



MINING LIMITED
ACN: 099 377 849

QUARTERLY ACTIVITIES REPORT PERIOD ENDING 30 JUNE 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**

- Is earning a 50% interest in the Saugon Gold-Silver Project, located in the Philippines;
- Has acquired an Option to joint venture the large Dizon tailings deposit;
- Has obtained an Option to joint venture the developed, underground Marian Gold Mine
- Is seeking advantageous arrangements on its other projects as joint ventures or sales.

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

Shares Issued: 37,450,600 ASX Code: MML
Options Issued: 18,400,283 ASX Code: MML0

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HIGHLIGHTS

SAUGON GOLD-SILVER PROJECT (EARNING 50%)

- LEVEL ONE PLAT AND SUMP DEVELOPMENT PROCEEDING AT 40m LEVEL, DAM CONSTRUCTED, HEADFRAME AND SKIP BEING MANUFACTURED
- PLAT DEVELOPMENT DEMONSTRATES WINZE WAS SUNK ON A VEIN JUNCTION WITH A SPLIT TO WEST OF WINZE INTO TWO VEINS BUT CONTINUES EAST AS ONE VEIN
- EAST WALL OF WINZE FROM 6.5m TO 40m DOWN WINZE AVERAGES 1.4m @ 12.9g/t Au; HIGH GRADE SHOOT CONSIDERED LIKELY EAST OF WINZE
- SECOND HIGH GRADE SHOOT LIKELY TO BE DEFINED FROM THE WINZE TO APPROX 150m VERTICAL DEPTH WITH WEST DRIVE FACE SAMPLE 0.9m @ 13.16g/t Au, SDDH2B INTERSECTING 1m @ 35.95g/t Au & 541.2g/t Ag AND SDDH9 INTERSECTING 0.65m @ 2.31 g/t Au & 34g/t Ag,
- WINZE ASSAYS SHOW HIGH SILVER VALUES (TO 5661 g/t Ag) ACCOMPANY THE GOLD FROM CHANNEL SAMPLES INCLUDING 2.10m @ 15.66/t Au, 1.30m @ 21.69g/t Au & 222g/t Ag, 0.30m @ 34.65g/t Au & 439g/t Ag AND 1.0m @ 12.67g/t Au.

DIZON TAILINGS & MARIAN GOLDMINE

- ACQUIRED AN OPTION OVER 110 MILLION TONNES OF GOLD-COPPER TAILINGS
- ACQUIRED AN OPTION OVER THE MARIAN UNDERGROUND GOLD MINE

FORTHCOMING PROGRAMS

- **SAUGON**, CONTINUE DIAMOND DRILLING ALONG THE STRIKE OF THE FIRST HIT VEIN,
- COMMENCE DRIVING ON 2 HEADINGS AT 40M LEVEL, AND
- COMMENCE EXPLORATION ON NEARBY MABAS AND PARADISE RIDGE PROSPECTS
- **DIZON**, CORE DRILLING OF APPROXIMATELY 500m TO OBTAIN METALLURGICAL SAMPLES
- **MARIAN**, ENTRY OF OLD MINE DATA INTO A DIGITAL DATA BASE

SUBSEQUENT EVENTS

PLACEMENT

THE COMPANY COMPLETED THE PLACEMENT OF 2,375,000 SHARES AND 1,187,500 OPTIONS TO RAISE \$961,875.



PROJECT OVERVIEWS

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

SAUGON GOLD-SILVER PROJECT (Medusa earning 50%)

Background

The project is located in central eastern Mindanao in the Republic of the Philippines (Fig 2) and is accessed by the national highway via an approximate 2.5 hour drive north of Davao City. Access from the highway to the project is via 5 kilometres of gravel roads.

The Co-O milling facility owned by the Company's joint venture partner and operator of the joint venture, Philsaga Mining Corporation, is approximately 23 kilometres by road from the project.

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 drilled and explored underground by a winze and development.

First Hit Vein Geology and Drilling Progress

The drill holes and results to hand are listed in Table I and the collar positions of the holes are shown on Figure 3. Three diamond drilling rigs are currently working on the project with the aim of exploring the First Hit Veins along strike.

(a) Vein Setting

Geological compilation and interpretation show that the First Hit Vein is controlled by a major NE trending fault zone that also appears to control the position on its north side of an extensive intrusive diorite body. This body has now been intersected in most drill holes below or in the footwall on north side of the vein, and below a sequence of volcanic breccias in the hanging wall of the veins (south side) which are in turn overlain by a sequence of shales and siltstones, and which are capped by a massive limestone horizon. At surface the First Hit Vein is hosted by volcanic breccias indicating the diorite contact is at depth in the footwall to the veins. Reconnaissance has shown the diorite body extends in outcrop for at least several kilometres to the north and one kilometre to the northwest. In all drill holes the diorite contains ubiquitous propylitic (pyrite and chlorite) alteration, suggesting it may have potential to host porphyry copper-gold mineralisation elsewhere in the district.

The difference in physical characteristics between the diorite on the north side of the fault and the volcanics and sediments on the south side is considered to be very favourable for developing structural traps into which vein mineralisation could be deposited.

The First Hit Vein within the fault zone is commonly brecciated (except in the east wall of the winze), and in the vicinity of some of the drilling to date, is commonly overprinted with late stage carbonate veining and a white barren quartz phase, both of which lead to considerable dilution of the original grade of the vein. The quartz phase which carries the base metals and high gold grades is commonly mottled grey-white, and occurs as small remnant fragments in many of the intensely brecciated and overprinted zones.

(b) Vein Geology and Mineralisation

A combination of drilling results and the plat development at the 40m down winze depth has demonstrated that the winze was sunk at the junction of a split in the First Hit Vein (previously interpreted in the winze to be a cross fault), where the vein splits into two to the west of the winze but continues to the east of the winze as one vein. The splits have been named the **2B Split Vein** (the hanging wall or upper vein) and the **Main Vein**. At present the Main Vein is characterised by white vuggy quartz with clots and patches of lead and zinc sulphides and the 2B Split Vein is characterised by greyish quartz and high base metal sulphide contents.

The Main Vein encountered in both walls of the winze during sinking was white quartz, commonly intensely hydrothermally brecciated in the west wall, but more regular in the east wall

and containing erratic high grade "black leaders". At the 40m level the vein in the west wall continues downwards but in the east wall has become a stockwork near the point of the vein junction. The main vein is continuing to the east as a stockwork and breccia zone on the 40m level with the breccia containing both wallrock and quartz vein fragments in a dominantly carbonate matrix. The vein has been intersected in holes SDDH-4, 5 & 6, and whilst narrow to the west of the winze, has good gold and silver grades and the potential to redevelop into a mineable width.

Figure 4 shows the cross-section through the winze and three diamond drill holes, and summarizes the relevant assay data.

A high grade shoot in the 2B Split Vein is in the process of being defined by the air vent at the adit level (0.6m @ 3.8g/t Au), the west heading at the 40m level where the last face sample returned 0.9m @ 13.16g/t Ag after drive sample values along a strike of 10m including 0.8m @ 14.76g/t Au, 1.15m @ 6.96 g/t Au and 0.5m @ 16.33 g/t Au , in hole SDDH-2B (1m @ 35.95g/t Au & 541.2g/t Ag), and in hole SDDH-9 (0.65m @ 2.31g/t AU and 34.5g/t Ag). Three individual samples of the broken mineralisation at the face ranged from 21 to 51g/t Au and 300 to 1700g/t Ag. The mineralisation in all cases is lead-zinc-minor copper rich, and is commonly brecciated. SDDH-4, which also intersects the 2B Split Vein but approximately 15 metres west of the winze and 35 metres below it, appears to have located low grade mineralisation (1 metre @ 1.37 g/t Au & 19.8g/t Ag) despite intersecting veining and strong silicification, and possibly highlights the difficulty of obtaining a realistic assessment of vein grades by drilling.

It is also anticipated that driving to the east of the winze will define a high grade shoot in the Main Vein above the 40 metre level as indicated in the east wall of the winze where the average of the channel samples commencing from 6.50m to 40m down winze is 12.92 g/t Au over an average sample width of 1.4 metres (excluding the "black leader" specific assays). Drill hole SDDH-4 intersected 0.95 metres @ 3.20g/t Au and 31.8 g/t Ag of brecciated vein (with base metal rich grey quartz fragments in white silica matrix) approximately 60 metres to the east of the winze, indicating the potential for mineable vein in this area, and above SDDH-3 which intersected narrow, low grade, crushed and overprinted vein material at approximately 125m below surface.

Brecciation and overprinting by carbonate and some barren white quartz has diluted the grade of the quartz vein intersected in some drill holes in the area below the winze, hence the drilling will now step out in both directions at 100m intervals to locate sections of vein where the overprinting has not occurred or is minimal.

The results from the drill holes completed to date are shown in Table I.

(c) Microscopic Examination of the Gold Mineralisation

Microscope examination was undertaken by Perth consultants of drill core samples from the SDDH-2B high grade intersection and from black leader mineralisation from the winze.

The black leader sample chosen was that from the east wall at 19.10m inclined depth (354g/t Au, 5661g/t Ag, 3.38% Cu, 19.09% Pb and 8.44% Zn) that recorded the highest gold assay value to date in order to increase the chance to observe as many grains of gold as possible.

The gold occurs as free sub-microscopic grains, commonly smaller than 10 microns in size, and many containing up to 17% Ag forming a gold-silver alloy called electrum. The grains examined to date occur in close association with the silver telluride, hessite, and with the lead and zinc sulphides, galena and sphalerite, and to a lesser extent with rarer grains of chalcopyrite (copper sulphide). Other tellurides called coloradoite and altaite are also present. Minor gold occurs enclosed in quartz.

Examination of the samples from hole SDDH-2B showed similar associations as those exhibited in the winze samples.

The above observations of free gold particles support earlier preliminary metallurgical test work conducted on samples from the stock pile whereby +90% recovery was achieved in laboratory scale cyanide leach testwork.

TABLE 1 First Hit Vein: Summary of diamond drill hole results >1g/t Au

Hole	North	East	Dip	Azi- mut h	From (m)	To (m)	Width (m)	Au g/t	Ag g/t	Intersection name
SDDH-2B	899,267	616,944	55°	316°	108.5	109.5	1.00	35.95	541.2	2B Split
SDDH-3	899,305	616,977	55°	316°	106.55	106.75	0.20	0.09	4.0	Main Vein
					222.15	222.65	0.50	1.42	27.6	Un-named
SDDH-4	899,318	616,912	59.6°	290°	64.55	65.55	1.0	1.37	19.8	2B Split
					89.50	89.70	0.20	9.74	143.2	Main Vein
SDDH-5	899,344	616,964	54.3°	345°	71.80	72.75	0.95	3.20	31.8	Main Vein
SDDH-6	899,233	616,907	51.9°	317°	119.55	119.90	0.35	1.84	24.24	2B Split
					144.10	144.20	0.10	14.88	200.00	Main Vein
SDDH-7	899,232	616,908	81°	327°				NS		Main Vein
SDDH-9	899,250	616,979	67°	319°	170.50	171.15	0.65	2.31	34.5	2B Split
					176.20	176.40	0.20	5.00	75.0	Main Vein?
SDDH-10	899,198	616,872	49°	319°	152.47	152.65	0.18	4.14	65.00	Main Vein

Notes: Collar co-ordinates represent the national grid adopted at Saugon

Holes SDDH-8, 11 and 12 still in progress.

NS = no values >1g/t Au

Holes SDDH 2B-6 previously announced

Drill Core Analysis

Following geological logging and photography, all drill core selected for assay was split in half by diamond saw and half core was sent to McPhar Geoservices Phils (Inc) (McPhar) in Manila, a NATA registered laboratory. Medusa personnel were present when the samples from SDDH-3 and 4 were bagged and boxed for despatch. Core for these drill holes was BQ size.

Gold was assayed by fire assay of a 30 gram charge with Atomic Absorption Spectrometry (AAS) finish. Copper, lead, zinc and silver were assayed by AAS following a hot acid leach. Arsenic was assayed by Vapor Generation/AAS from the acid leach.

Exploration Winze

The winze has reached a depth of 40m down winze where it was stopped because the vein had steepened and the winze was entering the hanging wall rocks. Development of the Level 1 plat at the 40m level is well advanced with a water dam completed, a water sump at the bottom of the winze almost excavated, and initial driving has been completed to confirm the direction of the future drives to enable the rail set up to be completed.

A projection of all the wall assays obtained from the winze is shown on Figure 5.

The head frame and skip are currently being manufactured and are expected to be installed about the end of July, followed by the commencement of driving in two directions about mid-August.

TABLE 2 Summary of Exploration Winze Channel Sample Results

Table 2.a East wall of winze

Depth (m)	East wall width (m)	Philsaga. g/t Au	McPhar. g/t Au	g/t Ag	% Cu	% Pb	% Zn	Comment
7.5	1.05	10.0						
8.3	1.65	13.80						
9.3	1.4	5.99						
11.0	Grab	8.50						
12.8	0.35	21.96	21.78	276.9	0.33	2.05	0.85	
14.9	0.04	96.32	94.91	1,225.2	0.87	4.61	5.23	Black leader
15.4	1.60	10.43	10.53	147.6	0.12	1.20	1.57	
16.5	1.90	24.20, 40.16	46.93	707.9	0.89	5.35	2.33	
17.6	2.25	11.61, 12.80	15.62	215.6	0.27	1.41	1.65	
	0.08	134.59	202.27	3,792.5	8.43	24.45	6.99	Black leader
18.0	1.90	10.36	11.35	177.8	0.16	0.82	0.82	
19.10	1.20	7.95	9.19	140.8	0.26	0.52	0.37	
	0.05	294.04	354.0	5,661.3	3.38	19.09	8.44	Black leader
19.25	1.25	5.30						
20.35	2.10	15.16						
21.20	2.00	4.72						
22.10	1.95	2.46						
23.50	1.90	7.80						
24.65	2.10	15.66						
25.65	2.15	5.07						
26.70	1.95	2.43						
28.40	1.90	7.80						
29.65	0.35	2.76						
31.05	1.60	1.40						
31.65	0.80	4.37						
32.04	1.30	21.69		222.77				
33.25	0.30	34.65		439.29				Black leader
	1.00	2.90						
34.05	1.00	12.67						
35.05	1.00	7.10						
36.30	0.80	13.13						
37.32	1.00	13.70						
38.20	1.20	9.60						

Table 2.b West wall of winze

Depth (m)	West wall width (m)	Philsaga. g/t Au	McPhar. g/t Au	g/t Ag	% Cu	% Pb	% Zn	Comment
7.5	1.50	6.42						
8.3	1.80	17.35						
9.3	1.70	3.14						
11.0	Grab	5.10						
12.8	0.30	2.67	2.46	51.4	0.13	0.29	0.27	
14.9	0.04	92.32	95.54	1,262.5	1.11	4.72	5.26	Black leader
15.4	0.55	2.00	1.85	26.4	0.10	0.23	0.38	
16.5	0.35	0.47	7.83	171.7	0.12	0.23	0.48	
17.6	0.30	5.00	4.41	53.3	0.15	0.22	0.46	
18.0	0.35	17.96	19.77	258.0	0.21	0.85	0.43	
19.10	0.60	2.76	2.58	41.4	0.03	0.31	0.18	
19.25	0.25	2.43						
20.35	0.80	8.73						
21.20	0.40	5.57						
22.10	0.40	4.23						
23.50	1.45	9.56						
24.55	0.8	8.78						
25.65	0.40	5.57						
26.70	1.40	4.43						
28.40	1.45	9.56						
29.65	1.50	3.60						
31.05	0.50	3.37						
31.65	1.00	3.43						
32.04	0.60	7.78		94.22				
33.25	0.75	3.20						
34.05	0.70	1.50						
35.05	0.30	5.23						
36.30	0.95	2.07						
37.32	0.70	5.83						
38.20	0.30	2.07						
36.30	1.65	1.97						

Note: Results to and including the 36.30m depth were previously announced.

Assaying of winze samples is conducted in the fully equipped assay laboratory located at Philsaga's Co-O treatment plant site. Assaying is by fire assay with AAS finish on 25g charges.

As detailed in Table 2, some winze samples were submitted to McPhar for check assaying.

Exploration of the Mabas and Paradise Ridge Prospects

(a) Mabas

The Mabas prospect is located approximately 3 km northeast of the First Hit Vein. Work has commenced on the Mabas prospect which consists of prospector workings on two north trending, parallel quartz veins hosted by altered diorite. Approximately 300 tonnes of waste material are on surface from previous prospector activities.

The shaft is being dewatered and sampled. The workings are a total of 14m deep with an internal drive at the 6m level. The first two samples from the dewatered 6m level have returned 1.2m wide each at 6g/t Au and 1.2g/t Au. Previous samples of vein material from the dumps returned up to 13 g/t Au in early 2003. Dewatering to the 14m level is in progress.

The orientation of the Mabas prospect is similar to the Oriental Fault which truncates mineralisation on the east end of the Co-O vein system to the north, and which hosts the Sinugang mineralisation to the north of Co-O.

(b) Paradise Ridge

The Paradise Ridge prospect is located approximately 1.5 km north of the First Hit Vein. Examination of the Paradise Ridge prospect identified a prominent NNE trending ridge at least 500 metres long and consisting of intensely silicified diorite over estimated widths to 20-30 metres. Some of the silicification also contains narrow quartz veining, common iron oxides after sulphides and disseminated barite. Barite is an exotic mineral commonly associated with epithermal gold mineralisation, as is the case at the First Hit Vein and Co-O. The surface expressions suggest that the outcrops are representative of a high level or uneroded epithermal system. The outcrops are at a higher topographic level than the First Hit Vein.

A program of outcrop sampling has commenced and will be completed as soon as possible. Results from the first 8 samples have been received returning up to 0.52g/t Au. Continuing encouraging gold results will lead immediately to deep diamond drilling. The topography is very favourable for access by adits with the possibility of significant backs for mining being available above adit level once mineralisation is established.

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.

Terms of the Agreement

Medusa has signed a Memorandum of Understanding (MOU) with Dizon Copper & Silver Mines Inc. (DCSMI) under which the Company has six months or longer, depending on satisfaction of certain conditions precedent, in which to obtain sufficient representative samples from the mill tailings on which to undertake preliminary metallurgical test work to determine the viability of treating the mill tailings to recover primarily the gold and possibly silver and copper. This phase of work will be funded solely by Medusa.

Upon positive results from the test work, DCSMI and Medusa will replace the MOU with a Mines Operating Agreement (MOA) under which DCSMI and Medusa will form a joint venture with the initial equities being DCSMI 40% and Medusa 60%. Under the terms of the joint venture, should DCSMI elect to only partly contribute to the following expenditures then its equity will reduce pro-rata. If DCSMI elect not to contribute or their contribution results in an equity of less than 10% then DCSMI will reduce to a 3% Net Smelter Return royalty.

Project Background

The Dizon Project is located northwest of Manila and approximately 28 kilometres by all weather gravel road from Olongapo City at Subic Bay.

The Dizon Porphyry Copper-Gold Mine operated as a 50:50 joint venture between DCSMI and Benguet Consolidated Inc (Benguet) between late 1979 and 1997 with Benguet as the operator.

The initial mining reserve can be found in Malihan, 1987. The open pit mine finally closed in 1997 after mining 110,032,754 tonnes of ore and recovering 749,755,457 pounds (341,388 tonnes) of copper and 1,906,754 ounces of gold (Benguet Consolidated Inc website). Closure was premature with ore remaining in the pit floor due to a wall collapse on the southeastern portion of the pit. Benguet subsequently withdrew from the joint venture.

It should be noted that the Dizon porphyry copper-gold mine was the richest in gold that has been mined in the Philippines to date.

Mill Tailings

The mill tailings are impounded behind a large earthwall dam within a steeply walled valley approximately 1 kilometre from the open pit. The tailings are estimated to be approximately 100 to 125m deep at their deepest point.

Discussions with former metallurgists who worked at the mine have highlighted the fact that Benguet conducted preliminary work on the tailings to investigate the recovery of additional gold. Using gravity methods, Benguet produced pyritic concentrates that contained approximately 15-25g/t Au, 15-25g/t Ag and 2-3% Cu, along with magnetite. Roasting and pressure oxidation methods were then applied to recover the metals but were considered unfeasible at the time, partly due to the intent to transport the concentrate to Germany.

The Company is investigating alternative methods of treating pyritic concentrates should it be successful in producing concentrates at economic grades.

Work Program and Management

A program of approximately 500 metres of core drilling has been planned and costed which should result in sufficient tailings material being recovered to conduct initial metallurgical test work. A drilling contract has been let with drilling estimated to start late-July. As the surface of the tailings has become wet and partly water covered, the drilling contractor is making preparations for drilling from floating barges where necessary.

Medusa's management time of the initial phases of the drilling program is minimal. The program has required initial management input to set up, following which a contract geologist will supervise the drilling and sample collection.

The drill samples will be shipped to Perth for a specifically designed metallurgical test work program. The Company has gained valuable experience in dealing with similar material during the recent testing of the Queen River alluvials that is anticipated will contribute to an effective metallurgical test work program.

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.

Project Background

The Marian Gold Mine is located in the Isabella Province northeast of Manila and adjacent to the City of Santiago. Road access to the project from Manila is by approximately 200 kilometres of national highway, thence by 5-6kms of all weather gravel road to the minesite, totalling 5-6 hours of driving.

The mine is contained within a Mining and Production Sharing Agreement application totalling 6,350 hectares and numbered APSA II-000021 (APSA).

The Marian Gold Mine was discovered in the 1970s during a regional exploration program for porphyry copper mineralisation. Exploration success resulted with the discovery of the small and well drilled monzonite hosted Marian porphyry copper deposit and a separate gold-rich quartz vein system approximately 500m to the northwest of the porphyry deposit.

The main veins discovered and mined to date include the Annabelle, Diana and Brown Veins, all of which are hosted by syenite and tinguaita intrusive rocks (Fig.6).

The veins form a northeast-trending, parallel vein system over a strike length of over 1km, with the vein system appearing to be open along strike, particularly to the north.

The mesothermal-epithermal style veins pinch and swell with widths ranging from 0.5m to approximately 3m and with high gold grades generally correlating with high surface lead values as shown in Figure 6.

Previous exploration within the immediate area has located numerous adjacent veins on which follow-up exploration appears justified.

The Agreements

Medusa has signed a Memorandum of Understanding (MOU) with Vulcan Industrial and Mining Corporation that provides Medusa with a six (6) month Option Period in which to undertake assessment of the project, and if satisfied, exercise its Option to enter into a Mines Operating Agreement (MOA).

(a) Memorandum of Understanding

Subject to Medusa's receipt of an independent consultant's report verifying Vulcan's ownership of the Marian APSA, and that the tenement can proceed to granting, the MOU provides for Medusa to:

- Pay Vulcan a signing fee of US\$10,000 on provision by Vulcan of a tenement consultant's due diligence report which demonstrates that the tenement can proceed to granting;
- Conduct technical due diligence investigations over a six month Option Period or longer depending on satisfaction of certain precedents;
- Plan the future study of the project by both parties; and
- Convert the MOU into a Mines Operating Agreement (MOA) should the investigation results be favourable.

(b) Mines Operating Agreement

The MOA provides for:

- Formation of a joint venture between the parties and which will be managed by Medusa whereby each party has an initial 50% equity in the Marian Project;
- Medusa as operator to conduct, over a two year period and funded by both parties:
 - ◆ Mine dewatering activities
 - ◆ Underground and surface exploration of the project area
 - ◆ Metallurgical testwork and process design
 - ◆ Feasibility Study or Studies suitable for project finance and implementation of the project.

Vulcan then has the right to contribute equally to all expenditure or dilute their equity on a pro-rata basis. In the event that Vulcan elects to dilute and Vulcan's pro-rata equity has reduced to less than 10%, Vulcan will be entitled to receive a 3% Net Smelter Return royalty.

Mining Summary

After commencing operation in 1978, the mine closed in 1984 due to the lack of capital to replace the shaft winding gear and a reduced gold price. Since 1984 and after sale of the mine equipment and facilities, Vulcan has kept the project on a care and maintenance basis. During the period of operation, Vulcan's records show the mine to have treated 264,000 tonnes containing 63,600 ounces of gold at an average mine head grade of 7.5 g/t Au.

Medusa's discussions with former employees and examination of plans have indicated that ore dilution resulted from the less than selective mining practices applied to the narrow gold rich quartz veins. The following practices and parameters have been identified:

- The total strike length of the workings is approximately 1.2km;
- Approximately 7km of underground development on seven levels has been completed with the bottom level at 241m below surface;
- Main access is a three compartment vertical shaft to 241m that is concrete lined to the first level at 41m and a smaller inclined shaft from surface that was used for secondary access;

- All mining was undertaken to minimum mining width of 1m resulting in considerable dilution where the gold-rich quartz veins were less than 1m wide, although some in-stope hand sorting was undertaken with the waste rock used for stope fill;
- Where there was alteration peripheral to the quartz veins, in most cases the alteration was mined despite there having been no separate sampling undertaken of the veins and alteration material;
- Higher grade gold values were generally found within shoots between 60 and 100m long;
- Most of the higher grade shoots appear to be open at depth and below the current working levels;
- Sampling was commonly conducted over a minimum sample width of 1m in keeping with the designated mining width, irrespective of the vein width and the veins were rarely selectively sampled;
- A significant proportion of the ore treated through the mill was development ore;
- Minimum mined grade for processing was 4 g/t Au;
- The miners were paid a bonus on tonnage produced, rather than contained gold;
- Minimal underground drilling appears to have been undertaken to explore for new parallel veins and at depth.

In the opinion of Medusa and subject to data collation and delineation drilling, the Marian veins have not been closed off along strike or to depth. The potential exists to apply selective sampling and mining practices to achieve the mining of higher grades of gold ore and the recovery of gold at lower unit costs.

Proposed Work Program

(a) Under the Memorandum of Understanding

During the six month Option Period applicable to the MOU, the Company will undertake data collation, validation and entry to a database of all the available geology, topography and the level and stope assays.

All data entry work is being carried out by a contracting company in Manila.

This work will enable the construction of a three dimensional model of the deposit depicting the mine workings and the distribution of the mineralisation.

The work is expected to facilitate an estimate of the remaining resources to JORC code standards and identify the potential for the discovery and exploitation of additional mineralisation not yet accessed from either the underground workings or the surface. The cost of this work will be funded solely by Medusa with an expected expenditure of approximately \$50,000.

(b) Under the Joint Venture Mines Operating Agreement

Following the Option Period and during the two year period of joint investigation, the activities which are likely to be undertaken and funded by both parties are:

- De-watering of the workings;
- Underground sampling and verification of remnant ore;
- Underground drilling and possibly development to add to the resource base;
- Metallurgical testwork and process design;
- Pre-feasibility studies, and if positive followed by;
- Feasibility studies; then
- Commencement of development.

As the previous milling facilities have been removed, sufficient ore will need to be outlined to justify the construction of a new mill and associated facilities.

Through our joint venture partner in the Saugon Project, Medusa has access to selective narrow vein mining expertise within the Philippines, and together with Medusa's project

management expertise, these two factors are perceived as being the keys to successful exploitation of the Marian Project.

MONTACUTE COPPER PROJECT (M5889 - 100%, EL 3061 - 95%)

The Montacute Project is located east of Adelaide and covers the old Montacute Copper Mine in Mining Lease 5889 and Exploration Licence 3061.

Since commencing work in the area in 2004, a small group of residents have objected to Medusa's exploration activities, including lodging complaints against the right of entry to sections of the Exploration Licence. Transfer of the ML to Medusa has still not occurred since lodging transfer documents in late December 2003. In addition, other projects in the region which Medusa was investigating to form a group of projects have subsequently become unavailable.

Consequently, the Company has decided to commence proceedings to relinquish the EL and seek to maximise its return from the Mining Lease.

BRAEMORE PROJECT

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 on the following terms:

- The exercise date of the Option is 1st February 2005
- Payment of a \$10,000 option fee to Medusa
- Teck will undertake a program with a minimum of 2000m of RAB drilling
- Teck will purchase the project for \$150,000 cash should they exercise the Option
- On production of more than 500,000 ounces, Medusa will be paid a 1% gross royalty to a maximum payout of A\$1,000,000

KURNALPI PROJECT

As advised in the ASX release of 26 May 2004, the Company has suspended all activities on the Kurnalpi Project pending the outcome of a submission to the Minister for Trade and Development by the plaintiff objecting to the Warden's decision in favour of the vendor. Submissions from both parties were required to be submitted to the Minister by June 22, 2004.

ANTI DAM PROJECT

Detailed photo mapping was carried out on the project in conjunction with the purchase of multi client aeromagnetic data and interpretation. The work has identified a major north-trending structure and northeast-trending mineralising splay structures which appear to be the controls for an extensive envelope of carbonate (sericite) alteration. The Colour Dam open pit and resource sits at the southern end of the extensive alteration zone.

The known mineralisation is hosted by a wedge shaped belt of doleritic and basaltic mafic rocks which are terminated south of the Colour Dam open pit and increasing in width to the north. Both the eastern and western sides of the mafics are underlain by felsic rocks, commonly quartz eye tuffs, with minor possible intrusive felsic rocks. Thin mafic horizons occur in the felsic rocks.

Subsequent to the end of June, the Company completed the purchase PLs 28/993 and 994 which extend the strike length to the north of the structural and alteration zone identified in the Anti Dam mapping. The purchase price was \$20,000 and they are now included in the Anti Dam project under the same terms and conditions as were detailed in Medusa's prospectus for the purchase of the Anti Dam Project.

OTHER PROJECTS

As advised in the ASX announcement of 11 June 2004, the Company has elected not to exercise an Option to Purchase the **King and Queen River** projects after undertaking detailed metallurgical test work and resource estimation on the Queen River sediments.

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.

CORPORATE

As advised to the ASX on 29 June and 9 July 2004, the Company has raised \$961,875 by the placement of 2,375,000 shares at \$0.40 each and 1,187,500 options with a \$0.20 exercise price at a cost of \$0.01 per option to sophisticated investors.

REFERENCE

Malihan, Tomas, D., 1987:	The Geology, Alteration and Mineralisation of the Gold-rich Porphyry Copper Mine in Western Central Luzon with Notes on its regional Geological and Tectonic Setting. Presented in "Gold 87 in the Philippines Setting" Seminar held in Manila in December, 1987.
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FURTHER INFORMATION

For further information contact the undersigned on 618-93670601 or by email to 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

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.

FIG 1

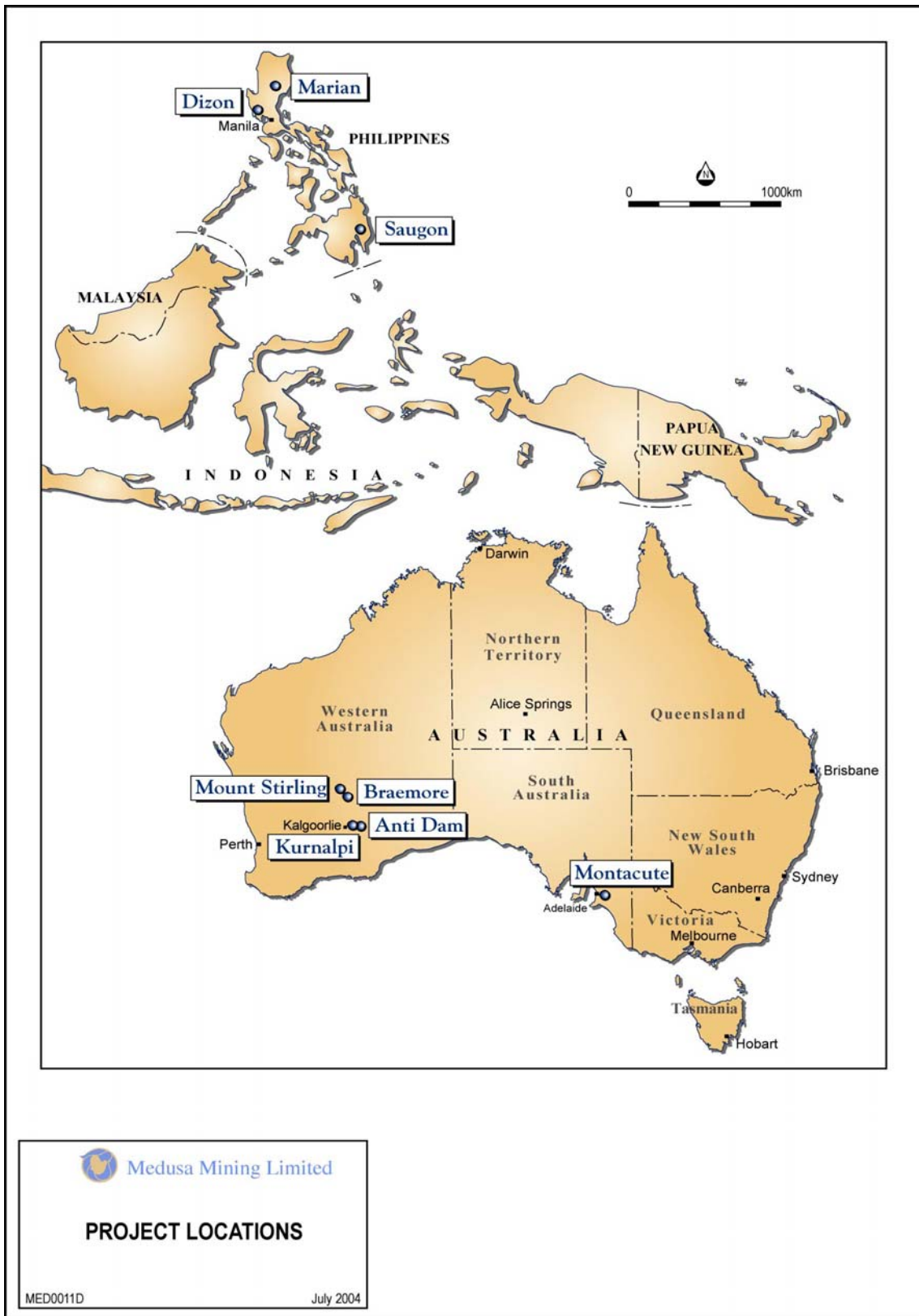


FIG 2

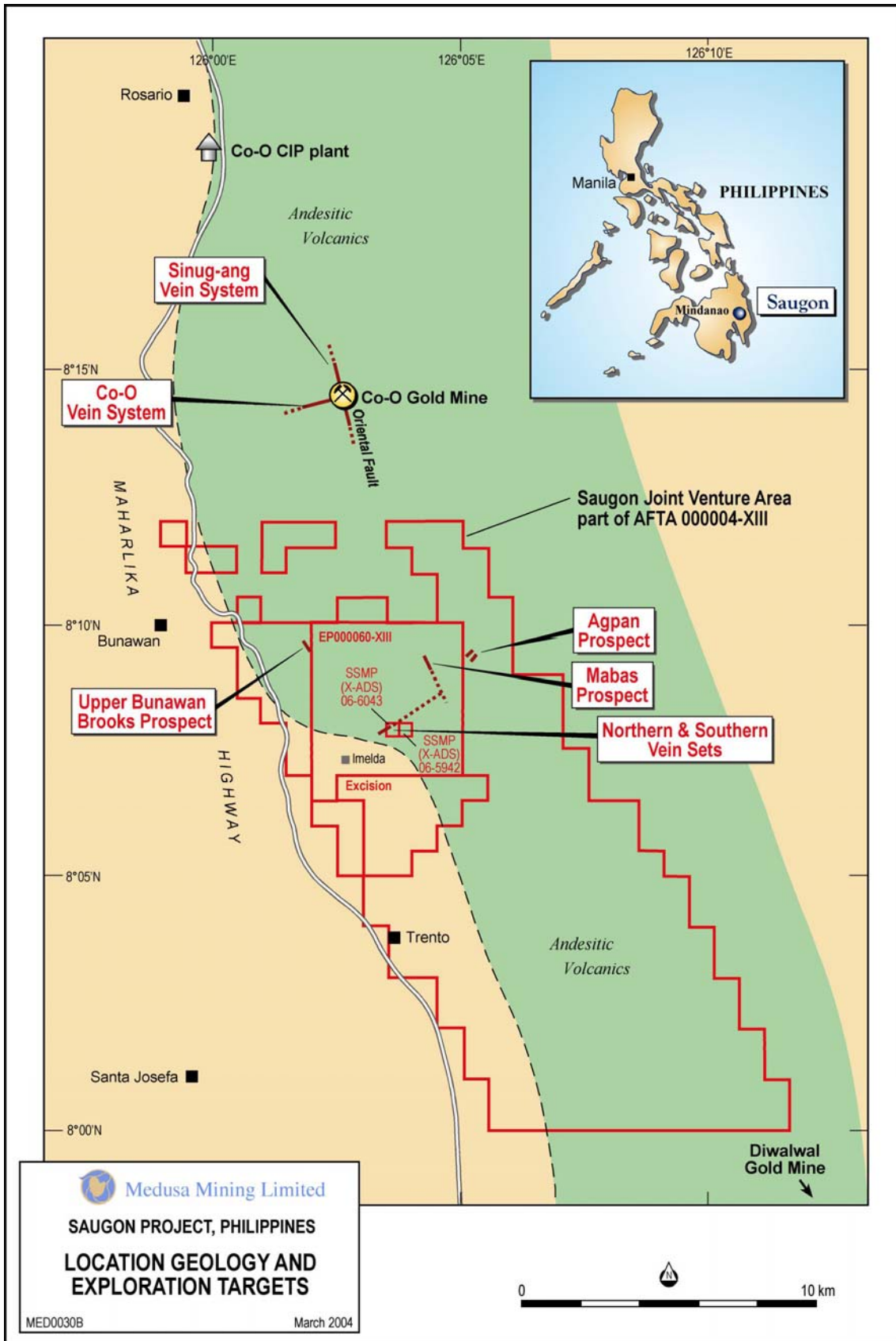


FIG 3

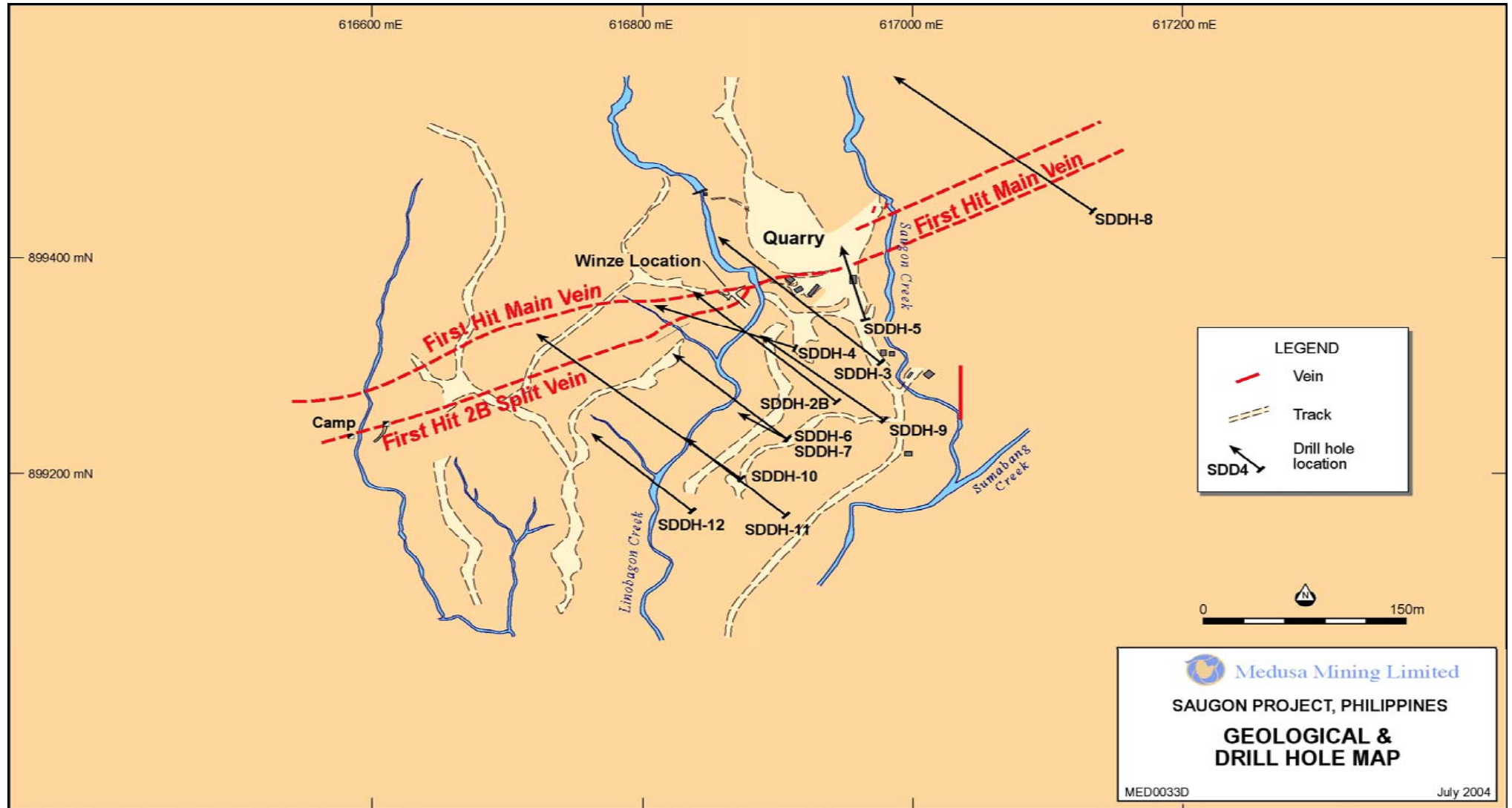


FIG 4

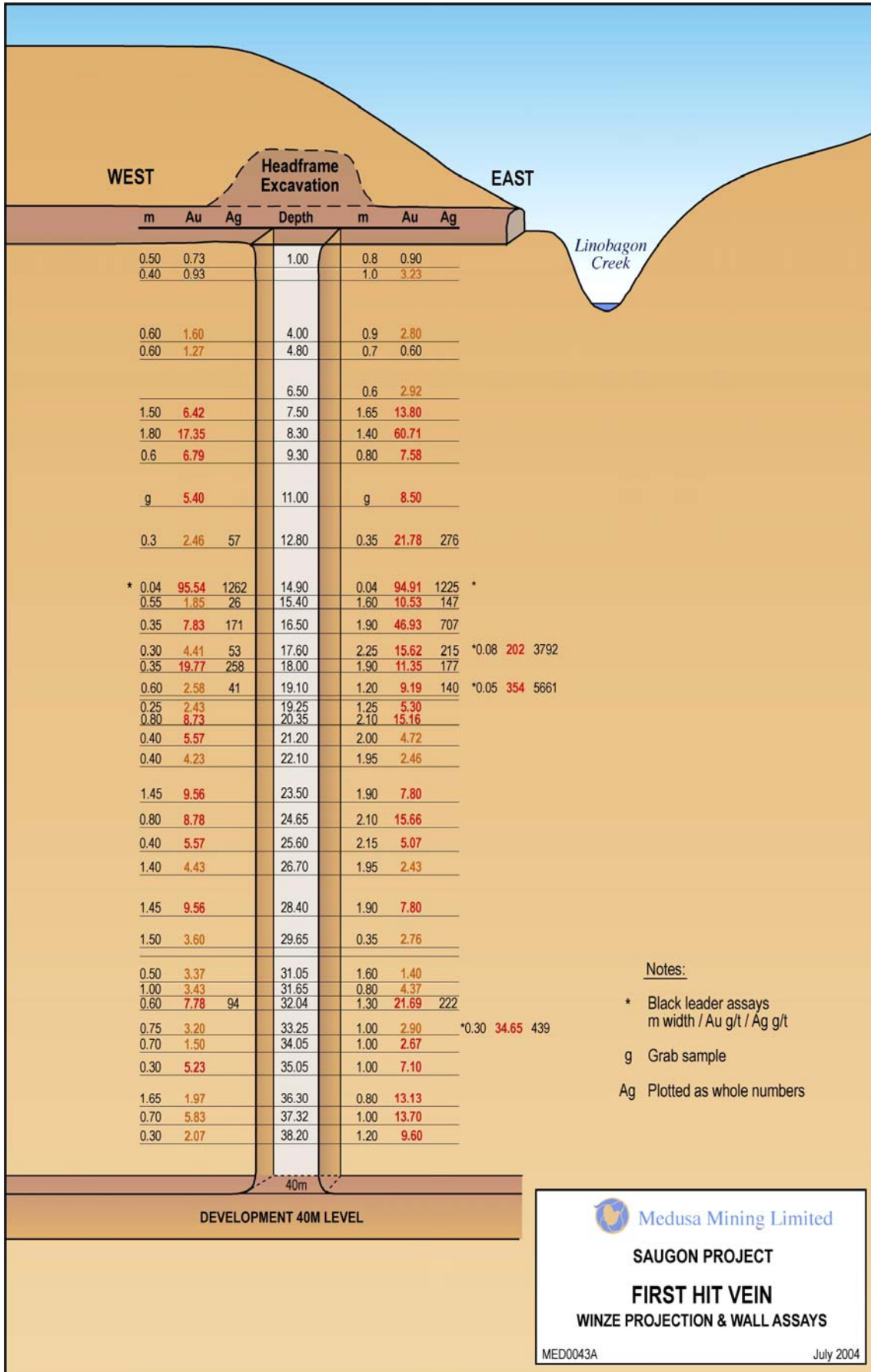


FIG 5

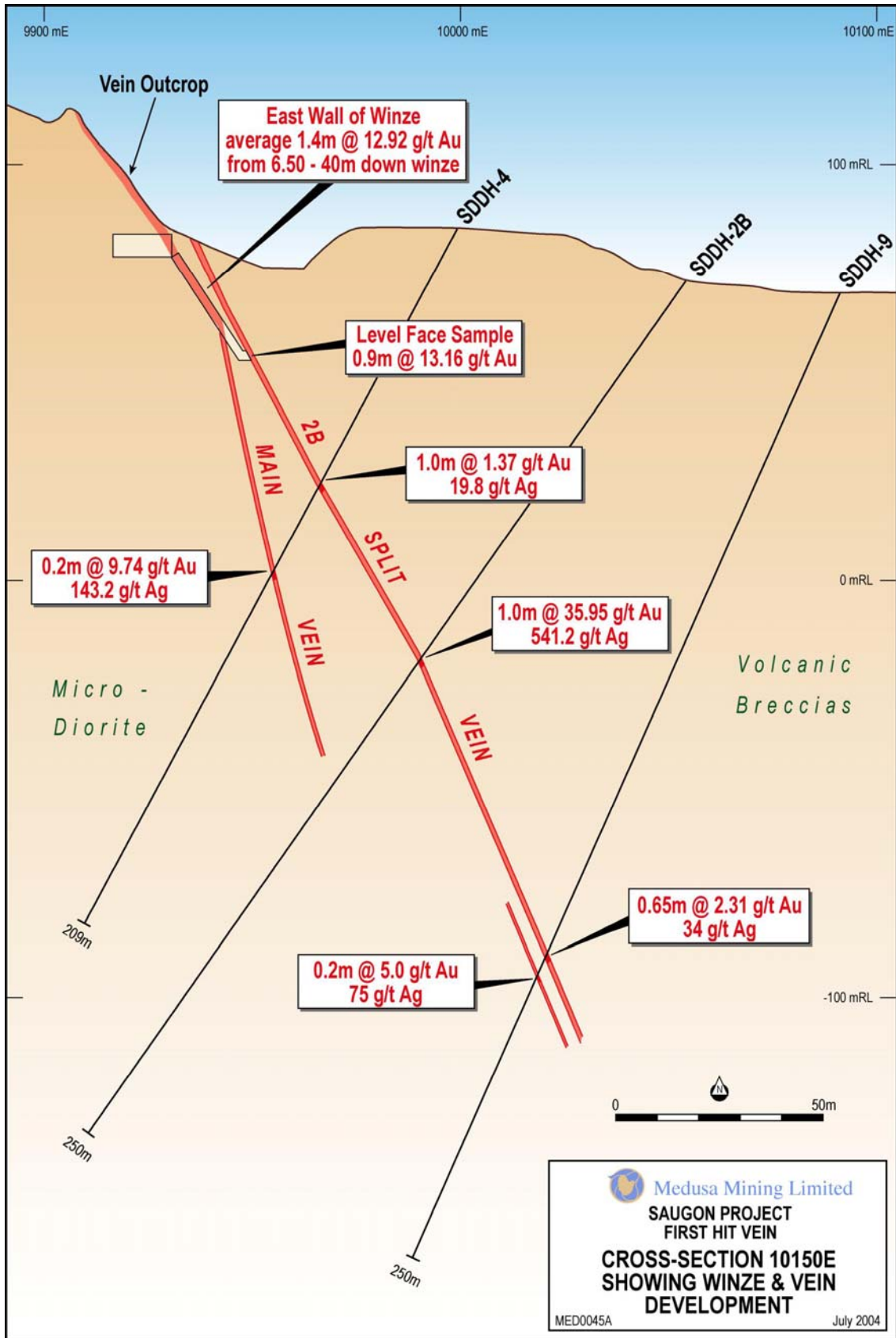
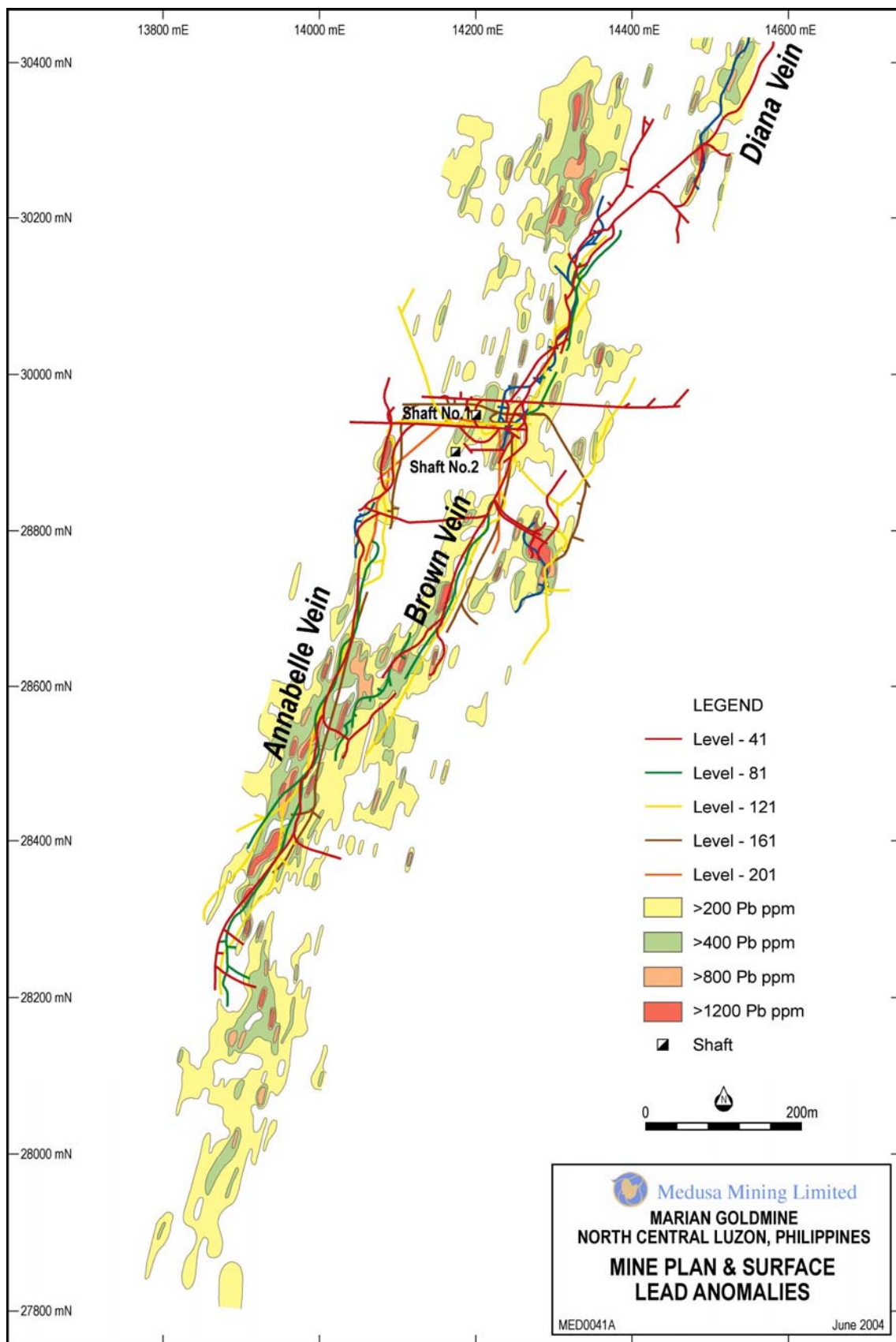


FIG 6





MEDUSA MINING LIMITED
 ABN 099 377 849
Consolidated Statement of Cash Flows
For Quarter Ended 30 June 2004

Note: Medusa listed on the ASX on 23 December 2003. The Cash Flow Statement is for the nine months ended 30 June 2004.

	Current Quarter \$A'000	Year to Date (9 months) \$A'000
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
1.1		
1.2		
	(818)	(1,363)
	-	-
	-	-
	(114)	(224)
1.3	-	-
1.4	27	50
1.5	-	-
1.6	(6)	(24)
1.7	-	-
	Net Operating Cash Flows	Net Operating Cash Flows
	(911)	(1,561)
CASH FLOWS RELATED TO INVESTING ACTIVITIES		
1.8		
	-	(56)
	-	-
	-	(6)
1.9		
	-	-
	-	-
	-	-
1.10	-	-
1.11	-	-
1.12	-	-
	Net investing cash flows	Net investing cash flows
	-	(62)
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
1.13	488	3,197
1.14	-	-
1.15	-	-
1.16	(10)	(302)
	Net financing cash flows	Net financing cash flows
	478	2,895
	NET INCREASE (DECREASE) IN CASH HELD	NET INCREASE (DECREASE) IN CASH HELD
	(433)	1,272
1.17	2,145	440
1.18	-	-
1.19	Cash at end of quarter	Cash at end of quarter
	1,712	1,712

PAYMENTS TO DIRECTORS OF THE ENTITY AND ASSOCIATES OF THE DIRECTORS
PAYMENTS TO RELATED ENTITIES OF THE ENTITY AND ASSOCIATES OF THE RELATED ENTITIES

		Current Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	93
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions: Salaries, Management and Consulting fees paid to Directors of the Company	-

NON-CASH FINANCING AND INVESTING ACTIVITIES

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
-
- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
-

FINANCING FACILITIES AVAILABLE

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

		\$A'000
4.1	Exploration and evaluation	670
4.2	Development	-
	Total	670

RECONCILIATION OF CASH

	Current quarter \$A'000	Previous quarter \$A'000
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		
5.1	221	636
5.2	1,491	1,509
5.3	-	-
5.4	-	-
	1,712	2,145
	Total: cash at end of quarter (item 1.19)	

CHANGES IN INTERESTS IN MINING TENEMENTS

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed				
6.2	Interests in mining tenements acquired or increased				

ISSUED AND QUOTED SECURITIES AT END OF CURRENT QUARTER

		Total Number	Number Quoted	Issue Price Per Security (Cents)	Amount Paid Up Per Security (Cents)
7.1	Ordinary securities	35,578,600	35,578,600	Various	20
7.2	Issued during quarter	1,150,000	1150000	40	20
		3,000	3,000	20	20
7.3	Options Listed	17,784,793	17,784,793	Exercise price	Expiry date
	Options Unlisted	1,600,000	-	20 cents	31/01/07
7.4	Issued during quarter	17,787,793	17,787,793	20 cents	31/01/07
7.5	Exercised during quarter	3,000	-	20 cents	-
7.6	Expired during quarter	-	-	-	-

COMPLIANCE STATEMENT

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX \(see note 4\)](#).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date:
(Company Secretary)

Print name: **B ACUTT**.....