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2 February 2005

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

Dear Sir/Madam,

TESTWORK CONFIRMS 68% AVERAGE GOLD EXTRACTION BY CONVENTIONAL METHODS, DIZON TAILINGS PROJECT, LUZON ISLAND, PHILIPPINES

Twenty four sub-samples from a total of 800 kilograms of drill samples of the tailings from the top 50m of the Dizon tailings dam have now been subjected to test work to determine the percentage of gold extractable by conventional methods.

The first phase of the test work has confirmed that:

- **An average of 68% of the gold is extractable by conventional methods confirming the previously indicated high percentage of free gold;**
- **The bulk of the remaining gold is anticipated to be associated with the copper sulphide, chalcopyrite, and pyrite and therefore potentially extractable using other techniques on a sulphide-rich concentrate;**
- **It is anticipated that a small percentage of the gold is encapsulated in silicate minerals;**
- **Test work is continuing on size analysis and production of gravity concentrates containing free gold, magnetite and sulphides; and**
- **The results will be used for process design and optimisation of the conceptual flow sheet.**

1. TECHNICAL BACKGROUND

The above work follows on from the ASX reports of 2 and 3 December 2004 which reported the following key observations and results:

- 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 were 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 suggested 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.

COMPLETED EXTRACTION TEST WORK

A total of 24 subsamples from the 800 kilograms of drill samples were subjected to cyanide extraction test work to determine the amount of gold extractable by conventional methods. The recoveries varied from 54 to 80% with an average of 68%. These results confirm previous sighter sample results and provide an encouraging base from which to proceed to size analysis and gravity separation. Provided there are no set backs during this phase of the test work, it is anticipated that additional results should be available about mid – March.

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.

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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.

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 on www.medusamining.com.au

Yours faithfully

Geoff Davis.
Managing Director

The information in the above announcement was compiled by Geoff Davis, who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the

"Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Geoff Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

FIGURE 1