



**MINING LIMITED**  
ACN: 099 377 849

## QUARTERLY ACTIVITIES REPORT PERIOD ENDING 30 SEPTEMBER 2004

### MEDUSA MINING PROFILE

Medusa Mining Limited listed on the ASX on 23 December 2003 issuing 12,500,000 shares at \$0.20 each, raising \$2,500,000.

Medusa's corporate objectives are to:

- Acquire gold and gold-copper projects with cash flow potential within 2 years.
- Achieve production with a low capital exposure and a rapid payback period.
- Explore for high grade deposits in areas with good access and infrastructure.

To achieve the objectives, Medusa

- Has signed a HOA with its Saugon project partner, Philsaga Mining Corp, to purchase its expanding 25Koz per year operating gold mine, 550tpd plant and infrastructure and 537 km<sup>2</sup> of very prospective tenements over a strike length of 70km.
- Has earned a 50% interest in the Saugon Gold-Silver Project;
- Is advancing to metallurgical testwork on the Dizon tailings project and data entry for the Marian underground gold mine.

Medusa has a tight capital structure which should reflect project success.

**Shares Issued:** 38,650,600 ASX Code: MML  
**Options Issued:** 18,400,283 ASX Code: MML0

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### HIGHLIGHTS

#### HOA SIGNED TO ACQUIRE PHILSAGA MINING CORP

- HOA SIGNED TO NEGOTIATE TO ACQUIRE JOINT VENTURE PARTNER, PHILSAGA MINING CORP, OWNER AND OPERATOR OF THE HIGH GRADE CO-O GOLD MINE & MILL, WITH PRODUCTION INCREASING FROM APPROXIMATELY 25Koz PER YEAR AND 537km<sup>2</sup> OF HIGHLY PROSPECTIVE TENEMENTS.

#### SAUGON GOLD-SILVER PROJECT (50%)

- FIRST HIT VEIN HEADFRAME AND HOISTING FACILITIES COMMISSIONED TO THE 40M LEVEL.
- A BRECCIA ZONE OF APPROX. 15mX3m HAS BEEN OUTLINED TO THE WEST OF THE WINZE. IT PROBABLY CORRESPONDS TO THE SDDH2B INTERSECTION OF 1m @ 35.95g/t Au & 541.2g/t Ag 60M BELOW THE LEVEL.
- DRIVING TO THE EAST HAS COMMENCED.

#### MEDUSA-BACTECH JOINT VENTURE FOR THE PHILIPPINES

- JOINT VENTURE AGREEMENT SIGNED WITH BACTECH MINING CORP OF CANADA TO SEEK Au & Cu-Au DEPOSITS WHICH ARE SUITABLE FOR BIO-LEACHING.
- THE DIZON TAILINGS IS THE FIRST PROJECT TO BE ASSESSED UNDER THE JV.

#### DIZON TAILINGS & MARIAN GOLDMINE

- **DIZON:** METALLURGICAL SAMPLE DRILLING NEARING COMPLETION & METALLURGICAL WORK COMMENCED.
- **MARIAN:** DATA ENTRY IS EXPECTED TO BE COMPLETED IN EARLY NOVEMBER FOLLOWED BY RESOURCE CALCULATIONS.

#### FORTHCOMING PROGRAMS

- **PHILSAGA ACQUISITION:** PROCEED WITH DUE DILIGENCE AND ACQUISITION.
- **FIRST HIT:** CONTINUE DEVELOPMENT OF THE BRECCIA ZONE AND DRIVING EAST ON MINERALISATION.
- **MABAS:** CONTINUE DRILLING AND OUTLINE SUFFICIENT MINERALISATION TO JUSTIFY SINKING A SHAFT FOR EXPLORATION AND PRODUCTION.
- **PARADISE RIDGE:** CONTINUE EXPLORATION DRILLING.
- **DIZON TAILINGS:** COMPLETE DRILLING AND CONTINUE METALLURGICAL TESTWORK PROGRAM.
- **MARIAN:** COMPLETE DATA ENTRY AND COMMENCE RESOURCE MODELLING AND CALCULATION.

#### PLACEMENT

THE COMPANY COMPLETED THE PLACEMENT OF 1,200,000 SHARES AT \$0.36 TO RAISE \$432,000.



## **PROJECT OVERVIEWS**

The locations of the Company's projects are shown on Figure 1.

## **PURCHASE OF PHILSAGA MINING CORPORATION**

The Company advises that it has signed a Heads of Agreement with the principal shareholders of Philsaga Mining Corporation (Philsaga) to acquire their shares and thereby ownership of all of Philsaga's assets in central eastern Mindanao, Republic of the Philippines. These assets include:

- The Co-O CIP plant with a rated capacity of 550tpd and currently treating approximately 80tpd of ore averaging 20-25g/t Au. Throughput for the CIP plant is anticipated to rise within 6 months to 150tpd at similar head grades with the commissioning of an additional haulage level at the Co-O Mine;
- Gold production at cash costs of less than US\$200/oz;
- The Co-O underground mine with vein strike lengths of over 600m and situated approximately 12 km southeast of the mill;
- Infrastructure including administration buildings, work shops, standby power house, assay laboratory, warehouses and inventories, messing and accommodation facilities, and associated equipment;
- A work force skilled in all facets of the operation allowing Medusa a seamless transition to a producer with an increasing production profile;
- A large tenement holding comprising approximately 537 km<sup>2</sup> over an approximate strike length of 70 km of the unexplored but highly mineralised and prospective Diwata Range that has had minimal modern exploration;
- The Medusa- Philsaga Saugon Joint Venture to the south of Co-O where Medusa has earned its 50% interest;
- The Tambis joint venture to the north of Co-O where the JV partner is about to commence spending US\$1.5M to earn a 50% interest;
- One other joint venture on similar terms under finalisation.

The purchase price will be negotiated in good faith after completion of an independent valuation and normal commercial due diligence. The Company has appointed various experts both in the Philippines and Australia to undertake JORC compliant Mineral Resource/Ore Reserve calculations, due diligence on Philsaga's accounting aspects, tenements and associated agreements and all legal aspects.

Upon the purchase price being successfully negotiated, full form transaction documents will be drawn to record the acquisition. The acquisition will be subject to all necessary regulatory and statutory approvals.

The Company has mandated Corpac Partners Pty Ltd of Sydney to act as the Company's corporate advisors for the acquisition. Corpac has already satisfied itself with respect to the technical merits of the project.

### **1. Benefits of the Acquisition for Medusa**

Completion of the acquisition would give Medusa the following benefits:

- Control of a profitable gold mining operation;
- Access to an immediate cash flow from an initial production of approximately 25,000 ounces on an annualised basis produced at less than US\$200/oz;
- Production is planned to increase in early to mid 2005 with the commissioning of the additional Co-O Mine 3150m Level haulage level to approximately 35-40,000 ounces;
- This gold production increase is without anticipated contributions from the Saugon project or other new production projects;

- Milling facilities which are strategically located and can be expanded as production increases from multiple mine sites;
- Control over a large, highly prospective tenement holding which will facilitate modern and systematic exploration for the first time ever;
- An existing workforce, management and infrastructure that are working effectively and co-operatively with local communities;
- Control of the Saugon joint venture which is currently being explored;
- Other joint ventures which are funded for the first US\$1.5M of exploration expenditure;
- A seamless transition from advanced explorer with anticipated initial production in the first quarter of 2005 to a producer with an increasing production profile.

## **2. Background Information**

Philsaga's assets are located in central eastern Mindanao in the Republic of the Philippines (Fig. 1) and are accessed by the national highway via an approximate 2.5 hour drive north of Davao City. The project areas and the Co-O mill site and mine are located on the eastern side of the highway and are accessible through a network of all weather gravel roads.

The project now comprises approximately 537 km<sup>2</sup> of tenements which cover approximately 70 km of strike length (Fig. 2).

The Co-O Mine was first put into production by Musselbrook Energy and Mines (MEM) in 1989, but due to serious grade dilution problems caused by the inappropriate use of mechanised mining methods for narrow veins, the project closed in 1991 after producing approximately 60,000 ounces of gold. MEM spent approximately US\$22M to put the project into production, with the majority of the facilities and equipment in good condition when purchased by Philsaga in August 2000 after 9 years of care and maintenance.

MEM developed the mine via an adit which was driven 400m to reach the vein system at the 3150m level (150m above sea level) and extended 600m along the system. Drives were then driven along several sub-parallel veins for the development of stopes above the level. Stopping was planned to recover ore with grades of 10 -14g/t Au, but past records indicate the mill feed grades ranged between 5-8g/t Au.

Philsaga commenced operating the Co-O Project in August 2000 with a different mining approach whereby labour intensive mining methods suited to narrow vein mining have been instituted resulting in minimum dilution and production at low cash costs. Philsaga has very successfully undertaken the ongoing process of developing the project from an essentially care and maintenance basis at the time of acquisition to its current status of being a fully functional and supported gold producer with rising production.

Since August 2000 Philsaga has produced approximately 80,000 ounces of gold at 20 – 25,000 ounces per year in a co-operative manner with all local stake holders.

## **3. The Philsaga Assets**

### **3.1 The Co-O Gold Mine**

The Co-O underground mine (Fig 3.) is developed on a series of low sulphide, epithermal quartz veins which strike west over a length of at least 600 metres and have been explored to a depth of more than 200 metres from surface so far. The veins are open to the west and at depth, and until recently had been truncated in the east by the northerly trending Oriental Fault. Recent diamond drilling has intersected vein extensions on the east side of the fault and are being traced by further drilling to the east.

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

New veins sub-parallel to and immediately to the north of the known Co-O system have been recently discovered at surface and are currently being tested by drilling.

At the surface, being approximately the 3300m level, the veins are generally very narrow veinlets within an extensive clay-pyrite alteration envelope with minor accessory barite with low 3-5g/t Au gold values. The gold values start to increase significantly from about 80m below the surface.

Figure 3 also shows the underground development work already completed by Philsaga as well as the planned mine development. Philsaga has undertaken a considerable amount of rehabilitation work on the old drives for access and ventilation and have produced most of their ore from below the 3150m level. The new Tinago shaft near the western end of the vein system is anticipated to break through into the 3150m level in early November 2004. Additional driving to link the shaft with the 3150 level workings is in progress as well as work in progress to equip the shaft to produce 150-200tpd of ore and waste.

At the 3050m level, which is 100m below adit level, Philsaga is developing a main haulage level and to date has driven west on the main vein over a strike length of 200m with advancing continuing. Planning has also commenced for an internal inclined shaft at the eastern end of the vein system and to develop another main haulage level at the 2950m level which is 200m below adit level.

Currently the mine is producing ore of approximately 20-25 g/t Au at approximately 80-100 tonnes per day from development and stoping. With the completion of the Tinago shaft, production will start to rise in the second quarter of 2005 to a total of approximately 150 tpd or 4500 tpm at anticipated head grades of +20g/t Au.

Mining and exploration drilling services are carried out by contracting companies which will continue to provide services to Philsaga. Philsaga owns a fleet of dump trucks for ore transport and road maintenance, as well as graders, loaders and other earthmoving equipment.

### 3.2 The Tenement Holdings and Joint Ventures

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

As shown on Figure 3, this tenement holding is strategically located north and south of the Co-O milling facility and covers part of the highly prospective Diwata Range.

Philsaga has also adopted a policy of joint ventures for some of its exploration areas and has entered into a joint venture with Continental Goldfields Ltd to explore the Tambis project to the north of the Co-O plant, whereby Continental will earn a 50% interest by spending the first US\$1.5M. This work will commence shortly. The Tambis project has a long history of artisan mining on high grade veins but workings have all stopped near the water table where individual miners have not had the capital to undertake dewatering. The potential to find additional mineralisation is regarded as high due to the presence of extensive alteration zones and the occurrence of gold in many drainages in other areas away from the main workings.

Philsaga is negotiating a second joint venture on similar terms and conditions as the Tambis joint venture, and has also received expressions of interest from other companies. Each joint venture is expected to bring with it the initial expenditure of US\$1.5M before Philsaga is required to contribute.

### 3.3 Infrastructure and facilities

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

The Co-O CIP plant is BHP designed and built with a current capacity of 550tpd. Minor alterations are required to increase the throughput to 700tpd and further modifications could maximise the crushing and grinding capacity at 1000-1100tpd.

A second small scale CIP installed post MEM is used to treat tailings acquired from small scale artisan mining operations in the district.

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

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

#### 4. Acquisition Details

Under the terms of the HOA between Philsaga and Medusa, the parties have agreed to use an independent valuation as the basis for agreeing on the final consideration. In preparation for completing the acquisition Medusa has appointed the following experts:

- **Resource and reserve modelling and estimation:** Medusa has assisted Philsaga to complete data entry for all the Co-O Mine data which is currently being modelled and estimated by Cube Consulting Pty Ltd of Perth;
- **Tenement status, acquisitions, royalty and joint venture agreements:** Medusa has appointed JD Muyco & Associates from Manila to undertake the compilation of the dossier for comment and legal sign off. This work is well advanced.
- **Project valuation:** Golder Associates Pty Ltd from Perth have been appointed to prepare the Independent Technical Report and to prepare an Independent Valuation for the transaction. This will commence on 1 November and is expected to be received in late November.
- **Financial and fixed asset due diligence:** Bentleys MRI Perth Pty Ltd has been commissioned to undertake this work in conjunction with their affiliates in the Philippines. This work commences on 8 November and is expected to be complete at the end of November.
- **Legal advice Philippines:** Carag Caballes Jamora and Somara of Manila have been appointed to draft formal documentation and to provide advice regarding Philippine legal aspects of the transaction;
- **Legal advice Australia:** The Company's legal advisors, Fairweather Lemonis will provide legal advice on the transaction in Australia.
- **Corporate advisors:** Corpac Partners Pty Ltd from Sydney has been appointed as the Company's corporate advisors for the transaction and will undertake the raising of debt and equity finance to complete the transaction. It is anticipated that settlement will involve a combination of Medusa shares, equity raisings and debt. Technical consultants from Corpac have visited the mine and milling facilities and Corpac has satisfied itself of the technical merits of the project.

The current timetable for the transaction indicate that completion, subject to successful due diligence, is likely near the end of February to early March 2005.

#### SAUGON GOLD-SILVER PROJECT (Medusa 50%)

##### 1. Background

The Co-O milling facility owned by the Company's joint venture partner and operator of the joint venture, Philsaga, is approximately 28 kilometres by road from the project (Fig. 4).

Work commenced in mid 2003 on the **First Hit Vein** which has been followed intermittently at the surface over 600m and which is currently being explored underground via a 40 metre deep winze and level development.

Diamond drilling has been suspended along the strike of the First Hit Vein after no new high grade mineralisation was located outside the zones currently being explored from underground.

## **2. Tenements**

The Saugon Exploration Permit No 000060-XIII was signed and issued on 19 October 2004.

## **3. First Hit Vein Underground Exploration Progress**

During the quarter the work concentrated on the installation of the underground headframe, skip, sump and water dam which was completed in mid-September.

Driving to the west along the 2B Vein then commenced and encountered a gold mineralised breccia zone with the approximate dimensions of 15m along the strike of the First Hit Vein by up to 3.5m wide. The mineralisation is lead-zinc rich, siliceous and commonly well brecciated. Insufficient samples have been generated at this stage to provide an average grade estimate but recent sampling of the 40m level backs and walls returned assay values ranging from 4.23g/t to 19.60g/t Au. Development of the mineralised zone below the level has commenced.

Driving on the 40m level to the east has also commenced to explore the strike extensions of the consistent vein hosted mineralisation encountered in the east wall of the winze. The stoping of the high grade mineralisation intersected in the east wall of the winze (1.4m average width containing 12.9g/t Au from 6.5m to 36.5m down winze) will be investigated as the driving progresses.

## **4. Mabas Prospect**

The Mabas prospect is located approximately 3 km northeast of the First Hit Vein. As reported in an ASX release on 9 September, underground exploration of the Mabas vein has continued 23m below the original surface and has now exposed the vein and subsidiary veins over a strike length of 25m at potentially economic grades. The vein is lead-zinc rich and consists of mainly grey, multiphase cherty silica varieties.

Four drill holes have been completed, two of which were drilled down dip and did not reach the veins. One hole at the northern end of the vein also did not reach target depth due to drilling difficulties, whereas two holes at 40m and 65m south of the old shaft have been completed and intersected vein material. Assays are awaited from core samples submitted to an independent laboratory in Manila.

Following the confirmation of the nature of the veins, underground exploration has been suspended until sufficient material can be defined by the continuing drilling program to justify the sinking of a production shaft.

## **5. Paradise Ridge**

The Paradise Ridge prospect is located approximately 1.5 km north of the First Hit Vein. A shallow diamond hole has been completed with results awaited and a second hole designed to intersect the zone of interest at approximately 140m vertically is in progress.

## **MEDUSA-BACTECH JOINT VENTURE FOR THE PHILIPPINES**

On 13 September 2004, the Company announced signing a Joint Venture MOU with BacTech Mining Corporation of Canada whereby BacTech will provide its technology on an exclusive basis to the Joint Venture in the Philippines for the treatment of refractory gold ores or gold-copper ores with high penalty element components in concentrates produced by conventional flotation processes.

The Joint Venture Agreement is for an initial 3 year period and will commence with testwork on the drill samples currently being obtained from the Dizon mill tailings project.

The equity interests of Medusa and BacTech in the Joint Venture are 50% each.

## **DIZON PROJECT** (Option to Joint Venture 60%)

On 4 June 2004 the Company announced an Option Agreement with Dizon Copper and Silver Mines Inc., a public company listed on the Philippines Stock Exchange.

The drilling of 12 holes to 50m depth for the collection of tailings samples for metallurgical testwork is expected to be completed by mid November. The first seven drill holes are currently undergoing head grade analysis and preparation for transport to Australia for metallurgical testwork.

Subject to encouraging head grade analysis results, the metallurgical testwork program is not expected to be completed until late in the first quarter of 2005.

## **MARIAN GOLD MINE** (Option to Joint Venture 50%)

On 14 July 2004 the Company announced an Option Agreement with Vulcan Industrial and Mining Corporation (Vulcan), a public company listed on the Philippines Stock Exchange.

The Company is undertaking entry of the old mine data which is expected to be completed at the end of October following which the mineralisation will be modelled and resources calculated.

## **BRAEMORE PROJECT** (Optioned)

As advised in the ASX release of 26 May 2004, the Company has reached agreement with Teck Cominco Australia Pty Ltd (Teck ) whereby Teck has acquired an Option to Purchase the Braemore Project after undertaking a RAB drilling program aimed mainly at exploring a 10 kilometre long prospective contact which is known to be mineralised.

Teck has advised that the commencement of the drilling on the southern section of the contact has been delayed from the end of September to early November due to Aboriginal Heritage Agreement signing and heritage clearance survey delays. On the northern section of the contact, delays in granting of the tenements are being experienced.

## **KURNALPI and ANTI DAM PROJECTS**

With respect to the plaint affecting Kurnalpi tenement EL 28/465, the submission by the plaintiff to the Minister requesting the overturning of the Warden's decision in given in favour of the vendor was rejected by the Department of Industry and Resources.

Subsequently the Company (together with its wholly owned subsidiary Newcoast Nominees Pty Ltd) has entered into a joint venture with Newcrest Operations Limited to explore the Kurnalpi (E28/465) and Anti Dam Projects (E28/699, Ps28/789, 958, 993 and 994).

- Under the terms of the JV, Newcrest may earn a 70% equity in the tenements by completing expenditure of \$1M within 4 years, with a minimum expenditure commitment of \$100,000 within 12 months and before Newcrest is entitled to withdraw.

Medusa then has the option of:

- Contributing its 30% share of expenditure to maintain its 30% equity position, or up to a first decision to mine, Medusa may elect to dilute on a program by program basis, or
- Reducing to a 20% carried equity position with project loans provided by Newcrest up to a first decision to mine to be repaid from operational cashflow, or
- Providing Medusa's equity is not less than 10%, Medusa may elect to take a "free carried" interest of 10% up to a first decision to mine; or
- Selling its equity at valuation.

Once any decision to mine is made the parties contribute according to their then held Participating Interests.

Newcrest will focus its early work near the Halfway Hill Prospect at the northern end of E28/465 where drilling previously returned encouraging results including 27 metres at 4.9g/t gold, 20 metres at 3.9g/t gold and 26 metres at 3.2g/t gold.

## **OTHER PROJECTS**

The Company is still awaiting the granting of the **Mt Stirling** prospecting licences in order to complete the acquisition of the project, but has been informed by the vendors, that due to a dispute between the state and native title parties, that this is unlikely to occur before the end of 2004.

The Company has relinquished all interest in the **Montacute** project.

## **CORPORATE**

Subsequent to the previous quarterly report as advised to the ASX on 16 September 2004, the Company has raised \$432,000 by the placement of 1,200,000 shares at \$0.36 each to sophisticated investors.

## **FURTHER INFORMATION**

For further information contact the undersigned on 618-93670601 or by email to [admin@medusamining.com.au](mailto:admin@medusamining.com.au) Detailed descriptions of the Company's projects can be viewed in Medusa's Prospectus and subsequent releases on [www.medusamining.com.au](http://www.medusamining.com.au)

Yours faithfully

Geoff Davis  
Managing Director

*The information in the above announcement was compiled by G J Davis who is a member of the AIG with not less than 5 years experience in the relevant fields, and who consents to the report appearing in the form and context in which it appears.*