



MEDUSA MINING LIMITED

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26 May 2016

Elizabeth Harris
Principal Adviser, Listings Compliance (Perth)
ASX Limited

By email: elizabeth.harris@asx.com.au

Dear Elizabeth

Medusa Mining Limited – Response to ASX aware query

We refer to your letter dated 24 May 2016. Set out below is the response of Medusa Mining Limited (**Medusa** or the **Company**) to each of the questions in that letter.

- 1. Does the Entity consider the Revised Production Guidance, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?**

Yes.

- 2. If the answer to question 1 is "no", please advise the basis for that view.**

Not applicable.

- 3. If the answer to question 1 is "yes", when did the Entity first become aware of the Revised Production Guidance?**

As explained in response to question 4 below, Medusa became aware of the Revised Production Guidance on 29 April 2016, when there was a reasonable degree of certainty in relation to the extent of the reduction to the previous guidance. On 15 April 2016, the Company became aware that it may not meet its previous guidance, but it was not aware at that time of the extent of the likely shortfall and, therefore, whether it would require a revision to the previous production guidance.

- 4. If the answer to question 1 is "yes" and the Entity first became aware of the Revised Production Guidance before 29 April 2016, did the Entity make any announcement prior to that date which disclosed the Revised Production Guidance? If so, please provide details. If not, please explain why the Revised Production Guidance was not released to the market at an earlier time, commenting specifically on when you believe the entity was obliged to release the Revised Production Guidance under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the Revised Production Guidance was released promptly and without delay.**

As noted in the Market Briefing for May 2016 released on ASX on 6 May 2016, Medusa has engaged independent consultants to conduct a long range mine review taking into account the

timing of significant capital infrastructure project work for the second half of 2016 and into the following years. At the time of the appointment of the Independent Consultants, the Company was not aware of any likely shortfall against the previous production guidance – the Independent Consultants were appointed in relation to a longer term review process.

The principal cause of the shortfall is the capital works that are being undertaken at the Co-O mine, which have restricted the production capacity of the mine. Part of the review of the Independent Consultants will be to consider the optimal timing for the completion of the capital works, to minimise any further disruption to the production schedule.

Whilst the final results of that review are not expected to be available until 31 May 2016, on 15 April 2016, the Company received an oral update on the preliminary work undertaken by the Independent Consultants. During the course of that update, although not specifically within the scope of work of the Independent Consultants, information was presented to Medusa that led the Company to undertake further analysis to verify whether it would be able to meet its production guidance for the financial year ending 30 June 2016 (**FY2016**).

Up until 15 April 2016, Medusa believed that it would be able to meet its production guidance for FY2016. In this regard, some relevant considerations are as follows:

- As noted in the Company's Quarterly Report for the quarter ended 31 December 2015 released on ASX on 29 January 2016, Medusa produced 61,169 ounces of gold for the first half of FY2016, and was therefore on track to meet its previous guidance.
- Although monthly production for January, February and March was slightly lower than had been anticipated due to the impact of capital works occurring on the mine, it is not uncommon for there to be variations in production on a month-to-month basis and Medusa was of the view that it could recover some or all of the shortfall with changes to its production schedule.

Following the 15 April update, the Company considered that it may not meet its previous guidance, but it was not aware at that stage of the extent of the likely shortfall and, therefore, whether it would require a revision to the previous production guidance.

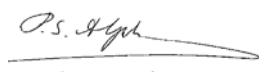
The Company immediately instructed its on-site technical specialists to review the information provided by the Independent Consultants and to analyse that information by reference to the production schedule for the remainder of FY2016. This review was finalised on 29 April 2016 and it was subsequently decided that a reduction of the Company's production guidance to 108,000 ounces for FY2016 was necessary.

Medusa then released the Quarterly Report for the quarter ended 31 March 2016 on ASX, containing the Revised Production Guidance promptly and without delay.

5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

We confirm that Medusa is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Yours sincerely,



Peter Alphonso
Company Secretary



24 May 2016

Mr Peter Alphonso
Company Secretary
Medusa Mining Limited
Unit 7, 11 Preston Street
COMO WA 6152

By email: palphonso@medusamining.com.au

Dear Mr Alphonso

Medusa Mining Limited (the “Entity”): ASX aware query

ASX Limited (“ASX”) refers to the following.

1. The Entity’s announcement titled “Co-O Mine Production Guidance FY 2015-16” released on ASX Market Announcements Platform on 17 June 2015 at 12:42 pm (AEST) (“Production Guidance”) which states as follows:

“Medusa Mining Limited (“Medusa” or the “Company”), through its Philippine affiliate, Philsaga Mining Corporation (“PMC”), wish to advise the production guidance for the 2015-16 financial year will be between 120,000 to 130,000 ounces of gold.

Production for the forthcoming year will be tempered by the medium-term waste generating infrastructure projects being undertaken during the installation of the Service Shaft, new ventilation rises and drives for connecting levels to the Service Shaft.”

2. The following announcements released by the Entity at the times and dates set out below, which confirmed the Production Guidance:
 - (a) The Presentation titled “Investor Presentation London – 5th to 9th October 2015” released on ASX Market Announcements Platform on 5 October 2015 at 1:41 pm (AEST);
 - (b) The Entity’s Quarterly Activities Report for the quarter ending 30 September 2015 released on ASX Market Announcements Platform on 27 October 2015 at 12:28 pm (AEDT);
 - (c) The Investor Presentation at the Entity’s 2015 Annual General meeting released on ASX Market Announcements Platform on 12 November 2015 at 10:55 am (AEDT);
 - (d) The Entity’s Quarterly Activities Report for the quarter ending 31 December 2015 released on ASX Market Announcements Platform on 29 January 2016 at 12:41 pm (AEDT), in which the Entity included the statement: *“The Co-O Mine Production Guidance for 2015-16 financial year remains at 120,000 to 130,000 ounces, subject to a review of operations currently underway”*; and

- (e) The Entity's Half Year Results for the half year ending 31 December 2015 and the announcement titled "Highlights of Half Year Results December 2015" both released on ASX Market Announcements Platform on 29 February 2016 at 12:24 pm (AEDT).
3. The Entity's Quarterly Report for the quarter ending 31 March 2016 released on ASX Market Announcements Platform on 29 April 2016 at 2:35 pm (AEST) in which the Entity states
- "The Co-O Mine production guidance for 2015-16 financial year has been adjusted to 108,000 ounces from the lower end of the December 2016 quarter guidance of 120,000 ounces." ("Revised Production Guidance").*
4. The announcement titled "Market Briefing May 2016 – Medusa Mining Limited" and released on ASX Market Announcements Platform on 6 May 2016 at 11:30 am (AEST) which states as follows (quoting Boyd Timler, the Entity's Chief Executive Officer, in response to a query from Market Briefing: *"The March quarter results reported YTD production at 83,149 ounces and full year guidance of 108,000 ounces. How confident are you in these numbers?"*):
- "The constraints at Co-O are obviously disappointing, but I'm confident we are through the worst of it. The full year guidance of 108,000 ounces implies Q4 production of 25,000 ounces at AISC of US\$900 to US\$1000 per ounce which reflect increased production and lower sustaining costs in Q4.*
- In the December quarter Medusa engaged independent consultants with specialist knowledge in narrow vein, high grade reserves and narrow vein mining to conduct a long-range mine review to predicate the Company's shift in strategy and board restructure. The comprehensive review assessed the short, medium and long-term capital and infrastructure requirements, reserve depletion planning-scheduling and resource conversion strategy. The findings of this review have fed into work currently underway at Co-O and support the full year guidance announced in the March quarterly. Additionally the review will be key in developing the 2016-17 budget and strengthening Medusa's medium to long term strategy."*

Listing Rules and Guidance

5. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the Entity's securities.
6. The definition of "aware" in Chapter 19 of the Listing Rules. This definition states that:
- "an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity."*
- Additionally, you should refer to section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information?"*
7. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.
- "3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:*
- 3.1A.1 One or more of the following 5 situations applies:*
- *It would be a breach of a law to disclose the information;*

- *The information concerns an incomplete proposal or negotiation;*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- *The information is generated for the internal management purposes of the entity; or*
- *The information is a trade secret; and*

3.1A.2 *The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and*

3.1A.3 *A reasonable person would not expect the information to be disclosed.”*

8. ASX’s policy position on production targets set out in section 7.8 of Guidance Note 8 “*Continuous Disclosure: Other financial forecasts and exploration and production targets*”, which states that:

“If an entity becomes aware that its financial results will differ significantly (downwards or upwards) from any financial forecast it has published, or that its exploration or production results for a period will differ significantly (downwards or upwards) from any target it has published, it may have a legal obligation to notify the market of that fact. This obligation may arise under Listing Rule 3.1 and section 674 [of the Corporations Act (Cth)], if the difference is of such magnitude that a reasonable person would expect it to have a material effect on the price or value of the entity’s securities. It may also arise under section 1041H [of the Corporations Act (Cth)], because failing to inform the market that its published forecast or target is no longer accurate could constitute misleading conduct on its part.”

9. Listing Rule 18.7, which states as follows.

An entity must give ASX any information, document or explanation that ASX asks for to enable it to be satisfied that the entity is, and has been, complying with the Listing Rules. The entity must do so within the time specified by ASX. ASX may submit, or require the entity to submit, any information given to ASX to the scrutiny of an expert selected by ASX. The entity must pay for the expert.

Pursuant to Listing Rule 18.7, ASX requires the Entity to answer the following questions in a format suitable for release to the market.

1. Does the Entity consider the Revised Production Guidance, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is “no”, please advise the basis for that view.
3. If the answer to question 1 is “yes”, when did the Entity first become aware of the Revised Production Guidance?
4. If the answer to question 1 is “yes” and the Entity first became aware of the Revised Production Guidance before 29 April 2016, did the Entity make any announcement prior to that date which disclosed the Revised Production Guidance? If so, please provide details. If not, please explain why the Revised Production Guidance was not released to the market at an earlier time, commenting specifically on when you believe the entity was obliged to release the Revised Production Guidance under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the Revised Production Guidance was released promptly and without delay.
5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than **4pm WST on Thursday 26 May 2016**.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity's obligation is to disclose the information "immediately." This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at Elizabeth.Harris@asx.com.au with a copy to Ben.Tippett@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A.

The obligation of the Entity to disclose information under Listing Rules 3.1 and 3.1A is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

In responding to this letter, you should have regard to the Entity's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in the Entity's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.



If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely,

[Sent electronically without signature]

Elizabeth Harris

Principal Adviser, Listings Compliance (Perth)

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E: Elizabeth.Harris@ASX.com.au