



QUARTERLY ACTIVITIES REPORT

PERIOD ENDING

31 DECEMBER 2006

COMPANY PROFILE:

- High grade resources (241,000ozs @ 29.7 g/t gold) at Co-O Gold Mine;
- Centrally located mill, multiple mines;
- Production cash cost estimated to decrease to US\$200 per ounce during 2007;
- Expanding production profile;
- Extensive exploration acreage of >700 km² along 70 km strike of the richly endowed East Mindanao ridge;
- Regional assessment confirms excellent prospectivity with the definition of seven porphyry target areas.

Share capital as at 31 December 2006:

Shares: 103,672,145 ASX code: MML
Listed options: 20,769,528 ASX code: MMLO
Unlisted options: 4,825,000

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KEY POINTS:

Co-O MINE & PRODUCTION

- Mine returned to operation following clearance of the landslide which blocked the entrance on 9 Jan 2007;
- Ore processed by the Co-O Plant during the quarter totalled 12,950 dry tonnes at an average recovered grade of 8.76 g/t gold;
- Gold production totalled 3,647 ounces at an average cash cost of US\$278 per ounce, generating income of approximately US\$2.2 million;
- Production ramp-up expected during Q1 2007 to 3,000 ounces per month;
- Co-O 3W shaft completed and in operation;
- Co-O deeps drilling in progress, first results late Feb 2007.

TAMBIS BANANGHILIG MINE

- Underground drilling to prioritise development in progress, 1,600 tonnes of development ore at 7.57 g/t gold stockpiled.

BANBANON (SINUG-ANG) PROJECT

- Drilling underway around an existing shaft selected for refurbishment;
- +5 g/t gold zone over 500 metres long (open) & from surface to 100 to 250 metres deep below surface identified;

REGIONAL ASSESSMENT

- Reprocessing of selected aeromagnetics data underway.

CORPORATE

- Completed capital raising of A\$11,143,990 in mid Nov 2006;
- Completed Listing on AIM on 21 Nov 2006;
- Completed merger with Philsaga Mining Corporation on 4 Dec 2006;
- Picop court case resolved favourably on 6 Dec 2006;



PROJECT OVERVIEW

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



Figure 1: Location diagram

PHILIPPINES

Figure 2 shows the location of the Company's tenement interests in East Mindanao.

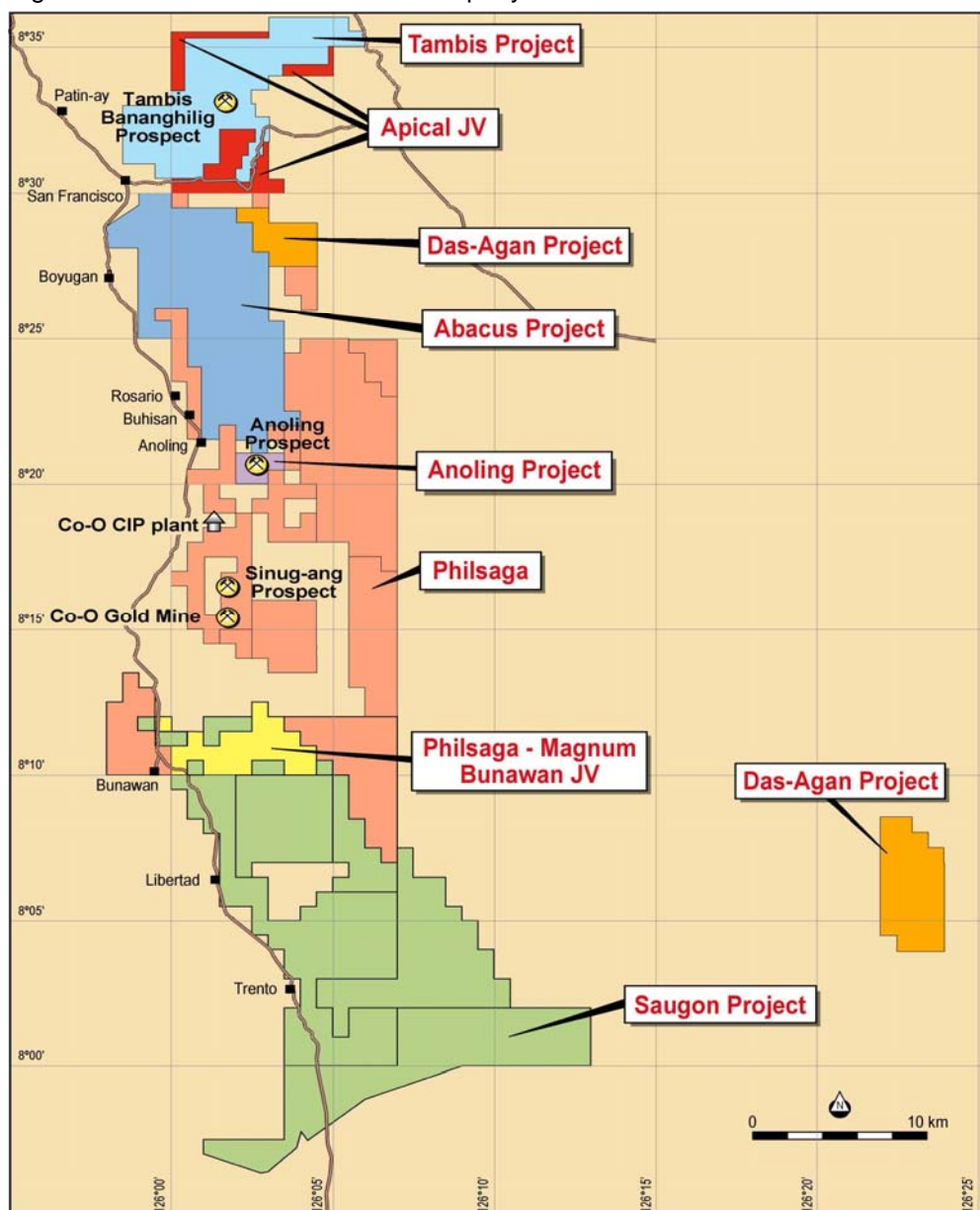


Figure 2: Regional tenement map

GOLD PRODUCTION

The 2006 production statistics are summarised in Table 1.

Table 1. Gold Production for 2006:

Period	Ore mined (wet tonnes)	Recovered		Cash costs (US \$ per oz)	Gold sales (US \$ million)	Comments
		grade (g/t Au)	ounces (ozs)			
Jan to Mar 2006	5,609	8.9	1,613	307	0.89	Development ore
Apr to Jun 2006	9,342	8.0	2,503	334	1.62	Development ore
Jul to Sept 2006	12,024	9.3	3,522	263	2.17	Development & some stope ore
Oct to Dec 2006	13,949	8.8	3,647	278	2.20	
TOTAL	40,924	8.6	11,285	270	6.88	

Approximately 1,600 tonnes of ore at 7.57g/t gold were stockpiled at 31 December 2006.

Production is expected to ramp up during Q1 2007 to the 3,000 ounces per month target.

The 200 tpd circuit will continue to be used until stockpiles build sufficiently for the the start-up of the large mill with a current 500 tpd capacity. The smaller circuit will be retained in its entirety as a backup.

PHILSAGA TRANSACTION

The Philsaga Transaction was completed on 4 December 2006 whereby the Company paid the vendors of Philsaga a consideration of A\$12 million, via a combination of cash and deferred payment terms, together with the issue of 25 million shares in the Company (subject to an escrow arrangement for at least 12 months) and Medusa also paid the contractors to the mining operation a final payment of A\$1 million.

The full terms of settlement of the acquisition of Philsaga from the Philsaga vendors are:

- Final payment of A\$1 million to contractors;
- Yandal Investments Pty Ltd was paid in full, being A\$3.584 million and issued with 6.4 million shares;
- Secdea Philippines Holdings Corporation was paid in full, being A\$80,000 and issued with 4 million shares;
- Advanced Concept Holdings Limited was paid A\$920,000 and issued with 14.6 million shares.

Advanced Concept Holdings Limited has agreed to provide vendor finance for the balance of the cash payment of A\$7.416 million on the following terms:

- A\$2.416 million to be paid on or before 15 February 2007;
- A\$2.5 million to be paid on or before 15 July 2007; and
- A\$2.5 million to be paid on or before 15 January 2008.

The above deferred payments do not include interest which has been set at 7.5% per annum. There will be no penalty for any early repayments. The deferred payments and interest are to be secured by a charge or equivalent security over the Co-O Mine assets.

PICOP SUPREME COURT CASE

On 6 December 2006, the Supreme Court ("SC") of the Republic of the Philippines unanimously confirmed that Department of Environment and Natural Resources ("DENR") can now proceed, subject to regulatory compliance, with the issuance to Philsaga Mining Corporation ("Philsaga") of Mineral Production Sharing Agreement ("MPSA") application 084-XIII covering the Co-O Goldmine.

As anticipated, on 6 January 2007, Picop lodged a Motion for Re-consideration challenging the decision of the SC. Unless Picop submits fresh evidence and compelling reasons as to why the decision handed down by the SC was incorrect and should be re-considered, the SC will issue a minute dismissing the motion to re-consider with finality.

Background

The unanimous decision of the Supreme Court of the Philippines on the case lodged by Picop Resources Inc ("Picop"), a timber licence holder, arose when Philsaga's predecessor was required under the new mining code introduced in 1995 to convert old style tenements to new tenements compliant with the new mining law. Picop lodged an adverse claim against the MPSA applications in 1997 on the grounds that mining could not be undertaken in timber licences. Philsaga acquired these tenement applications in 2000 and proceeded to challenge the adverse claim. Philsaga won the case against Picop in two lower courts and subsequently Picop lodged a case in the Supreme Court against the claimowner and a division of the Department of Environment and Natural Resources.

Co-O MINE

Landslide at Co-O adit entrance

The Company advised the ASX on 10 January 2007 that torrential monsoonal rain over the previous two weeks at the Co-O Minesite caused a landslide early morning on 9 January 2007 in the vicinity of the main Co-O adit resulting in approximately 60,000 to 70,000 tonnes of material slipping from approximately 70 metres above the adit. Some of the material temporarily blocked the adit entrance and cut power lines and other services to the mine. No personnel were affected by the slide as all were evacuated through the Tinago Shaft at the western end of the mine.

Round the clock work with three front end loaders and trucks allowed mine drainage at adit level to be re-established on Friday, 12 January 2007 and power was reconnected on Sunday night, 14 January 2007 enabling the pumps on both the main levels below the adit to be re-started. The water level in the bottom level of the mine (3050 metre level) had risen by approximately one metre in the main drive and has been cleared, along with rock and silt accumulations resulting from uncontrolled water flow down through the workings while the power and drainage were cut.

In order to reduce the risk of losing future access to the mine, the Company has commenced excavating a new by-pass adit (Fig. 5) which will connect with the 3W shaft position providing an improved loop rail system and improved safety. The time to completion is estimated at approximately 10 weeks.

Repairs to the current adit are completed and the mine is back in operation. The mine access road which was also cut has been returned to full operational use.

Ore production from the Co-O Mine recommenced on 21 January 2007 and has been stockpiled. Milling is planned to recommence on 1 February 2007.

Deep drilling

Drilling the Co-O Mine deeps on both sides of the Oriental Fault is underway utilising two diamond drill rigs, one on each side of the fault drilling step out holes to the east and to the west towards the Tinago Shaft area at the western end of the mine. The aim is to intersect the vein system (subject to topographic and other constraints) at approximately the 2950m level which is approximately 100 metres below the current bottom of the mine (or approximately 200 metres below adit level) with possibly some deeper holes being drilled depending on results. The target zone is shown on Figure 5 and it is anticipated that the first batch of results will be available in late February

Re-estimation of the resources is expected to be completed during the third quarter following the deep drilling and the availability of more underground information.

Development

Development on the 3117 metre level (the 10W shaft level) has now driven to approximately 450 metres west of the Oriental Fault (Fig. 5) and has continued to develop on an ore grade vein approximately one metre wide generally containing between 4 and 12 g/t gold. This development will continue to approximately 550 metres west of the Oriental Fault to the position where drill hole TIN 3 intersected 3.80 metres at 21.15 g/t gold.

Development at the 3050 metre level (the 3W shaft level) involves driving along veins as well as the sinking of two winzes 50 metres apart to 40 metres depth (to the 3010 metre level) on the east side of the Oriental Fault. A new sublevel development is underway on the 3010 metre level.

A new ventilation rise adjacent to the 10W shaft (Fig. 5) using an Alamac platform has commenced and should be completed during Q1 2007. The raise will be approximately 90 metres high to meet a 30 metre deep shaft already completed from surface and will provide improved ventilation conditions.

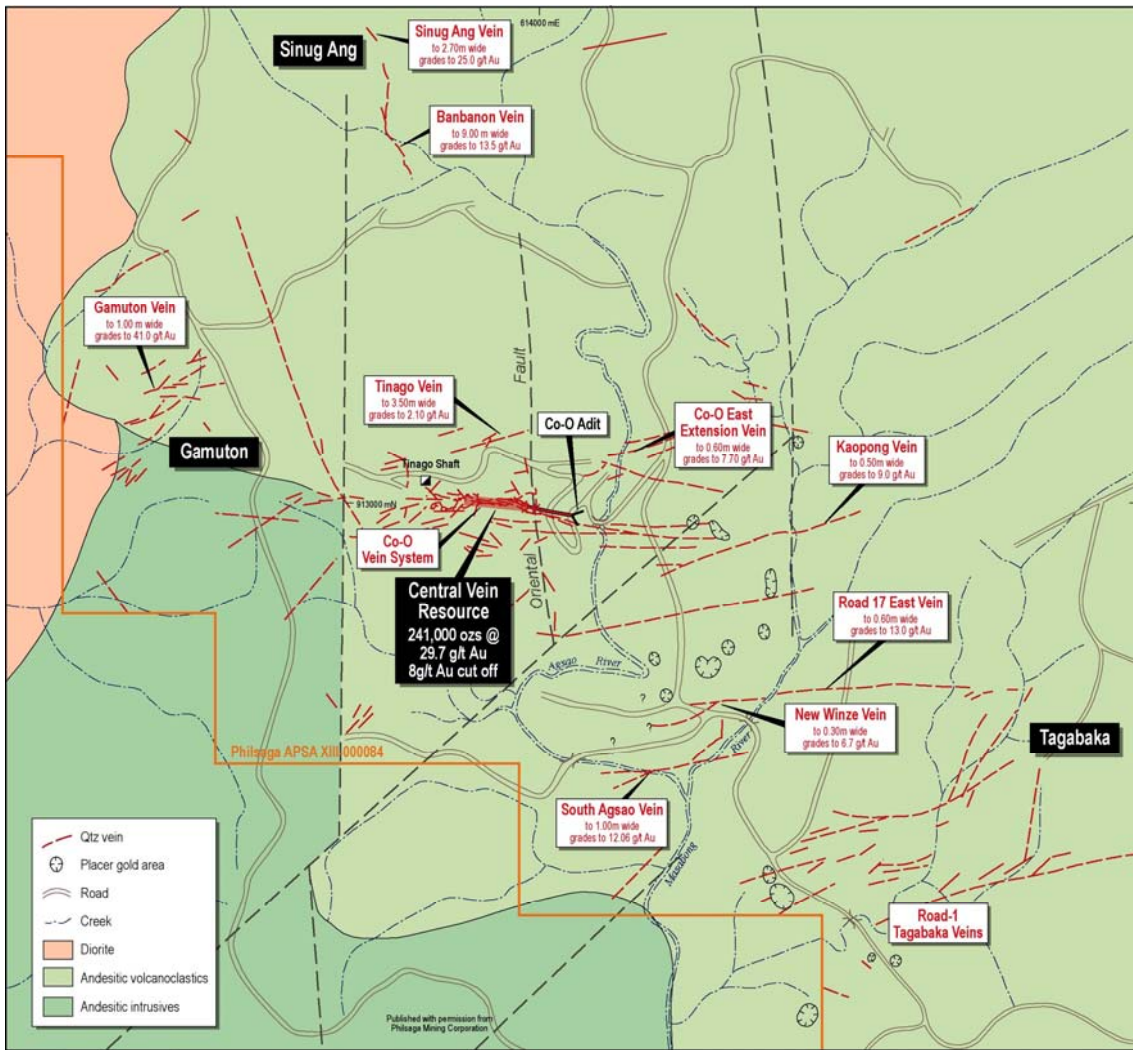


Figure 3: Co-O area surface vein and geology map

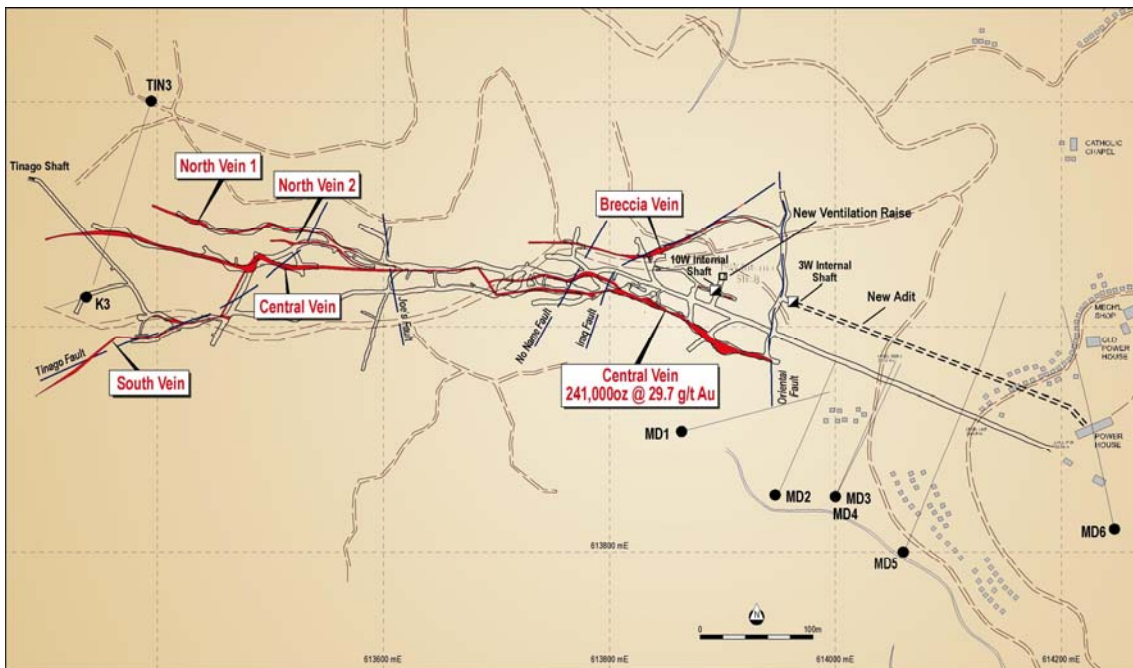


Figure 4: Co-O Mine adit level workings and drill hole locations

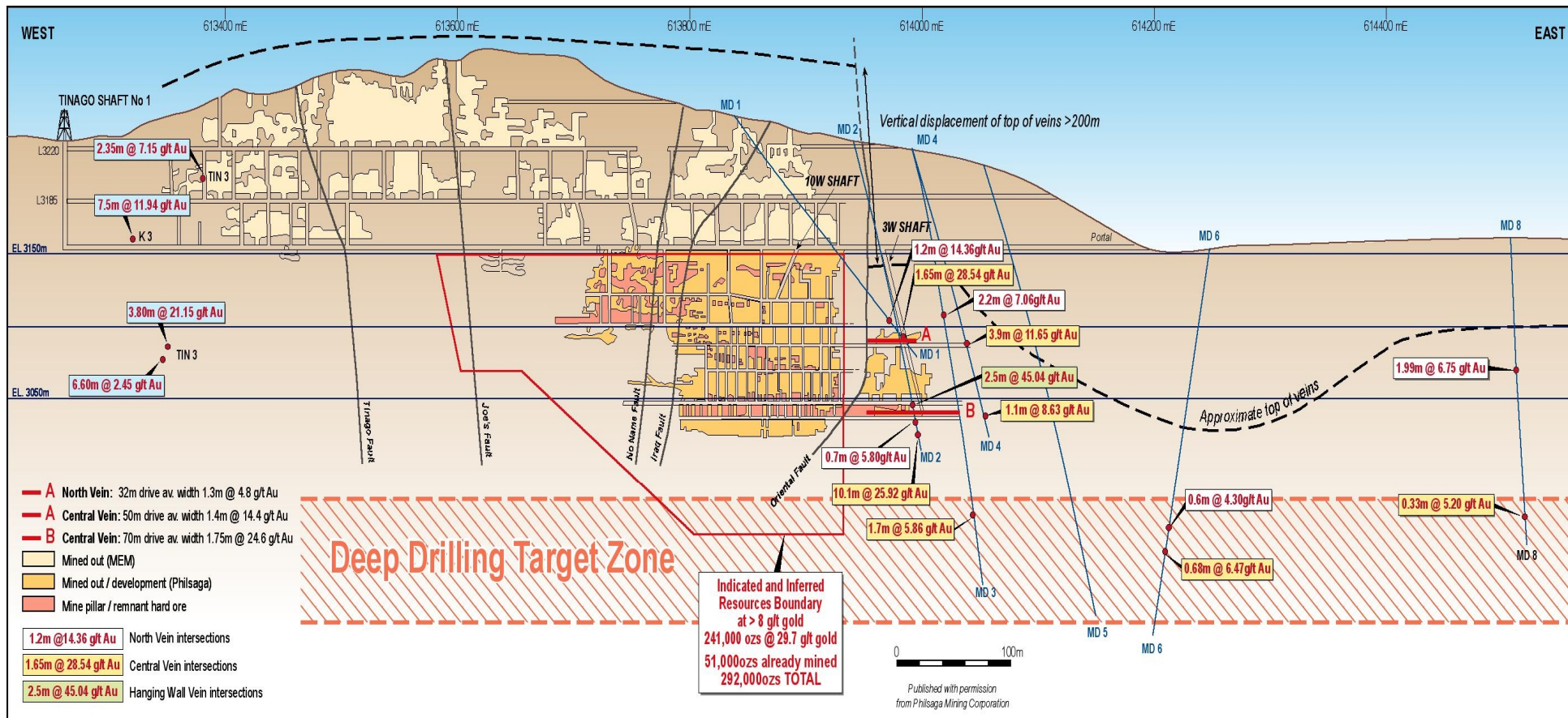


Figure 5: Co-O Mine Central Vein longitudinal projection

SINUG-ANG PROJECT

The Sinug-ang Project situated immediately north of the Co-O Mine and shown on Figures 2 and 3, comprises two prospects being the Banbanon Prospect in the area of current drilling which was explored in the 1980s by surface sampling and drilling, and the Sinug-ang prospect located further to the north on the same vein system which trends in a NNW direction parallel to the Philippine Rift Fault trend. Some small scale mining activities of selected parts of the Banbanon Vein and with limited lateral extent have been undertaken to a depth of approximately 130 metres below surface.

Following drilling during Q4 2006, interpretative work and compilation based on the drill results is now identifying possible positions of dilation along the Sinug-ang Fault system which are to be targeted in future work.

Drilling of two holes has commenced around an existing shaft that has been chosen as a possible development position for the Banbanon Prospect in which a +500 metre long zone of +5g/t gold has been outlined from surface to depths varying between 100 and 250 metres. If the current drilling is successful, the existing shaft will be refurbished to establish quick and cheap access to the vein system for underground investigation.

Philsaga drilling has intersected the following results summarised in Table 2.

Table 2. Sinug-ang Project Drilling Results

Hole	North	East	Dip	Azimuth	From (m)	Width (m)	Grade (uncut) g/t gold
BANBANON							
SNG 001	915787	172337	-50	70	374.20	0.70	2.70
					394.00	1.00	2.70
SNG 002	916009	172438	-60	90	298.45	0.20	2.83
					304.70	4.35	2.77
SNG 003	915726	172487	-55	70	227.85	5.95	5.86
				including	229.40	2.90	10.52
SNG 004	915787	172337	-50	62	374.90	1.65	3.32
SNG 005	912487	175726	-55	60	222.65	9.15	9.69
				including	226.05	5.75	13.50
SNG 006	915726	172487	-54	80	239.95	1.05	1.10
					242.63	0.97	2.30
SNG 008	915647	172615	-70°	55°	127.90	0.30	4.20
					138.30	0.75	7.03
SNG 010	91564 7	172615	-50°	90°			<1g/t
SNG 012	91564 7	172615	-50°	110°			<1g/t
SNG 015	91568 5	172634	-50°	70°	100.00	1.00	1.57
SNG 017	915551	172756	-50°	110°			<1g/t
SNG 019	915366	172830	-50°	110°			<1g/t
SNG 021	915576	172799	-60°	105°	Results	awaited	
SINUG-ANG							
SNG 007	916675	172371	-55°	90°	Abandoned		
SNG 009	916725	172380	-55°	90°	107.40	0.50	2.67
SNG 011	916776	172351	-55°	90°			<1g/t
SNG 013	916678	172371	-68.5°	90°	255.80	1.10	1.14
SNG 014	91654 9	172431	-45°	60°	45.90	1.00	5.87
					50.40	2.65	3.27
SNG 016	91654 9	172435	-50°	30°	70.35	0.73	4.67
SNG 018	91654 9	172435	-50°	90°	88.40	0.15	25.00
SNG 020	91658 1	172395	-50°	70°	92.10	1.60	6.35

TAMBIS BANANGHILIG MINE

Background

As shown on Figure 2 the Tambis Bananghilig Mine is located approximately 35 km by the National Highway to the north of the Co-O Plant.

A large area of alteration hosts numerous veins near the northern edge of a large aeromagnetic anomaly. An extensive drill hole data base in this area suggests the presence of multiple veins which are currently being investigated from underground. The area to the south of the drilling is covered by younger limestone and drilling clearly shows that mineralised veins continue below the limestone.

Development

Work on the North-South Vein adit on the north side of the Bananghilig River has continued where sub-levels below the adit continue to be established. Driving at adit level to the north was discontinued due to the intersection of old (and previously unknown) workings on this level. Development ore is continuing to be stockpiled now totalling 1,600 tonnes at 7.57g/t gold. A metallurgical test work program is in progress to determine the optimum treatment route for this ore.

Underground drilling is in progress from the ends of the drives from the L170 inclined shaft. Compilation of this work will be used to prioritise further development.

A new ventilation rise adjacent to the 10W shaft has commenced using an Alamac platform and should be completed during Q1 2007. The raise will be approximately 90 metres high to meet a 30 metre deep shaft already completed from surface and will provide improved ventilation conditions.

OTHER PROJECTS

➤ Abacus Project

The Mines Operating Agreement (“MOA”) with Abacus Consolidated Resources and Holdings Inc. covers Exploration Permit (“EP”) application number 000028-XIII situated in Agusan del Sur province in east Mindanao to the north of the Co-O mine and millsite as shown on Figure 2.

The granting process for the Abacus EP is now being pursued.

➤ Anoling Project

The MOA with Alcorn Gold Resources Inc. covers Mining Production Sharing Agreement (“MPSA”) application number 039-XIII situated in the Agusan del Sur province in east Mindanao to the north of the Co-O mine and millsite as shown on Figure 2.

The granting process for the Anoling MPSA is now being pursued. The granting of two Small Scale Mining Permits is now expected to be completed during the next quarter.

➤ Das-agan Project

The MOA covering MPSA application number 039-XIII situated in the Agusan del Sur province in east Mindanao to the north of the Co-O Mine and millsite as shown on Figure 2. The granting process for the Das-Agan MPSA is now being pursued.

➤ Saugon Gold-Silver Project *(Medusa 100%)*

Application for re-newal of the Exploration Permit is in progress.

➤ Panaon Project *(Medusa divesting 50%)*

Medusa is in discussions with joint venture partner Goldsearch Limited with respect to the future of this project.

➤ **Masapelid Project**

The Company has withdrawn from this project due to the large number of very prospective targets and the large landholding comprising the greater Co-O Project area.

CORPORATE

In November 2006, the Company raised A\$11,143,990 (before expenses), via the placement of 17,144,599 ordinary shares at A\$0.65 per share. The funds were raised to enable the Company to complete the acquisition of Philsaga Mining Corporation on 4 December 2006.

The Company completed a secondary listing and admission to the Alternative Investment Market of the London Stock Exchange on 21 November 2006.

Option Expiry Notices for the 31 January 2007, \$0.20 options were despatched to all option-holders on 18 December 2006.

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.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98. 30/9/2001.

Name of entity

MEDUSA MINING LIMITED

ACN or ARBN

099 377 849

Quarter ended ("current quarter")

31 December 2006

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
1.1 Receipts from product sales and related debtors	2,806	5,391
1.2 Payments for (a) exploration and evaluation	(1,336)	(2,345)
(b) lease payments	-	-
(c) operation	(2,036)	(3,499)
(d) administration	(1,047)	(1,414)
1.3 Interest and other items of a similar nature received	39	57
1.4 Other	-	-
Net operating cash flows	(1,574)	(1,810)
CASH FLOWS RELATING TO INVESTING ACTIVITIES		
1.5 Payments for (a) prospects	-	-
(b) equity investment	(5,584)	(5,584)
(c) fixed assets	(285)	(1,086)
(d) development	(2,001)	(3,179)
1.6 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) fixed assets	-	-
1.7 Loans to other entities	(24)	(50)
1.8 Loans repaid by other entities	-	-
1.9 Other (provide details if material)	-	-
Net investing cash flows	(7,894)	(9,899)
1.10 Total operating and investing cash flows (carried forward)	(9,468)	(11,709)

Appendix 5B
Mining exploration entity quarterly report

1.10	Total operating and investing cash flows (brought forward)	(9,468)	(11,709)
CASH FLOWS RELATING TO FINANCING ACTIVITIES			
1.11	Proceeds from issues of shares, options, etc.	11,498	11,518
1.12	Proceeds from sale of forfeited shares	-	-
1.13	Proceeds from borrowings	-	-
1.14	Repayment of borrowings	-	-
1.15	Dividends paid	-	-
1.16	Other (issue expenses)	(647)	(722)
Net financing cash flows		10,851	10,796
Net increase (decrease) in cash held		1,383	(913)
1.17	Cash at beginning of quarter/year to date	1,270	3,534
1.18	Exchange rate adjustments to item 1.20	27	59
1.19	Cash at end of quarter	2,680	2,680

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.20	Aggregate amount of payments to the parties included in item 1.2	126
1.21	Aggregate amount of loans to the parties included in item 1.10	-
1.22	Explanation necessary for an understanding of the transactions	
Salaries and consulting fees paid to Directors of the Company		

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Issue of 25 million ordinary shares re : acquisition of Philsaga Mining Corporation.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	700
4.2 Development	300
Total	1,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	953	251
5.2 Deposits at call	1,727	1,019
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,680	1,270

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note 2)	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 +Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	103,672,145	103,672,145		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	25,000,000 17,144,599 1,870,870	25,000,000 17,144,599 1,870,870	\$0.72 \$0.65 \$0.20	\$0.72 \$0.65 \$0.20
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	25,594,528	20,769,528	<i>Exercise price</i> (see note 6)	<i>Expiry date</i> (see note 6)
7.8 Issued during quarter				
7.9 Exercised during quarter	(1,870,870)	(1,870,870)	\$0.20	
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

