



MEDUSA MINING LIMITED

ABN: 60 099 377 849

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16 June 2005

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

Dear Sir/Madam

Corporate Update - Letter to Shareholders

Please find attached a letter sent to shareholders yesterday containing an update on the Company's activities.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Geoff Davis', is written over a light purple rectangular background.

GEOFF DAVIS
Managing Director



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15 June 2005

Dear Shareholder,

CORPORATE UPDATE

1. Philsaga Mining Corporation Transaction, Philippines

As you are aware, the Company was due to complete its merger with Philsaga Mining Corporation ("Philsaga") on 25 May 2005 subject to the satisfaction of a Condition Precedent ("CP") regarding access to certain tenements. Whilst Philsaga was confident that the CP would be satisfied in time to allow completion to take place, this has not yet occurred. As a consequence, and a requirement of the ASX for companies proposing a change in activities, the Company's securities have been suspended since 16 May 2005, the day of the General Meeting which approved the transaction. Medusa's securities will remain suspended until the Company is able to complete the transaction or the Company requests that the securities be re-instated should the transaction not proceed any further.

The Company is working closely with Philsaga to resolve the CP and is also investigating various alternatives that would allow full scale mining operations to be conducted while the CP is being satisfied. Philsaga should know by month end whether an alternative will be possible and if so, Philsaga has agreed to discuss variations to the merger terms whereby a staged acquisition would be instituted with the majority of the acquisition payments being made on satisfaction of the CP. Medusa would also obtain the benefit of any cash flow from the operation from the time of the first acquisition payment.

In the interim, Philsaga has completed re-furbishment of the Co-O mill and also converted the mine for conventional underground mining operations. Medusa has now put together a team of four experienced geologists who are working closely with Philsaga and are carrying out exploration around the Co-O mine, as well as designing and supervising new drilling programs. An update on this work will be provided in the near future.

The delay experienced by Medusa and Philsaga in gaining access to mineral tenements is not unique to the Philippines and should be viewed in the context of the mining industry world wide. In Australia for example, access to mining and exploration tenements has been delayed by Native Title issues generally for extended periods and continues to be one of the major problems facing the Australian mining industry. Currently in the Philippines tenement access is a priority issue in the government's pro-active mining policies.

The Company is fully aware of the concerns of its shareholders, especially with the Company's securities being suspended, and is working expeditiously and exploring all possible avenues to have the matter resolved. It should be emphasised that there is a strong desire from both Philsaga and Medusa who are jointly working together on all fronts, to complete the transaction. Both Medusa and Philsaga are confident that the tenement issue will be resolved and that Medusa will regain its momentum and continue to build a significant production and exploration profile focused on the Philippines.

2. Dizon Tailings Re-treatment Project, Philippines

The metallurgical work on the Dizon tailings has now been completed and is currently being compiled.

As advised in an ASX announcement dated 27 May 2005, the Company has exercised the Option to convert the Memorandum of Understanding to a Mines Operating Agreement. Final assessment of the metallurgical results will be undertaken following which discussions will be held in late June with partner Dizon Copper-Silver Mines Incorporated to agree on the future of the project.

The Company will provide an update as soon as possible regarding the potential viability of the project.

3. Barlo Copper-Gold Project, Philippines

As previously stated in the March 2005 quarterly report, this project has been the subject of a Mines Adjudication Board decision regarding the validity of the underlying tenement. It is anticipated that this issue will be resolved in the near future in favour of the underlying tenement holder who is Medusa's partner.

The Company will provide this information when it becomes available.

4. Panaon Gold Project, Philippines

On 7 April 2005, the Company announced the signing of a Mines Operating Agreement over the Panaon Project which comprises underground workings on partly mined and partly explored high grade gold veins.

The Company is working closely with Philsaga to re-open the old tunnels which are reputed to be up to 300 metres deep. At this stage, the main tunnel has been opened for over 120 metres and rail is currently being laid. Once this is completed, a program of mapping and sampling will be conducted prior to planning an underground drilling program.

The Company is in discussions with a potential partner to fund the first US\$1,000,000 of expenditure for the Panaon Project.

Yours sincerely



GEOFF DAVIS
Managing Director