



MEDUSA MINING LIMITED

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The Manager
Australian Stock Exchange Limited
Level 4
20 Bridge Street
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Dear Sir/Madam

Co-O GOLD MINE DEVELOPMENT UPDATE, PHILIPPINES

• **SHAFT SINKING**

Philsaga Mining Corporation (“Philsaga”) has advised that 2 inclined shafts from the 3150m level are under development with the 10W Shaft completed to the 3080m level and the 3W Shaft is in progress to the 3030m level.

• **LEVEL DEVELOPMENT**

Level development from the 10W shaft on the 3080m level is underway in preparation for stoping from the Central Vein and the Breccia Vein. Stoping is expected to commence in March.

Driving to the east of the Oriental Fault has returned the following:

| | |
|---------------|--|
| Central Vein: | (i) 3080m level for the first 50 metres along the drive, an average vein width of 1.4 metres and grade of 14.4 g/t Au; and (ii) 3030m level for the first 70 metres along the drive, an average vein width of 1.75 metres and grade of 24.6 g/t Au. |
| North Vein: | 3080m level for the first 32 metres along the drive, an average vein width of 1.3 metres and grade of 4.8 g/t Au. |

• **DRILL HOLE RESULTS**

The first Philsaga drill hole from surface in the vicinity of the Tinago Shaft at the western end of the workings has returned the following:

| | | |
|--------|-------------------------|----------------------------|
| TIN 03 | 27.10 to 29.45 metres | 2.35 metres @ 7.15 g/t Au |
| | 183.80 to 187.55 metres | 3.80 metres @ 21.15 g/t Au |
| | 191.48 to 197.40 metres | 6.60 metres @ 2.45 g/t Au |

Further drilling is in progress to determine future plans for the Tinago Shaft.

1. BACKGROUND

The locations of the Company's projects are shown on Figure 1.

On 23 January 2006, Medusa Mining Limited ("**Medusa**") announced to the ASX it had received notification from Philsaga that the Mines and Geosciences Bureau had granted **Special Mining Permit ("SMP")** number 05-2006 covering the Co-O Gold Mine while Philsaga awaits the approval of Mineral Production Sharing Agreement ("**MPSA**") application denominated as APSA No. 000084-XIII.

The SMP is **independent and mutually exclusive**, and will be replaced by the MPSA when the MPSA is granted.

The SMP, which has **identical terms and conditions as an MPSA**, enables Philsaga to conduct commercial full scale mining operations at the Co-O Gold Mine for a period of one year, renewable for like period.

2. SHAFT SINKING

Medusa has been advised by Philsaga that two inclined shafts are in progress at the Co-O Mine to enable production to reach 300 tonnes of ore per day commensurate with the Co-O Plant refurbishment program due for completion mid-year.

Figure 2 shows a plan view of the underground workings at adit level (3150m level) and the location of the new shafts. Each shaft is fully timbered, comprises two compartments, a haulage way for 1 tonne skips and a ladder way, and is inclined at 60°. The inclined shaft design was chosen as the capital costs of winders are considerably less than that required for a vertical shaft. Each shaft is designed to haul 150 tonnes of ore and 50 tonnes of waste per day.

Figure 3 shows an updated long section of the Co-O Mine with the shaft positions marked.

The 10W Shaft has been sunk between the Central and Breccia Veins to facilitate access to both from the base of the shaft. Driving along both veins is in progress which will result in the development of stoping positions as the drives move forward. The Central Vein to the west of the shaft contains large blocks of ore remaining behind after previous mining operations which took only the soft sections of the vein, and driving will continue westwards towards the Tinago Shaft to define additional ore grade mineralisation. Once development is sufficiently progressed, drill cuddies will be cut on this level to enable the commencement of underground drilling of both the Central and Breccia Veins at depth to be undertaken, as well as drilling north and south to explore for other parallel veins.

The 3W Shaft is being sunk to facilitate development and stoping of the veins east of the Oriental Fault. The shaft is expected to reach its full depth during April with driving and stoping commencing in May-June.

On completion of the 3W Shaft, another inclined shaft will be commenced from the 3030m level to facilitate development and production from the deeper sections of the veins on the east side of the Oriental Fault. As shown on Figure 3, the veins on the east side of the Oriental Fault have been down thrown by at least 200 metres with the top of the vein system here at approximately the 3150m adit level. The potential depth extent of the veins provides Philsaga with a considerable degree of confidence that the veins on the east side of the Oriental Fault will extend to great depth below the adit level, at least to the equivalent depth of the veins on the west side of the Oriental Fault which currently extend from surface to a depth of 250 metres and show no sign of weakening mineralisation.

3. LEVEL DEVELOPMENT

Limited level development has been undertaken on the east side of the Oriental Fault due to restricted haulage capacity but has successfully confirmed the drill hole intersections previously achieved in this area, as announced on 17 August 2005 and listed below:

| Hole | East | North | Azimuth | Dip | From | Vein intersection g/t Au |
|------|---------|---------|---------|-----|--------|-------------------------------|
| MD1 | 613,862 | 912,907 | 75 | 46 | 164.60 | NORTH: 1.20 metres @ 13.46 |
| | | | | | 178.00 | CENTRAL: 1.65 metres @ 28.54 |
| MD2 | 613,948 | 912,850 | 23 | 53 | 199.40 | NORTH: 2.60 metres @ 45.19 |
| | | | | | 221.60 | CENTRAL: 11.70 metres @ 21.30 |
| MD3 | 614,000 | 912,847 | 23 | 60 | 102.90 | HW VEIN: 1.50 metres @ 9.91 |
| | | | | | 242.90 | NORTH: 1.00 metres @ 0.64 |
| | | | | | 260.50 | CENTRAL: 1.70 metres @ 5.85 |
| MD4 | 614,000 | 912,847 | 23 | 50 | 141.20 | HW VEIN: 3.90 metres @ 12.35 |
| | | | | | 181.50 | NORTH: 2.10 metres @ 1.70 |
| | | | | | 205.60 | CENTRAL: 1.10 metres @ 8.63 |
| MD5 | 614,060 | 912,800 | 23 | 45 | 201.00 | NORTH: 1.80 metres @ 1.77 |
| | | | | | 229.50 | CENTRAL: 0.80 metres @ 3.41 |
| MD6 | 614,240 | 912,810 | 350 | 45 | 267.25 | NORTH: 0.27 metres @ 3.81 |
| | | | | | 270.22 | CENTRAL: 0.68 metres @ 6.47 |

The intersections in MD1 correspond well with the driving on the 3080m level as shown on Figure 3 with the first 50 metres along the Central Vein achieving average vein width of 1.4 metres at an average grade of 14.4 g/t Au, and the first 32 metres of driving along the North Vein achieving an average vein width of 1.3 metres at an average grade of 4.8 g/t Au.

The intersections in MD2 correspond well with the driving on the 3030m level as shown on Figure 3 with the first 70 metres along the Central Vein achieving an average vein width of 1.75 metres and an average grade of 24.6 g/t Au.

The concept of increasing grade and vein width with depth (as observed to the west of the Oriental Fault) is well supported by the results from the Central Vein 3080m and 3030m level drives to date.

Driving on the 3030m level will be recommenced once the 3W Shaft is completed.

4. DRILL HOLE RESULTS

Philsaga has commenced drilling from the surface to explore at depth around the Tinago Shaft to facilitate planning for further development in this area, and importantly to determine the role that the Tinago Shaft will play in the future of the mine.

Figure 2 shows numerous veins that were partly developed on by the previous mine operators to the west of the Tinago Fault. This fault is regarded as major fault, perhaps similar to the Oriental Fault in the way it may affect the distribution and vertical position of the veins in the western end of the mine.

The first recently completed hole TIN 003 has intersected 3 mineralised zones. The first zone at 27.1 metres is a new quartz vein to the north of the known veins, and the second and third zones at 183.8 metres and 191.48 metres respectively consist dominantly of multiple brecciated quartz veins and veinlets and clay-pyritie zones, similar to stockworks. Additional holes are in progress to determine the extent and geometry of these zones.

| Hole No | Northing | Easting | Elevation | Dip | From | Intersection |
|---------|----------|---------|-----------|------|--------|----------------------------|
| TIN003 | 913184 | 613382 | 218 | -50° | 27.10 | 2.35 metres @ 7.15 g/t Au |
| | | | | | 183.80 | 3.80 metres @ 21.15 g/t Au |
| | | | | | 191.48 | 6.60 metres @ 2.45 g/t Au |

One underground drill hole has also been completed on the 3150m adit level to explore for vein extensions beyond the Tinago Fault in areas not previously explored by underground development. Hole K003 intersected 7.15 metres at 11.94 g/t Au which was found to have a true width of approximately 0.4 metres when intersected in follow up development.

| Hole No | Northing | Easting | Elevation | Dip | From | Intersection |
|---------|----------|---------|-----------|-----|-------|---------------------------|
| K003 | 913024 | 613332 | 156 | 0° | 14.20 | 7.5 metres @ 11.94 g/t Au |

FURTHER INFORMATION

For further information contact the undersigned on +618 9367 0601 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. Location diagram for the Company's projects

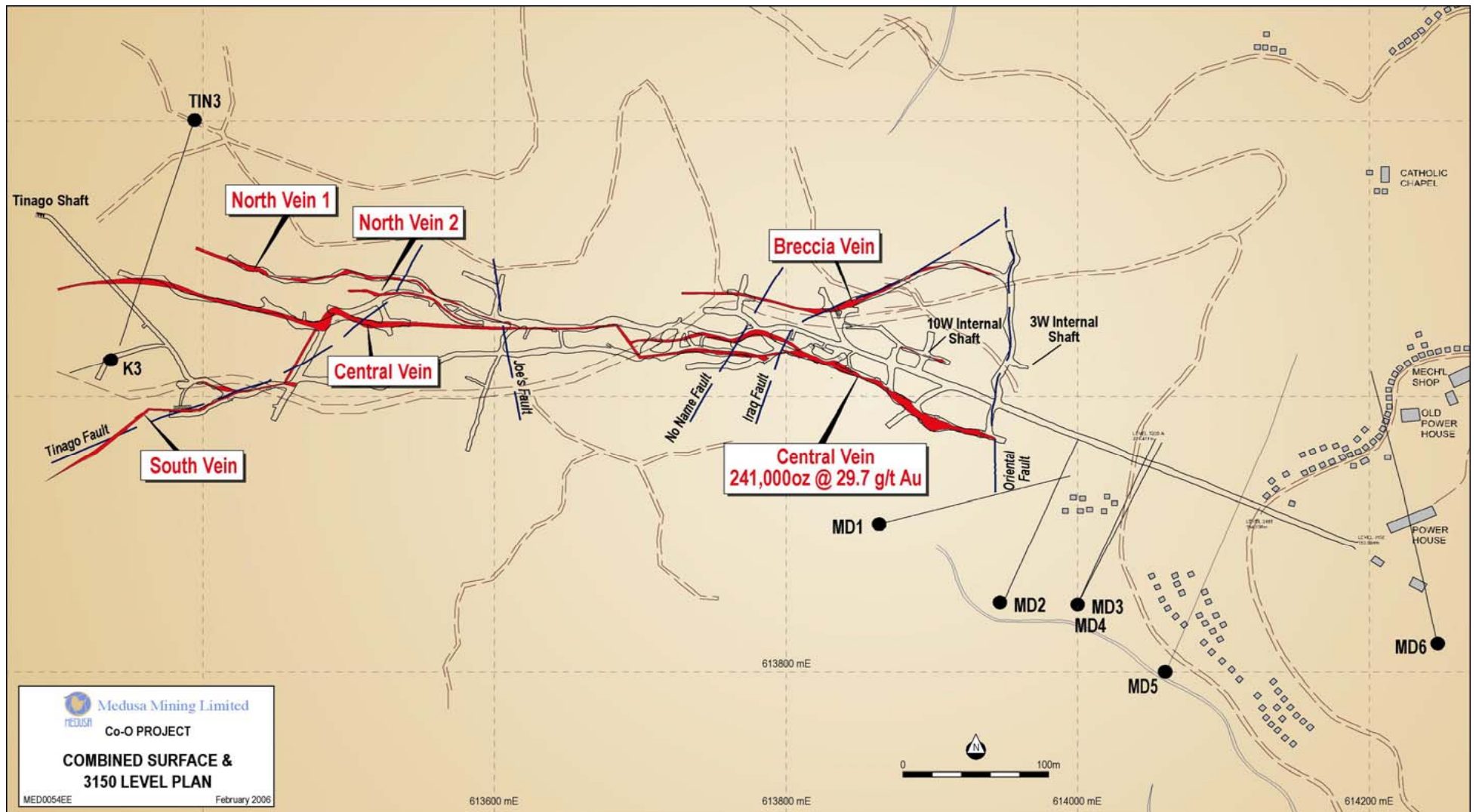


Figure 2. Combined Co-O Mine and surface diagram showing the adit level workings (3150m Level) and veins

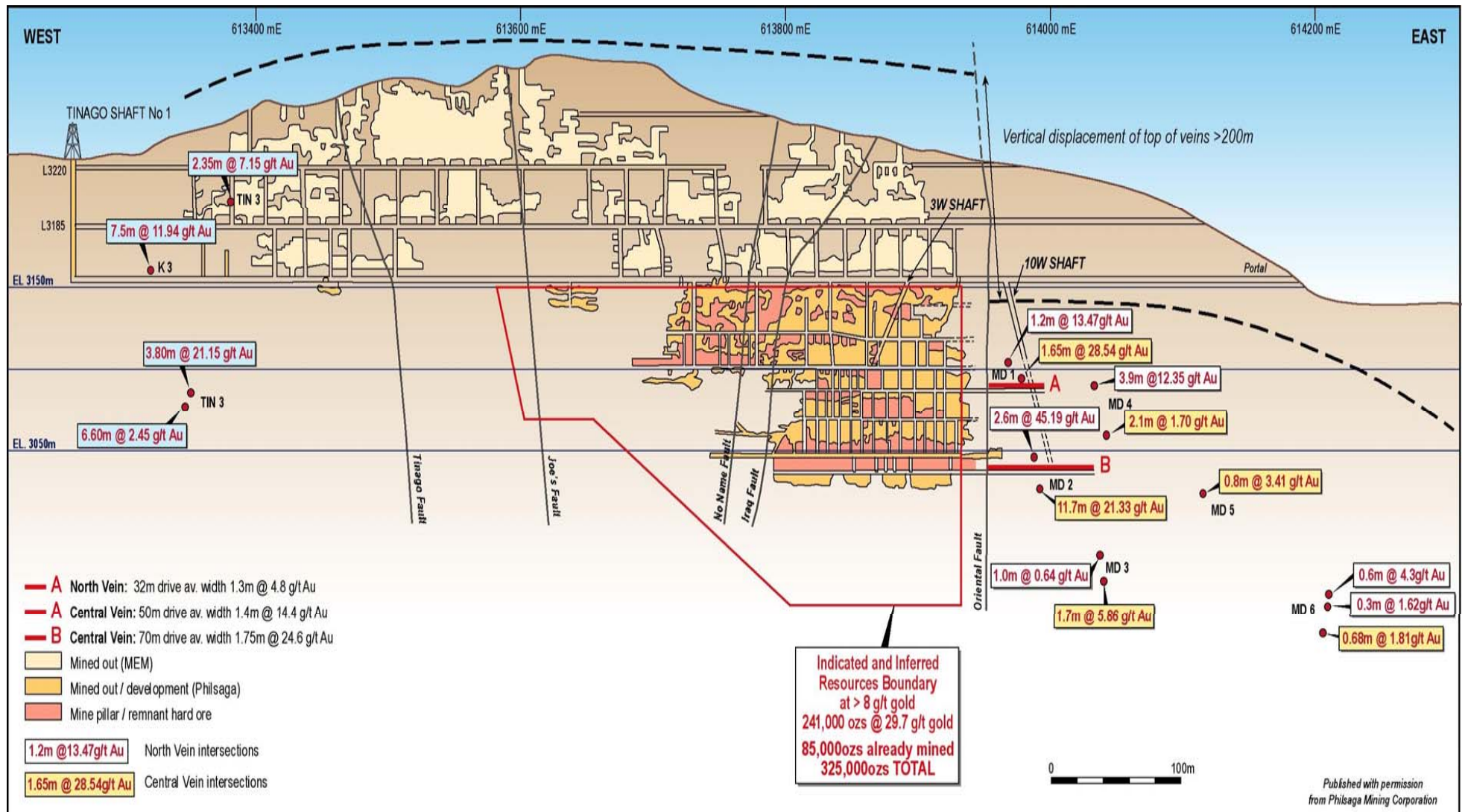


Figure 3. Co-O Mine longitudinal projection of the Central Vein, drill hole intersections and new development data