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

Dear Sir/Madam,

MEDUSA ACQUIRES BARLO COPPER-GOLD-ZINC PROJECT, WESTERN LUZON, PHILIPPINES

The Company advises that it has signed a Memorandum of Understanding (MOU) with Pyro Copper Mining Corporation (Pyro Copper) which owns granted Mining and Production Sharing Agreement (MPSA) number 153-2000-1 with an area of 4,360 hectares and covering the old Barlo Copper Mine in northern Zambales.

This project adds to the portfolio of projects under the Medusa-BacTech Mining Corporation joint venture which is focused on projects with difficult to treat ores and ores with high penalty elements. The project will not divert Medusa's primary focus away from developing the high grade Co-O gold mine.

Key points derived from discussions with previous management personnel are:

- An open pit and flotation concentrator were operated for a 10 year period to 1984 during which copper concentrates were shipped to smelters. The mine is understood to have produced approximately 3 million tonnes of ore at a grade of approximately 1.5% copper and 1% zinc;
- Ore grade mineralization is visible in the walls and remains in the floors of the pits;
- Induced polarization surveys have located a number of unexplored strong conductivity anomalies around and away from the mine, one of which has been tested by one hole which intersected copper mineralisation;
- Gold was not routinely assayed during exploration or mining but circumstantial evidence and previous assays from waste dump samples to 5g/t Au indicate a potentially significant gold content, as well as zinc;
- The mineralisation is described as Kuroko style massive sulphides which generally exhibit strong metal zoning in copper, gold, silver and zinc;
- The MOU allows Medusa and joint venture partner BacTech Mining Corporation (BacTech) an Option until 31 December 2006 during which to undertake sufficient work as a basis for exercising the Option. An MOU signing fee of US\$10,000 is to be paid to Pyro Copper;

- On exercise of the Option and signing a Mines Operating Agreement (MOA), Medusa, BacTech and Pyro Copper intend to vend the project into a new entity with the consideration received to be divided in the ratio of 1/3 of for each party;
- On exercise of the Option and signing the MOA, Pyro Copper will be entitled to an additional payment to be negotiated and a 3% Net Smelter Royalty on all mineral production.

1. BACKGROUND

Barlo Mine is located approximately 320 km by road northwest of Manila (Fig. 1) and approximately 170 km north of Subic Bay and Olongapo (and Medusa's Dizon tailings project), a 5 – 6 hour drive on bitumised highways.

The prospect is located approximately 44 km north of Candalaria, and then approximately 10 km inland in a northeasterly direction from Dasol which is 27 km north from Santa Cruz. The China Sea is visible from the old mill site.

All weather access to the mine area from Dasol is initially on concreted and then gravelled roads.

The topography of the area is gently undulating to almost flat with the occasional remnant hill to 50-60m above the general topography. Creek systems are incised into the topography and are generally fairly steep sided, but all appear to be minor drainages.

The Luzon high tension power grid is located approximately 8-9 km west of the project.

2. MINE HISTORY

The project was operated by Acoje Mining Company (Acoje) from 1974 to 31 October 1984. Acoje also mined chromite and laterite nickel at that time from mines situated further east.

The Barlo deposit was discovered as a result of high grade supergene copper outcrops which were mined by tunnels and adits to produce shipping grade ore totalling approximately 55,000 tonnes at 3-7% Cu.

The 1976 resources at the Barlo deposit before development were considered by Acoje to be sufficient to construct a 1,000 tonnes per day mill for a 10 year mine life resulting in total production of approximately 3,000,000 tonnes of ore. Previous senior mine management interviewed by Medusa have advised that during the life of the mine when a mine cut-off grade of 0.3% Cu was applied, a head grade of approximately 1.5% Cu was achieved as well as containing approximately 1% zinc (not recovered), 5-10g/t Ag and an unknown amount of gold. The mill is reputed to have had an average recovery of 88% of the copper, producing concentrates with 29-32% Cu content. The concentrate was trucked from the mill to concrete storage bins at the coast, a distance of approximately 48 km and then loaded by conveyors into ships at offshore moorings. A pyrite concentrate was also produced and sold to fertilizer manufacturers.

The previous mine management has also advised that no systematic gold assaying was ever undertaken during exploration or mining, even though significant gold was reported and paid for in concentrates. The Barlo deposit was the first deposit discovered and mined in the area with only minimal surface exploration undertaken on other prospects and negligible drilling.

The mine closed prematurely due to a combination of low copper prices and management issues. It is understood that significant amounts of ore remain in the walls of the pit and in the pit floor.

3. GEOLOGY AND MINERALISATION

The deposits are described in the literature as Kuroko style massive sulphide deposits which characteristically form on the sea floor around submarine hot spring vents and commonly exhibit strong metal zoning.

At Barlo the sulphide deposits occur at an essentially sub-horizontal interface between an underlying andesite/basaltic volcanic sequence and overlying basaltic pillowed flows, breccia and fragmental sequence with

minor interbedded limestone bands. The overlying rocks commonly attain thicknesses of 20-40m and are commonly altered. The upper pillowed sequence is overlain, mainly to the west, by >20m of bedded limestones, which are in turn overlain by modern unconsolidated deposits.

It appears that the sulphides mined at Barlo were in a series of large bulbous pods, with an outer halo of clay alteration, then grading inwards to intense silica - pyrite, then massive pyrite (commonly crystalline and vuggy) followed by the base metal-rich core. There is also red jasper and epithermal quartz veining in the upper parts of some of the alteration haloes. It is also understood that some drill holes show copper-rich sulphides extending to depth below the mined sections of the deposits indicating that there may be extensive mineralised root zones to the deposits. All previous holes were drilled vertically hence no geometry was assigned to these root zones. The total number of holes that were drilled is low, and very few are outside the known mineralisation.

The deposits found to date all occur in low or valley-like areas where the overlying rocks were possibly more intensely altered and hence more easily eroded. A large number of low areas remain to be explored.

As mentioned above, no systematic gold assaying has ever been undertaken on the Barlo deposit. Subsequent samples of silica rich fragments from a pyrite stock pile at the northern end of the pits have been previously assayed up to 5g/t Au, indicative of the gold potential of these deposits.

It is understood that previous geochemical sampling outlined high order stream sediment coincident Cu-Zn anomalies with coincident soil Cu-Zn anomalies away from the mined area and reflecting mineralization most likely at least partly exposed through erosion but indicative of additional readily identifiable targets.

4. EXPLORATION POTENTIAL

Medusa has been advised that an IP survey undertaken after the Barlo pit was well advanced has shown up a large number of conductive anomalies. One of the weaker anomalies outside the pit area and to the west of the mill site been drilled intersecting 40m of sulphides with up to significant copper values, but it is understood that no other anomalies were drilled as the mine closed. This demonstrates that the IP has successfully located copper mineralised sulphides.

The project has excellent potential for the discovery of significant additional tonnages in new deposits, and as extensions at depth and laterally to the known deposits,

A program of data entry, collation and interpretation will be undertaken prior to the commencement of field work.

5. MEMORANDUM OF UNDERSTANDING

Medusa has signed an MOU with Pyro Copper over MPSA 153-2000-1 with an area of 4,360 hectares whereby Medusa has an Option to undertake work until 31 December 2006.

The tenement is the subject of a pending case at the Mines Adjudication Board (MAB) due to an overlapping Exploration Permit applied for after the MPSA was granted. It is expected that this will take 3 to 6 months to be processed, and if successful the MPSA will be re-instated immediately.

The key terms of the MOU are:

- Pyro Copper will receive a payment of US\$10,000. Pyro Copper has authorised Medusa to pursue the MAB case on its behalf;
- Medusa will be required to complete up to 1000m of drilling during the Option period, as well as comply with tenement expenditure obligations;
- On resolution of the MAB case, the parties will negotiate a further payment to Pyro Copper to be paid on signing of the MOA below;
- On decision to exercise the Option, the parties will negotiate and execute an MOA.

Key terms of the MOA are:

- Pyro Copper will receive the payment to be determined as described above;
- Pyro Copper will be entitled to a 3% Net Smelter returns royalty on all minerals produced;
- The parties then intend to vend the project into a new corporation for a consideration to be determined by an independent valuation. The consideration received by the three parties will be divided equally.

6. MEDUSA –BACTECH JOINT VENTURE

Medusa and 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.

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.



MARIAN GOLD MINE

BARLO PROJECT

DIZON PROJECT

MARIAN GOLD MINE

DIZON PROJECT

PHILIPPINES

SAUGON PROJECT

INDONESIA

PAPUA
NEW GUINEA

AUSTRALIA

Perth

1000km

15°N

Olongapo City

Manila

South China Sea

MINDORO

SAMAR

PANAY

NEGROS

CEBU

LEYTE

Surigao City

10°N

Sulu Sea

Co-O Gold Mine

SAUGON PROJECT

MINDANAO

Davao City

5°N

120°E

Celebes Sea

125°E

0 250km

