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ANNOUNCEMENT

17 January 2012

BANANGHILIG DEPOSIT DRILLING UPDATE

(ASX & LSE: MML)

Medusa Mining Limited ("Medusa" or the "Company"), through its Philippines operating company Philsaga Mining Corporation, advises that drilling is continuing at the Bananghilig Gold Deposit and is now focussed on upgrading the resource to the Indicated category. The Company is aiming to outline approximately 1 million ounces of reserves to trigger the commencement of a feasibility study.

The Bananghilig Deposit is within the regional scale Tambis intrusive-breccia complex where the mineralisation is associated with a combination of multiple diatreme breccias, northeast-trending structures and various intrusive rocks.

Highlights include:

Hole Number	Width (metres)	Grade (uncut) (g/t gold)
TDH 105	6.05	17.09
TDH 115	28.55	1.54
TDH 118	12.70	2.44
TDH 127	14.05	1.20
TDH 130	10.70	1.88
TDH 140	11.95	1.19
TDH 141	7.45	3.55

The first drilling update for Bananghilig was published on 12 September 2011.

Peter Hepburn-Brown, Managing Director of Medusa commented:

"It is pleasing that drilling continues to provide positive results in and around the existing resource which allows us to progress to infill drilling and to upgrade the resource category to predominantly Indicated, which will then be used for reserves modelling later in the year.

We have seven rigs in the area and it is our intention to continue drilling throughout this year."

BACKGROUND

The Tambis Project, containing the Bananghilig Gold Deposit is operated under a Mining Agreement with Philex Gold Philippines Inc. over Mineral Production Sharing Agreement ("MPSA") 344-2010-XIII which covers 6,262 hectares.

Additional regional geological and mineralisation information, and drilling results are contained in the announcements made by the Company on 10 May 2011 and 12 September 2011.

AIM OF PROGRAMME

In July 2010, new regional and detailed mapping and drilling programmes were commenced with the aim of validating the current resource and extending it to provide a reserve of approximately 1,000,000 ounces of gold. This reserve would form the basis for a feasibility study which would target production of 200,000 ounces of gold per year from a new milling facility.

REGIONAL GEOLOGICAL SETTING

The Tambis regional geology (Figure 1), termed the Tambis intrusive-breccia complex, typifies a structurally complex intermediate-sulphidation, epithermal gold, breccia-type system, including disseminated gold overprinting the host Tertiary-age igneous package which had been emplaced into an andesitic volcanic basement. The fertile igneous suite comprises a multi-phase calc-alkaline, high level, sub-volcanic intrusive package cut by extensive bodies of phreatomagmatic diatremes and hydrothermal breccias.

BANANGHILIG DEPOSIT

Geological summary

The Bananghilig Deposit currently consists of three zones, each approximately 1 kilometre long and open in all directions, locally termed the Sorex, Garden and Malinao zones. These zones are broadly defined on the basis of the projection in plan of ≥0.5 g/t gold drill hole intersections.

The mineralisation is located partly within the Bananghilig diatreme breccia which measure at least 1,000 metres west to east and still open to the south beneath the younger sediments, and also around the diatreme margins and in the country rocks along structural corridors.

The diatreme breccias contain unsorted fragments of the andesitic basement as well as fragments of the later intrusive rocks predating the diatreme events in a matrix of comminuted rock flour and magmatic crystals. Fragment sizes range from granule-sized to building-sized mega-blocks which have been torn off the walls of the diatreme during the multi-episodal explosive activity. The explosive activity also fractured the mega-blocks and wall rocks, preparing them for subsequent mineralisation deposition.

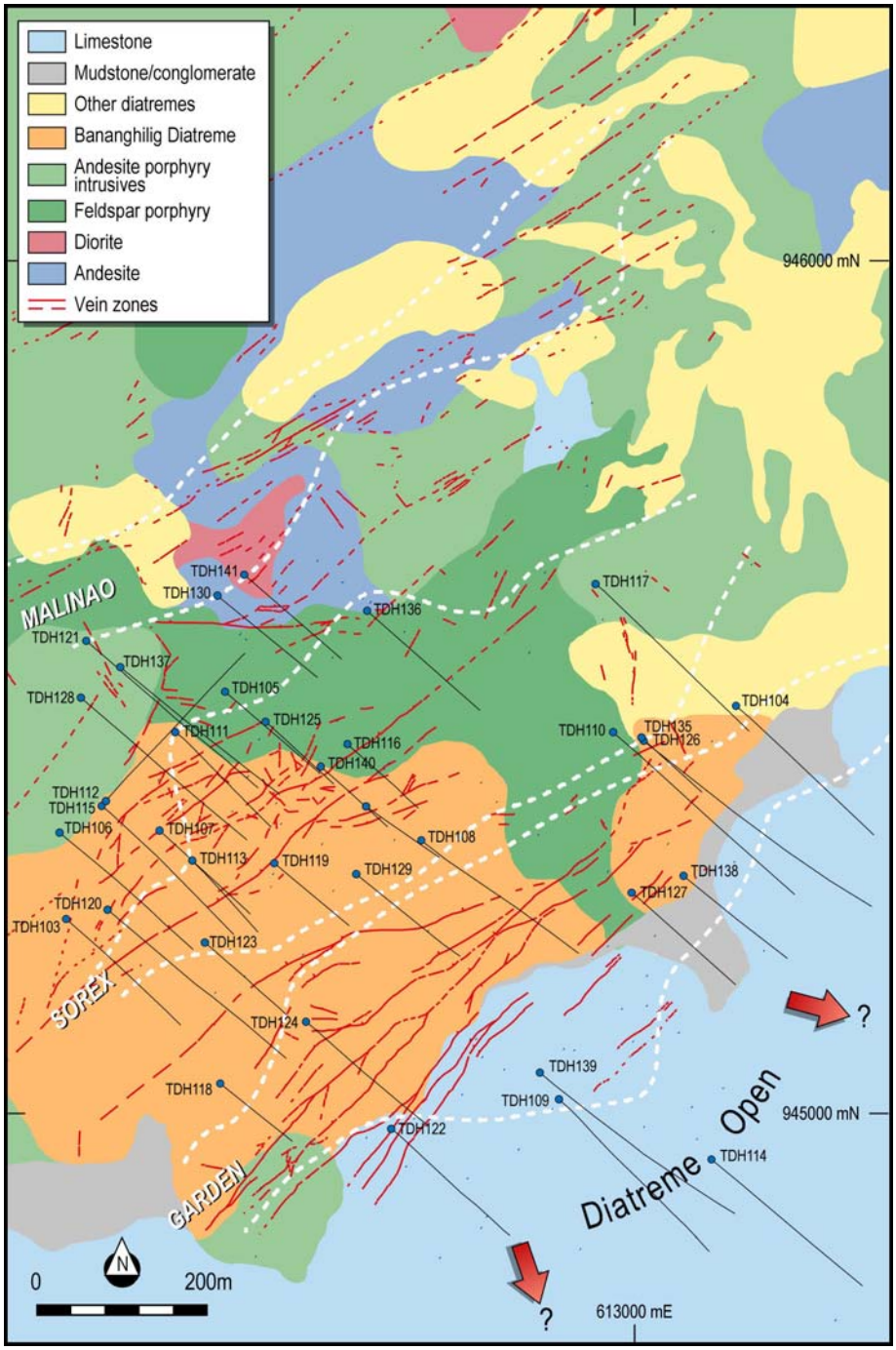

Figure 1. Geological interpretation map showing drill hole locations.

DRILL RESULTS

During the period 31 August 2011 to 31 December 2011, 8,568.95 metres of diamond drilling in 21 holes have been completed. Holes TDH 131-134 inclusive have been drilled outside the Bananghilig area.

Figure 1 shows only the drill holes with new assays, being holes TDH 103 to 141 inclusive.

First pass assaying for gold has been undertaken on all samples submitted to the laboratory. Additional assaying is on-going from selected intervals for base metals, silver and other elements.

The results are summarised in Table I where significant intercepts are defined on the following basis:

(i) lower cutoff grade of 0.5 g/t Au, and
(ii) ≥ 5 metres downhole intercept width at ≥ 0.5 g/t Au, or
(iii) ≤ 5 metres downhole intercept width at ≥ 5 gram∗metres, and
(iv) maximum of 3 metres of downhole internal dilution at ≤0.5 g/t Au.

Table I. Bananghilig surface drill hole results.

Hole number	East	North	Dip (°)	Azimuth (°)	From (metres)	Width (metres)	Grade (uncut) (g/t gold)
TDH 103	945228	612334	-60	130	169.80	1.00	9.74
TDH 104	945477	613116	-60	130	406.70	8.95	0.69
					432.00	6.00	0.66
					450.00	9.00	0.57
TDH 105	945493	612520	-60	130	55.95	3.00	3.12
					62.95	6.05	17.09
					80.15	2.85	3.98
					111.50	8.75	0.96
					136.10	0.70	22.19
					177.60	5.30	0.80
TDH 107	945331	612443	-60	130	45.80	2.45	2.06
					103.60	3.05	2.59
					113.65	6.95	0.84
					136.70	1.30	43.75
TDH 108	945320	612748	-60	130	106.75	1.45	4.01
					122.80	14.35	1.09
					139.15	6.00	0.63
					231.00	6.60	0.64
					388.10	1.00	5.68
					402.10	1.00	13.20
TDH 109	945018	612911	-60	130	347.15	16.55	1.00
					406.70	10.25	1.13
TDH 110	945447	612974	-60	130	200.25	7.60	0.75
					349.70	24.00	0.84
					438.55	1.00	5.93
					455.45	1.00	20.19
TDH 111	945447	612463	-60	130	127.90	6.50	0.71
					158.95	6.85	0.76
TDH 113	945296	612481	-60	130	6.40	1.50	10.53
					116.65	4.25	2.20
TDH 114	944947	613088	-60	130	75.90	1.65	3.14
					94.15	5.95	1.26
					454.15	2.15	4.38
TDH 115	945367	612381	-60	40	89.95	0.70	9.23
					135.80	28.55	1.54
TDH 116	945432	612663	-70	130	57.20	6.50	0.79

Hole number	East	North	Dip (°)	Azimuth (°)	From (metres)	Width (metres)	Grade (uncut) (g/t gold)
TDH 117	945619	612952	-60	130	16.60	9.30	0.57
					41.90	6.75	0.91
					116.90	0.80	8.51
					140.45	5.45	2.75
					181.25	3.55	10.03
					201.20	4.75	1.20
					292.65	3.45	6.98
					332.80	1.40	4.48
					518.05	5.10	0.81
TDH 118	945037	612514	-60	130	38.80	4.40	8.90
					109.20	12.70	2.44
TDH 119	945294	612578	-60	130	37.55	2.00	5.54
TDH 120	945239	612383	-60	130	241.00	1.00	6.42
					338.05	6.00	1.43
TDH 122	944983	612713	-60	130	139.00	4.70	1.87
TDH 123	945200	612496	-60	130	100.35	6.30	0.69
					228.10	4.50	2.99
TDH 124	945108	612614	-60	130	107.20	3.50	2.30
					249.50	5.00	0.73
					279.00	6.65	0.53
					295.50	5.00	0.76
TDH 125	945458	612567	-60	130	7.15	5.95	0.72
					63.00	6.85	0.69
TDH 127	945259	612994	-60	130	22.30	5.10	1.76
					114.90	6.55	0.73
					232.35	1.00	10.87
					242.60	6.65	2.17
					265.40	7.50	1.92
					275.90	14.05	1.20
					299.95	7.00	1.01
TDH 128	945486	612351	-60	130	426.75	9.85	0.76
TDH 129	945280	612673	-60	130	217.30	5.00	0.66
					230.30	5.55	0.94
					248.55	5.00	0.58
					256.80	7.60	0.56
TDH 130	945606	612511	-60	130	24.70	1.40	6.25
					165.25	2.35	5.32
					187.90	2.00	2.68
					194.10	10.70	1.88
					257.35	5.50	0.55
					264.85	4.35	2.63
					287.60	0.90	14.02
TDH 136	945588	612686	-60	130	40.30	6.00	0.58
					68.60	6.00	0.68
					92.10	5.20	0.80
					260.25	7.85	0.51
					317.25	9.65	1.50
					331.90	5.00	1.41
TDH 137	945522	612397	-60	130	446.45	5.95	2.13
TDH 138	945278	613055	-60	130	12.55	5.80	0.83
					116.70	6.25	0.81
					151.30	5.80	2.36

Hole number	East	North	Dip (°)	Azimuth (°)	From (metres)	Width (metres)	Grade (uncut) (g/t gold)
TDH 140	945406	612631	-70	130	3.25	8.75	3.01
					17.00	6.00	1.52
					67.00	4.70	3.04
					91.90	5.75	0.71
					108.15	11.95	1.19
					121.10	6.05	1.15
					138.40	6.60	0.70
					175.45	9.35	1.45
					285.90	6.25	1.33
TDH 141	945630	612542	-60	130	41.50	15.90	1.18
					61.15	5.75	1.18
					127.00	2.65	6.18
					143.60	2.30	17.19
					262.15	7.45	3.55

Notes:

(i) Intersection widths are downhole drill widths not true widths;
(ii) Assays denoted by (*) are by Philsaga Mining Corporation's laboratory, all other assays are by McPhar Geoservices Inc. in Manila;
(iii) Check surveying of collar positons in progress;
(iv) Grid coordinates based on the Philippine Reference System 92.

DRILL HOLE SAMPLING AND ASSAYING PROCEDURES

Drilling Procedures

Drilling, sampling and analytical methodologies are of internationally acceptable standards. Drilling and analyses are carried out by independent contractors, SBF Philippines Drilling Resources Corp. ("SBF") and Intertek Testing Services Philippines, Inc. ("Intertek") respectively.

Drilling is carried out by SBF using wireline diamond coring techniques, with the core being predominantly HQ triple-tube (HQ3) diameter (OD 61 mm). The holes are initially collared using PQ drillbits (OD 123 mm) to recover PQ3 core (OD 83 mm) until the drillbit encounters competent ground, then the coring bit is reduced to HQ3 for the remainder of the drill hole. If difficult conditions are encountered, then the drill bit is changed to NQ3 (core OD 45 mm) and the hole continued until the planned depth or bad ground conditions prevent further drilling, whichever occurs first. Core recovery is generally better than 95% and is considered to be good.

Drill Core Sampling

Drill core is recovered from the inner tube and handled carefully to preserve the integrity of the drill core. Structural measurements are taken: Rock Quality Determinations ("RQD") and Fracture Densities. The core is then placed in plastic core trays, aligned, photographed and marked up for sampling.

The drill core is then cut in half by diamond core saw and sampled at one metre intervals or at lithological boundaries. The samples are placed in individually labelled plastic sample bags, a sample number ticket included, and then sealed for despatch to Intertek's Sample Preparation laboratory in Surigao City. The integrity of the core samples are supervised at all times by the geologist until despatch to the laboratory where they are accompanied by company personnel until receipt by Intertek.

One Certified Reference Material ("CRM"), one Blank and if possible, one Duplicate is included within each successive group of twenty samples that are submitted to the laboratory. QA/QC monitoring of the drilling program and the results is ongoing.

Analytical Procedure

Sample preparation is undertaken by Intertek at their Surigao City laboratory, where each sample is registered, dried at 105ºC for 6 to 8 hours and crushed to 95% passing 2 mm by jaw crusher, before a 1kg split is taken for fine pulverising, using a riffle splitter or rotary sample divider. Pulverised sample is nominally pulverised to 95% passing 75µm (200 mesh).

Quality control procedures include a 1 in 15 resplit after crushing for partial preparation and after pulverising for total preparation. These resplits are also analysed and included in the analysis report. Sizing tests are carried out on 1 in 20 assay pulps at 75µm (200 mesh) to monitor the pulverising stage. Four 250 gram splits are obtained, one for sample analyses and the remaining three for storage for future reference.

Standard laboratory procedure is to clean the crusher and pulveriser after each sample treatment with barren material and/or bowl wash, to minimise carry-over contamination.

Pulverised samples are analysed by classical fire assay techniques on a 50 gram charge with Atomic Absorption Spectrometer ("AAS") finish. All assays over 5 g/t gold and other selected samples are re-assayed using gravimetric fire assay techniques on a 50 gram sample.

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Information in this report relating to **Exploration Results** has been reviewed and is based on information compiled by Mr Geoff Davis, who is a member of The Australian Institute of Geoscientists. Mr Davis is the Chairman of Medusa Mining Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposits 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" and is a "Qualified Person". Mr Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.