

Regulatory Story

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ANNOUNCEMENT

22 June 2011

PRODUCTION GUIDANCE FY 2011/12 SHAFT UPGRADE & NEW Co-O MILL UPDATE

Medusa Mining Limited ("Medusa" or the "Company"), through its Philippines subsidiary, Philsaga Mining Corporation ("Philsaga"), is providing a forecast for its gold production for the financial year commencing 1 July 2011, an update on shaft upgrades and progress of the new Co-O Mill.

Key points are:

- Production guidance for FY2011/12, between 100,000-110,000 ounces at cash costs of circa US\$200 per ounce;
- Major upgrade of Agsao Shaft and additional internal shaft access from the Baguio Shaft;
- New Co-O Mill Capex reduced by US\$10 million to approximately US\$70 million.

Managing Director Peter Hepburn-Brown commented:

"We are continually striving to improve our operations. The new Agsao Shaft winder is expected to be in place during July and the completion of the Saga Shaft to Level 6 is expected in late in 2011. It is planned that the Saga Shaft will be ready to haul ore early in 2012 from Level 6, and combined with the increased development rate, will enable the Company to supply increased amounts of ore to the new Co-O Mill on its completion. It is intended that the Saga Shaft will be continued to Level 8.

It is also pleasing that we should now be able to achieve considerable savings on Capex with the new mill and that we are still on-track to receive permits for the expansion around late September".

PRODUCTION

Production for the 2011/12 financial year is forecast at between 100,000-110,000 ounces. As foreshadowed in the quarterly report to 31 March 2011, the Company is significantly increasing its rate of underground development to approximately 800 metres per month which will result in a higher percentage of lower grade development ore in the mill feed. This accelerated development program is essential to prepare the mine for the increased production rates required under the expansion plans. Production for the September 2011 quarter will be reduced by the development program in place and by the influence of the following factors:

- Agsao Shaft refurbishment during July 2011 in preparation for the winder replacement. The shaft refurbishment will involve repairing timber sets in the shaft, ahead of the replacement of the current winder with a much larger and faster winder with a larger skip to increase the overall efficiency of the shaft. The new winder will have the capacity to haul approximately 400 tonnes per day;
- A connection to a new internal shaft at the bottom of the Baguio Shaft will be finalised to enable ore to be hauled from Level 4 (currently only hauled from Level 3); and
- the opportunity to undertake mill maintenance whilst the shaft refurbishment work is in progress.

NEW Co-O MILL UPDATE

Since announcing the approval to construct a new mill with the capacity to produce 200,000 ounces in November 2010, the Company has evaluated three sites, being two adjacent to the mine (11 kilometres from the current mill) and the third being the complete remodelling of the current mill site. The initial Capex was estimated at US\$80 million inclusive of mine development and Saga Shaft.

The recommendation from the Company's consulting engineers after taking into consideration our current operating environment and community relationships, and the availability of multiple sites for additional tailings dams at the current mill site, was to extensively remodel the current mill site which would maximise the use of the existing facilities. At this point, this will result in cost savings of around US\$10 million thus reducing the estimated Capex to US\$70 million inclusive of mine development and the Saga Shaft.

The application to upgrade the Environmental Clearance Certificate for the current Co-O Mill has been submitted to the Department of Environment and Natural Resources and is currently undergoing assessment.

Replacement and transferral of buildings and facilities around the current mill will commence in July 2011 to make room for the expansion.

Quotations have been received for the main long lead time items for the new mill. The order for the SAG mill will be placed during July 2011.

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