



**Medusa Mining Limited**  
**ACN 099 377 849**

**NOTICE OF GENERAL MEETING  
AND  
EXPLANATORY STATEMENT**

**For the Shareholders' General Meeting to be held on  
16 May 2005 (10.00am WST)  
at The Broadwater Pagoda Resort Hotel, Pagoda Room A,  
112 Melville Parade, Como, Western Australia**

**This is an important document. Please read it carefully and in its entirety.  
If you do not understand it please consult with your professional advisers.**

If you are unable to attend the Meeting, please complete the form of proxy enclosed and return it in accordance with the instructions set out on that form.

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## **TIME AND PLACE OF GENERAL MEETING AND HOW TO VOTE**

This General Meeting of the Shareholders of Medusa Mining Limited will be held at:

The Broadwater Pagoda Resort Hotel  
Pagoda Room A  
112 Melville Parade  
Como, Western Australia, 6152

**Commencing at 10.00am (WST) on Monday, 16 May 2005**

### **How to Vote**

You may vote by attending the meeting in person, by proxy or authorised representative.

#### **Voting in Person**

To vote in person you need to attend the meeting on the date and at the place set out above. The meeting will commence at 10am (WST).

#### **Voting by Proxy**

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of General Meeting as soon as possible and return the proxy form (by post, delivery or fax) to the Company Secretary:

Registered Office : Suite 7  
11 Preston Street  
Como WA 6152

Facsimile Number : 08 9367 0602

Postal Address : PO Box 860  
Canning Bridge WA 6153

so that it is received not later than 10:00am (WST) on 14 May 2005.

Your proxy form is enclosed

## CHAIRMAN'S LETTER

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Dear Shareholder,

Fifteen months since listing on the ASX, the Company remains on track towards fulfilling its corporate objective of developing a cash flow from mining within two years. The Company views the Philippines as a country with untapped exploration potential and firmly believes that opportunities exist for the Company to capitalize on its in-country expertise and achieve its corporate objective.

The Company's foray into the Philippines, initially was by way of a joint venture with Philsaga Mining Corporation ("Philsaga") on the Saugon Project, whereby the Company spent \$1.2 million to earn a 50% interest in the project

Philsaga owns and operates the profitable, underground Co-O Mine as well as the treatment plant and associated mine infrastructure which cost approximately US\$21 million to develop and construct in 1989. Philsaga has specialist skills in the mining of narrow vein deposits and has built an efficient underground mining operation that enjoys good relationships with its employees, the local community and all government authorities.

As a result of the Philsaga Transaction, the Company and its 40% owned Philippine subsidiary will together acquire a downstream interest in all the shares in Philsaga. The Philsaga vendors will become substantial shareholders of the Company and two key individuals, Bill Phillips and Samuel Afdal will continue as senior executives of Philsaga. Thereby, the Philsaga Transaction brings together parties with the common objectives of growing a profitable mining company through the melding of mining, administration, exploration and corporate skills.

The Board of Medusa believes that the Philsaga Transaction presents a unique opportunity for its shareholders as the Company will acquire an immediate cash flow from a robust gold mining operation with resources of 241,000 ounces of gold at a grade of 29.7g/t. The Co-O vein system is open in all directions and ongoing work continues to show that there is considerable scope to increase the reserve base and support a long life, robust cash flow operation.

The Company's transition to gold producer should be seamless as the current successful management team and employees will remain in place.

The potential for further growth is highlighted by the excellent prospectivity of a large tenement holding, including discovery of additional high grade vein systems, disseminated Carlin-style deposits and porphyry copper-gold deposits. This highly mineralised belt has not been explored by modern techniques in the past.

The Company is now raising sufficient funds through equity and debt for working capital and to complete the transaction. The Board of Medusa recommends that all shareholders support the Philsaga Transaction as the Company makes the transformation from explorer to a producer with an anticipated escalating production profile.

Resolutions 1 to 5 are interdependent resolutions concerning the Philsaga Transaction, Resolutions 6, 7 and 8 concern the Company ratifying past issues of securities in order to refresh its 15% capacity to issue securities whilst Resolutions 9 to 11 relate to the grant of Options to related parties and employees.

Dr Jeffrey Schiller  
Chairman  
Medusa Mining Limited

**MEDUSA MINING LIMITED**  
**ACN 099 377 849**

**SECTION 1**

**NOTICE OF GENERAL MEETING**

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Notice is hereby given that a General Meeting of the Shareholders of Medusa Mining Limited will be held at The Broadwater Pagoda Resort Hotel, Pagoda Room A, 112 Melville Parade, Como, Western Australia on Monday, 16 May 2005 at 10.00am (WST) for the purpose of transacting the following business.

The attached Explanatory Statement is provided to supply Shareholders with information to enable Shareholders to make an informed decision regarding the Resolutions set out in this Notice. The Explanatory Statement is to be read in conjunction with this Notice.

**AGENDA**

**BUSINESS**

**Resolution 1 – Change of Activities**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolutions 2, 3, 4 and 5 and for the purposes of Listing Rule 11.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to make a significant change in the scale of its activities as a mining explorer to a mining explorer and producer as described in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** The ASX Listing Rules require the Company to seek Shareholder approval where it proposes to make a significant change to the nature or scale of its activities. Please refer to the Explanatory Statement for details of the proposed change.

The Company will disregard any votes cast on this Resolution 1 by a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 1 is passed and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 1:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

**Resolution 2 – Issue of Shares to Philsaga Vendors**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the Company raising the minimum subscription under the Fund Raising and the passing of Resolutions 1, 3, 4 and 5, for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Stock Exchange and for all other purposes, approval is given for the Company to allot and issue up to 27,600,000 ordinary fully paid shares in the capital of the Company to the Philsaga Vendors on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under ASX Listing Rule 7.1, the Company may issue up to 15% of its ordinary Share capital in any 12 month period without Shareholder approval. By obtaining the prior approval of Shareholders for the issue of

securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to the Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution 2 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 2 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 2:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

### **Resolution 3 – Allotment and Issue of Shares**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolutions 1, 2, 4 and 5 and for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue pursuant to a prospectus up to 13,500,000 fully paid ordinary shares in the capital of the Company at an issue price of not less than 80% of the average market price calculated over the last 5 days on which sales of the Company's fully paid ordinary shares were recorded before the date of the Prospectus on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under ASX Listing Rule 7.1, the Company may issue up to 15% of its ordinary Share capital in any 12 month period without Shareholder approval. By obtaining the prior approval of Shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to the Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution 3 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 3 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 3:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

### **Resolution 4 – Grant of Options to Intersuisse Corporate Pty Ltd**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to passing of Resolutions 1, 2, 3 and 5 and for the purposes of Listing Rule 7.1 of the Listing Rules of Australia Stock Exchange Limited and for all other purposes, approval is given for the Company to grant to Intersuisse Corporate Pty Ltd or its nominee up to 500,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under ASX Listing Rule 7.1, the Company may issue up to 15% of its ordinary Share capital in any 12 month period without Shareholder approval. By obtaining the prior approval of Shareholders for the issue of

securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to the Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution 4 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 4 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 4:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

#### **Resolution 5 – Grant of Options to LinQ Capital Limited**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, subject to the passing of Resolutions 1, 2, 3 and 4 and for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to grant to LinQ Capital Limited or its nominee up to 7,500,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under ASX Listing Rule 7.1, the Company may issue up to 15% of its ordinary Share capital in any 12 month period without Shareholder approval. By obtaining the prior approval of Shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution 5 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 5 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 5:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

#### **Resolution 6 – Ratification of Placement Share Issue**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That for the purposes of Listing Rule 7.4 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Company ratifies the allotment and issue of 1,200,000 ordinary fully paid shares in the capital of the Company in or about September 2004 at 36 cents per share to clients of Intersuisse Corporate Pty Ltd within the meaning of section 708 of the Corporations Act 2001."*

**Short Explanation:** ASX Listing Rule 7.1 allows the Company to issue up to 15% of its ordinary Share capital in any 12 month rolling period without Shareholder approval. By obtaining ratification of Shareholders under ASX Listing Rule 7.4 to the issue of Shares in or about September 2004, the Company will obtain relevant approval for the purposes of ASX Listing Rule 7.1 and thereby refresh the Company's capacity to make future issues of securities up to the 15% threshold.

The Company will disregard any votes cast on this Resolution 6 by an allottee of the issue the subject of this Resolution 6 (an "allottee") and any of its associates of such an allottee. However, the Company will not disregard a vote cast on this Resolution 6:

- a) if it is cast by an allottee as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

#### **Resolution 7 – Ratification of Securities to Total Mineral Resources Pty Ltd**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That for the purposes of Listing Rule 7.4 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Company ratifies the allotment and issue of 700,000 ordinary fully paid shares in the capital of the Company and 700,000 options to acquire fully paid ordinary shares in the capital of the Company in or about October 2004 to Total Mineral Resources Pty Ltd."*

**Short Explanation:** ASX Listing Rule 7.1 allows the Company to issue up to 15% of its ordinary Share capital in any 12 month rolling period without Shareholder approval. By obtaining ratification of Shareholders under ASX Listing Rule 7.4 to the issue of Shares and Options in or about October 2004, the Company will obtain relevant approval for the purposes of ASX Listing Rule 7.1 and thereby refresh the Company's capacity to make future issues of securities up to the 15% threshold.

The Company will disregard any votes cast on this Resolution 7 by an allottee of the issue the subject of this Resolution 7 (an "allottee") and any of its associates of such an allottee. However, the Company will not disregard a vote cast on this Resolution 7:

- a) if it is cast by an allottee as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

#### **Resolution 8 – Ratification of Placement Share Issue**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That for the purposes of Listing Rule 7.4 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Company ratifies the allotment and issue of 824,742 ordinary fully paid shares in the capital of the Company in or about December 2004 at 48.5 cents per share to clients of State One Stockbroking Limited within the meaning of section 708 of the Corporations Act 2001."*

**Short Explanation:** ASX Listing Rule 7.1 allows the Company to issue up to 15% of its ordinary Share capital in any 12 month rolling period without Shareholder approval. By obtaining ratification of Shareholders under ASX Listing Rule 7.4 to the issue of Shares and Options in or about December 2004, the Company will obtain relevant approval for the purposes of ASX Listing Rule 7.1 and thereby refresh the Company's capacity to make future issues of securities up to the 15% threshold.

The Company will disregard any votes cast on this Resolution 8 by an allottee of the issue the subject of this Resolution 8 (an "allottee") and any of its associates of such an allottee. However, the Company will not disregard a vote cast on this Resolution 8:

- a) if it is cast by an allottee as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

#### **Resolution 9 – Grant of Options to Mr Geoffrey Davis**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.11 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to grant to Mr Geoffrey Davis or his nominee up to 2,000,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms and conditions set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under the related party provisions of the Corporations Act (Chapter 2E) the provision of any financial benefit (which includes the grant of Options) to a related party requires Shareholder approval unless excepted in terms of the Corporations Act. The ASX Listing Rules requires the Company to seek Shareholder approval prior to the issue of securities to a related party. Mr Davis is a related party of the Company.

The Company will disregard any votes cast on this Resolution 9 by Mr Geoffrey Davis or any of his associates or any person who may obtain a benefit if this Resolution 9 is passed other than in their capacity as Shareholder. However, the Company need not disregard a vote cast on this Resolution 9 if:

- a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **Resolution 10 – Grant of Options to Mr Roy Daniel**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to grant Mr Roy Daniel or his nominee up to 500,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under ASX Listing Rule 7.1, the Company may issue up to 15% of its ordinary Share capital in any 12 month period without Shareholder approval. By obtaining the prior approval of Shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution 10 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 10 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 10:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or

- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

### **Resolution 11 – Grant of Options to Mr Ernie Apostol**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of Listing Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to grant Mr Ernie Apostol or his nominee up to 500,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms set out in the Explanatory Statement accompanying this Notice."*

**Short Explanation:** Under ASX Listing Rule 7.1, the Company may issue up to 15% of its ordinary Share capital in any 12 month period without Shareholder approval. By obtaining the prior approval of Shareholders for the issue of securities proposed under this Resolution, the Company retains the flexibility to make future issues of securities up to that threshold. Please refer to Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution 11 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a security holder, if this Resolution 11 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 11:

- a) if it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

### **VOTING AND PROXIES**

1. A Shareholder of the Company entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If the Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a Shareholder of the Company.
2. Where a voting exclusion applies, the Company need not disregard a vote if it is cast by the person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.
3. In accordance with Regulation 7.11.37 of the Corporations Act, the Directors have set a date to determine the identity of those entitled to attend and vote at the Meeting. The date is 10.00 am (WST) on 14 May 2005.
4. A proxy form is attached. If required it should be completed, signed and returned to the Company's registered office in accordance with the instructions on that form.

### **By order of the Board**

Roy Daniel  
Company Secretary  
Dated: 14 April 2005

**MEDUSA MINING LIMITED**  
**ACN 099 377 849**

**SECTION 2**

**EXPLANATORY STATEMENT**

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This Explanatory Statement is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the Notice.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

**1. INFORMATION AS TO PHILSAGA TRANSACTION, CHANGE IN SCALE OF ACTIVITIES AND FUNDRAISING**

**1.1 Overview of Philsaga Transaction**

**(a) Transaction**

On 19 February 2005 the Company (“Medusa Mining Limited”) executed the Philsaga Share Sale Deed by which it and its Philippines subsidiary, Medusa Overseas Holding Corporation (“MOHC”) together purchased the entire shareholding of Davao Philsaga Holdings Inc and Tasco Development Company. The effect of the transaction is that the Company and MOHC acquired a downstream interest in all the shares of Philsaga Mining Corporation and its assets located in central eastern Mindanao, in the Republic of the Philippines.

The Post-Completion Corporate Structure showing the interests of the Company is contained later in this section.

The Philsaga Transaction brings together parties which each have the objective of building a successful mining company. Philsaga Mining Corporation is a profitable private company that prior to the Philsaga Transaction did not have the additional expertise and capital required for expansion. The Company is a public listed company on the ASX that has the required expertise and access to funds to expand the Co-O mine and develop the assets of Philsaga Mining Corporation.

The Philsaga Vendors will on completion of the transaction become substantial shareholders of the Company and two key individuals associated with some of the Philsaga Vendors being Bill Phillips and Samuel Afdal will continue as senior executives and directors of Philsaga Mining Corporation. These key individuals will share a common interest with the Company in further developing the Co-O mine.

The Company is well aware of the political and sovereign risks associated with such an acquisition and has accordingly structured the transaction so as to not unravel the excellent work done by Philsaga Mining Corporation through the efforts of Bill Phillips and Samuel Afdal.

The Bureau of Mines in Manila has referred to Philsaga Mining Corporation as a model mining operation with its ability to develop and foster excellent working relationships with all levels of national, regional and local government authorities, as well as harmonious relationships with its immediate local communities and neighbours.

Geoff Davis and Ernie Apostol of the Company will join Bill Phillips and Samuel Afdal on the board of directors of Davao Philsaga Holdings Inc and Philsaga Mining Corporation. A third Philippines resident will join these members on the board of Philsaga Mining Corporation. The Board of the Company will be unchanged by the Philsaga Transaction.

(b) **Key terms of the acquisition**

The key terms of the acquisition are:

- The issue of 25,000,000 Shares in the Company to the Philsaga Vendors at completion (being within 10 business days of completion of the Fund Raising);
- A total of \$12,000,000 (approximately US\$9,000,000) in cash;
- The further issue of \$2,000,000 in cash or 2,600,000 Shares in the Company to one of the Philsaga Vendors 13 months from ASX Re quotation or such other date as may be agreed between the parties;
- In addition the Company will provide \$1,000,000 in each of the first and second years for contractors to purchase equipment for the provision of services to the mine;
- A payment of US\$20 per ounce of recovered gold obtained from any extensions of the Co-O Mine mineralisation mined on the eastern side of the Oriental Fault limited to a maximum of US\$10,000,000;
- A 10% share of any cash or shares received by a Medusa entity in the event that a significant deposit is discovered upon any of the relevant mining tenements and the Medusa entity disposes of either the tenement or transfers effective control of the discovery;
- The current Philsaga management will continue to manage the project.

(c) **Purchase price**

The Company after extensive due diligence and careful consideration believe the negotiated price is fair for the Company for the following reasons:

- (i) immediate re-classification from junior explorer to gold producer status due to the control of the Co-O mine;
- (ii) acquiring a working mine with a skilled workforce, competent management team and mining and development approvals in place;
- (iii) control of highly profitable mining operations with a current production base of between 15,000 to 20,000 ounces annually at an average cash operating cost of approximately US\$200 per ounce;
- (iv) high grade gold resources base, which is open and currently stands at 241,000 ounces at average grades of 29.7 grams per tonne of gold;
- (v) highly prospective ore body which is open along strike and down dip as evidenced by the results of two diamond drill holes on the eastern side of the Oriental Fault which intersected very high grades;
- (vi) low capital outlay required to increase production;
- (vii) immediate access to all revenues generated by the Co-O mine;
- (viii) acquiring an asset (in excellent working condition) that cost approximately US\$21 million to develop in 1989. At today's prices, these amounts would be significantly higher;
- (ix) highly prospective and sizeable tenement package;

- (x) mining contracts with SBF Drilling Services Inc and Vibrant Earthmover Inc, companies associated with the Philsaga Vendors, Bill Phillips and Samuel Afdal. These contracts include the provision of services at competitive commercial rates compared to conventional industry standard contractor arrangements which will lead to cost savings for the Company;
  - (xi) two joint ventures whereby the joint venture participants have to spend US\$1.5 million each to earn a 50% interest; and
  - (xii) excellent governmental and community relationships.
- (d) **Benefits of the acquisition**

The Company believes the Philsaga transaction is a unique opportunity for the Company to become an immediate gold producer with access to all revenues generated from the high grade Co-O mine, with minimal capital outlay.

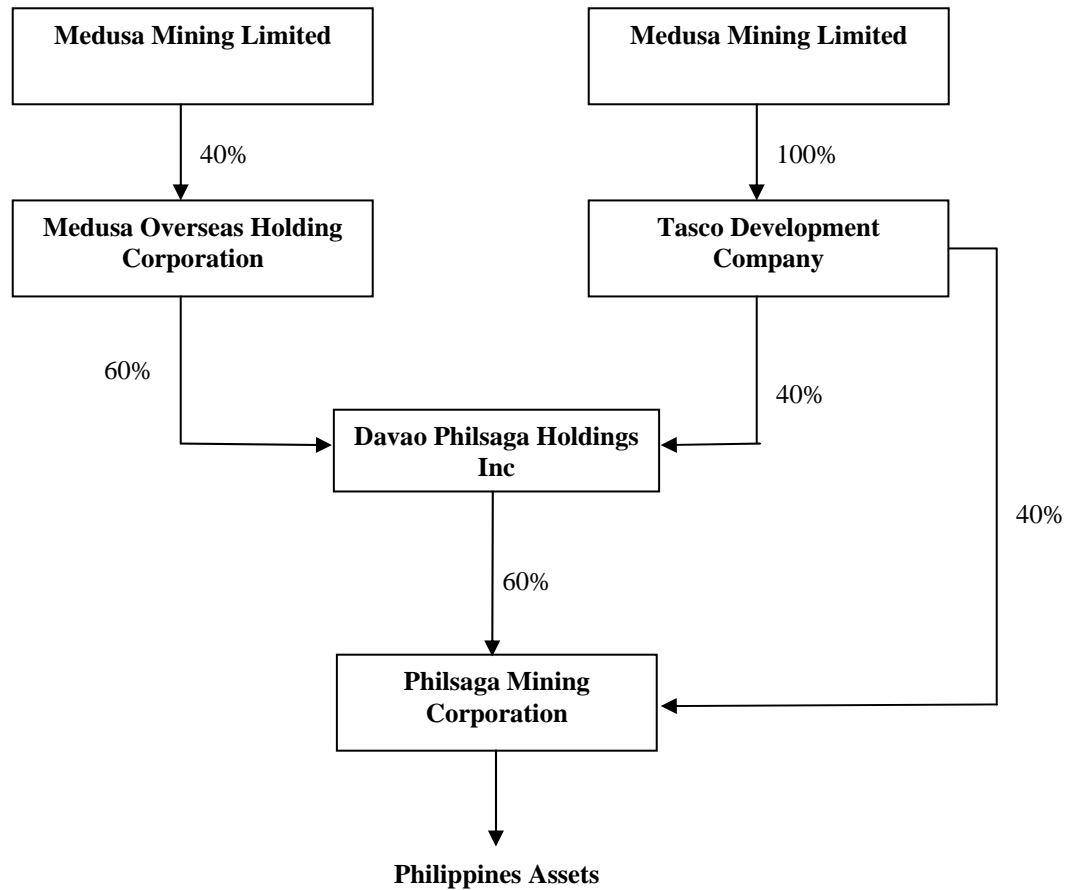
The Company enjoys an excellent relationship with the Philsaga Vendors, who will also become substantial shareholders in the Company on completion of the transaction.

The Company is aware of the social, political and sovereign risks associated with the Philippines and has taken steps to maintain and foster good harmonious working relationships with all levels of government authorities, local communities and neighbours by securing the services of Bill Phillips and Samuel Afdal under management consultancy agreements. In addition, the high profitability per ounce should enable the Company to rapidly pay off the purchase price and minimise its financial exposure.

Completion of the acquisition would give the Company the following benefits:

- Control of a profitable high grade gold mining operation;
- Access to an immediate cash flow from an initial production of approximately 15,000 to 20,000 ounces on an annualised basis, produced at approximately US\$200/oz;
- Production is planned to increase in about mid 2005 with the commissioning of the additional Co-O Mine 3150m haulage level and the planned Baguio shaft;
- Milling facilities which are strategically located and can be expanded as production increases from multiple mine sites;
- Control over a large, highly prospective tenement holding which will facilitate modern and systematic exploration for the first time ever;
- An existing workforce, management and infrastructure that are working effectively and co-operative with local communities;
- Control of the Saugon joint venture which is currently being explored and two other joint ventures with combined expenditure commitments of US\$3M;
- A seamless transition from advanced explorer with anticipated initial production in the first quarter of 2005 to a producer with an increasing production profile.

(e) **Post Completion Corporate Structure**



1.2 **Proposed Timetable of Events**

Prospectus lodged with ASIC	22 April 2005
Opening Date of Prospectus Offer	22 April 2005
General Meeting of Shareholders	16 May 2005
Estimated Closing Date of Prospectus Offer	17 May 2005
Allotment of Shares	20 May 2005
Completion of Philsaga Transaction	23 May 2005
Expected Despatch of Holding Statements	23 May 2005
Expected Date for re-listing on ASX	25 May 2005

The above dates are indicative only and may change without notice. The Company reserves the right to extend the closing date of the Prospectus or close the offer early.

The ASX will suspend the Company's securities from quotation at the close of trading on the business day preceding the Meeting of Shareholders until the Company re-complies with the admission requirements of ASX set out in Chapters 1 and 2 of the ASX Listing Rules.

### 1.3 Summary of Philsaga Transaction Documents

The Philsaga Transaction Documents, amongst other things, involve the Company and its subsidiary, MOHC acquiring shares in two companies so that the Company and MOHC acquire an indirect downstream interest in all the share capital of Philsaga Mining Corporation and thereby control its substantial assets and interests.

The Philsaga Transaction Documents consist of the Philsaga Share Sale Deed and various ancillary agreements. The ancillary agreements consist of a royalty deed in favour of the Philsaga Vendors and management agreements and service contracts with parties associated with the certain of Philsaga Vendors, which contracts will assist in ensuring appropriate management of the Philippines assets. The Philsaga Share Sale Deed and ancillary agreements are summarised below. All of the agreements are governed by the laws of the Philippines.

#### (a) Share Sale Deed

The Philsaga Share Sale Deed is constituted by a deed dated 19 February 2005 between the Company, MOHC, the Philsaga Vendors, Bill Phillips and Samuel Afdal as amended. By the deed the Company and its Philippines subsidiary, MOHC together purchase the entire shareholding of Davao Philsaga Holdings Inc and Tasco Development Company from the Philsaga Vendors.

The two interdependent transactions under the Philsaga Share Sale Deed are firstly the purchase by the Company of 100% of the shares of Tasco Development Company which are held by Advanced Concept Holdings Limited ("Advanced Concept") and Yandal Investments Pty Ltd ("Yandal") and secondly the purchase by MOHC of 60% of the shares of Davao Philsaga Holdings Inc which are held by Secdea Philippines Holdings Corporation ("Secdea"). All shares purchased are unencumbered.

#### Vendor and Purchaser Transactions

Vendor	Purchaser	Tasco Development Company Shares Sold	Philsaga Holding Corporation Shares Sold
1. Advanced Concept	Company	60%	—
2. Yandal	Company	40%	—
3. Secdea	MOHC	—	60%
		100%	60%

The assets held by Philsaga Mining Corporation includes the Co-O mine with its infrastructure, interests in mining joint ventures, mining tenements and business licences.

The purchase price consideration to be paid and/or issued to the Philsaga Vendors is:

- 25,000,000 Shares in the Company issued between the Philsaga Vendors, on completion.
- \$12,000,000 cash between the Philsaga Vendors as follows:
  - (i) \$7,000,000 on completion;

- (ii) \$2,500,000 13 months from ASX Re quotation; and
  - (iii) \$2,500,000 24 months from ASX Re quotation.
- either \$2,000,000 cash or 2,600,000 Shares in the Company (at a deemed issue price of 77 cents), at the election of Yandal 13 months from ASX Re quotation.

The payment of \$7,000,000 of the purchase price consideration on a deferred basis will accrue interest of 10% per annum, on the amount of that sum which remains unpaid from the time to time. The Company and MOHC must pay the interest to the Philsaga Vendors quarterly in arrears.

If the Company raises a convertible note with a third party after completion but before the payment of any unpaid portion of the deferred payments of the purchase price consideration, the Philsaga Vendors (subject to the Company obtaining any necessary Shareholder approval) will have the option to convert that part of the deferred payments owing, to a convertible note on the same terms and conditions as the third party convertible note.

The Company and MOHC have undertaken to offer the Philsaga Vendors, sufficient security for the payment of any unpaid portion of the deferred payments of the purchase price consideration, within 6 months of completion.

If the Company or any of its subsidiaries or affiliates, discovers a significant deposit on or within any of the mining tenements defined in the Philsaga Share Sale Deed and the Medusa entity disposes of either the tenement containing the discovery or transfers effective control over the discovery, then the Company must pay the Philsaga Vendors 10% of the consideration received for the disposal as it relates to the discovery.

The Philsaga Vendors have agreed to a voluntary escrow of the 25,000,000 Shares to be issued to them for a period of 18 months from completion.

The Philsaga Vendors have each covenanted in favour of the Company that at all times up to and including and immediately post-completion their relevant interest will be less than 20%. The Philsaga Vendors have also provided various warranties as to their independence.

The Philsaga Vendors provide basic warranties as to the shares sold whilst Bill Phillips and Samuel Afdal provide extensive warranties consistent with a share sale agreement. Any claim against Bill Phillips and Samuel Afdal is limited to a 3 year period and a total claim together of \$1,875,000.

The conditions for completion set out in the Philsaga Share Shale Deed are:

- (i) completion of due diligence by the Company to its sole satisfaction within 45 days of execution of the deed (which condition has been satisfied);
- (ii) the Shareholders of the Company approving the transaction under the deed for the purposes of the ASX Listing Rules, the Corporations Act and all other applicable laws or regulatory requirements;
- (iii) successful completion by the Company of a capital raising to fund the transaction and the Company further complying with the admission requirements in the ASX Listing Rules or any other requirement of the ASX;
- (iv) obtaining all statutory, regulatory or licensing approvals required by the Company and/or MOHC in the Philippines or Australia in order for the Company and MOHC to obtain unencumbered legal and beneficial ownership of the sale shares and uninterrupted control of the assets owned by Philsaga Mining Corporation;

- (v) the business conducted by Philsaga Mining Corporation remaining operational in materially the same manner up to and including the completion as reasonably determined by each of the Company and MOHC; and
- (vi) the resolution of the Picop legal case (being a Philippines legal case including Philsaga Mining Corporation) by either a decision of a Court or an agreed settlement between the parties to the Picop Case on terms favourable to Philsaga Mining Corporation (as reasonably determined by each of the Company and MOHC).

The Picop Case is a Philippines legal case involving a claim by Picop Resources Inc (a holder of existing timber licences or concessions) in respect of mineral production sharing agreement no. APSA 000084-XIII held by Philsaga Mining Corporation and within which the Co-O Mine is located. Picop Resources Inc's position is that the mining tenement areas should be closed to mining without its consent. The mining tenement application was initially set aside by a Panel of Arbitrators. On appeal the Mines Adjudication Board set aside the decision of the Panel of Arbitrators and reinstated the tenement applications. Picop Resources Inc then unsuccessfully appealed to the Court of Appeals. Picop Resources Inc has elevated the matter to the Supreme Court by filing a petition for review on certiorari which is currently pending resolution. The deed may be terminated if any of the completion conditions in (ii) to (vi) above are not satisfied or waived by the business day 4 months after the date of the deed or such later date as the parties may agree in writing.

Completion is further conditional on execution of the ancillary agreements described below.

Completion will take place on a business day not later than 10 business days after the date on which all conditions have been satisfied.

(b) **Royalty Agreement**

The parties to the royalty agreement are the Philsaga Vendors and the Philsaga Mining Corporation and the agreement will be executed upon completion of the Philsaga Share Sale Deed.

By the royalty agreement, Philsaga Mining Corporation grants and agrees to pay to the Philsaga Vendors a royalty together of US\$20 per ounce of recovered gold obtained from extensions of the Co-O mine system mined on the eastern side of the Oriental Fault (being a fault defined on maps) up to a limit of US\$10,000,000. The royalty is payable on a quarterly basis.

(c) **Management Consultancy Agreement with Mr Phillips**

On completion of the Philsaga Share Sale Deed, Philsaga Mining Corporation will execute a management consultancy agreement with Mr Bill Phillips.

By the management consultancy agreement, Philsaga Mining Corporation will engage Mr Phillips to provide Philsaga Mining Corporation, or the Medusa group of companies, with project management services for the Co-O mine and any other mining activities in the Philippines together with any other required management or advisory services.

The engagement of Mr Phillips by Philsaga Mining Corporation is for an initial term of 3 years and is renewable thereafter for 1 year periods by mutual agreement between the parties. During the initial term the Company may only terminate the agreement upon limited events akin to misconduct or incapacity.

Philsaga Mining Corporation will pay Mr Phillips the sum of US\$10,000 per calendar month. Philsaga Mining Corporation will additionally reimburse Mr Phillips for all expenses reasonably incurred in the performance of his services including relating to entertainment, accommodation, meals, telephone and travelling.

(d) **Management Consultancy Agreement with Mr Afdal**

On completion of the Philsaga Share Sale Deed, Philsaga Mining Corporation will execute a management consultancy agreement with Mr Samuel Afdal.

By the management consultancy agreement, Philsaga Mining Corporation will engage Mr Afdal to provide Philsaga Mining Corporation or the Medusa group of companies with management and advisory services upon milling, administration and industrial relations matters for the Co-O mine and any other mining activities in the Philippines together with other required complimentary services.

The engagement of Mr Afdal by Philsaga Mining Corporation is for an initial term of 3 years and is renewable thereafter for 1 year periods by mutual agreement between the parties. During the initial term the Company may only terminate the agreement upon limited events akin to misconduct and incapacity.

Philsaga Mining will pay Mr Afdal the sum of US\$10,000 per calendar month. Philsaga Mining Corporation will additionally reimburse Mr Afdal for all expenses reasonably incurred in the performance of his services including relating to entertainment, accommodation, meals, telephone and travelling.

(e) **Drilling Services Agreement**

On completion of the Philsaga Share Sale Deed, Philsaga Mining Corporation will enter into a drilling services agreement with SBF Drilling Services Inc. ("SBF Drilling"), a company associated with Messrs Phillips and Afdal.

By the drilling services agreement, Philsaga Mining Corporation will engage SBF Drilling to provide Philsaga Mining Corporation or the Medusa group of companies, with drilling services for the Co-O mine and area and further provide equipment, labour and expertise with respect to drilling services.

The engagement of SBF Drilling by Philsaga Mining Corporation is for an initial term of 3 years and is renewable thereafter for 1 year periods by mutual agreement between the parties.

In consideration of SBF Drilling providing the services, Philsaga Mining Corporation will pay SBF Drilling commercial rates for its services. Philsaga Mining Corporation will additionally provide SBF Drilling and Vibrant Earthmovers Inc with funds totalling \$2,000,000 between the drilling services agreement and the mining services agreement described below over 2 years for the sole purpose of SBF Drilling and Vibrant Earthmovers Inc purchasing in their own right, equipment which will be used for services in the Co-O mine and area during the contract period.

(f) **Mining Services Agreement**

On completion of the Philsaga Share Sale Deed, Philsaga Mining Corporation will enter into a mining services agreement with Vibrant Earthmovers Inc. ("Vibrant Earthmovers"), a company associated with Messrs Phillips and Afdal.

By the mining services agreement, Philsaga Mining Corporation will engage Vibrant Earthmovers to provide Philsaga Mining Corporation or the Medusa group of companies, with services to manage all activities associated with the mining and milling operations of the Co-O mine and area.

The engagement of Vibrant Earthmovers by Philsaga Mining Corporation is for an initial term of 3 years and is renewable thereafter for 1 year periods by mutual agreement between the parties.

In consideration of Vibrant Earthmovers performing the services, Philsaga Mining Corporation will pay Vibrant Earthmovers 15% on a cost plus basis being 15% of the total direct cost of mining and milling operations performed at the Co-O mine and area.

Philsaga Mining Corporation will additionally provide SBF Drilling Services Inc and Vibrant Earthmovers Inc with funds totalling \$2,000,000 between the mining services agreement and the drilling services agreement described above over 2 years for the sole purpose of SBF Drilling and Vibrant Earthmovers purchasing in their own right, equipment which will be used for services in the Co-O mine and area during the contract period.

#### 1.4 Information on Philsaga Mining Corporation and its Assets

##### (a) Background Information

Philsaga Mining Corporation's assets are located in central eastern Mindanao in the Republic of the Philippines and are accessed by the national highway via an approximate 2.5 hour drive north of Davao City. Project areas and the Co-O mill site and mine are located on the eastern side of the highway and are accessible through a network of all weather gravel roads.

The project now comprises approximately 537 km<sup>2</sup> of tenements which cover approximately 70 km of strike length of the highly prospective Diwata Range geology.

##### (b) The Philsaga Assets

###### (i) The Co-O Gold Mine

The Co-O underground mine is developed on a series of low sulphide, epithermal quartz veins which strike west over a length of at least 600 metres and have been explored to a maximum depth of more than 200 metres from surface so far. The veins are open to the west and at depth, and until recently had been believed to be truncated in the east by the northerly trending Oriental Fault.

Below the 3150m level where Philsaga Mining Corporation commenced operations and is now at the 3050m level, some of these veins coalesce into one vein which averages 2.5 to 3 metres in width and contain an average grade of +20g/t Au.

###### (ii) The Gold Resources and Reserves

Data from the previous and current operations of the Co-O Mine have been incorporated into a digital database and Cube Consultants Pty Ltd of Perth, Western Australia have modelled the Central Vein which is currently the main focus of operations. Table 1 summarises the resource calculations and Table 2 summarises the reserve calculations.

**Table 1. Gold Resources for the Central Vein, Co-O Mine**

Category	Tonnes	Au g/t	Au Oz
<b>Indicated</b>	110,000	32.2	114,000
<b>Inferred</b>	142,000	27.8	127,000
<b>TOTAL</b>	<b>252,000</b>	<b>29.7</b>	<b>241,000</b>

Composite assay data was analysed both statistically and geo-statistically to determine appropriate top cuts and interpolation strategies. The resource has been estimated using ordinary kriging within a geologically defined domain and using a technique appropriate for this style of mineralisation. Tonnage factors were assigned on the basis of geology. Resource figures are reported above an 8.0 g/t Au gold minimum block grade and with an assay top cut grade of 200 g/t Au.

The Indicated resources are located within a 40 metre envelope extending from the mine workings and assay data areas. Inferred resources are located within an envelope extending up to 30 metres beyond the Indicated resources and also include some remnant material within partly stoped areas.

Other productive veins are present in the mine which are sources of ore but these have not been modelled in detail to date.

Subsequent to the resource calculation above, Philsaga Mining Corporation has intersected high grade mineralisation to the east of the current mining area in the mine, but these results have not been included in the resource calculations. The Company refers shareholders to its ASX announcement on 1 February 2005 concerning the high grade intersections.

**Table 2. Co-O Ore Reserves**

<b>Reserve</b>	<b>Class</b>	<b>Ore Tonnes</b>	<b>Grade (g/t Au)</b>	<b>Contained Au (oz)</b>
<u>Remnant ore within the current mining footprint (pillars)</u>	Probable	21,800	26.7	16,685
<u>Ore outside current mining footprint</u>	Probable	55,800	30.4	54,550
<b>Probable Ore Reserve</b>		<b>77,600</b>	<b>29.4</b>	<b>73,235</b>

Ore Reserves were estimated from within the resources using a minimum cut-off grade of 15 g/t Au and minimum mining width of 1.0 m plus an allowance for dilution of 0.2 m on each side of the stope for previously unmined ore. It was assumed that 80% of the previously unmined Mineral Resource would be recovered to Ore Reserves. A mining recovery of 50% was assumed for remnant resources within the Philsaga mined footprint below the 3,150 mL and a dilution of 25% was assumed for all remnant resources.

The Ore Reserves estimate assumes that the mining will be based on bore and fire mining practices to extract the ore to the full width of mineralised vein.

The information in this Explanatory Statement that relates to Mineral Resources is based on information compiled by Mr Ted Coupland and Mr Rick Adams of Cube Consulting Pty Ltd who are members of The Australian Institute of Mining and Metallurgy whilst the information that relates to Ore Reserves is based on information compiled by Mr Peter Onley of Cube Consultants Pty Ltd, who is a Fellow and Chartered Professional of The Australasian Institute of Mining and Metallurgy.

Each of Messrs Ted Coupland, Rick Adams and Peter Onley have 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". Each of Messrs Ted Coupland, Rick Adams and Peter Onley consents to the inclusion in the Explanatory Statement of the matters based on his information in the form and context in which it appears.

(iii) **The Tenement Holdings and Joint Ventures**

Since taking ownership of the Co-O Mine and plant in 2000, Philsaga Mining Corporation commenced consolidating the region north and south of the plant by acquiring a number of tenements through direct ownership or effective ownership via agreements.

The tenement holding is strategically located north and south of the Co-O milling facility and covers approximately 20% of the strike length of the highly prospective Diwata Range.

Philsaga Mining Corporation has entered into a joint venture with Continental Goldfields Limited (“Continental”) to explore the Tambis project to the north of the Co-O Plant, whereby Continental will earn a 50% interest by spending the first US\$1.5M. This work will commence shortly.

Philsaga Mining Corporation has also negotiated a second joint venture with Magnum Gold Limited on similar terms and conditions to explore the Bunawan Project.

(iv) **Infrastructure and facilities**

The Co-O Mine is independent of the mill site in that it is separated by a 12 kilometre distance and has its own diesel generators, workshops and workforce, the majority of which live at the mine. Ore is transported by dump truck to the mill.

The Co-O CIP (carbon-in-pulp) plant is BHP designed and built with a current capacity of 550 tpd (tonnes per day). Minor alterations are required to increase the throughput.

Power to the CIP plant is supplied from the local grid with the high tension power line located approximately 150 metres from the plant. Back up diesel generators installed by MEM prior to the construction of the transmission line are operational and available.

The other facilities include administration offices and assay laboratory, a warehouse, mechanical and machine shops, messing and accommodation facilities and geological offices and core storage facilities.

(c) **Production History**

(i) **General**

The Co-O Operations comprise the Co-O Mine, the Co-O Plant, the administration facilities established at the plant site, area infrastructure and mineral tenements.

This operation was constructed in 1988-99 by Banahaw Mining and Development Corporation (“BMDC”), a subsidiary of Muswellbrook Energy and Minerals Limited who had explored the area and defined the Co-O ore body. Two CIP treatment plants were constructed, the initial and smaller plant of 100 tpd nameplate capacity was commissioned in December 1988 and the larger, main plant in May 1989 of 550 tpd nameplate capacity or nominally 190,000 tpa for an assigned 95% utilisation.

The Co-O Operation was established by BMDC for approximately US\$21 million with the main Co-O Plant site plant and buildings designed, constructed and commissioned by BHP Engineering (Philippines) Incorporated.

Mining and processing was suspended by BMDC in June 1992 due to adverse head grades, low ore production and resultant negative cash flow. Between December 1988 and June 1992, the Co-O Operation:

- treated 79,331 tonnes of ore with an average head grade of 5.08 g/t Au.

- recovered 59,768 ozs Au (91% recovery) and 61,415 ozs Ag.

Ownership of the Co-O Operations changed in the period 1992 to 2001, when Philsaga purchased it from Base Metals Mineral Resources Corporation (“BMMRC”) a subsidiary of the London based Philippine Gold Plc. Over this period of time, the operations plant were kept on a care and maintenance basis under the supervision of Samuel Afdal, who was previously the Security Manager to BMDC, having retired with the rank of Colonel from the Philippine army to take up this role.

The management and organisation fostered by Mr Afdal included employment of several key former BMDC personnel, such as mining engineers, metallurgists, accountants and analysts, who conducted a purposeful care and maintenance program such that the recommissioning of operations by Philsaga Mining Corporation was relatively straight forward and of low expenditure.

(ii) **Philsaga Mining Corporation**

On taking ownership of the mine and plant, Philsaga Mining Corporation organised the existing co-operative workforce of small scale miners into gangs to work at assigned stopes and encouraged the delivery of ore to the Co-O Plant. The contract piece rate remained at 30% of the contained gold less the cost of processing and haulage to the Co-O Plant, while non ore winning activities were paid by negotiated piece rates or daily wage rates.

Generally, employing small scale mining practices, Philsaga Mining Corporation organised the mining operations such that ground was supported, services (ventilation power, lighting and dewatering) provided and access controlled to those authorised to enter and work in the mine. ROM ore in parcels of about 40 kg each was brought to the portal in polywoven bags, recorded, weighed, emptied into a truck and transported to the Co-O Plant for treatment.

The Co-O Plant as held on care & maintenance until recommissioning by BMMDC required ore feed at quantities greater than were being produced by the small scale mining practices. Hence, Philsaga Mining Corporation introduced a smaller crushing and grinding circuit utilising a small ball mill with a capacity of 50 tpd. In mid 2002, another ball mill of 100 tpd capacity was commissioned in parallel to the 50 tpd mill.

Mining operations at December 2004 had advanced 130 metres below the 3150m level before the small scale mining operations were ceased. Philsaga Mining Corporation are currently changing the Co-O Mine to a “bore & fire” operation from the small scale mining practice, and are establishing a different piecework contract rate for the stope miners that will essentially be payment for volume of rock broken, in the manner of conventional Australian practices. Hence, the Co-O Plant will cease processing operations until May 2005 while the mine is re-organised and development is advanced sufficiently to allow shrink stoping of the Co-O ore body.

The performance statistics of the Co-O Mine operated under small scale conditions are not directly applicable to that programmed under “bore & fire” conditions. The Co-O Plant statistics are relevant to the extent that the leach-adsorption circuits will be operated in the same manner to achieve the current plant recovery and that the current unit costs are relevant to programmed operations with a throughput of similar magnitude between 60 and 90 tpd as achieved for the second half of 2004. The Co-O administration costs will continue to be relevant.

Production statistics for the period 2002 to 2004 inclusive show that:

- The Co-O Plant feed was dependant on ore mined and monthly production was variable between a maximum of 2,950 tonnes (91 tpd) for May 2003 and 1,341

tonnes (45 tpd) for September 2003. The throughput for 2004 was steadily improved each month from 1,434 tonnes (46 tpd) in January 2004 to 2,603 tonnes (84 tpd) in September 2004, with a daily average of 59 tpd for the first half and 72 tpd for the second half year.

- The relationship between the calculated plant head grade and the ROM assigned head grades, which are based on face samples to the stopes and ore drives, was consistent whereby the ROM assigned grade was between 7% and 13% higher than the calculated head grade.
- The tails grade has been steadily improved such that the Co-O Plant is able to achieve a discharge grade of less than 1 g/t Au with resultant plant recovery of 96% for the fourth quarter to 2004.
- The Co-O Plant unit cash cost of production has been US\$20, US\$27 and US\$28 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant repair expense in 2004 that is not expected to be reproduced.
- Administration to the Co-O Operations has been US\$16, US\$22 and US\$37 per tonne for the years 2002, 2003 and 2004 respectively. This expenditure reflects the increasing degree of exploration related administration, including tenement applications and court cases, particularly in 2004, that are not expected to be repeated.
- The Co-O Mine unit cash cost of production has been US\$67, US\$78 and US\$96 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant expense in 2004 for rehabilitation of the 3185mL return airway, development costs on the 3150mL to connect with the Tinago Shaft. The unit cost reflects the small scale mining contract rate for ore production that is to be reduced with the introduction of “bore & fire” operations.
- Total unit cash cost for the Co-O Operations has been US\$115, US\$165 and US\$224 per recovered ozs of gold for the years 2002, 2003 and 2004 respectively.

**Table 3. Co-O Operations Production Statistics**

Item	Unit	2002	2003	2004 (1 <sup>st</sup> Half)	2004 (2 <sup>nd</sup> Half)	2004
ROM production :	tonne	17,032	22,580	10,614	10,802	21,416
	g/t Au	32.00	27.54	26.20	26.40	26.30
Plant feed :	tonne	18,772	22,901	10,736	11,000	21,736
	g/t Au	29.90	23.40	22.30	22.30	22.30
Tails grade :	g/t Au	2.57	1.89	1.41	0.96	1.18
Recovered gold :	ozs Au	16,709	17,590	7,672	7,858	15,530
Unit cash cost, Mining :	US\$/t	67	78	95	96	96
Unit cash cost, Processing :	US\$/t	20	27	26	30	28
Unit cash cost, Admin :	US\$/t	16	22	34	40	37
Total Unit Cash Costs :	US\$/t	103	127	155	165	160
	US\$/ozs	115	165	217	231	224

### 1.5 Funding of Philsaga Transaction

#### (a) Funds Required

The Company has determined that it will seek funds by debt and equity of between \$12,000,000 and \$14,000,000 to fulfil its obligations at completion with respect to the acquisition, meet transaction related expenses and provide additional working capital.

The breakdown of the funds will, on maximum subscription, be as follows:

Description	Amount
- purchase consideration	7,000,000
- 1 <sup>st</sup> payment of equipment purchases	1,000,000
- transaction related costs	1,000,000
- working capital	5,000,000
Total	14,000,000

#### (b) Funding Arrangements

The Company has mandated the services of Intersuisse Corporate Pty Ltd to advise and assist the Company in its Capital Raising.

Following an assessment of market interest and the receipt of competitive proposals for debt finance, the Company has now committed to a Debt Raising of \$6,000,000 and a minimum Capital Raising of \$6,000,000.

##### (i) Debt finance

The Company has received competitive proposals from interested parties to provide debt funding and after careful and deliberate consideration, the Company has elected to execute

an agreement with LinQ Finance Limited ("LinQ"), whereby LinQ has agreed to provide the Company with a loan of \$6,000,000:

Key terms and conditions of LinQ's mezzanine finance include:

Loan amount	:	\$6.0 million.
Security provided	:	Unsecured but with negative pledges subject to LinQ being provided with security over any proceeds from the conversion of any of the 20,383,843 January 2007 Options (20 cents exercise price).
Interest rate on loan	:	3 month bank bill rate plus 4.05% per annum compounding quarterly and payable quarterly.
Facility fee	:	3%
Issue of options to LinQ (see Resolution 5)	:	- 7,500,000 options, exercise price \$0.77 expiring 30 Apr 2008.
Facility term	:	Expiry 30 April 2007 with LinQ having the election to extend the facility by a further period of 12 months until 30 April 2008.
Early Repayment or Refinancing	:	The Company may repay the facility after 12 months. In the event of early repayment or refinancing by the Company, LinQ can elect for the principal loan amount outstanding to be repaid in cash or (subject to Shareholder approval) in Shares. Where LinQ is repaid in Shares it will be subject to Shareholder approval and will be at the lesser of 77 cents per Share or the volume weighted average price of the Shares over the 10 day period prior to the repayment date.
Application of Funds	:	To fund the Philsaga acquisition

Other terms and conditions precedent of the facility include:

- (a) the Company raising a minimum of \$6 million in equity by 26 May 2005;
- (b) the Company obtaining appropriate shareholder, statutory and regulatory approvals by no later than 26 May 2005; and
- (c) execution of all documentation relating to the facility in a full form formal document acceptable to LinQ and the Company.

(ii) **Capital Raising**

With the knowledge that the Company has secured a loan facility of \$6,000,000 from LinQ, it is the Company's intention to raise a further minimum amount of \$6,000,000 and a maximum amount of \$8,000,000 by a Prospectus of 11,428,571 Shares (based on raising \$8,000,000) at an expected issue price of \$0.70. Please refer to resolution 3 for Shareholder approval in relation to the Capital Raising.

## 1.6 Pro-forma Capital Structure

At the close of the Prospectus offer, the issue of Shares to the Philsaga Vendors and the issue of Options to the parties in terms of this Notice and assuming no Options are exercised prior to the close of the Prospectus offer, the capital structure of the Company will be:

Description	Current capital structure	Proposed transaction and raising	Pro-forma capital structure
<b><u>Shares</u></b>			
Issued	39,901,792		39,901,792
Vendor shares		25,000,000	25,000,000
Capital Raising (at 70 cents)		11,428,571	11,428,571
<b>Total Shares</b>	<b>39,876,792</b>	<b>36,428,571</b>	<b>76,330,363</b>
<b><u>Options</u></b>			
<b><u>Listed</u></b>			
- \$0.20 options expiring 31 Jan 2007	20,383,843		20,383,843
<b><u>Unlisted</u></b>			
- \$0.6072 options expiring 31 Jan 2007	225,000		225,000
- \$0.4334 options expiring 23 Dec 2009	600,000		600,000
- \$0.5764 options expiring 16 Dec 2007 (Resolutions 9 to 11)		3,000,000	3,000,000
- options to Intersuisse expiring 28 Feb 2008 (Resolution 4)		500,000	500,000
- options to LinQ expiring 30 Apr 2008 (Resolution 5)		7,500,000	7,500,000
<b>Total options</b>	<b>21,208,843</b>	<b>11,000,000</b>	<b>32,208,843</b>

The ASX may classify the Vendor Shares and the Options the subject of Resolutions 4 and 5 and 9 to 12 as subject to the restricted securities or escrow provisions of the ASX Listing Rules. If an escrow is applied by the ASX it may be either 12 months or 24 months as applicable.

## 1.7 Risks

Shareholders should be aware that if the Philsaga Transaction completes, the Company will be subject to various risk factors. Given the Company is already an explorer in the Philippines a number of the risk factors are not new to the Company.

Some of the material risk factors involving the Company and its operations and activities are set out below.

### (a) *General Economic Risks and Business Climate*

Share market conditions may affect the price of the Company's securities regardless of operating performance. Share market conditions are affected by many factors including general economic outlook and local and world economic conditions, movements in or outlook on interest rates and inflation rates, currency fluctuations, commodity prices, government legislation or intervention (including taxation), changes in investor sentiment towards particular market sectors and the demand and supply for capital.

(b) ***Exploration, Development, Mining and Processing Risks***

The business of mineral exploration, project development and mining, by its nature contains elements of significant risk with no guarantee of success. Ultimate and continued success of these activities is dependent on many factors such as:

- securing and maintaining title to tenements;
- the discovery and/or acquisition of economically recoverable ore reserves;
- successful conclusions to bankable feasibility studies;
- access to adequate capital for project development;
- design and construction of efficient mining, processing, transport and handling facilities within a capital expenditure budget;
- obtaining consents and approvals necessary for the conduct of exploration, mining, transport, handling and export of products;
- access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants;
- avoiding or minimising environmental hazards, industrial accidents, labour disputes, mechanical failures of plant and equipment; and
- adverse weather conditions.

(c) ***Resource Estimates***

Resources estimates are expressions of judgements based on knowledge, experience and industry practice. Estimates which were valid when made, may change significantly when new information becomes available. In addition, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter mineralisation or formations different from those predicted from past sampling and drilling, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could have either a positive or negative effect on the Company's operations.

(d) ***Commodity Prices***

As a gold explorer and producer the Company's expected earnings will be closely related to the price of gold together with the terms of any off-take agreement(s) under which these mineral concentrates will be sold.

Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include worldwide and regional supply and demand for the specific commodity, commodity trading on the futures markets, general world economic conditions and the outlook of interest rates, inflation and other economic factors on both a regional and global basis. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities, together with the ability to fund those plans and activities.

(e) ***Currency***

The Company's future revenue may be in US dollars whilst its cost basis will be payable in Philippine pesos, US dollars or Australian dollars.

The exchange rates between the various currencies are affected by numerous factors beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities, together with the ability to fund those plans and activities.

(f) ***Environmental***

The Company's operations are subject to the environmental risks inherent in the mineral production and exploration industries. The Company is subject to environmental laws and regulations in connection with all of its operations. Further, the Company may require approval from the relevant authorities before it can undertake activities that are likely to impact on the environment. Failure to obtain such approvals will prevent the Company from undertaking its desired activities. The Company is unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase the Company's costs of doing business or affect its operations in any area.

(g) ***Title Risks***

New mining legislation was introduced in the Philippines in 1995, which involved converting previous mineral tenements to the new title system. The implementation of this new legislation has resulted in significant delays in the tenement approval process. All companies investing in mineral exploration in the Philippines have to operate under similar conditions with the possibility of an application being rejected or challenged.

(h) ***Land Access***

Immediate access to mineral tenements in the Philippines cannot in all cases be guaranteed. The Company may be required to seek consent of land holders or other persons or groups with an interest in real property encompassed by, or adjacent to, the Company's tenements. Compensation may be required to be paid by the Company to land holders in order that the Company may carry out exploration and/or mining activities. Native title exists in the Philippines and is governed by law. Where applicable, agreements with indigenous groups have to be in place before a mineral tenement can be granted.

(i) ***General Economic and Political Risks***

Changes in the general economic and political climate in the Philippines and on a global basis, including economic growth, interest rates, the rate of inflation, taxation and tariff laws, domestic security and tenement licensing and permitting may affect the sales volumes and prices of products, operating costs, financial costs, the relative attractiveness of other types of investment and therefore the value of the Company's securities.

(j) ***Sovereign Risk***

The Company's projects are located in the Philippines. The political conditions in the Philippines are stable but are somewhat uncertain on the south-west corner of the island of Mindanao. Changes may occur in relation to the political, fiscal and legal systems of the Philippines which may affect the ownership or operations of the Company including, amongst other things, changes in exchange rates, control or regulations, exploration of mining rights, changes in government and in legislative, fiscal and regulatory regimes, violence and lack of law enforcement, political insurrection or labour unrest, inflations or economic recession.

(k) ***Dependence on Key Personnel***

The Company is reliant on key personnel employed or engaged by the Company. Loss of such key personnel may have an adverse effect on the Company's operational performance and growth plans.

(l) ***Future Capital Needs and Additional Funding***

The future capital requirements of the Company will depend on many factors. The Company believes its available cash, the net proceeds available from the Fund Raising and revenue derived from its operations will be adequate to achieve the Company's objectives.

Should the Company require additional funding there can be no assurance that additional financing will be available on acceptable terms, or at all.

Any inability to obtain additional finance, if required, would have an adverse material effect on the Company's business, its financial condition and performance and its ability to continue as a going concern.

(m) ***Potential Acquisitions***

As part of its business strategy, the Company may make acquisitions of, or significant investments in, complementary companies or prospects, although no such acquisitions or investments are currently planned. Any such transactions would be accompanied by risks commonly encountered in making such acquisitions.

**1.8 Director's Recommendation**

The Directors do not have any material personal interest in the outcome of the Resolutions other than for their interest solely in their capacity as shareholders of the Company, save for Mr Geoffrey Davis having a material personal interest in Resolution 9.

Each of the Directors intends to vote their Shares in favour of all of the Resolutions save for the abstention from Resolution 9 of Mr Geoff Davis who has a material personal interest.

Based on the information available, including that contained in this Explanatory Statement and the risks outlined in Section 1.7, all of the Directors consider that the proposed transactions are in the best interests of the Company and recommend that Shareholders vote in favour of the Resolutions. The Directors have approved to put the Resolutions to Shareholders and, separately, the information contained in this Explanatory Statement.

The Directors recommend the Resolutions set out in the Notice other than those in which they have a material personal interest as this will enable the Company to expand the scale of its activities which the Directors believe is in the best interests of the Company and its Shareholders.

**1.9 Plans for the Company if the Acquisitions and Resolutions are Not Approved**

If any of the interdependent Resolutions (Resolutions 1, 2, 3, 4 and 5) are not passed, the Company will seek to continue to develop its existing assets in the Philippines and consider other opportunities as may be appropriate. The Company in such an event will request the ASX to reinstate the Company's securities to quotation.

**2. CONDITIONALITY OF RESOLUTIONS**

Resolutions 1, 2, 3, 4 and 5 set out in the Notice of Meeting are conditional upon the passing of each other, so that each will not have effect unless and until the other is passed. Resolutions 6 to 11 are not conditional upon the passing of any of the other Resolutions, so that each can have effect regardless of whether each of the other Resolutions set out in the Notice are passed.

**3. RESOLUTIONS AND REGULATORY REQUIREMENTS**

Set out below is information relating to the Resolutions included in the Notice. This information should be read in conjunction with the actual wording of the Resolutions in the Notice and the information provided above.

### 3.1 **Resolution 1 – Change of Activities**

The proposed acquisition of companies under the Philsaga Share Sale Deed will provide the Company and its subsidiaries with control over all the assets of Philsaga Mining Corporation. This will constitute a change in the scale of the Company's activities from a mining explorer to a mining explorer and producer. The change of scale by reason of the Philsaga Transaction is significant.

For this reason the Company is seeking Shareholder approval under ASX Listing Rule 11.1.

Under Chapter 11 of the Listing Rules, ASX will suspend the Company's securities from quotation at the close of trading on the business day preceding the Meeting of Shareholders.

If Shareholders approve the proposed change of activities under Resolution 1, the Company's securities will remain suspended until the Company re-complies with the admission requirements of ASX set out in Chapters 1 and 2 of the ASX Listing Rules. Those requirements include the Company issuing the Prospectus and successfully completing the Fund Raising.

### 3.2 **Resolution 2 – Issue of Shares to Philsaga Vendors**

Resolution 2 seeks Shareholder approval for the issue of up to 27,600,000 Shares to the Philsaga Vendors under the Philsaga Share Sale Deed.

#### **ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting.

The Company is seeking approval under ASX Listing Rule 7.1 for the proposed allotment and issue of up to 27,600,000 Shares to the Philsaga Vendors so as to allow this number of securities not to be included in the calculation under ASX Listing Rule 7.1. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain Shareholder approval.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders when seeking an approval for the purposes of ASX Listing Rule 7.1:

- (a) the maximum number of securities to be issued is 27,600,000 Shares to the Philsaga Vendors;
- (b) 25,000,000 of the Shares will be issued upon completion under the Philsaga Share Sale Deed and in any event, no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules). The Company has applied for an ASX waiver so that if Yandal Investments Pty Ltd elects to be paid the \$2,000,000 deferred purchase price consideration in Shares as described in the Philsaga Share Sale Deed summary at paragraph 1.3(a), then 2,600,000 Shares will be issued 13 months from ASX Re quotation. If the ASX waiver is not obtained, the Company will, if necessary, seek Shareholder approval closer to the first anniversary of completion;
- (c) all of the Shares will be issued in consideration of acquiring the shares in Tasco Development Company and Philsaga Holding Corporation under the terms of the Philsaga Share Sale Deed. The 25,000,000 shares to be issued on completion have a deemed value of 70 cents per Share whilst the 2,600,000 shares to be issued 13 months from ASX Re quotation have a deemed value of 77 cents per share;

(d) the allottees are the Philsaga Vendors and they will be allotted the following Shares on completion:

Advanced Concept Holdings Limited	-	14,600,000 Shares
Yandal Investments Pty Ltd	-	6,400,000 Shares
Secdea Philippines Holdings Corporation	-	4,000,000 Shares

Further, Yandal Investments Pty Ltd will, subject to ASX waiver, be issued with 2,600,000 Shares 13 months from ASX Re quotation if it elects to be paid the \$2,000,000 deferred purchase price consideration in Shares.

None of the allottees are related parties or associates of the Company.

(e) the Shares issued will rank equally with the Company's current issued Shares;

(f) no funds will be raised from the issue of the Shares; and

(g) it is intended that 25,000,000 of the Shares will be allotted on one date being completion whilst 2,600,000 of the Shares will be issued on the one date being 13 months from ASX Re quotation.

### 3.3 Resolution 3 – Allotment and Issue of Shares

Resolution 3 seeks Shareholder approval for the issue of up to 13,500,000 Shares under the Capital Raising.

#### ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of Shareholders in a general meeting.

The Company is seeking approval under ASX Listing Rule 7.1 for the offer of up to 13,500,000 Shares under the Capital Raising to allow this number of securities not to be included in the calculation under ASX Listing Rule 7.1. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain Shareholder approval.

Although approval is being sought for up to 13,500,000 Shares to be issued under the Prospectus, it is likely the Company will only seek to raise equity by the issue of up to 11,428,571 Shares at 70 cents each to raise up to \$8,000,000 (before expenses), with a minimum subscription of \$6,000,000.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders when seeking an approval for the purposes of ASX Listing Rule 7.1:

(a) the maximum number of securities to be issued under the Capital Raising is 13,500,000 Shares;

(b) the shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);

(c) the Shares will be issued at a price of no less than 80% of the average market price calculated over the last 5 days on which sales of the Company's shares were recorded before the date of the Prospectus;

(d) the Shares will be offered to the investors pursuant to the Prospectus. None of the subscribers will be a related party or an associate of the Company;

- (e) the Shares issued will rank equally with the Company's current issued shares;
- (f) the Company intends to use the funds raised from the issue of the Shares for the following purposes in accordance with section 1.5:
  - (i) to fund the Philsaga acquisition by the payment of the Philsaga Vendors under the Philsaga Share Sale Deed;
  - (ii) pay the costs of the Fund Raising; and
  - (iii) general working capital;
- (g) it is intended that the Shares will be allotted on one date.

### 3.4 **Resolution 4 – Grant of Options to Intersuisse Corporate Pty Ltd**

#### **ASX Listing Rules**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting.

The Company is seeking approval under ASX Listing Rule 7.1 for the grant of 500,000 Options to Intersuisse Corporate Pty Ltd or its nominee to allow this number of securities not to be included in the calculation under ASX Listing Rule 7.1. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain shareholder approval.

ASX Listing Rule 7.3 requires that the following information be provided to shareholders when seeking an approval for the purposes of ASX Listing Rule 7.1:

- (a) the maximum number of Options to be issued is 500,000;
- (b) the Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (c) the Options will be granted for nil consideration as they are in consideration for corporate advisory services provided and to be provided;
- (d) the allottee is Intersuisse Corporate Pty Ltd or its nominee. The allottee is not a related party or an associate of the Company;
- (e) the general terms and conditions of the Options are set out in Appendix 2. Otherwise, the terms and conditions of the Options are they have an expiry date of 28 February 2008 and an exercise price of 110% of the issue price of securities under the Capital Raising the subject of Resolution 3. It is likely the securities the subject of the Capital Raising will be issued at 70 cents per Share and therefore the Option exercise price will be 77 cents;
- (f) there will be no funds raised from the issue of the Options;
- (g) it is intended that the Options will be allotted on one date;

(h) **Valuation of Options**

The Company's independent advisers, BDO Consultants (WA) Pty Ltd, have valued the Options by reference to the Black and Scholes option pricing model based on the following assumptions:

<b>Input</b>		<b>Note</b>
Underlying Security spot price	71 cents	1
Exercise price	77 cents	
Dividend rate	0%	2
Standard deviation of returns (annualized)	70%	3
Risk free rate	5.61%	4
Expiration date	28 February 2008	

Note 1: The underlying security spot price used for the purposes of this valuation is based on the closing price as at 1 April 2005.

Note 2: As at the date of the valuation the Company had not forecast any future dividend payments. For the purposes of the valuation it is therefore assumed that the Company's Share price is "ex-dividend". If dividend payments were forecast, the value of the options would be reduced.

Note 3: The anticipated standard deviation over the life of the options is based on comparable companies' historical data from the Australian Graduate School of Management's Risk Measurement Service.

Note 4: The risk free rate is the Commonwealth Government securities rate with a maturity date approximately that of the expiration period of the options as at 1 April 2005.

Based on the above assumptions the Options have been valued at 33.99 cents each.

### 3.5 **Resolution 5 – Grant of Options to LinQ Capital Limited**

#### **ASX Listing Rules**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting.

The Company is seeking approval under ASX Listing Rule 7.1 for the grant of up to 7,500,000 Options to LinQ Capital Limited or its nominee to allow this number of securities not to be included in the calculation under ASX Listing Rule 7.1. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain Shareholder approval.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders when seeking an approval for the purposes of ASX Listing Rule 7.1:

- (a) the maximum number of Options to be issued is 7,500,000;

- (b) the Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (c) the Options will be granted for nil consideration as they are in consideration of LinQ Capital Limited providing a facility to satisfy the Debt Raising;
- (d) the allottee is LinQ Capital Limited or its nominee. The allottee is not a related party or an associate of the Company;
- (e) the general terms and conditions of the Options are set out in Appendix 2. Otherwise, the terms and conditions of the Options are they have an exercise price of 77 cents and an exercise price of 110% of the issue price of securities under the Capital Raising the subject of Resolution 3. It is likely the securities the subject of the Capital Raising will be issued at 70 cents per Share and therefore the Option exercise price will be 77 cents;
- (f) there will be no funds raised from the issue of the Options;
- (g) it is intended that the Options will be allotted on one date;
- (h) **Valuation of Options**

The Company's independent advisers, BDO Consultants (WA) Pty Ltd, have valued the Options by reference to the Black and Scholes option pricing model based on the following assumptions:

<b>Input</b>		<b>Note</b>
Underlying Security spot price	71 cents	1
Exercise price	77 cents	
Dividend rate	0%	2
Standard deviation of returns (annualized)	70%	3
Risk free rate	5.61%	4
Expiration date	30 April 2008	

Note 1: The underlying security spot price used for the purposes of this valuation is based on the closing price as at 1 April 2005.

Note 2: As at the date of the valuation the Company had not forecast any future dividend payments. For the purposes of the valuation it is therefore assumed that the Company's Share price is "ex-dividend". If dividend payments were forecast, the value of the options would be reduced.

Note 3: The anticipated standard deviation over the life of the options is based on comparable companies historical data from the Australian Graduate School of Management's Risk Measurement Service.

Note 4: The risk free rate is the Commonwealth Government securities rate with a maturity date approximately that of the expiration period of the options as at 1 April 2005.

Based on the above assumptions, the Options have been valued at 34.49 cents each:

### 3.6 **Resolution 6 – Ratification of Placement Share Issue**

ASX Listing Rule 7.1 provides that a Company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such an option) if

the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One exception is an issue of securities which has the approval of shareholders in general meeting. ASX Listing Rule 7.4 provides that an issue made within the 15% limit will be treated as having been made with prior shareholder approval for the purpose of ASX Listing Rule 7.1 if it is subsequently approved by shareholders in general meeting.

The Company wishes to seek approval for the purposes of ASX Listing Rules 7.1 and 7.4 by ratification in order to renew the Company's capacity to issue up to 15% of the securities of the Company on issue in a 12 month period. The Company is requesting Shareholders to ratify the allotment and issue of 1,200,000 Shares in or about September 2004 to investors within the meaning of section 708 of the *Corporations Act*.

For the purposes of ASX Listing Rule 7.5, the following information is provided to Shareholders.

- (a) the number of Shares allotted was 1,200,000;
- (b) the Shares were issued at a price of 36 cents per Share;
- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the allottees of the Shares were investors entitled to accept offers of securities under section 708 of the Corporations Act being clients of Intersuisse Corporate Pty Ltd. None of the allottees are related parties or associates of the Company; and
- (e) the funds raised from the issue of the Shares of \$410,400 (after expenses) has and will be used to fund ongoing work on the Company's Philippines projects including the Saugon Project and general working capital.

### 3.7 **Resolution 7 – Ratification of Securities to Total Mineral Resources Pty Ltd**

ASX Listing Rule 7.1 provides that a Company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One exception is an issue of securities which has the approval of shareholders in general meeting. ASX Listing Rule 7.4 provides that an issue made within the 15% limit will be treated as having been made with prior shareholder approval for the purpose of ASX Listing Rule 7.1 if it is subsequently approved by shareholders in general meeting.

The Company wishes to seek approval for the purposes of ASX Listing Rules 7.1 and 7.4 by ratification in order to renew the Company's capacity to issue up to 15% of the securities of the Company on issue in a 12 month period. The Company is requesting Shareholders to ratify the allotment and issue of 700,000 Shares and 700,000 Options in or about October 2004 to Total Mineral Resources Pty Ltd ("Total Mineral Resources").

For the purposes of ASX Listing Rule 7.5, the following information is provided to Shareholders.

- (a) the number of securities allotted was 700,000 Shares and 700,000 Options at a deemed issue price of 20 cents for each Share and a nil deemed price for each Option;
- (b) 400,000 Shares and 400,000 Options were issued to Total Mineral Resources in consideration of acquiring an interest in the Kurnalpi project near Kalgoorlie in Western Australia being completion of the sale and purchase agreement with Total Mineral Resources which agreement was described in the Company's initial public offer prospectus of November 2003. Whilst 300,000 Shares and 300,000 Options were issued to Total Mineral Resources in consideration of acquiring further equity in the tenements in the Kurnalpi project area near Kalgoorlie, Western Australia;

- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the general terms and conditions of the Options are set out in Appendix 2. Otherwise, the terms and conditions of the Options are they have an exercise price of 20 cents and an expiry date of 31 January 2007;
- (e) the allottees of the Shares and Options was Total Mineral Resources, which is neither a related party nor an associate of the Company;
- (f) no funds were raised from the issue of the Shares and Options.

### 3.8 **Resolution 8 – Ratification of Placement Share Issue**

ASX Listing Rule 7.1 provides that a Company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One exception is an issue of securities which has the approval of shareholders in general meeting. ASX Listing Rule 7.4 provides that an issue made within the 15% limit will be treated as having been made with prior shareholder approval for the purpose of ASX Listing Rule 7.1 if it is subsequently approved by shareholders in general meeting.

The Company wishes to seek approval for the purposes of ASX Listing Rules 7.1 and 7.4 by ratification in order to renew the Company's capacity to issue up to 15% of the securities of the Company on issue in a 12 month period. The Company is requesting Shareholders to ratify the allotment and issue of 824,742 Shares in or about December 2004 to investors within the meaning of section 708 of the *Corporations Act*.

For the purposes of ASX Listing Rule 7.5, the following information is provided to Shareholders.

- (a) the number of Shares allotted was 824,742;
- (b) the Shares were issued at a price of 48.5 cents per Share;
- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the allottees of the Shares were investors entitled to accept offers of securities under section 708 of the Corporations Act being clients of State One Stockbroking Limited. None of the allottees are related parties or associates of the Company; and
- (e) the funds raised from the issue of the Shares of \$380,000 (after expenses) has and will be used to fund due diligence and some transaction costs of the Philsaga Transaction and general working capital.

### 3.9 **Resolution 9 – Grant of Options to Mr Geoffrey Davis**

#### **Background**

Resolution 9 seeks Shareholder approval for the grant of up to 2,000,000 Options to Mr Geoffrey Davis or his nominee. Mr Davis is the Managing Director of the Company.

Shareholder approval is required for the purposes of Chapter 2E of the Corporations Act (section 208) and ASX Listing Rule 10.11 because Mr Davis as a Director is a related party of the Company.

## Chapter 2E of the Corporations Act

### Related Party Transaction

Chapter 2E of the *Corporations Act* prohibits a public company from giving a financial benefit to a related party of the public company unless either:

- (i) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (ii) prior Shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, Mr Geoffrey Davis is a related party of the Company as a Director.

Resolution 9 provides for the grant of Options to a related party, which is a financial benefit requiring shareholder approval in the absence of a specified exception applying. For the purpose of Chapter 2E of the *Corporations Act* the following information is provided.

(a) ***The Related Party to Whom the Proposed Resolution would Permit the Financial Benefit to be Given:***

Subject to Shareholder approval, it is proposed to grant 2,000,000 Options to Mr Davis or his nominee.

(b) ***The Nature of the Financial Benefit***

The proposed financial benefit to be given is the grant of 2,000,000 Options for no cash consideration to Mr Davis or his nominee. The financial benefit will constitute part of Mr Davis' remuneration package.

The 2,000,000 Options to be granted to Mr Davis and details of the exercise price, expiry date and service period criteria are set out in the table below:

Tranche	Number of Options	Service Period Criteria	Exercise Price of Options	Expiry Date
1 <sup>st</sup>	1,000,000	Nil	\$0.5764	16/12/2007
2 <sup>nd</sup>	500,000	*Continue as an executive director or in employment until 16 December 2005	\$0.5764	16/12/2007
3 <sup>rd</sup>	500,000	*Continue as an executive director or in employment until 16 December 2006	\$0.5764	16/12/2007

The Options will be granted within one month of the date of the Meeting. However, the 2<sup>nd</sup> and 3<sup>rd</sup> tranches will not be fully vested so as to be capable of exercise unless the service period criteria is met. It is not the current intention of the Company for the Options to be quoted.

\*The service period criteria will be waived so that full vesting occurs in the event of a takeover of the Company.

Otherwise, the general terms and conditions of all the Options are set out in Appendix 2.

(c) ***Directors Recommendation and Basis of Financial Benefit***

The exercise price of the Options represents a 10% premium to the average of the closing price of the Shares of the Company on the ASX for the 5 days prior to the date of receipt of confirmation on 16 December 2004 of the requirement for the parties to enter into the Philsaga Transaction. The number of 2,000,000 Options and their terms were negotiated with Mr Davis by the other Directors (Messrs Schiller, Mein and Cato, who are each independent) at the time of completion of negotiations of the terms of the Philsaga Transaction in December 2004. The number of Options is considered by the other Directors to be appropriate remuneration for Mr Davis in light of his skill, experience and reputation and his efforts in introducing the Philsaga Transaction and when considered together with his salary and other remuneration (as detailed below).

Geoffrey Davis abstains from making a recommendation to Shareholders as to the Resolution as he has an interest in the outcome of the Resolution being the recipient of the Options.

Jeffrey Schiller, Edward Mein and Simon Cato as the other Directors recommend Shareholders vote in favour of the Resolution for the reasons set out above and the Options are a cost effective means for the Company of remunerating Geoffrey Davis.

(d) ***Dilution***

The passing of the Resolution would have the effect of granting Geoffrey Davis (or his nominee) Options on the terms and conditions as set out in the table above and in Appendix 2.

If any Options granted as proposed above are exercised the effect would be to dilute the shareholding of existing Shareholders. The market price of the Company's Shares during the period of the Options will normally determine whether or not optionholders exercise the Options. At the time any Options are exercised and Shares are issued pursuant to the exercise of the Options, the Company's Shares may be valued at a price that is higher than the exercise price of the Options. At the date of this Notice the Shares are trading at a price in excess of the exercise price of the Options.

If all Options to be granted under this Resolution were to be exercised, the effect would be to dilute the shareholding of existing Shareholders by approximately 2.62% on an undiluted basis and being based on the number of Shares on issue in accordance with pro-forma capital structure which includes 11,428,571 Shares issued under the Capital Raising (under Resolution 3) and the Shares issued to the Philsaga Vendors (under Resolution 2).

(e) ***Total Remuneration Package of Mr Davis***

The cash remuneration received by Mr Davis and related entities (including a service company) is \$180,000 per annum. Mr Davis is entitled to be reimbursed for reasonable expenses in providing his services.

Current Options held by Mr Davis are referred to below.

(f) ***Existing Relevant Interest of Mr Davis in the Company***

Mr Geoffrey Davis and his associates currently have a relevant interest in 3,240,000 Shares in the Company. Additionally, Mr Davis and his associates have a relevant interest in Options as follows:

- (i) 1,492,500 January 2007 Options, which were subscribed for in his capacity as a shareholder;
- (ii) 600,000 fully vested December 2009 Options with an exercise price of 43.34 cents; and
- (iii) 2,400,000 December 2009 Options that are yet to fully vest.

If Resolution 9 is passed, Mr Davis will relinquish his interest in all the 2,400,000 December 2009 Options that have not yet vested so that these will be cancelled. The ASX has granted a waiver to the Company from the operation of ASX Listing Rule 6.23.3 to allow Resolution 9 to be put to Shareholders in circumstances where Mr Davis will relinquish 2,400,000 December 2009 Options if Resolution 9 is passed.

(g) **Trading History**

The following table gives details of the highest, lowest and the latest closing price of the Company's Shares trading on the ASX over the last 12 months.

	<b>Date</b>	<b>Closing Price</b>
Highest Price	14 February 2005	85 cents
Lowest Price	10 August 2004	30 cents
Latest Price	<b>1 April 2005</b>	<b>71 cents</b>

(h) **Valuation of Options**

The Company's independent advisers, BDO Consultants (WA) Pty Ltd, have valued the Options by reference to the Black and Scholes option pricing model based on the following assumptions:

<b>Input</b>		<b>Note</b>
Underlying Security spot price	71 cents	1
Exercise price	57.64 cents	
Dividend rate	0%	2
Standard deviation of returns (annualized)	70%	3
Risk free rate	5.61%	4
Expiration date	16 December 2007	

Note 1: The underlying security spot price used for the purposes of this valuation is based on the closing price as at 1 April 2005.

Note 2: As at the date of the valuation the Company had not forecast any future dividend payments. For the purposes of the valuation it is therefore assumed that the Company's share price is "ex-dividend". If dividend payments were forecast, the value of the options would be reduced.

Note 3: The anticipated standard deviation over the life of the options is based on comparable companies historical data from the Australian Graduate School of Management's Risk Measurement Service.

Note 4: The risk free rate is the Commonwealth Government securities rate with a maturity date approximately that of the expiration period of the options as at 1 April 2005.

Based on the above assumptions, the Options have been valued at 39.52 cents each prior to applying a discount factor.

Due to a service period criteria, 25% of the Options do not fully vest until 16 December 2005 and 25% of the Options do not fully vest until 16 December 2006. By reason of the service period criteria which imposes a restriction on exercising the Options and selling the resultant Shares, the

Company's independent advisers have discounted the Options to be granted by 12.5% so that the Options to be granted to Geoffrey Davis have been valued at 34.58 cents each.

(i) ***Other Information***

The Directors are not aware of any other information that is reasonably required by Shareholders to allow them to make a decision as to whether it is in the best interests of the Company to pass the Resolution.

**ASX Listing Rule 10.11**

For the purposes of ASX Listing Rule 10.11, Mr Davis is a related party of the Company.

Accordingly, in order to grant the Options to Mr Davis (or his nominee), the Company must obtain Shareholder approval pursuant to ASX Listing Rule 10.11.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to grant the Options to Mr Davis as approval is being obtained under ASX Listing Rule 10.11. Shareholders should note that the grant of the Options to Mr Davis will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

ASX Listing Rule 10.13 sets out a number of matters which must be included in the notice of meeting convened to consider shareholder approval under ASX Listing Rule 10.11.

For the purposes of ASX Listing Rule 10.13, the following information is provided to Shareholders in relation to the Resolution. This information is as follows:

- (a) the Options will be granted to Mr Davis or his nominee;
- (b) the number of Options the Company will grant to Mr Davis or his nominee is 2,000,000;
- (c) the Options will be issued no later than one (1) month after the date of this Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (d) the Options will be granted for nil cash consideration and the terms and conditions of the Options are set out in the table in this Section 3.9 and Appendix 2 of this Explanatory Statement; and
- (e) there will be no funds raised from the issue of the Options to Mr Davis (or his nominee).

**3.10 Resolutions 10 and 11 – Grant of Options to Mr Roy Daniel and Mr Ernie Apostol**

**ASX Listing Rules**

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting.

Mr Roy Daniel is the subject of Resolution 10. He is the Company Secretary and the grant of the Options is recognition for dedicated service to date as well as providing an incentive for future dedicated and ongoing commitment and service to the Company.

Mr Ernie Apostol is the subject of Resolution 11. He is Exploration Manager - Philippines and the grant of the Options is recognition for dedicated service to date as well as providing an incentive for future dedicated and ongoing commitment and service to the Company.

The Company is seeking approval under ASX Listing Rule 7.1 for the grant of up to 500,000 Options to Mr Roy Daniel (by Resolution 10) and the grant of up to 500,000 Options to Mr Ernie Apostol (by Resolution 11) to allow these securities to not be included in the calculation under ASX Listing Rule 7.1. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain Shareholder approval.

The exercise price of the Options represents a 10% premium to the average of the closing price of the Shares of the Company on the ASX for the 5 days prior to the date of receipt of confirmation on 16 December 2004 of the requirement for the parties to enter into the Philsaga Transaction. It was at this time that the Board resolved to grant the Options subject to Shareholder approval.

ASX Listing Rule 7.3 requires that the following information be provided to Shareholders when seeking an approval for the purposes of ASX Listing Rule 7.1:

- (a) the maximum number of Options to be issued is 500,000 to Mr Roy Daniel (Resolution 10) and 500,000 to Mr Ernie Apostol (Resolution 11);
- (b) all the Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (c) the Options will be granted for nil consideration;
- (d) the allottees are Mr Roy Daniel (Resolution 10) and Mr Ernie Apostol (Resolution 11) and they are not related parties of the Company;
- (e) the general terms and conditions of the Options are set out in Appendix 2. The Options have an exercise price of 57.64 cents and an expiry date of 16 December 2007.

A special term of the Options is that the 500,000 Options proposed to be granted to each of Messrs Daniel and Apostol will be in two tranches of 250,000 Options. The first tranche of 250,000 Options to each of Messrs Daniel and Apostol will not fully vest and be capable of exercise unless Mr Daniel (in respect of his Options) and Mr Apostol (in respect of his Options) continues in his current role and capacity or in employment until 16 December 2005. The second tranche of 250,000 Options to each of Messrs Daniel and Apostol will further not fully vest and be capable of exercise unless Mr Daniel (in respect of his Options) and Mr Apostol (in respect of his Options) continues in his current role and capacity or in employment until 16 December 2006. However, in each case the service period criteria will be waived so that full vesting occurs in the event of a takeover of the Company. It is not the current intention of the Company for the Options to be quoted;

- (f) there will be no funds raised from the issue of the Options; and
- (g) it is intended that all the Options will be allotted on one date.
- (h) ***Valuation of Options***

The Company's independent advisers, BDO Consultants (WA) Pty Ltd, have valued the Options to be granted to each of Mr Daniel and Mr Apostol by reference to the Black and Scholes option pricing model based on the following assumptions:

<b>Input</b>		<b>Note</b>
Underlying Security spot price	\$0.71 (71 cents)	1
Exercise price	\$0.5764 (57.64 cents)	
Dividend rate	0%	2
Standard deviation of returns (annualized)	70%	3
Risk free rate	5.61%	4
Expiration date	16 December 2007	

Note 1: The underlying security spot price used for the purposes of this valuation is based on the closing price as at 1 April 2005.

Note 2: As at the date of the valuation the Company had not forecast any future dividend payments. For the purposes of the valuation it is therefore assumed that the Company's share price is "ex-dividend". If dividend payments were forecast, the value of the options would be reduced.

Note 3: The anticipated standard deviation over the life of the options is based on comparable companies historical data from the Australian Graduate School of Management's Risk Measurement Service.

Note 4: The risk free rate is the Commonwealth Government securities rate with a maturity date approximately that of the expiration period of the options as at 1 April 2005.

Based on the above assumptions, the Options have been valued at 39.52 cents each prior to applying a discount factor.

Due to a service period criteria, 50% of the Options do not fully vest until 16 December 2005 and 50% of the Options do not fully vest until 16 December 2006. By reason of the service period criteria which imposes a restriction on exercising the Options and selling the resultant Shares, the Company's independent advisers have discounted the Options to be granted to each of Mr Daniel and Mr Apostol by 25% so that the Options have been valued at 29.64 cents each.

**MEDUSA MINING LIMITED**  
**ACN 099 377 849**

**SECTION 3**

**GLOSSARY**

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In this Explanatory Statement the following expressions have the following meanings:

"**April 2008 Option**" means an unlisted option to subscribe for a Share on or before 30 April 2008;

"**ASX**" means the Australian Stock Exchange Limited.

"**ASX Listing Rules**" or "**Listing Rules**" means the Listing Rules of the ASX.

"**ASX Re quotation**" means the date of re quotation of the Company's Shares following Shareholder approval in terms of this Notice.

"**Board**" means the board of directors of the Company.

"**Capital Raising**" means the proposed capital raising of up to \$8,000,000 under the Prospectus.

"**Company**" or "**Medusa**" means Medusa Mining Limited (ACN 099 377 849).

"**Constitution**" means the Constitution of the Company.

"**Corporations Act**" means the Corporations Act 2001 (Cth).

"**Debt Raising**" means the proposed debt raising of \$6,000,000;

"**December 2007 Option**" means an unlisted Option to subscribe for a Share at 57.64 cents on or before 16 December 2007.

"**December 2009 Option**" means an unlisted Option to subscribe for a Share on or before 23 December 2009.

"**Directors**" means the directors of the Company from time to time.

"**Explanatory Statement**" means the statement set out in Section 2 of this document.

"**Fund Raising**" means the proposed total fund raising of up to \$16,000,000 by way of the Capital Raising and the Debt Raising.

"**January 2007 Options**" means a listed Option to subscribe for a Share at 20 cents on or before 31 January 2007.

"**Meeting**" means the meeting convened by the Notice.

"**MOHC**" means Medusa Overseas Holdings Corporation, a company registered under Philippines law.

"**Notice**" means the notice of meeting set out in Section 1 of this document.

"**Option**" means an option to subscribe for a Share.

"**Philsaga Share Sale Deed**" means the share sale deed dated 19 February 2005 between the Company, MOHC, the Philsaga Vendors, Samuel Afdal and Bill Phillips.

"**Philsaga Transaction**" means the transaction undertaken by the Philsaga Transaction Documents.

"**Philsaga Transaction Documents**" means the documents described in Section 1.3 of the Explanatory Statement.

"**Philsaga Vendors**" means Advanced Concept Holdings Limited, Yandal Investments Pty Ltd and Secdea Philippine Holdings Corporation.

"**Prospectus**" means the prospectus to be issued by the Company for the purposes of the Fund Raising.

"**Resolution**" means a resolution contained in this Notice.

"**Share**" means a fully paid ordinary share in the capital of the Company and "**Shares**" has a corresponding meaning.

"**Shareholder**" means a holder of Shares.

"**WST**" means Western Standard Time, Perth, Western Australia.

"**\$**" or "**A\$**" means Australian dollars.

"**US\$**" means United States dollars.

**SECTION 4**  
**MEDUSA MINING LIMITED**  
**PROXY FORM**

**TO:**

**GENERAL MEETING**

I/We (name and address)

being a Member of Medusa Mining Limited entitled to attend and vote at the Meeting, hereby

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Shareholders Meeting to be held at The Broadwater Pagoda Resort Hotel, Pagoda Room A, 112 Melville Parade, Como Western Australia on 16 May 2005 at 10am (WST) and at any adjournment thereof. **If no directions are given on how to vote, the Chairman will vote in favour of all of the Resolutions.**

**Voting on Business of the General Meeting**

		FOR	AGAINST	ABSTAIN
Resolution 1	Change of Activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Issue of Shares to Philsaga Vendors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Allotment and Issues of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Grant of Options to Intersuisse Corporate Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Grant of Options to LinQ Capital Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Ratification of Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Ratification of Securities to Total Mineral Resources Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Ratification of Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Grant of Options to Mr Geoffrey Davis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Grant of Options to Mr Roy Daniel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11	Grant of Options to Mr Ernie Apostol	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**OR**

If you do **not** wish to direct your proxy how to vote, please place a mark in this box

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the Resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. The Chairman will vote in favour of all of the Resolutions if no directions are given.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your Shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is \_\_\_\_\_ %

Signed this                      day of                      2005

**By:**

**Individuals and joint holders**

Signature

Signature

Signature

**Companies (affix common seal if appropriate)**

Director

Director/Company Secretary

Sole Director and Sole Company Secretary

**MEDUSA MINING LIMITED**  
**ACN 094 006 023**

**Instructions for Completing Proxy Form**

1. A member of the Company who is entitled to attend and cast two or more votes at a general meeting of shareholders is entitled to appoint two proxies. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
3. Corporate shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
  - 2 directors of the company;
  - a director and a company secretary of the company; or
  - for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

4. Completion of a Proxy Form will not prevent individual shareholders from attending the Meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Meeting.
5. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.
6. To vote by proxy, please complete and sign this proxy form and return the proxy form (by post, delivery or fax) to the Company Secretary:

Registered Office : Suite 7  
11 Preston Street  
Como WA 6152

Facsimile Number : 08 9367 0602

Postal Address : PO Box 860  
Canning Bridge WA 6153

so that it is received not later than 10:00am (WST) on 14 May 2005.

**APPENDIX 1**

**MEDUSA MINING LIMITED**

**Pro-forma Consolidated Statement of Financial Position**

**as at 31 December 2004**

A pro-forma consolidated statement of financial position of Medusa Mining Limited, taking into account the acquisition of the Co-O mine and associated assets as at 31 December 2004.

<b>Description</b>	<b>Note</b>	<b>Un-audited</b>	<b>Adjustments</b>	<b>Pro-forma</b>
<b><u>CURRENT ASSETS</u></b>				
Cash	8	1,713,067	5,000,000	6,713,067
Receivables		73,589	-	73,589
Other		16,692	-	16,692
<b>Total assets</b>		<b>1,803,348</b>	<b>5,000,000</b>	<b>6,803,348</b>
<b><u>NON-CURRENT ASSETS</u></b>				
Acquisition of Co-O mine	1	315,919	33,500,000	33,815,919
Property, plant & equipment		57,935	-	57,935
Mineral properties		2,495,519	-	2,495,519
<b>Total non-current assets</b>		<b>2,869,373</b>	<b>33,500,000</b>	<b>36,369,373</b>
<b>TOTAL ASSETS</b>		<b>4,672,721</b>	<b>38,500,000</b>	<b>43,172,721</b>
<b><u>CURRENT LIABILITIES</u></b>				
Payables		241,837		241,837
Provisions		1,929	-	1,929
<b>Total current liabilities</b>		<b>243,766</b>		<b>243,766</b>
<b><u>NON-CURRENT LIABILITIES</u></b>				
Payables	4/5/7	-	14,000,000	14,000,000
<b>Total non-current liabilities</b>		<b>-</b>	<b>14,000,000</b>	<b>14,000,000</b>
<b>TOTAL LIABILITIES</b>		<b>243,766</b>	<b>14,000,000</b>	<b>14,243,766</b>
<b>NET ASSETS</b>		<b>4,428,955</b>	<b>24,500,000</b>	<b>28,928,955</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>				
Share capital	2/3	5,320,744	25,500,000	30,820,744
Retained profit & loss	6	<b>(891,789)</b>	(1,000,000)	(1,891,789)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,428,955</b>	<b>24,500,000</b>	<b>28,928,955</b>

The pro-forma consolidated statement of financial position assumes:

- The acquisition cost of the Co-O mine and associated assets at a cost of \$33,500,000, comprising:
  - the issue of 25,000,000 vendor shares at an assumed price of \$0.70 per share;

- (b) cash consideration of \$14,000,000;
- (c) \$2,000,000 for equipment purchases.
- 2. Issue of 25,000,000 Vendor Shares to Philsaga Vendors at an assumed price of \$0.70;
- 3. Equity raising of \$8,000,000 being 11,428,571 shares at an issue price of \$0.70;
- 4. Borrowings of \$6,000,000 by the LinQ mezzanine financing facility;
- 5. Deferred Philsaga Vendors payments of \$7,000,000:
  - a) \$4,500,000 repayable 13 months from ASX Re quotation;
  - b) \$2,500,000 repayable 24 months from ASX Re quotation;
- 6. Issue costs of \$1,000,000;
- 7. Payment of \$1,000,000 for equipment purchases;
- 8. Adjusted cash balance of \$5,000,000:

Fund raising	Amount
Equity raising	\$8,000,000
Mezzanine finance	\$6,000,000
<b>Total funds raised</b>	<b>\$14,000,000</b>
less -	
Vendor consideration (includes deferred vendor finance of \$7 million)	\$(8,000,000)
Issue costs	\$(1,000,000)
<b>Adjusted cash balance</b>	<b>\$5,000,000</b>

## APPENDIX 2

### TERMS AND CONDITIONS OF OPTIONS

The general terms and conditions of the issue of each of the Options are to the effect that:

- (a) The Options will be issued for no consideration.
- (b) Each Option entitles the holder to one Share in the capital of the Company.
- (c) The Options may be exercised at any time prior to the expiry date, in whole or in part, upon payment of the exercise price per Option.
- (d) The Options are not transferable except with the approval of the Board.
- (e) The Company will provide to each Option holder a notice that is to be completed when exercising the Options ("Notice of Exercise"). Options may be exercised by the option holder in whole or in part by completing the Notice of Exercise and forwarding the same to the Secretary of the Company to be received prior to the expiry date. The Notice of Exercise must state the number of Options exercised, the consequent number of Shares to be allotted and the identity of the proposed allottee. The Notice of Exercise by an Option holder must be accompanied by payment in full for the relevant number of Shares being subscribed, being an amount of the exercise price per Share.
- (f) All Shares issued upon the exercise of the Options will rank pari passu in all respects with the Company's then issued Shares.
- (g) There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues or pro-rata issues of securities offered to Shareholders of the Company during the currency of the Options. Subject to paragraph (h), an Option holder is required to exercise the Options in order to participate in any new issue of securities offered to Shareholders by the Company. Option holders will be provided with written notice and afforded that period of time as required by the ASX Listing Rules before the record date to determine entitlements to the offer to exercise their Options.
- (h) If from time to time on or prior to the Expiry Date the Company makes a bonus issue of securities to holders of Shares in the Company ("Bonus Issue"), then upon exercise of his or her Options an Option holder will be entitled to have issued to him or her (in addition to the Shares which he or she is otherwise entitled to have issued to him or her upon such exercise) the number of securities which would have been issued to him or her under that Bonus Issue if the Options had been exercised before the record date for the Bonus Issue.
- (i) In the event of any reconstruction (including consolidation, subdivisions, reduction or return) of the issued capital of the Company, all rights of the Option holder shall be reconstructed (as appropriate) in accordance with the ASX Listing Rules.
- (j) In the event of any pro-rata issue of securities (except a Bonus Issue) the exercise price of the Options will be adjusted in accordance with the ASX Listing Rule 6.22.