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14 July 2004

The Manager  
Australian Stock Exchange Limited  
Level 4  
20 Bridge St  
Sydney, NSW.

Dear Sir/Madam,

#### **MARIAN GOLD MINE PROJECT, LUZON ISLAND, PHILIPPINES**

The Company advises that it has signed a Memorandum of Understanding for a six month Option over the former Marian Gold Mine with Vulcan Industrial and Mining Corporation (Vulcan), a company listed on the Philippines Stock Exchange.

Records provided by Vulcan show that the Marian Gold Mine operated as a narrow vein underground mine between 1978 and 1984 and milled 264,000 tonnes (including significant amounts of development ore) containing 63,600 ounces of gold at an average mine head grade of 7.5g/t gold.

Initial investigation conducted by Medusa has revealed the project to:

- be a system of parallel veins over a strike length in excess of 1.2 km and open;
- contain unmined mineralisation, which appears potentially exploitable, including:
  - ◆ previously defined stopes that have not been mined or only partly mined,
  - ◆ previously defined shoots extending to below the current working levels, and
  - ◆ unexplored to partly explored lateral and vertical extensions of known veins;
- possess underground access to the mineralisation via a three compartment shaft to 241 metres vertical depth and approximately 7 kilometres of underground development on 7 levels.

**The Memorandum of Understanding provides for:**

- **A six month Option Period in which Medusa at its own cost will undertake:**
  - ◆ **data collation, validation and database entry of available underground and surface records,**
  - ◆ **three dimensional modelling and evaluation of the mineralisation with the intent to derive a JORC code compliant resource estimation;**
- **Upon provision by Vulcan of a tenement report by independent tenement consultants to confirm that the tenement can proceed to granting, Medusa will pay Vulcan a sum of US\$10,000;**
- **On exercise of the Option, the Memorandum of Understanding will be converted to a Mines Operating Agreement (MOA) under which Medusa and Vulcan will form a joint venture and each party will have 50% equity in the project with Vulcan having the right to contribute or dilute to a 3% Net Smelter Royalty; and**
- **Under the joint venture, Medusa as operator, has a two year period in which to establish the project's commercial viability and whether to commence development of the mine.**

**This agreement provides the opportunity for Medusa to acquire another “near term” project in addition to its Saugon Project that could be developed into a profitable operation. The narrow vein mining expertise available at Saugon gives Medusa the opportunity to expand its activities in a niche sector of the market. The Marian Project has the potential to be readily developed with low capital exposure and a rapid payback period.**

## **PROJECT BACKGROUND**

The Marian Gold Mine is located in the Isabella Province northeast of Manila and adjacent to the City of Santiago (Fig. 1). Road access to the project from Manila is by approximately 300 kilometres of national highway, thence by 5-6 kilometres of all weather gravel road to the minesite.

The mine is contained within a Mining and Production Sharing Agreement application totalling 6,350 hectares and numbered APSA II-000021 (APSA).

The Marian Gold Mine was discovered in the 1970s during a regional exploration program for porphyry copper mineralisation. Exploration success resulted with discovery of the small and well drilled monzonite hosted Marian porphyry copper deposit and a gold-rich quartz vein system approximately 500 metres to the northwest of the porphyry deposit.

The main veins discovered and mined to date include the Annabelle, Diana and Brown Veins, all of which are hosted by syenite and tinguaitite intrusive rocks (Fig. 2).

The veins form a northeast-trending, parallel vein system over a strike length of over one kilometre, with the vein system appearing to be open along strike, particularly to the north. The mesothermal-epithermal style veins pinch and swell with widths ranging from 0.5 m to approximately 3 metres and with high gold grades generally correlating with high surface lead values as shown in Figure 2.

Previous exploration within the immediate area has located numerous adjacent veins on which further follow-up exploration appears justified.

## **THE AGREEMENTS**

Vulcan is listed on the Philippines Stock Exchange and previously operated the Marian Gold Mine from 1978 before closing the mine in 1984.

Medusa has signed a Memorandum of Understanding (MOU) with Vulcan Industrial and Mining Corporation that provides Medusa with a six (6) month Option Period in which to undertake assessment of the project, and if satisfied, exercise its Option to enter into a Mines Operating Agreement (MOA).

### **(a) Memorandum of Understanding**

Subject to Medusa's receipt of an independent consultant's report verifying Vulcan's ownership of the Marian APSA, and that the tenement can proceed to granting, the MOU provides for Medusa to:

- Pay Vulcan a signing fee of US\$10,000 subject to Vulcan providing Medusa with an independent consultant's report verifying that the tenements can proceed to granting;
- Conduct technical due diligence investigations over a six month Option Period or longer depending on satisfaction of certain precedents;
- Plan the future study of the project by both parties; and
- Convert the MOU into a Mines Operating Agreement (MOA) should the investigation results be favourable.

### **(b) Mines Operating Agreement**

The MOA provides for:

- Formation of a joint venture between the parties and which will be managed by Medusa whereby each party has an initial 50% equity in the Marian Project;
- Medusa, as operator, to conduct over a two year period and funded by both parties:
  - ◆ Mine dewatering activities
  - ◆ Underground and surface exploration of the project area
  - ◆ Metallurgical testwork and process design
  - ◆ Feasibility Study or Studies suitable for project finance and implementation of the project.

Vulcan has the right to contribute equally to all expenditures or dilute their equity on a pro-rata basis. In the event that Vulcan elects to dilute and Vulcan's pro-rata equity has reduced to less than 10%, Vulcan will convert their equity into a 3% Net Smelter Return royalty.

## **MINING SUMMARY**

After operating for six years, the mine closed in 1984 due to reasons cited as being the lack of capital to replace the shaft winding gear and a reduced gold price.

Since 1984 and after sale of the mine equipment and facilities, Vulcan has kept the project on a care and maintenance basis.

During the period of operation, Vulcan's records show the mine to have treated 264,000 tonnes of ore containing 63,600 ounces of gold for an average head grade of 7.5 g/t Au.

Medusa's discussions with former employees and examination of plans have indicated that ore dilution resulted from the less than selective mining practices applied to the narrow gold rich quartz veins and have identified the following practices and parameters:

- The total strike length of the workings is approximately 1.2 kilometres;
- Approximately 7 km of underground development on 7 levels has been completed with the bottom level at 241 metres below surface;
- Main access is a 3 compartment vertical shaft to 241 metres that is concrete lined to the first level at 41 metres and a smaller inclined shaft that was used for secondary access;
- Sampling was commonly conducted over a minimum sample width of 1 metre, irrespective of the vein width and the veins were rarely selectively sampled;
- All mining was undertaken to minimum mining width of 1 metre resulting in considerable dilution where the gold-rich quartz veins were less than 1 metre wide, although some in-stope hand sorting was undertaken with the waste rock used for stope fill;
- Where there was alteration peripheral to the quartz veins, in most cases the alteration was mined despite there having been no separate sampling undertaken of the veins and alteration material;
- Higher grade gold values formed shoots which were commonly between 60 and 100 metres long;
- Most of the higher grade shoots appear to be open at depth and below the current working levels;
- A significant proportion of the ore treated through the mill was development ore;
- Minimum mined grade for processing was 4 g/t Au;
- The miners were paid a bonus on tonnage produced, rather than contained gold;
- Minimal underground drilling appears to have been undertaken to explore for new parallel veins and at depth.

In the opinion of Medusa and subject to delineation drilling, the potential exists to apply improved sampling and mining practices to the Marian quartz veins to achieve the mining of higher grades of gold ore and the recovery of gold at lower unit costs.

## **WORK PROPOSED TO BE UNDERTAKEN**

### **(a) Under the Memorandum of Understanding**

During the six month Option Period applicable to the MOU, the Company will undertake data collation, validation and entry to a database of all the available geology, topography and the level and stope plans and assays.

This work will result in the construction of a three dimensional model of the deposit depicting the mine workings and the distribution of the mineralisation.

The work is expected to facilitate an estimate of the remaining resources to JORC code standards and identify the potential for the discovery and exploitation of mineralisation not yet accessed from either the underground workings or the surface.

**(b) Under the Joint Venture Mines Operating Agreement**

Following the Option Period and during the two year period of joint investigation, the activities which are likely to be undertaken and funded by both parties are:

- De-watering of the workings;
- Underground sampling and verification of remnant ore;
- Underground drilling and possibly development to add to the resource base;
- Metallurgical testwork and process design;
- Pre-feasibility studies, which, if positive, followed by;
- Feasibility studies; then
- Commencement of development.

As previous milling facilities were dismantled, sufficient ore will need to be outlined to justify the construction of a new mill and associated facilities.

Through their joint venture partner in the Saugon Project, Medusa has access to selective narrow vein mining expertise within the Philippines, and together with Medusa's project management expertise, are the two factors which are perceived as being the keys to the successful exploitation of the Marian Project.

**FURTHER INFORMATION**

For further information contact the undersigned on 618-9367 0601 or by email to [admin@medusamining.com.au](mailto:admin@medusamining.com.au)

Detailed descriptions of the Company's projects can be viewed in Medusa's Prospectus and subsequent releases on [www.medusamining.com.au](http://www.medusamining.com.au)

Yours faithfully,

Geoff Davis.  
Managing Director.

*The information in the above announcement was compiled by G J Davis who is a member of the AIG with not less than 5 years experience in the relevant fields, and who consents to the report appearing in the form and context in which it appears.*

FIG 1

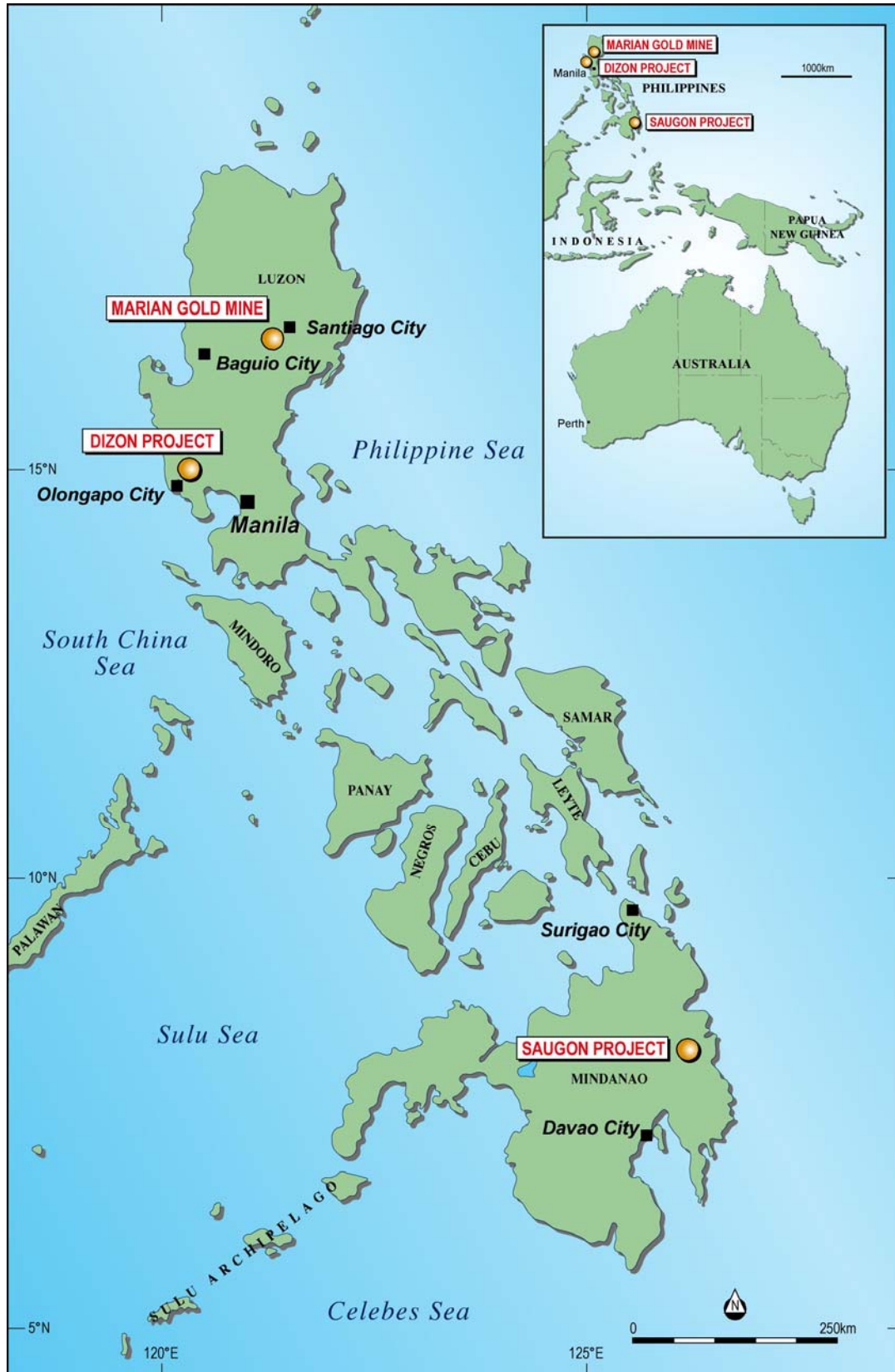


FIG 2

