect to the environment; and
- monitors appropriately its environmental management and performance, and is committed to ensuring proper rehabilitation are on the sites where the Company has been conducting its exploration or operational activities.

### Safety, Health and Environment Committee

On 27 August 2010, as part of its commitment to environmental performance, the Board approved the establishment of a Safety, Health and Environment Committee. The role and responsibility of the Safety, Health and Environment Committee is set out in a formal charter adopted by the Board, which is summarised in the Corporate Governance Statement of this Annual Report.

The charter reflects the Company's commitment to achieving continuous improvement in targeting high environmental performance and best practice.

### Co-O Gold Project Environmental Conditions

The Company's flagship Co-O Gold Project has established processing facilities which are subject to regular inspections by the various authorities and which have achieved a high level of recognition for adherence to statutory requirements.

The Company's mining operations are underground resulting in very small surface footprints for each operation. Rehabilitation of any disturbed areas around new operations is part of the Company's normal operating procedure. Water samples are taken on a daily basis to monitor water quality in and around the Company's facilities and the samples collected were analysed, with the results submitted to the relevant authorities.

In all quarterly meetings and inspections of the different Multi-Partite Monitoring Teams (MMT) for the mine and for the mill, the Company has been given clearance a clean bills of health on its environmental and social development programs.



The Company has also adopted the National Greening Program and Adopt-a-Forest Program of the Philippines Government. For this fiscal year, Philsaga Mining Corporation and Mindanao Mineral Processing and Refining Corporation have embarked on a 68.24 hectares reforestation program within the areas of the 2 host communities, which also consequently benefitted the settlers therein as it gave them income for the 34,799 seedlings planted. To date, the Company has planted a total of 1,203.93 hectares, comprising of 734,288 seedlings.

The Company has its own 5 nurseries producing local tree species for reforestation projects as well as the rubber tree seedlings necessary for the establishment of the rubber livelihood programs of the surrounding communities. At the end of the financial year, the nursery held over 160,000 seedlings.



Photo: New Rubber Seedlings



Photo: Rubber Seedlings being transported to be planted



Photo: National Greening Programme



# REVIEW OF OPERATIONS

## Co-O Gold Project Environmental Conditions (continued)

The Co-O Gold Project operates under the terms of an Environmental Compliance Certificate (“ECC”) which was renewed by the Philippines Environmental Management Bureau (“EMB”) on 15 July 2009.

The conditions of the ECC require the Company to:

- institute a number of commitments, mitigating measures and monitoring requirements to minimise any adverse impact of the project to the environment throughout its implementation, including:
  - observing good vegetative practices, proper land use and sound soil management;
  - conducting an effective information, education and communication programme to inform and educate all stakeholders, especially local residents, on the project’s mitigating measures;
  - rehabilitating roads with minimal land and ecological disturbance; and
  - establishing a reforestation and carbon sink programme to mitigate greenhouse gas emissions of the project;
- ensure that its mining and milling processing operations conform with the provisions of R.A. No. 6969 (Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990), R.A. No. 9003 (Ecological Solid Waste Management Act of 2000), R.A. No. 9275 (Philippine Clean Water Act of 2004), and R.A. No. 8749 (Philippine Clean Air Act of 1999);
- comply with the environmental management and protection requirements of the Philippine Mining Act of 1995 (RA. No. 7942) and its Revised Implementing Rules and Regulations (D A, O No. 96-40, as amended), as well as the pertinent provisions of the Memorandum of Agreement between the EMB and Mines and Geosciences Bureau (“MGB”) executed on 16 April 1998, which include:
  - submitting an Environmental Protection and Enhancement Programme with the Final Mine Rehabilitation and/or Decommissioning Plan integrated thereto, to the MGB, for approval;
  - setting up a Contingent Liability and Rehabilitation Fund and Environmental Trust Fund;
  - maintaining the existing Mine Environmental Protection and Enhancement Office to competently handle the environmental aspects of the project;
  - establishing a Mine Rehabilitation Fund Committee and Multipartite Monitoring Team;
  - submitting a Social Development and Management Programme; and
  - designating a Community Relations Officer;
- ensure that the Company’s contractors and subcontractors properly comply with the relevant conditions of the ECC; and
- protect the headwaters and natural springs/wells within the project site that are being utilised as sources of potable water by the community.

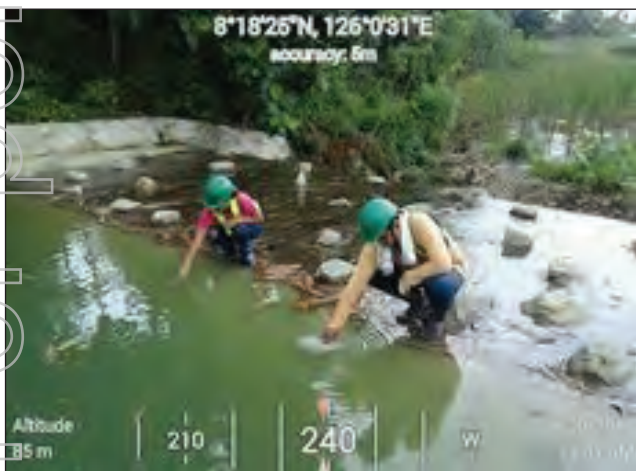


Photo: Sampling Water



Photo: Revegetation on Slopes

Regular water testing and in-house testing of cyanide is conducted in conjunction with 24 hour monitoring of Tailings Dams.

The Co-O Gold Project remains compliant with all material environmental laws and regulations. The operations are subject to regular inspections and monitoring by the MGB to ensure compliance. No material failures to comply with the above requirements, or material issues, were identified by the inspections that occurred during the financial year.

The Company has likewise established materials recovery and solid waste management facilities for proper disposition of its domestic wastes. It maintains a “Reduce, Re-Use and Recycle” policy for all solid wastes.

## Climate Change

It is a condition of the ECC for operation of the Co-O Mine that it establishes a reforestation and carbon sink programme to mitigate greenhouse gas emissions of the project. The Company has complied with this condition, and all other conditions imposed on it under the ECC.

The Company's carbon sink programme produces annually 96,000 tonnes, versus its annual carbon footprint of only 5,600 tonnes.

The Company uses grid hydro power at both the Co-O Mine and Mill as its primary power source ensuring carbon dioxide emissions are minimised.

## ISO 14001

On June 23, 2016, the operating companies, Philsaga Mining Corporation and Mindanao Mineral Processing and Refining Corporation, were both issued by TUV Rheinland with Certificates of compliance with the standards of ISO 14001. These certificates show the compliance with proper environmental management systems as well as proper environmental controls and protection.

## WORK SUSTAINABILITY

The Company enhances employee skills and productivity through the attendance at training programmes and provision of on-site training by consultants. Departmental organisational structures ensure that career advancement pathways are available for conscientious and productive employees.



Photo: Miners Training in Progress



Photo: Social Development and Management training



# REVIEW OF OPERATIONS

## COMMUNITY PARTICIPATION, DEVELOPMENT PROGRAMMES AND BENEFITS

### COMMITMENT

Since 2001, Philsaga Mining Corporation has established an enviable record in the local communities in which it operates. This record is acknowledged by municipal and regional governments, and at a national level.

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

### EDUCATION

**“Through all our education initiatives, it is pleasing to report that about 9,840 students are enrolled at the schools supported by the Company.”**

#### Scholarships

The Company has provided scholarship programmes, both from the Social Development and Management Program (SDMP) and Corporation Social Responsibility (CSR) which commenced in 2003, has continued strongly during the year:

- Full education scholarships currently support over 52 students;
- Half scholarships support to 6 students;
- Educational assistance 19 students.

Several of the scholars that graduated have already began working in Philsaga Mining Corporation, or teaching at Philsaga High School Foundation. Most have sought employment elsewhere, either in the Philippines and abroad

#### Company schools and Adopt-a- School programme

During the year, the Company supported the Philsaga High School Foundation at the mill and the Upper Co-O Elementary School at the Co-O Mine. In addition, it continued its “adopt-a-school” programme in which 23 schools participated. Corporate sponsorship also assisted in achieving its aims.

The following were achieved:

- Continuous support for the salaries and wages, and meals of all teachers and workers of Philsaga High School Foundation, including the masters degree courses undertaken by some of the teachers and guidance counsellor. The Company also provided for school chairs, books and other necessities for the additional three levels imposed by the new educational program of the national government;
- Continuous support for funds for the school preparation of 23 schools prior to opening of classes, as well as school materials to the school children;
- Continuous support for monthly honoraria to 43 teacher's salaries and support for training seminars for teachers to upgrade their teaching skills, as well as provision of instructional materials;
- Continuous support for daily return bus services for high school students from remote areas to attend high school; and
- Continuous support for monthly honoraria to 22 day care workers of various communities.

After the earthquake in Cebu and Bohol, as well as the super typhoon Yolanda (Internationally known as “Typhoon Haiyan”) that hit the Provinces of Leyte and Samar on November 8, 2013 (the strongest recorded tropical cyclone in history), the Company had undertaken the repair of buildings and will provide for school materials to 2 schools, located at Municipality of Palo, Leyte, and Municipality of Loon, Bohol. The Company committed spent Php1 million each, more or less, for the 2 schools. The rehabilitated school buildings at Palo, Leyte as well as Loon, Bohol were successfully turned over.

Just recently, another 3-classroom building at Loon Bohol was turned over, bringing a total of 5 buildings with 11 classrooms have been rehabilitated at the same school. Learning for the students there have become conducive.

## **LIVELIHOOD PROJECTS**

### **Rice production financing**

This project has continued through the year aimed at progressively developing debt free farming communities through the provision of financing arrangements to qualified farmers. The programme is in its twelfth cropping season and is extending assistance to 100 beneficiaries covering 100 hectares of rice farms.

Added to this, the rice yield for each hectare financed are purchased by the Company at a price higher than prevailing market prices. These rice yield are milled and the produce distributed to all its regular employees, the police and military units around the area and the various tribal communities in the host communities.

### **Rubber tree plantation**

The Company provides interest free loans in the form of rubber tree seedlings and other inputs to indigenous landowners for the establishment of rubber plantations that provide income for 50-60 years from around year seven. This year approximately 120 hectares were planted comprising over 108,000 seedlings generated in the Company's own nurseries.

## **COMMUNITY DEVELOPMENT AND ASSISTANCE PROGRAMMES**

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

### **Teacher training**

The Company continued to support teacher salaries for volunteer teachers as well as teacher training to improve teacher knowledge and skills in conjunction with the Department of Education for the additional K9 to K12 program.

### **Honoraria to Teachers and Day care centre workers**

Support was provided for 12 day care centres which cater for children below six years old. The Company continues to provide honoraria to teachers and day care workers, and providing school supplies and instructional materials.

### **Community health**

The Company provides general health and dental services to its employees and dependants, as well as residents of surrounding communities and nearby municipalities.

In addition to the 16 bed hospital at the Co-O Mine site, the Company provides a clinic at the mill site for employees and local residents.

### **Fruit tree programmes**

The adoption of four sitios (or small villages) aims to provide a sustainable livelihood by planting of fruit trees suitable in the area. The programs have the technical support of the Department of Agriculture and the Department of Trade and Industry conducts various financial seminars.

### **Institutional partnering**

The Company partners with various local government departments such as Department of Social Work and Development, Department of Labour and Employment, Department of Trade and Industry, Department of Agriculture and Department of Education to achieve common goals. The same goes for various indigenous cultural communities.

The Company has likewise created an informal partnership with Caraga State University by means of supporting all its environmental and bio-diversity studies, monitoring and geo-tagging of the flora and fauna found in the mill and mine sites.

# REVIEW OF OPERATIONS

## COMMUNITY DEVELOPMENT AND ASSISTANCE PROGRAMMES (continued)

### Non-government organisation partnering

The Company continues to provide assistance to

- An orphanage for 26 boys aged 6 to 17 years where support is provided for them to develop small business skills and;
- Care for the Elderly Foundation Inc. which provides comfort for 38 residents and 5 staff.

These Foundations care for the abandoned or sick senior members of the community, orphaned or neglected children, children of indigenous people who have been deserted by their families and a group of talented and skilled handicapped associates.

### Support to the Livelihood Programs of the Union

The Company has provided funds for the livelihood programs of the Union (Philsaga Employees Labor Union-PTGWO), in conjunction with the Department of Labour and Employment, such as the tailoring and water purifying. It has also funded the construction of a 3-storey building to house the tailoring, the water purifying station and commissary to sell goods, items and food at low profit margin.

### Support to the Flood Victims

Agusan del Sur suffers a great amount of rainfall every year, and there are times when the rains cause excessive flooding. The Company has provided for rescue boat engines as well as relief goods to the host municipalities, and other surrounding municipalities. The Company has standby relief goods to address any exigency that may arise, and distributed to flood victims.

### Support to the Peace and Order

The Company has provided funds for the repair of vehicles, provided fuel to vehicles, food and building materials to the various police and military units to maintain the peace and order situation in the Caraga Region.

## EMPLOYMENT, LOCAL SUPPLIERS & PAYMENT OF LOCAL TAXES & WAGES

The Company is one of the largest tax payers in the district and the province of Agusan del Sur and also pays a 1% gross royalty on gold production to indigenous groups. The annual local government budgets of the Municipality of Bunawan, Municipality of Rosario and the Province of Agusan del Sur are covered by the annual taxes and fees paid by the operating companies.

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

# JORC 2012 COMPLIANCE - CONSENTS OF COMPETENT PERSONS

## Medusa Mining Limited

Information in this report relating to Exploration Results and all geological work on Co-O Mineral Resources and Bananghilig Mineral Resources has been directed and reviewed by Mr Gary Powell, and is based on information compiled by Philsaga Mining Corporation's Co-O mine-site and exploration technical personnel. Mr Powell is a member of The Australian Institute of Geoscientists and the Australasian Institute of Mining and Metallurgy. Mr Powell is Manager – Geology and Resources, and is a full time employee of Medusa Mining Ltd, and has sufficient experience which is relevant to the styles of mineralisation and type of deposits under consideration and to the activities for which he is undertaking to qualify as a "Competent Person" as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Powell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

## Carras Mining Pty Ltd

Information in this report relating to Co-O Mineral Resources, Co-O Ore Reserves and Bananghilig Mineral Resources is based on information compiled by Dr Spero Carras of Carras Mining Pty Ltd, who worked at the Co-O mine-site with Philsaga geologists and engineers. Philsaga's mine planning engineers also worked at Carras' Perth office. Dr Carras is a Fellow of the Australasian Institute of Mining & Metallurgy and has more than 30 years of experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Carras consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

During 2016, Dr Carras was retained by Medusa Mining Ltd to assist in defining the requirements of Co-O underground infrastructure and its implementation.

## FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Medusa, and its officers, employees, agents and associates, that may cause actual results to differ materially from those expressed or implied in such statements.

Actual results, performance or outcomes may differ materially from any projections and forward-looking statements and the assumptions on which those assumptions are based.

You should not place undue reliance on forward-looking statements and neither Medusa nor any of its directors, employees, servants or agents assume any obligation to update such information.



# CORPORATE GOVERNANCE

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

The Board of Directors of the Company (“**Board**”) is committed to achieving and maintaining high standards of corporate governance. The Board operates in accordance with a set of corporate governance principles that take into account relevant practice recommendations, having regard to the particular circumstances of the Company’s business, operations and the interests of its shareholders and other stakeholders. These include the ASX Corporate Governance Council’s (“**ASXCGC**”) third edition of the Corporate Governance Principles and Recommendations (“**ASX Principles**”).

The Company’s practices are largely consistent with the recommendations set out in the ASX Principles and, except as disclosed below, the Company believes it complied with each of those recommendations throughout the financial year ended 30 June 2016 and to the date of this statement. Details of the Company’s compliance with the ASX Principles are set out below, including details of specific disclosures required by the ASX Principles.

This statement is current as at 29 August 2016 and has been approved by the Board. Further information on the Company’s corporate governance policies and practices is publicly available on the Corporate Governance page of the Company’s website at [www.medusamining.com.au](http://www.medusamining.com.au).

## 1. BOARD OF DIRECTORS

### ROLE AND RESPONSIBILITIES OF THE BOARD

#### *ASX Principles, Recommendations 1.1, 1.3*

The Board has adopted a Board Charter that sets out, among other things, its specific powers, duties and responsibilities, as well as matters delegated to the Chief Executive Officer or Managing Director (as applicable) and those specifically reserved for the Board. The Board’s primary role is to guide and monitor the business and affairs of the Group on behalf of the shareholders by whom the Board is elected and to whom it is accountable.

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

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

The Board has delegated responsibilities for the day to day operational, corporate, financial and administrative activities of the Group to the Chief Executive Officer or Managing Director (as applicable) and the Chief Financial Officer.

A copy of the Company's Board Charter is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

### **Agreements with Directors and Senior Executives**

The Board Charter provides that:

- a new Director will receive a formal letter of appointment setting out the key terms and conditions relative to their appointment; and
- the Chief Executive Officer must have a formal employment agreement describing their term of office, duties, rights and responsibilities, among other things.

### **COMPOSITION OF THE BOARD**

#### ***ASX Principles, Recommendations 2.2 and 2.5***

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

- the Chairperson should be an independent Non-Executive Director;
- the role of the Chairperson and the Managing Director should not be exercised by the same person;
- the Board should comprise of at least three Directors, increasing where additional expertise is considered desirable in certain areas, when an outstanding candidate is identified, or to ensure a smooth transition between outgoing and incoming Non-Executive Directors;
- the majority of the Board should comprise independent Non-Executive Directors who satisfy the criterion for independence (see below for the criterion for determining when a Director is considered to be independent); and
- the Board should comprise Directors with an appropriate range of skills, qualifications, expertise and experience.

For the time being, the Board has determined that the number of Directors on the Board should be four, comprised of three Non-Executive Directors (being Andrew Teo, Roy Daniel and Ciceron Angeles) and one Executive Director (being Raul Villanueva). The Board reviews its size and composition annually to ensure that it has the appropriate balance of skills, qualifications, expertise and experience. When a vacancy exists, or where the Board considers that it would benefit from the services of a new Director with particular skills, qualifications, expertise and experience, the Board will endeavour to select and appoint appropriate candidates with the relevant skills, qualifications, expertise and experience.

The Board will comprise Directors having the appropriate mix of skills, qualifications, expertise and experience to operate effectively and efficiently, and so that it can adequately discharge its responsibilities and duties. The Board considers that this is achieved by the Directors having substantial skills and experience in the following:

- **industry knowledge** – mineral exploration and marketing, mine development and geology;
- **accounting, finance and investments** – financial reporting, tax and governance;
- **legal** – legal, risk and regulatory knowledge; and
- **business management** – management experience, other relevant board experience and business administration.

Collectively, the Directors have a broad range of skills, qualifications, expertise and experience relevant to the business and operations of the Company, as identified above – details relevant to the position of each Director who is in office at the date of this statement, and the period of office held by each Director, is included in the Directors' Report on pages 61 to 62. Section 3 of this Corporate Governance Statement provides further information on the mix of skills and diversity the Board seeks to achieve in membership of the Board.

Directors appointed by the Board are subject to election by shareholders at the next annual general meeting following their appointment. With the exception of the Managing Director (noting that no Managing Director is currently appointed), all Directors are subject to re-election in accordance with the Company's constitution.

# CORPORATE GOVERNANCE

## BOARD INDEPENDENCE AND LENGTH OF SERVICE

### *ASX Principles, Recommendations 2.3, 2.4 and 2.5*

The Board has determined that Andrew Teo, Roy Daniel, and Ciceron Angeles are independent Non-Executive Directors. [The Board has made this determination having regard to the criteria set out below, and confirms that none of its independent Directors has any interest, position, association or relationship of the type described below. In addition, the length of service of each Director is set out in pages 61 to 62 of the Company's Directors' Report, which forms part of the Annual Report.]

The Board is, therefore, comprised of a majority of independent Directors. Further, the Board is chaired by Andrew Teo, an independent Non-Executive Director.

When determining whether a Director is independent, the Board considers all relevant facts and circumstances. The Board considers that a Director will be independent if he or she is a person who:

- is not a substantial shareholder of the Company, or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- has not, within the last three years, been employed in an executive capacity by the Company or any of its child entities;
- has not, within the last three years, been a partner, director or senior employee of a provider of material professional services to the Company or any of its child entities or a material consultant to the Company, or an employee materially associated with the service provided;
- is not, and has not within the last three years been, in a material business relationship (eg as a supplier or customer) with the Company or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- has no material contractual relationship with the Company or its child entities, other than as a Director;
- does not have close family ties with any person who falls into a category listed directly above;
- has not been a Director of the Company for such a period that his or her independence may have been compromised; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interest of the Company.

The Board does not consider the following Director to be independent:

- Raul Villanueva because he is currently employed in an executive capacity by Medusa as an Executive Director.

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

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

## CHAIRPERSON, MANAGING DIRECTOR AND COMPANY SECRETARY

### *ASX Principles, Recommendations 1.4 and 2.5*

The roles of Chairperson and Managing Director are separate roles and held by different individuals.

The Chairperson, Andrew Teo, is responsible for, among other things, leadership and effective performance of the Board and overseeing the provision of information by management to the Board and ensuring the adequacy of that information. Currently the Company does not have a Managing Director.

The Chairperson's and Managing Director's responsibilities are set out in more detail in the Board Charter, which is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

The Company Secretary, Peter Alphonso, is responsible for the corporate secretarial functions of the Company, financial and statutory reporting and also directing and monitoring all financial aspects of the Company's overseas operations. The decision to appoint or remove the Company Secretary is to be made by the Board, as set out in the Board Charter, and the Company Secretary reports and is accountable to the Board (through the Chairperson).

## TRAINING AND PERFORMANCE EVALUATION

### *ASX Principles, Recommendations 1.6, 1.7 and 2.6*

Under the terms of the Company's Nomination Committee Charter, the Nomination Committee reviews potential Board candidates' skills, knowledge, and expertise so that they can add value to the Board. The Company's Nomination Committee Charter requires the Nomination Committee to establish evaluation methods of rating the performance of the Directors and to conduct assessments of Directors as to whether they have devoted sufficient time in fulfilling their duties as Directors.

The Director evaluation methods established by the Company's Nomination Committee included a review of the performance of the Board and each of its Committees against the requirements of their respective charters and the individual performances of the Non-Executive Chairperson and each Director.

During the reporting period, the Nomination Committee met on one occasion to evaluate the performance of the Board, its Committees and individual Directors in accordance with the above evaluation process.

Details of the process for evaluating the performance of Senior Executives and Directors, and the conduct of that process in the reporting period, are included in the Remuneration Report, which forms part of the Directors' Report on pages 65 to 74.

Details of Directors' attendance at Board meetings are set out in the Directors' Report on page 63.

### **Board access to independent advice**

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

## 2. BOARD COMMITTEES

### **NOMINATION COMMITTEE**

#### *ASX Principles, Recommendations 1.2 and 2.1*

The Board has established a Nomination Committee, which operates under a Nomination Committee Charter approved by the Board. A copy of the Nomination Committee Charter is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au), and includes details of, among other things, the role and responsibilities, composition and structure of the Nomination Committee.

The role of the Nomination Committee Charter is to assist the Board in fulfilling its corporate governance obligations and responsibilities by:

- monitoring the size and composition of the Board, including giving due consideration to the value of diversity of backgrounds and experiences among the members of the Board;
- recommending individuals for nomination as members of the Board and Committees; and
- reviewing the performance of the Board to ensure that its members remain committed and are adequately discharging their duties and responsibilities.

In selecting individuals for nomination as a Director, the Nomination Committee Charter provides that the potential candidate will, among other things, have the required skills, knowledge, and expertise to add value to the Board. In performing its duties prescribed under its Charter, the Nomination Committee conducts appropriate checks prior to selecting individuals for nomination, which will include checks such as the person's character, experience, education, criminal record and bankruptcy history. The Nomination Committee is empowered to engage external consultants in their search for a new Director.



# CORPORATE GOVERNANCE

## NOMINATION COMMITTEE (continued)

The Nomination Committee Charter provides that any notice of general meeting where the election or re-election of a Director (as the case may be) is to be put to Medusa's shareholders should include the following information, so as to enable shareholders to make an informed decision about their election or re-election (as the case may be):

- biographical details, including competencies and qualifications and information sufficient to enable an assessment of the independence of the candidate;
- details of relationship between the candidate and Medusa, as well as Directors of Medusa;
- other Directorships held;
- particulars of other positions which involve significant time commitments;
- the term of office currently served by any Directors subject to re-election; and
- any other particulars required by law.
- Such information is also provided by way of ASX announcement when any appointment is made by the Board.

The Nomination Committee consists of Ciceron Angeles (as Chairman of the Nomination Committee), Andrew Teo and Raul Villanueva. The Nomination Committee, therefore, comprises a majority of independent Directors and is chaired by an independent chair.

One meeting of the Nomination Committee was held during the reporting period and details of the members' attendance at these meetings are included in the Directors' Report on page 63.

## REMUNERATION COMMITTEE

### *ASX Principles, Recommendations 8.1, 8.2, and 8.3*

The Board has established a Remuneration Committee, which operates under a Remuneration Committee Charter approved by the Board. A copy of the Remuneration Committee Charter is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au), and includes details of, among other things, the role and responsibilities, composition and structure of the Remuneration Committee.

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

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

The members of the Remuneration Committee, who are all Non-Executive Directors, are Roy Daniel appointed 1 December 2015 as Chairperson of the Remuneration Committee, Andrew Teo and Ciceron Angeles. Robert Weinberg was a member and Chairman of the Committee until his resignation on 1 December 2015. The Remuneration Committee, therefore, comprises a majority of independent Directors and is chaired by an independent chair as recommended by ASXCGC Recommendation 8.1. One meeting of the Remuneration Committee was held during the reporting period and details of the members' attendance at these meetings are included in the Directors' Report on page 63.

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

Details on the Company's remuneration policies, including how the structure of the remuneration of Non-Executive Directors is distinguished from that of Executive Directors and Senior Executives, are included in the Remuneration Report, which forms part of the Directors' Report on page No schemes for the provision of retirement benefits, other than the provision of superannuation, are provided by the Company for the benefit of Non-Executive Directors.

Consistent with section 206J of the Corporations Act, it is the Company's policy to prohibit Directors and Senior Executives from dealing in financial products issued or created over or in respect of the Company's securities (eg hedges or derivatives), where that dealing has the effect of reducing or eliminating the risk associated with any equity incentives that the Company may offer from time to time. This is further detailed in the Directors' Report on page 71. A copy of the Company's Share Trading Policy is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

## AUDIT COMMITTEE

### *ASX Principles, Recommendation 4.1*

The Board has established an Audit Committee, which operates under an Audit Committee Charter approved by the Board. A copy of the Audit Committee Charter is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au), and includes details of, among other things, the role and responsibilities, composition and structure of the Audit Committee.

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

The Audit Committee's role also includes assessing the performance of the external auditor and, as appropriate, making recommendations to the Board on the appointment, re-appointment or replacement of the external auditor. Information on the Company's procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement directors or partners is set out in the Company's External Auditor Selection and Rotation Policy which is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

The members of the Audit Committee, who are all Non-Executive Directors, are Roy Daniel (appointed as Chairperson of the Audit Committee on 26 February 2016), Andrew Teo, and Ciceron Angeles (retired as Chairperson of the Audit Committee on 26 February 2016). Robert Weinberg resigned as Chairperson and Committee member on 1 December 2015. The Audit Committee therefore, comprises a majority of independent Directors and is chaired by an independent chair, who is not the chair of the Board, as recommended by ASXCGC Recommendation 4.1.

Details of the qualifications of each member of the Audit Committee are included in the Directors' Report on pages 61 to 62.

Two meetings of the Audit Committee were held during the reporting period and details of the members' attendance at these meetings are included in the Directors' Report on page 63.

# CORPORATE GOVERNANCE

## SAFETY, HEALTH AND ENVIRONMENTAL COMMITTEE

The Board has established a Safety, Health and Environmental Committee, which operates under a Safety, Health and Environmental Committee Charter approved by the Board.

A copy of the Safety, Health and Environmental Committee Charter is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

The role of the Safety, Health and Environmental Committee is to provide oversight of the Company's policies and systems relating to safety, health and the environment, as well as target high safety, health and environmental performance and best practices. The Safety, Health and Environmental Committee is mandated by the Board to:

- facilitate company-wide communication of a high performance safety, health and environmental culture and an awareness of seeking best practice and measurable goals;
- ensure adequate resources are available to management to implement appropriate safety, health and environment systems;
- oversee management implementation of a safety, health and environment performance measurement system that can determine safety, health and environment performance and whether there is continuous improvement;
- use safety, health and environment performance measures to monitor compliance with legal requirements and internal targets, as well as to communicate Medusa's safety, health and environmental commitment to shareholders, stakeholders and employees;
- oversee management implementation of a safety, health and environment compliance audit programme, including evaluation of risk exposures and control actions and also receive regular reports of the impact of proposed regulatory changes, material claims and ways to achieve continuous improvement in the areas of safety, health and environment;
- receive quarterly safety, health and environment performance reports from management that include environmental, health and safety issues of a material nature, details of accidents and incidents and statistics concerning relative performance and continuous improvement; and
- provide feedback to management of safety, health and environment goals, policies, practices and systems.

The Safety, Health and Environmental Committee consisted of Raul Villanueva (as Chairperson of the Safety, Health and Environmental Committee), Andrew Teo, Roy Daniel (appointed 21 March 2016) and Boyd Timler (appointed 21 March 2016). Geoffrey Davis retired as Committee member on 12 November 2015 and Robert Weinberg and Robert Gregory resigned as Committee members on 1 December 2015 and 16 March 2016 respectively. Three meetings of the Safety, Health and Environmental Committee were held during the reporting period and details of the members' attendance at these meetings are included in the Directors' Report on page 63.

## 3. PROMOTING ETHICAL AND RESPONSIBLE DECISION MAKING

### CODE OF CONDUCT

#### *ASX Principles, Recommendation 3.1*

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

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

- general principles;
- compliance with laws and regulations;
- political contributions;
- unacceptable payments;
- giving or receiving gifts;
- protection of Company assets;

- proper accounting;
- dealing with auditors;
- unauthorised public statements;
- conflict of interest;
- the use of inside information;
- trading of the Company's shares;
- alcohol and drug abuse;
- equal opportunity and employee discrimination,
- environmental responsibilities;
- occupational health and safety; and
- economy and efficiency.

All employees are required to comply with the Code of Conduct. Any breach of applicable laws, prevailing business ethics or other aspects of the Code of Conduct will result in disciplinary action, which may include, depending on the severity of the breach, termination of employment. Under the Code of Conduct, all employees are requested to report immediately any circumstances which may involve deviation from the Code of Conduct to the Managing Director or Company Secretary of the Company, who are responsible for investigating and reporting any unethical practices to the Board.

A copy of the Code of Conduct is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

## **DIVERSITY POLICY**

### ***ASX Principles, Recommendations 1.5 and 2.2***

Recommendation 1.5 of the ASX Principles provides that a company should establish a policy concerning diversity and disclose that policy or a summary of it. Such a policy is to include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually in respect of both the objectives and progress in achieving them.

The Board is committed to engaging directors, management and employees with the highest qualifications, skills and experience to develop a cohesive team that is best placed to achieve business success regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. The Board has not adopted a formal diversity policy as recommended by Recommendation 1.5 of the ASX Principles as it believes its current processes and policies for recruitment and appointment are appropriate and adequately take into account diversity among a number of factors considered by the Company in ensuring its Directors and workforce have an appropriate mix of qualifications, experience and expertise. The Board does, however, recognise that diversity makes an important contribution to corporate success and the Company considers diversity as one of a number of factors when seeking to appoint Directors, filling Senior Management roles and positions and reviewing recruitment, retention and management practices, notwithstanding the absence of a formal diversity policy.

Recommendation 1.5 of the ASX Principles provides that a company should disclose in its annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and its progress towards achieving them. The Board has not at this stage adopted a formal diversity policy for the reasons set out above and, consequently, has not set measurable objectives under such a policy. The Board considers that it is not necessary to set measurable objectives for achieving gender diversity as recommended by the ASX Principles.

While the Company considers diversity is important, the priority for the Company when recruiting is ensuring an appropriate mix of qualifications, experience and expertise regardless of age, however, generally make it clear when seeking to appoint additional Directors, senior management and employees that women are encouraged to apply for roles and that the Company is an equal opportunity employer.



# CORPORATE GOVERNANCE

## DIVERSITY POLICY (continued)

In accordance with Recommendation 1.5 of the ASX Principles, the Medusa workforce gender profile is set out in the following table:

Role type	Female	Female (%)	Male	Male (%)
Technical	23	30%	53	70%
Supervisory / professional	35	19%	149	81%
Middle management	7	37%	12	63%
Senior Management	5	13%	35	88%
Total	70	22%	249	78%
Board members	-	-	4	100%

For the purposes of the above table, "Senior Management" includes executives as well as senior personnel that play a significant role in management of the operations.

## SHARE TRADING POLICY

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

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

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

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

The Share Trading Policy is subject to the overriding application of the insider trading laws.

The Company delisted from the Main Market of the London Stock Exchange on 23 May 2014. During this period Directors and applicable employees were subject to the rules of that Exchange which disallowed Directors and applicable employees from dealing in the Company's shares during a close period. This practice has continued to date.

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

A copy of the Share Trading Policy is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au).

## 4. RISK MANAGEMENT

### *ASX Principles, Recommendations 7.1, 7.2, 7.3 and 7.4*

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

Having regard to the size of the operations of the Company, the nature of its activities and the composition of the Board, a "Risk Committee" has not been established. However, in order to comply with the spirit of Recommendation 7.1 (and Recommendation 7.1(b) in particular), the full Board has the responsibility to perform the functions of the Risk Committee.

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

The Board is ultimately responsible for the oversight and management of material business risks, as contemplated by the Board Charter. However, the design and implementation of the risk management policy and the day to day management of risk is the responsibility of the Chief Executive Officer or Managing Director (as the case may be), with the assistance of Senior Management. The Board reviews the effectiveness of the Company's system of internal control, including a review of financial, operational, compliance and risk controls on a continual basis. In addition, the Chief Executive Officer also undertakes the monitoring of business activities to periodically reassess risks and the effectiveness of controls to manage such risks

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

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

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

As required by Recommendation 7.4 the Board has identified the following risk factors that could influence the risk profile of the Company:

- **Economic risks:** The Company may be exposed to general economy wide risks, which include the state or health of the industry sector, foreign exchange and interest rates, equity and commodity prices and a nation's economic well-being. These risks are specifically contemplated by, and set out in, the Company's Risk Management Policy.
- **Environmental risks:** The Company's activities are expected to have an impact on the environment, and the Company may be responsible for environmental liabilities associated with its mining activities. The Company aims to monitor environmental risks and obligations so as to remain compliant with applicable environmental laws. The Company also has a Safety, Health and Environmental Committee that aims to assist with monitoring and reporting on environmental-related risks and issues.
- **Social sustainability risks:** The Company does not believe that it has material exposure to social sustainability risks. The Company has a Code of Conduct for employees dealing with stakeholders and ensures integrity and fair dealing in business affairs.

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

## MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER ASSURANCE

### *ASX Principles, Recommendations 4.2, 7.2, and 7.3*

Before the adoption by the Board of the Company's financial statements for the year ended 30 June 2016, the Board receives written declarations from the Chief Executive Officer and Chief Financial Officer, in accordance with section 295A of the Corporations Act, that the financial records of the Company have been properly maintained in accordance with section 286 of the Corporations Act and that the Company's financial statements and notes comply with the accounting standards and present a true and fair view of the consolidated entity's financial position and performance for the financial period.

The Chief Executive Officer and the Chief Financial Officer have also to state in writing to the Board that the above declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. In addition, during the reporting period the Managing Director and the Chief Financial Officer report to the Board as to the effectiveness of the Company's management of its material business risks.

As the Company has not appointed a Managing Director, the Chief Executive Officer and the Chief Financial Officer provided the signed declaration.

# CORPORATE GOVERNANCE

## 5. CONTINUOUS DISCLOSURE

### *ASX Principles, Recommendation 5.1*

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

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

## 6. SHAREHOLDER COMMUNICATION

### *ASX Principles, Recommendations 4.3, 6.1, 6.2, 6.3 and 6.4*

The Board recognises the important rights of its Shareholders and strives to effectively communicate with Shareholders clearly and effectively.

The Board has approved a Shareholder Communications Policy to promote effective communications with its shareholders and encourage effective participation at general meetings. As contemplated by the Shareholder Communications Policy, the Company Secretary is charged with ensuring that materials detailed in the policy (including announcements in accordance with the Company's continuous disclosure and periodic disclosure obligations) are made available on the Company's website, and that relevant communications are distributed to shareholders in accordance with the Listing Rules and Corporations Act. In accordance with the Shareholder Communications Policy the Company maintains a website at [www.medusamining.com.au](http://www.medusamining.com.au) on which the Company provides, among other things, the following information:

- information about its Directors;
- a copy of its constitution, Board and other applicable Charters, and other corporate governance documentation referred to in this Corporate Governance Statement;
- company announcements released to ASX for disclosure and related information (including presentations and briefings to analysts and media);
- notices of meetings and explanatory materials;
- quarterly reports, containing details of the Company's activities and consolidated statements of cash flows;
- half-yearly reports, containing consolidated financial information and a brief overview of the Company's activities;
- annual reports, which include a review of the Company's operations and financial results for the year; and
- general information about the history of the Company, an overview of its projects and a high level summaries of some concepts fundamental to its business.

Shareholders may also elect to receive information from, and make contact with, the Company and its share registry by email. Contact email addresses for the Company and the share registry are set out on the Company's website.

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

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

A copy of the Shareholder Communications Policy is available on the Corporate Governance page of the Company's website at [www.medusamining.com.au](http://www.medusamining.com.au)



# DIRECTORS' REPORT

## 1. DIRECTORS

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

Name of Director	Period of Directorship
<b>Non-Executive Directors:</b>	
Andrew Boon San Teo (Chairman)	since 15 February 2010 (appointed Chairman on 22 Nov 2013)
Ciceron A Angeles	since 28 June 2011
Roy Philip Daniel	appointed 25 November 2015
Dr Robert Maurice Weinberg	resigned 01 December 2015
<b>Executive Directors:</b>	
Raul Conde Villanueva	since 24 January 2013

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

## 2. DIRECTORS' INFORMATION

### MR ANDREW BOON SAN TEO

B.Com, UWA, (CPA)

#### Independent Non-Executive Chairman

(appointed 22 November 2013)

Mr Teo is an accountant with 37 years of extensive and diversified experience in accounting, treasury, corporate, legal and business administration across several industries, including the mining industry. He is currently the Chief Financial Officer/Executive Director of BGC (Australia) Pty Ltd, one of Australia's largest privately owned companies, with annual turnover in excess of \$2 billion and 7,000 plus staff (including sub-contractors).

Mr Teo is a member of the Audit, Remuneration, Nomination and Safety, Health & Environment Committees.

### MR CICERON. A. ANGELES

B.Sc (Geology), MAppSc (Mineral Exploration), FAusIMM (CP), FSEG.

#### Independent Non-Executive Director

(appointed 28 June 2011)

Philippines based, Mr Angeles is a geologist with over 35 years of experience in gold and base metal exploration in Asia, mainly Philippines, Indonesia, China, Malaysia and Iran. His specialisations include epithermal gold-silver, porphyry copper-gold and Carlin styles of mineralisation.

Mr Angeles obtained his MAppSc in Mineral Exploration from the University of New South Wales, Australia in 1985 and is a Fellow and accredited Chartered Professional (CP) in the discipline of geology of the Australasian Institute of Mining and Metallurgy (AusIMM) and a Fellow of the Society of Economic Geologists. He was also the Asia Exploration Manager for Newcrest Mining during which time Newcrest brought the Gosowong Gold Mine into production.

Mr Angeles was the Technical Director of GGG Resources plc, a company listed on the ASX in Australia and AIM in London, from 3 September 2009 until his resignation on 15 March 2012.

Mr Angeles is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees.

### MR ROY PHILIP DANIEL

B.Com, UWA

#### Independent Non-Executive Director

(appointed 25 November 2015)

Mr Roy Daniel was appointed Non-Executive Director on 25 November 2015. Mr Daniel's previous association with the Company was as the Chief Financial Officer from December 2004 until his retirement from office in June 2013 and also an executive member of the Board from April 2006 until June 2011.

Mr Daniel has been associated with the resource and mining industry for over 35 years and has held various senior management and accounting positions at corporate level with overseas and Australian companies. His association with the Company since its formative years has proven invaluable, and his financial business acumen and corporate experience has complemented and strengthened the Board.

Mr Daniel is Chairman of the Audit Committee and also serves as a member on the Remuneration, Nomination and Safety, Health & Environment Committees.

# DIRECTORS' REPORT

## MR RAUL CONDE VILLANUEVA

LL.B., Attorney and Counselor-at-Law

### Executive Director

(appointed 24 January 2013)

Attorney Raul Villanueva was appointed an Executive Director of Medusa on 24 January 2013 following his appointment as President of the Company's Philippines operating company, Philsaga Mining Corporation ("Philsaga") in December 2012.

Attorney Villanueva who has Bachelor degrees in Economics, Military Science & Tactics, and Law has been a member of the Integrated Bar of the Philippines and an Attorney and Counselor-at-Law since 1994. He brings a focused approach to improving the operating systems and professionalism of the Company, based on his education and several years of experience in law as well as managing companies and will further align the objectives of the Medusa Group of Companies.

Mr Villanueva is Chairman of the Safety, Health and Environment Committee and is a member of the Nomination Committee.

## DR ROBERT MAURICE WEINBERG

BA (Hons) Geology, MA, DPhil, FGS, FIMMM

### Independent Non-Executive Director

(resigned 01 December 2015)

London based Dr Robert Weinberg gained his doctorate in geology from Oxford University and has over 40 years' experience in the international mining industry. He is an independent mining analyst and consultant, a Fellow of the Geological Society of London and also a Fellow of the Institute of Materials, Minerals and Mining.

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

Dr Weinberg is currently an independent Non-Executive Director of SolGold Plc (appointed 22 November 2005), a company listed on the Alternative Investment Market (AIM), London. Dr Weinberg was an independent Non-Executive Director of Chaarat Gold Holdings Ltd (from 10 January 2011 to 4 May 2014), also listed on AIM and Kasbah Resources Ltd (from 15 November 2006 to 10 June 2015), an ASX listed entity. Dr Weinberg was Chairman of the Remuneration Committee and was also a member of the Safety, Health & Environment Committee and Audit Committee.

## 3. COMPANY SECRETARY

## MR PETER STANLEY ALPHONSO

B.Com, UWA, (CPA)

Mr Peter Alphonso was appointed Company Secretary on 11 December 2007 and as Chief Financial Officer on 01 July 2013.

Mr Alphonso has over 35 years of experience with the auditing, engineering and communications industries, with the majority of his experience centred on the gold and nickel sectors of the mining industry. Mr Alphonso's experience has included associations with Coopers and Lybrand, Western Mining Corporation, Great Central Mines and Tiwest Joint Venture. As Company Secretary Mr Peter Alphonso is responsible for the corporate secretarial functions of the Company, financial and statutory reporting of the Company as well as directing and monitoring of all financial aspects of the Company's overseas operations.

#### 4. MEETINGS OF DIRECTORS

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

Name of Director	Board Meetings		Audit Committee		Remuneration Committee		SHE Committee		Nomination Committee	
	Number <sup>(1)</sup>	Attended	Number <sup>(1)</sup>	Attended	Number <sup>(1)</sup>	Attended	Number <sup>(1)</sup>	Attended	Number <sup>(1)</sup>	Attended
Andrew Teo	6	6	2	2	1	1	3	3	1	1
Ciceron Angeles	6	6	2	2	1	1	-	-	1	1
Raul Villanueva	6	6	-	-	-	-	3	3	1	1
Roy Daniel <sup>(2)</sup>	4	4	1	1	-	-	2	2	-	-
Dr Robert Weinberg <sup>(3)</sup>	2	2	1	1	1	1	1	1	-	-

(1) Number of meetings held during the time the Director held office during the year;

(2) Roy Daniel was appointed a Director on 25 November 2015;

(3) Dr Robert Weinberg resigned from the Board on 01 December 2015;

#### 5. PRINCIPAL ACTIVITIES

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

#### 6. OPERATING RESULTS

The net consolidated profit for the financial year attributable to members of Medusa Mining Limited after provision of income tax was US\$43.8 million [2015: Consolidated loss of US\$218.1 million].

Key financial results:

Description	Unit	30 June 2016	30 June 2015 <sup>(1)</sup>	Variance	(%)
Revenues	US\$	US\$128.1M	US\$123.2M	US\$4.9M	4%
EBITDA <sup>(1)</sup>	US\$	US\$69.6M	(US\$186.8M)	US\$256.4M	N/A
NPAT <sup>(1)</sup>	US\$	US\$43.8M	(US\$218.1M)	US\$261.9M	N/A
EPS (basic)	US\$	US\$0.211	(US\$1.050)	US\$1.261	N/A
Dividends per share	A\$	-	-	-	N/A

(1) includes asset impairment losses totalling US\$259.6 million for year ended 30 June 2015

Medusa recorded earnings before interest, tax depreciation and amortisation ("EBITDA") of US\$69.6 million for the year to 30 June 2016, compared to a loss of US\$186.8 million in the previous year.

Revenues increased by approximately 4% from US\$123.2 million in the previous year to US\$128.1 million.

Medusa is an un-hedged gold producer and received an average price of US\$1,173 per ounce from the sale of 108,529 ounces of gold for the year (previous year: 97,200 ounces at US\$1,220 per ounce).

At year end, the Company had total cash and cash equivalent in gold on metal account of US\$22.0 million (2015: US\$14.6 million).

# DIRECTORS' REPORT

## 6. OPERATING RESULTS (continued)

During the year,

- the Company produced 108,578 ounces of gold for the year, compared to 98,3597 ounces from the previous corresponding period, at an average recovered grade of 6.40 g/t gold (June 2015: 5.61 g/t gold).
- the average cash costs of US\$466 per ounce, inclusive of royalties and local business taxes was higher than the previous year's average cash costs of US\$385 per ounce, primarily due to a change in methodology on the allocation of total mining costs introduced in July 2015.
- All in Sustaining Costs ("AISC") for the year was US\$999 per ounce of gold and includes discretionary exploration expenditure of US\$9.3 million
- depreciation of fixed assets and amortisation of capitalised mine development and mine exploration was US\$23.4 million (2015: US\$31.7 million);
- US\$17.2 million was expended on capital works associated with the new mill construction and infrastructure, mine expansion and sustaining capital at the mine and mill (2015: US\$11.2 million);
- exploration expenditure, inclusive of underground diamond drilling was US\$9.3 million (2015: US\$11.3 million); and
- capitalised mine development costs totalled US\$25.6 million for the year (2015: US\$37.7 million).

## 7. REVIEW OF OPERATIONS

A review and summary information concerning the Group's operations and exploration activities for the financial year and the results of those operations are set out in the Chairman's Review and Managing Directors' Report on Operations which will be available in the Full Annual Report.

## 8. DIVIDENDS

No dividends were declared during the financial year.

## 9. SIGNIFICANT CHANGE IN STATE OF AFFAIRS

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

- Mr Roy Daniel joined the Board of Medusa as a Non-Executive Director on 25 November 2015;
- Dr Robert Weinberg resigned from the Board of Medusa on 01 December 2015;
- Mr Boyd Timler was appointed Chief Executive Officer of Medusa on 21 March 2016.

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

## 10. EVENTS SUBSEQUENT TO BALANCE DATE

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

## 11. FUTURE DEVELOPMENTS, BUSINESS STRATEGIES AND PROSPECTS

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



## 12. DIRECTORS' INTEREST

The relevant interest of each Director in the share capital of the Company at the date of this report is as follows:

Name of Director	No. of fully paid ordinary shares	No. of options over ordinary shares	No. of performance rights over ordinary shares
Andrew Teo	95,000	-	-
Ciceron Angeles	-	-	-
Raul Villanueva	50,000	500,000	-
Roy Daniel	815,875	-	-

## 13. REMUNERATION REPORT (AUDITED)

### (a) Details of Key Management Personnel

The Directors of Medusa Mining Limited ('the Group') present the Remuneration Report for Key Management Personnel, prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

Other than the Executive Director and Executive Officers listed below, no other person is concerned in, or takes part in, the management of the Group; or has authority or responsibility for planning, directing and controlling the activities of the Group. There were no loans to Key Management Personnel during the period and there were no transactions or balances with Key Management Personnel other than those disclosed in this Report.

#### Directors

##### Non-Executive Directors:

Andrew Teo, Chairman (Interim CEO from 13 November 2015 to 20 March 2016);

Ciceron Angeles;

Roy Daniel (appointed 25 November 2015);

Robert Weinberg (resigned 1 December 2015).

##### Executive Directors:

Raul Villanueva

#### Executives

Boyd Timler (CEO) appointed 21 March 2016;

Peter Alphonso (Company Secretary);

Geoffrey Davis (Interim CEO) from 01 September 2014 to 12 November 2015;

Robert Gregory (COO) ceased employment on 16 March 2016.

# DIRECTORS' REPORT

## (b) Key Management Personnel remuneration (Company and consolidated)

The following tables provides the details of the remuneration of all Directors and Executives of the Group and the nature and amount of the elements of their remuneration (in US\$'s) for the year ended 30 June 2016 and the previous financial year.

Name	Year	Short term benefits				Post-employment benefits		Long-term benefits		Equity-settled share-based payments		Cash-settled share-based payments	Termination benefits	TOTAL	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary/fees	Directors' fees	Non-monetary	Bonus <sup>(1)</sup>	Super-annuation	Other <sup>(2)</sup>	Incentive plans	LS <sup>(3)</sup>	Shares/units	Options/rights <sup>(4)</sup>					
<b>DIRECTORS:</b>																
<u>Non-Executive</u>																
Andrew Teo <sup>(5)</sup>	2016	44,688	62,799	-	-	-	-	-	-	-	-	-	-	107,487	-	-
	2015	-	80,850	-	-	-	-	-	-	-	-	-	-	80,850	-	-
Ciceron Angeles	2016	22,903	47,099	-	-	-	-	-	-	-	-	-	-	70,002	-	-
	2015	52,624	60,287	-	-	-	-	-	-	-	-	-	-	112,911	-	-
Roy Daniel <sup>(6)</sup>	2016	-	27,385	-	-	-	-	-	-	-	-	-	-	27,385	-	-
	2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Robert Weinberg <sup>(7)</sup>	2016	-	20,098	-	-	-	-	-	-	-	-	-	-	20,098	-	-
	2015	-	60,287	-	-	-	-	-	-	-	-	-	-	60,287	-	-
Gary Powell <sup>(8)</sup>	2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2015	168,548	27,836	-	-	15,008	-	-	-	-	-	-	-	211,392	-	-
<u>Executive</u>																
Peter Hepburn-Brown <sup>(9)</sup>	2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2015	80,142	-	-	-	1,725	-	-	-	-	-	-	498,285	580,152	-	-
Raul Conde Villanueva	2016	370,592	-	-	-	-	-	-	-	-	-	-	-	370,592	-	-
	2015	438,663	-	-	-	-	-	-	-	-	204,000	-	-	642,663	-	31.7%
<b>EXECUTIVES:</b>																
Boyd Timler <sup>(10)</sup>	2016	116,590	-	-	-	-	9,087	-	-	-	-	-	-	125,677	-	-
	2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Peter Alphonso	2016	229,631	-	-	-	22,886	17,216	-	5,595	-	-	-	-	275,328	-	-
	2015	315,727	-	-	-	28,158	27,611	-	6,524	-	54,120	-	-	432,140	-	12.5%
Geoffrey Davis <sup>(11)</sup>	2016	197,164	-	-	-	26,068	-	-	-	-	-	-	-	223,232	-	-
	2015	541,287	-	-	-	28,983	50,201	-	-	-	-	-	-	620,471	-	-
Robert Gregory <sup>(12)</sup>	2016	290,990	-	-	-	18,090	-	-	-	-	-	-	-	309,080	-	-
	2015	336,042	-	-	-	19,961	21,963	-	-	-	164,000	-	-	541,966	-	30.2%
<b>Total</b>	2016	1,272,558	157,381	-	-	67,044	26,303	-	5,595	-	-	-	-	1,528,881	-	-
	2015	1,933,033	229,260	-	-	93,835	99,775	-	6,524	-	422,120	-	498,285	3,282,832	-	12.9%

(1) Bonuses are generally paid in October and relate to the previous year's financial results. No bonuses will be paid to any Senior Executives during 2016/17 relating to the financial year ended 30 June 2016.

(2) Comprises Annual Leave accrued during the year but not paid.

(3) Comprises Long Service Leave accrued during the year but not yet vested

(4) Comprises value of Options granted but not yet vested

(5) Mr Andrew Teo assumed the role of interim CEO from 13 November 2015 to 20 March 2016.

(6) Mr Roy Daniel was appointed Director on 25 November 2015.

(7) Dr Robert Weinberg resigned from the Board on 01 December 2015.

(8) Mr Gary Powell resigned from the Board on 07 December 2014.

(9) Mr Peter Hepburn-Brown resigned as Managing Director on 19 August 2014.

(10) Mr Boyd Timler was appointed CEO on 21 March 2016.

(11) Mr Geoffrey Davis was interim CEO from 19 August 2014 to 12 November 2015.

(12) Mr Robert Gregory ceased employment with the Company on 16 March 2016.

(c) **Remuneration options and equity based instruments**

No options or other equity based instruments or rights over any of them, were granted by the Company or any entity controlled by the Company as remuneration during or since the end of the financial year.

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

During the financial year, no fully paid ordinary shares were issued on the exercise of options previously granted as remuneration to Directors and Executives.

(e) **Option/rights holdings**

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

**Financial year 2015/2016**

Name	Balance 01/07/15	Options/rights granted as remuneration	Options/ rights exercised	Options/ Rights not exercised and lapsed	Balance held 30/06/16	Vested & exercisable 30/06/16 <sup>(1)</sup>	Total not exercisable 30/06/16 <sup>(2)</sup>
<b>DIRECTORS:</b>							
<u>Non-Executive</u>							
Andrew Teo	-	-	-	-	-	-	-
Ciceron Angeles	-	-	-	-	-	-	-
Roy Daniel <sup>(3)</sup>	-	-	-	-	-	-	-
Robert Weinberg <sup>(4)</sup>	-	-	-	-	-	-	-
<u>Executive</u>							
Raul Villanueva	500,000	-	-	-	500,000	150,000	350,000
<b>EXECUTIVES:</b>							
Boyd Timler <sup>(5)</sup>	-	-	-	-	-	-	-
Peter Alphonso	165,000	-	-	-	165,000	49,500	115,500
Geoffrey Davis <sup>(6)</sup>	-	-	-	-	-	-	-
Robert Gregory <sup>(7)</sup>	500,000	-	-	(350,000)	150,000	150,000	-

(1) Options vested and exercisable are all the options vested at the reporting date

(2) Options that are not exercisable have not vested at the reporting date

(3) Mr Roy Daniel was appointed Director on 25 November 2015

(4) Mr Robert Weinberg resigned from the Board on 01 December 2015

(5) Mr Boyd Timler was appointed CEO on 21 March 2016

(6) Mr Geoffrey Davis resigned as Interim CEO on 12 November 2015

(7) Mr Robert Gregory ceased employment on 16 March 2016

**Financial year 2014/2015**

Name	Balance 01/07/15	Options/ rights granted as remuneration	Options/ rights exercised	Options/ Rights not exercised and lapsed	Balance held 30/06/16	Vested & exercisable 30/06/16 <sup>(1)</sup>	Total not exercisable 30/06/16 <sup>(2)</sup>
<b>DIRECTORS:</b>							
<u>Non-Executive</u>							
Andrew Teo	-	-	-	-	-	-	-
Ciceron Angeles	-	-	-	-	-	-	-
Robert Weinberg	-	-	-	-	-	-	-
Gary Powell <sup>(4)</sup>	-	-	-	-	-	-	-
<u>Executive</u>							
Peter Hepburn-Brown <sup>(3)</sup>	-	-	-	-	-	-	-
Raul Villanueva	300,000	500,000	-	(300,000)	500,000	-	500,000
<b>EXECUTIVES:</b>							
Geoffrey Davis <sup>(5)</sup>	-	-	-	-	-	-	-
Robert Gregory <sup>(6)</sup>	-	500,000	-	-	500,000	-	500,000
Peter Alphonso	-	165,000	-	-	165,000	-	165,000

(1) Options vested and exercisable are all the options vested at the reporting date

(2) Options that are not exercisable have not vested at the reporting date

(3) Mr Peter Hepburn-Brown resigned as Managing Director on 19 August 2014

(4) Mr Gary Powell resigned from the Board on 07 December 2014

(5) Mr Geoffrey Davis was appointed Interim CEO on 19 August 2014

(6) Mr Robert Gregory commenced employment on 19 November 2014

# DIRECTORS' REPORT

## (f) Share holdings

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

### Financial year 2015/16

Name	Balance 30/06/15	Shares held at appointment	Bonus Issue of shares	Shares purchased	Options exercised	Shares sold	Balance 30/06/16
<b>DIRECTORS:</b>							
<u>Non-Executive</u>							
Andrew Teo	95,000	-	-	-	-	-	95,000
Ciceron Angeles	-	-	-	-	-	-	-
Roy Daniel <sup>(1)</sup>	-	815,875	-	-	-	-	815,875
Robert Weinberg <sup>(2)</sup>	82,675	-	-	-	-	(82,675)	-
<u>Executive</u>							
Raul Villanueva	50,000	-	-	-	-	-	50,000
<b>EXECUTIVES:</b>							
Boyd Timler <sup>(3)</sup>	-	-	-	-	-	-	-
Peter Alphonso	127,500	-	-	-	-	-	127,500
Geoffrey Davis <sup>(4)</sup>	3,234,809	-	-	-	-	(3,234,809)	-
Robert Gregory <sup>(5)</sup>	23,950	-	-	-	-	(23,950)	-

(1) Mr Roy Daniel was appointed Director on 25 November 2015

(2) Mr Robert Weinberg resigned from the Board on 01 December 2015

(3) Mr Boyd Timler was appointed CEO on 21 March 2016

(4) Mr Geoffrey Davis resigned as Interim CEO on 12 November 2015

(5) Mr Robert Gregory ceased employment on 16 March 2016

### Financial year 2014/15

Name	Balance 30/06/14	Shares held at appointment	Bonus Issue of shares	Shares purchased	Options exercised	Shares sold	Balance 30/06/15
<b>DIRECTORS:</b>							
<u>Non-Executive</u>							
Andrew Teo	75,000	-	-	20,000	-	-	95,000
Ciceron Angeles	-	-	-	-	-	-	-
Robert Weinberg	62,675	-	-	20,000	-	-	82,675
Gary Powell <sup>(1)</sup>	-	-	-	-	-	-	-
<u>Executive</u>							
Peter Hepburn-Brown <sup>(2)</sup>	22,000	-	-	-	-	-	22,000
Raul Villanueva	-	-	-	50,000	-	-	50,000
<b>EXECUTIVES:</b>							
Geoffrey Davis <sup>(3)</sup>	-	4,102,750	-	-	-	(867,941)	3,234,809
Robert Gregory <sup>(4)</sup>	-	-	-	23,950	-	-	23,950
Peter Alphonso	127,500	-	-	-	-	-	127,500

(1) Mr Gary Powell resigned from the Board on 07 December 2014

(2) Mr Peter Hepburn-Brown resigned as Managing Director on 19 August 2014

(3) Mr Geoffrey Davis appointed Interim CEO on 19 August 2014

(4) Mr Robert Gregory commenced employment on 19 November 2014



## (g) Remuneration policies

### *Remuneration Committee*

The Remuneration Committee of the Board of Directors is responsible for determining, reviewing and making recommendations to the Board on compensation arrangements for the Non-Executive Directors, Managing Director, Executive Directors and Executive Officers.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on an annual basis by reference to relevant market conditions. It is empowered to engage the assistance of external consultants specialising in remuneration of executives and personnel in the mining industry to provide analysis and advice to ensure executive remuneration packages reflect relevant international employment market conditions. During the financial year, the Board did not obtain any independent advice from external consultants.

### *Remuneration Philosophy*

The main objective is the retention of a high quality Board and executive team, to maximise value of the shareholders' investment. Remuneration levels are therefore competitively set to attract, retain and motivate appropriately qualified and experienced Directors and Executives.

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

### *Non-Executive Directors remuneration:*

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

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

The Board considers the amount of Director fees being paid by comparable international resource companies with similar responsibilities, and the experience of each Non-Executive Director when undertaking the review process.

Directors' fees cover all main Board activities and membership of Board Committees. No retirement benefits are provided for any Non-Executive Directors' retirement or termination and Non-Executive Directors do not receive performance related compensation remuneration.

Director fees currently paid to Non-Executive Directors are as follows:

- Andrew Boon San Teo (Chairman): A\$100,000 per annum;
- Roy Daniel: A\$75,000 per annum;
- Ciceron Angeles: A\$75,000 per annum

### *Executive Remuneration:*

#### Objective

The Company's aim is to ensure Executives perform at a high level by incentivising them with the level and mix of remuneration commensurate with their position and responsibilities. These incentives include,

- to rewarding Executives for individual performances; and
- ensuring total remuneration is competitive by international market standards.

Remuneration is made up of a fixed component as well as a variable component which is performance linked and only granted when considered appropriate by the Board.

The remuneration of Executives, including the Managing Director, is reviewed annually by the Remuneration Committee, with the review taking into consideration the contribution of the individuals commensurate with the performance of the business unit within their responsibility, the overall performance of the Company and comparable employment market conditions internationally.

# DIRECTORS' REPORT

## (g) Remuneration policies (continued)

### Fixed Remuneration

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

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Remuneration Committee.

When appropriate, external remuneration consultants provide analysis and independent advice to ensure that Executives' remuneration levels are competitive in the international market place. During the financial year, the Board did not obtain any independent advice from external consultants.

### Variable Remuneration

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

#### • *Short-term Incentives ("STI")*

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

During the financial year, the Board set the following KPIs that applied to each member of Key Management Personnel:

- The Group meeting or exceeding annual production targets set by the Board based on a combination of physical parameters that include development meterage achieved, total ore mined and milled and ounces produced during the financial year. This KPI was chosen as the Board considers it to be the most significant Group controlled factor directly impacting the profitability of the Group;
- The Group's exploration drilling rates based on drilling targets set by the Board. This KPI was chosen as the Board considers exploration rates to be a key factor supporting the identification and development of the Group's growth projects and sustaining the Group's production into the future;
- The Group's level of compliance with its sustainability policy as outlined in the Review of Operations. This includes compliance with environmental obligations and health and safety regulations and guidelines and is assessed by reference to the level of non-compliance (if any) by the Group with its obligations. This KPI was chosen as the Company is committed to its environmental performance and considers health and safety to be a leading indicator of management and operational performance.

At the end of the financial year the Board assesses the actual performance of the Group, the relevant segment and individual against the KPIs set at the beginning of the financial year. Should the Group achieve the set KPIs, the Board may reward the Key Management Personnel with a bonus during the salary review. Any bonus payable must fall within 0.5% of net profit after tax of the Group and not exceed 50% of an individual's fixed remuneration. The Board retains absolute discretion over payment of these bonuses and can adjust payments (within the above caps) to take into account the overall performance of the Group, personal performance and prevailing market conditions. This method of assessment was chosen as it provides the Board with an objective assessment of the Group's performance against identifiable factors that relate to the group's profitability and the sustainability of the Group's operations.

No STIs were granted to any key management personnel in the subsequent period since the end of the financial year ended 30 June 2016.

#### • *Long-term Incentives ("LTI")*

Historically, LTIs granted to key management personnel have been in the form of options over ordinary shares. The Board is currently considering whether to adopt other LTI measures, including a performance rights plan in which key management personnel can participate. The primary objective of Medusa's LTI based remuneration is and will continue to be, to reward key management personnel in a manner which aligns this element of remuneration with the creation of shareholder wealth. The Board takes into account and will continue to take into account, appropriate measures of shareholder wealth, including those outlined in section 13(h) below and Company performance in setting the performance criteria applicable to its LTI based remuneration.

#### (h) Company performance

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

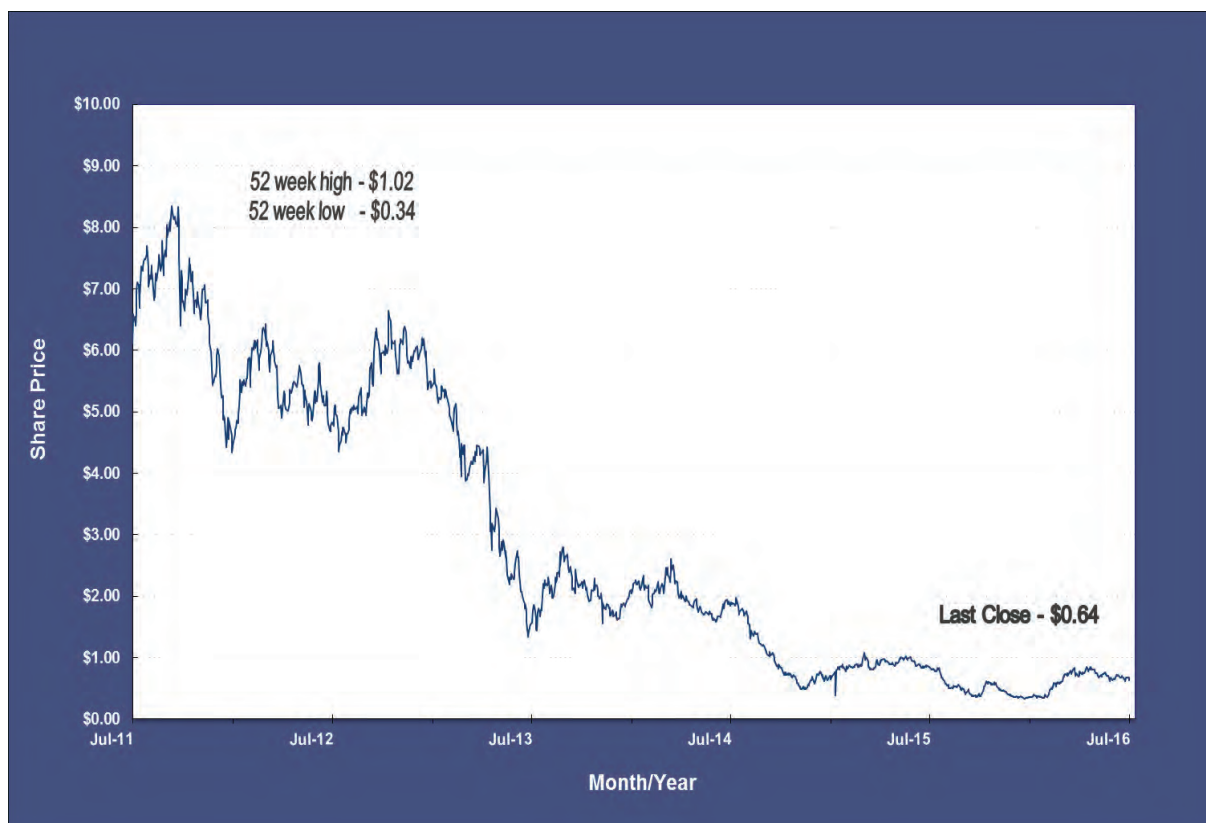
In considering the Company's performance and benefits for shareholder wealth, the Remuneration Committee take into account the following indices in respect of the current financial year and the previous four financial years.

Year ended 30 June	Note	2012	2013	2014	2015	2016
Basic earnings per share (EPS)	(1)	US\$0.261	US\$0.266	US\$0.154	(US\$1.050)	US\$ 0.211
Share price at 30 June		A\$4.83	A\$1.55	A\$1.85	A\$0.84	A\$0.64
Share price increase	(2)	(A\$1.76)	(A\$3.28)	A\$0.30	(A\$1.01)	(A\$0.20)
Total shareholder returns (TSR)	(3)	(26.7%)	(67.5%)	19.4%	(54.6%)	(23.8%)

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

(2) Share price movement during the financial year;

(3) TSR is defined as the growth/decline (in percentage terms) in the share price, taking into account dividends paid over the previous financial year ending 30 June. No dividends were paid during the current, 2015 or 2014 financial years. (Dividend totalling A\$0.10 was paid in the 2012 financial year and A\$0.02 was paid for the financial year ending 2013. No dividends were paid or capital returned in the previous respective years from 2008 to 2011).



#### (i) Board policy in relation to limiting exposure to risk in securities

Under the Company's Securities Trading Policy, Directors and Executives are prohibited from dealing in financial products issued or created over or in respect of Medusa securities (eg hedges or derivatives) which have the effect of reducing or eliminating the risk associated with any equity incentives that Medusa may offer from time to time (for example, a person may be granted an equity incentive award that vests at a time in the future subject to achieving certain performance goals; certain financial institutions offer products which act as an insurance policy if the performance goals are not met, thereby reducing the "at-risk" element of the person's incentive arrangements).

# DIRECTORS' REPORT

## (j) Employment contracts

### EXECUTIVES

**BOYD TIMLER** (Chief Executive Officer)

Contract description:	Employment contract between the Company and Boyd Timler ("Employee").
Term:	Commencement date of 21 March 2016 until the Employee is terminated. .
Services:	<p>The Employee is employed as Chief Executive Officer ("CEO") of the Company and is responsible to the Board for:</p> <ul style="list-style-type: none"> <li>the general control and management of the Group (at all times subject to the direction of the Board); and</li> <li>the operation and strategic development of the Group, which includes being responsible for the technical input into the mining, milling, safety and exploration functions of the Employer.</li> </ul>
Remuneration:	<p><u>Fixed remuneration:</u></p> <p>The Employee's annual Remuneration Package is \$550,000, inclusive of a superannuation contribution that satisfies the Minimum SGC Contribution and is subject to annual review by the Board. During the review, the Board will consider the progress of the Company and comparable industry standard.</p> <p><u>Variable remuneration - Short term incentive:</u></p> <p>The Employee may be entitled to an annual bonus at the discretion of the Board. In determining eligibility, the Board will consider without limitation, the performance of the Company, the Employee's performance and prevailing market conditions.</p> <p><u>Variable remuneration - Long term incentive:</u></p> <p>The Company may grant the employee share options or performance rights in accordance with Medusa's Share option and performance rights plans.</p>
Termination:	<p><u>Termination by the Company:</u></p> <p>The Employer may terminate the Employee's employment for any reason by giving the Employee four months written notice or payment in lieu of notice, or a combination of notice and payment in lieu of notice.</p> <p>The Company may immediately terminate the Employee's provisions of the employee's contract are breached, engages in serious misconduct, fails to discharge properly the Employee's duties or responsibilities, engages in conduct which is likely to affect adversely the reputation of the Group or the Employee becomes bankrupt or makes an arrangement or composition with creditors.</p> <p><u>Termination by the Employee:</u></p> <p>The Employee may terminate the agreement at any time by giving the Company 3 months' written notice.</p>
Protection of the Company's interests:	The Employee's contract also contains provisions for the protection of the Company's interest in such areas as confidentiality, conflict of interests and business dealings.



**PETER ALPHONSO** (Company Secretary/Chief Financial Officer)

Contract description:	Employment contract between the Company and Peter Alphonso ("Employee").
Term:	An initial term ending on 30 September 2015 (subject to earlier termination) ("Initial Term"). If not terminated on or prior to 30 September 2015, the agreement will continue until terminated.
Role:	The Employee is initially employed in the role of Company Secretary/Chief Financial Officer and may subsequently be employed in other comparable roles as determined by the Employer. The Employee will be responsible for the day to day management of all financial, administrative and corporate functions of the Company.
Remuneration:	<p><u>Fixed remuneration:</u></p> <p>A\$300,000 per annum (inclusive of superannuation), subject to annual review by the Board. During the review, the Board will consider the progress of the Company and comparable industry standard.</p> <p><u>Variable remuneration - Short term incentive:</u></p> <p>The Employee may be entitled to an annual bonus at the discretion of the Board. In determining eligibility, the Board will consider without limitation, the performance of the Company, the Employee's performance and prevailing market conditions.</p>
Termination:	<p><u>Termination by the Company:</u></p> <p>During the Initial Term (other than as set out below in relation to a "Material Diminution" or default by the Employee), the Company may terminate the agreement by notice or payment in lieu of notice of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 12 months, if the number of months remaining in the Initial Term is less than 12.</p> <p>The Company may immediately terminate the agreement in certain circumstances, including if the Employee is in default of its obligations and does not remedy that default in addition to other standard default situations.</p> <p><u>Termination by the Employee:</u></p> <p>The Employee may terminate the agreement at any time by giving 3 months' written notice or immediately in certain circumstances, including if the Company is in default of its obligations and does not remedy that default and in certain other standard default situations, in which case the Consultant will be entitled to payment in lieu of notice.</p> <p><u>Termination by reason of Material Diminution:</u></p> <p>A "Material Diminution" is a change in the Employee's status as Company Secretary/Chief Financial Officer of the Company, including a material change in his authority in respect of the business of the Company or any member of the Company's group; or a change in his reporting relationship with the Board.</p> <p>If a Material Diminution occurs, within 3 months of this occurring, the Employee may give the Company 2 weeks' written notice of termination of this agreement. Subject to the Corporations Act, the Company must make a payment in lieu of a notice period equal to: (a) the number of months remaining in the Initial Term; or (b) 12 months, if the number of months remaining in the Initial Term is less than 12. After expiration of the Initial Term, the Company must make a payment to the Employee in lieu of a notice period equal to 12 months.</p>
Protection of the Company's interests:	The Employee's contract also contains provisions for the protection of the Company's interest in such areas as confidentiality, conflict of interests and business dealings.

# DIRECTORS' REPORT

## (j). Employment contracts (continued)

### RAUL CONDE VILLANUEVA

(Executive Director of Medusa Mining Limited and President of Philsaga Mining Corporation).

On 10 December 2012, Philsaga executed an employment contract with Raul Conde Villanueva.

Under the terms of the contract, Philsaga has engaged Mr Villanueva to adopt the role of President of Philsaga as well as assume the position of Executive Director on the Board of Medusa Mining Limited, supervise and manage the business affairs of the corporation, implement administrative and operational policies, attend to industrial relation matters and any other mining activities and associated complimentary services.

According to the contract Philsaga will pay Mr Villanueva A\$20,000 per month which is subject to annual reviews by the Board. Philsaga will additionally reimburse Mr Villanueva for all reasonable expenses incurred in the performance of his services including entertainment, accommodation, meals, telephone and travelling.

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

## (k) Related Parties

Related parties:	Andrew Teo, Ciceron Angeles, Raul Villanueva, Roy Daniel, Boyd Timler, Peter Alphonso, Gary Powell, Geoffrey Davis, Robert Weinberg and Robert Gregory.
Type of Transaction	Director Protection Deed ("Deed")
Transaction details:	<p>The Deed entered into by the Company with each of the Directors of the Company, indemnifies the Directors to the extent permitted by law, against any liability, which he may incur whilst carrying out his duties as a Director of the Company and against any costs and expenses incurred in defending legal proceedings brought against him as a Director.</p> <p>The Deed requires the Company to maintain in force Directors' and Officers' Liability Insurance, with an agreed cover level, for the duration of the Directors' term of office and a period of 7 years thereafter.</p> <p>The Deed also provides for the Directors to have access to the Company's documents (including Board papers) for a period of 7 years after he ceases to be a Director, subject to certain confidentiality and other requirements being observed.</p>
Related parties:	Cedardale Holdings Pty Ltd
Nature of relationship:	Director related entity (Geoffrey Davis – served as interim CEO of the Company from 19 August 2014 to 12 November 2015 ).
Type of transaction:	Lease of office premises.
Transaction details:	<p>The Company occupies and leases its office premises (inclusive of parking bays) from Cedardale Holdings Pty Ltd at an average rate of A\$6,424; (2015: A\$6,273) per month.</p> <p>Cedardale Holdings Pty Ltd charged the Company A\$77,087 for the lease of office premises (2015: A\$75,281). No amounts were outstanding at year end (2015: nil).</p>

## (l) Un-issued shares under options/rights

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

Expiry date	Exercise price	No. of options/rights	No. of shares issued if options/rights exercised
<b>EMPLOYEE OPTIONS:</b>			
16 December 2018	A\$1.00	2,740,500	2,740,500
09 February 2019	A\$1.00	1,000,000	1,000,000
<b>TOTAL</b>		<b>3,740,500</b>	<b>3,740,500</b>

## (m) Shares issued on exercise of options/rights

During or since the end of the financial year no options were exercised.

## End of Remuneration Report

## 14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### *Indemnification*

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

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

### *Insurance premiums*

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

## 15. INDEMNIFICATION OF AUDITORS

The Company's auditor is Grant Thornton Audit Pty Ltd ("Grant Thornton"). The Company has agreed with Grant Thornton, as part of its terms of engagement, to indemnify Grant Thornton against certain liabilities to third parties arising from a breach by the Group under the terms of engagement or as a result of reliance on information provided by the Group that is false, misleading or incomplete. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission of Grant Thornton.

During the financial year, the Company has not paid any premium in respect to any insurance for Grant Thornton or a body corporate related to Grant Thornton and there were no officers of the Company who were former partners or directors of Grant Thornton, whilst Grant Thornton conducted audits of the Group.

## 16. ENVIRONMENTAL REGULATIONS

The Group's operations are subject to a number of environmental regulations in relation to its exploration, mining and processing activities in the Philippines. Details of these regulations are set out in the Review of Operations, under the section titled Environmental Management and Monitoring in the Final Annual Report.

The Directors are not aware of any significant breaches of environmental regulations during the financial year.

## 17. PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

# DIRECTORS' REPORT

## 18. NON-AUDIT SERVICES

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

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

- (a) all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor;
- (b) the nature of the non-audit services provided do not compromise the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board;
- (c) Grant Thornton's services have not involved reviewing or auditing Grant Thornton's own work or acting in a managerial or decision-making capacity within the Group; and
- (d) There is no reason to question the veracity of Grant Thornton's Independence Declaration.

The following fees were paid or payable to Grant Thornton for non-audit services provided during the year ended 30 June 2016.

	2016 (US\$)	2015 (US\$)
Taxation services	12,000	15,000
Total non-audit services	12,000	15,000

## 19. AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration for the year ended 30 June 2016 has been received and can be found on page 77 of the Financial Report.

## 20. ROUNDING OFF AMOUNTS (ASIC CLASS ORDER 2016/191)

The Company is an Entity to which ASIC Class Order 2016 /191 applies and accordingly, amounts in the Financial Statements and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors



Andrew Teo  
Chairman

Dated at Perth this 29<sup>th</sup> day of August 2016



# AUDITORS 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 audit of Medusa Mining Limited for the year ended 30 June 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

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

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in black ink that reads "MAREK".

M A Petricevic  
Partner - Audit & Assurance

Perth, 29 August 2016

Grant Thornton Audit Pty Ltd ACN 130 913 594  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

		Consolidated	
	Note	2016 US\$000	2015 US\$000
Revenue	2	128,090	123,204
Cost of sales		(73,818)	(71,976)
Exploration & evaluation expenses	3	-	(267)
Administration expenses		(6,610)	(8,428)
Impairment expense	3,13	-	(259,595)
Other expenses		(1,714)	(1,732)
<b>Profit/(Loss) before income tax expense</b>		<b>45,948</b>	<b>(218,794)</b>
Income tax (expense)/ benefit	5	(2,156)	685
<b>Profit/(Loss) attributable to members of the Group</b>		<b>43,792</b>	<b>(218,109)</b>
<u>Other comprehensive income/(loss), net of income tax:</u>			
Add: Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations and other comprehensive income/(loss) for the year		(1,896)	(2,493)
<b>Total comprehensive income/(loss) for the year</b>		<b>41,896</b>	<b>(220,602)</b>
<u>Overall operations:</u>			
<b>Basic earnings/(loss) per share (US\$ per share)</b>	6	<b>0.211</b>	<b>(1.050)</b>
<b>Diluted earnings/(loss) per share (US\$ per share)</b>	6	<b>0.207</b>	<b>(1.035)</b>

The accompanying notes form part of these financial statements

# STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

		Consolidated	
	Note	2016 US\$000	2015 US\$000
<b>CURRENT ASSETS</b>			
Cash & cash equivalents	23	9,517	9,987
Trade & other receivables	7	25,977	22,585
Inventories	8	24,304	19,837
Other current assets	9	636	615
<b>Total Current Assets</b>		<b>60,434</b>	<b>53,024</b>
<b>NON-CURRENT ASSETS</b>			
Trade & other receivables	10	22,915	16,665
Property, plant & equipment	11	53,064	45,022
Intangible Assets		552	632
Exploration, evaluation & development expenditure	12	119,353	98,075
Deferred tax assets	16	2,208	3,755
<b>Total Non-Current Assets</b>		<b>198,092</b>	<b>164,149</b>
<b>TOTAL ASSETS</b>		<b>258,526</b>	<b>217,173</b>
<b>CURRENT LIABILITIES</b>			
Trade & other payables		13,438	16,282
Borrowings	14	6,064	3,822
Provisions	15	346	504
<b>Total Current Liabilities</b>		<b>19,848</b>	<b>20,608</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	14	1,503	2,151
Deferred tax liability	16	245	290
Provisions	15	2,591	2,116
<b>Total Non-Current Liabilities</b>		<b>4,339</b>	<b>4,557</b>
<b>TOTAL LIABILITIES</b>		<b>24,187</b>	<b>25,165</b>
<b>NET ASSETS</b>		<b>234,339</b>	<b>192,008</b>
<b>EQUITY</b>			
Issued capital	18	102,902	102,902
Reserves	19	5,152	6,613
Retained profits	22	126,285	82,493
<b>TOTAL EQUITY</b>		<b>234,339</b>	<b>192,008</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Note	Share Capital Ordinary US\$000	Retained Profits US\$000	Option and Performance Rights Reserve US\$000	Foreign Currency Translation Reserve US\$000	Total US\$000
<b>CONSOLIDATED</b>						
<b>Balance at 30 June 2014</b>		<b>102,902</b>	<b>295,964</b>	<b>4,638</b>	<b>8,802</b>	<b>412,306</b>
<i>Comprehensive Income</i>						
Net (loss) after tax		-	(218,109)	-	-	(218,109)
Other comprehensive (loss)/income		-	-	-	(2,493)	(2,493)
Total comprehensive (loss)/income for the year		-	(218,109)	-	(2,493)	(220,602)
<i>Transactions with owners, in their capacity as owners, and other transfers</i>						
Expiration of Options during the period	19	-	4,638	(4,638)	-	-
Share options issued during the period in accordance with AASB 2 - share based payment	20	-	-	304	-	304
Sub-total		102,902	82,493	304	6,309	192,008
Dividends paid		-	-	-	-	-
<b>Balance at 30 June 2015</b>		<b>102,902</b>	<b>82,493</b>	<b>304</b>	<b>6,309</b>	<b>192,008</b>
<i>Comprehensive Income</i>						
Net profit/(loss) after tax		-	43,792	-	-	43,792
Other comprehensive income /(loss)		-	-	-	(1,896)	(1,896)
Total comprehensive income /(loss) for the year		-	43,792	-	(1,896)	41,896
<i>Transactions with owners, in their capacity as owners, and other transfers</i>						
Share options issued during the period in accordance with AASB 2 - share based payment	20	-	-	435	-	435
Sub-total		102,902	126,285	739	4,413	234,339
Dividends paid		-	-	-	-	-
<b>Balance at 30 June 2016</b>		<b>102,902</b>	<b>126,285</b>	<b>739</b>	<b>4,413</b>	<b>234,339</b>

The accompanying notes form part of these financial statements.



# STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	Note	Consolidated	
		2016 US\$000	2015 US\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		120,004	122,570
Payments to suppliers & employees		(64,831)	(58,071)
Interest received		74	73
<b>Net cash provided by operating activities</b>	23	55,247	64,572
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant & equipment		(17,203)	(13,235)
Payments for intangible assets		-	(534)
Payments for exploration & evaluation activities		(4,492)	(4,461)
Payment for development activities		(32,940)	(42,070)
<b>Net cash from (used in) investing activities</b>		(54,635)	(60,300)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bank loans		1,594	(3,360)
<b>Net cash provided by (used in) financing activities</b>		1,594	(3,360)
Net increase in cash and cash equivalents held		2,206	912
Cash & cash equivalents at the beginning of the financial year		9,987	13,063
Exchange rate adjustment		(2,676)	(3,988)
<b>Cash &amp; cash equivalents at the end of the financial year</b>	23	9,517	9,987

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

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## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The separate financial statements of the parent entity, Medusa Mining Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised by the Directors on 26 August 2016.

### **Basis of preparation**

#### *Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### **(a) Principles of consolidation**

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2016. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

A list of controlled entities during the year ended 30 June 2016 is presented in note 21.

#### **(b) Comparative figures**

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

#### **(c) New standards and interpretations not yet adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2016, but have not been applied in preparing this financial report.

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting period, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## (c) New standards and interpretations not yet adopted (continued)

### *AASB 9 Financial Instruments*

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The effective date is for annual reporting periods beginning on or after 1 January 2018.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

### *AASB 14 Regulatory Deferral Accounts*

AASB 14 permits first-time adopters of Australian Accounting Standards who conduct rate-regulated activities to continue to account for amounts related to rate regulation in accordance with their previous GAAP. Accordingly, an entity that applies AASB 14 may continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of its regulatory deferral account balances. This exemption is not available to entities who already apply Australian Accounting Standards.

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When AASB 14 becomes effective for the first time for the year ending 30 June 2017, it will not have any impact on the entity.

### *AASB 15 Revenue from Contracts with Customers*

AASB 15 replaces AASB 118: Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. In summary, AASB 15:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time at a point in time;
- provides a new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return and warranties); and
- expands and improves disclosures about revenue.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2018.

### *AASB 16 Leases*

The new AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations;
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117; and
- requires new and different disclosures about leases.

The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

### *AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations*

This amendment impacts on the use of AASB 11 when acquiring an interest in a joint operation.

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.



***AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

***AASB 2014-9 Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements***

The amendments introduce the equity method of accounting as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

***AASB 2014-10 Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address a current inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures (2011). The amendments clarify that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business, as defined in AASB 3 Business Combinations. Full gain or loss is recognised when the assets or subsidiary constitute a business, whereas gain or loss attributable to other investors' interests is recognised when the assets or subsidiary do not constitute a business.

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

***Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)***

The amendments to IFRS 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in IFRS 3 Business Combinations, should:

- apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and
- provide disclosures for business combinations as required by IFRS 3 and other IFRSs.

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly.

Effective date (annual reporting periods beginning on or after 1 January 2016).

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

- The entity has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## (d) Revenue recognition

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

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

### *Gold and silver sales*

Revenue from the production of gold and silver is recognised when the group had a significant transfer of risk and rewards to the buyer.

### *Bill and hold sales,*

Bill and hold sales in which delivery is delayed at the buyer's request but the buyer takes title and accepts billing revenue is recognised when the buyer takes title, provided:

- a. It is probable that delivery will be made
- b. The item on hand, identified and ready for delivery to the buyer at the time the sale is recognised
- c. The buyer specifically acknowledges the deferred delivery instructions and
- d. The usual payment terms apply.

### *Interest Revenue*

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

## (e) Income tax

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

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

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

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

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

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

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

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

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

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

**(f) Property, Plant and Equipment**

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

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

**Depreciation**

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

**(g) Impairment of non-financial assets**

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

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

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

**(h) Operating leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as straight line over the length of the lease.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## (i) Payables

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

## (j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

## (k) Exploration and evaluation expenditure

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

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

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

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

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

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

## (l) Development expenditure

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

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

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

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



**(m) Rehabilitation costs**

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

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

**(n) Employee benefits**

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

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

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

In respect of defined benefit plans, the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted every three years, with valuations performed on an annual basis. Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligations adjusted for any unrecognised actuarial gains and losses and unrecognised past service costs less the fair value of the plan's assets. Any asset recognised is limited to unrecognised actuarial losses, plus the present value of available refunds and reductions in future contributions to the plan.

Actuarial gains and losses are amortised over the expected average remaining working lives of the participating employees in the plan. Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in the profit or loss when the Group demonstrates commitment to the curtailment or settlement.

Past service costs are recognised when incurred to the extent that benefits are vested, and are otherwise amortised on a straight-line basis over the vesting period.

**(o) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the relevant taxing authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

**(p) Operating Segments**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## (q) Earnings per share

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

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

## (r) Foreign currency transactions and balances

### *Functional and presentation currency*

The functional currency of each of the Group's entities is the currency of the primary economic environment in which that entity operates. Though the Group's main functional currencies are the Australian dollar and Philippines Peso, the presentation currency for the Group is US dollar. The reason for using US dollar as the presentation currency is that the US dollar is the primary currency used in the global gold market.

### *Transaction and balances*

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

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

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

### *Group companies*

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

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

Exchange differences arising on translation of foreign operations are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in the Statement of Financial Position. These differences are reclassified from equity to profit or loss (as a reclassification adjustment) in the period in which the operation is disposed.

The functional currency of the parent entity, Medusa Mining Limited is Australian dollar, Mindanao Mineral Processing and Refining Corporation is United States dollar and the remaining entities are Philippine pesos. The reason for using US dollar as the presentation currency is that the US dollar is the primary currency used in the global gold market.

## (s) Cash and cash equivalents

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

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

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

**(t) Financial instruments**

***Recognition, Initial Measurement and Derecognition***

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

***Classification and Subsequent Measurement of Financial Assets***

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at Fair Value Through Profit or Loss ('FVTPL')
- Held-To-Maturity ('HTM') investments; or
- Available-For-Sale ('AFS') financial assets

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

***HTM Investments***

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity. The Group currently holds listed bonds designated into this category.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any change to the carrying amount of the investment, including impairment losses, is recognised in profit or loss.

***Classification and subsequent measurement of financial liabilities***

The Group's financial liabilities include borrowings, trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## (u) Inventories

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

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

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

Gold inventory is comprised of gold in circuit and gold dore held at site where risk and reward has not passed to the customer. During the exploration and development phase, where the cost of extracting the ore exceeds the likely recoverable amount, work in progress inventory is written down to net realisable value.

## (v) Share based payments

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

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

## (w) Defined Benefit Fund

The Group has a funded non-contributory retirement plan for employees in the Philippines. The cost of providing benefits is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The retirement benefit obligation recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets.

The funding policy is to contribute an amount based on the actuarial valuation report which is carried out at regular intervals.

## (x) Critical accounting estimates and judgments

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

### *Key estimates - Impairment of non-financial assets*

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of non-financial assets (refer note 1(g)). Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. Refer to details of key elements and carrying values of non-financial assets at note 13.

### *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 2015 taking into account ore utilised throughout the period and replenished to estimate the recoverable amount of long lived assets. The updated Reserve Statement is not available at the date of these financial statements. 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 25th of September 2015 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 (refer to note 11), amortisation of capitalised development expenditure (refer to note 12), and impairment relating to these assets (refer to note 13).

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

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

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

**Key estimates - Exploration and evaluation expenditure**

The consolidated entity's accounting policy for exploration and evaluation expenditure (refer to note 12) results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to profit or loss.

**Key estimates - Development expenditure**

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

**Key estimates - Share based payments**

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. (Refer to note 20).

**Key estimates - GST/VAT**

The Group has net GST/VAT of US\$36 million that comprises tax credit certificates (TCC) and GST/VAT claimable for cash. The current asset portion of GST/VAT US\$13 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 GST/VAT receivable of US\$23 million represents the estimated amount utilised in future periods against tax liabilities of US\$36 million.

**(y) Rounding of amounts**

The Group has applied the relief available to it under Class Order 2016 /191 and accordingly, amounts in the financial report and directors' report have been rounded to the nearest \$1,000.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

Note	Consolidated	
	2016 US\$000	2015 US\$000
<b>2. REVENUE</b>		
<b>Operating activities:</b>		
Gold and silver sales	127,755	123,093
<b>Non-operating activities:</b>		
Interest revenue	75	79
Foreign exchange gain	149	-
Other	111	32
Total revenue	128,090	123,204
<b>3. EXPENSES</b>		
Profit/(loss) before income tax expense/(income) has been determined after charging/(crediting) the following items:		
Depreciation & amortisation:		
- Depreciation expense	9,254	12,449
- Amortisation expense	14,163	19,240
Total depreciation & amortisation	23,417	31,689
Employee benefits expense	12,662	8,332
Defined Contribution plans	240	123
Defined Benefit plans	476	291
Exploration expenditure written off	-	267
Foreign exchange gain	(150)	224
Impairment losses:		
- impairment expense	13	-
- assets written off	1,241	259,595
	1,241	819
Operating lease rental:		
- minimum lease payments	36	37
<b>4. DIVIDENDS</b>		
No final dividend was declared (2015: Nil)	-	-
No Interim or final dividend was declared or paid during the current or previous financial years.	-	-

## 5.

**TAXATION**

(a) The components of tax expense comprise:

	2016 US\$000	2015 US\$000
Current tax	654	1,578
Deferred tax	1,502	(2,263)
	2,156	(685)

(b) The prima facie tax on profit before income tax is reconciled to the income tax as follows:

operating profit before income tax	45,948	(218,795)
prima facie income tax expense/(credit) at 30% (2015: 30%) on operating profit	13,784	(65,638)
less - tax effect of:		
- other non-deductible/(non-assessable) expenses	-	424
- difference of effective foreign income tax rates	(12,764)	(18,467)
- deferred tax adjustment	-	649
- impairment of assets	-	82,273
- amortisation and Depreciation Adjustment	2,634	-
- share based payments expense	131	91
- non-deductible foreign expenditure	1,006	1,124
- foreign Exchange	(2,832)	(1,946)
- charitable contribution	(2)	157
- under / Over	-	648
- inventory written off	243	-
- deferred tax assets not brought to account	(44)	-
- income tax expense/(benefit)	2,156	(685)

The applicable weighted average effective tax rates are as follows:

The reason for the 0% weighted average effective tax rate for the prior year is due to the impact of the tax free holiday in Mindanao Mineral Processing and Refining Corporation, a subsidiary of the parent entity, through which sales of bullion are recorded

4,60%

(c) Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(e) occur:-

- Temporary differences	103	165
- Australian tax losses	4,135	3,576
	4,238	3,741

The benefit of tax losses will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the Group continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Group in realising the benefit.

## 6.

**EARNINGS PER SHARE**

Earnings used to calculate basic and diluted EPS	43,792	(218,109)
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	207,794,301	207,794,301
Weighted average unlisted options outstanding	4,125,725	2,859,315
Weighted average of ordinary shares diluted as at 30 June 2016	211,920,026	210,653,616

## for the year ended 30 June 2016

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## 11. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

### Furniture & fittings:

	Consolidated	
	2016 US\$000	2015 US\$000
Carrying amount at beginning of year	-	286
<i>plus</i> - additions	88	109
<i>less</i> - disposals	-	-
<i>less</i> - forex differences on translation	-	-
<i>less</i> - impairment	-	(254)
<i>less</i> - depreciation	(12)	(141)
Carrying amount at end of year	76	-
Total carrying amount at end of year	53,064	45,022

Note

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## 12. EXPLORATION , EVALUATION & DEVELOPMENT EXPENDITURE

### Exploration and evaluation expenditure:

At cost	14,873	15,157
<i>less</i> - provisions for impairment	(4,130)	(4,130)
Total carrying amount at end of year	10,743	11,027

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### Development expenditure:

At cost	361,798	326,654
<i>less</i> - provisions for impairment	(187,339)	(187,339)
<i>less</i> - accumulated amortisation	(65,849)	(52,267)
Net development expenditure	108,610	87,048
Total carrying amount at end of year	119,353	98,075

### Reconciliations:

### Exploration and evaluation expenditure:

Carrying amount at beginning of year	11,027	29,857
<i>plus</i> - costs incurred	9,317	10,122
<i>less</i> - transferred to development	(8,845)	(21,842)
<i>less</i> - expenditure written off	-	(266)
<i>less</i> - impairment	-	(4,130)
<i>less</i> - forex differences upon translation	(756)	(2,714)
Carrying amount at end of year	10,743	11,027

### Development expenditure:

Carrying amount at beginning of year	87,048	231,886
<i>plus</i> - costs incurred	26,261	36,635
<i>plus</i> - transferred from exploration	8,845	21,842
<i>less</i> - amortisation expense	(13,325)	(19,193)
<i>less</i> - impairment	-	(187,339)
<i>plus</i> - forex differences upon translation	(219)	3,217
Carrying amount at end of year	108,610	87,048

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# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## 13. 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 2016. 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 2016 included;

- *long range planning and scheduling meeting the JORC 12 Compliances;*
- *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 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.

#### ii) Key Assumptions

The table below summarises the key assumptions used in the 30 June 2016 carrying value assessments. Comparison to the prior period has been provided.

Assumptions	Unit	2016 (2017-2021)	2015 (2016-2020)
Gold price	US\$/ounce	1,350	1,200
Average AISC	US\$/ounce	820	1,057
Post-Tax Discount rate (%)	%	11.1	11.1
Probable reserves	ounces	427,000	590,000
Production capacity per annum	ounces	105,000-130,000	135,000-150,000

### 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

Resource and Reserve ounces were based on the Group's JORC 2012 compliant Annual Resource and Reserve Update Statement announced to the Australian Stock Exchange on 25 September 2015.

#### iii) Impacts

Due to the estimated carrying amount exceeding the recoverable amount of the Group's Co-O mining operations CGU a non-current assets impairment charge was not required for the year ending 2016 (2015: US\$259.6 million):

Description	Note	2016			2015		
		Carrying amount \$'000	Impairment \$'000	Balance \$'000	Carrying amount \$'000	Impairment \$'000	Balance \$'000
Development	12	108,610	-	108,610	278,517	(191,469)	87,048
Plant & Equipment	11	53,064	-	53,064	113,148	(68,126)	45,022
Total	3	161,674	-	161,674	391,665	(259,595)	132,070

#### 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 30 June 2016 statutory accounts:

Assumption changes	2016	2015
	Effect on recoverable amount \$'000	Effect on recoverable amount \$'000
US \$100 per ounce increase/decrease in gold price	31,235	54,200
1% increase/decrease in the discount rate	4,649	4,780
5% increase in operating costs	17,239	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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## Consolidated

2016	2015
US\$000	US\$000

### 14. BORROWINGS

#### Current borrowings

Unsecured liability - Interest bearing loan

6,064	3,822
-------	-------

Total Current borrowings

6,064	3,822
-------	-------

#### Non-Current borrowings

Secured liability - Interest bearing loan

1,423	873
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Unsecured liability - Interest bearing loan

80	1,278
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Total Non-Current borrowings

1,503	2,151
-------	-------

Total borrowings

7,567	5,973
-------	-------

Secured Borrowing, are bank loans secured by transportation equipment of the Group. Interest rates on the loans range between 2.75% to 7.12% (2015: 3.75% to 4.00%).

### 15. PROVISIONS

#### Current provisions:

Employee benefits

346	504
-----	-----

Total current provisions

346	504
-----	-----

#### Non-Current provisions:

Retirement Benefit

2,235	1,762
-------	-------

Mine Rehabilitation

356	354
-----	-----

Total non-current provision

2,591	2,116
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The Retirement benefit in Non-current liabilities relates to Philippine based employees defined benefit plan. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016. The present value of the defined benefit obligation and the related current service cost and past service cost was measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate - 4.65% (2015:4.65%)

Expected rate of salary increase - 3.00% (2015:3.00%)

Assumptions were developed by management with the assistance of independent actuarial appraisers. Discount factors are determined close to year-end by reference to high quality Government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation. Other assumptions are based on management's historical experience.

	Consolidated	
	2016 US\$000	2015 US\$000
Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:		
Current service cost	384	369
Interest on obligation	75	63
Total	459	432
The amount included in the statements of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:		
Present Value of defined benefit obligation	2,062	2,172
Unrecognised actuarial loss	-	(313)
Unamortised past service cost-non vested	-	(97)
Total	2,062	1,762
Movements in the present value of the defined benefit obligation in the current period were as follows:		
Opening balance	2,172	1,745
Current service cost	383	369
Interest costs	75	63
Actuarial loss	-	(6)
Foreign exchange gain/(loss)	(568)	1
Closing balance	2,062	2,172
The Company has no plan assets held by trustees but an employee retirement fund amounting to US\$1,312,035 (2015:US\$1,100,879) was held as at June 30, 2016. The employee retirement fund is presented as part of cash at bank.		

## 16. DEFERRED TAX

### Consolidated Group (30 June 2016)

#### Deferred tax liability

Capitalised exploration & evaluation expenditure	290	-	(45)	245
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#### Deferred tax assets

Carried forward tax losses	2,008	-	(1,734)	274
Other	1,747	-	187	1,934
Total carried forward tax losses	3,755	-	(1,547)	2,208



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## 16. DEFERRED TAX (continued)

### Consolidated Group (30 June 2015)

#### Deferred tax liability

Capitalised exploration & evaluation expenditure	1,782	-	(1,492)	290
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#### Deferred tax assets

Carried forward tax losses	1,453	-	555	2,008
Other	1,530	-	217	1,747
Total carried forward tax losses	2,983	-	772	3,755

## 17. AUDITOR'S REMUNERATION

### Remuneration received or due and receivable by the Company's auditors, Grant Thornton Audit Pty Ltd for:

• auditing or reviewing the financial reports	112	110
• other services provided by related practice of auditor - taxation and compliance	12	15
Total remuneration of the Company's auditor's	124	125

### Remuneration of other auditors of the Company's Philippines subsidiaries for:

• auditing or reviewing the financial reports	57	97
• other services provided by related practice of auditor - taxation and compliance	17	5
Total remuneration of other auditors of the Company's Philippine subsidiaries	74	102

## 18. ISSUED CAPITAL

207,794,301 ordinary shares (30 June 2015: 207,794,301)

Total issued capital

### Ordinary shares

Balance at beginning of year

Ordinary shares issued during the year:

Balance at end of year

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

No ordinary shares were issued during the year or during the prior year.

### Capital Management

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

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

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

	Consolidated	
	2016 US\$000	2015 US\$000
<b>Capital for the reporting period under review is summarised as follows:</b>		
Total Equity	234,339	192,008
Cash and cash equivalents	(9,517)	(9,987)
Capital	224,822	182,021
Total equity	234,339	192,008
Borrowings	7,567	5,973
Overall financing	241,906	197,981
Capital-to-overall financing ratio	93%	92%

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

Consolidated	
2016	2015
US\$000	US\$000
739	304
4,413	6,309
5,152	6,613

## 19. RESERVES

Option and performance rights reserve

Foreign currency translation reserve

Total reserves

(a) Option and performance rights reserve

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

Unlisted options over ordinary shares at 30 June 2016

(unless otherwise stated, all unlisted options and performance rights have full vesting rights)

- 3,200,000 options expiring 16 December 2018 and exercisable at A\$1.00 each. During the year 2016, 459,500 were forfeited resulting in 2,740,500 options remaining at reporting date. (945,000 options were vested at reporting date (2015: nil)).

- 1,000,000 options expiring 9 February 2019 and exercisable at A\$1.00 each (300,000 options were vested at reporting date (2015: nil)).

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

(b) Foreign Currency Translation Reserve

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

## 20. SHARE BASED PAYMENTS

The following share based payment arrangements existed during 30 June 2016:

- On 16 December 2014, 3,200,000 options were issued to Australian and Philippine based employees. The options, which hold no voting or dividend rights have an expiry date of 16 December 2018 and are exercisable at A\$1.00 per option. Under the terms of the Issue the employees would be required to remain in the employment of the Company at 16 December 2015 to achieve 30% vesting of the options, at 16 December 2016 to achieve 30% vesting of the options, with full vesting if they remain employees of the Company a year later on 16 December 2017. At reporting date all options remain unexercised.
- On 9 February 2015, 1,000,000 options were issued to Australian and Philippine based employees. The options which hold no voting or dividend rights have an expiry date of 9 February 2019 and are exercisable at A\$1.00 per option. Under the terms of the Issue the employees would be required to remain in the employment of the Company at 9 February 2016 to achieve 30% vesting of the options, at 9 February 2017 to achieve 30% vesting of the options, with full vesting if they remain employees of the Company a year later on 9 February 2018. At reporting date all options remain unexercised.

Share based options	2016		2015	
	Number of options & performance rights	Weighted average exercise price (A\$)	Number of options and performance rights	Weighted average exercise price (A\$)
Outstanding at start of year	4,200,000	1.0000	1,575,000	6.0487
Granted	-	-	4,200,000	1.0000
Forfeited	(459,500)	1.0000	-	-
Expired	-	-	(1,575,000)	6.0487
Exercised	-	-	-	-
Outstanding at year end	3,740,500	1.0000	4,200,000	1.000
Exercisable at year end	1,245,000	1.0000	-	1.000

During the year 2016, 459,500 were forfeited (2015: nil) and no options expired (2015: 1,575,000).

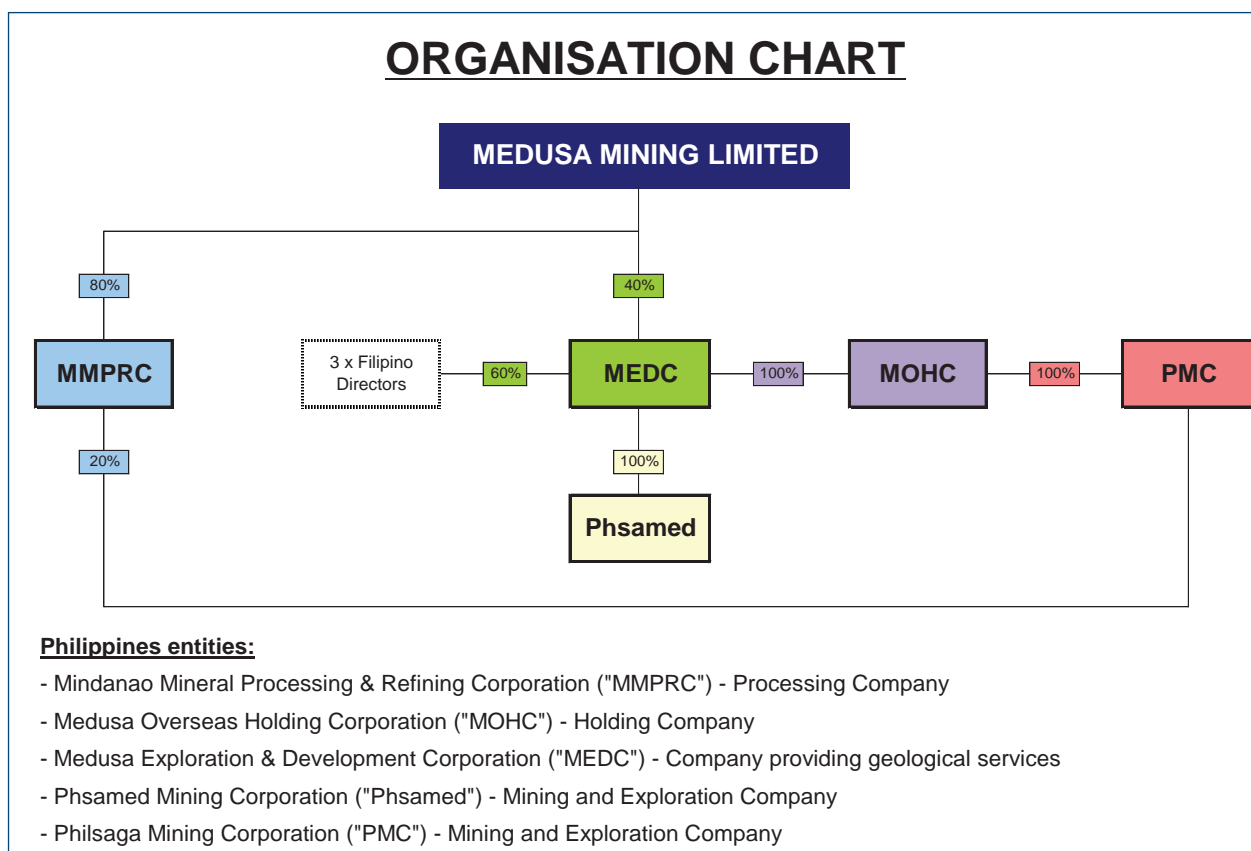
The options outstanding at 30 June 2016 (all of which are unlisted) had a weighted average exercise price of A\$1.00 and a weighted average remaining contractual life of 30.46 months.

Included under administration expense in the Statement of Profit or Loss and other Comprehensive Income is US\$435,286 (2015: US\$304,025) and relates, in full, to equity-settled share based payment transactions relating to employees.

## 21. INVESTMENT IN SUBSIDIARIES

The following companies are controlled entities of Medusa Mining Limited as at 30 June 2016:

Controlled Entities	Date of incorporation	Country of incorporation	% interest held	
			2016	2015
Medusa Exploration & Development Corporation	29 May 2003	Philippines	40%	40%
Phsamed Mining Corporation	23 Apr 2003	Philippines	40%	40%
Medusa Overseas Holding Corporation	08 May 2003	Philippines	40%	40%
Philsaga Mining Corporation	17 May 2001	Philippines	40%	40%
Mindanao Mineral Processing and Refining Corporation	03 Nov 2005	Philippines	100%	100%



Medusa Mining Limited ("Medusa") holds 40% of the issued shares of Medusa Exploration and Development Corporation ("MEDC"). As Medusa has various agreements in place and pursuant to local statutory provisions, Medusa has effective sole rights to the economic returns of MEDC and its subsidiary companies. In such circumstances, the assets and liabilities of MEDC and its subsidiaries have been attributed 100% to the Consolidated Entity.

## 22. RETAINED PROFITS

	Consolidated	
	2016 US\$000	2015 US\$000
Retained profit at start of year	82,493	295,964
Net profit/(loss) attributable to members of Company	43,792	(218,109)
Transfer from share option reserve	-	4,638
Retained profits at end of year	126,285	82,493

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## 23. NOTES TO STATEMENT OF CASH FLOWS

	Consolidated	
	2016 US\$000	2015 US\$000
<b>(a) Reconciliation of cash:</b>		
For the purposes of the Statement of Cash Flows, cash includes cash on hand and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash at bank	9,516	9,986
Cash on hand	1	1
Total cash assets	9,517	9,987
<b>(b) Reconciliation of profit /(loss) after income tax to net cash provided by operating activities:</b>		
Profit/(Loss) after income tax	43,792	(218,109)
<i>add/(less) -</i>		
Non-cash items:		
- depreciation/amortisation	23,417	31,689
- exploration expenses written off	-	267
- recognition of share based expenses	435	304
- impairment expense	-	259,595
- inventory write off	809	-
- foreign exchange (gain) / loss	150	223
- bad debts written off	(7)	393
- VAT write off	-	188
- withholding tax for Dividend	30	-
- deferred tax credit	1,248	(283)
- loss on asset disposal/write off	439	222
- income tax credit/(expense)	908	1,540
<i>add/(less) -</i>	71,221	76,029
Changes in assets and liabilities		
- (increase)/decrease in trade & other receivables	(10,459)	(5,376)
- (increase)/decrease in prepayments	(21)	(103)
- (increase)/decrease in inventories	(4,468)	(1,756)
- (decrease)/increase in trade & other payables	(2,528)	(3,501)
- increase/(decrease) in deferred taxes payable	1,502	(721)
Net cash provided by operating activities	55,247	64,572

### (c) Restricted Funds

The Group's total cash assets mentioned above include restricted bank accounts as follows:

- (i) A rehabilitation fund of US\$338,383 (2015: US\$463,363) to be used at the end of life of mine for environmental rehabilitation;
- (ii) An employee retirement fund of US\$1,312,035 (2015: US\$1,100,879) established to meet employee entitlements on retirement; and
- (iii) The Company has a provident fund of US\$746,353 (2015: US\$266,673) that is intended to be used as payment to employees upon retirement, which is unrestricted as to withdrawal.



## 24. FINANCIAL RISK MANAGEMENT

### (a) Financial Risk Management Policies

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

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

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

#### (i) Treasury risk management

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

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

#### (ii) Financial risk exposures and management

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

##### Interest rate risk

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

##### Price risk

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

##### Liquidity risk

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

##### Credit risk

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

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

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

The Company holds bullion in an unallocated account (referred to as "Gold awaiting settlement" in the Current Receivables of the Statement of Financial Position) with a single reputable refiner.

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

##### Foreign currency risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## (b) Financial instruments

### (i) Financial instrument composition and maturity analysis:

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

Consolidated Group	Weighted Average Effective interest		Floating Interest Rate		Within 1 Year		Within 1 to 5 Years		Non-Interest Bearing		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	%		(US\$000)									
<b>Financial Assets</b>												
Cash & cash equivalent	0.36	0.32	8,015	8,283	-	-	-	-	1,502	1,704	9,517	9,987
Loans and receivables	-	-	-	-	-	-	-	-	12,536	5,420	12,536	5,420
			8,015	8,283	-	-	-	-	14,038	7,124	22,053	15,407
<b>Financial Liabilities</b>												
<i>Financial liabilities at amortised cost</i>												
Bank Loan - Current	-	-	-	-	6,064	3,822	-	-	-	-	6,064	3,822
Bank Loan – Non Current	-	-	-	-	-	-	1,503	2,151	-	-	1,503	2,151
Trade & sundry payables	-	-	-	-	-	-	-	-	13,438	16,282	13,438	16,282
			-	-	6,064	3,822	1,503	2,151	13,438	16,282	21,005	22,255

	Consolidated	
	2016 US\$000	2015 US\$000
<b>Receivables are expected to be collected as follows:</b>		
Less than 6 months	12,536	5,420
6 months to 1 year	-	-
	12,536	5,420
As at 30 June 2016 and 2015, all receivables were neither past due nor impaired.		
<b>Trade and sundry payables are expected to be paid as follows:</b>		
Less than 6 months	13,438	16,282
	13,438	16,282

### (ii) Net fair values

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

### (iii) Sensitivity analysis

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

### Interest Rate Sensitivity Analysis

At 30 June 2016, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated	
	2016 US\$000	2015 US\$000
<b>Change in profit/(loss) before income tax/equity</b>		
- increase in interest rate by 100 basis points	80	87
- decrease in interest rate by 100 basis points	(80)	(87)

### Foreign currency risk sensitivity analysis

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the consolidated entity's functional currency. The consolidated entity operates internationally and is exposed to foreign exchange risk arising from the United States dollar. No programs for hedging foreign exchange risk were implemented by the consolidated entity in the 2015 and 2016 financial years.

The following table shows the foreign currency risk on the financial assets and liabilities of the Groups operations denominated in currencies other than the functional currency of the operations.

Functional Currency of Group Entity (Consolidated)	Net Financial Assets/(Liabilities) in US\$000			
	AUD	US\$	PHP	TOTAL US\$
<b>2016</b>				
Australian Dollar	n/a	1,053	-	1,053
US Dollar	-	-	588	588
Philippine Peso	-	1,009	-	1,009
<b>Total</b>	-	2,062	588	2,650
<b>2015</b>				
Australian Dollar	n/a	1,114	-	1,114
US Dollar	-	-	273	273
Philippine Peso	-	2,912	-	2,912
<b>Total</b>	-	4,026	273	4,299

	Consolidated	
	2016 US\$000	2015 US\$000
<b>Change in profit /(loss) before income tax/equity</b>		
- strengthening of A\$ to US\$ by 15%	(137)	(145)
- strengthening of Philippine Peso to US\$ by 15%	(75)	(401)
	(212)	(546)
- weakening of A\$ to US\$ by 15%	137	145
- weakening of Philippine Peso to by 15%	75	401
	212	546

### Price risk sensitivity analysis

The policy of the Company is to sell gold at spot price and has not entered in hedging contracts. The Company's revenues were exposed to fluctuations in the price of gold. If the average selling price of gold of US\$1,352 (2015: US\$1,168) for the financial year had increased/decreased by 10% the change in the profit before income tax for the consolidated group would have been an increase/decrease of US\$13.965 million (2015: US\$11.356 million). The above interest rate, foreign exchange rate and price risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

Consolidated	
2016	2015
US\$000	US\$000

## 25. COMMITMENTS

### (a) Exploration commitments:

The Group has certain obligations to perform minimum exploration work to maintain rights of tenure to its exploration tenements. These obligations may vary from time to time in accordance with tenements held and are expected to be fulfilled in the normal course of operations of the Group so as to avoid forfeiture of any tenement.

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

- no later than 1 year	666	3,140
- 1 year or later and no later than 5 years	2,313	3,129
Total exploration commitments	2,979	6,269

### (b) Operating lease expense commitments:

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

The Group leases office premises under two operating leases expiring in June 2016 and July 2016. Under the terms of the operating leases, the Group is provided with a right of renewal and the lessor has the right to increments in lease payments on an annual basis based on movements in the Consumer Price Index.

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

- no later than 1 year	63	85
- 1 year or later and no later than 5 years	121	3
Total operating lease expense commitments	184	88

### (c) Other contractual commitments:

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

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

- no later than 1 year	178	62
- 1 year or later and no later than 5 years	239	249
Total other commitments	417	311

- (ii) On 24 November 2009 Philsaga was granted Mineral Production Sharing Agreement ("MPSA") number 299-2009-XIII over the Co-O mine. Under the terms of the Agreement Philsaga is committed to mine related expenditure in the Philippines as follows:

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

- no later than 1 year	89	51
- 1 year or later and no later than 5 years	392	259
Total other commitments	481	310

## 26. EVENTS SUBSEQUENT TO REPORTING DATE

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

## 27. SEGMENT INFORMATION

The Consolidated Group has identified its reportable operating segments based on the internal management reports that are reviewed and used by the Managing Director/Chief Operating 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. Other incorporates the Parent Entity's activities

### **Segment Result, Segment Assets and Segment Liabilities**

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

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

Segment Revenues represent gold and silver sales at spot prices.

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

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## 27. SEGMENT INFORMATION (continued)

	Mining US\$000	Exploration US\$000	Other US\$000	Total US\$000
<b>12 months to June 2016:</b>				
<u>Segment revenue</u>	127,755	-	-	127,755
Reconciliation of segment revenue to Group revenue				
<i>add:</i>				
Interest revenue				75
Other				260
Group Revenue				128,090
<u>Segment result</u>	46,865	(63)	(1,189)	45,613
Reconciliation of segment result to group result:				
<i>add back:</i>				
Gain on disposal of asset				111
Other revenue				149
Interest revenue				75
<i>less:</i>				
Income tax expense				(2,156)
Group profit				43,792
<u>Segment assets</u>	252,942	1,038	2,338	256,318
Reconciliation of segment asset to group assets:				
plus: Deferred tax assets				2,208
Total Group assets				258,526
<u>Segment liabilities</u>	23,116	9	817	23,942
Reconciliation of segment liabilities to group liabilities				
plus: Deferred liabilities				245
<b>Total Group liabilities</b>				24,187
<b>12 months to June 2015:</b>				
<u>Segment revenue</u>	123,093	-	-	123,093
Reconciliation of segment revenue to Group revenue				
<i>add:</i>				
Interest income				79
Other				32
Group Revenue				123,204
<u>Segment result</u>	(208,421)	(4,426)	(6,058)	(218,905)
Reconciliation of segment result to group result:				
<i>add back:</i>				
Gain on disposal of asset				-
Other revenue				32
Interest revenue				79
<i>less:</i>				
Income tax expense				685
Group profit				(218,109)
<u>Segment assets</u>	209,945	1,047	2,426	213,418
Reconciliation of segment asset to group assets:				
plus: Deferred tax assets				3,755
Total Group assets				217,173
<u>Segment liabilities</u>	23,816	12	1,047	24,875
Reconciliation of segment liabilities to group liabilities				
plus: Deferred liabilities				290
<b>Total Group liabilities</b>				25,165

Revenue and non-current assets by geographical region	Australia	Philippines	Total
	US\$000	US\$000	US\$000
<b>12 months to June 2016:</b>			
Segment Revenue	-	127,755	127,755
Non-Current Assets	28,885	169,207	198,092
<b>12 months to June 2015:</b>			
Segment Revenue	-	123,093	123,093
Non-Current Assets	31,906	128,488	160,394

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

The Group sells its gold on the open market. Selection of a customer is at the Group's discretion and there is no commitment to exclusive sales to a particular customer. During the financial year ended 30 June 2016, all of the Group's revenues depended on a single customer (2015:100%).

## 28. PARENT COMPANY INFORMATION

	2016 US\$000	2015 US\$000
<b>Parent Entity:</b>		
Current Assets	2,140	2,247
Total Assets	31,123	34,248
Current Liabilities	817	1,047
Total Liabilities	817	1,047
<b>Net Assets:</b>	30,306	33,201
Issued Capital	102,902	102,902
Option Premium Reserve	739	304
Foreign Exchange Reserve	11,304	11,894
Accumulated Losses	(42,370)	(39,630)
Dividends paid	(42,269)	(42,269)
Total Equity	30,306	33,201
(Loss)/profit for the year	(2,740)	(3,466)
Total Comprehensive (loss)/profit	(3,330)	(6,168)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

## 29. NEW AND REVISED STANDARDS THAT ARE EFFECTIVE FOR THESE FINANCIAL STATEMENTS

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2015. Information on the more significant standard(s) is presented below.

### **AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent**

AASB 2015-4 amends AASB 128 Investments in Associates and Joint Ventures to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 Consolidated Financial Statements for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

## 30. FRANKING ACCOUNT

The Company has no franking credits available.

## 31. COMPANY DETAILS

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

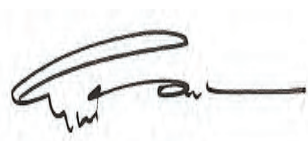
Suite 10  
100 Mill Point Road  
South Perth  
Western Australia 6151

# DIRECTOR'S DECLARATION

for the year ended 30 June 2016

1. In the opinion of the Directors of Medusa Mining Limited (the "Company"):
  - a. The consolidated 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 30 June 2016 and of its performance for the financial year ended on that date; and
    - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. There are reasonable grounds to believe that Medusa Mining Limited will be able to pay its debts as and when they become due and payable.
  - c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.
3. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors



Andrew Teo

**Chairman**

Dated the 29th day of August 2016

# AUDITORS INDEPENDENCE REPORT

for the year ended 30 June 2016



## **Independent Auditor's Report To the Members of Medusa Mining Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Medusa Mining Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2016, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' responsibility for the financial report**

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

Grant Thornton Audit Pty Ltd ACN 130 913 594  
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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors of Medusa Mining Limited on 29 August 2016, would be in the same terms if provided to the Directors as at the date of this auditor's report.

### **Basis for Qualified Opinion**

*Carrying value of property, plant and equipment and development expenditure:*

The Company originally released its audited financial accounts on 30 August 2016. The Company has reported a total carrying value of property, plant and equipment of US\$53.06m (Note 11) and development expenditure of US\$108.61m (Note 12) as at 30 June 2016. Australian Accounting Standard AASB 136 Impairment of Assets requires an asset to be carried at no more than its recoverable amount. The audit report included an emphasis of matter relating to the disclosures included in Notes 1(x) and Note 13 which outlined that the Company estimates its ore reserves and mineral resources based on information compiled by Competent Persons in the Annual Mineral Resources and Ore Reserves Update Statement (the "Statement") and that the last Statement was released in September 2015. The determination of ore reserves and remaining mine life affects the estimate of the recoverable amount of a number of the Company's assets including the deferred mining costs. At the date of our original audit report, an updated Statement had not been completed.

On 28 September 2016, subsequent to the signing of the original financial accounts, the Company released its updated Competent Persons Statement to the market. The updated Statement includes a 12% decrease in probable ore reserves and 16% decrease in total resources. On 30 September 2016 the Company has provided a revised value in use model to assess recoverable amount which includes these updated reserve and resource amounts and other changes in assumptions. As at the date of this report we have not been provided with sufficient appropriate audit evidence nor had sufficient time to assess the impact of these updates on the estimate of the recoverable amount. In the event that the carrying value of these assets exceeds their recoverable amounts, it would be necessary for the assets to be written down to their recoverable amounts.

# AUDITORS INDEPENDENCE REPORT

for the year ended 30 June 2016



Grant Thornton

## Auditor's opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to recoverable amount of the property, plant and equipment and development expenditure assets:

- a the financial report of Medusa Mining Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

## Other Matter

On 28 September 2016, the Company has released its updated Statement to the market. As referred to in our original audit report, as the results of the updated Statement are materially different from the estimated ore reserves used in the financial report, this has resulted in the retraction of our original audit report and this amended audit report which includes the qualification paragraph above.

## Report on the remuneration report

We have audited the remuneration report included in pages 65 to 74 of the directors' report for the year ended 30 June 2016. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

## Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Medusa Mining Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

MAREK

M A Petricevic  
Partner - Audit & Assurance  
Perth, 30 September 2016

# ADDITIONAL SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 16 September 2016.

## 1. SHAREHOLDING

### (a) Distribution of shareholders and shares

Distribution	Number of Shareholders	Number of Shares
1 - 1,000	1,538	761,343
1,001 - 5,000	1,834	4,905,691
5,001 - 10,000	662	5,151,724
10,001 - 100,000	860	26,766,654
100,001 - 1,000,000	84	20,953,799
1,000,000 and over	16	149,255,090
<b>Total</b>	<b>4,994</b>	<b>207,794,301</b>

The number of shareholdings held in less than marketable parcels is 1020.

### (b) Voting rights

The voting rights attaching to ordinary shares are, on a show of hands, every member present in person or by proxy shall have one vote and upon a poll, each share shall have a vote.

### (c) Twenty largest shareholders

Total number of ordinary shares on issue - 207,794,301

Name of shareholders	Number of shares held	(%)
1. National Nominees Limited	40,541,285	19.51
2. Citicorp Nominees Limited	31,378,420	15.10
3. J.P. Morgan Nominees (Australia) Limited	26,428,434	12.72
4. HSBC Custody Nominees (Australia) Limited	20,138,912	9.69
5. HSBC Custody Nominees (Australia) Limited-GSCO ECA	4,568,906	2.20
6. Aust Executor Trustees Ltd < Lanyon Aust Value Fund>	4,067,873	1.96
7. Amalgamated Dairies Limited	3,296,881	1.59
8. Cazna (Oxford 1) Ltd + Cazna (Oxford 2) Ltd < The Oxford A/C>	3,141,925	1.51
9. ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	2,890,326	1.39
10. BNP Paribas Nominees Pty Ltd <DRP>	2,757,960	1.33
11. Berne No 132 Nominees Pty Ltd <594138 A/C>	2,591,880	1.25
12. Mr Samuel Gonzales Afdal	2,260,000	1.09
13. Mr Carl Eric Holt + Mrs Lorraine Holt < Holt Super Fund A/C>	1,464,435	0.70
14. Nero Resource Fund Pty Ltd <Nero Resource Fund A/C>	1,364,000	0.66
15. UBS Nominees Pty Ltd	1,183,853	0.57
16. Mrs Giovanni Santalucia	1,180,000	0.57
17. Mr Brian Greenfield + Mrs Virginia Greenfield <Greenfield Superfund>	932,732	0.45
18. HSBC Custody Nominees (Australia) Limited – A/C 3	925,471	0.45
19. Merrill Lynch (Australia) Nominees Pty Limited <MLPRO A/C>	900,000	0.43
20. Mr Roy Daniel + Mrs Donna Daniel < Daniel Super Fund A/C>	815,875	0.39
<b>Total: Top 20 holders of Ordinary Fully Paid Shares</b>	<b>152,829,168</b>	<b>73.55</b>

# ADDITIONAL SHAREHOLDER INFORMATION

## 1. SHAREHOLDING (continued)

### (d) On market buy back

There is no current on-market buy back.

### (e) Substantial shareholders

An extract of the Company's register of substantial shareholders is set out below:

Name	Ordinary shares held	
	Number of shares	Percentage
Ruffer LLP	17,857,076	8.59%

## 2. UNQUOTED EQUITY SECURITIES AND RESTRICTED SECURITIES

The following classes of unquoted equity securities and restricted securities are on issue:

Type of securities	Number of securities	% held
• 2,740,500 unquoted options to subscribe for ordinary shares exercisable at \$1.00 per share, with an expiry date of 16 December 2018 <u>Persons holding 20% or more:</u>	-	-
• 1,000,000 unquoted options to subscribe for ordinary shares exercisable at \$1.00 per share, with an expiry date of 9 February 2019 <u>Persons holding 20% or more:</u>	-	-
- Raul Conde Villanueva	500,000	50%
- Gary Raymond Powell	500,000	50%

## 3. THE NAME OF THE COMPANY SECRETARY IS:

Mr Peter Stanley Alphonso

## 4. THE PRINCIPAL REGISTERED OFFICE OF THE COMPANY IS:

Suite 10, 100 Mill Point Road  
South Perth,  
Western Australia 6151

Telephone: +618 9474 1330  
Facsimile: +618 9474 1342  
Email: admin@medusamining.com.au

## 5. THE REGISTER OF THE COMPANY'S SECURITIES IS HELD AT THE FOLLOWING ADDRESS:

Computershare Investor Services Pty Limited  
Level 11, Reserve Bank Building  
172 St George's Terrace, Perth,  
Western Australia 6000

Telephone: +618 9323 2000  
Facsimile: +618 9323 2033  
Investor enquiries: 1300 557 010

## 6. STOCK EXCHANGE LISTINGS

Quotation has been granted for all the ordinary shares of the Company on:

- The Australian Stock Exchange Limited (ASX)  
Trading quote: MML

# TENEMENTS SCHEDULE

for the year ended 30 June 2016

Name	Tenement ID	Registered Holder	Company's Interest <sup>1</sup> at		Royalty <sup>2</sup>	Area (hectares) at	
			30-Jun-15	30-Jun-16		30-Jun-15	30-Jun-16
<b>Co-O Mine</b>	MPSA 262-2008-XIII	PMC	100%	100%	-	2,539	2,539
	MPSA 299-2009-XIII	PMC	100%	100%	-	2,200	2,200
<b>Co-O</b>	APSA 00012-XIII	BMMRC	100%	100%	-	340	340
	APSA 00088-XIII	Phsamed	100%	100%	-	4,742	4,742
	APSA 00098-XIII	Philcord	100%	100%	1% NPI	507	507
	APSA 00099-XIII	Philcord	100%	100%	1% NPI	592	592
<b>Saugon</b>	EP 017-XIII	PMC	100%	100%	-	3,132	3,132
	EP 031-XIII <sup>3</sup>	PMC	100%	100%	-	2,456	2,456
	EP 032-XIII	PMC	100%	100%	-	3,048	3,048
	EPA 00066-XIII	PMC	100%	100%	-	6,769	6,769
	EPA 00069-XIII <sup>3</sup>	Phsamed	100%	100%	-	2,519	2,519
	EPA 00087-XIII <sup>3</sup>	PMC	100%	100%	-	87	87
<b>Tambis</b>	MPSA 344-2010-XIII	Philex	100%	100%	7% NSR	6,208	6,208
<b>Das-Agan</b>	MPSA 343-2010-XIII	Das-Agan	100%	100%	3% GSR	3,810	3,810
<b>Apical</b>	APSA 00028-XIII	Apmedoro	Earning 70% (JV)		-	1,235	1,235
<b>Corplex</b>	APSA 00054-XIII	Corplex	100%	100%	3% NSR	2,118	2,118
	APSA 00056-XIII	Corplex	100%	100%	-	162	162
	APSA 00077-XIII	Corplex	100%	100%	4% GSR	810	810
	EPA 00186-XIII <sup>3</sup>	Corplex	100%	100%	3% NSR	7,111	7,111
<b>Sinug-ang</b>	EPA 00114-XIII	Salcedo/PMC	100%	100%	-	190	190
<b>Coal Project</b>	COC Area 6	PMC	100%	100%	-	4,000	4,000
	COC Area 7	PMC	100%	100%	-	5,000	5,000

Notes:

- There have been no material changes to the Company's interest since 30 June 2016;
- Royalties payable to registered holders, aside from the prescribed royalties payable to the Philippine government and the indigenous people;
- Awaiting for approval and confirmation by MGB of area reduction

## ABBREVIATIONS:

### Tenement Types:

<b>MPSA</b>	Mineral Production Sharing Agreement
<b>EP</b>	Exploration Permit
<b>COC</b>	Coal Operating Contract

<b>APSA</b>	Application for Mineral Production Sharing Agreement
<b>EPA</b>	Application for Exploration Permit

### Registered Holders:

<b>PMC</b>	Philsaga Mining Corporation
<b>BMMRC</b>	Base Metals Mineral & Resources Corporation
<b>Phsamed</b>	Phsamed Mining Corporation
<b>Philcord</b>	Mindanao Philcord Mining Corporation
<b>Corplex</b>	Corplex Resources Incorporated
<b>Corplex</b>	Corplex Resources Incorporated

<b>Philex</b>	Philex Gold Philippines Incorporated
<b>Das-Agan</b>	Das-Agan Mining Corporation
<b>Apmedoro</b>	APMEDORO Mining Corporation
<b>Salcedo</b>	Neptali P. Salcedo

### Royalty:

<b>NPI</b>	Net Profit Interest
<b>NSR</b>	Net Smelter Royalty

<b>GSR</b>	Gross Smelter Royalty
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