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23 February 2006

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

Dear Sir/Madam,

## **ACQUISITION OF PORPHYRY COPPER-GOLD PROSPECT, DAS-AGAN PROJECT, PHILIPPINES**

Medusa Mining Limited ("Medusa") is pleased to advise that, through its Filipino subsidiaries and in joint venture with Philsaga Mining Corporation, it has signed a Mines Operating Agreement ("MOA") with private vendors of the Das-Agan Project contained in two parcels, one to the north of and the other to the south-east of the Co-O Project.

The south-eastern parcel containing the Lingig porphyry copper-gold prospect (within an alteration envelope measuring at least 2.5 km by 3.5 km and open) was previously drilled in 1972-74 by one hole which intersected quartz diorite porphyry containing:

• 0 - 100 metres	Altered rocks
• 100 - 200 metres	100 metres @ 0.40 % Cu
• 200 - 248 metres	48 metres @ 0.50 % Cu, 0.1g/t Au
• 248 - 250 metres [End of Hole]	2 metres @ 4.93 % Cu, 0.5g/t Au

The porphyry is 1,500 metres north of a large circular quartz veined breccia plug measuring 750 metres x 1,200 metres which was sampled in the mid 1990s and returned gold values between 0.1 and 1.3 g/t Au. A second quartz stockwork zone in silicified rocks was also identified measuring 500 metres x 600 metres.

Medusa is acquiring the rights to 100% of the project for which the vendors will receive a 3% gross royalty on all metals produced and re-imburement of expenses totalling Php12M (approximately A\$318,000) with the issue of 601,367 shares based on an average price of \$0.53 and issued in four equal tranches of 150,417 shares over a period of at least two years (details of which are outlined below).

## Background

The MOA covers Mining Production Sharing Agreement application ("APSA") number 000024-XIII situated in Surigao del Sur province in east Mindanao, consisting of two parcels, one to the north and one to the south-east of the Co-O mine and millsite as shown on the accompanying map. The APSA covers approximately 8,019 hectares (80 km<sup>2</sup>) of the favourable geology of the east Mindanao ridge.

The project was located as a result of an aid program between Filipino and Japanese geologists and technicians in 1972 to 1974 over eastern Mindanao. An initial 3000 km<sup>2</sup> prospective area was located by geological and geochemical surveys and which was subjected to additional geological mapping and geochemistry. A smaller 170 km<sup>2</sup> area was selected and subjected to detailed geological mapping and geochemistry followed by Induced Polarisation ("IP") geophysical surveys. Subsequently a program of five holes was completed on five different targets with hole DDH1 intersecting quartz diorite porphyry containing:

• 0 - 100 metres	Altered rocks
• 100 - 200 metres	100 metres @ 0.40 % Cu
• 200 - 248 metres	48 metres @ 0.50 % Cu, 0.1g/t Au
• 248 - 250 metres [End of Hole]	2 metres @ 4.93 % Cu, 0.5g/t Au

The quartz porphyry is located within an alteration area measuring at least 2.5 km x 3.5 km and open in most directions. The alteration and the porphyry position appear to be controlled by two parallel NNE trending faults. The first and only drill hole results bode well for a major, fully preserved porphyry copper deposit which is exhibiting increasing grades with depth, and suggesting that DDH1 was stopped short of the high grade core that is commonly present in these styles of deposit. Further drilling at this site was recommended but not carried out. The other four holes to the south intersected minor copper mineralization.

Epithermal veins up to 1 metre wide adjacent to the porphyry and interpreted to be related to it, have been worked sporadically by local prospectors.

In 1997 Barrick Gold Philippines assessed the project for its gold potential through mapping and collection of 110 rock samples. During this work a large circular quartz veined breccia plug measuring 750 metres x 1,200 metres and located approximately 1,500 metres south of drill hole DDH1 was identified and sampled returning gold values between 0.1 and 1.3 g/t Au.

Fresh rocks with disseminated grains sphalerite (zinc) and galena (lead) were found to have higher gold values ranging from 0.3 to 1.3 g/t Au than intensely weathered rocks suggesting some surface leaching effects. The lead-zinc association is consistent with the gold mineralization associations in the Co-O Mine area.

A second zone of silicified rocks with quartz stockworking was identified over an area of approximately 500 metres x 600 metres but no assays are currently available for this target.

The key terms of the MOA are:

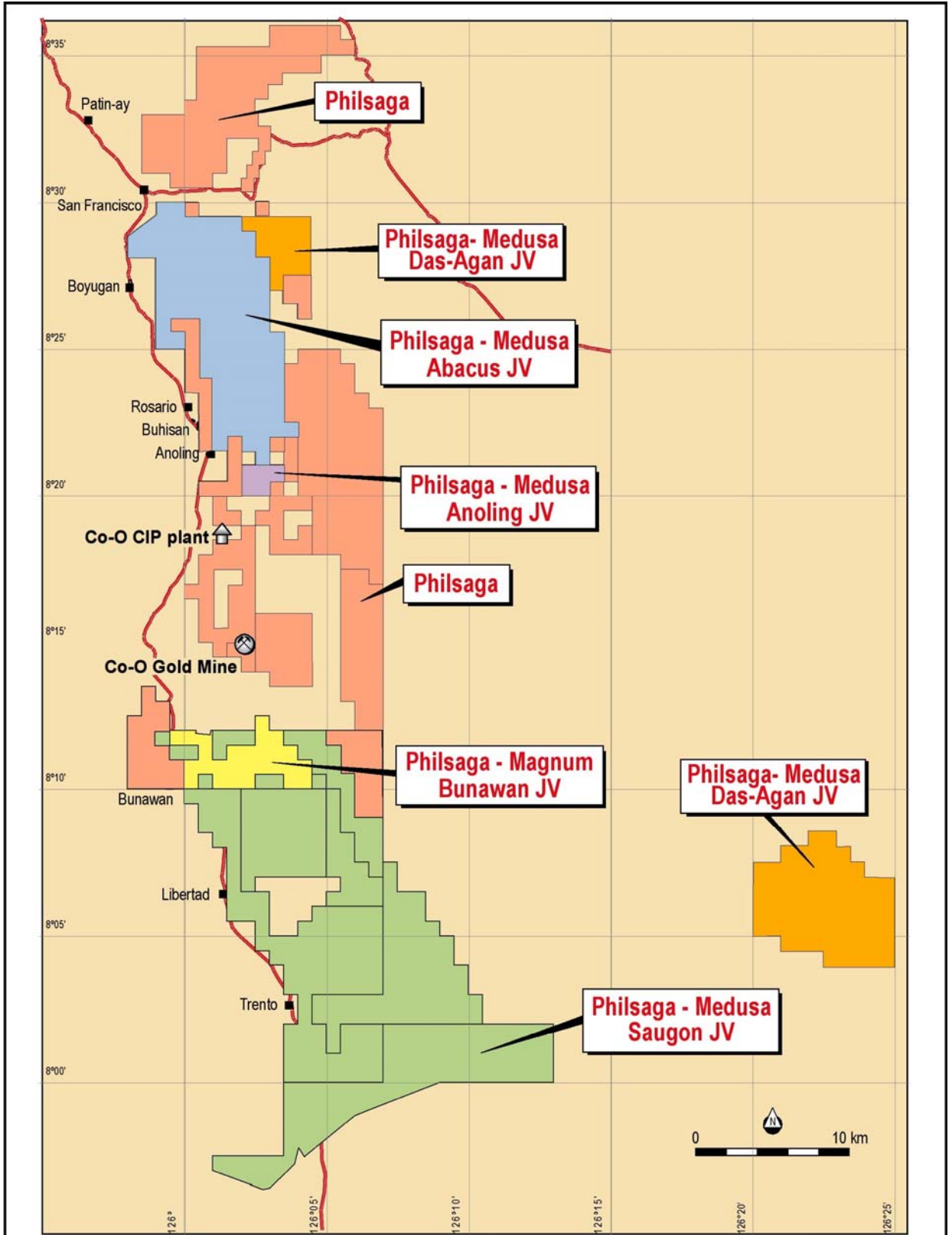
- The Vendors are to be re-imbursed for past expenses totalling Php12M (approximately A\$318,000) with the issue of 601,367 Medusa shares based on an average price of \$0.53 being 10% discount to market for the 5 days preceding 20 February, and issued in four equal tranches of 150,417 shares with first tranche within 30 days of signing the agreement, the second tranche on granting of the tenement, and the third and final tranches, on the 1<sup>st</sup> and 2<sup>nd</sup> anniversary after granting of the tenement;
- The agreement is subject to completion of tenement due diligence within 30 days;
- Medusa will pay to the vendors a 3% gross royalty on all production from the tenement; and
- Medusa is responsible for all costs incurred to progress the APSA to granting.



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.*




**Medusa Mining Limited**  
**Co-O SAUGON GOLD PROJECT**  
**PHILIPPINES**  
**REGIONAL TENEMENT MAP**  
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