



**MEDUSA**

# **MEDUSA MINING LIMITED**

ABN 60 099 377 849

**And Controlled Entities**

## **HALF-YEAR FINANCIAL REPORT**

**31 DECEMBER 2018**

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This report should be read in conjunction with Medusa's Annual Report for the year ended 30 June 2018 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 2018

Name of entity

**MEDUSA MINING LIMITED**

ABN or equivalent company reference

**60 099 377 849**

Half yearly (tick)

√

Preliminary final (tick)

Half year/ financial ended ("current period")

**31 December 2018**

## ***Results for announcement to the market***

<b><u>Revenues and profits:</u></b>		<u>US\$'000</u>		<u>US\$'000</u>
Revenues from ordinary activities	down 14%	68,129	to	58,668
Profit from ordinary activities after tax attributable to members*	down 41%	13,976	to	8,286
Net profit for the period attributable to members*	down 41%	13,976	to	8,286

## **Dividends:**

<u>Interim dividend</u>	<u>Amount per security</u>	<u>Franked amount per security</u>
- current period (half year ended 31 Dec 2018)	Nil	Nil
- previous period (half year ended 31 Dec 2017)	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 2018 was US\$0.447 (31 Dec 2017: US\$0.738)

## **Change in control of entities:**

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

## **Associates and Joint Venture entities:**

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

# CHAIRMAN'S REPORT

Dear shareholders,

For the half year to 31 December 2018, I am very pleased to report on the positive progress the Company has achieved in delivering production, costs, infrastructure projects and near mine exploration programs to plan.

Gold production from the Co-O mine for the half year was 47,298 ounces, at an All-In Sustaining Cost ("AISC") of US\$1,141 per ounce, firmly placing the Company on track to achieve its FY19 guidance of between 90,000 to 100,000 ounces at an AISC of US\$1,050 to US\$1,150 per ounce. Ore tonnes mined, milled and head grade were all within plan, while development meterage exceeded budget. Notably, the half year reflected a period with limited contribution from the E15 Service Shaft, which completed commissioning and was handed to the operational team in late November 2018.

The E15 Service Shaft has been a key development project at Co-O and its contribution to the movement of people and equipment has created greater ore hoisting capacity in the L8 Shaft, as envisaged. In addition to the E15, the Company continued to progress additional infrastructure projects at the mine to facilitate future production down to level 12. The E43 and E48 winzes have been established for hoisting rock from Levels 9 and 10. The E35 winze continues to be developed to Level 12. The Level 8 pump station was expanded, planning has commenced to establish an additional pumping station to cater for the future production deeper in the mine. Development has commenced to establish a new primary ventilation system in the eastern section of mine to cater for future production from the deeper levels.

Replacing and expanding Reserves and Resources at Co-O remains a priority of the Company's strategy and more than 22,000 metres of drilling was completed in the half year. With access to Level 10 better established with the completion of the E15 Service Shaft, drilling activities at Co-O are expected to better target the areas that have the greatest potential to delineate additional Resource and Reserves. The Co-O deposit remains open down-dip to the east where progressive step-out drilling will continue.

Regional exploration activities for the half year continue to focus on testing near mine targets. A first pass drilling program at the Royal Crowne Vein was completed with early encouraging results suggesting the presence of multiple mineralised veins. Geological interpretation and modelling are underway, with results expected in the March Quarter 2019. A 7-hole, 2,500 metres drill program at the Durian prospect is scheduled to commence in the March 2019 Quarter.

In Queensland, the Company and Ellenkey Gold Pty Ltd, are continuing to work closely with landowners to progress the required agreements to secure drill access to Mt Clark West (porphyry copper-gold project) and Hill 212 (epithermal gold project).

Generative work has continued assessing advanced stage gold projects and quality green fields projects throughout the Philippines and other parts of the Asia Pacific region.

The Company has maintained its high level of sustainability and environmental performance through the period. We continue to meet all requirements of the Philippine Department of Environment and Natural Resources and participate in numerous health, education and environmental programs with the local communities and regional government.

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 assistance during this period.

## DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2018 and the review report thereon:

## DIRECTORS

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

<u>Name</u>	<u>Period of Directorship</u>
<b>Non-Executives:</b>	
Mr Andrew Teo (Non-Executive Chairman)	since 15 Feb 2010
Mr Roy Daniel	since 25 Nov 2015
Mr Peter Gordon Hepburn-Brown	from 15 Jun 2018 to 03 Sep 2018
<b>Executives:</b>	
Mr Raul Villanueva	since 24 Jan 2013
Mr Boyd Timler	from 09 Jan 2017 to 06 Jul 2018

## FINANCIALS

Description	Unit	Dec 2018	Dec 2017	Variance	(%)
Revenues	US\$	\$58.7M	\$68.1M	(\$9.4M)	(14%)
EBITDA <sup>(1)</sup>	US\$	\$22.7M	\$33.5M	(\$10.8M)	(32%)
NPAT <sup>(1) / (2)</sup>	US\$	\$8.3M	\$14.0M	(\$5.7M)	(41%)
EPS (basic) <sup>(2)</sup>	US\$	\$0.040	\$0.067	(\$0.027)	(40%)

Revenues of US\$58.7 million, a decrease of 14% from US\$68.1 million in the previous corresponding period ("pcp"). This reduction is attributable to a lower gold sold coupled with a lower average price received on sale of gold.

Medusa is an un-hedged gold producer and received an average gold price of US\$1,219 per ounce from the sale of 47,978 ounces of gold for the half-year to December 2017 (pcp: 53,152 ounces at US\$1,278 per ounce).

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of US\$22.7 million, down 32% from EBITDA of US\$33.5 million in the pcp.

NPAT of US\$8.3 million, down 41% on NPAT of US\$14.0 million from pcp.

Basic earnings per share ("EPS") down 40% to US\$0.040 from pcp EPS of US\$0.067.

The Company had total cash and cash equivalent in gold on metal account and bullion on hand of US\$14.6 million at 31 December 2018 (pcp: US\$16.7 million).

During the half year:

- Depreciation of fixed assets and amortisation of capitalised mine development and mine exploration was US\$10.9 million (pcp: US\$10.7 million).
- US\$5.9 million was expended on capital works (inclusive of new Service Shaft) and associated capital at mine and mill for the period (pcp: US\$6.4 million).
- Exploration expenditure, including underground diamond drilling was US\$4.3 million (pcp: US\$2.2 million). Capitalised mine development costs totalled US\$13.6 million (pcp: US\$11.4 million). Corporate overheads of US\$2.8 million (pcp: US\$3.1 million).

## **DIRECTORS' REPORT**

### **CORPORATE**

#### **Dividend**

No dividend will be payable for the half year to 31 December 2018 (No dividend was payable for the previous half year to 31 December 2017).

### **Co-O OPERATIONS**

#### **Production Guidance**

As announced in the September Quarterly Report the Company maintains its FY19 guidance of between 90,000 to 100,000 ounces and AISC of between US\$1,050 to US\$1,150 per ounce.

# REVIEW OF OPERATIONS

## CO-O OPERATIONS

Description	Unit	Dec 2018	Dec 2017	Variance	(%)
Ore mined	WMT	283,743	272,941	10,802	4%
Ore milled	DMT	257,832	246,532	11,300	5%
Head grade	g/t	6.04	6.63	(0.59)	(9%)
Recovery	%	94.5%	94.7%	(0.2%)	-
Gold produced	ounces	47,298	49,952	(2,654)	(5%)
Gold sold	ounces	47,978	53,152	(5,174)	(10%)
Cash costs	US\$/oz	\$558	\$544	\$14	3%
All-In-Sustaining-Costs	US\$/oz	\$1,141	\$999	\$142	14%
Avg gold price received	US\$/oz	\$1,219	\$1,278	(\$59)	(5%)

## CO-O MINE

Underground mining at Co-O performed as planned during the half year, producing 283,743 tonnes (WMT) of ore at a mine head grade of 6.04 g/t gold. Tonnes were slightly higher on the same period from last year by 4%, though mined grade was lower during the same period from last year.

The Co-O process plant throughput was in line with the plan for the half year, treating 257,832 dry tonnes for the period, slightly up on the same period from last year but the feed grade was lower resulting in less gold being produced (5% decrease).

Mine development for the half year period has been better than planned, achieving 15,071 metres of development, an increase of 19% on the same period from last year. Maintaining the overall mine development is critical for delivering long-term results. Opening up the resources below level 8 is critical for maintaining consistent production and grade.

Medusa has placed a high importance on understanding the Co-O ore body and its resource potential. A clear understanding of the resources drives a robust "life of mine plan". During this half year diamond drilling chambers were established on level 10, allowing deeper resource drilling to commence in the last quarter. Achieved 16,864 metres of resource definition drilling was completed during the first half of the year, a significant improvement on the same period last year. Additionally, 6,109 metres of reserve definition drilling was completed from levels 5, 6, and 7.

## Projects

The Co-O mine infrastructure projects saw significant progress in the H1 period. The key pillars of development are; E15 Service Shaft, Development of internal winzes for hoisting, as well as continued improvements to the dewatering system and primary ventilation.

- Commissioning of the E15 Service Shaft was completed in the latter half of November 2018. The shaft is operational and transports the majority on men and materials to the underground workings. This has allowed the L8 shaft be utilised more for hoisting rock.
- The E43 and E48 winzes have been established for hoisting rock from levels 9 and 10. The E35 winze has passed level 10 and continues to level 12.
- The level 8 pump station was expanded with the installation of an addition pump to cater for the increased water from mining activity on levels 7, 8, 9 and 10. Work has commenced on the design and planning to establish an additional pumping station deeper in the mine to cater for the future production activities on levels 9,10, 11 and 12.
- Development has commenced to establish a new primary ventilation system in the eastern section of mine to cater for future production from the deeper levels.

# REVIEW OF OPERATIONS

## EXPLORATION

### Regional

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

### Near Mine Exploration (MinEX)

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

### The Royal Crowne Vein Prospect

The Royal Crowne Vein Prospect corresponds to a 200+ metres projected vein segment along the northern portion of the 1,500 metres long Sinug-ang vein system that has not been fully tested by drilling. Thus, 20 drill holes with total drill meterage of 5,087 metres was completed. From the core samples there were 19 samples that returned grades above 3.0g/t Au, with 10 samples assaying greater than 5.0 g/t gold. The peak assay was 87.32 g/t gold at 1.0 metre width.

Geological interpretation and modelling are ongoing, as input and basis to the subsequent resource estimation.

### The Durian Prospect

The Durian Prospect is located about 1 km north of Co-O Mine which is defined by moderate to high IP chargeability anomalous zones with coincident low resistivity anomalous zones. A 7-hole (2,500 metres) scout drilling program is planned to test the East and West margin of the IP anomaly for the potential presence of vein-style mineralisation analogous to the Co-O Vein System. Drilling is expected to commence in the second half of the fiscal year.

## REGIONAL EXPLORATION (NEW PROJECT GENERATION)

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

### Epithermal Gold and Porphyry Cu-Au projects (Central Queensland, Australia):

The Company and Ellenkey Gold Pty Ltd, are continuing to focus on working closely with landowners to progress the required agreements to secure drill access to both projects. In addition, engagement with Native Title holders to prepare for clearance of the initial drill programs at both Mt Clark West (porphyry copper-gold project) and Hill 212 (epithermal gold project) is also continuing.

During the half year, advancements have also been made to secure highly-reputable drilling contractors and quality service providers for support logistics. Thus, once land access agreements and Cultural Heritage surveys are completed, it is anticipated drilling on both projects can start the following half year.



## **REVIEW OF OPERATIONS**

### **AUDITOR'S INDEPENDENT DECLARATION**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 10 for the half-year ended 31 December 2018.

### **ROUNDING OF AMOUNTS**

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

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



**Andrew Teo**

Chairman

Dated this 28<sup>th</sup> day of February 2019

## 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 2018, 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 2019

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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		31 Dec 2018	30 Jun 2018
		US\$ 000	US\$ 000
<b>CURRENT ASSETS</b>			
	Note		
Cash & cash equivalents		13,963	11,198
Trade & other receivables		6,150	19,462
Inventories		9,056	12,240
Other current assets		399	792
<b>Total Current Assets</b>		<b>29,568</b>	<b>43,692</b>
<b>NON-CURRENT ASSETS</b>			
Trade & other receivables		30,228	21,326
Property, plant & equipment	4	17,491	12,957
Intangible assets		559	609
Mine Rehabilitation		2,795	402
Development expenditure	5	38,303	29,878
Deferred tax assets		12,897	10,059
<b>Total Non-Current Assets</b>		<b>102,273</b>	<b>75,231</b>
<b>TOTAL ASSETS</b>		<b>131,841</b>	<b>118,923</b>
<b>CURRENT LIABILITIES</b>			
Trade & other payables		17,987	24,797
Borrowings	6	7,090	6,335
Provisions		549	386
<b>Total Current Liabilities</b>		<b>25,626</b>	<b>31,518</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings		346	170
Deferred tax liability		5,273	232
Provisions	7	7,096	4,160
<b>Total Non-Current Liabilities</b>		<b>12,715</b>	<b>4,562</b>
<b>TOTAL LIABILITIES</b>		<b>38,341</b>	<b>36,080</b>
<b>NET ASSETS</b>		<b>93,500</b>	<b>82,843</b>
<b>EQUITY</b>			
Issued capital	9	102,902	102,902
Reserves		3,025	1,311
Retained profits/(Accumulated losses)		(12,427)	(21,370)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>93,500</b>	<b>82,843</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2018

	Share Capital Ordinary	Retained Profits/ accumulated losses	Share Option Reserves	Foreign Currency Translation Reserve	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
<b>Balance at 01.07.2017</b>	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 profit for the period	-	13,976	-	(575)	13,401
Share options expensed	-	-	82	-	82
Transfer from share option reserve	-	210	(210)	-	-
<b>Balance at 31.12.2017</b>	102,902	48,184	902	1,942	153,930
<b>Balance at 01.07.2018</b>	102,902	(21,370)	994	317	82,843
Net profit after tax	-	8,286	-	-	8,286
Other comprehensive income /(loss)	-	-	-	2,281	2,281
Total comprehensive profit for the period	-	8,286	-	2,281	10,567
Share options expensed	-	-	90	-	90
Transfer from share option reserve	-	657	(657)	-	-
<b>Balance at 31.12.2018</b>	102,902	(12,427)	427	2,598	93,500

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2018

	31 Dec 2018	31 Dec 2017
	US\$ 000	US\$ 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	62,047	64,145
Payments to suppliers and employees	(34,087)	(35,407)
Payments for exploration expenditure and tenements	(557)	(337)
Interest received	83	39
<b>Net cash provided by operating activities</b>	<b>27,486</b>	<b>28,440</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for Property, Plant and Equipment	(5,377)	(6,376)
Payments for development activities	(19,273)	(15,271)
<b>Net cash used in investing activities</b>	<b>(24,650)</b>	<b>(21,647)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Payment of) / Receipt from bank loan	930	(3,673)
<b>Net cash provided by financing activities</b>	<b>930</b>	<b>(3,673)</b>
<b>Net increase / (decrease) in cash held</b>	<b>3,766</b>	<b>3,120</b>
Cash at beginning of period	11,198	11,214
Exchange rate adjustments	(1,001)	(1,855)
<b>Cash at end of period</b>	<b>13,963</b>	<b>12,479</b>

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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

## **Note 1: Basis of preparation**

The Condensed interim consolidated financial statements of the Company as at and for the six months ended 31 December 2018 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, Western Australia.

The consolidated annual financial report of the consolidated group as at and for the year ended 30 June 2018 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 2018 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<sup>th</sup> of February 2019.

### **(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 2018.

The accounting policies have otherwise been applied consistently throughout the Group for the purposes of preparation of these interim financial statements other than new accounting standards adopted - AASB 9 and AASB 15.

#### **Adoption of new and amended accounting standards**

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

- AASB 9 Financial Instruments, and
- AASB 15 Revenue from Contracts with Customers.

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

#### **Impact of standards issued but not yet applied by the entity**

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

#### **Changes in Accounting Policies**

The following explains the impact of the adoption of AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.



# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

## AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 July 2018 did not have a material impact on the Group.

The new accounting policies are set out below.

In accordance with the transitional provisions in AASB 9, comparative figures have not been restated.

## Classification and measurement

Except for certain trade receivables the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets are, as follows:

Debt instruments at amortised cost, for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the 'SPPI criterion'. This category includes the Group's trade and other receivables.

## Impairment

From 1 July 2018 the group assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables the group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

For other debt financial assets, the ECL is based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

## AASB 15 Revenue from contracts with Customers

AASB 15 replaces AASB 118 Revenue.

The adoption of AASB 15 did not have an impact on the Group. The new accounting policy is set out below:

## Gold and silver revenue

Revenue from the sale of gold and silver is recognised when the performance obligation has been satisfied. The performance obligation is generally considered to be satisfied when the gold and silver are physically transferred to the buyer.

## (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 2018.

## 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

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

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 3<sup>rd</sup> of April 2018 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\$32.9 million that comprises tax credit certificates ("TCC") and VAT claimable for cash. The current asset portion of VAT US\$2.8 million comprises amounts that are estimated to be utilised by TCC to offset various indirect taxes within the current period. The non-current amount of VAT receivable of US\$30.2 million represents the estimated amount to be utilised in future periods against tax liabilities.

## ***Key estimates - Deferred tax asset***

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

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

The Group has recognised a deferred tax asset of \$12.9m at 31 December 2018. The utilisation of this deferred tax asset amount depends upon future taxable amounts in excess of profits arising from the reversal of temporary differences. The Group believes this amount to be recoverable based on taxable income projections.

## **(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.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

Commencing 1 July 2017 the Company 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 2018 are accounted for retrospectively and reflected against Retained Earnings. Expenditure during the six months ended 31 December 2018 is expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

## **(e) Impairment of non-current assets**

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

When indicators of impairment exist, a formal estimate of the recoverable amount is made.

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

It was decided that although there was a slight reduction in market capitalization and a small decline in production ounces and price, no impairment was necessary.

## **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 Interim Financial Report and Directors' Report have been rounded to the nearest \$1,000 or in certain cases, to the nearest dollar to reflect where rounding in '000 is not permitted.

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

	31 Dec 2018	31 Dec 2017
	US\$ 000	US\$ 000
<b>Note 2: Profit/loss for the period</b>		
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
<u>Revenue items:</u>		
Interest revenue	83	39
Gold and silver sales	58,585	68,090
Other	-	-
<u>Expense items:</u>		
Depreciation	1,391	1,498
Development Amortisation	8,863	9,037
Other Amortisation	651	153
Employee benefits and other expenses	4,465	4,848
Recognition of share-based payments	90	83
Value Added Tax (VAT) Write-off	(4,645)	-

## Note 3: Dividends

No dividend was declared during or since the end of the half year (2018: No dividend was declared)

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# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

	31 Dec 2018 US\$000	30 Jun 2018 US\$000
<b>Note 4: Property, Plant &amp; Equipment</b>		
<b>Plant &amp; equipment:</b>		
At cost	180,619	151,827
<i>less</i> - provision for impairment	(120,070)	(103,360)
<i>less</i> - accumulated depreciation	(48,391)	(47,046)
Total plant & equipment at net book value	12,158	1,421
<b>Capital works in progress:</b>		
At cost	17,263	40,154
<i>less</i> - provision for impairment	(11,994)	(28,705)
Total capital works in progress at net book value	5,269	11,449
<b>Furniture &amp; fittings:</b>		
At cost	1,096	1,088
<i>less</i> - provision for impairment	(254)	(254)
<i>less</i> - accumulated depreciation	(778)	(747)
Total furniture & fittings at net book value	64	87
Total carrying amount at end of year	17,491	12,957
<b>Reconciliations:</b>		
<b>Plant &amp; equipment:</b>		
Carrying amount at beginning of year	1,421	21,253
<i>plus</i> - additions	2,726	3,851
<i>plus</i> - transfer from capital works in progress	26,454	353
<i>plus/less</i> - forex differences on translation	(367)	413
<i>less</i> - disposal	(6)	(854)
<i>less</i> - impairment	-	(20,095)
<i>less</i> - transfer of impairment provision from capital works	(16,710)	-
<i>less</i> - depreciation	(1,360)	(3,500)
Carrying amount at end of year	12,158	1,421
<b>Capital works in progress:</b>		
Carrying amount at beginning of year	11,449	20,261
<i>plus</i> - additions	3,194	10,698
<i>less</i> - transfer to plant and equipment	(26,454)	(353)
<i>less</i> - impairment	-	(19,156)
<i>plus</i> - transfer of impairment provision to plant & equipment	16,710	-
<i>plus</i> - forex differences on translation	370	-
Carrying amount at end of year	5,269	11,449
<b>Furniture &amp; fittings:</b>		
Carrying amount at beginning of year	87	232
<i>plus</i> - additions	8	58
<i>plus</i> - forex differences on translation	-	-
<i>less</i> - depreciation	(31)	(203)
Carrying amount at end of year	64	87
Total carrying amount at end of year	17,491	12,957

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

	31 Dec 2018	30 Jun 2018
	US\$000	US\$000
<b>Note: 5 Development expenditure:</b>		
At cost	395,693	378,405
<i>less</i> - provisions for impairment	(246,260)	(246,260)
<i>less</i> - accumulated amortisation	(111,130)	(102,267)
Net development expenditure	<u>38,303</u>	<u>29,878</u>
<b>Development expenditure:</b>		
Carrying amount at beginning of year	29,877	66,439
<i>plus</i> - costs incurred	17,289	28,690
<i>less</i> - amortisation expense	(8,863)	(24,552)
<i>less</i> - impairment	-	(40,969)
<i>less</i> - forex differences upon translation	-	270
Carrying amount at end of year	<u>38,303</u>	<u>29,878</u>

## Note: 6 Borrowings

In November 2018, the Group entered a new loan facility of US\$1.4M with a maturity date of 4 October 2019. The total available amount under the secured facility was drawn down as at 31 December 2018.

## Note: 7 Provisions

### Non-current provisions:

Retirement Benefit	2,492	2,515
Mine Rehabilitation	4,604	1,645
Total non-current employee benefits	<u>7,096</u>	<u>4,160</u>

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

## Note 8: Segment Information

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

The Group segments are structured as Mining, Exploration, Gold Trading 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
<b>Segment Revenue and Result</b>					
<u>6 months to December 2018:</u>					
Segment revenue	-	-	58,585	83	58,668
Segment result	(48,507)	(12)	58,249	(1,444)	8,286
<u>6 months to December 2017:</u>					
Segment revenue	-	-	68,090	39	68,129
Segment result	(52,342)	(15)	67,941	(1,608)	13,976
<b>Segment Assets and Liabilities</b>					
<u>31 December 2018:</u>					
Segment assets	109,126	69	6,744	3,005	118,944
Reconciliation of segment assets to group assets					
add -					
Deferred tax assets	12,897	-	-	-	12,897
Total group assets					131,841
Segment liabilities	26,247	8	6,053	585	32,893
Reconciliation of segment liabilities to group liabilities					
add -					
Deferred tax liabilities	5,273	-	-	-	5,273
Provision for tax	175	-	-	-	175
Total group liabilities					38,341
<u>30 June 2018:</u>					
Segment assets	102,374	79	4,044	2,367	108,864
Reconciliation of segment assets to group assets					
add -					
Deferred tax assets	10,059	-	-	-	10,059
Total group assets					118,923
Segment liabilities	31,239	23	3,476	1,110	35,848
Reconciliation of segment liabilities to group liabilities					
add -					
Deferred tax liabilities	232	-	-	-	232
Total group liabilities					36,080

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2018

## Note 9: Issued Capital

	31 Dec 2018 (shares)	30 Jun 2018 (shares)	31 Dec 2018 US\$ 000	30 Jun 2018 US\$ 000
Ordinary shares on issue	207,794,301	207,794,301	102,902	102,902

Movement in ordinary shares during the half-year:

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

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

## Note 10: Share Based Payments

Share based options	31 Dec 2018		30 Jun 2018	
	Number of options & performance rights	Weighted average exercise price (A\$)	Number of options & performance rights	Weighted average exercise price (A\$)
Outstanding at start of period	6,030,000	1.1782	4,365,000	1.1031
Granted	-	-	1,665,000	1.3750
Forfeited	840,000	1.5179	-	-
Expired	2,515,000	1.0000	-	-
Exercised	-	-	-	-
Outstanding at end of period	2,675,000	1.1547	6,030,000	1.1782
Vested at end of period	1,010,000	1.0149	3,325,000	1.0406

During the 6 months to 31 December 2018, 2,515,000 options expired (2018: nil).

The options outstanding at 31 December 2018 (all of which are unlisted) had a weighted average exercise price of A\$1.1547 and a weighted average remaining contractual life of 26.34 months.

Included under administration expense in the Statement of Profit or Loss and other Comprehensive Income is US\$89,637 (6 months to 31 December 2017: US\$83,343) and relates, in full, to equity-settled share-based payment transactions relating to employees.

## Note 11: Contingent Liabilities

A subsidiary of the Group, Philsaga Mining Corporation, is contesting an initial VAT Claim disallowance of US\$4.2 million by the Bureau of Internal Revenue ("BIR"), the tax department of the Philippines. An independent review is being planned following which PMC will enter into further negotiation with the BIR.

## Note 12: Commitments

There have been no material changes in commitments in the period since the 30 June 2018 annual report.

## Note 13: Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the Company's annual report for the year ended 30 June 2018.

## Note 14: Events Subsequent to Reporting Date

There has not arisen in the interval between the end of the interim financial period and the date of this report any other 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 periods.



# **DIRECTORS' DECLARATION**

for the half-year ended 31 December 2018

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 2018 and of its performance for the half-year ended on that date; and
  - (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting; and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



**Andrew Teo**

Chairman

Dated this 28<sup>th</sup> day of February 2019

## 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 2018, 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 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

#### Directors' responsibility for the Half-Year Financial Report

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

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



## Independence

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Neil Smith'. The signature is written in a cursive style with a large, looped 'N' and 'S'.

Neil Smith

Director

Perth, 28 February 2019