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

Dear Sir/Madam

MASAPELID ISLAND GOLD PROJECT

Surigao Gold District, Philippines

Medusa Mining Limited ("Medusa") in conjunction with Philsaga Mining Corporation (the "Medusa Group") advises that it has signed a Joint Venture Agreement ("JVA") over the former Lacandola Gold Mine on Masapelid Island (the "Masapelid Project") with Metals Exploration Plc ("MEP"), a company listed on the London Alternative Investment Market ("AIM") that has a purchase agreement with the Masapelid Project owner.

Medusa has the right to earn an 84% interest in the Masapelid Project that is covered by granted Mineral Production Sharing Agreement No. 004-91-XIII.

Medusa is currently in advanced negotiations with a third party to fund Medusa's share of the Masapelid Project acquisition costs and the first US\$1 million of expenditure whereby that party will earn a 42% interest. A joint venture agreement is expected to be signed in the near future.

The Masapelid Project has a history of narrow vein mining commencing pre-WW II and records indicate that 20,666 tonnes at 15 g/t Au were produced by the Km73 Mining Company from the Layong Vein on the eastern side of the island before the mine closed prematurely pre-WW II.

The JVA provides for:

- the Medusa Group to operate the Masapelid Project and earn an 84% interest by expending the first US\$1 million and completing the purchase of the Masapelid Project;
- the purchase of the Masapelid Project in shares and cash will be shared 84% by Medusa and 16% by MEP as follows:
 - (i) on or before 27 February 2006, a payment of US\$25,000 cash and the issue of a number of shares determined to be equivalent to the value of 250,000 MEP shares with the value per share to be determined as the average price for the 5 days of trading on AIM preceding 24 January 2006;
 - (ii) on or before 27 January 2007, a payment of US\$25,000 cash and the issue of 250,000 shares; and
 - (iii) on or before 27 January 2008, a payment of US\$30,000 cash and the issue of 500,000 shares.

- on completion of the expenditure of US\$1 million, MEP has the right to either contribute to 16% of the on-going expenditure or dilute to a 10% Net Profit Interest (in which case Medusa would own 100% of the Masapelid Project); and
- on commencement of production, the project owner will receive a 1.5% Net Smelter Royalty.

THE MASAPOLID PROJECT

PROJECT BACKGROUND

The Masapelid Gold Project is located on Masapelid Island (Fig.1) immediately east of Surigao City which is reached by domestic flights from Manila. Access from Surigao City is by boat for approximately 90 minutes from either Surigao City or 45 minutes the east coastal town of Placer located southeast of Surigao City.

The Masapelid Project consists of Mineral Production Sharing Agreement No. 004-91-XIII which was granted in April 1991 covering the whole island. Geologically the project is part of the well mineralised Surigao district.

The Masapelid Project has a history of narrow vein mining commencing pre-WW II. Records indicate that 20,666 tonnes at 15 g/t Au were produced by the Km73 Mining Company from the Layong Vein on the eastern side of the island before the mine closed pre-WW II. A further 133,000 tonnes were reported to have been outlined by underground development in the parallel No.6 Vein. Two shafts were sunk approximately 300 metres apart to depths of 122 metres and 30 metres with horizontal development completed on 3 levels. The parallel veins are interpreted to be approximately 900m long, strike in a northeasterly direction, are commonly approximately 1m wide and contain ancillary silver, lead, zinc and minor copper minerals.

The island contains extensive zones of clay-pyrite alteration in andesitic volcanics suggestive of a large hydrothermal system. Younger calcareous sediments also exhibit signs of alteration and which are potential host rocks for disseminated style deposits.

In 1983 Benguet Exploration Inc. examined the property and collected four samples which averaged 1.52 oz/t Au, 4.34 oz/t Ag, 3.77% Pb, 1.56% Zn and 2.14% Cu.

In early 1986 a four hole diamond drilling program was undertaken under a United Nations Development Program (UNDP) in conjunction with the Mines and Geoscience Bureau (MGB) to test the vein extensions on the western side of the island. These holes returned 1 metre @ 22.5 g/t Au in DDH 1, 1 metre @ 35 g/t Au in DDH 2 and 1 metre @ 72 g/t Au in DDH 4.

In the early 1990s Western Mining Corporation (WMC) undertook extensive exploration focused on discovering porphyry copper-gold mineralisation involving stream sediment sampling, grid based soil sampling, 141 km of ground magnetics, a gravity survey, an IP survey in 3 areas, and 9 diamond drill holes. The soil sampling outlined coherent gold anomalies over 900 metres of strike corresponding to the projected strike of the Layong and No.6 Veins.

WMC's hole MSI-D1 on the western side of the island near the UNDP-MGB drilling described above also intersected vein mineralisation of 1.48 metres @ 11.81 g/t Au.

Three diamond drill holes were completed by WMC in the Sampotan area at the southern tip of the island where porphyry copper mineralisation was intersected including 264.82 metres @ 0.32% Cu in hole MSI-D7 with the last sample in the hole assaying 1% Cu and 0.5 g/t Au over 0.5 metres.

A recent sample of remnant ore from a shaft collar collected by MEP returned 24.2 g/t Au, 154 g/t Ag, 7.86% Pb, 6.81% Zn and 0.55% Cu.

ADVANCED NEGOTIATIONS

Medusa is in advanced negotiations with a third party to fund the cash and shares acquisition payments and the first US\$1 million of expenditure for exploration and development of the Masapelid Project. This arrangement will allow Medusa to focus its expenditure on the Co-O Project in Central-Eastern Mindanao.

CORPORATE STRATEGY and PLANNED WORK PROGRAM

Medusa views the acquisition of the Masapelid Project as another step towards becoming the **specialist narrow vein miner** of the Philippines. This project is within close proximity to the Panaon Gold Project and Medusa is of the view that there are considerable synergies to be gained from the two adjacent projects.

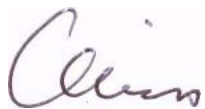
The Company aims to develop a cash flow as soon as possible from the Masapelid Project. To achieve this objective, after execution of the joint venture agreement with its funding party, Medusa will commence a confirmatory drilling program which may be followed by underground exploration and development.

It is envisaged that if the Company is successful in establishing mineable material at both the Panaon and Masapelid Projects that a single treatment facility could be constructed to treat ore from both projects.

FURTHER INFORMATION

For further information contact the undersigned on 618-9367 0601 or by email to admin@medusamining.com.au. Detailed descriptions of the Company's projects can be viewed on www.medusamining.com.au

Yours faithfully



GEOFF DAVIS
Managing Director

The information in the above announcement was compiled by Geoff Davis, who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Geoff Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Figure 1