



Mining Limited
ACN: 099 377 849

MEDUSA MINING LIMITED
PO Box 860
Canning Bridge WA 6153
Phone: 618-93670601
Fax: 618-93670602

Email: admin@medusamining.com.au
Web: www.medusamining.com.au

22 December 2004

The Manager
Australian Stock Exchange Limited
Level 4, 20 Bridge St
Sydney, NSW.

Dear Sir/Madam,

MEDUSA FINALISES TERMS OF ACQUIRING PHILIPPINES JV PARTNER

Further to the announcement of 26 October, the Company advises that it has signed a Letter Agreement with the principal shareholders ("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.

The key terms of the acquisition are:

- the issue of 25,000,000 (twenty five million) fully paid shares in Medusa Mining Ltd to the Shareholders after the completion of capital raisings;
- a total of A\$14,000,000 (approximately US\$10,500,000) in cash. In addition Medusa will provide A\$1,000,000 in each of the first and second years for contractors 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 the Oriental Fault limited to a maximum of US\$10,000,000;
- a 10% share of any cash or shares received by Medusa in the event that a large deposit is discovered and subsequently acquired by a major company;
- the current Philsaga management will continue to manage the project.

The assets of Philsaga include:

- the Co-O Mine Central Vein resources as below using an 8g/t Au lower cut-off grade and an upper cut-off grade of 200g/t Au:

Category	Tonnes	Au g/t	Au Oz
Indicated Resource	110,000	32.2	114,000
Inferred Resource	142,000	27.8	127,000
TOTAL	252,000	29.7	241,000

- the Co-O CIP plant with a rated capacity of 550 tpd and situated approximately 12 km north of the mine.
- gold production at cash costs of less than US\$200/oz;
- 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;
- a large tenement holding comprising approximately 537 km² (53,700 hectares) over an approximate strike length of 70 km (or 20% of the strike length of Eastern Mindanao) of the unexplored but highly mineralised and prospective Diwata Range that has had no systematic 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 Continental Goldfields Ltd is about to commence spending US\$1.5M to earn a 50% interest;
- the Bunawan joint venture where Magnum Gold Ltd will earn a 50% interest through the expenditure of US\$1.5M.

1. BACKGROUND INFORMATION

Philsaga's assets are located in central eastern Mindanao in the Republic of the Philippines (Figure 1) and are accessed by the national highway via an approximate 2.5 hour drive north of Davao City. 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 km² of tenements which cover approximately 70 km of strike length (Figure 2).

Additional background information is contained in the announcement of 26 October, 2004.

2. THE PHILSAGA ASSETS

2.1 The Co-O Gold Mine

The Co-O underground mine (Figure 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.

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

2.2 The Gold Resources

Data from the previous and current operations of the Co-O mine have been incorporated into a digital database and Cube Consultants Pty Ltd of Perth, Western Australia have modelled the Central Vein which is currently the main focus of operations. Table I summarises the resource calculations.

Table I: Gold Resources for the Central Vein, Co-O mine

Category	Tonnes	Au g/t	Au Oz
Indicated Resource	110,000	32.2	114,000
Inferred Resource	142,000	27.8	127,000
TOTAL	252,000	29.7	241,000

Composite assay data was analysed both statistically and geostatistically to determine appropriate top cuts and interpolation strategies. The resource has been estimated using Ordinary Kriging within a geologically defined domain and using a technique appropriate for this style of mineralisation. Tonnage factors were assigned on the basis of geology. Resource figures are reported above an 8.0 g/t Au gold minimum block grade and with an assay top cut grade of 200 g/t Au.

The Indicated resources are located within a 40 metre envelope extending from the mine workings and assay data areas. Inferred resources are located within an envelope extending up to 30 metres beyond the Indicated resources and also include some remnant material within partly stoped areas.

The distribution of the gold within the Central Vein is shown on the longitudinal projection in Figure 4 and Figure 5 shows a typical cross-section through the vein system.

Other productive veins are present in the mine and which are sources of ore but these have not been modelled in detail to date.

Cube Consulting is an independent Perth based resource consulting firm specialising in geological modeling, resource estimation and information technology

2.2 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 approximately 20 % of the strike length of the highly prospective Diwata Range.

Philsaga 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.

Philsaga has also negotiated a second joint venture with Magnum Gold Ltd on similar terms and conditions to explore the Bunawan Project.

2.3 Infrastructure and facilities

The Co-O Mine is independent of the mill site in that it is separated by a 12 km 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 550 tpd. Minor alterations are required to increase the throughput to 700 tpd and further modifications could maximise the crushing and grinding capacity at 1,000 to 1,100 tpd.

Power to the CIP plant is supplied from the local grid with the high tension power line located approximately 150 metres 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.

3. BENEFITS OF THE ACQUISITION FOR MEDUSA

Completion of the acquisition would give Medusa the following benefits:

- control of a profitable high grade gold mining operation;
- access to an immediate cash flow from an initial production of approximately 25,000 ounces on an annualised basis, produced at cash costs of less than US\$200/oz;
- production is planned to increase in about mid 2005 with the commissioning of the additional Co-O Mine 3150m haulage level to approximately 35,000 to 40,000 ounces on an annualised basis, disregarding contributions from other production sites;
- 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 and two other joint ventures with combined expenditure commitments of US\$3M;
- a seamless transition from advanced explorer with anticipated initial production in the first quarter of 2005 to a producer with an increasing production profile.

4. TIMING AND COMPLETION

The parties are now proceeding to formal documentation and anticipate the completion of the transaction following a shareholders meeting in about mid-to-late March 2005. Completion of matters regarding final asset lists and the resolution of certain circumstances involving some Philsaga tenements are expected prior to settlement. No board changes are anticipated as a result of the transaction.

Details of the fund raising will be provided when available.

The acquisition is subject to standard conditions precedent including necessary statutory and regulatory approvals and completion of a capital raising to fund the transaction.

5. SUMMARY OF INDICATIVE TIMETABLE

The timing below is indicative only. The Directors may vary the timetable without prior notice with possible consequential effects on the other dates.

Month	Event
Jan 2005	- Completion of due diligence issues
	- Decision on funding arrangements
	- Completion of formal documentation
Feb 2005	- Finalisation of notice of meeting of shareholders and despatch to shareholders
	- Finalisation of prospectus for fund raising
Mar 2005	- Fund raising
	- Shareholder meeting and approval of transaction (*)
	- Completion of the transaction

(*) In accordance with ASX Listing Rule 11.1.3, following the approval of the proposed transaction by shareholders in March 2005, trading on the Company's securities will be suspended until the requirements of Chapters 1 and 2 of the ASX Listing Rules have been satisfied.

The pro-forma consolidated statement of financial position and capital structure are attached.

Yours faithfully,

Geoff Davis.
Managing Director.

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

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 1999 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 modeling, resource estimation and Information Technology.

Medusa Mining Limited
Un-audited Pro-forma Consolidated Statement of Financial Position
as at 30 September 2004

An un-audited pro-forma consolidated statement of financial position of Medusa Mining Limited, taking into account the acquisition of the Co-O mine and associated assets as at 30 September 2004.

Description	Un-audited	Adjustments	Pro-forma
<u>CURRENT ASSETS</u>			
Cash	1,933,743	-	1,933,743
Receivables	60,564	-	60,564
Prepayments	27,366	-	27,366
Total assets	2,021,673	-	2,021,673
<u>NON-CURRENT ASSETS</u>			
Acquisition of Co-O mine	-	28,750,000	28,750,000
Property, plant & equipment	49,406	-	49,406
Mineral properties	2,192,666	-	2,192,666
Total non-current assets	2,242,072	28,750,000	30,992,072
TOTAL ASSETS	4,263,745	28,750,000	33,013,745
<u>CURRENT LIABILITIES</u>			
Payables	165,230	-	165,230
Provisions	2,515	-	2,515
Total current liabilities	167,745	-	167,745
<u>NON-CURRENT LIABILITIES</u>			
Payables	-	5,000,000	5,000,000
Total non-current liabilities	-	5,000,000	5,000,000
TOTAL LIABILITIES	167,745	5,000,000	5,167,745
NET ASSETS	4,096,000	23,750,000	27,846,000
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	4,936,854	23,750,000	28,686,854
Retained profit & loss	(840,854)	-	(840,854)
TOTAL SHAREHOLDERS' EQUITY	4,096,000	23,750,000	27,846,000

The pro-forma consolidated statement of financial position assumes:

1. The acquisition cost of the Co-O mine and associated assets at a cost of \$28.75 million;
2. Issue of 25,000,000 vendor shares at an assumed price of \$0.55;
3. Proposed equity raising of \$10 million via a placement of 18,181,818 shares at an issue price of \$0.55; and
4. Proposed borrowings of \$5,000,000 via the issue of a convertible note/preference shares.

The Company wish to advise that the details on fund raising have not been finalised and that the mixture of debt and equity as reported in the pro-forma reports above is subject to change.

Medusa Mining Limited
Pro-forma Capital Structure

Description	Current capital structure	Proposed transaction	Pro-forma capital structure
<u>Ordinary shares</u>			
Issued	39,564,842	-	39,564,842
Vendor shares	-	25,000,000	25,000,000
Placement	-	18,181,818	18,181,818
Total ordinary shares	39,564,842	43,181,818	82,746,660
<u>Options</u>			
<u>Listed</u>			
- \$0.20 options expiring 31 Jan 2007	20,660,793	-	20,660,793
<u>Unlisted</u>			
- \$0.6072 options expiring 31 Jan 2007	225,000	-	225,000
- \$0.4334 options expiring 26 Jun 2010	600,000	-	600,000
Total options	21,485,793	-	21,485,793

The Company wish to advise that the details on fund raising have not been finalised and that the mixture of debt and equity as reported in the pro-forma reports above is subject to change.



Figure 1.

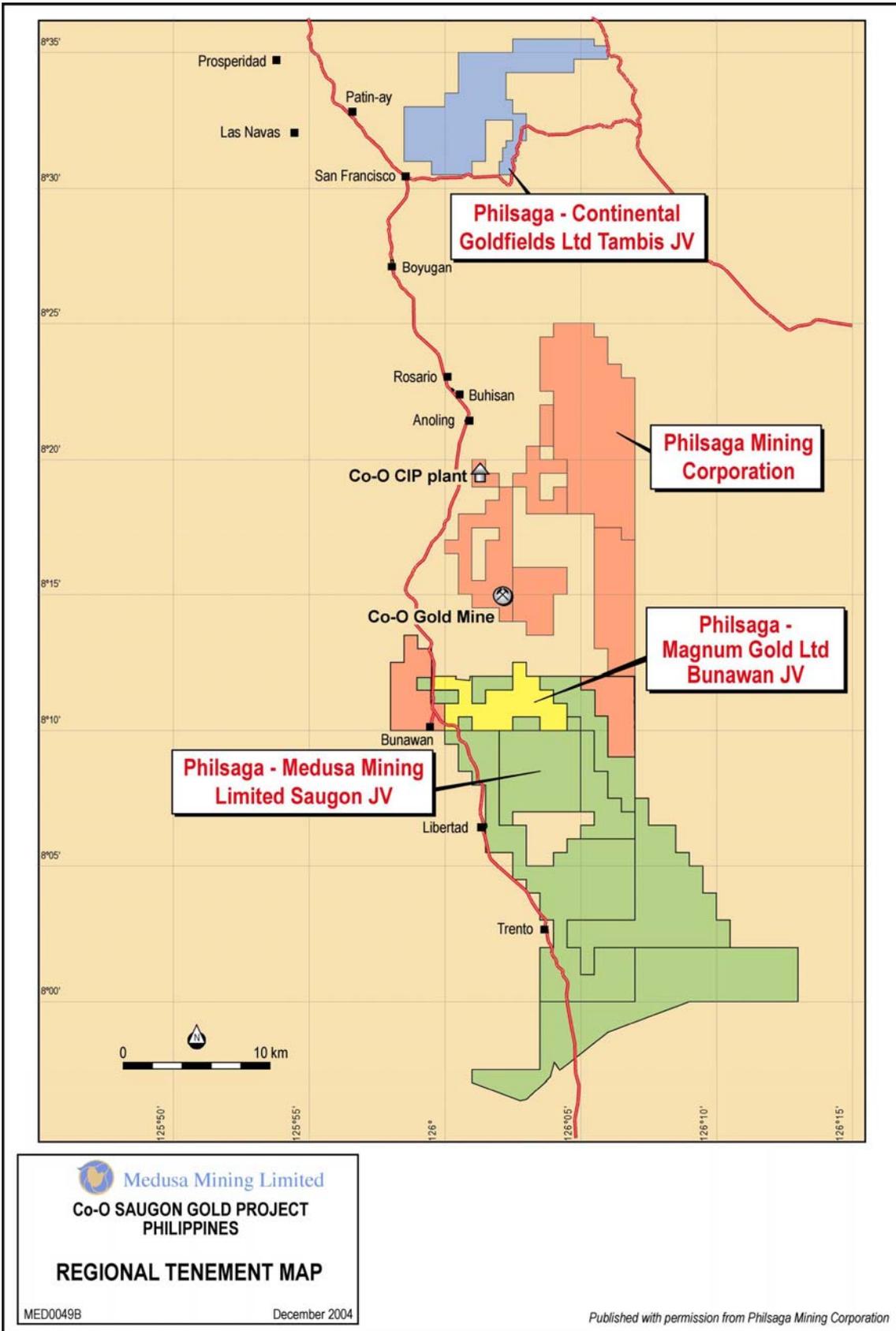


Figure 2.

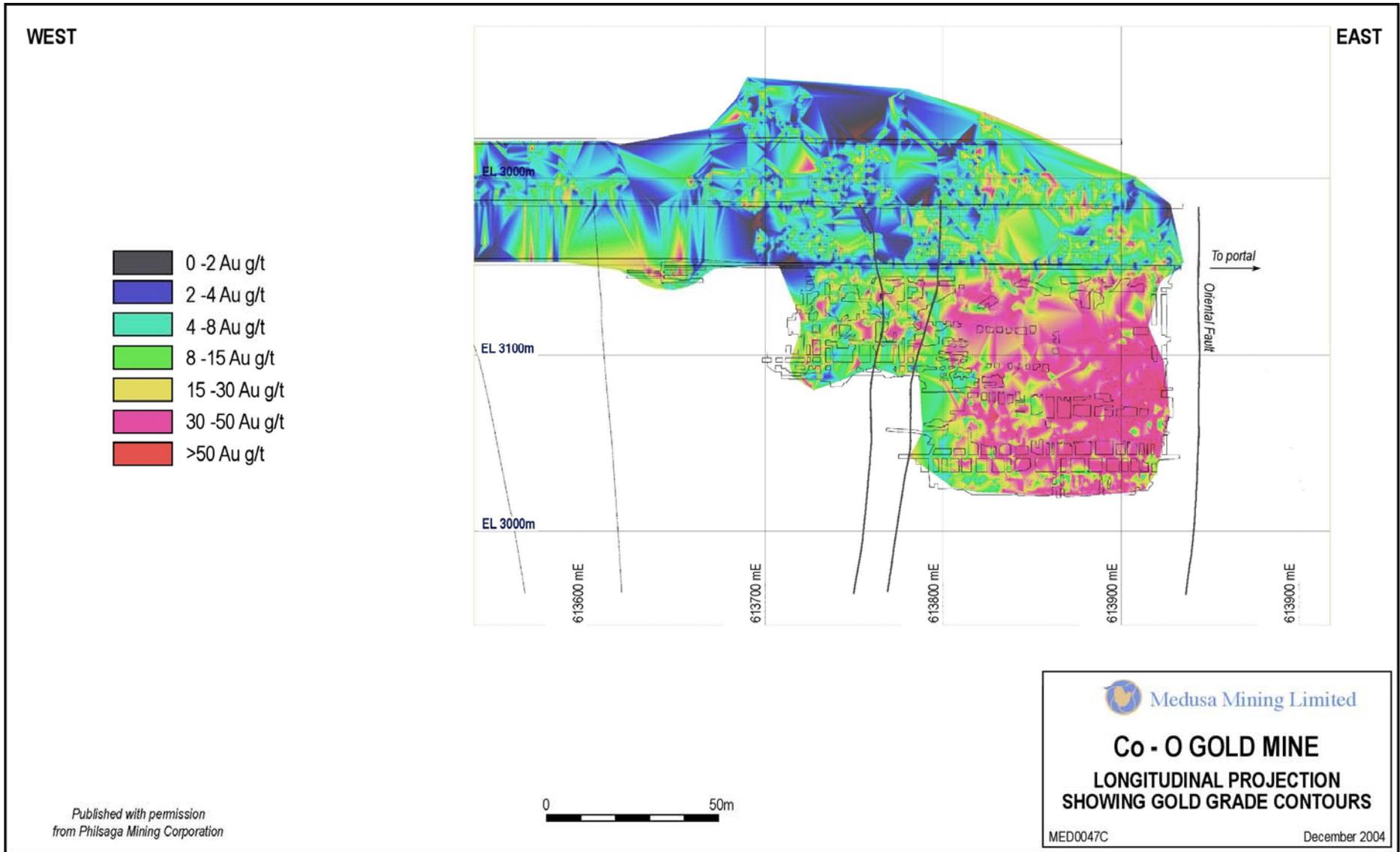


Figure 5.