



MEDUSA MINING LIMITED

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

Dear Sir/Madam,

PHILSAGA TRANSACTION – COMPLETION & CONSOLIDATION

Medusa Mining Limited (“Medusa”) is pleased to advise that it has executed a Variation Deed with the Principal Shareholders of Philsaga Mining Corporation (“Philsaga”) whereby Medusa will complete the Philsaga Transaction upon the listing of Medusa on the Alternative Investment Market (“AIM”) in London in the second half of this year.

The key terms of the Variation Deed are:

- **payment of the outstanding cash component of A\$13 million** (which the Company intends to fund via a capital raising concurrent with the proposed AIM listing); and the
- **issue of 25 million Medusa shares** (which will be held in voluntary escrow for a period of 12 months or until such time as the Co-O Mine Mineral Production Sharing Agreement (“MPSA”) is issued, whichever is the latter, or upon a change in control in Medusa).

This is the final step in consolidation of the Co-O region and the assets of Philsaga and Medusa.

BENEFITS OF COMPLETION

Completion of the transaction will consolidate the region and give Medusa the following benefits:

- control of profitable high grade gold mining operations;
- an initial production of approximately 40,000 ounces on an annualised basis produced at cash costs of less than US\$200 per oz;
- milling facilities which are centrally located and can be expanded as production increases from multiple mine sites;
- control over >700 km² of highly prospective tenements which will facilitate modern and systematic exploration for the first time ever; and
- an existing workforce, management and infrastructure that are working effectively and co-operatively with local communities.

PHILSAGA TRANSACTION

Background

The formal Share Purchase Agreement with the Principal Shareholders of Philsaga was executed on 19 February 2005. This has now been modified by a Variation Deed dated 29 July 2006 enabling the Philsaga Transaction to proceed to completion.

Until signing of this Variation Deed, the completion of the Philsaga Transaction was subject to a Condition Precedent concerning the overlapping of timber concessions with surface rights and with that of underlying mineral rights. Under the Philippines Constitution, the Regalian Doctrine applies which separates surface rights from mineral rights and under which all minerals are owned and controlled by the State. The case which has been won by Philsaga in two lower courts has been elevated to the Supreme Court by the litigant (a timber concession owner) in an attempt to prevent the government from issuing the MPSA.

Corporate Consolidation

The merger of Medusa and Philsaga completes the planned strategy of consolidating tenements, operating mines, plant and administration facilities and two experienced management teams. As the plant is the only one in the district, the merged group of companies has a strategic advantage to maximise the development of any gold deposit discovered within trucking distance of the plant.

Completion

As Medusa and Philsaga have agreed to proceed to completion, the outstanding granting of the MPSA owned by Philsaga over the Co-O Mine is no longer a Condition Precedent for Completion. As Philsaga was granted a Special Mining Permit over the Co-O Mine in January 2006 allowing full scale mining to commence, the Philsaga Transaction will now proceed on a two stage basis as follows:

- On a successful listing and capital raising on AIM in the second half of 2006, payment of the outstanding cash component of the acquisition of A\$13 million, comprising A\$12 million to the Philsaga Vendors and A\$1 million to contractors to purchase equipment to service the mine; and
- On Completion, issue the outstanding 25 million fully paid Medusa shares which will be held in a 12 month voluntary escrow period until the latter of 12 months or the issue of the Supreme Court decision and granting of the MPSA, or upon a change of control in Medusa.

In addition the vendors will continue to receive:

- A royalty of US\$20 per ounce of recovered gold mined from the eastern side of the Oriental Fault, capped at US\$10 million; and
- A 10% share of any cash or shares received by Medusa in the event that a large deposit is discovered and subsequently acquired by a major company.

Co-O PLANT LEASE AND OPTION

Under the terms of the Lease and Option agreement executed on 5 August 2005 and completed on 27 September 2005, between Medusa and Philsaga, Philsaga agreed to provide Medusa with a three year Lease and Option to acquire Philsaga's treatment plant and associated facilities ("**Co-O Plant**").

On 1 October 2005, the Lease and Option to Purchase agreement came into effect enabling Medusa to commence producing gold, develop the Co-O Mine and re-furbish the plant in preparation for the major step up in production in the third quarter of 2006. The Plant Lease and Option Agreement, which will be exercised upon Completion, is summarised below.

1. Lease and Option Agreement

The Lease and Option Agreement enables Medusa to process ore and produce gold to generate cash flow and includes the right to acquire the Co-O Plant anytime during the 3 year period.

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

- Medusa made a payment of A\$2,000,000 in September 2005;
- Medusa provided 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 is project managing all aspects of the Plant operations on a cost plus 15% basis.

2. Ore Supply Agreement

Under an Ore Supply agreement between Medusa and Philsaga, Philsaga 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%. This agreement will be terminated on completion of the Philsaga Transaction.

3. Exercise of the Option

Upon Completion of the Philsaga Transaction, Medusa will exercise the Option to acquire the Plant.



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.