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

Dear Sir/Madam,

EXPLORATION UPDATE FROM THE SAUGON GOLD PROJECT, PHILIPPINES

The Company is advises the following:

- **FIRST HIT VEIN:** Driving on the veins at the 40m level is commencing now that the excavation of a water sump, installation of the headframe, skip and rails in the exploration winze and on the level are nearing completion;
- **MABAS PROSPECT:** Based on initial underground assay results including 1.95m @ 16.41g/t Au and 2.05m @ 23.85g/t Au, driving to extend the existing underground workings in conjunction with drilling has commenced to extend exposure of the mineralised vein from the existing underground workings;
- **PARADISE RIDGE PROSPECT:** A diamond drilling rig is being sited to commence drilling after surface sampling returned encouraging anomalous gold results.

SAUGON GOLD PROJECT (Medusa 50%)

The project is located in central eastern Mindanao in the Republic of the Philippines (Figure 1) and is accessed by the national highway over an approximate 2.5 hour drive north of Davao City. Access from the highway to the project is via 5 kilometres of gravel roads. The project is approximately 23 kilometres by road from the Co-O milling facility owned by the Company's joint venture partner, Philsaga Mining Corporation, who is the operator of the joint venture.

Medusa has earned 50% equity in this project from Philsaga as at 18 August 2004 and continuing exploration activity is now funded jointly by Medusa and partner Philsaga Mining Corporation.

Within the Saugon Gold Project area are numerous outcropping epithermal vein systems, three of which are currently being explored, being the First Hit Vein, the Mabas Prospect and the Paradise Ridge Prospect.

FIRST HIT VEIN

Geological observation to date has identified the First Hit Vein as consisting of the Main Vein and the 2B Vein, a hanging wall vein south of the exploration winze.

Underground driving

The installation of the internal headframe and skip and the excavation of a water sump in the First Hit Vein internal exploration winze (Figs. 2 and 3) is nearing completion. Driving is about to commence along the 40 metre level and will produce development ore and bulk samples for metallurgical testwork. The driving will be towards the west to outline high grade material in the 2B Vein, and towards the east to outline high grade material in the Main Vein.

The presence of high grades in the 2B Vein is supported by previously reported face sampling results at the 40m level including 0.9m @ 13.16g/t Au, 0.8m @ 14.76g/t Au, 1.15m @ 6.96g/t Au, 0.5m @ 16.33g/t Au and drill hole SDDH 2B with 1m @ 35.95g/t Au and 541g/t Ag.

The presence of high grades to the east in the Main Vein is supported by wall samples in the east wall of the winze from 6.5m to 40m depths of 1.4m average width averaging 12.9g/t Au.

Diamond drilling

As reported in the June quarterly report, drilling along strike of the First Hit Vein has shown that the mineralisation has been overprinted by calcite and barren quartz to the east and west of the winze area. New results for holes SDDH-11 and 12 have also returned values of less than 2g/t Au indicating the dilutive effect of the overprinting. Results are awaited for holes SDDH-13 and 14, and the last hole of the current drilling phase at First Hit is in progress at the western end of the prospect area. Any further drilling after this hole will depend on a review of all results to date. In the meantime development of high grade mineralisation suitable for processing at the Co-O treatment plant will continue.

MABAS PROSPECT

Dewatering and sampling of the epithermal quartz vein in old prospector workings at Mabas has located potentially mineable gold grades and widths, as shown on Figure 4. Driving has commenced to outline any mineable material based on the initial sampling grades and is expected to generate material of sufficient grade for processing. The mineralisation has some similarities with the First Hit Vein as it contains stringers of lead and zinc mineralisation.

A program of diamond drilling has also commenced to define the vein.

PARADISE RIDGE PROSPECT

The Paradise Ridge prospect forms a prominent steep sided ridge at least 500m long. Surface sampling has returned results up to 0.52g/t Au from intense surface silicification and minor quartz veining and blebs of barite.

Drilling of the first diamond drill hole is about to commence.

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.

Fig 1

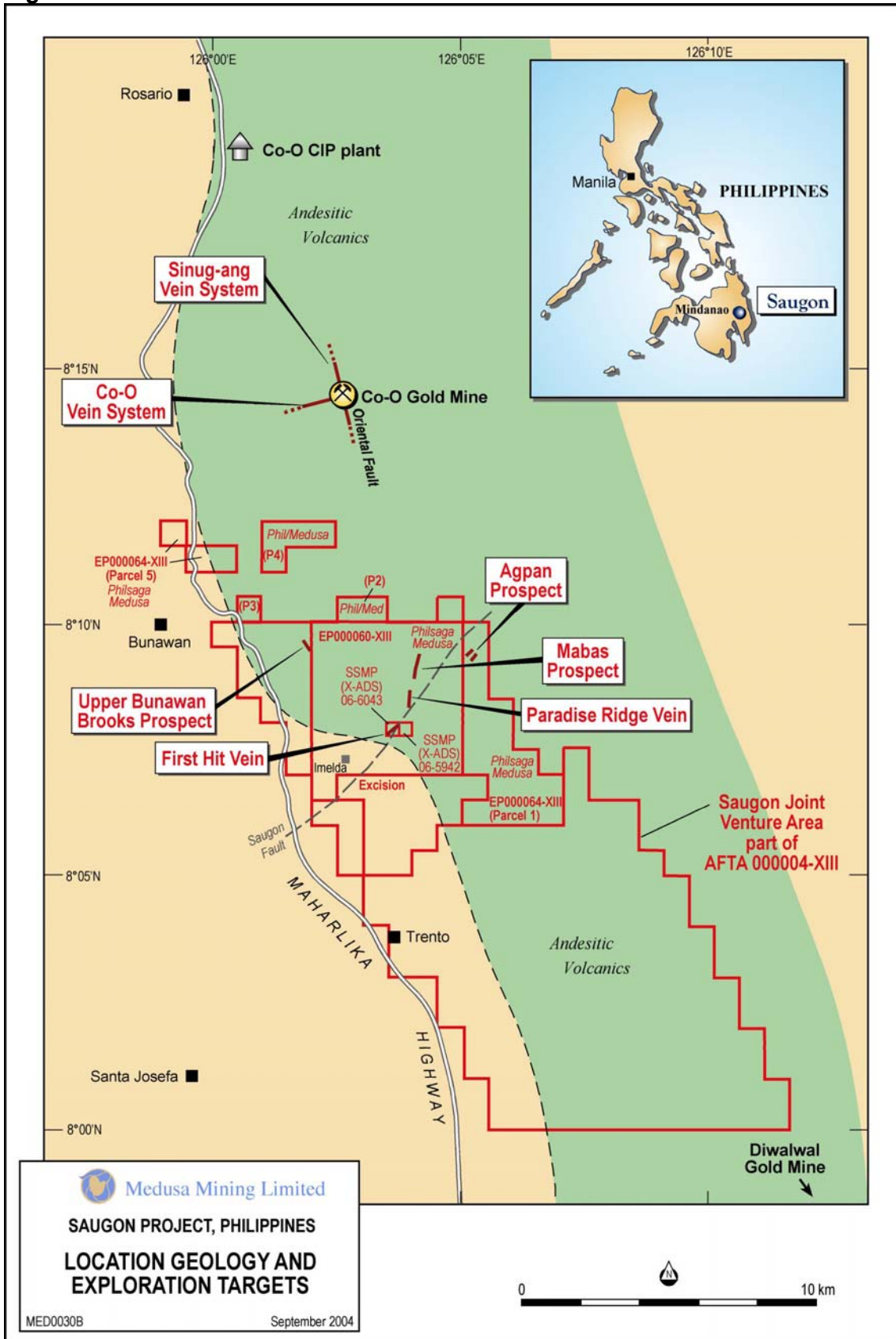


Fig 2

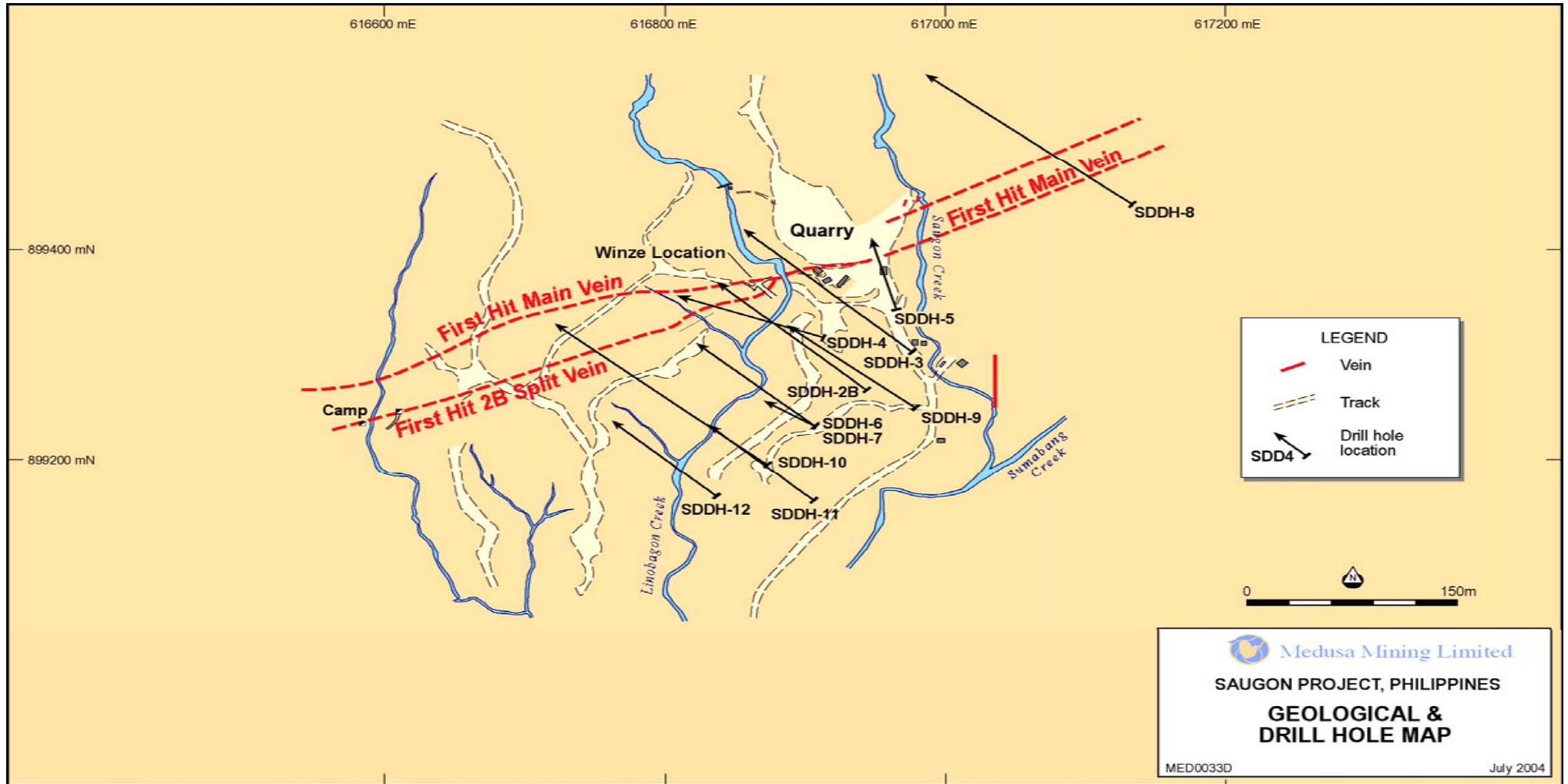


Fig 3

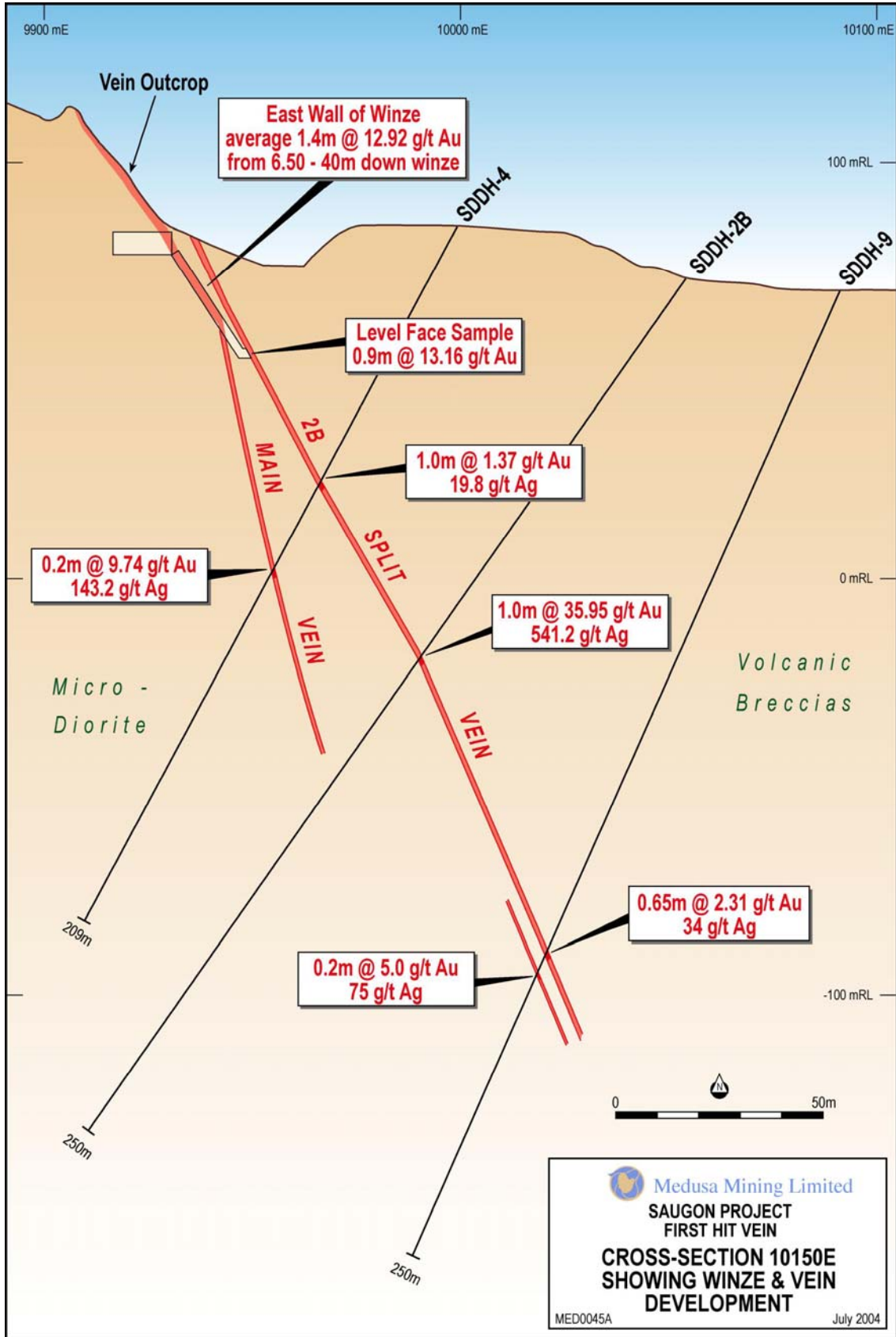


Fig 4

