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The Manager
Australian Stock Exchange Limited
Level 4
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Dear Sir/Madam,

ENCOURAGING INITIAL RESULTS, DIZON TAILINGS PROJECT, LUZON ISLAND, PHILIPPINES

Sample drilling of the top 50 metres of the Dizon tailings dam has been completed and has provided 800 kilograms of drill samples for metallurgical testwork to be conducted.

Key observations and results are:

- Bulk grades of 24 composited drill hole samples show good consistency in grades of elements analysed with average grades of 0.3 g/t Au, 0.6g/t Ag and 740 ppm Cu. The tailings also contain approximately 4% magnetite indicating the total value of contained and potentially recoverable gold and magnetite is approximately US\$5.90 per tonne. The Dizon Mine processed 110 million tonnes of ore during 18 years of operation.
 - Significant free gold and magnetite components are indicated in the initial results from metallurgical testwork on five manually produced heavy mineral concentrate "sighter" samples from the tailings, which contain between 2.7 and 11.6g/t Au. These findings suggest a potentially viable project using gravity concentration to initially extract free gold and magnetite.
 - The conceptual model being considered by Medusa is that of a low CAPEX (typically US\$5-10M) and OPEX (typically US\$1.50-2.00 per tonne) mineral sands mining and gravity processing operation to recover free gold, magnetite and sulphides. The former two products are readily saleable while testwork remains to be conducted on the potential for processing the sulphides to obtain saleable products.
 - Confirmation of the metal contents and mineral components of the tailings indicates that more advanced testwork should be undertaken. A Perth metallurgical laboratory has been contracted to conduct this work which is expected to be completed in the first quarter of 2005. Subject to positive results, a feasibility study on the proposed means of mining and processing the tailings will follow.
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THE DIZON PROJECT

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 (Fig. 1).

The Dizon Porphyry Copper-Gold Mine operated as a 50:50 joint venture between Dizon Copper and Silver Mines Inc (DCSMI) and Benguet Consolidated Inc (“Benguet”) from late 1979 until 1997 after mining 110 million tonnes of ore with Benguet as the operator. The mill tailings are impounded at the head of a valley behind an earth wall dam and at their deepest point are 126 metres deep. Subsequent to closure of the operations, Benguet withdrew from the joint venture, returning the project to DCSMI.

Medusa has signed a Memorandum of Understanding (“MOU”) with 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) upon receipt of positive results from the testwork program. The MOA contemplates that initial equities will be DCSMI 40% and Medusa 60%.

DCSMI has granted Medusa an extension of the MOU to March 2005 for the period in which to complete the metallurgical testwork.

THE BACTECH – MEDUSA JOINT VENTURE

Medusa and BacTech Mining Corporation (“Bactech”) have entered into a joint venture that will undertake investigation of gold, silver and copper sulphide mineralisation projects suitable for application of the BacTech Technology on an exclusive basis for the Philippines. The technology is successful at recovering precious and base metals from refractory sulphide mineralisation or sulphide mineralisation containing high concentrations of smelter penalty elements in sulphide concentrates.

The sulphide concentrates from the Dizon Project are the first to be evaluated by this joint venture.

EVALUATION WORK PROGRAM

1. Desktop Studies

Initial desktop studies indicated that the tailings contained sufficient metal to be potentially viable, based on previous metallurgical testwork and geological reports which identified a significant free gold component to the ore, as well as gold associated with sulphide minerals. Early work also identified a refractory gold component in sulphide concentrates derived from the tailings, indicating it may be suitable for extraction using the BacTech Technology.

2. Drill Hole Tailings Samples

Medusa has completed a drill sampling program whereby 578 metres of Denison tube coring was undertaken over 12 holes to recover 800kg of tailings material with which to conduct metallurgical test work. Average sample recovery from the drilling was high for drilling in this type of material at over 80%.

The cored tailings samples have been collected, logged onsite by a geologist, packaged and transported to the Manila Laboratory of McPhar Geoservices Phils Inc. where they were dried and composited into two groups of samples per hole. McPhar undertook head grade analysis of the 24 samples for gold, silver, total sulphur, silica and a suite of base metals.

The head grade analysis shows a strong consistency of the elements analysed for all the samples with average grades of 0.3 g/t Au and 740 ppm Cu. Subsequently the samples were airfreighted to Perth for a specifically designed metallurgical testwork program to be supervised by BacTech.

The program has been based on results and observations to date of testwork to the field gravity concentrated "sighter" samples and mineralogical examination of a gravity concentrated gold sample.

3. Gravity Concentrated Sighter Samples

As part of the sample program, Medusa's field crew collected samples from five surface sites to the tailings for gravity concentration by means of a panning dish.

The five samples were despatched to Perth, for head grade analysis and a series of metallurgical tests to provide a "sighter" to the probable heavy minerals to be gained from the cored tailings samples. These samples, varying in mass between 1.6 kg and 4.0 kg for a total mass of 14.1 kg, were considered to be representative of hand operated gravity concentration processing but not that of a machine process as would be employed on a commercial project.

The "sighter" samples were found to have:

- Head grades varying between 2.7 and 11.6 g/t Au
- Free gold varying between 74% and 78% by weight of the total assayed gold.
- Magnetite contents containing negligible gold varying between 35% and 45% by weight that was readily further concentrated by conventional magnetic separation techniques following gravity concentration.
- Sulphides containing gold, silver and copper and which have yet to be evaluated for their potential to be processed by BacTech Technology or other means.

Although there was found to be a substantial proportion of magnetite and readily cyanidable free gold within these manually concentrated "sighter" samples, the same distribution of free gold and magnetite remains to be confirmed for the drill samples which are considered to be more representative of the top 50m of the whole tailings dam.

4. Mineralogy of a Gravity Concentrated Gold Sample

Medusa's field crew also collected a gravity-concentrated gold only sample from the tailings using a panning dish.

Examination of the gold sample by a consultant mineralogist using a binocular microscope and a scanning electron microscope showed the sample to have:

- Gold as the major constituent with particle dimensions between 50 and 400 microns.
- Magnetite and lesser grains of chalcopyrite and galena.

5. Program Progress and Conceptual Project Economics

The testwork results of the "sighter" samples indicate the likely effectiveness of gravity concentration of heavy minerals in the manner of a low cost sand mining and processing operation. The metallurgical testwork about to commence on the drill samples will test this conclusion and provide a quantitative estimate of the recovery of free gold, magnetite and sulphides.

Head grades as obtained from drilling to date of the in situ tailings indicate contained metal grades of 0.3 g/t Au and approximately 4% magnetite, which at US\$450/ per oz Au and US\$40 per tonne magnetite, indicate an in situ value of US\$5.90 per tonne.

Processing the tailings in the manner of mineral sands by using dredges or hydraulic monitoring to mobilise the tailings and present them to a gravity concentration plant for concentration of free gold, magnetite and sulphides is considered conceivable and conservatively costed at US\$1.00 per tonne treated. Possibly up to another US\$1 per tonne could be considered for project logistics and management.

Hence, the potential economics of this project are encouraging the joint venture to continue the program of metallurgical testwork and a feasibility study. It is anticipated this program will be completed in early quarter two of 2005.

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.



FIGURE 1