



MEDUSA

MEDUSA MINING LIMITED

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

Dear Sir/Madam

Co-O MINE EXPANSION

Medusa Mining Limited ("Medusa" or the "Company") wishes to advise that the Directors have approved a work programme to enhance the long-term future of the Co-O Mine by:

- Sinking two new shafts;
- Expanding the haulage capacity of the mine to 400 tonnes per day;
- Accessing the recently discovered, high grade New Catto Veins as soon as possible; and
- Installing grid power to the Co-O Mine.

The benefits of these developments are:

- Facilitation of production increases; and
- Re-reinforcement of the long-term low cash cost target of approximately US\$200 per ounce.

Co-O Mine Expansion Programme

The Company has prioritised the sinking of two new shafts and driving to access the New Catto Veins due to the success to date of the on-going drilling programme at the Co-O Mine and the recent resource and reserve upgrades at this mine, to 713,000 ounces and 256,000 ounces of gold respectively.

Prioritising these developments requires assigning a proportion of the production miners and support personnel to these activities. Short-term production will be sacrificed and revised production forecasts concurrent with this aggressive development programme will be provided in the forthcoming quarterly report.

A new internal inclined shaft to a vertical depth of 100 metres has been commenced from near the bottom of the existing 3W shaft. This will connect from the 3050 metre level down to the 2950 metre level. The projected collar position of the new shaft is shown on Figure 1.

A new external inclined shaft to a vertical depth of 200 metres has been commenced at the eastern end of the vein system as shown on Figure 1 to access the New Catto Veins and other veins in that vicinity. The bottom of this shaft will be at the 2950 metre level and will be connected to the new internal inclined shaft (described above) at the 2950 metre level. This external shaft will be dedicated to ore haulage.

A new horizontal drive approximately 150 metres long is being undertaken from the Central Vein on the 3000 metre level 50 metres below the 3W shaft southwards to intersect the Jereme and New Catto Veins 1 to 3. Providing ground conditions are reasonable, it is expected that first production from the New Catto Veins will be in the second quarter of 2008. The New Catto Vein 3 currently has a probable reserve of 45,000 ounces at 31.6 g/t gold and the New Catto Vein 1 has a probable reserve of 29,000 ounces at 50 g/t gold. Both veins are open in three directions.

On completion of this development programme, the haulage capacity of the mine is projected to increase to 400 tonnes of ore per day plus waste haulage as required.

Progress in developing of the two shafts will depend on ground conditions.

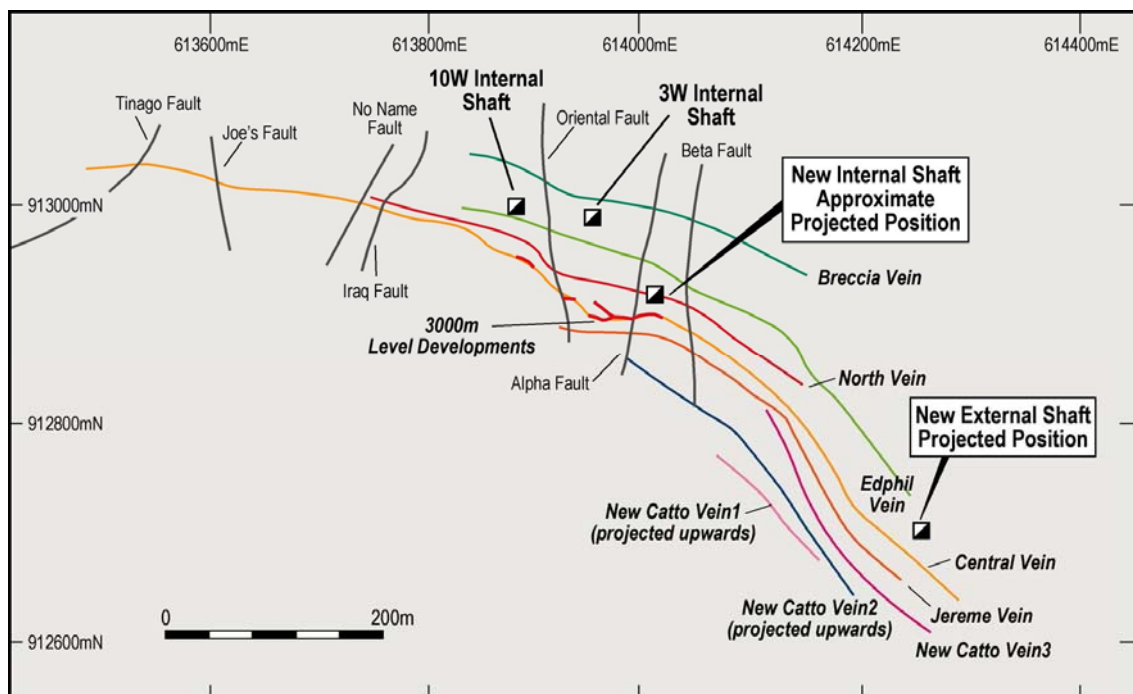


Figure 1: Co-O Mine 3010 metre level showing the projected locations of the two new shafts.

Co-O Mine Grid Power Connection

The Company expects to commence installation of a new power line along the ore haul road to carry grid power from the Co-O Millsite to the Co-O Mine in October. This should be completed in early 2008. The current estimated cost of the power line is approximately A\$1million which will reduce the cost of power by approximately 75%. At current diesel powered electricity generation costs, the line is anticipated to have a pay-back period of less than one year.

Completion of the power line will correspond with the completion of a new sub-station in the town of San Francisco which is located approximately 25 kilometres to the north of the Co-O Plant. This will result in increased reliability of the power supply and upgrading of the line capacity to the project.

Training, Recruitment and Medical Programmes

Medusa operates continuous mining skills training programmes which commenced approximately 18 months ago. Recruitment of skilled miners is on-going as the Company is aware of the fact that the Philippines is not immune to the shortage of skilled personnel in the mining industry.

Following the re-organisation of the mine work force during the last quarter and as part of the Company's duty of care and social responsibility, all mining personnel were required to undergo a full medical examination. Thirty one of the mining workforce, including some of the Company's leading development miners, did not pass the medical test, which together with the new expansion programme, will impact on the short term gold production profile. Medusa places a heavy emphasis on the health and welfare of its workforce and consequently is willing to accept short term reductions in gold production. These personnel have been placed on light duties or sick leave and all are expected to rejoin the workforce over the coming months.

Yours faithfully,



Geoff Davis.
Managing Director

Information in this report relating to Exploration Results is based on information compiled by Mr Geoff Davis, who is a member of The Australian Institute of Geoscientists. Mr Davis is the Managing Director of Medusa Mining Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.