



MEDUSA MINING LIMITED

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The Manager
Australian Stock Exchange Limited
Level 4
20 Bridge St
Sydney NSW 2000

Dear Sir/Madam

PANAON ISLAND GOLD PROJECT

Northern Surigao Gold District, Philippines

Medusa Mining Limited ("Medusa") advises that it has signed a Mines Operating Agreement ("MOU") over the former Pinut-an Gold Mine and surrounding areas on Panaon Island (the "Panaon Project") with Vulcan Industrial and Mining Corporation ("Vulcan"), a company listed on the Philippines Stock Exchange.

The Company is in advanced negotiations with an investment group who has committed to funding the project for the first US\$1 million to earn a 50 % interest. A joint venture agreement is expected to be signed in the near future.

The Panaon Project has a long history of narrow vein mining commencing in Spanish times. The veins are up to 1.50m wide and contain high grade shoots where records indicate values to 70 g/t Au are not uncommon. Recent grab samples returned up to 115g/t Au. The Medusa group's expertise in narrow vein mining allows it to readily investigate the potential of the project for production. Skilled personnel are available on site and hence the Panaon Project will not interfere with Medusa's focus at the Co-O Gold Mine once this acquisition is completed.

The MOU provides for:

- The Medusa Group to operate the Panaon Project and provide a 3% Net Refinery Return royalty to Vulcan on all gold and silver production;
- Vulcan is entitled to buy back 20% of the Panaon Project when it has been operating for more than 3 months at a rate of 100 tonnes per day. Vulcan will pay a 100% premium on the pro-rata expenditure to that date for its 20% interest; and
- Vulcan being paid US\$10,000 as a signing on fee and a US\$10,000 advance against future royalty payments.

THE PANAON PROJECT

BACKGROUND:

The Panaon Island Gold Project is located on Panaon Island (Fig.1) in Southern Leyte, immediately north of Surigao City which is reached by domestic flights from Manila. Access from Surigao City is by passenger boat for 1-2 hours or by drive-on drive-off inter-island ferry.

The Panaon Project consists of Exploration Permit EP-2005-000004-VIII which was granted on 5 March 2005 totalling 1,646 hectares. Geologically the project is part of the northern Surigao district mineralisation.

The gold mineralisation on Panaon Island was discovered during Spanish times and subsequently mined by the Americans pre-World War II and by several Filipino groups since World War II.

Most past mining activities appear to have used crude mining and processing techniques which required grades generally well in excess of 20g/t Au to be profitable. An attempt to modernise the mining in the 1980s to 100 tonnes per day production appears to have failed due to a lack of management control and expertise. However, as a result of this activity, plant foundations and several cyanide leach tanks in good condition are still on site and usable.

The main veins discovered are located at Pinut-an, Bituon and Habay. The Pinut-an veins are the main veins mined to date. Detailed production records are yet to be located.

PROJECT GEOLOGY:

The project consists of high grade epithermal veins hosted by andesitic porphyries intercalated with volcanic pyroclastics. The island is confined east and west by branches of the Philippine Rift Fault which have sculptured the elongated nature of the island.

At Pinut-an, the epithermal veins are confined to the eastern side of the island where the vein system consists of five major zones with strike lengths up to 1 km. Records indicate that the most productive veins have an E-W orientation. Several adits of up to 300 metres in length, cross-cuts and other drives are indicated on old plans which have to be verified through re-opening, mapping and sampling.

The Pinut-an veins are associated with an alteration area of approximately 5 km². Stream sediment sampling carried out over an area of 200 km² in early 2003 by the a government to government Korean-Filipino joint venture team detected anomalous values in the Pinut-an, Bituon and Habay Fault areas. No further follow-up work appears to have been undertaken.

At Bituon, five E-W veins were sporadically mined but the mining was not developed to the same level as at Pinut-an. However the potential of these veins at this stage is thought to be similar to those at Pinut-an.

THE MINES OPERATING AGREEMENT

Vulcan is listed on the Philippines Stock Exchange. Medusa has signed a Mines Operating Agreement ("MOA") with Vulcan which has the following key points:

- The Medusa group will operate the project and provide Vulcan with a 3% Net Refinery Return royalty on gold and silver if the resource is less than 2 million ounces and 4% if the resource is greater than 2 million ounces;
- The Medusa group will pay Vulcan a signing fee of US\$10,000 and an advance against future production of US\$10,000;
- Vulcan has the right to buy back 20% of the project when it has achieved production of 100 tonnes per day for a period of 3 months. To acquire the equity, Vulcan will pay a 100% premium on the pro-rata project expenditure to that date.

ADVANCED NEGOTIATIONS

Medusa is in advanced negotiations with a third party who have agreed to fund the first US\$1 million of expenditure for exploration and development of the Panaon Project. It is anticipated that this should be sufficient for underground re-habilitation, exploration and development, and provided exploration results are satisfactory, the construction of a plant of approximately 100 tonnes per day capacity utilising tankage and foundations already in place. All costs of acquiring the project are to the account of the third party.

WITHDRAWAL FROM THE MARIAN GOLD MINE PROJECT

Luzon Island, Philippines

The Company has advised Vulcan, the owner of the Marian Gold Mine in Central Luzon, Philippines, that it is withdrawing from the Memorandum of Understanding announced on 14 July 2004 and extended for 6 months in January 2005.

Medusa's decision to withdraw from the Marian Gold Mine Project was reached following comprehensive data entry, collation and assessment.

FURTHER INFORMATION

For further information contact the undersigned on 618-9367 0601 or by email to admin@medusamining.com.au

Detailed descriptions of the Company's projects can be viewed on www.medusamining.com.au

Yours faithfully,

Geoff Davis.
Managing Director.

The information in the above announcement was compiled by Geoff Davis, who has sufficient experience which 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". Geoff Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



FIGURE 1