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ANNOUNCEMENT

9 September 2014

OPERATIONS UPDATE

(ASX: MML)

Medusa Mining Limited (“Medusa” or the “Company”), through its Philippine operating company, Philsaga Mining Corporation, announces the following updates.

As announced to the market on 1 September 2014, Mr Robert Gregory was appointed as consulting mining engineer in conjunction with another senior mining engineer to conduct a comprehensive review of the Company’s operations at its Co-O Gold Mine and provide recommendations to the Board.

Upon completion of this review process, the Board will provide an updated production guidance for the 2014-15 financial year.

KEY POINTS (to date)

- Based on current production statistics for July and August, gold production is expected to be above 20,000 ounces for the September 2014 quarter;
- At this production level, the Company expects to start adding to its cash balance;
- Mill recoveries are currently running at a minimum of 90%;
- Current trends indicate the mill head grade for the quarter will be above 5 g/t gold.

MILL

Since commissioning of the new mill in the first quarter of 2014, several issues have arisen (aside from the well documented power cell failure):

- (i) The vibratory feeder to the primary crusher was found to be unsuitable and was taken off-line in December 2013. Subsequently all feed to the mill was loaded through the emergency feed station resulting in uncrushed run-of-mine (“ROM”) size rock being fed directly into the SAG mill.

The vibratory feeder was replaced with a new purpose built apron feeder on 9 July 2014 and the primary crusher is now operating to design.

- (ii) Leaching Circuit: construction of two new pre-leach tanks is underway and is expected to be completed late in the year. These tanks will increase leaching time from 24 hours to approximately 30 hours.
- (iii) Screens: issues with various screens are being resolved progressively.

- (iv) Grind size: grind size distributions are still below the design of 80% passing 75 microns, however modifications are underway to improve this.
- (v) Currently the gold recovery is a minimum of 90%, partly due to the higher percentage of stope ore in the mix as well as technical improvements, and is anticipated to be optimised further once more technical improvements are completed.

MINE

Geology

The extensive development that has been undertaken over the last two years, including opening up Level 8, has provided a much clearer understanding of the 3D shapes of the pinching and swelling of the veins and grade distributions. Consequently since September 2013 a major review of the all the mine geological data has been undertaken to develop a scheme of systematic classification of the veins according to textures and their relationship to the grade tenor of the vein. This classification allows visual grade estimates to be undertaken at working faces to facilitate and expedite mining decisions and to assist in mine planning.

A significant amount of re-interpretation has been completed, including the recognition that the main west-trending vein system is controlled by a major shear system. This shear system has controlled the orientation of the three main sub-vertical veins (Central, Jereme and GHV) and caused the development of numerous 'link' structures/veins in some sections of the mine particularly in the areas between the Jereme and GHV veins on the west side of the Oriental Fault. These link structures/veins are commonly low-angle between 30° to 60° and are now being interpreted and verified from numerous previously unallocated drill hole intersections and underground development and stoping.

In addition the recognition of the Don Pedro Vein's northerly orientation on Level 8 in 2013 has also resulted in the recognition of a third vein orientation set. The Don Pedro Vein has been mined up to Level 7. To the east, the Don Pedro East Vein has been followed by winzings down from Level 8 to half way between Level 9 and Level 10. Other veins with this orientation are now being recognised in the mine.

Level development readily defines the pinch and swell nature of the veins in a horizontal direction, and now with an increased number of levels and vertical development as well as stoping data, the pinch and swell characteristics are being defined in a vertical sense. Recognition of pinching and swelling in a vertical direction affects the projection of veins to depth where a significant proportion of the 2013 Inferred Resources are located, and provides additional controls for refining resource estimations

Underground exploration

Three drill chambers have been excavated on Levels 3, 5 and 8 and one is planned to provide access for long term drilling programmes as shown on Figures 1 and 2. Additional drilling is being planned to ensure that replacement of reserves is achieved on an annual basis by upgrading Inferred Resources to the Indicated status, in conjunction with level development.

Figure 2 shows the interpretation of the veins on Level 8, with the current and planned underground drilling projected onto this level. Currently rigs are operating from chambers L8-19E and L3-17W. Drilling from drill chamber L3-64W recently finished and the rig will be moved to drill chamber L5-42W.

Resource and reserve estimates

The new resource and reserve estimates are nearing completion following finalising of the re-interpreted and upgraded vein model. The new 2012 JORC code reporting requirements for resources differ significantly from the 2004 JORC code under which all previous Co-O Deposit resources have been reported.

JORC 2004 was an estimate of the volume of in-ground mineralisation above a certain cut-off grade (3 g/t gold at Co-O) and with applied upper cuts, and which had a reasonable expectation of being mined.

JORC 2012 requires cut-off grade, minimum mining width and gold price parameters to be applied to the resource estimates to determine a break even grade. It is expected that the new resources will differ from previous estimates, as some vein sections are high grade but narrow, and may not meet the minimum requirements when diluted at current gold prices and/or extraction cost. However should the gold price improve or costs decrease, then this mineralisation is still available to be included in future resource estimates as Co-O is a long life mine.

Mining

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

(i) *Shrink stope mining*

This method is predominantly used on vertical to sub-vertical veins where dilution can usually be reasonably well controlled. Shrink stopes have a minimum mining width of 1.2 metres; and

(ii) *Slot stope mining*

This method is used on the numerous low-angle veins (described above) where it is difficult to control the dilution from the hanging wall or roof. The minimum mining width for low angle veins is 1.5 metres, hence the higher dilution in low-angle stopes is partly responsible for the overall lower than average grade achieved from the mine.

The productivity of slot stopes is not as high as shrink stopes, and hence they also incur slightly higher costs. Trialling of various support methods to minimise the hanging wall dilution in the slot stopes is planned.

The objective to attain a long term mix of development to stoping ore of 30% to 70% is currently being achieved. Approximately 40% of the stope ore is currently sourced from the more diluted slot stopes.

Approximately 20% to 30% of the development ore is by definition (in a narrow vein mine) taken from Inferred Resources as this development is required as part of the conversion process from Inferred to Indicated Resources.

Manning levels

The reduction in workforce numbers, mainly contractors, as announced in the 30 June 2014 quarterly report, was primarily attributable to the reduction in the number of development headings to approximately 60 priority headings, and to a lesser extent, excess manning levels built up during the shaft sinking and expansion phase.

The Company has used this opportunity to retire some managers whilst providing the opportunity for younger personnel to take up management positions.

Development

Horizontal and vertical development is planned to continue for the foreseeable future at a rate of approximately 1,500 metres per month across approximately 60 priority headings. This is the minimum rate of development that needs to be maintained in order for new stopes to be mined as the old stopes are being depleted.

Vertical development of the Don Pedro Vein East by winzining has been completed from Levels 8 to 9, and is underway from Levels 9 to 10 as the first stage of opening up deeper levels in the mine.

L8 Shaft upgrade

In mid-December 2014, the L8 Shaft haulage will be upgraded to a 4.8 tonne skip and a double decker man-cage configuration to replace the current 3.6 tonne skip and single man-cage configuration. This exercise will also require the introduction of heavier duty winder ropes and replacement of gearing on the winder.

The above changes will increase the haulage capacity as a result of the increase in the skip payloads and reduce the time required for the employees to travel to underground work stations.

The proposed upgrade is programmed to take between three to four weeks and plans are currently being formulated to minimise disruption to production by re-routing ore through other shafts and ore passes.

In addition a 100,000 litre (100 cubic metres) sump is being developed below Level 8 to ensure long term dewatering control.

Long term planning

Preliminary planning for a new “materials and men” shaft down to Level 12 has commenced with drill holes for geotechnical evaluation completed but yet to be assessed.

The proposed position of this shaft, which will be named 15E Shaft, is shown in Figure 1.

Infrastructure

The main infrastructure development underway is the construction of a new road traffic bridge across the Agsao River adjacent to the mine.

This bridge is expected to be completed before the beginning of the wet season in November/December and will minimise the risk of flooding around the mine entrance and work areas.

For further information please contact:

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DISCLAIMER

This announcement 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.

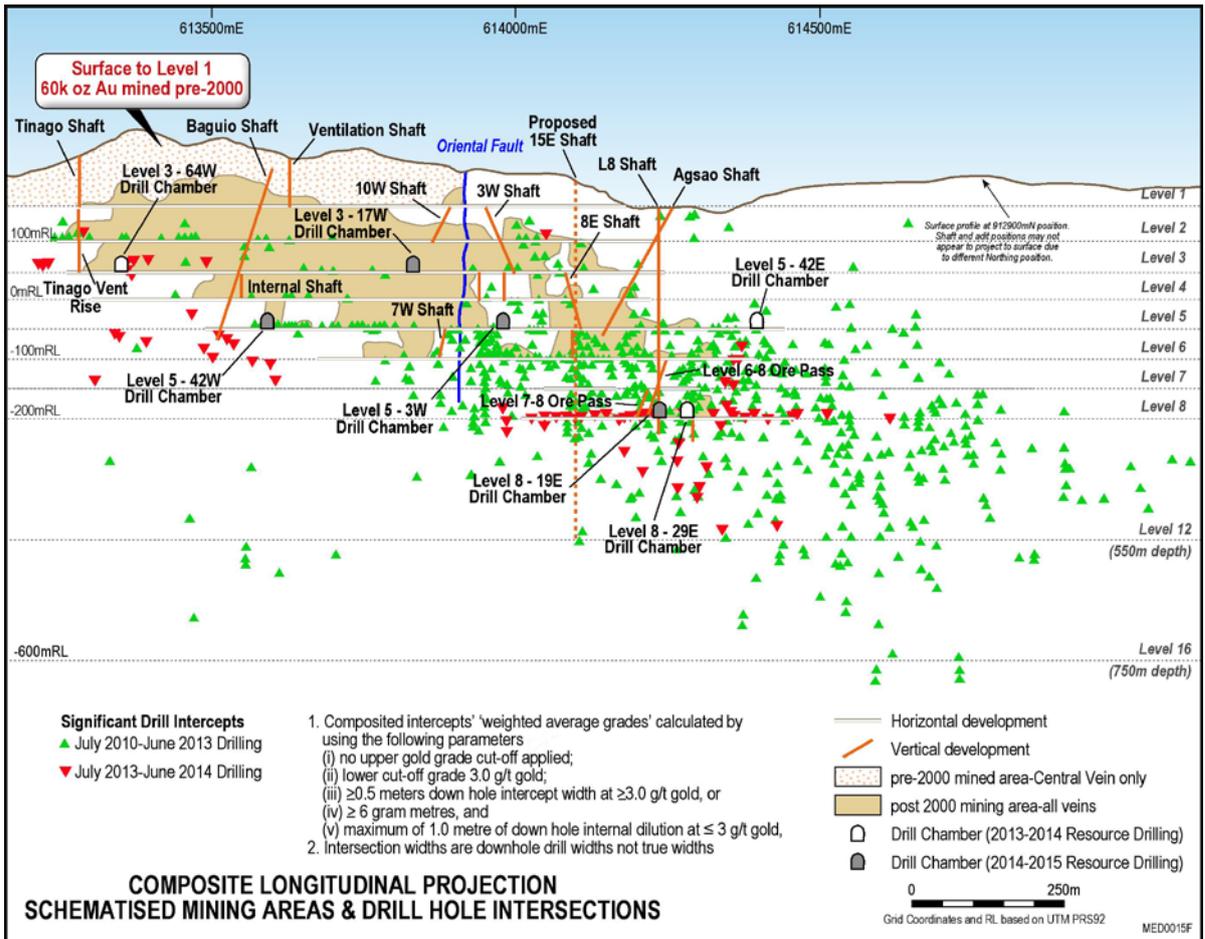


Figure 1. Longitudinal projection of the Co-O Mine showing the location of the drilling chambers for underground drilling

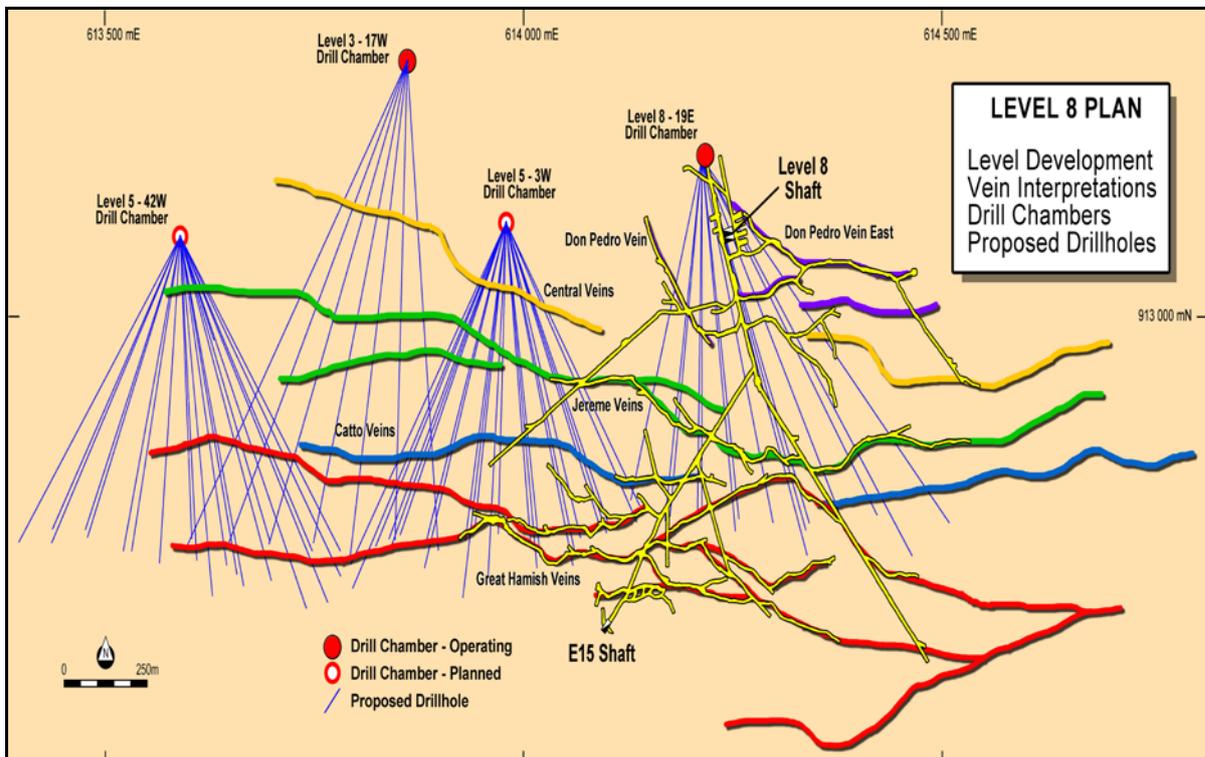


Figure 2. Interpretation of the Level 8 veins showing the projected positions of the drill chambers and completed and planned drill holes from each chamber.