



QUARTERLY ACTIVITIES REPORT

PERIOD ENDING

31 DECEMBER 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 has:

- achieved its initial corporate objective of generating cash flow within 2 years from IPO with the Leasing of the Co-O Plant commencing 1 October 2005; and
- is targeting an increasing gold production profile during 2006.

Medusa's remaining objective with respect to the Philsaga Transaction is to complete the acquisition of Philsaga Mining Corporation ("Philsaga") which includes the:

- Co-O gold mine with open resources of 252,000 tonnes @ 29.7g/t Au containing 241,000 ozs of gold;
- associated plant & infrastructure; and
- 621 sq km of highly prospective tenements over a strike length of 70 km.

Shares: 53,579,195 ASX code: MML
Listed options: 22,707,837 ASX code: MML0
Unlisted options: 4,825,000

Further details: www.medusamining.com.au

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Managing Director

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KEY POINTS

Co-O SPECIAL MINING PERMIT

- A Special Mining Permit (which allows commercial full scale mining operations) has been granted to Philsaga over the Co-O Gold Mine;
- Intensive mine development has been commenced.

Co-O PLANT LEASE & OPTION

- Development ore delivered to Co-O Plant since 1 October totalled 5,476 tonnes at an average recovered grade of 12.3 g/t Au;
- Gold production totalled 2,323 ozs at average cash cost of US\$ 250/oz;
- Gross income generated from gold sales totalled US\$1.14 M;
- First plant refurbishment program commenced.

Co-O REGIONAL TENEMENT CONSOLIDATION

- Mines Operating Agreements signed over an additional 8,500 hectares of prospective ground to the north of the Co-O plant.

PHILSAGA TRANSACTION

- Awaiting satisfaction of Condition Precedent before proceeding.

PANAON GOLD PROJECT

- Preparation for underground and surface drilling; and
- Medusa anticipates that the Heads of Agreement with Goldsearch will be unconditional shortly.



PROJECT OVERVIEWS

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



Figure 1

Co-O PLANT LEASE AND OPTION

Under the terms of the Lease and Option agreement executed on 5 August 2005 and completed on 27 September 2005, between Medusa Mining Limited ("Medusa") and Philsaga Mining Corporation ("Philsaga"), Philsaga has agreed to provide Medusa with a three year Lease and Option to acquire Philsaga's treatment plant and associated facilities ("Co-O Plant").

Ore Supply

Commencing 1 October 2005, Philsaga supplied 5,476 tonnes of development ore (at an average of 76 tonnes per day) to the Co-O Plant at an average recovered grade of 12.3 g/t Au. Production was disrupted in December 2005 by the Christmas break. The ore was derived predominately from development of drives along veins in preparation for stoping operations the first of which are scheduled to commence during the next quarter with the daily production rate anticipated to rise above 100 tpd.

Philsaga have advised that mine development is on schedule to provide a major step up of ore production at the end of June-early July commensurate with completion of the first mill upgrade and anticipated step up of the annualised gold production to approximately 40,000 ounces.

Gold Production

The Co-O Plant produced 2,323 ounces of gold at an average cash cost of approximately US\$250 per ounce, generating gross income of approximately US\$1.14 million.

As production rises and stoping commences, the cost per ounce is expected to reduce significantly.

Grant of Special Mining Permit and Co-O Mine Development

On 23 January 2006, Medusa advised the ASX that it had received notification from Philsaga that the Mines and Geosciences Bureau had granted to Philsaga, Special Mining Permit ("SMP") number 05-2006 covering the Co-O Gold Mine (Fig. 2) while waiting for approval of its Mineral Production Sharing Agreement (MPSA) application denoted as APSA No. 000084-XIII.

The SMP is independent and mutually exclusive of the MPSA and on grant of the MPSA will be replaced by the MPSA.

The SMP, which has identical terms and conditions to an MPSA, enables Philsaga to conduct commercial full scale mining operations at the Co-O Gold Mine for a period of one year and renewable for like period.

Philsaga has commenced the development required for full scale mining operations at the Co-O Gold Mine to provide the ore feed to the Co-O Plant that is leased by Medusa.

The grant of the SMP is an extremely important and positive development for Philsaga which will enable and allow the mining and milling activities of the Co-O operations to be conducted without any hindrance from third parties.

Plant Refurbishment Program

The first refurbishment program of the Co-O Plant has commenced. The main equipment item to be refurbished is the large ball mill which has not operated since 1991. It is anticipated that the plant upgrade will be completed about mid-year concurrently with an anticipated increase in ore delivery from Philsaga.

During the refurbishment period, operation will continue utilising two smaller ball mills with combined capacity of approximately 150 tpd.

PHILSAGA TRANSACTION

The Company is still awaiting the satisfaction of an outstanding Condition Precedent ("CP") and have agreed in principle with the principal shareholders of Philsaga to discuss and revise the original terms of the Share Purchase Agreement upon resolution of the CP and the granting of a Mining Production Sharing Agreement ("MPSA") on the Co-O Gold Mine.

The period of satisfaction of the CP has been extended to 21 February 2006.

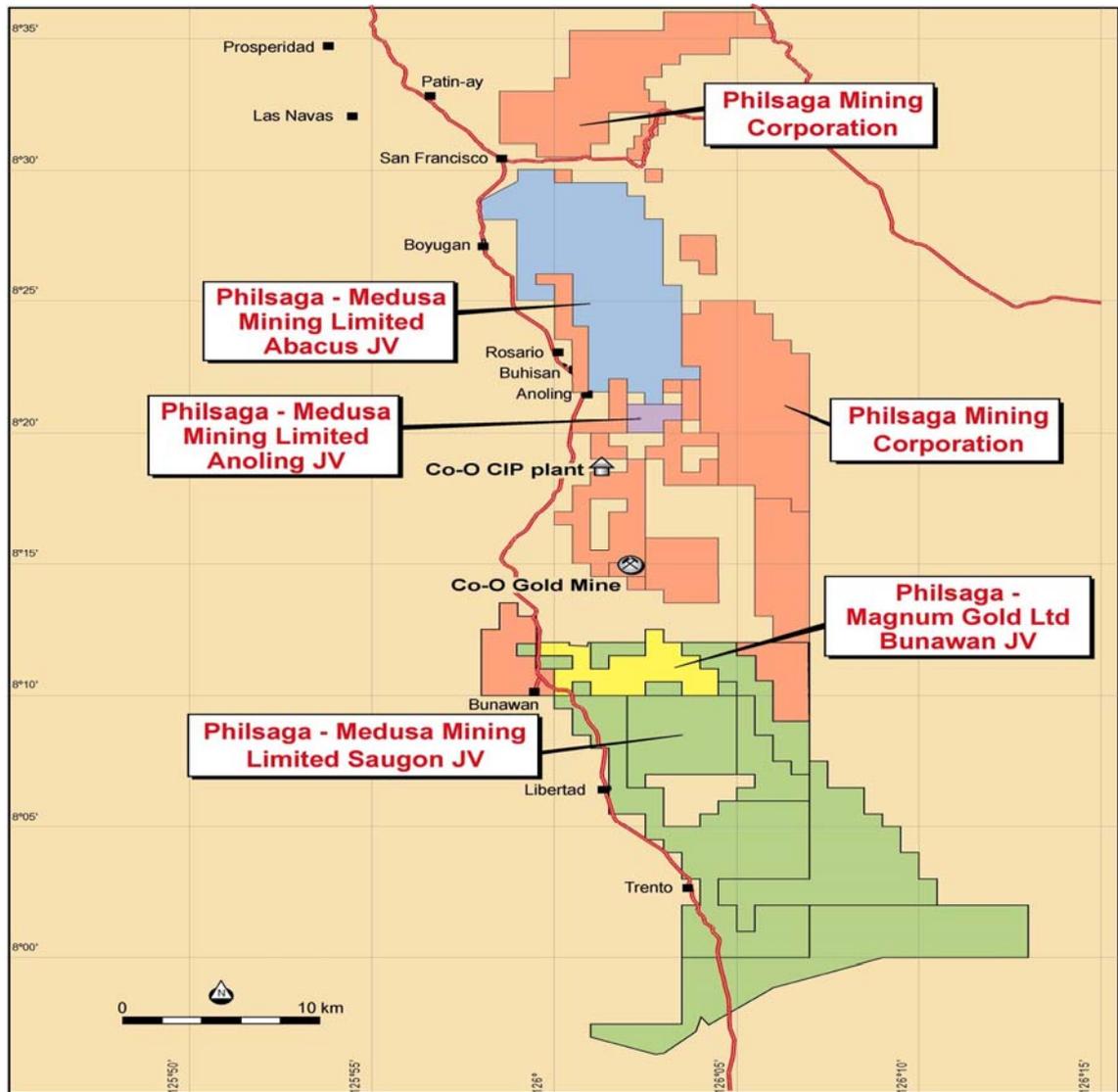


Figure 2 - Co-O Regional Tenement Consolidation

Co-O REGIONAL TENEMENT CONSOLIDATION

As shown on Figure 2, tenement consolidation continued within trucking distance of the Co-O Plant. Two Mines Operating Agreements totalling approximately 8,500 hectares (85 km²) were signed during the period.

Abacus Project

The MOA with Abacus Consolidated Resources and Holdings Inc. covers Exploration Permit (“EP”) application number 000028-XIII situated in Agusan del Sur province in east Mindanao to the north of the Co-O mine and millsite as shown on the accompanying map. The EP covers approximately 8,100 hectares (81 km²) and covers extensions of the favourable geology found further to the south.

The key terms of the Abacus MOA are:

- The agreement is subject to completion of due diligence by Medusa within 30 days of 17 November 2005 before becoming unconditional;
- Medusa will pay to Abacus a 3% gross royalty on all production from the tenement;
- Medusa will pay an advance against the royalty of Php500,000 (approximately A\$12,500);
- Medusa will pay outstanding Occupation Fees and Annual Work Obligations of approximately A\$60,000; and
- Medusa is responsible for all costs incurred to progress the EP application to granting.

Anoling Project

The MOA with Alcorn Gold Resources Inc. covers Mining Production Sharing Agreement (“MPSA”) application number 039-XIII situated in the Agusan del Sur province in east Mindanao to the north of the Co-O mine and millsite as shown on Figure 2. The MPSA comprises approximately 405 hectares (4.05 km²) and covers mineralised extensions of the favourable geology found further south.

The key terms of the Anoling MOA are as follows:

- Medusa will pay Alcorn a 5% gross royalty on all production from the tenement to be shared with other parties to the MOA;
- Medusa will issue Alcorn or its nominee the equivalent of 3 million pesos (approximately A\$75,000) in Medusa shares converted at a discount rate of 10 % to market, to reimburse Alcorn for past expenses;
- In addition, Medusa will pay Alcorn a 10 % Net Profit Interest (“NPI”), capped at 11 million pesos (approximately A\$275,000) as further reimbursement of exploration expenses;
- Medusa will be required to spend a minimum of US\$50,000 in year 1 and US\$100,000 in year 2;
- Medusa will pay the underlying claim owner a gross royalty of 3 % on all production from the tenement; and
- Medusa will be responsible for all costs incurred to progress the MPSA application to granting.

The map shown on Figure 3 summarises the known surface vein expressions and previous grab sampling results. A small underground gold mine was operated in the Loring area pre-WWII and more recently in the Mapote area where ore was mined from an inclined shaft and trucked approximately 100 km for treatment. Once surface work and drilling are undertaken it is expected that good continuity of veins along strike will be demonstrated.

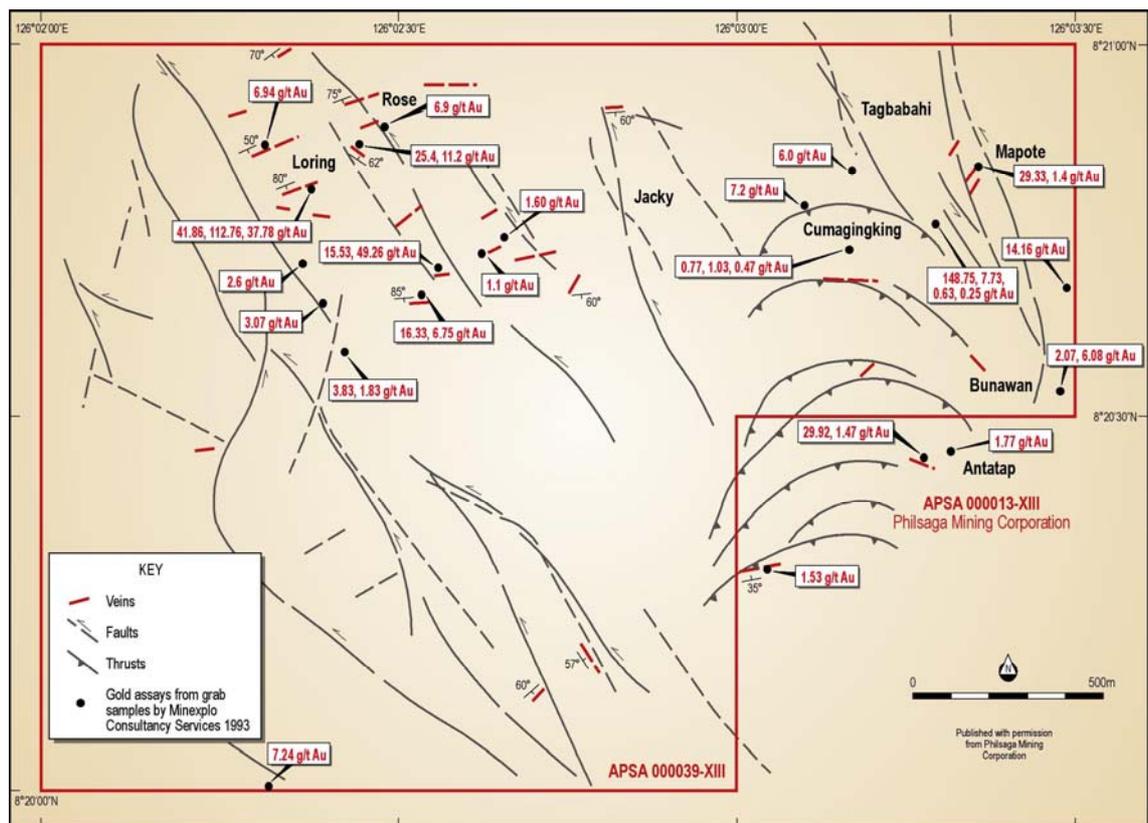


Figure 3

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

Work during the period was limited to field reconnaissance.

MASAPELID GOLD PROJECT *(Medusa earning 84%)*

On 25 January 2006, Medusa announced to the ASX that, in conjunction with partner Philsaga Mining Corporation (the "Medusa Group") it had signed a Joint Venture Agreement ("JVA") over the former Lacandola Gold Mine on Masapelid Island (the "Masapelid Project") with Metals Exploration Plc ("MEP"), a company listed on the London Alternative Investment Market ("AIM") and who has a purchase agreement with the Masapelid Project owner.

Medusa has the right to earn an 84% interest in the Masapelid Project that is covered by granted Mineral Production Sharing Agreement No. 004-91-XIII.

Medusa is in advanced negotiations with another party to fund Medusa's share of the Masapelid Project acquisition costs and the first US\$1 million of expenditure whereby that party will earn a 42% interest. A joint venture agreement expected to be signed in the near future will allow Medusa to focus its funds on the Co-O Project in central Eastern Mindanao.

The JVA provides for:

- the Medusa Group to operate the Masapelid Project and earn an 84% interest by expending the first US\$1M and completing the purchase of the Masapelid Project.
- the purchase of the Masapelid Project in shares and cash will be shared 84% by Medusa and 16% by MEP as follows:
 - (i) on or before 27 February 2006, a payment of US\$25,000 cash and the issue of a number of shares determined to be equivalent to the value of 250,000 MEP shares with the value per share to be determined as the average price for the 5 days of trading on AIM preceding 24 January 2006;
 - (ii) on or before 27 January 2007, a payment of US\$25,000 cash and the issue of 250,000 shares; and
 - (iii) on or before 27 January 2008, a payment of US\$30,000 cash and the issue of 500,000 shares.
- on completion of the expenditure of US\$1 million, MEP has the right to choose to contribute to 16% of the on-going expenditure or dilute to a 10% Net Profit Interest (in which case Medusa would own 100% of the Masapelid Project); and
- On commencement of production, the project owner will receive a 1.5% Net Smelter Royalty.

Project Background

The Masapelid Gold Project is located on Masapelid Island (Fig. 1) immediately east of Surigao City which is reached by domestic flights from Manila. Access from Surigao City is by boat for approximately 90 minutes from either Surigao City or 45 minutes from the east coastal town of Placer located south-east of Surigao City.

The Masapelid Project consists of Mineral Production Sharing Agreement No. 004-91-XIII which was granted in April 1991 covering the whole island. Geologically the project is part of the well mineralised Surigao district.

The Masapelid Project has a history of narrow vein mining commencing pre-WW II. Records indicate that 20,666 tonnes at 15 g/t Au were produced by the Km73 Mining Company from the Layong Vein on the eastern side of the island before the mine closed pre-WW II. A further 133,000 tonnes were reported to have been outlined by underground development in the parallel No.6 Vein. Two shafts were sunk approximately 300 metres apart to depths of 122 metres and 30 metres with horizontal development completed on three levels. The parallel veins are interpreted to be approximately 900 metres long, strike in a northeasterly direction, are commonly approximately 1m wide and contain ancillary silver, lead, zinc and minor copper minerals.

The Island contains extensive zones of clay-pyrite alteration in andesitic volcanics suggestive of a large hydrothermal system. Younger calcareous sediments also exhibit signs of alteration and which are potential host rocks for disseminated style deposits.

In 1983 Benguet Exploration Inc. examined the property and collected four samples which averaged 1.52 oz/t Au, 4.34 oz/t Ag, 3.77% Pb, 1.56% Zn and 2.14% Cu.

In early 1986 a four hole diamond drilling program was undertaken under a United Nations Development Program ("UNDP") in conjunction with the Mines and Geoscience Bureau (MGB) to test the vein extensions on the western side of the island. These holes returned 1 metre @ 22.5 g/t Au in DDH 1, 1 metre @ 35g/t Au in DDH 2 and 1 metre @ 72 g/t Au in DDH 4.

In the early 1990s Western Mining Corporation (WMC) undertook extensive exploration focused on discovering porphyry copper-gold mineralisation involving stream sediment sampling, grid based soil sampling, 141 km of ground magnetics, a gravity survey, IP surveys in three areas, and nine diamond drill holes. The soil sampling outlined coherent gold anomalies over 900 metres of strike corresponding to the projected strike of the Layong and No.6 Veins.

WMC's hole MSI-D1 on the western side of the island near the UNDP-MGB drilling described above also intersected vein mineralisation of 1.48 metres @ 11.81 g/t Au.

Three diamond drill holes were completed by WMC in the Sampotan area at the southern tip of the island where porphyry copper mineralisation was intersected including 264.82 metres @ 0.32% Cu in hole MSI-D7 with the last sample in the hole assaying 1% Cu and 0.5 g/t Au over 0.5 metres.

A recent sample of an ore fragment from the surface collected by MEP returned 24.2 g/t Au, 154 g/t Ag, 7.86% Pb, 6.81% Zn and 0.55% Cu.

Corporate Strategy and Planned Work Program

The Medusa Group views the acquisition of the Masapelid Project as another step towards becoming the **specialist narrow vein miner** of the Philippines. This project is nearby to the Panaon Gold Project and Medusa is of the view that there are considerable synergies to be gained from the two adjacent projects.

The aim is to develop a cash flow from Masapelid as soon as possible. To achieve this objective, after signing the joint venture agreement with its funding party, Medusa will commence a confirmatory drilling program which may be followed by underground exploration and development.

It is envisaged that, if the Company is successful in establishing mineable material at both the Panaon and Masapelid Projects, a single treatment facility could be constructed to treat ore from both projects.

PANAON GOLD PROJECT *(Divesting 50%)*

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 one to two hours or by inter-island ferry.

Work Program

Philsaga has completed rehabilitation of the main adit and cross-cuts required for commencing an underground drilling program during the quarter. Limited surface drilling is also to be undertaken.

Joint Venture

On 28 September 2005, Goldsearch Limited ("Goldsearch") announced that they had signed a conditional Heads of Agreement with Medusa and its controlled Filipino entities under which Goldsearch will fund the first US\$1 million of expenditure to earn a 50% interest in the project. Goldsearch has subsequently advised it anticipates that the Heads of Agreement will be unconditional shortly.

BARLO COPPER-GOLD-ZINC PROJECT *(Option to acquire 67%)*

Background

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

Current Status

The Company is awaiting the outcome of an appeal to the Office of the President to resolve outstanding tenement issues.

BRAEMORE PROJECT (100%)

Teck Cominco Australia Pty Ltd have advised they have withdrawn from the Braemore Project after drilling five RC holes during the quarter with limited success.

The Company is seeking parties to joint venture or acquire this project.

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

The Company has agreed to the terms of an option to purchase these projects and is awaiting receipt of the agreement.

Further Information:

For further information contact the undersigned on +618 9367 0601 or by email to admin@medusamining.com.au. Detailed descriptions can be viewed on 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")

December 2005

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (6 months) \$A'000 |
|---|-------------------------------|---------------------------------------|
| CASH FLOWS RELATING TO OPERATING ACTIVITIES | | |
| 1.1 Receipts from product sales and related debtors | 3 | 6 |
| 1.2 Payments for (a) Exploration and Evaluation | (245) | (2,102) |
| (b) Lease payments | | (3,000) |
| (c) Working capital and development | (1,373) | - |
| (d) Administration | (356) | (525) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 37 | 45 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | - | - |
| Net operating cash flows | (1,934) | (5,576) |
| CASH FLOWS RELATING TO INVESTING ACTIVITIES | | |
| 1.8 Payment for purchases of: (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | (30) | (39) |
| 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) | - | - |
| Net investing cash flows | (30) | (39) |
| 1.13 Total operating and investing cash flows (carried forward) | (1,964) | (5,615) |

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|--|--|---------|---------|
| 1.13 | Total operating and investing cash flows (brought forward) | (1,964) | (5,615) |
| CASH FLOWS RELATING TO FINANCING ACTIVITIES | | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | 7,654 |
| 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) | (113) | (412) |
| Net financing cash flows | | (113) | 7,242 |
| Net increase (decrease) in cash held | | (2,077) | 1,627 |
| 1.20 | Cash at beginning of quarter/year to date | 4,039 | 331 |
| 1.21 | Exchange rate adjustments to item 1.20 | 14 | 18 |
| 1.22 | Cash at end of quarter | 1,976 | 1,976 |

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 |
|---|--|----------------------------|
| 1.2 3 | Aggregate amount of payments to the parties included in item 1.2 | 70 |
| 1.2 4 | Aggregate amount of loans to the parties included in item 1.10 | - |
| 1.2 5 | 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

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|--|
| |
|--|

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

| |
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| |
|--|

Appendix 5B
Mining exploration entity quarterly report

Financing facilities available

Add notes as necessary for an understanding of the position.

| | 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 | 250 |
| 4.2 Development | - |
| Total | 250 |

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 \$A'000 | Previous quarter \$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 324 | 462 |
| 5.2 Deposits at call | 1,652 | 3,577 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 1,976 | 4,039 |

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 | | | |

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 (see note 3) | Amount paid up per security (see note 3) |
|--|--------------|---------------|--|---|
| 7.1 +Preference securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 53,439,155 | 53,439,155 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | 26,536,275 | 22,711,275 | <i>Exercise price</i> (see note 6) | <i>Expiry date</i> (see note 6) |
| 7.8 Issued during quarter | | | | |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired during quarter | | | | |
| 7.11 Debentures <i>(totals only)</i> | | | | |
| 7.12 Unsecured notes <i>(totals only)</i> | | | | |

Appendix 5B Mining exploration entity quarterly report

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:

Company Secretary

Date:

30 January 2006

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 31 December 2005</i> | | |
| 22,711,275 | \$0.20 | 31 Jan 2007 |
| <i>(b) Options issued but not quoted as at 31 December 2005</i> | | |
| 225,000 | \$0.6072 | 31 Jan 2007 |
| 600,000 | \$0.4334 | 26 Jun 2010 |
| 3,000,000 | \$0.5764 | 16 Dec 2007 |