MEDUSA

MEDUSA MINING LIMITED

ABN 60 099 377 849

and Controlled Entities

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2017

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This report should be read in conjunction with Medusa's Annual Report for the year ended 30 June 2017 and any announcements made by the Company during the interim reporting period, as it does not include all the notes of the type normally included in an annual financial report.

Appendix 4D

Half year report
For the 6 months ended 31 December 2017

Name of entity

MEDUSA MINING LIMITED

ABN or equivalent company reference	Half yearly (tick)	Preliminary final (tick)	Half year/ financial ended ("current period")
60 099 377 849	√		**31 December 2017**

Results for announcement to the market

Revenues and profits:		US$'000		US$'000
Revenues from ordinary activities	up 37%	49,848	to	68,129
Profit from ordinary activities after tax attributable to members*	up 133%	(41,758)	to	13,976
Net profit for the period attributable to members*	up 133%	(41,758)	to	13,976

(* All comparisons to restated previous period figures ended 31 December 2016)

Dividends:

Interim dividend	Amount per security	Franked amount per security
- current period (half year ended 31 Dec 2017)	Nil	Nil
- previous period (half year ended 31 Dec 2016)	Nil	Nil

No dividend will be paid in the current period.

Net tangible assets per share:

The net tangible assets per share as at 31 Dec 2017 was US$0.738 (31 Dec 2016: US$0.742)

Change in control of entities:

There has been no change in control, either gained or loss during the current period.

Associates and Joint Venture entities:

The Consolidated Group did not have a holding in any associates or joint venture entities during the current period.

MANAGING DIRECTOR'S REPORT

Dear Shareholders,

For the half year results I am very pleased to announce the positive progress we have achieved in delivering to the strategic plan for the Co-O Mine infrastructure upgrade as outlined at the start of the year.

The production for the half year was 49,952 ounces, an improvement of 30% when compared to the December 2016 result of 38,507 ounces, driven by a 32% feed grade increase and with half year AISC of US$999 per ounce of gold produced. The original full year 2017-2018 guidance was between 80,000 to 90,000 ounces gold at AISC of US$1,050 to US$1,200 per ounce of gold. This was upgraded in early December to between 85,000 to 95,000 ounces of gold at AISC of US$1,000 to US$1,150 per ounce of gold.

I am also pleased to announce the delivery of the above-mentioned results were achieved while completing most of the infrastructure capital projects and significantly advancing the E15 Service Shaft expansion project, while generating "Free Cash Flow" for the six months, with the 31 December cash (and equivalents) now at US$16.7 million.

The mine ventilation upgrade completed prior to this reporting period, resulted in roll-on effects in overall efficiencies. The mine de-watering expansion was completed in July as planned. The resource and reserve definition drilling campaign continue into this year, with more than 8,600 meters completed this half year. The prioritized mine development strategy has returned 20% more advance then the same period last year, achieving 2,007 meters of development on Level 9, a major contributing factor in the 32% improvement in mill feed grade and the other contributing factor being improved dilution control practices.

The E15 Service Shaft has seen some minor slippage in the sinking rate, but was sunk to Level 9 by the end of December. The schedule has been upgraded, allowing for additional time for the shaft hardware installation phase. The E15 Shaft is now expected to be completed by the end of June 2018 which is reflected in the FY 17-18 guidance.

In August 2017 Medusa published it's JORC 2012 re-estimation of resources and reserves, returning Co-O Mine reserves of 345,000 ounces of gold, inclusive in the resource of 859,000 ounces and total resources of 1,337,700 ounces of gold. With maiden reserves of 250,000 ounces and a 10-year production history of 780,000 ounces, there exists 345,000 ounces of current reserves and an additional 424,000 ounces of Co-O resources as understood today, reflecting on the robustness of the Co-O deposit type. The Co-O deposit remains open down-dip to the east where progressive step-out drilling will continue.

The regional exploration activities for the half year continue to follow the strategic plan. Tenement holdings have been rationalised based on explorability and resources have been focused on targeting "Co-O near-mine" areas. Generative work has continued assessing advanced stage gold projects and quality green-fields projects throughout the Philippines, this has included projects assessments in Southeast Asia region.

The company has maintained its sustainability and environmental performance through this period. We continue to meet all requirements of the Philippine Department of Environment and Natural Resources (DENR), and continue to participate in numerous health, education and environmental programs with the local communities and regional government. The introduction of additional training and safety procedures have resulted in a noticeable improvement in the Co-O mines safety culture with a frequency rate reduced over the previous year.

In closing I would like to thank the management team both at site and Perth office and express our gratitude to the local communities and government agencies in the Philippines for their on-going co-operation and support.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2017 and the review report thereon:

DIRECTORS

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

Name	Period of Directorship
Non-Executives:	
Mr Andrew Teo (Non-Executive Chairman)	since 15 Feb 2010
Mr Roy Daniel	since 25 Nov 2015
Mr Ciceron Angeles	since 28 Jun 2011 (resigned 31 Oct 2017)
Executives:	
Mr Boyd Timler (Managing Director)	since 09 Jan 2017
Mr Raul Villanueva	since 24 Jan 2013

FINANCIALS

Description	Unit	Dec 2017	Dec 2016	Variance	(%)
Revenues	US$	$68.1M	$49.8M	$18.3M	37%
EBITDA (1)	US$	$33.5M	($33.7M)	$67.2M	199%
NPAT (1) / (2)	US$	$14.0M	($41.8M)	$55.8M	133%
EPS (basic) (2)	US$	$0.067	($0.201)	$0.268	133%

(1) includes asset impairment losses totaling US$55.0 million;
(2) Dec 2016 restated.

Revenues of US$68.1 million, an increase of 37% from US$49.8 million in the previous corresponding period ("pcp"). This rise is attributable to a significant increase in gold production coupled with a marginally higher average price received on sale of gold.

Medusa is an un-hedged gold producer and received an average gold price of US$1,278 per ounce from the sale of 53,152 ounces of gold for the half-year to December 2017 (pcp: 39,061 ounces at US$1,271 per ounce).

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US$33.5 million, up 199% from EBITDA/(loss) of (US$33.7 million-restated) in the pcp, which includes asset impairment losses totalling US$55.0 million

NPAT of US$14.0 million, up 133% on Net Loss after Tax from pcp of (US$41.8 million- restated).

Basic earnings per share ("EPS") up 133% to US$0.067 from pcp EPS of (US$0.201- restated).

The Company had total cash and cash equivalent in gold on metal account and bullion on hand of US$16.7 million at 31 December 2017 (pcp: US$12.9 million).

During the half year:

- Depreciation of fixed assets and amortisation of capitalised mine development and mine exploration was US$10.7 million (pcp: US$6.1 million).
- US$6.4 million was expended on capital works (inclusive of new Service Shaft) and associated capital at mine and mill for the period (pcp: US$8.2 million).
- Exploration expenditure, including underground diamond drilling was US$2.2 million (pcp: US$4.9 million). Capitalised mine development costs totalled US$11.4 million (pcp: US$13.6 million). Corporate overheads of US$3.1 million (pcp: US$3.7 million).

DIRECTORS' REPORT

CORPORATE

Dividend

No dividend will be payable for the half year to 31 December 2017 (No dividend was payable for the previous half year to 31 December 2016).

Corporate

Ciceron "Jun" Angeles offically resigned as a Non-executive Director of Medusa, on 31 October 2017 (the market was advised on 22 August 2017 when Jun tendered his resignation).

Co-O OPERATIONS

Production Guidance

The Company's initial production guidance released in July 2017 was anticipated to be between 80,000 to 90,000 ounces of gold, at All-In-Sustaining-Costs ("AISC") of between US$1,050 to US$1,200 per ounce of gold.

Based on the September 2017 quarterly results and results to date at the end of November 2017, the Company in early December 2017, revised its full year guidance upward to produce between 85,000 to 95,000 ounces of gold at AISC of US$1,000 to US$1,150 per ounce of gold.

This revised guidance is based primarily on higher than planned mill feed grades since the June 2017 quarter. The Company has been able to develop the main veins on the lower levels (levels 8-9-10) ahead of plan, resulting in the higher mill feed grades.

Whilst results for the 1st half of the fiscal year has been better than planned, we expect the 2nd half of the fiscal year results to remain as planned, despite the completion date of the E15 Service Shaft, being delayed to mid-2018.

REVIEW OF OPERATIONS

CO-O OPERATIONS

Description	Unit	Dec 2017	Dec 2016	Variance	(%)
Ore mined	WMT	272,941	284,134	(11,193)	(4%)
Ore milled	DMT	246,532	253,102	(6,570)	(3%)
Head grade	g/t	6.63	5.02	1.61	32%
Recovery	%	94.7%	94.3%	0.4%	-
Gold produced	ounces	49,952	38,507	11,445	30%
Gold sold	ounces	53,152	39,061	14,091	36%
Cash costs	US$/oz	$544	$607	($63)	(10%)
All-In-Sustaining-Costs	US$/oz	$999	$1,408	($409)	(29%)
Avg gold price received	US$/oz	$1,278	$1,271	$7	1%

The Company produced 49,952 ounces of gold for the half-year, compared to 38,507 ounces from the previous corresponding period, at an average recovered grade of 6.63 g/t gold (pcp: 5.02 g/t gold).

The average cash costs of US$544 per ounce, inclusive of royalties and local business taxes was lower than the previous period's average cash costs of US$607 per ounce.

All in Sustaining Costs ("AISC") for the half year was US$999 compared to the previous period's AISC of US$1,408 per ounce of gold.

CO-O MINE

Underground mining at Co-O during the half year produced 272,941 tonnes (WMT) of ore at a mine head grade of 6.73 g/t Au. Tonnes were slightly down on the same period from last year by 4%, though mined grade was significantly up on the same period from last year.

The Co-O process plant throughput was 246,532 tonnes for the period, slightly down on the same period from last year but the feed grade was significantly higher resulting in significantly more gold being produced (30% increase).

For the half year period, there were 12,137 metres of development completed. This is a 20% increase on the same period from last year. Maintaining the overall mine development is critical for delivering long-term results. Opening up the resources below level 8 is critical and to this end for the H1 period 2,007 meters of development has been completed on levels 9 and 10 from the 5 internal winzes. Stoping has commenced on level 9.

Medusa has placed a high importance on understanding the Co-O ore body and its resource potential. A clear understanding of the resources drives a robust "life of mine plan". Drilling from the level 8 diamond drill stations continued with 5,239 metres of resource definition drilling completed during the first half of the year. Additionally, 3,437 metres of reserve definition drilling was completed from levels 6, 7, and 9. The underground drilling campaign from Level 8 is targeting to increase and upgrade the current mineral resource base and intercept the depth and strike extensions of the mineralized vein system primarily between Levels 8 to Level 12 (-200m to -400m RL) though this is beginning to be expanded to Level 16.

REVIEW OF OPERATIONS

Projects

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

- The E15 Service Shaft progress in the 6 months has been significant. The strip and line portion of the work has been completed to down to level 8 and the blind sinking portion of the work commenced and has reached level 9. At the end of December 2017, the shaft was at a depth of 445.7 metres, design depth of the shaft is 512 metres. Fabrication of drawbridges, lower shaft steel work and shaft electronics have commenced. Work on the fitting of the shaft steel work and electronic control and safety systems will commence after sinking operations have been completed.
- The level 8 pump station was commissioned in early July with fine tuning of the system completed in August. The system is now operating at design capacity, allowing much of the old pumping system to be switched off. Work to improve the reliability of the level 5 pump station was completed in November 2017. The overall effect of this work has been a more reliable pumping system with no flooding and reduced maintenance and power cost. Work has commenced on identifying and planning for future pumping requirements.
- Development of Internal Winzes below the 8 level have continued with the 43E shaft reaching level 10 and horizontal development has commenced to link it with the development off the other internal shafts. The 48E shaft was near the 10 level at the end of December 2017 and work to establish the winder and head frame for the 35E shaft was completed and sinking operations recommenced. The 35E Shaft is now at a depth of 29 metres.

EXPLORATION

Regional

The company is still on the lookout for prospective areas in the Philippines and has expanded its search in the Southeast Asia region. Initial representative visits to Cambodia were made during this half year reporting period.

Cambodia Project

The Company has entered into a Memorandum of Understanding with SEA Resources Pty Ltd, Sovann Resources Co., LTD (a related Cambodian entity of SEA) regarding an exploration opportunity in the Prek Kampi region of Cambodia (MOU). Refer to the company announcement as at 10 January 2018.

Near Mine Exploration (MinEX)

The compilation, screening and selection of potential drillable targets remain on going.

The company received notice from the Mines and Geosciences Bureau on the approval of our request for the renewal of MPSA 299 dated July 21, 2017. A fast track reconnaissance geologic mapping has been completed within MPSA Parcel 2 to validate the technical and financial merits of incising this portion of the tenement prior to consolidating of MPSA 299 with our Co-O Mine tenement – MPSA 262. The review is on-going and expected to be completed next reporting period.

REVIEW OF OPERATIONS

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the half-year ended 31 December 2017.

ROUNDING OF AMOUNTS

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

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

Andrew Teo
Chairman

Dated this 28th day of February 2018

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

As lead auditor for the review of Medusa Mining Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. No contraventions of any applicable code of professional conduct in relation to the review.

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

Neil Smith

Director

BDO Audit (WA) Pty Ltd

Perth, 28 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 31 December 2017

	Note	31 Dec 2017	31 Dec 2016 Restated (*)
		US$ 000	US$ 000
Revenue		68,129	50,101
Cost of sales		(39,798)	(29,832)
Gross Profit		28,331	20,269
Exploration & Evaluation Expenses	1(d)	(337)	(979)
Administration expenses		(6,559)	(3,848)
Impairment expense		-	(55,000)
Other expenses		(52)	(378)
Profit / (Loss) before income tax expense		21,383	(39,936)
Income tax expense		(7,407)	(1,822)
Profit / (Loss) for the period after income tax expense		13,976	(41,758)
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations (net of tax)		(575)	(2,367)
Total comprehensive income/(loss)		13,401	(44,125)
Overall operations:			
Basic earnings/(loss) per share		0.067	(0.201)
Diluted earnings/(loss) per share		0.067	(0.201)

The accompanying notes form part of these financial statements.
(*) Restated - Refer Note 1(d) for further details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	31 Dec 2017	30 Jun 2017 Restated (*)	30 Jun 2016 Restated (*)
		US$ 000	US$ 000	US$ 000
CURRENT ASSETS				
Cash & cash equivalents		12,479	11,214	9,517
Trade & other receivables		21,668	11,963	25,977
Inventories		14,419	16,993	24,304
Other current assets		216	571	636
Total Current Assets		48,782	40,741	60,434
NON-CURRENT ASSETS				
Trade & other receivables		20,302	24,050	22,915
Property, plant & equipment		46,637	41,745	53,065
Intangible assets		672	720	552
Exploration and evaluation expenditure	1(d)	-	-	-
Development expenditure		70,718	66,439	83,446
Deferred tax assets		2,031	1,662	2,208
Total Non-Current Assets		140,360	134,616	162,186
TOTAL ASSETS		189,142	175,357	222,620
CURRENT LIABILITIES				
Trade & other payables		16,708	19,570	13,438
Borrowings		4,537	6,979	6,064
Provisions		513	364	346
Total Current Liabilities		21,758	26,913	19,848
NON-CURRENT LIABILITIES				
Borrowings		2,290	3,521	1,503
Deferred tax liability		7,407	245	245
Provisions		3,757	4,231	2,591
Total Non-Current Liabilities		13,454	7,997	4,339
TOTAL LIABILITIES		35,212	34,910	24,187
NET ASSETS		153,930	140,447	198,433
EQUITY				
Issued capital	5	102,902	102,902	102,902
Reserves		2,844	3,547	5,152
Retained profits		48,184	33,998	90,379
TOTAL SHAREHOLDERS' EQUITY		153,930	140,447	198,433

The accompanying notes form part of these financial statements.

(*) Restated - Refer Note 1(d) for further details

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2017

	Share Capital Ordinary	Retained Profits	Share Option Reserves (refer note 6)	Foreign Currency Translation Reserve	Total
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Balance at 01.07.2016	102,902	152,384	739	4,413	260,438
Change in accounting policy (note 1(d))	-	(62,005)	-	-	(62,005)
Balance at 01.07.2016 (Restated*)	102,902	90,379	739	4,413	198,433
Net loss after tax (Restated*)	-	(41,758)	-	-	(41,758)
Other comprehensive income /(loss)	-	-	-	(2,367)	(2,367)
Total comprehensive loss for the period (Restated*)	-	(41,758)	-	(2,367)	(44,125)
Share options expensed	-	-	378	-	378
Balance at 31.12.2016 (Restated*)	102,902	48,621	1,117	2,046	154,686
Balance at 01.07.2017 (Restated*)	102,902	33,998	1,030	2,517	140,447
Net profit after tax	-	13,976	-	-	13,976
Other comprehensive income /(loss)	-	-	-	(575)	(575)
Total comprehensive loss for the period	-	13,976	-	(575)	13,401
Share options expensed	-	-	82	-	82
Transfer from share option reserve	-	210	(210)	-	-
Balance at 31.12.2017	102,902	48,184	902	1,942	153,930

The accompanying notes form part of these financial statements.
(*) Restated - Refer Note 1(d) for further details.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2017

	31 Dec 2017	31 Dec 2016 Restated (*)
	US$ 000	US$ 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	64,145	58,187
Payments to suppliers and employees	(35,407)	(32,957)
Payments for exploration expenditure and tenements	(337)	(979)
Interest received	39	15
Net cash provided by operating activities	28,440	24,266
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for non-current assets	(6,376)	(8,897)
Payments for development activities	(15,271)	(16,261)
Net cash used in investing activities	(21,647)	(25,158)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payment of) / Receipt from bank loan	(3,673)	854
Net cash provided by financing activities	(3,673)	854
Net increase / (decrease) in cash held	3,120	(38)
Cash at beginning of period	11,214	9,517
Exchange rate adjustments	(1,855)	(677)
Cash at end of period	12,479	8,802

The accompanying notes form part of these financial statements.

(*) Restated - Refer Note 1(d) for further details.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2017

Note 1: Basis of preparation

The Condensed interim consolidated financial statements of the Company as at and for the six months ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group").

The functional currency of each of the Group's entities is the currency of the primary economic environment in which that entity operates. The Group's functional currencies include Australian dollars and US Dollars. The presentation currency for the Group is US dollars.

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

The consolidated annual financial report of the consolidated group as at and for the year ended 30 June 2017 is available on the company's website.

(a) Statement of compliance

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

They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated annual financial statements of the Group for the year ended 30 June 2017 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001

The consolidated interim financial statements were approved by the Board of Directors on 27 February 2018.

(b) Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2017 other than the voluntary change in accounting for exploration and evaluation costs referred to further in Note 1(d) below.

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

(c) Estimates

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

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2017 with the exception of the following:

Key estimates - Recoverability of long lived assets

Certain assumptions are required to be made in order to assess the recoverability of capitalised development expenditure. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of ore reserves. In addition, cash flows are projected over the life of mine, which is based on proved and probable ore reserves. Estimates of ore reserves in themselves are dependent on various assumptions, in addition to those described above, including cut-off grades. Changes in these estimates could materially impact on ore reserves, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount.

The Group has used the ore utilised throughout the period and replenished to estimate the recoverable amount of long lived assets.

Estimates of ore reserves in themselves are dependent on various assumptions, in addition to those described above, including cut-off grades. Changes in these estimates could impact on ore reserves and could therefore affect estimates of future cash flows used in the assessment of recoverable amount.

Key estimates - Determination of ore reserves and remaining mine life

The Group estimates its ore reserves and mineral resources based on information compiled on the 7 of August 2017 by Competent Persons (as defined in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised June 2012 code (the JORC code)). Reserves determined in this way are taken into account in the calculation of depreciation of mining plant and equipment, amortisation of capitalised development expenditure, and impairment relating to these assets.

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

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

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

Key estimates - Provision for Rehabilitation

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

Key estimates - Provision for income tax and GST/VAT

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

The Group has net GST/VAT of US$34.4 million that comprises tax credit certificates (TCC) and VAT claimable for cash. The current asset portion of VAT US$15.3 million comprises amounts that are estimated to be utilised by TCC to offset various indirect taxes within the current period. The non-current amount of VAT receivable of US$19.1 million represents the estimated amount to be utilised in future periods against tax liabilities.

(d) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure ("E&E") 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.

Effective 1 July 2017 the Company has revised its policy to expense all costs incurred in respect of the acquisition of exploration and evaluation activities and ongoing exploration activities in the period in which they are incurred.

When production commences, the accumulated costs for the relevant area of interest will be amortised over the life of the area according to the rate of depletion of reserves.

In accordance with AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors, brought forward balances to 30 June 2017 are accounted for retrospectively and reflected against Retained Earnings. Expenditure during the six months ended 31 December 2017 is expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

This voluntary change in accounting policy involves restating the following balances:

Statement of financial position	30 Jun 2017			31 Dec 2016			30 Jun 2016		
	Previous amount US$000	Increase/ (Decrease) US$000	Restated amount US$000	Previous amount US$000	Increase/ (Decrease) US$000	Restated amount US$000	Previous amount US$000	Increase/ (Decrease) US$000	Restated amount US$000
Exploration	56,553	(56,553)	-	52,859	(52,859)	-	62,006	(62,006)	-
Development	66,439	-	66,439	46,602	15,973	62,575	83,446	-	83,446
Exploration, evaluation & development expenditure	122,992	(56,553)	66,439	99,461	(36,886)	62,575	145,452	(62,006)	83,446
Total Assets	231,910	(56,553)	175,357	215,816	(36,886)	178,930	284,625	(62,005)	222,620
Net Assets	197,000	(56,553)	140,447	191,572	(36,886)	154,686	260,438	(62,005)	198,433
Retained Earnings	90,550	(56,552)	33,998	85,507	(36,886)	48,621	152,384	(62,005)	90,379
Total Equity	**197,000**	**(56,553)**	**140,447**	**191,572**	**(36,886)**	**154,686**	**260,438**	**(62,005)**	**198,433**

Statement of profit or loss and other comprehensive income	30 Jun 2017			31 Dec 2016			30 Jun 2016		
	Previous amount US$000	Increase/ (Decrease) US$000	Restated amount US$000	Previous amount US$000	Increase/ (Decrease) US$000	Restated amount US$000	Previous amount US$000	Increase/ (Decrease) US$000	Restated amount US$000
Cost of Sales	(67,152)	-	(67,152)	(29,833)	-	(29,833)	(73,281)	-	(73,281)
Exploration & evaluation expenses	(7,098)	5,453	(1,645)	-	(979)	(979)	-	(472)	(472)
Impairment	(70,800)	-	(70,800)	(55,000)	-	(55,000)	-	-	-
Profit/loss after tax	**(62,129)**	**5,453**	**(56,676)**	**(40,778)**	**(979)**	**(41,757)**	**44,329**	**(472)**	**43,857**
Basic earnings/loss per share (US$ per share)	(0.299)	0.026	(0.273)	(0.196)	(0.005)	(0.201)	0.213	(0.002)	0.211
Diluted earnings/loss per share (US$ per share)	(0.299)	0.026	(0.273)	(0.196)	(0.005)	(0.201)	0.209	(0.002)	0.207

Due to the voluntary change in Accounting policy regarding Exploration expenditure written off as incurred, the Consolidated Statement of Cash Flows discloses the expenditure as an Operating activity instead of an Investing Activity.

(e) Significant events and transactions

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

(f) Comparative figures

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

(g) Rounding of amounts

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

	31 Dec 2017	31 Dec 2016
	US$ 000	US$ 000
Note 2: Profit/loss for the period		
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Revenue items:		
Interest revenue	39	15
Gold and silver sales	68,090	49,806
Other	-	280
Expense items:		
Depreciation	1,498	716
Amortisation	9,190	5,383
Employee benefits and other expenses	4,848	4,828
Recognition of share-based payments	83	378
Note 3: Dividends		
No dividend was declared during or since the end of the half year (2017: No dividend was declared)	-	-

Note 4: Segment Information

The Consolidated Group has identified its reportable operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) and his management team in assessing performance and in determining the allocation of resources.

The Group segments are structured as Mine, Gold Trading, Exploration and Other. Currently the only operational mine is the Co-O mine.

	Mining	Exploration	Gold Trading	Other	Total
	US$ 000	US$ 000	US$ 000	US$ 000	US$ 000
Segment Revenue and Result					
6 months to December 2017:					
Segment revenue	-	-	68,090	39	68,129
Segment result	(52,342)	(15)	67,941	(1,608)	13,976
6 months to December 2016:					
Segment revenue	49,806	-	-	295	50,101
Segment result (Restated*)	(40,134)	(9)		(1,615)	(41,758)
Segment Assets and Liabilities					
31 December 2017:					
Segment assets	180,599	72	4,804	1,636	187,111
Reconciliation of segment assets to group assets add -					
Deferred tax assets	2,031	-	-	-	2,031
Total group assets					189,142
Segment liabilities	27,070	8	95	632	27,805
Reconciliation of segment liabilities to group liabilities add -					
Deferred tax liabilities	7,407	-	-	-	7,407
Total group liabilities					35,212
30 June 2017:					
Segment assets	167,088	82	5,581	944	173,695
Reconciliation of segment assets to group assets add -					
Deferred tax assets	1,662	-	-	-	1,662
Total group assets (Restated*)					175,357
Segment liabilities	33,901	7	30	727	34,665
Reconciliation of segment liabilities to group liabilities add -					
Deferred tax liabilities	245	-	-	-	245
Total group liabilities					34,910

(*) Restated - Refer Note 1(d) for further details.

Note 5: Issued Capital

	31 Dec 2017 (shares)	30 Jun 2017 (shares)	31 Dec 2017 US$ 000	30 Jun 2017 US$ 000
Ordinary shares on issue	207,794,301	207,794,301	102,902	102,902

Movement in ordinary shares during the half-year:

- Balance at beginning of the period	207,794,301	207,794,301	102,902	102,902
- Ordinary shares issued	-	-	-	-
	207,794,301	207,794,301	102,902	102,902

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

Note 6: Share Option Reserve

	31 Dec 2017 (options)	30 Jun 2017 (options)	31 Dec 2017 US$ 000	30 Jun 2017 US$ 000
Share Option Reserve	4,365,000	4,365,000	902	1,030
Opening balance	4,365,000	3,740,500	1,030	739
less -				
- Options forfeited	-	(575,500)	-	-
- Options expired	-	-	-	-
- Options granted	-	1,200,000	-	-
Transfer to retained earnings	-	-	(210)	(295)
Share options recognised during the period in accordance with AASB 2 - share based payments	-	-	82	586
	4,365,000	4,365,000	902	1,030

Note 7: Share Based Payments

Share based options	31 Dec 2017		30 Jun 2017	
	Number of options and performance rights	Weighted average exercise price (A$)	Number of options and performance rights	Weighted average exercise price (A$)
Outstanding at start of year	4,365,000	1.1031	3,740,500	1.0000
Granted	-	-	1,200,000	1.3750
Forfeited	-	-	(575,500)	1.0000
Expired	-	-	-	-
Outstanding at 31 December 2017	4,365,000	1.1031	4,365,000	1.1031
Vested at 31 December 2017	3,325,000	1.0406	2,091,000	1.0000

During the 6 months to 31 December 2017 no options expired (2017: nil).

The options outstanding at 31 December 2017 (all of which are unlisted) had a weighted average exercise price of A$1.1031 and a weighted average remaining contractual life of 18.44 months.

Included under administration expense in the Statement of Profit or Loss and other Comprehensive Income is US$83,343 (6 months to 31 December 2016: US$377,892) and relates, in full, to equity-settled share-based payment transactions relating to employees.

Note 8: Contingent Liabilities

There have been no changes in contingent liabilities in the period since the 30 June 2017 annual report.

Note 9: Commitments

There has been no change to the commitments as disclosed in the Group's 30 June 2017 annual report.

Note 10: Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the Company's annual report for the year ended 30 June 2017.

Note 11: Events subsequent to reporting date

- On 9 January 2018 the Company, under the Medusa Mining Limited Share Option Plan issued 1,665,000 unlisted options to Australian and Philippine based employees. The options which hold no voting or dividend rights have an expiry date of 8 January 2022 and are exercisable at various prices ranging from A$1.00 to A$1.75.
- On 10 January the Company announced to the ASX that it had entered into a Memorandum of Understanding with SEA Resources, Souvann Resources Co. ("Souvann"), and the shareholders of Souvann regarding an exploration opportunity in the Prek Kampi region of Cambodia.

Note 12: Impairment of Non- Current Assets

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

When indicators of impairment exist, a formal estimate of the recoverable amount is made. External and internal indicators of impairment as at 31 December 2017 included;

- *long range planning and scheduling meeting the JORC 12 Compliances:*
- *increased development costs incurred during forecast periods and increased future costs of production; and reduction in the group's market capitalisation relative to the carrying values of non-current assets.* 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 mine plan was 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 31 December 2017 carrying value assessments. Comparison to the prior period has been provided.

Assumptions	*Unit*	*31 Dec 2017 (2018- 2023)*	*30 Jun 2017 (2018 – 2021)*
Average Gold price	US$/ounce	1,301	1,250
Average AISC	US$/ounce	905	926
Pre-Tax Discount rate (%)	%	15.15	16.5
Probable reserves	ounces	479,003	427,000
Production range per annum	ounces	90,000 - 128,000	105,000 - 130,000

Average All In Sustaining Cost ("AISC") comprises all operating, capital and overheads expenditure averaged over the period mentioned.

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 pre-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 committed capital 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 Securities Exchange on 7 August 2017.

The Group carried out an impairment test taking into account the factors mentioned above. The model revealed that the estimated future cash flows were greater than the carrying value of the CGU as reported in the financial statements

DIRECTORS' DECLARATION

In the opinion of the Directors of Medusa Mining Limited:

(a) The consolidated interim financial statements and notes of Medusa Mining Limited are in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of its financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

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Andrew Teo
Chairman

Dated this 28th day of February 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Medusa Mining Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Medusa Mining Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Other matter

The financial report of the Group for the half-year ended 31 December 2016 was reviewed by another auditor who expressed a qualified conclusion on that financial report on 28 February 2017. The basis for the qualified conclusion related to the auditor being unable to determine the portion of the impairment charge recognised in the half-year ended 31 December 2016 which could be attributable to the prior financial year.

The financial report of the Group for the year ended 30 June 2017 was audited by another auditor who issued a disclaimer of opinion on that financial report on 29 September 2017. The basis for disclaimer related to:

(i) The auditor being unable to determine the portion of the impairment charge recognised in the year ended 30 June 2017 which could be attributable to the prior financial year

(ii) The auditor being unable to confirm or verify by alternative means the completeness and accuracy of the restatements for the years ended 30 June 2015 and 30 June 2016 assessed by the Directors

(iii) The Directors not undertaking an impairment assessment in line with AASB 136 Impairment of assets in respect of the exploration and evaluation assets recognised in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources.

All matters have now been resolved and our conclusion is not modified in respect of these matters.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit (WA) Pty Ltd

BDO

Neil Smith

Neil Smith

Director

Perth, 28 February 2018