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18 February 2004

The Manager  
Australian Stock Exchange Limited  
Level 4  
20 Bridge St  
Sydney NSW 2000

Dear Sir/Madam,

### **EXPLORATION UPDATE AT THE SAUGON GOLD PROJECT, PHILIPPINES**

The Company is pleased to advise that its program of diamond drilling and underground exploration is gaining momentum. The first drill hole has passed through the target zone.

The hole intersected a new quartz vein with a downhole width of 0.9metres from 108.58 metres, and second vein, the main target, with a downhole width of 0.9m metres from 196.40 metres downhole. Samples will be sent for assay on completion of the hole.

The re-drill of the first drill hole is still in progress at 222.30 metres depth with a target depth of 250 metres.

An inclined exploration winze has reached a depth of 9.0m with assays of up to 10g/t over 1.05 metres returned from the quartz vein.

### **DRILLING UPDATE**

Diamond drill hole SDDH-2B, was still in progress at a depth of 222.30 metres on 15 February. The first drill hole was abandoned in difficult ground conditions after the loss of casing and a shoe bit. Samples will be submitted to the laboratory on completion of the drill hole.

The hole intersected a new 15 metre wide zone not previously identified on surface of fracturing with quartz veining to 0.90 metres wide downhole containing sphalerite, galena and chalcopryrite. This fractured zone also contains calcite veining.

The target vein has been intersected with a downhole width of 0.9 metres from 196.40 metres containing pyrite. This vein is associated with hydrothermal breccias and is interpreted to correspond with the vein being investigated in the exploration winze.

The samples will be sent for assay as soon as the drill hole is finished at an anticipated final depth of approximately 250 metres.

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On completion the rig will move to a second site located approximately 50 metres to the east of SSDH-2B.

## **EXPLORATION WINZE**

In an attempt to achieve early cash flow, a full sized, inclined and timbered winze that can be used for ore production has commenced on the same cross section as drill hole SSDH-2B. Access to the winze is via one of two previous prospector's adits and has been set up with rails and a winch. The second adit to the east of the winze has returned high grade chip samples to 19.2g/t Au over 1 metre.

The winze, currently at 9.0 metres depth, is being sunk down the footwall of the outcropping quartz vein. The vein in the winze has increased in width to more than 2 metres wide (from less than 1 metre in outcrop) with the hanging wall not yet located due to the need to preserve ground stability in the early stages.

The footwall of the east wall of the winze contains a laminated grey-white quartz vein which is correlated with the high grade vein in the nearby second prospector adit. In the winze, this vein has returned a grab sample assay of 6g/t Au from 5 metres depth and 10 g/t Au over 1.05m at 6.5 metres depth.

The west wall of the winze comprises a hydrothermal quartz breccia with at least two phases of white to grey vuggy quartz with some fragments of altered volcanic wall rock. Some of the quartz fragments contain common pyrite, galena, sphalerite and lesser chalcopyrite. This breccia material in channel samples commonly assays 1-3 g/t Au and appears to be a late, cross-cutting hydrothermal event.

It is planned to progress the winze to a depth of 50 metres before commencing level development along the veins. The winze sinking is anticipated to advance at approximately 10-12 metres per month.

## **THE JOINT VENTURE**

Medusa is earning a 50% interest in the project from joint venture partner Philsaga Mining Corporation by funding the first A\$1,200,000 of expenditure. All subsequent expenditure will be shared by both parties. The aim of the joint venture is to develop a gold mine producing 150 tonnes of ore per day.

Philsaga is the project manager and has acquired its own diamond drill rig which has a 600 metre depth capacity. Philsaga has an excellent technical team capable of managing the project to a high level.

## **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 Saugon Project can be viewed in Medusa's Prospectus on [www.medusamining.com.au](http://www.medusamining.com.au)

Yours faithfully

Geoff Davis.  
Managing Director

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