



# QUARTERLY ACTIVITIES REPORT

## PERIOD ENDING

### 30 JUNE 2005

#### 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 the potential to generate cash flow within 2 years from IPO;
- achieve production with a low capital outlay and a rapid payback period;
- explore for high grade deposits in areas with good access and infrastructure.

To achieve its objectives, Medusa

- will complete acquisition of joint venture partner, Philsaga Mining Corp, including Philsaga's Co-O gold mine with resources of 252,000 tonnes @ 29.7g/t Au containing 241,000 ozs of gold, associated plant & infrastructure and 537 sqkm of very prospective tenements over a strike length of 70 km; and
- is investigating re-opening the Panaon Gold Mine

**Shares Issued:** 40,041,792 ASX code: MML  
**Options Issued:** 20,243,843 ASX code: MML0

Further details: [www.medusamining.com.au](http://www.medusamining.com.au)

Geoff Davis  
Managing Director

PO Box 860  
Canning Bridge WA 6153  
Telephone : 618-9367 0601  
Facsimile : 618-9367 0602

#### KEY POINTS

#### PHILSAGA MINING CORPORATION TRANSACTION

- PHILSAGA TRANSACTION - AWAITING SATISFACTION OF CONDITION PRECEDENT BEFORE PROCEEDING.

#### DIZON TAILINGS PROJECT

- COMPLETION OF STUDIES HAS DETERMINED THE PROJECT IS MARGINAL;
- MML HAS WITHDRAWN FROM THE PROJECT.

#### PANAON GOLD PROJECT

- REHABILITATION OF MAIN ADIT PROGRESSED TO 250M;
- FIELD VISITS BY INVESTOR TO FUND FIRST US\$1M IN PROGRESS.

#### ANTI DAM – KURNALPI PROJECTS

- NEWCREST WITHDRAWS FROM JV;
- NEW PARTNER SOUGHT FOR A LARGE GROUND HOLDING INCLUDING RESOURCES AND ADJACENT TENEMENT HOLDERS.



# PROJECT OVERVIEWS

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



FIG 1

## PHILSAGA TRANSACTION

The Company is still awaiting the satisfaction of an outstanding Condition Precedent before proceeding to vary the Share Purchase Agreement and complete the acquisition of Philsaga Mining Corporation (Philsaga).

Philsaga, with the technical assistance of Medusa, continues to explore around the Co-O Mine. They have also completed re-furbishment of the Co-O mine to accommodate locomotives for ore haulage and development continues to prepare for stoping operations.

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

### 1. First Hit Vein

Work at the First Hit Vein and surrounds has been suspended as the exploration team has been assigned to prospects adjacent to the infrastructure of the Co-O Mine.

### 2. Regional stream sediment sampling

A program of regional stream sediment sampling was completed over the Saugon Exploration Permit. Results have highlighted the known mineralization with limited follow-up work warranted.

## PANAON GOLD PROJECT (Divesting 50%)

### 1. Background:

The Panaon Gold Project is located on Panaon Island (Fig.1) in Southern Leyte, immediately north of Surigao City which is reached by domestic flights from Manila. Access from Surigao City is by passenger boat for 1 to 2 hours or by drive-on drive-off inter-island ferry.

Medusa and Philsaga have entered into a Mines Operating Agreement over the former Pinut-an Gold Mine and surrounding areas on Panaon Island with Vulcan Industrial and Mining Corporation ("Vulcan"), a company listed on the Philippines Stock Exchange. The Project consists of Exploration Permit EP-2005-000004-VIII which was granted on 5 March 2005 totalling 1,646 hectares.

The gold mineralisation on Panaon Island was discovered during Spanish times and subsequently mined by the Americans pre-World War II and by several Filipino groups since World War II. Geologically the project is part of the northern Surigao district mineralisation

The main veins discovered are located at Pinut-an, Bituon and Habay. The Pinut-an veins are the main veins mined to date and where the present rehabilitation is being undertaken. Detailed production records are yet to be located.

Most past mining activities appear to have used crude mining and processing techniques which required grades generally well in excess of 20 g/t Au to be profitable. An attempt to modernise the mining in the 1980s to raise production to 100 tonnes per day appears to have failed due to a lack of management control and expertise. However, as a result of this activity, plant foundations and several cyanide leach tanks in good condition are still on site and usable.

### 2. Project Geology

The project consists of high grade epithermal veins hosted by andesitic porphyries intercalated with volcanic pyroclastics. The island is confined east and west by branches of the north-trending Philippine Rift Fault which have sculptured the elongated topography of the island.

At Pinut-an, the epithermal veins are confined to the eastern side of the island where the vein system consists of five major zones with strike lengths up to 1 km. Records indicate that the most productive veins have an E-W orientation. Several adits of up to 300 metres in length, cross-cuts and other drives are indicated on old plans which are to be verified through re-opening, mapping and sampling.

The Pinut-an veins are associated with an alteration area of approximately 5 sq km. Stream sediment sampling carried out over an area of 200 sq km in early 2003 by the a government to government Korean-Filipino joint venture team detected anomalous values in the Pinut-an, Bituon and Habay Fault areas. No further follow-up work appears to have been undertaken.

At Bituon, five E-W veins were sporadically mined, but the mining was not developed to the same level as at Pinut-an. However, the potential of these veins at this stage is thought to be similar to those at Pinut-an.

### **3. Work Completed**

Philsaga has completed laying rail for a length of 250 metres from the portal of the main adit to the Pinutan veins and estimates that it has a further 20 metres to go before reaching the end of this adit. Rail will then be laid along some of the cross cuts, and when completed, geological mapping and sampling will be undertaken.

### **4. Joint Venture**

Now that a substantial part of the underground workings have been re-opened, field inspections are currently being undertaken by a third party to determine if they will fund the first US\$1 million of expenditure for exploration and development of the Panaon Project. It is anticipated that this should be sufficient funding for underground re-habilitation, exploration and development, and provided exploration results are satisfactory, the construction of a plant of between 50 and 100 tonnes per day capacity utilising tankage and foundations already in place.

## **BARLO COPPER-GOLD-ZINC PROJECT** (Option to acquire 33.33%)

### **1. Background**

The former Barlo Copper Mine is located approximately 320 km by road north-west of Manila (Fig. 1) and approximately 170 km north of Subic Bay and Olongapo City being a 5 to 6 hour drive on bitumenised highways.

The project is located approximately 44 km north of Candalaria, and then approximately 10 km inland in a northeasterly direction from Dasol which is 27 km north from Santa Cruz. The mine site is located approximately 6 kilometres inland. All weather access to the mine area from Dasol is initially on concreted and then gravelled roads.

### **2. Current status**

On 18 February 2005 Medusa signed a Memorandum of Understanding with Pyro Copper Mining Corporation ("Pyro") over MPSA 153-2000-1 ("MPSA") with an area of 4,360 hectares whereby Medusa has an Option to undertake exploration work until 31 December 2006, and if the exploration results are positive, convert the Option to a Mines Operating Agreement.

The Barlo MPSA was the subject of a case lodged on 27 August 2004 at the Mines Adjudication Board ("MAB") due to an overlapping Exploration Permit applied for by Montague Resources Phils Inc. The MAB ruled on 19 May 2005 that the Regional Panel of Arbitrators did not have authority to cancel the MPSA to make way for an application by Montague. Pending the results of the MAB deliberation, an order was issued on 1 February 2005 by the Secretary of the Department of Environment and Natural Resources ("DENR") cancelling Pyro's MPSA, and subsequently a motion for reconsideration was filed by Pyro on 26 April, 2005. A letter dated 9 June 2005 was issued by the Under Secretary of the DENR that favourably endorsed to the Secretary of DENR the

cancellation of Pyro's MPSA and subsequently a second letter of cancellation was issued by the Secretary on 14 June.

The Company has been advised that Pyro lodged an appeal to the Office of the President on 15 July 2005 against the ruling of the Secretary of the DENR that was issued while the MAB case was in progress and consequently did not follow due process. In the meantime Montague or any other third party cannot validly apply for a tenement over the Pyro MPSA while the motions filed both with the MAB and the Office of the President are being addressed.

### **3. Project background**

The project was operated by Acoje Mining Company ("Acoje") from 1974 to 31 October 1984.

The Barlo deposit was discovered as a result of high grade supergene copper outcrops which were mined by tunnels and adits to produce shipping grade ore totalling approximately 55,000 tonnes at 3 to 7% Cu.

The 1976 Acoje constructed a 1,000 tonnes per day mill for a 10 year mine life resulting in total production of approximately 3,000,000 tonnes of ore. Previous senior mine management interviewed by Medusa have advised that during the life of the mine when a mine cut-off grade of 0.3% Cu was applied, a head grade of approximately 1.5% Cu was achieved as well as containing approximately 1% zinc (not recovered), 5 to 10g/t Ag and an unknown amount of gold. The previous mine management has also advised that no systematic gold assaying was ever undertaken during exploration or mining, even though significant gold was reported and paid for in concentrates.

The mine closed prematurely due to a combination of low copper prices and management issues. It is understood that significant amounts of ore remain in the walls of the pit and in the pit floor, and that the project has demonstrated exploration potential.

## **BRAEMORE PROJECT** (Optioned)

As advised to the ASX in an announcement dated 26 May 2004, the Company reached agreement with Teck Cominco Australia Pty Ltd ("Teck") whereby Teck acquired an Option to Purchase the Braemore Project for \$250,000. Due to delays in gaining access to some of the tenements, the Option was extended for a period of 12 months until February 2006 by Teck paying an extension fee of \$10,000 to Medusa. Teck has advised work completed during the quarter as follows:

"A total of 92 RAB holes for 5,804 metres were completed in mid June. This program was designed to test the northern strike extent of the mineralised shear zone and to follow-up encouraging results from previous Teck Cominco RAB drilling. Results from the infill drilling have continued to provide encouragement, with a best intercept of 10 metres @ 0.38g/t Au from 35 metres in BRAB092. Drilling in the southern portion of the project has now defined an area of Au-As anomalism 800 metres in strike and up to 450 metres wide, on a drill spacing of 100 metres. An RC program testing this anomalism is planned for later this year.

This RAB program has also confirmed the presence of supergene gold mineralisation within the northern portion of the target shear zone with best intercepts of 25 metres @ 0.25 g/t Au from 55 metres (BRAB142) and 10 metres @ 0.38 g/t Au from 30 metres (BRAB159).

Closed spaced soil sampling (150 metres X 50 metres) has also been completed in the southern portion of the project. Assay results are pending."

## **KURNALPI and ANTI DAM PROJECTS** (100% and 90% respectively)

On 21 June 2005, Newcrest Operations Limited ("Newcrest") advised that it was withdrawing from the Kurnalpi and Anti Dam Projects due to drill results that did not indicate a mineralised system of sufficient size for Newcrest. The joint venture included Kurnalpi (E28/465) and Anti Dam Projects (E28/699, Ps28/789, 958, 993 and 994).

During the quarter Newcrest drilled one deep RC hole beneath the new discovery intersection (KNRC 7, 8 metres @ 1.79g/t Au from 56 metres) to the west of the Halfway Hill prospect). The second hole KNRC 8 was drilled to 335 metres depth (and intersected a best result of 4 metres @ 0.21 g/t Au from 56 metres).

The Company is seeking a joint venture partner or a purchaser for the combined projects. Other adjacent tenement holders have indicated a desire to add their tenements to the Medusa tenements making a cohesive regional package which includes still open resources of 121,000 tonnes at 3.1 g/t Au at Anti Dam and likely resources at Halfway Hill and Anomaly 9 in the Kurnalpi Project.

## **DIZON PROJECT**

### **1. Project Background**

On 4 June 2004, Medusa signed a Memorandum of Understanding ("MOU") with Dizon Copper-Silver Mines Inc. ("DCSMI") under which Medusa had 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 testwork. This phase of work was to be funded solely by Medusa. Subsequent to the initial extension of the Option period to 31 March 2005, the Option period was further extended by DCSMI to 31 May 2005 to allow the metallurgical testwork program to be completed.

The Dizon Porphyry Copper-Gold Mine operated as a 50:50 joint venture between DCSMI and Benguet Consolidated Inc ("Benguet") from late 1979 until 1997, having processed 110 million tonnes of ore with Benguet as the operator. The mill tailings are impounded at the head of a valley behind an earth wall dam of up to 126 metres high at the tailings deepest point. Subsequent to closure of the operations, Benguet withdrew from the joint venture, returning the project to DCSMI.

### **2. Metallurgical Test Work**

A program of metallurgical testwork was undertaken by Independent Metallurgical Laboratories ("IML") in Perth to characterise the tailings and sighter tests were conducted to evaluate the potential to extract saleable products of gold, magnetite and pyrite rich sulphides through gravity separation, cycloning, amalgamation, cyanidation, flotation and magnetic separation.

The head grade of the raw tailings as analysed by IML averaged 0.33 g/t Au within a range of 0.19 g/t to 0.53 g/t Au, which is consistent with the production records of tails grade from the Benguet operated concentrator.

Due to the very fine grain size of the free gold which reduces the effectiveness of pre-concentration processes, cyanide leaching of the raw tailings provided the only potentially viable means of gold extraction, recovering 0.21 g/t Au from a calculated head grade of 0.315 g/t Au within a range of 0.23 g/t to 0.45 g/t Au, equivalent to a recovery of 68% of contained gold.

Magnetic separation testwork produced a magnetite concentrate from the fine fractions that may be saleable as magnetite heavy media for coal washeries. Sulphide recovery was low and is not a viable by-product.

### **3. Conclusion**

The cyanide extraction test work results were reviewed by an independent consultant with considerable tailings treatment experience. The conclusions of the consultant were that the project was marginal at current gold prices and that, in his opinion, few options existed for increasing its viability.

Consequently the Company has advised DCSMI that it has withdrawn from the project.

## **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 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 his information in the form and context in which it appears.*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98. 30/9/2001.

Name of entity

**MEDUSA MINING LIMITED**

ACN or ARBN

**099 377 849**

Quarter ended ("current quarter")

**June 2005**

### Consolidated statement of cash flows

|   | Current<br>quarter<br>\$A'000 | Year to date<br>(12 months)<br>\$A'000 |
|---|-------------------------------|--|
| <b>CASH FLOWS RELATING TO OPERATING ACTIVITIES</b>              |                               |  |
| 1.1 Receipts from product sales and related debtors             | -                             | -                                      |
| 1.2 Payments for (a) exploration and evaluation                 | (99)                          | (1,372)                                |
| (b) Philsaga transaction  | (450)                         | (1,059)                                |
| (c) production  | -                             | -                                      |
| (d) administration  | (120)                         | (389)                                  |
| 1.3 Dividends received  | -                             | -                                      |
| 1.4 Interest and other items of a similar nature received       | 8                             | 61                                     |
| 1.5 Interest and other costs of finance paid                    | -                             | -                                      |
| 1.6 Income taxes paid   | -                             | -                                      |
| 1.7 Other (provide details if material)                         | -                             | -                                      |
| <b>Net operating cash flows</b>                                 | <b>(661)</b>                  | <b>(2,759)</b>                         |
| <b>CASH FLOWS RELATING TO INVESTING ACTIVITIES</b>              |                               |  |
| 1.8 Payment for purchases of: (a) prospects                     | -                             | (50)                                   |
| (b) equity investments  | -                             | -                                      |
| (c) other fixed assets  | (24)                          | (42)                                   |
| 1.9 Proceeds from sale of: (a)prospects                         | -                             | -                                      |
| (b)equity investments   | -                             | -                                      |
| (c)other fixed assets   | -                             | -                                      |
| 1.10 Loans to other entities                                    | -                             | -                                      |
| 1.11 Loans repaid by other entities                             | -                             | -                                      |
| 1.12 Other (provide details if material)                        | -                             | -                                      |
| <b>Net investing cash flows</b>                                 | <b>(24)</b>                   | <b>(92)</b>                            |
| 1.13 Total operating and investing cash flows (carried forward) | <b>(685)</b>                  | <b>(2,851)</b>                         |

**Appendix 5B**  
**Mining exploration entity quarterly report**

|  |  |       |         |
|--|--|-------|---------|
| 1.13   | Total operating and investing cash flows (brought forward) | (685) | (2,851) |
| <b>CASH FLOWS RELATING TO FINANCING ACTIVITIES</b> |  |       |         |
| 1.14   | Proceeds from issues of shares, options, etc.              | 28    | 1,400   |
| 1.15   | Proceeds from sale of forfeited shares                     | -     | -       |
| 1.16   | Proceeds from borrowings                                   | -     | -       |
| 1.17   | Repayment of borrowings                                    | -     | -       |
| 1.18   | Dividends paid   | -     | -       |
| 1.19   | Other (issue expenses)                                     | -     | (61)    |
| <b>Net financing cash flows</b>                    |  | 28    | 1,339   |
| <b>Net increase (decrease) in cash held</b>        |  | (657) | (1,512) |
| 1.20   | Cash at beginning of quarter/year to date                  | 969   | 1,842   |
| 1.21   | Exchange rate adjustments to item 1.20                     | 19    | 1       |
| 1.22   | <b>Cash at end of quarter</b>                              | 331   | 331     |

**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<br>\$A'000 |
|--|----------------------------|
| 1.2 Aggregate amount of payments to the parties included in item 1.2 | 70                         |
| 1.2 Aggregate amount of loans to the parties included in item 1.10   | -                          |

1.2 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

+ See chapter 19 for defined terms.

### Financing facilities available\

Add notes as necessary for an understanding of the position.

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

### Estimated cash outflows for next quarter

|                                | \$A'000 |
|--------------------------------|---------|
| 4.1 Exploration and evaluation | 100     |
| 4.2 Development                | -       |
| <b>Total</b>                   | 100     |

### Reconciliation of cash

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.

|  | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                     | 126                        | 169                         |
| 5.2 Deposits at call                             | 205                        | 800                         |
| 5.3 Bank overdraft                               | -                          | -                           |
| 5.4 Other (provide details)                      | -                          | -                           |
| <b>Total: cash at end of quarter</b> (item 1.22) | 331                        | 969                         |

### Changes in interests in mining tenements

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

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

|  | Total number | Number quoted | Issue price per security<br>(see note 3) | Amount paid up per security<br>(see note 3) |
|--|--------------|---------------|--|---|
| 7.1 <b>+Preference securities</b><br><i>(description)</i>  |              |               |  |   |
| 7.2 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions |              |               |  |   |
| 7.3 <b>+Ordinary securities</b>  | 39,901,792   | 25,701,192    |  |   |
| 7.4 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs              |              |               |  |   |
| 7.5 <b>+Convertible debt securities</b><br><i>(description)</i>  |              |               |  |   |
| 7.6 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted              |              |               |  |   |
| 7.7 <b>Options</b><br><i>(description and conversion factor)</i>   | 24,208,843   | 20,383,843    | <i>Exercise price</i><br>(see note 6)    | <i>Expiry date</i><br>(see note 6)          |
| 7.8 Issued during quarter  | 3,000,000    |               | \$0.5764                                 |   |
| 7.9 Exercised during quarter   |              |               |  |   |
| 7.10 Expired during quarter  |              |               |  |   |
| 7.11 <b>Debentures</b> <i>(totals only)</i>  |              |               |  |   |
| 7.12 <b>Unsecured notes</b> <i>(totals only)</i>   |              |               |  |   |

+ See chapter 19 for defined terms.

## 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: 30 June 2005  
                    Company Secretary

Print name: Roy Daniel

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3. **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4. The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
5. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

6. Options:

| <u>Number issued</u>  | <u>Exercise price</u> | <u>Expiry date</u> |
|---|-----------------------|--------------------|
| <i>(a) Options issued and quoted as at 30 June 2005</i>     |                       |                    |
| 20,383,843  | \$0.20                | 31 Jan 2007        |
| <i>(b) Options issued but not quoted as at 30 June 2005</i> |                       |                    |
| 225,000   | \$0.6072              | 31 Jan 2007        |
| 600,000   | \$0.4334              | 26 Jun 2010        |
| 3,000,000   | \$0.5764              | 16 Dec 2007        |