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19 January 2004

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

Dear Sir/Madam,

OPTION AGREEMENT TO PURCHASE THE KING AND QUEEN PROJECTS, MT LYELL DISTRICT, TASMANIA.

The Company is pleased to advise that today it has signed an Option to Purchase Agreement for the King and Queen Projects near Queenstown adjacent to the Mt Lyell Mine in Tasmania.

The Queen Project, Mining Lease applications 6M/2002 and 8M 2002.

These two Mining Lease applications cover 10 kilometres of the Queen River which drains the Mt Lyell Mine Area. The Option to Purchase Agreement is to allow the Company a three month period in which to undertake due diligence investigations on the economic potential of abundant detrital pyrite rich deposits in and along the Queen River as part of an environmental rehabilitation project.

The Queen River pyrite rich deposits have resulted from approximately 100,000,000 tonnes of tailings and some slag material that have been discharged into the Queen River during the mining of the Mt Lyell orebodies which commenced in 1883. Since that time until 1989 the mine produced 104M tonnes of ore from which were recovered 1.24 million tonnes of copper, 724 tonnes of silver and 42 tonnes of gold.

The water action of the Queen River over an extended period has naturally concentrated heavy minerals, such as pyrite and other sulphide minerals, along the river system, and washed away most of the light minerals, such as clay, quartz and mica. The resulting "natural" pyrite concentrate is a serious environmental problem as it is continuing to oxidize producing acidic discharges, discolouring the river water and releasing metals into the river.

The Company intends to undertake a thorough test work program regarding the mineral contents of the pyrite rich deposits, the practicalities of mining and the recovery of any commercial minerals, and potentially the removal of the pyrite from the river system. This work will be undertaken within a framework of extensive consultation with parties with an interest in the outcomes of the project.

The Option to Purchase Agreement has been initiated by the reimbursement of \$10,000 of expenses. On exercising the Option the Company will acquire 100% of the Mining Leases by making a payment of \$25,000 in cash or shares to the Vendor and assuming the Mining Lease bond of \$5,000. On commencement of any production, the Vendor will be entitled to up to 50% of Net Operating Profit depending on certain circumstances being satisfied.

The King Gold Mine, Mining Lease application 14M/1996

This Mining Lease application covers the old King River Gold Mine and several other old nearby mining sites. The Option to Purchase Agreement will allow the Company a three month period to undertake due diligence investigations on the project.

The King River Mine was discovered in 1881 and continued until about 1890. Records indicate that a quartz vein was discovered as a result of following up extensive alluvial gold in the adjacent creeks. The top of the vein was sluiced by the early prospectors in a slot approximately 250 metres long and up to 5 metres deep. Data in the Tasmanian Mines Department archives indicate that the quartz vein below the sluiced slot returned some very rich patches of gold from underground mining including one 9 metre long section that yielded grades up to 20 ounces (620 g/t) per tonne of gold. Grade cut-offs for mining at the time are not known. The vein is quoted as reaching up to 2.1 metres wide and averaging 1 metre wide, and is thought to be vertical to subvertically dipping to the west. The mine workings are indicated to be no deeper than 60 metres below surface, and there are no records or indications of drilling ever carried out below the bottom of the workings.

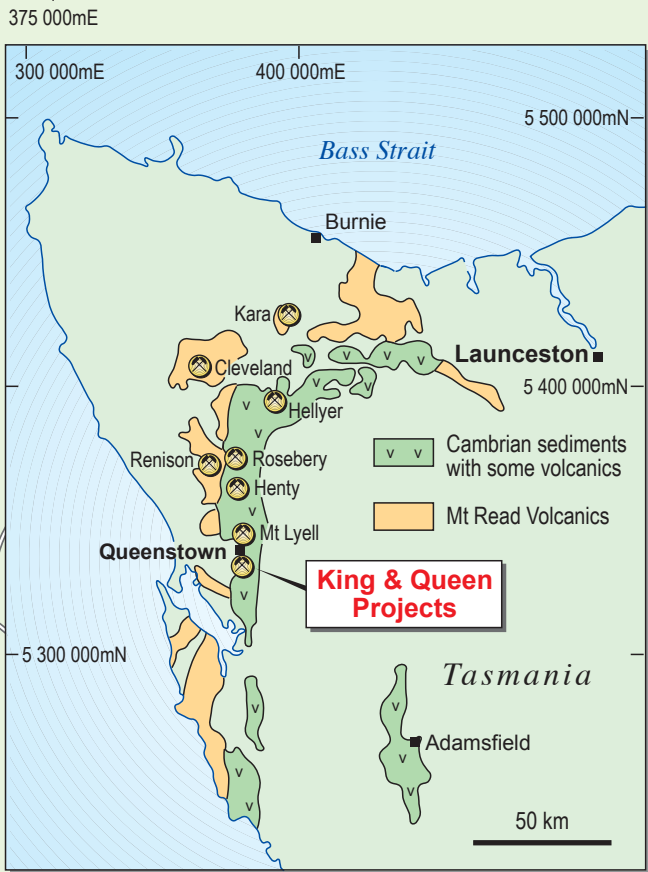
The Option to Purchase Agreement has been initiated by the re-imbursement of \$15,000 of expenses. On exercising the Option, the Company will acquire 100% of the Mining Lease by making a payment of \$25,000 in cash or shares and assuming the Mining Lease bond of \$25,000. On commencement of gold production from a hard rock source, the Vendor will be entitled to up to a 4% Net Smelter Return royalty depending on certain circumstances being satisfied.

Further information

For further information contact the undersigned on 618-93670601 or by email to admin@medusamining.com.au Detailed descriptions of Medusa's other projects can be viewed in Medusa's Prospectus on www.medusamining.com.au

Yours faithfully,

Geoff Davis.
Managing Director.



Queenstown

King Gold Mine

Queen River

6M/2002
8M/2002

14M/1996



**KING AND QUEEN PROJECTS
TENEMENT LOCATION MAP
MT LYELL DISTRICT, TASMANIA**

MED0038A

January 2004

