



MEDUSA MINING LIMITED

ABN: 60 099 377 849

Unit 7, 11 Preston Street
Como WA 6152

PO Box 860
Canning Bridge WA 6153

Telephone: 618-9367 0601

Facsimile: 618-9367 0602

Email: admin@medusamining.com.au

Internet: www.medusamining.com.au

28 August 2006

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

Dear Sir/Madam

NOTICE OF MEETING

Attached please find Notice of Meeting that was despatched to shareholders today.

Yours faithfully

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

Geoff Davis
Managing Director



Medusa Mining Limited

ACN 099 377 849

NOTICE OF GENERAL MEETING

AND

EXPLANATORY STATEMENT

**For the Shareholders' General Meeting to be held on
29 September 2006 at 9.00 am (Western Standard Time)
at Broadwater Pagoda Resort Hotel
112 Melville Parade Como 6152
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.***

TIME AND PLACE OF GENERAL MEETING AND HOW TO VOTE

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

**Broadwater Pagoda Resort Hotel
112 Melville Parade
Como WA 6152**

**Commencing
at 9.00 am (WST)
on 29 September 2006**

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 9.00 am (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 either:

- return the proxy form to the Company's offices at Unit 7, 11 Preston Street, Como, Western Australia; or
- post the proxy addressed to Medusa Mining Limited, PO Box 860, Canning Bridge Western Australia 6153; or
- send the proxy by facsimile to facsimile number +61 8 9367 0602,

so that it is received not later than 9.00 am (WST) on 27 September 2006.

Your proxy form is enclosed.

Medusa Mining Limited
ACN 099 377 849

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the Shareholders of MEDUSA MINING LIMITED will be held at the Broadwater Pagoda Resort Hotel, 112 Melville Parade, Como, Western Australia on 29 September 2006 at 9.00 am (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 – Issue of Shares to Philsaga Vendors

To consider and, if though 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 allot and issue up to 25,000,000 ordinary fully paid shares in the capital of the Company to the Philsaga Vendors or their nominees on the terms set out in the Explanatory Statement accompanying this Notice."

Short Explanation: Under ASX Listing Rule 7.1, the Company may issue equity securities 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 1 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 1 is passed, and any associate of those persons. However, the Company will not disregard a vote cast on this Resolution 1 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 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 – Placement of Shares

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 allot and issue by a placement of up to 30,000,000 fully paid ordinary shares in the capital of the Company at an issue price that is at least 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 prior to allotment on the terms set out in the Explanatory Statement accompanying this Notice."

Short Explanation: Under ASX Listing Rule 7.1, the Company may issue equity securities 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 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 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 – 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 5,593,334 ordinary fully paid shares in the capital of the Company in or about June 2006 at 60 cents per share to investors within the meaning of section 708 of the Corporations Act 2001 or sophisticated investors in the United Kingdom."

Short Explanation: ASX Listing Rule 7.1 allows the Company to issue equity securities 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 June 2006, 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 3 by an allottee of the issue the subject of this Resolution 3 (an "allottee") and any of its associates of such an allottee. However, the Company will not disregard a vote cast on this Resolution 3 if:

- a) 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 4 – Ratification of Shares to Das-Agan Project Vendors

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 150,342 ordinary fully paid shares in the capital of the Company in or about April 2006 to the Das-Agan Project vendors."

Short Explanation: ASX Listing Rule 7.1 allows the Company to issue equity securities 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 April 2006, 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 4 by an allottee of the issue the subject of this Resolution 4 (an "allottee") and any of its associates of such an allottee. However, the Company will not disregard a vote cast on this Resolution 4 if:

- a) 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 5 – Ratification of Shares to Masapelid Project Vendor

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 266,366 ordinary fully paid shares in the capital of the Company in or about March 2006 to the Masapelid Project vendor."

Short Explanation: ASX Listing Rule 7.1 allows the Company to issue equity securities 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 March 2006, 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 5 by an allottee of the issue the subject of this Resolution 5 (an "allottee") and any of its associates of such an allottee. However, the Company will not disregard a vote cast on this Resolution 5 if:

- a) 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 6 – Ratification of Shares to Alcorn Gold Resources Corporation

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 136,602 ordinary fully paid shares in the capital of the Company in or about January 2006 to Alcorn Gold Resources Corporation."

Short Explanation: ASX Listing Rule 7.1 allows the Company to issue equity securities 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 January 2006, 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 if:

- a) 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 – Adoption of New Constitution

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

"That, the Constitution, in the form of the proposed Constitution marked "A" and initialled by the Chairman and which has been made available for inspection at the registered office of the Company, be approved and adopted, in accordance with section 136(2) of the Corporations Act and for all other purposes, as the Company's Constitution in substitution for and to the exclusion of the existing Constitution of the Company."

Short Explanation: Approval is sought under section 136(2) of the Corporations Act to adopt a new Constitution. Please refer to the Explanatory Statement for details.

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 27 September 2006 at 9.00 am (WST).
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: 28 August 2006

MEDUSA MINING LIMITED
ACN 099 377 849

EXPLANATORY STATEMENT

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, AIM LISTING AND PLACEMENT

1.1 Overview of Philsaga Transaction

(a) Introduction

On 29 July 2006 the parties to the Philsaga Share Sale Deed agreed to vary the original share sale deed to enable completion to occur under the deed after the Company undertakes a placement to fund the cash completion component of \$13,000,000.

The placement is intended to be undertaken with predominantly UK based investors, institutions and fund managers in conjunction with the Company achieving a secondary listing on AIM.

The Company and its subsidiaries have a number of existing significant exploration and mining interests in the Philippines and, in particular, on the island of Mindanao. These interests include a lease to process ore and produce gold from the Co-O Mine and the benefit of an ore supply agreement under the terms of the Plant Lease, Option and Ore Supply Agreement. Additionally, the Company and its subsidiaries have interests in various projects and joint ventures including the Abacus, Anoling, Apical, Das-Agan, Masapelid and Saugon projects. The Company refers you to ASX announcements for information as to these existing projects.

By the Plant Lease, Ore and Option Supply Agreement the Company has already secured:

- (i) a 3 year lease from September 2005 to process ore and produce gold from the Co-O Mine;
- (ii) an option to acquire the Co-O Plant at any time during the 3 year lease for the payment of \$100 (which option has been assigned by the Company to its subsidiary, MMPRC); and
- (iii) an ore supply agreement by which Philsaga Mining Corporation agrees to supply a minimum of 2,000 tonnes per month of gold bearing ore to the Co-O Plant for a 3 year period from September 2005 at cost plus 15%.

(b) Philsaga Transaction

By the Philsaga Share Sale Deed the Company and its Philippines subsidiary, MOHC together will purchase the entire shareholding of Davao Philsaga Holdings Inc and Tasco Development Company. The effect of the transaction is that the Company and MOHC will acquire a downstream interest in all the shares of Philsaga Mining Corporation and its assets being those located in central eastern Mindanao, in the Philippines.

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

The merger of the interests of the Company and Philsaga Mining Corporation completes the corporate consolidation of tenement interests, mines, administration facilities and experienced management teams.

At the time of completion under the Philsaga Share Sale Deed, the Company by its subsidiary will exercise the option under the Plant Lease, Ore and Option Supply Agreement to acquire the Co-O Plant. Due to the Co-O Plant being the only one in the district, the Medusa group of companies will have a strategic advantage to maximise the development of any gold deposit discovered within trucking distance of the Co-O Plant.

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 as a Philippines based mining 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 Board of the Company will not be changed by the Philsaga Transaction.

(c) **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 placement).
- The payment of a total of \$13,000,000 in cash on completion being \$12,000,000 to the Philsaga Vendors and \$1,000,000 to a contractor associated with the Philsaga Vendors 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 a fault (defined as 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.

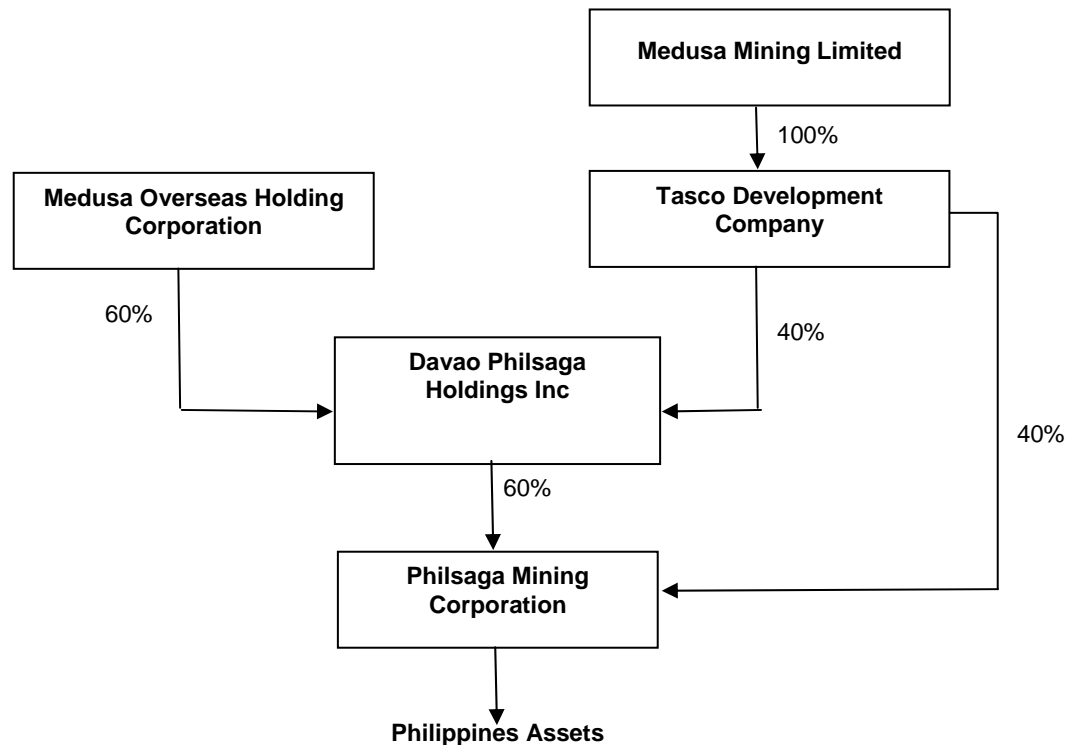
(d) **Benefits of the acquisition**

Completion of the Philsaga Transaction will consolidate the regional interests of the Company and the Directors believe the benefits will include the following:

- Control of a profitable high grade mining operation.
- An initial production of approximately 40,000 ounces on an annualised basis produced at anticipated cash costs of less than US\$200 per ounce.

- Milling facilities which are centrally located and can be expanded as production increases from multiple mine sites.
- Interests in more than 700 km² of highly prospective tenements which will facilitate modern and systematic exploration.
- An existing workforce, management and infrastructure that are working effectively and co-operatively with local communities.

(e) **Post Completion Corporate Structure**



(f) **Risks**

There are a number of risk factors that Shareholders should consider when evaluating the matters in the Notice and Explanatory Statement. The principal risk factors are summarised in section 1.4.

1.2 **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 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 are intended to 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 as amended by a deed of 29 July 2006. By the Philsaga Share Sale 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 and Yandal Investments Pty Ltd and secondly the purchase by MOHC of 60% of the shares of Davao Philsaga Holdings Inc which are held by Secdea Philippines Holdings Corporation or its interests. All shares purchased are unencumbered.

The assets held by Philsaga Mining Corporation includes the Co-O Mine with its infrastructure, various tenement and joint ventures interests and business licences.

The purchase price consideration to be paid and/or issued on completion to the Philsaga Vendors is 25,000,000 Shares in the Company and \$12,000,000 cash. By one of the ancillary agreements a further \$1,000,000 is payable in cash at 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 12 months from their date of issue, except that this period will cease upon a relevant change of control affecting the Company and will extend (where applicable) until the grant of MPSA 000084-XIII within which the Co-O Mine is located.

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 the Company 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 warranties consistent with a share sale agreement of this type. Any claim against Bill Phillips and Samuel Afdal is limited to a 3 year period and a total claim together of \$1,875,000.

Completion under the Philsaga Share Sale Deed will occur no later than 10 business days after the satisfaction of all conditions precedent. The outstanding condition precedent after receipt of shareholder approval by this Notice is the Company completing a placement to fund the Philsaga Transaction.

The ancillary agreements described below will be executed at completion.

(a) **Royalty Agreement**

The parties to the royalty agreement are the Philsaga Vendors and 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.

(b) **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.

(c) **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.

(d) **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 with funds totalling \$1,000,000 for the sole purpose of SBF Drilling purchasing in its own right, equipment which will be used for services in the Co-O Mine and area during the contract period.

(e) **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.

1.3 **Information on Philsaga Mining Corporation and its Assets**

(a) **Introduction**

Philsaga Mining Corporation commenced operations in the Philippines in late 2000, whereby through associated entities it acquired a number of tenement applications which included the Co-O Mine and the Co-O Plant which had been on care and maintenance since 1991. The plant and associated infrastructure were all constructed in the late 1980s, operated for just over two years before closing in 1991.

(b) **Co-O Mine**

The Co-O Mine comprises a number of parallel epithermal quartz veins with a strike length of over 600 metres. The mine has been developed to a depth of approximately 270 metres with the mineralisation still open at depth and along strike.

For the three year period 2002-2004, using small scale mining techniques, the mine achieved the production summarised in Table I:

Table I

| Item | Unit | 2002 | 2003 | 2004 |
|----------------------------------|--------|--------|--------|--------|
| Mine production | Tonnes | 17,032 | 22,580 | 21,416 |
| | g/t Au | 32.00 | 27.54 | 26.30 |
| Plant feed | Tonnes | 18,772 | 22,901 | 21,736 |
| | g/t Au | 29.90 | 23.40 | 22.30 |
| Tails grade | g/t Au | 2.57 | 1.89 | 1.18 |
| Recovered gold | Ozs | 16,709 | 17,590 | 15,530 |
| Unit cash costs - Mining | US\$/t | 67 | 78 | 96 |
| Unit cash costs - Processing | US\$/t | 20 | 27 | 28 |
| Unit cash costs - Administration | US\$/t | 16 | 22 | 37 |
| Total unit cash costs | US\$/t | 103 | 127 | 160 |

The mine was put on care and maintenance from late 2004 until the second half of 2005. In early 2005 a JORC resource was calculated for the Central Vein in the mine as in Table II utilising a lower cut of 8g/t Au and a top cut of 400g/t Au:

Table II

| Category | Tonnes | Au g/t | AU ozs |
|--------------------|----------------|--------------|----------------|
| Indicated Resource | 110,000 | 32.20 | 114,000 |
| Inferred Resource | 142,000 | 27.80 | 127,000 |
| TOTAL | 252,000 | 29.70 | 241,000 |

The information in this report that relates to Mineral Resources is based on information compiled by Ted Coupland and Rick Adams of Cube Consulting, who are Members of the Australasian Institute of Mining and Metallurgy. Ted Coupland and Rick Adams have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Ted Coupland and Rick Adams consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Cube Consulting is an independent Perth based resource consulting firm specialising in geological modelling, resource estimation and Information Technology.

Since October 2005 when the Co-O mine re-development commenced, the mine has produced as shown in Table III:

Table III

| Period | Ore mined (tonnes) | Recovered | | Cash costs (US \$ per oz) | Gold sales (US\$M) | Comments |
|-----------------|-----------------------|-------------------|-----------------|------------------------------|-----------------------|-----------------|
| | | grade (g/t Au) | ounces (ozs) | | | |
| Oct to Dec 2005 | 5,476 | 12.3 | 2,323 | 250 | 1.14 | Development ore |
| Jan to Mar 2006 | 5,609 | 8.9 | 1,613 | 307 | 0.89 | Development ore |
| Apr to Jun 2006 | 9,342 | 8.0 | 2,503 | 334 | 1.62 | Development ore |
| TOTAL | 20,427 | 9.6 | 6,439 | 297 | 3.65 | |

(c) **Tenement Holdings and Joint Ventures**

Philsaga Mining Corporation owns a number of tenement applications in its own right, owns granted tenements in a 50:50 joint venture with Medusa and also holds a 50% interest in a number of joint venture agreements and Mines Operating or royalty agreements with Medusa. Philsaga Mining Corporation also has a joint venture with Magnum Gold Limited on the Bunawan Project whereby Magnum is earning a 50% interest by spending the first US\$1.5 million.

The key tenement interests owned by Philsaga are summarised in Table IV.

Table IV Tenement Schedule

| Number | Philsaga's Beneficial Interest | Holder (Registered) | Area_hc |
|--------------------|----------------------------------|--------------------------------|---------|
| FTAA (XIII) 00004 | 50% through royalty agreement | Corplex Resources Incorporated | 4860 |
| APSA (XIII) 000012 | 100% | Base Metals Mineral Res Corp | 339.8 |
| APSA (XIII) 000013 | 100% | Base Metals Mineral Res Corp | 2464 |
| APSA (XIII) 000022 | 100% | Philex Gold Philippines Inc | 6262 |
| APSA (XIII) 000024 | 50% through royalty agreement | DAS-AGAN Mining Corporation | 1104 |
| APSA (XIII) 000024 | 50% through royalty agreement | DAS-AGAN Mining Corporation | 2720 |
| APSA (XIII) 000028 | Earning 35% through JV agreement | Apical Mining Corporation | 1274 |
| APSA (XIII) 000028 | Earning 35% through JV | Apical Mining Corporation | 24 |

| | | | |
|-------------------------------|---|----------------------------------|-------------|
| | agreement | | |
| APSA (XIII) 000028 | Earning 35% through JV agreement | Apical Mining Corporation | 223.2 |
| APSA (XIII) 000028 | Earning 35% through JV agreement | Apical Mining Corporation | 475.4 |
| APSA (XIII) 000039 | 50% through royalty agreement | Bernster Mining / Alkorn | 424.8 |
| APSA (XIII) 000054 | 100% through JV agreement, Magnum earning 50% | Corplex Resources Inc | 2116.18 |
| APSA (XIII) 000084 - PARCEL 1 | 100% | Base Metals Mineral Res Corp | 2209 |
| APSA (XIII) 000087 | 100% | Col Samuel G Afdal (Ret) | 846.437 |
| APSA (XIII) 000088 | 50% | PHSAMED Mining Corporation | 7303.73 |
| APSA (XIII) 000098 - PARCEL 1 | 100% | Mindanao Philchord Mining Corp. | 84.91 |
| APSA (XIII) 000098-PARCEL 2 | 100% | Mindanao Philchord Mining Corp. | 424.7 |
| APSA (XIII) 000098 - PARCEL 3 | 100% | Mindanao Philchord Mining Corp. | 679.6 |
| APSA (XIII) 000099 - PARCEL 1 | 100% | Mindanao Philchord Mining Corp. | 84.1 |
| APSA (XIII) 000099 - PARCEL 2 | 100% | Mindanao Philchord Mining Corp. | 934.4 |
| APSA (XIII) 000099 - PARCEL 3 | 100% | Mindanao Philchord Mining Corp. | 509.7 |
| APSA (XIII) 000099 Parcel 4 | 100% | Mindanao Philchord Mining Corp. | 84.95 |
| EPA (XIII) 000028 | 50% through royalty agreement | ABACUS Consolidated Res. | 9365 |
| EPA (XIII) 000064 - PARCEL 1 | 100% | Philsaga Mining Corporation | 1530 |
| EPA (XIII) 000064 - PARCEL 2 | 100% | Philsaga Mining Corporation | 170 |
| EPA (XIII) 000064 - PARCEL 3 | 100% | Philsaga Mining Corporation | 84.98 |
| EPA (XIII) 000064 - PARCEL 4 | 100% | Philsaga Mining Corporation | 340 |
| EPA (XIII) 000064 - PARCEL 5 | 100% | Philsaga Mining Corporation | 1870 |
| EPA (XIII) 000065 | 100% | Philsaga Mining Corp. | 3047.53 |
| EPA (XIII) 000066 - PARCEL 1 | 100% | Philsaga Mining Corp | 3376 |
| EPA (XIII) 000066 - PARCEL 2 | 100% | Philsaga Mining Corp | 3420 |
| EPA (XIII) 000067 | 100% | Col Samuel G Afdal (Ret) | 1692.69 |
| EPA (XIII) 000069 | 50% | PHSAMED Mining Corporation | 7789.8 |
| EPA (XIII) 000087 | 100% | Philsaga Mining Corporation | 254.7 |
| EPA (XIII) 000087 | 100% | Philsaga Mining Corporation | 509.5 |
| EP (XIII) 000017 | 50% | Philsaga Mining Corporation | 3101 |
| EP-000021-VIII - Lot 2 | 50% through royalty agreement | Vulcan Industrial & Mining Corp. | 1949 |
| EP-000021-VIII - Lot 1 | 50% through royalty agreement | Vulcan Industrial & Mining Corp. | 235.2 |
| EP-000021-VIII - Parcel A | 50% through royalty agreement | Vulcan Industrial & Mining Corp. | 628.8 |
| EP-000021-VIII - Parcel B | 50% through royalty agreement | Vulcan Industrial & Mining Corp. | 422.8 |
| EP-000021-VIII - Parcel 3 | 50% through royalty agreement | Vulcan Industrial & Mining Corp. | 602.7 |
| XIII-SDS-SSMP-002-05 | 100% | Philsaga Mining Corporation | 21.23 |
| XIII-SDS-SSMP-003-05 | 100% | Philsaga Mining Corporation | 21.23 |
| SMP-05-2006 | 100% | Philsaga Mining Corporation | 423.156 |
| MPSA 004-91-XII | 50% | San Manuel Mining Corporation | 1480.00 |
| SSMP X-ADS 05-1218 | 100% through royalty | Lademora Mining | 20.0 |

| | | | |
|--------------------|--------------------------------|-----------------------------|------------------|
| | agreement | Corporation | |
| SSMP X-ADS 05-1510 | 100% through royalty agreement | Lademora Mining Corporation | 20.0 |
| TOTAL AREA | | | 77909.143 |

1.4 Title in respect of the Co-O Mine Area and Legal Proceedings

The principal mining claim within which the Co-O Mine is located is Mineral Production Sharing Agreement ("MPSA") application 000084-XIII which is still in application stage and is affected by the Picop legal case. An MPSA is granted for a period of 25 years and is renewable for a period of 25 years.

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 various mineral production sharing agreement applications including MPSA application 000084-XIII held by Philsaga Mining Corporation and within which the Co-O Mine is located. Picop Resources Inc is a timber concession holder attempting to link surface rights to mineral rights and has contended that the mining application areas should be closed to mining without its consent. Initially the mining applications were set aside by a Panel of Arbitrators for a failure to secure the consent of Picop Resources Inc.

On appeal the Mines Adjudication Board set aside the decision of the Panel of Arbitrators and reinstated the applications. The Mines Adjudication Board by its decision dated 10 December 2002 held that the right of Picop Resources Inc to occupation, possession and control over its concession areas refers only to its timber plantation and does not include the disposition of minerals that may be found therein, which solely and exclusively belongs to the State.

Aggrieved by the decision, Picop Resources Inc filed an appeal with the Court of Appeals. In its decision delivered on 28 November 2003 the Court of Appeals dismissed the petition of Picop Resources Inc.

Still dissatisfied, Picop Resources Inc elevated the matter to the Supreme Court of the Philippines by filing a Petition for Review on Certiorari against the Department of Environment and Natural Resources in an attempt to prevent the Department from issuing the MPSA to Philsaga Mining Corporation. Philsaga Mining Corporation is not a party to the proceedings. A resolution of the proceedings is still pending.

Pending the grant of the MPSA, Philsaga Mining Corporation in January 2006 was granted a Special Mining Permit ("SMP") covering the Co-O Mine area. The SMP has the same terms and conditions as a MPSA to the extent that full-scale commercial mining operations are able to be conducted. However, a SMP is granted for a 1 year period and is renewable for a period of 1 year.

1.5 Risks

There are a number of risk factors that Shareholders should consider when evaluating the matters in the Notice and Explanatory Statement. The principal risk factors include, but are not limited to, those set out below.

Shareholders should also appreciate that the value of the Shares on ASX may rise or fall depending on a range of factors including a number beyond the control of the Company. Any of the factors set out below or other risk factors may materially affect the financial performance of the Company after completion of the Philsaga Transaction.

However, Shareholders should note that the Company is already an explorer and producer in the Philippines and as such a number of the risk factors are not new to the Company.

(a) ***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.

A number of the mining claims to which the Company will be interested after the completion of the Philsaga Transaction are in application stage. There is no guarantee or certainty that any application will be granted or, if granted, will be done so in a timely manner or on terms acceptable.

There is a specific title risk in respect of the Co-O Mine area which is detailed at section 1.3(d) above. Philsaga Mining Corporation is currently undertaking full-scale commercial mining operations under the terms of a SMP pending the grant of a MPSA, which grant is the subject of a legal dispute.

(b) ***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.

(c) ***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.

(d) ***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.

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

The future capital requirements of the Company will depend on many factors. 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.

(f) **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.

(g) **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.

(h) **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.

(i) **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.

(j) **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.

(k) ***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.

(l) ***General 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.

1.6 **AIM Listing and Placement**

The Company intends to seek a secondary listing on AIM which will facilitate greater access to capital markets to develop and expand its Philippine assets. The Company has appointed Ambrian Partners Limited as the Broker and Nominated Adviser for the purposes of the AIM listing.

In conjunction with the AIM listing, the Company intends to undertake a placement to predominately UK based investors, institutions and fund managers who are clients of or introduced by Ambrian Partners Limited.

By the placement, the Company will seek at least the sum of \$15,000,000 to provide funds to enable completion under the Philsaga Share Sale Deed (being \$13,000,000 in cash payments on completion) and payment of fees to advisers (including broking fees) and regulatory costs associated with the placement and the Company's secondary listing on AIM.

Any funds raised from the placement in excess of \$15,000,000 will be used to develop the Company's existing Philippines assets and for general working capital purposes.

1.7 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.

Each of the Directors intends to vote their Shares in favour of all of the Resolutions.

Based on the information available, including that contained in this Explanatory Statement and the risks outlined in section 1.4, 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.

2. 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.

2.1 Resolution 1 – Issue of Shares to Philsaga Vendors

Resolution 1 seeks Shareholder approval for the issue of up to 25,000,000 Shares to the Philsaga Vendors or their nominees under the terms of 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 25,000 Shares to the Philsaga Vendors or their nominees 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 25,000,000 Shares to the Philsaga Vendors;
- (b) 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);
- (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 so as to obtain control of Philsaga Mining Corporation. The 25,000,000 Shares to be issued on completion will have a deemed value of 60 cents per Share;
- (d) the allottees are the Philsaga Vendors or their nominees and they will be allotted the following Shares on completion:

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

None of the allottees are related parties 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;
- (g) it is intended that the Shares will be allotted on one date being completion under the Philsaga Share Sale Deed; and
- (h) it is intended that the Company will seek advice from the ASX as to possible ASX imposed escrow restrictions that may be applicable to the Shares to be issued to the Philsaga Vendors.

2.2 Resolution 2 – Allotment and Issue of Shares

The Company intends to seek a secondary listing on AIM which will facilitate greater access to capital markets to develop and expand its Philippine assets. The Company has appointed Ambrian Partners Limited as the Broker and Nominated Adviser for the purposes of the AIM listing.

In conjunction with the AIM listing, the Company intends to undertake a placement to predominantly UK based investors, institutions and fund managers who are clients of or introduced by Ambrian Partners Limited.

Resolution 2 seeks Shareholder approval for the issue of up to 30,000,000 Shares by such a placement.

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 (*) Shares by a placement 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 30,000,000 Shares to be issued by a placement, it is likely the Company will only seek to raise equity by the issue of a lesser number of Shares.

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 30,000,000 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 at least 80% of the average market price calculated over the last 5 days on which sales of the Company's Shares were recorded before the allotment;
- (d) the allottees are unknown. However, the Shares are intended to be issued to predominantly UK based investors, institutions and fund managers who are clients of or introduced by Ambrian Partners Limited and pursuant to offers that will not require the issue of a disclosure document. The Shares will not be issued to related parties;
- (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 to provide funds to enable completion under the Philsaga Share Sale Deed (\$13,000,000) and to pay fees to advisers (including broking fees) and regulatory costs associated with the placement and the Company's secondary listing on AIM (approximately \$2,000,000). Any funds raised from the placement in excess of approximately \$15,000,000 will be used to develop the Company's existing Philippines assets and for general working capital; and
- (g) it is intended that the Shares will be allotted on one date.

2.3 **Resolution 3 – 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 5,593,334 Shares on or about 20 June 2006.

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

- (a) the number of Shares allotted was 5,593,334;
- (b) the Shares were issued at a price of 60 cents per Share;
- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the allottees of the Shares were investors either entitled to accept offers of securities under section 708 of the Corporations Act being clients of State One Stockbroking Limited or Delta Securities or sophisticated investors in the United Kingdom. None of the allottees are related parties of the Company; and
- (e) the funds raised from the issue of the Shares of \$3,356,000 (before expenses) has and will be used to fund an expansion of the Company's Philippines projects including a resource expansion of the Co-O Mine, new mine underground exploration and development and defining porphyry copper-gold targets.

2.4 **Resolution 4 – Ratification of Shares to Das-Agan Project Vendors**

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 150,342 Shares to the Das-Agan Project vendors.

By the Das-Agan agreement the Company through its Philippines subsidiaries and in conjunction with Philsaga Mining Corporation entered into a mines operating agreement with the private vendors of the Das-Agan Project. The project is contained in 2 parcels, one to the north and the other to the south-east of the Co-O project. The Company is acquiring the rights to 100% of the Das-Agan Project in consideration of the issue or grant to the vendors of a 3% gross royalty on all metals produced, reimbursement of expenses of approximately \$318,000 and the issue of 4 equal tranches of Shares of 150,417 Shares. The first tranche of Shares (for which ratification is being sought) was issued on or about 5 April 2006 being within 30 days of signing of the agreement. The second tranche will be issued on the granting of the tenements and the 3rd and 4th tranches on the first and second anniversary respectively after the grant of the tenement.

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

- (a) the number of Shares allotted was 150,342;
- (b) the Shares were issued in consideration of the Das-Agan agreement. The Shares issued had a deemed issue price of 53 cents being a 10% discount to the average market price of the 5 days preceding 20 February 2006;
- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the allottee of the Shares was Mr Geronimo Palermo. Mr Palermo is not a related party of the Company; and
- (e) no funds were raised from the issue of the Shares.

2.5 **Ratification of Shares to Masapelid Project vendor**

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 266,366 Shares to the Masapelid Project vendor.

In January 2006 the Company in conjunction with Philsaga Mining Corporation entered into a joint venture agreement with Metals Exploration plc (an AIM listed company) over the former Lacandola Gold Mine on Masapelid Island. Metals Exploration plc has a purchase agreement with the Masapelid Project owner. As part of the consideration for the right to earn an 84% interest in the Masapelid Project, the Company must issue 3 tranches of cash and Shares. The first tranche of Shares (for which ratification is being sought) was issued on or about 7 March 2006. The second tranche of Shares of 250,000 will be issued on or before 27 January 2007 and the third tranche of Shares of 500,000 will be issued on or before 27 January 2008.

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

- (a) the number of Shares allotted was 266,366;
- (b) the Shares were issued in consideration of the Masapelid agreement. The Shares issued had a deemed issue price of 65 cents;
- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the allottee of the Shares was the Masapelid vendor being Mr Manuel Arteficio. Mr Arteficio is not a related party of the Company;
- (e) no funds were raised from the issue of the Shares.

2.6 **Resolution 6 – Ratification of Shares to Alcorn Gold Resources Corporation**

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 136,602 Shares to Alcorn Gold Resources Corporation.

In December 2005 the Company through its Philippines subsidiaries and in joint venture with Philsaga Mining Corporation entered into a mines operating agreement in respect of the Anoling Gold Project with Alcorn Gold Resources Corporation, a public company listed on the Philippines stock exchange. The Anoling Gold Project is located in east Mindanao to the north of the Co-O Mine. One of the terms of the mines operating agreement required the Company to issue \$75,000 in Shares to Alcorn Gold Resources Corporation at a 10% discount to market for reimbursement of past expenses.

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

- (a) the number of Shares allotted was 136,602;
- (b) the Shares were issued in consideration of the Anoling Gold Project agreement with Alcorn Gold Resources Corporation. The Shares issued had a deemed issue price of

54.72 cents being a 10% discount to the average market price of the 5 days preceding their issue;

- (c) the Shares rank equally with the Company's existing issued Shares;
- (d) the allottee of the Shares was Alcorn Gold Resources Corporation, which is not a related party of the Company;
- (e) no funds were raised from the issue of the Shares.

2.7 **Resolution 7 – Adoption of New Constitution**

The Company is seeking approval from Shareholders to update its Constitution. The current Constitution of the Company was adopted in 2003.

The Company seeks to amend the current Constitution to:

- (a) reflect compliance with current law rather than refer to outdated terminology; and
- (b) clarify its ability to create depository interests tradeable in the CREST system used by AIM to ensure appropriate trading can occur in AIM.

Corporations Act

Section 136 of the Corporations Act requires the Company to obtain the approval of its Shareholders, by special resolution, to adopt a new Constitution. A special resolution must be obtained by at least 75% of the votes cast by Shareholders who are entitled to vote at the Meeting.

A copy of the proposed Constitution will be made available to members upon request by contacting the Company's office on (08) 9367 0601. A copy will also be available for inspection at the Meeting.

MEDUSA MINING LIMITED
ACN 099 377 849

GLOSSARY

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

"**AIM**" means the Alternative Investment Market operated by the London Stock Exchange.

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

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

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

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

"**Co-O Mine**" means the Co-O Plant, mine and associated utilities, services and infrastructure located in central eastern Mindanao in the Philippines.

"**Co-O Plant**" means the CIP plant located at the Co-O Mine.

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

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

"**Explanatory Statement**" means this Explanatory Statement.

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

"**MMPRC**" means Mindanao Mineral Processing and Refining Corporation, a company registered under Philippines law.

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

"**Notice**" means the notice of meeting which accompanies this Explanatory Statement.

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

"**Philsaga Share Sale Deed**" means the share sale deed dated 19 February 2005 as amended on 29 July 2006 between the Company, MOHC, the Philsaga Vendors, Samuel Afdal, Bill Phillips, SBF Drilling Services Inc, Vibrant Earthmovers Inc and Mindanao Philcord Mining Corporation.

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

"Philsaga Transaction Documents" means the documents described in section 1.2 of the Explanatory Statement.

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

"Plant Lease, Option and Ore Supply Agreement" means the agreement between the Company, Philsaga Mining Corporation and Vibrant Earthmovers Inc dated 5 August 2005 together with the assignment agreement between the Company, Philsaga Mining Corporation, Vibrant Earthmovers Inc and MMPRC dated September 2005.

"Resolution" means a resolution contained in this Notice.

"Share" means a fully paid ordinary share in the capital of the Company.

"Shareholder" means a registered holder of Shares.

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

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

"US\$" means United States dollars.

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

PROXY FORM

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 General Meeting to be held at Broadwater Pagoda Resort Hotel, 112 Melville Parade, Como, Western Australia on 29 September 2006 at 9.00 am (Western Standard Time) and at any adjournment thereof.

Voting on Business of the General Meeting

| | | FOR | AGAINST | ABSTAIN |
|--------------|--|--------------------------|--------------------------|--------------------------|
| Resolution 1 | Issue of Shares to Philsaga Vendors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 2 | Placement of Shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 3 | Ratification of Placement Share Issue | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 4 | Ratification of Shares to Das-Agan Project Vendors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 5 | Ratification of Shares to Masapelid Project Vendor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 6 | Ratification of Shares to Alcorn Gold Resources Corporations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 7 | Adoption of New Constitution | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If the chair of the meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of a resolution, please place a mark in the box. By marking this box, you acknowledge that the Chair of the meeting may exercise your proxy even if he has an interest in the outcome of the resolutions and that the votes cast by the Chair of the meeting for those resolutions other than as proxy holder will be disregarded because of that interest. **The Chair intends to vote any such undirected proxies in favour of all resolutions.** If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

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 _____ %

Please return this Proxy Form to the Company Secretary Medusa Mining Limited, Unit 7, 11 Preston Street, Como, Western Australia or post to PO Box 860, Canning Bridge, 6153 or fax to (08) 9367 0602 by 9.00 am (Western Standard Time) on 27 September 2006.

Signed this _____ day of _____ 2006

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 099 377 849)

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.