



MEDUSA MINING LIMITED

ABN: 60 099 377 849

Unit 7, 11 Preston Street
Como WA 6152

PO Box 860
Canning Bridge WA 6153

Telephone: 618-9367 0601
Facsimile: 618-9367 0602

Email: admin@medusamining.com.au
Internet: www.medusamining.com.au

10 August 2005

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

Dear Sir/Madam

**MEDUSA EXECUTES LEASE AND OPTION AGREEMENT TO ACQUIRE
PHILSAGA'S PLANT**

Medusa Mining Limited ('Medusa') is pleased to advise that it has secured access to cashflow by executing a Lease and Option Agreement with Philsaga Mining Corporation ('Philsaga') and its Principal Shareholders ('Principal Shareholders') to acquire Philsaga's treatment plant and associated facilities ('Plant') under the following terms and conditions:

- Medusa to make a payment of A\$2,000,000;
- Medusa to provide A\$1,000,000 for contractors to purchase equipment for the provision of services to the mine;
- Medusa has the option to acquire the Plant within 3 years; and
- Philsaga to supply feed for the Plant under an Ore Supply Agreement.

On completion, Medusa will be elevated from its current status of explorer to gold producer.

Lease and Option Agreement to Acquire Plant

Under the terms of the Lease and Option agreement executed on 5 August 2005 between Medusa and Philsaga, Philsaga have agreed to provide Medusa with a 3 year Lease and Option to acquire Philsaga's treatment plant and associated facilities.

The Lease and Option Agreement will enable Medusa to process ore and produce gold to generate cashflow plus the right to acquire the Plant anytime during the 3 year period.

A summary of the key terms of the Lease and Option Agreement include the following:

- Medusa to make a payment of A\$2,000,000;
 - Medusa to provide A\$1,000,000 for the contractors to purchase equipment for the provision of services to the mine;
 - Medusa has a 3 year lease of the Plant with an option to acquire the Plant anytime during the period; and
-

- A company associated with the Principal Shareholders of Philsaga and Philsaga will project manage all aspects of the Plant operations on a cost plus 15% basis.

Ore Supply Agreement

Under an Ore Supply agreement between Medusa and Philsaga, Philsaga has agreed to provide a minimum of 2,000 tonnes per month of ore feed for the Plant for a 3 year period at cost plus 15%.

Summary of Plant Included in the Lease and Option Agreement

- The CIP plant is BHP designed and built with a name plate capacity of 550 tpd and situated approximately 12 km north of the Philsaga's Co-O Gold Mine. Minor alterations are required to increase the crushing and grinding throughput to 700 tpd and further modifications could maximise the crushing and grinding capacity at 1,000 to 1,100 tpd.
 - Power to the CIP plant is supplied from the local grid with the high tension power line located approximately 150 metres from the plant. Back up diesel generators installed by a previous operator prior to the construction of the transmission line are operational and available; and
 - The other associated facilities include administration offices and assay laboratory, a warehouse, mechanical and machine shops, messing and accommodation facilities and geological offices and core storage facilities.
 - Production statistics for the Plant for the period 2002 to 2004 inclusive are as follows:
 - The Co-O Plant feed was dependant on ore mined and monthly production was variable between a maximum of 2,950 tonnes (91 tpd) for May 2003 and 1341 tonnes (45 tpd) for September 2003. The throughput for 2004 was steadily improved each month from 1,434 tonnes (46 tpd) in January 2004 to 2,603 tonnes (84 tpd) in September 2004, with a daily average of 59 tpd for the first half and 72 tpd for the second half year.
 - The relationship between the calculated plant head grade and the ROM assigned head grades, which are based on face samples to the stopes and ore drives, was consistent whereby the ROM assigned grade was between 7% and 13% higher than the calculated head grade.
 - The tails grade has been steadily improved such that the Co-O Plant is able to achieve a discharge grade of less than 1 g/t Au with resultant plant recovery of 96% for the fourth quarter to 2004.
 - The Co-O Plant unit cash cost of production has been US\$20, US\$27 and US\$28 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant repair expense in 2004 that is not expected to re-occur.
 - Administration to the Co-O Operations has been US\$16, US\$22 and US\$37 per tonne for the years 2002, 2003 and 2004 respectively. This expenditure reflects the increasing degree of exploration related administration, including tenement applications and court cases, particularly in 2004, that are not expected to be repeated.
 - The Co-O Mine unit cash cost of production has been US\$67, US\$78 and US\$96 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant expense in 2004 for rehabilitation of the 3185mL return airway, development costs on the 3150mL to connect with the Tinago Shaft. The unit cost reflects the small scale mining contract rate for ore production that is to be reduced with the introduction of "bore & fire" operations.
-

Co-O Plant Production Statistics

Item	Unit	2002	2003	2004
ROM production	tonne	17,032	22,580	21,416
	g/t Au	32.0	27.54	26.3
Plant feed	tonne	18,772	22,901	21,736
	g/t Au	29.9	23.4	22.3
Tails grade	g/t Au	2.57	1.89	1.18
Recovered gold	ozs Au	16,709	17,590	15,530
Unit cash cost - Mining	US\$/t	67	78	96
Unit cash cost - Processing	US\$/t	20	27	28
Unit cash cost - Administration	US\$/t	16	22	37
Total unit cash costs:	US\$/t	103	127	160

Under the terms of the Ore Supply Agreement, Philsaga has to provide a minimum ore feed of 2,000 tonnes of gold bearing ore per month.

Benefits Associated with the Transaction

Completion of the transaction would give Medusa the following benefits:

- control of a profitable Plant that will treat high grade ore from the Co-O Gold Mine and potentially other ore sources;
- milling facilities which can be expanded as and when required depending on production increases; and
- an existing workforce, management and infrastructure that are working effectively and co-operatively with local communities.

Timing and Completion

The parties anticipate completion of the Lease and Option agreement to be mid September 2005.

The transaction is not subject to any mandatory statutory and regulatory approvals, however the Company will be required to raise a minimum of A\$4.5 million to complete the financial requirements of the transaction and also to provide working capital for the Company's other exploration projects and general overhead expenditures.

Details of any fund raising will be provided when available.

Geoff Davis
Managing Director
