Medusa Mining Limited: Co-O Operations Update

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COMO, WESTERN AUSTRALIA--(Marketwired - Jul 8, 2013) - Medusa Mining Ltd. (ASX:MML)(LSE:MML) ("Medusa" "Company") wishes to provide an update for the Co- O Operations following the previous announcement of 21 June 20 the Co-O Mill construction managers.

OVERVIEW

- CPC Engineering ("CPC") appointed as the new Co-O Mill expansion managers with immediate effect.
- Commissioning of the new Co-O Mill is commencing with the mobilisation of CPC Engineering commissioning pe site.
- Commissioning of the Co-O Mill delayed by approximately four to five weeks and likely to be completed in Augus Arccon administration has had no other effect on the Company's operations.
- With the current subdued gold price and the delay to the commissioning of the new Co-O Mill Medusa has been r efficiency of its operations and its costs.
- Overdraft facilities arranged with two Philippine banks totalling US$14 million.
- Exploration drilling reduced to two surface and two underground drill rigs, reducing the exploration expenditure fr approximately US$25 million in FY2013 to approximately US$12 million in FY2014.
- L8 shaft (formerly the Saga shaft) production reduced during June quarter as a result of narrower veins than expe the shaft.
- Production and cash cost forecasts under review pending completion of commissioning and additional Level 8 de
- Bananghilig feasibility study status being reviewed in light of lower gold price and in recognition of the newly disc grade zone, B2.

Peter Hepburn-Brown, Managing Director of Medusa, commented:

"*We are very pleased with the appointment of a replacement manager to complete the final stages of the plant constru commence commissioning with minimum disruption and minor delays. We are all looking forward to operating a new pl we anticipate will have a high availability.*

Production has been hampered by the underperformance of Level 8 to date in the immediate vicinity of the shaft due to veins which are more faulted than anticipated. We have prioritised development headings to reach more productive are

The discovery of the new high grade B2 zone adjacent to the Bananghilig 1 million ounce deposit provides various opti future development. We are continuing to drill at B2 so these options can be evaluated, including possibly treating high material at the Co-O Mill, and in this way, be able to increase production while postponing the need to build a new stan milling facility."

1. Co-O Mill

Following the announcement of 21 June 2013 regarding the appointment of administrators to Allmine Group Limited, th company of Arccon (WA) Pty Ltd, who were the managers for the Co-O Mill expansion, the Company has appointed ne managers CPC Engineering. CPC is an engineering design, construction and maintenance group of companies that ha industry-wide recognition for providing professional services to the resources and infrastructure sectors over the past 3

CPC are currently starting to mobilise commissioning personnel to site. It is estimated that the commissioning will be de approximately 4 to 5 weeks with completion expected in August 2013.

Medusa can confirm that the situation with Arccon administration has had no other effect on the Co-O Mill as all of the e required is already on site and construction is being undertaken by a local Philippine company which is not affected by situation.

2. Co-O Mine

(a) L8 Shaft

The L8 Shaft to Level 8 is operating normally and during July when the first ore pass becomes operational, will be hauli excess of 1,000 tonnes per day. Its capacity is approximately 1,500 tonnes per day.

(b) Level 8

Approximately 350 metres of cross-cut development have been completed and 300 metres of on-vein development hav completed.

The first Alimak ore-pass from Level 6 to Level 8 is newly completed and in July will start supplying ore to the L8 Shaft.

The second Alimak ore pass from Level 6 to Level 8 is underway and will be completed at the end of August.

The ore pass developed by winzing from Level 6 to Level 8 has reached Level 8 and will be connected to the Level 8 d by around the end of July.

Diamond drilling commenced in May on Level 8 to provide additional definition of the veins ahead of development and On-going model review has identified areas for priority development headings.

(c) Level 8 resource model and geological discussion

Recent recognition of different rock types (rheological effects) possibly influencing the intensity and width of the vein mi are thought to be a factor in the poor model correlation in the immediate L8 Shaft area, in addition to a higher than norr of faulting. Many of the faults are parallel to the drill direction hence cannot be recognised from drilling alone. Work is u better understand these effects and to upgrade the modelling of the possibly more favourable rock units.

(d) Baguio Shaft

The timbering of the Baguio Shaft extension from Level 3 to Level 5 will be completed in August. In the meantime haula Level 3 is continuing. The updated resource model is expected to be finalised in August.

3. Production

Production for Level 8 has so far underperformed due to narrower vein width and grade than that predicted by the reso

As frequently highlighted by the Company, drilling of narrow epithermal veins generally provides an indication of the pre the gold mineralised vein but may not always provide good quantitative data with respect to accurate grade and volume estimations. Veins commonly pinch and swell and may be brecciated or displaced by faults.

The Company regards the initial drilling as indicative only and operates the policy of using drilling to locate the position and extent of the mineralised veins. This is then followed by on-vein development to support the drilling results, and to provide a more accurate estimate of vein grades which results in the upgrading of the resource category from Inferred to Indicated. The development supports the estimation of resources and facilitates the conversion of resources to reserves.

The veins on the Level 8 in the vicinity of the shaft, 100 metres below the current mining levels, were expected to be 1.4 metres to 5.5 metres wide according to the resource model, but on three veins developed to date in the immediate vicinity of the shaft, the widths have been less than 1 metre in conjunction with extensive faulting, thus reducing the Level 8 budgeted production during this June quarter. Priority headings are focusing on reaching more productive zones as soon as possible.

The poor performance of Level 8 in the immediate shaft area compared to the resource model to date has affected the production for the June quarter. The anticipated production for the June quarter will be around 15,600 ounces of gold and for FY2013, 62,200 ounces of gold.

Due to this underperformance of Level 8 and the delay in the new mill commissioning, the revised production forecast for FY2014 September quarter is approximately 17,000 ounces and for FY2014 December quarter is approximately 35,000 ounces. Full FY2014 forecast production will be estimated once the mill is fully commissioned and further development has been completed on Level 8.

4. Funding

With the current subdued gold price and the delay to the commissioning of the new Co-O Mill caused by the situation with Arccon, Medusa has been reviewing the efficiency of its operations and also its costs. As a result of this review, the Company has deemed it prudent to arrange funding facilities with two Philippine banks. The overdraft facilities available to the Group total Php600 million (approximately US$14 million) and to date the Company has drawn down Php120 million (approximately US$3 million).

A new contract payment system that has been introduced for the underground operations is being evaluated with the aim of improving the efficiency and costs of underground development and stoping.

In addition, the exploration drilling that has been a major part of Medusa's resource growth has been reduced to two surface and two underground drill rigs, reducing the exploration expenditure from approximately US$25 million in FY2013 to approximately US$12 million in FY2014. The Company has also re-organised its on-site operations departments to improve operational efficiencies.

5. Bananghilig Project

The feasibility study initiated under Arccon's management is being reviewed, particularly as a consequence of the discovery of significant high grade mineralisation east of the current Bananghilig resource of 1,080,000 ounces of gold (see announcement of 29 January 2013).

Drilling has re-commenced in the high grade area (see announcement 2 April 2013), known as B2, approximately 160 meters further northwest of TDH 284 (31.60 metres at 7.33 g/t gold, 13.05 metres at 2.24 g/t gold, 43.70 metres at 2.48 g/t gold, 13.30 metres at 2.30 g/t gold), with hole TDH 303 intersecting additional high grade mineralisation as shown in Table 1 and on Figure 1. At this stage the high grade zone is interpreted to be approximately 300 metres wide.

The Company will evaluate the high grade area and the options it provides to the project economics and alternatives over the next several months as drilling to an Inferred Resource status is progressed by the two surface rigs. One possible option includes separate mining of B2 and treatment at the Co-O Mill at a much lower Capex than a new large stand-alone operation at Bananghilig. If this initiative is successful and gold prices remain subdued, it would mean a saving of approximately $220 million in Capex over the next 3 years for the planned new stand-alone mill.

Table 1. Bananghilig B2 drill results ≥ 1g/t gold.

Hole Number	East	North	Depth (metres)	Dip (degrees)	Azimuth (degrees)	From (metres)	Width (metres)
TDH303	613,502	945,188	321.60	60	130	155.10	21.15
						190.85	7.45
						207.30	13.90
						229.90	10.70
						309.00	2.10

Notes:

1. Composited intercepts' 'weighted average grades' calculated by using the following parameters
   (i) no upper gold grade cut-off applied, and
   (ii) lower cut-off grade of 0.5 g/t gold, and
   (iii) ≥ 5 metres down hole intercept width at ≥ 0.5 g/t gold, or
   (iv) ≤ 5 metres down hole intercept width at ≥ 5 gram per metres, and
   (v) maximum of 3 metres of down hole internal dilution at ≤0.5 g/t gold.
2. Intersection widths are downhole drill widths not true widths;
3. Assays are by Intertek McPhar Mineral Services Inc. in Manila;
4. Grid coordinates based on the Philippine Reference System 92.

To view Figure 1. Bananghilig geology map showing the B2 drill hole locations, please visit the following link: http://media3.marketwire.com/docs/885142_Fig_1.pdf.

JORC COMPLIANCE - CONSENT OF COMPETENT PERSONS

Medusa Mining Ltd.

Information in this report relating to **Exploration Results** has been reviewed and is based on information compiled by Mr Geoff Davis, who is a member of The Australian Institute of Geoscientists. Mr Davis is the Non-Executive Chairman of Medusa Mining Ltd. and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a "Competent Person" as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Cube Consulting Pty Ltd

Information in this report relating to **Mineral Resources** has been estimated and compiled by Mark Zammit of Cube Consulting Pty Ltd of Perth, Western Australia. Mr Zammit is a member of The Australasian Institute of Mining & Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Zammit consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DISCLAIMER

This announcement may contain 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.

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