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2 June 2004

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

Dear Sir/Madam,

DIZON PROJECT, LUZON ISLAND, PHILIPPINES

The Company advises that it has signed an Option Agreement with Dizon Copper & Silver Mines Inc. (DCSMI) which provides access to the 110 million tonnes of Dizon mill tailings that are estimated from public records to contain approximately:

- **1.38 million ounces of gold,**
- **5.6 million ounces of silver, and**
- **132,000 tonnes of copper**

Medusa has commenced its investigation of the mill tailings by arranging a drilling contractor to obtain samples of the tailings material for analysis and metallurgical testwork.

This Option agreement could provide Medusa with the opportunity for acquisition of another “near term” resource for prompt development in addition to its Saugon Project. Both projects have potential to be readily developed with low capital exposure and rapid payback period.

TERMS OF THE AGREEMENT

Medusa has signed a Memorandum of Understanding (“MOU”) with Dizon Copper & Silver Mines (“DCSMI”), a Philippine based company that owns the former Dizon Porphyry Copper-Gold Mine (the “Dizon Project”).

Under the MOU and depending on satisfaction of certain conditions precedent, Medusa has no less than six (6) months in which to conduct its due diligence process, to examine reprocessing of the mill tailings and exercise the Option to convert the MOU to a Mines Operating Agreement (MOA). Execution of this MOU does not require any remuneration by Medusa other than the proposed sampling and metallurgical testwork program.

Upon receipt of positive results from the testwork program, DCSMI and Medusa will execute a MOA under which DCSMI and Medusa will form a joint venture. Equities will be DCSMI 40% and Medusa 60%. Initially, the parties will undertake a study, of Feasibility Study standard, for processing the Dizon tailings to recover gold, silver and copper, prior entertaining development of the reprocessing operations.

Under the terms of the joint venture, Medusa will operate the Dizon Project and should DCSMI elect to only partly contribute to the following expenditures then its equity will reduce pro-rata. If DCSMI elects not to contribute, or its contribution results in an equity of less than 10%, then DCSMI will reduce to a 3% Net Smelter Return royalty.

PROJECT BACKGROUND

The Dizon Project is located 100 kilometres northwest of Manila and approximately 28 kilometres by all weather gravel road from Olongapo City at Subic Bay.

The Dizon Porphyry Copper-Gold Mine operated as 50:50 joint venture between DCSMI and Benguet Consolidated Inc (“Benguet”) between late 1979 and 1997 with Benguet as the operator. Subsequent to closure of the operations, Benguet withdrew from the joint venture leaving the asset with DCSMI.

It should be noted that this porphyry copper-gold mine was the richest in gold that has been mined in the Philippines to date. The initial mining reserve was 140 million tonnes containing 0.43% copper, 0.93g/t gold and 2.5g/t Ag (Malihan, 1987, and others).

The open pit mine finally closed in 1997 after mining 110 million tonnes of ore and recovering 749 million pounds (341,388 tonnes) of copper, 3.2 million ounces of silver and 1.9 million ounces of gold (Benguet Consolidated Inc website). Closure was premature with ore remaining in the pit floor due to a wall collapse on the south-eastern portion of the pit.

Following a site inspection of the Dizon Project and discussions with former geologists and metallurgist to the previous operations in February 2004, Medusa commissioned a tenement and site status due diligence report by senior industry consultants which was satisfactory to the Company.

Medusa is not and will not be liable for rehabilitation of the open pit and associated infrastructure, waste dumps, etc. The MOU and MOA identify Medusa’s responsibility with respect to the rehabilitation of the Dizon Project is only to those areas, if any, disturbed during the Option Period and the proposed reprocessing operations.

MILL TAILINGS

The mill tailings are impounded approximately 1 kilometre from the open pit at the head of a valley behind a large earth wall dam and at their deepest point are approximately 126 metres deep. Surface run off into the dam is controlled and disposed off by a drainage tunnel that removes water to a point in the valley below the dam.

Back calculation from the publicly available data quoted above indicates that the grade of the mill tailings is in the order of 0.12% Cu and 0.39 g/t Au as follows:

Dizon Project, Mill Tailings grade & Metal content.

	MASS Mt	COPPER. % Cu	GOLD. g/t Au	SILVER. g/t Ag
Original reserve	140	0.43	0.93	2.5
: Recovered :	110	0.31	0.54	0.91
Mill tailings :	110	0.12	0.39	1.59
Contained metal :		t Cu 132,000	M ozs Au 1.38	M ozs Ag 5.62

Medusa's discussions with former metallurgists who worked at the mine have highlighted the fact that Benguet conducted preliminary testwork on the tailings to investigate the recovery of the contained gold. Using gravity concentration methods, Benguet produced pyritic concentrates containing some 15-25 g/t gold, 15-25 g/t silver, 2-3% copper and magnetite. Roasting and pressure oxidation methods were applied to recover the metals from the concentrate, but were not considered feasible.

ASSESSMENT WORK PROGRAM.

Medusa is to obtain representative samples from the Dizon tailings, to undertake preliminary metallurgical test work that will include investigation of methods to treat pyritic concentrates, and determine the viability of treating the mill tailings to recover primarily gold, and possibly silver and copper.

An assessment program of approximately 500 to 750 metres of drilling is being planned and costed to collect sufficient tailings material with which to conduct metallurgical test work. It is estimated that this fieldwork program will start late June, seasonal wet weather conditions permitting. Most of the tailings surface area is currently dry and should remain so long enough for the work to be completed. In the event that the surface does become water covered, the drilling contractor is making preparations for drilling from floating barges. Once the tailing samples have been collected, logged and packaged they will be shipped to Perth for a specifically designed metallurgical testwork program.

This assessment follows on and complements the desk top study conducted for Medusa in February 2004. Additional information is to be sourced from DCSMI and public records to complete this assessment.

COMPANY MANAGEMENT.

This assessment phase of work will be funded solely by Medusa. On execution of the Option and the proposed MOA, the parties agree to share pro rata the expenditure associated with execution of a Feasibility Study and proposed development of the reprocessing operation.

Medusa's management time of the investigative phases of the testwork program will be minimal. The program will require initial management input to set up the program, following which a contract geologist will supervise the drilling and sample collection and a

contract metallurgist will supervise the metallurgical testwork. The Company has recently gained valuable experience in dealing with similar material during the testing of the Queen River alluvials.

Once fieldwork, desktop study and testwork results are available the Company management will be intimately involved in the program evaluation and in planning commercial aspects of the proposed joint venture.

Medusa's Dizon program is flexible in that should the testwork results be inconclusive, the MOU allows for extension of the program. Similarly, the program is staged and can be terminated without further cost to Medusa.

Medusa considers the Dizon Project to meet its stated corporate focus "to acquire gold and gold-copper projects with the aim of developing a cash flow from mining within two years" of acquisition. The Dizon Project is seen as such with low capital exposure and rapid payback period, similar to the Company's Saugon Project which is currently viewed as Medusa's primary project and is managed by Medusa's joint venture partner, Philsaga Mining Corporation.

Subject to a positive evaluation over the next six months, acquisition of the Dizon Project in addition to the Saugon Project could enhance Medusa's portfolio of "near term" resource prospects able to be commissioned in a short period with a quick return on investment.

REFERENCE

Malihan, Tomas, D., 1987: The Geology Alteration and Mineralisation of the Gold-rich Porphyry Copper Mine in Western Central Luzon with Notes on its Regional Geological and Tectonic Setting. Presented in "Gold 87 in the Philippines Setting" Seminar held in Manila in December, 1987.

FURTHER INFORMATION

For further information contact the undersigned on 618-93670601 or by email to 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

Yours faithfully,

Geoff Davis.
Managing Director.

The information in the above announcement was compiled by G J Davis who is a member of the AIG with not less than 5 years experience in the relevant fields, and who consents to the report appearing in the form and context in which it appears.

