



MEDUSA MINING LIMITED

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5 September 2005

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

Dear Sir/Madam,

SHORTFALL AGREEMENTS – KEY TERMS AND CONDITIONS

On 2 September 2005 the Company announced that it had secured commitments to fully underwrite any shortfalls in the Company's \$6 million Rights Issue ("Issue"). The agreements are in the nature of shortfall placement agreements ("Agreements") and consistent with the Issue Prospectus of 12 August 2005 by which the Directors of the Company reserved their right to place shortfall at their discretion and pay a placement fee of approximately 5% of the shortfall subscription moneys.

Outlined below are key terms and conditions relating to the Agreements and also the names of participants to the Agreements and the maximum amounts that may be placed to the participants.

Key terms and conditions the Agreements:

1. The offer is only applicable to shares remaining in the Issue after:
 - (a) the take up of subscription & payment of entitlements by shareholders; and
 - (b) the application & payment of additional shortfall shares by shareholdersas per the Issue Prospectus lodged with ASIC and ASX on 12 August 2005;
2. The issue price will be 60 cents per share (the same as for shareholders);
3. Participants in the Agreement will be entitled to 1 free option exercisable at 20 cents on or before 31 January 2007 for every 4 shares subscribed for (the same as for shareholders);
4. Participants will be notified ("Notification Date") within 5 business days after 8 September 2005 (being the Closing Date for the Issue) of the number of new ordinary shares they will be obliged to accept;

5. Participants must within 5 business days of the Notification Date make payment for the new ordinary shares and complete a shortfall application form;
6. A fee of 5% will be payable on the value of new ordinary shares issued to the participants (ie number of shortfall shares actually allotted multiplied by 60 cents); and
7. The participants may withdraw from the Agreements if:
 - (a) the All Ordinary Index of the ASX falls by more than 15%; or
 - (b) there is a fall of 15% or more in the price of spot gold; or
 - (c) news that the Reserve Bank of Australia intends to increase interest rates by more than 1.5% at the date of the Agreements; or
 - (d) other material adverse events occur.

The names of participants and the maximum amounts that may be placed:

• Forty Traders Limited (NZ Institution)	\$3,000,000
• Shannon & Co AC Corporate Finance	\$500,000
• Finance Associates Pty Ltd	\$500,000
• Yarandi Investments	\$300,000
• Delta Securities	\$1,000,000
• State One Stockbroking	\$700,000

The actual number of shortfall shares placed to a participant will be at the discretion of the Directors of the Company.

The Company also wish to advise that there are no related party involvement in the Agreements.

Yours faithfully



Geoff Davis
Managing Director