

ANNUAL REPORT

05

*Emerging gold producer with
a Philippines focus*



MEDUSA
MINING LIMITED



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Directors

Dr Jeffrey Schiller	<i>(Non-Executive Chairman)</i>
Mr Geoffrey Davis	<i>(Managing Director)</i>
Mr Edward (Ted) Mein	<i>(Non-Executive Director)</i>
Mr Simon Cato	<i>(Non-Executive Director)</i>

Company Secretary

Mr Roy Daniel

Australian Business Number (ABN)

60 099 377 849

Principal & Registered Office

Suite 7
11 Preston Street
Como WA 6152

Postal address:

PO Box 860
Canning Bridge WA 6153
Telephone: +618 9367 0601
Facsimile: +618 9367 0602
Email: admin@medusamining.com.au
Website: www.medusamining.com.au

Home Exchange

Australian Stock Exchange Limited
2 The Esplanade
Perth WA 6000
Trading codes: MML (ordinary shares)
MMLO (options expiring 31 Jan 2007)

Auditors

Bentleys MRI Perth Partnership
Level 1
10 Kings Park Road
West Perth WA 6005
Telephone: +618 9480 2000
Facsimile: +618 9322 7787

Share Registry

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009

Postal address:

PO Box 1156
Nedlands WA 6909
Telephone: +618 9389 8033
Facsimile: +618 9389 7871

Solicitors

Fairweather & Lemonis
Level 9
172 St George's Terrace
Perth WA 6000
Telephone: +618 9420 5000
Facsimile: +618 9420 5001

Bankers

BankWest
108 St George's Terrace
Perth WA 6000

Corporate Directory

Fellow Shareholders,

As I write this letter in late September 2005, Medusa has just completed a transaction that will see it elevated from junior explorer to gold producer within months.

Full payment of \$3.0 million has been made for a lease and ore supply agreement with respect to the operating Co-O treatment plant in Mindanao, Philippines.

Thanks to strong investor support, Medusa has been able to raise A\$7.5 million (before expenses) to finance the transaction and provide additional funds for working capital. Shareholders are referred to the ASX announcement of 29 September 2005 which shows the strong financial position of the Company.

When Medusa floated on the ASX in December 2003, the Board declared its intention to develop a cash flow from mining within two years. It was an ambitious call because at the time the Company had only a small gold resource on one of its Australian exploration projects. All of the other projects, located in the Philippines and Australia, were in the early stages of exploration. Given enough luck to quickly discover a new deposit, it generally takes several years to fully evaluate the deposit and then bring it into production to create a cash flow.

Now, as the second anniversary of listing approaches, I am pleased to be able to report that Medusa will soon achieve its original stated goal of being a gold producer. It is an outstanding achievement that will establish the Company's financial future for many years to come.

Soon after listing in December 2003 Medusa's focus shifted from Australia to the Philippines where the Company believed better opportunities existed. Medusa's management developed a strong working relationship with Philsaga Mining Corporation ("Philsaga"), a private gold mining company based in Mindanao, Philippines that owns and operates the highly profitable Co-O gold mine and treatment plant. In addition Philsaga also has a significant land holding of 573 sq km in the surrounding district that has potential to host additional epithermal style and new porphyry style deposits.

In October 2004 an agreement was reached with the principal shareholders of Philsaga, Messrs Bill Phillips and Samuel Afdal, whereby Medusa would acquire Philsaga, including its gold operation and land holdings. This opportunity evolved from one of our original projects, the Saugon Project, in a joint venture with Philsaga. Due to circumstances beyond the Company's control the parties remain positive that the transaction will be consummated and have accordingly agreed to extend the term of the agreement to 21 November 2005.

In a separate transaction, Medusa and Philsaga reached agreement in August 2005 whereby Medusa would lease with an option to acquire the Co-O treatment plant from Philsaga and that Philsaga would supply ore to feed the Co-O Plant. To ensure continuity of the operations, the principals of Philsaga have enthusiastically agreed to be part of the new management team. Ore feed for the Plant will come initially from the Co-O mine, which has considerable untested gold resources.

I would like to thank the many people who have been responsible for our success during the last year. In particular our Managing Director, Geoff Davis, who brought the Saugon deal to the Company, has worked hard in moving the Philsaga acquisition towards completion, and has used his knowledge and many contacts gained from 25 odd years operating in the Philippines. I also acknowledge the efforts of Sammy Afdal and Bill Phillips who have been supportive and accommodating during several unexpected setbacks that have arisen along the way. As one of those setbacks resulted in the Company remaining suspended from the ASX board for over 4 months, I also thank you, the shareholders, for your patience during this period. I believe the ultimate result during 2006 of gold production and a robust cash flow will prove it has been worth the wait.

Best wishes



Dr Jeffrey Schiller
Chairman



Project Overviews

Medusa Mining Limited (“Medusa” or the “Company”) has identified the Philippines (with its world class mineral endowment), as the country most likely to provide Medusa with the opportunity of achieving its stated objectives of developing a cash flow from high grade gold deposits within two years of listing on the ASX.

The Company, which is anticipating an upsurge of government facilitation of mining investments for foreign companies in the Philippines, is divesting all its current mining interests in Australia and has focused its activities in the Philippines.



Projects location map

THE PHILIPPINES

In October 2004, the Company advised that it was proceeding to negotiate with the Principal Shareholders (“Shareholders”) of Philsaga Mining Corporation (“Philsaga”), for the acquisition of Philsaga, a Philippines corporation which has been successfully mining profitable high grade gold ore from its Co-O Gold Mine and processing the ore at its Treatment Plant for the last five years.

The Company on 22 December 2004, announced that it had executed a Heads of Agreement (“HOA”) with the Shareholders of Philsaga with respect to the sale of Philsaga (the “**Philsaga Transaction**”). Key terms and conditions of the Philsaga Transaction were formalised in an agreement executed on 19 February 2005 and detailed on page 6 of this report.

The locations of the Company’s projects in the Philippines are shown on Figure 1.

Subsequent to year end and as a result of unavoidable delays associated with the satisfaction of the one remaining condition precedent (“CP”), the parties have agreed in principle to discuss and revise the original terms of the Philsaga Transaction upon resolution of the CP and the granting of a Mining Production Sharing Agreement (“MPSA”) over the Co-O Gold Mine and which has a 25 year term able to be renewed. This will enable Medusa to conduct commercial full scale mining operations at the Co-O Gold Mine for a period of 25 years, renewable.

More recently, on 10 August 2005, Medusa executed a Lease and Option Agreement with Philsaga and its Shareholders to lease Philsaga’s treatment plant and associated facilities (“Plant”) and concurrently executed a separate Ore Supply Agreement with Philsaga to supply ore feed for the Plant. Details of both agreements are shown on pages 12 and 13 of this report.

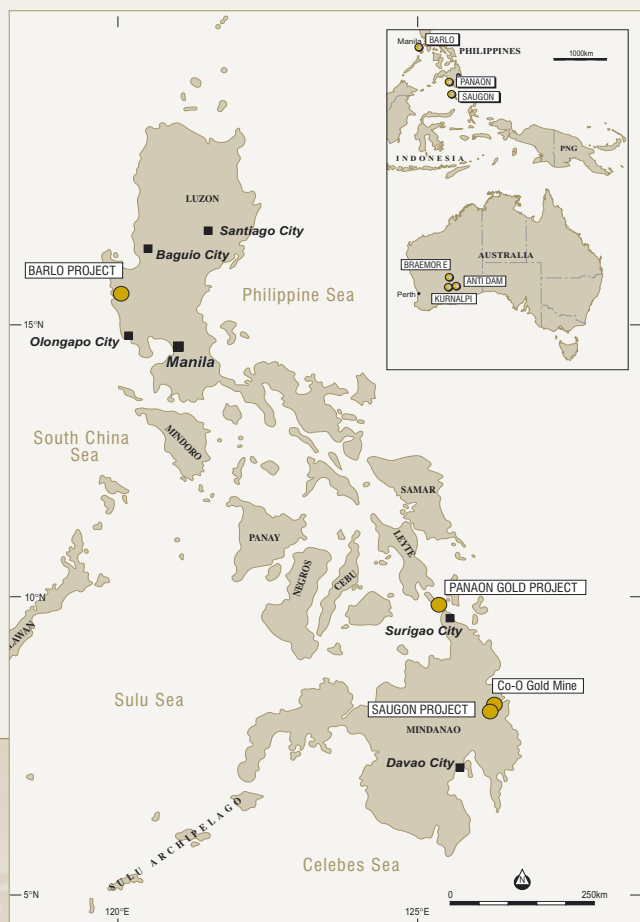


Figure 1: Locations of Philippines Projects

The Philippines



Philsaga Transaction

The formal Share Purchase Agreement with the Principal Shareholders (“Shareholders”) of Philsaga Mining Corporation was executed on 19 February 2005 and has been subject to Variation Agreements dated 4 April 2005, 11 April 2005 and 18 July 2005.

Key terms and conditions of the transaction include:

- the issue (and the voluntary escrow for a period of 18 months) of 25,000,000 fully paid ordinary shares in Medusa to the Shareholders;
- a total cash payment of A\$14,000,000 to the Shareholders as follows:
 - A\$ 9,000,000 at completion;
 - A\$ 2,500,000 13 months after completion;
 - A\$ 2,500,000 24 months after completion;
 - the deferred amounts totalling A\$5,000,000 due to the Shareholders (in equal amounts 13 months and 24 months after completion respectively) will attract interest payments by Medusa at the rate of 10% per annum, payable quarterly in arrears;
 - Medusa has the option to make early repayments.
- provision of A\$1,000,000 in each of the first and second year for contractors to purchase equipment for the provision of services to the mine;
- the Philsaga Vendors will receive a royalty of US\$20 per ounce of recovered gold mined from the eastern side of the Oriental Fault, capped to 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.

THE PERIOD FOR SATISFACTION OF THE CP HAS BEEN EXTENDED TO 21 NOVEMBER 2005 AND THE PARTIES HAVE AGREED IN PRINCIPLE TO DISCUSS AND REVISE THE ORIGINAL TERMS OF THE PHILSAGA TRANSACTION UPON RESOLUTION OF THE CP AND THE GRANTING OF A MINING PRODUCTION SHARING AGREEMENT (“MPSA”) ON THE CO-O GOLD MINE.

PHILSAGA TRANSACTION (continued)

1. Background Information

Philsaga's assets are located in Central Eastern Mindanao in the Republic of the Philippines as shown on Figure 1 and are accessed by the national highway via an approximate 2.5 hour drive north of Davao City. Project areas and the Co-O mill site and mine are located on the eastern side of the highway and are accessible through a network of all weather gravel roads.

The project now comprises approximately 537 km² of tenements which cover approximately 70 km of strike length as shown on Figure 2.

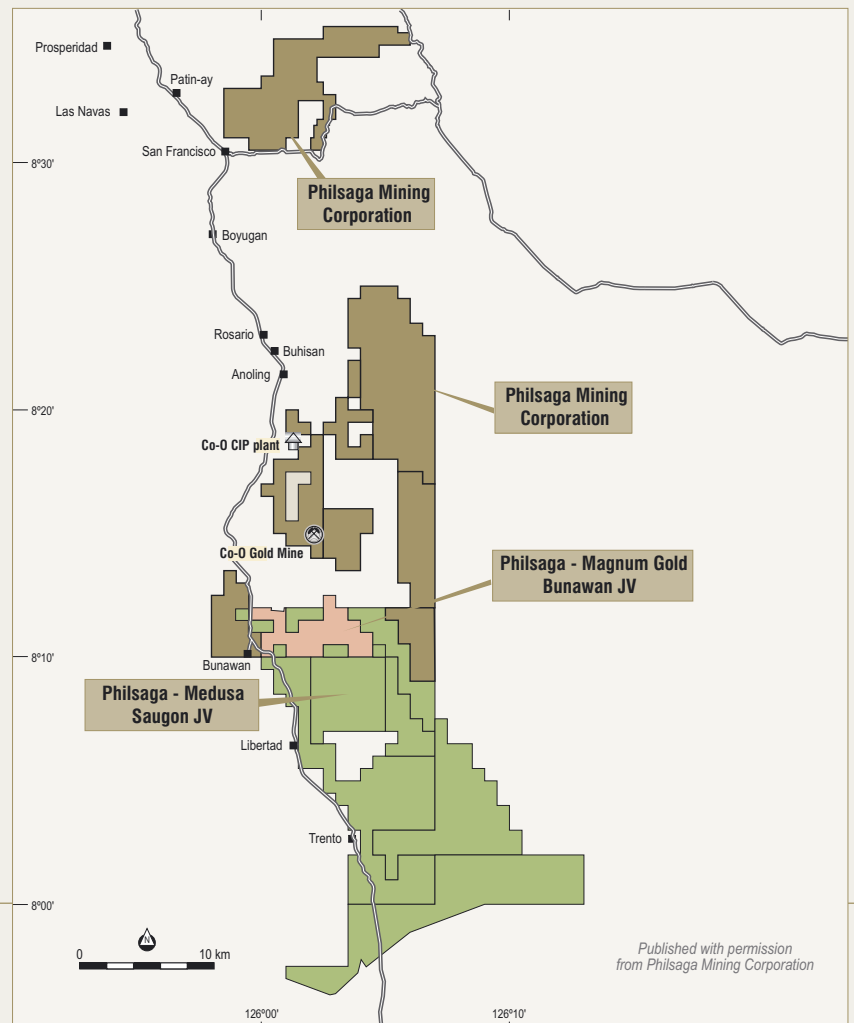


Figure 2:
Regional tenement map

*Philsaga
Transaction*

2. The Philsaga Assets

2.1 The Co-O Mine

The Co-O underground mine is shown on Figures 3 and 4.

The mine is developed on a series of low sulphide, epithermal quartz veins which strike west over a length of at least 600 metres and to date have been explored to a maximum depth of more than 200 metres from the surface and west of the Oriental Fault. The veins are open to the west and at depth, and have been extended by drilling to the east for 250 metres past the northerly trending Oriental Fault.

Below the 3150 metre level where Philsaga commenced operations and which are now at the 3050 metre level, some of these veins coalesce into one vein which averages 2.5 to 3 metres in width and contains an average grade of +20 g/t Au.

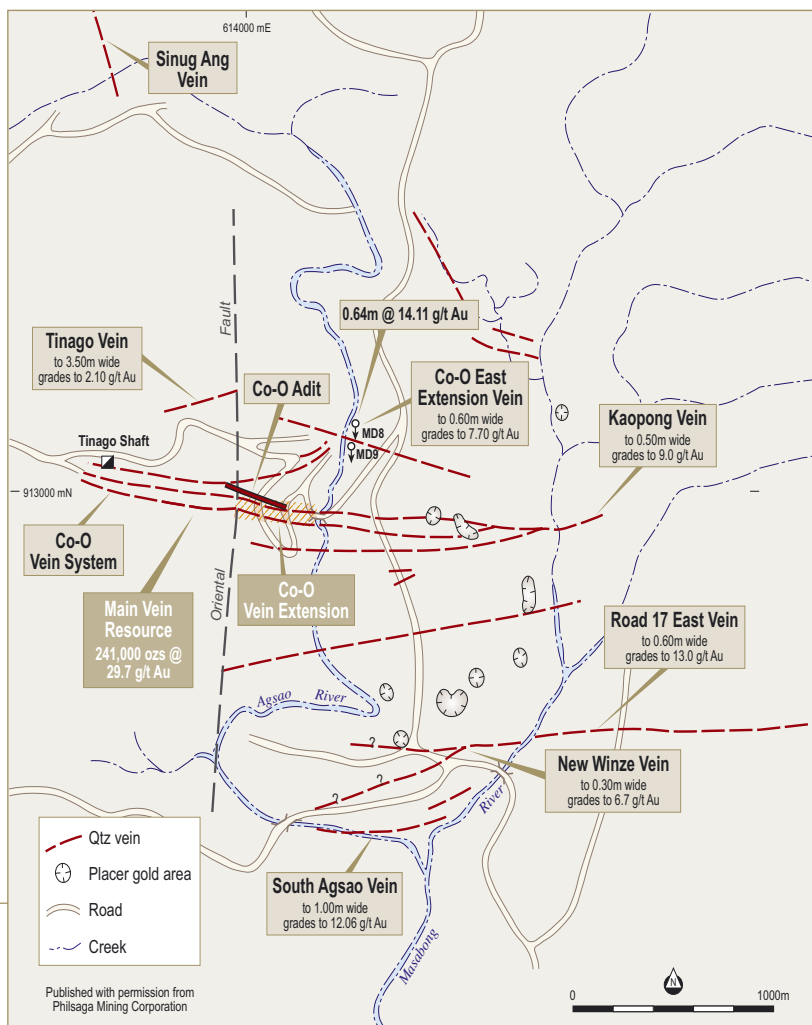


Figure 3:
Surface map of veins around Co-O Mine

PHILSAGA TRANSACTION (continued)

2. The Philsaga Assets (continued)

2.1 The Co-O Mine (continued)

Current resources in the mine are listed in Table I based on an 8 g/t Au lower cut and a 200 g/t Au upper cut.

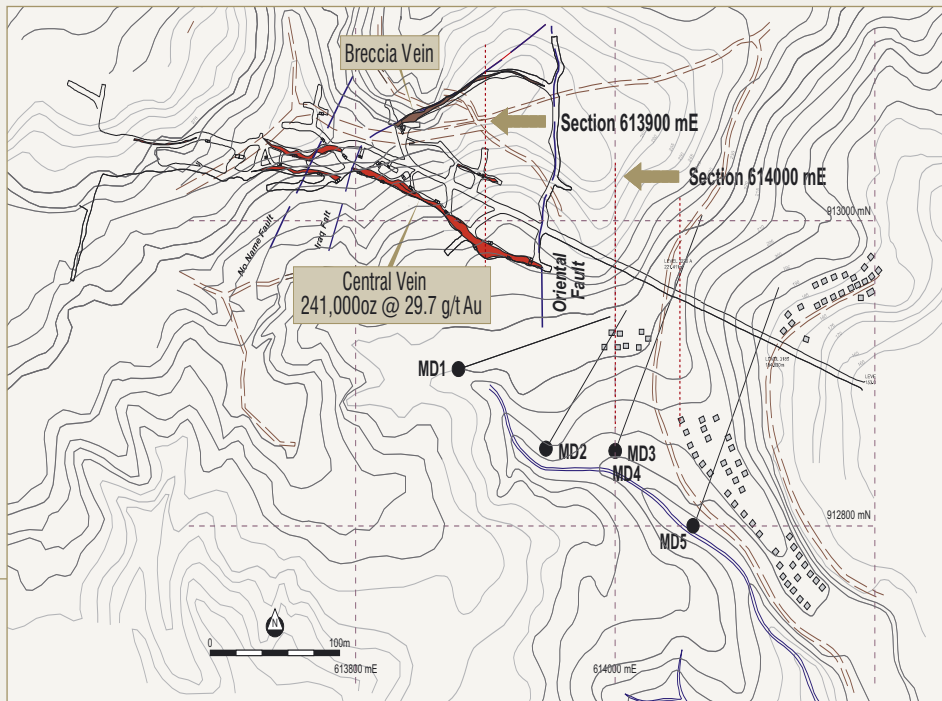


Figure 4:
Surface plan of the
Co-O Mine.

Table I: Gold Resources for the Central Vein, Co-O Mine

Category	Tonnes	Au g/t	Au Oz
Indicated	110,000	32.2	114,000
Inferred	142,000	27.8	127,000
TOTAL	252,000	29.7	241,000

The information in this report that relates to Mineral Resources is based on information compiled by Ted Coupland and Rick Adams of Cube Consulting, who are Members of the Australasian Institute of Mining and Metallurgy. Ted Coupland and Rick Adams have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 1999 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Ted Coupland and Rick Adams consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Cube Consulting is an independent Perth based resource consulting firm specialising in geological modelling, resource estimation and Information Technology.



Philsaga has provided to Medusa (as shown in Table II on page 10) the results of 6 diamond drill holes conducted to the east of the Oriental Fault at the east end of the Co-O Mine.

The drilling shows that mineralised extensions to the vein system extend for at least 250 metres east of the Oriental Fault and are still open to the east and at depth. In each case the drill holes intersected 2 veins which have been designated as below, and two drill holes intersected a third vein designated the Hanging Wall Vein (“HW Vein”). Details of the vein geology suggest that these intersections in the HW Vein are at the very upper part of the vein, as probably are most of the intersections in the other veins east of the Oriental Fault, and that the veins which are fully preserved are expected to be better developed at depth.

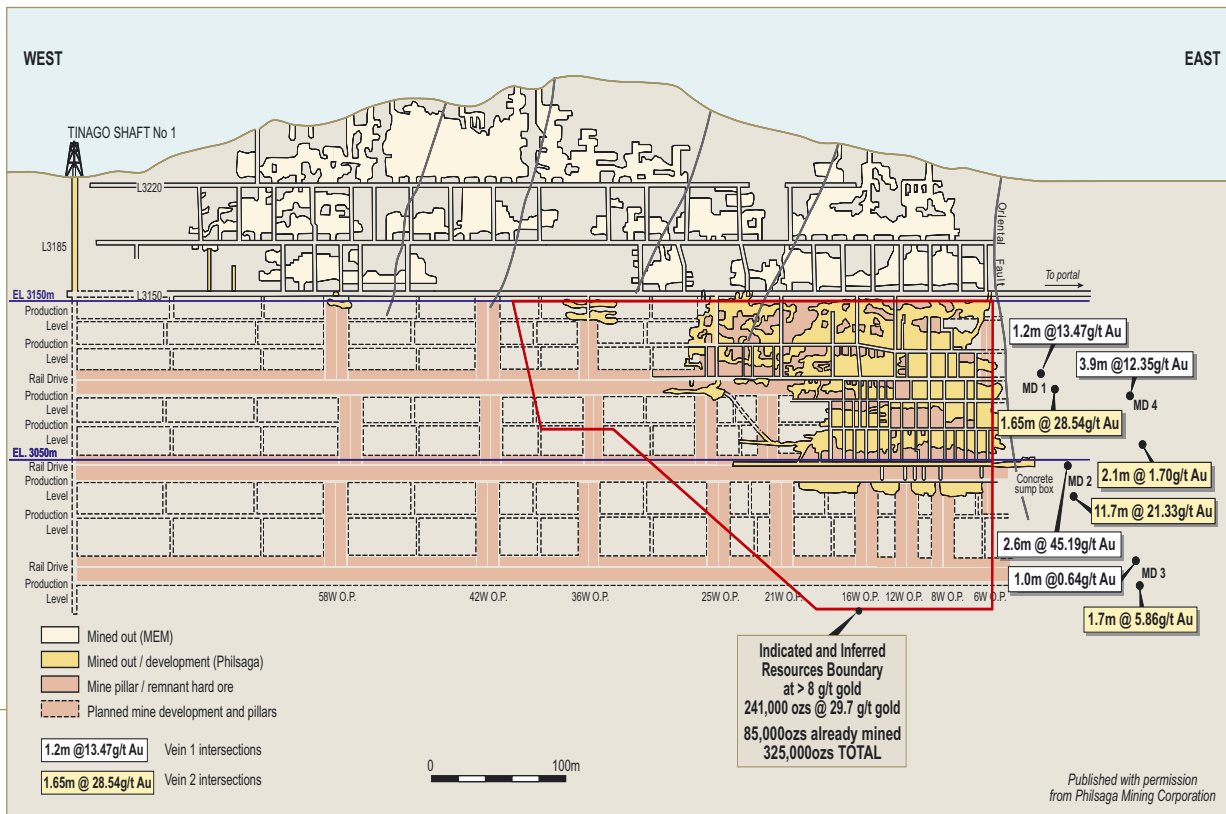


Figure 5: Longitudinal projection of the Co-O Main Vein gold values and drill hole intersections east of the Oriental Fault.

PHILSAGA TRANSACTION (continued)

2. The Philsaga Assets (continued)

2.1 The Co-O Mine (continued)

Table II: Summary of Co-O Vein Eastern Extensions Diamond Drilling Results

Hole	East	North	Azimuth	Dip	From	Intersection g/t Au
MD 1	613,862	912,907	75	46	164.60	VEIN 1: 1.20 metres @ 13.46
					178.00	VEIN 2: 1.65 metres @ 28.54
MD 2	613,948	912,850	23	53	199.40	VEIN 1: 2.60 metres @ 45.19
					221.60	VEIN 2: 11.70 metres @ 21.30
MD 3	614,000	912,847	23	60	102.90	HW VEIN: 1.50 metres @ 9.91
					242.90	VEIN 1: 1.00 metres @ 0.64
					260.50	VEIN 2: 1.70 metres @ 5.85
MD 4	614,000	912,847	23	50	141.20	HW VEIN : 3.90 metres @ 12.35
					181.50	VEIN 1: 2.10 metres @ 1.70
					205.60	VEIN 2: 1.10 metres @ 8.63
MD 5	614, 060	912, 800	23	45	201.00	VEIN 1: 1.80 metres @ 1.77
					229.50	VEIN 2: 0.80 metres @ 3.41
MD 6	614,240	912,810	350	45	267.25	VEIN 1: 0.27 metres @ 3.81
					270.22	VEIN 2: 0.68 metres @ 6.47

True widths in holes MD 1 to 3 are currently estimated to be approximately 25 to 30% of the down hole widths and in MD 4 to 6 are estimated at approximately 25 to 35%. Cross-sections for holes MD 1 to 2 are shown on Figure 6.

Brecciation is present in many vein sections in holes MD 3 to 6. Comparison between drilled grades and mined grades in the mined section of the Co-O Main Vein indicates that drilled grades are generally at least half the mined grades.

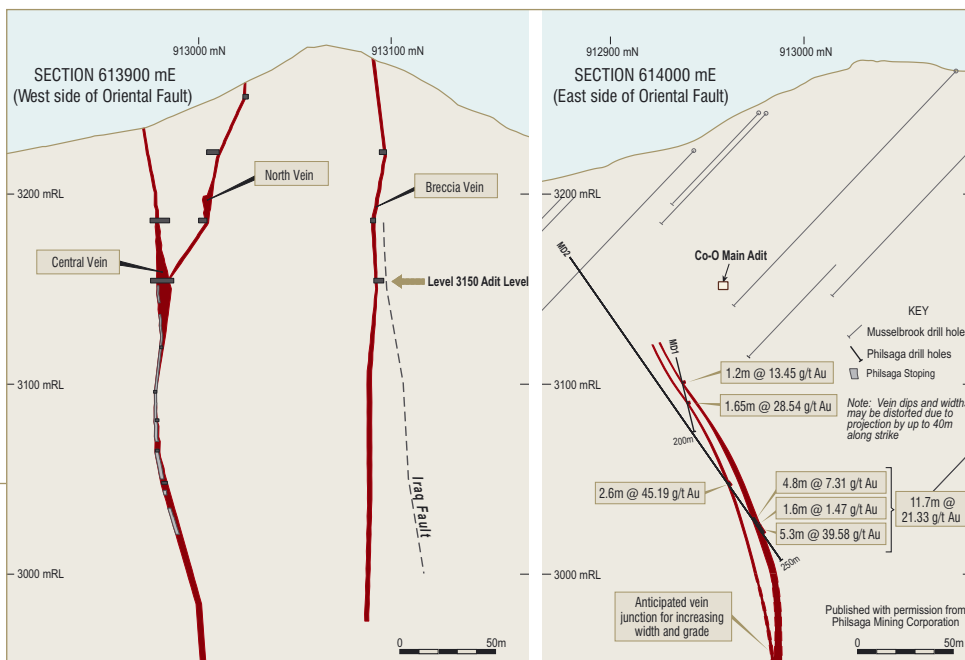


Figure 6: Cross-sections through the Main Vein east and west of the Oriental Fault.

2.2 Tenement holdings and joint ventures

Since taking ownership of the Co-O Gold Mine and Plant in 2000, Philsaga commenced consolidating the region north and south of the Plant by acquiring a number of tenements through direct ownership or effective ownership via agreements.

As shown on Figure 2, this tenement holding is strategically located north and south of the Co-O milling facility and spread over a strike length of 70 kms covers approximately 20% of the entire strike length of the highly prospective and mineralised East Mindanao Ridge.

Philsaga has commenced a joint venture with Magnum Gold Limited ("Magnum") whereby Magnum will spend US\$1.5 million to earn a 50% interest in the Bunawan Project.

2.3 Infrastructure and facilities

The Carbon-in-Pulp ("CIP") Plant is BHP designed and built in 1988 with a name plate capacity of 550 tpd and situated approximately 12 km north of the Philsaga's Co-O Gold Mine and adjacent to the national highway. Minor alterations are able to increase the crushing and grinding throughput to 700 tpd. Further modifications could maximise the crushing and grinding capacity at 1,000 to 1,100 tpd.

Power to the CIP Plant is supplied from the local grid with the high tension power line located approximately 150 metres from the plant. Back up diesel generators installed by a previous operator prior to the construction of the transmission line are operational and available.

The other associated facilities include administration offices and assay laboratory, a warehouse, mechanical and machine shops, messing and accommodation facilities and geological offices and core storage facilities.

Production statistics for the Plant for the period 2002 to 2004 inclusive are as follows:

- The Co-O Plant feed was dependant on ore mined and monthly production was variable between a maximum of 2,950 tonnes (91 tpd) for May 2003 and 1,341 tonnes (45 tpd) for September 2003. The throughput for 2004 was steadily improved each month from 1,434 tonnes (46 tpd) in January 2004 to 2,603 tonnes (84 tpd) in September 2004, with a daily average of 59 tpd for the first half and 72 tpd for the second half year.
- The relationship between the calculated plant head grade and the ROM assigned head grades, which are based on face samples to the stopes and ore drives, was consistent whereby the ROM assigned grade was between 7% and 13% higher than the calculated plant head grade.
- The tails grade has been steadily improved such that the Co-O Plant is able to achieve a discharge grade of less than 1 g/t Au with resultant plant recovery of 96% for the fourth quarter to 2004.
- The Co-O Plant unit cash cost of production has been US\$20, US\$27 and US\$28 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant repair expense in 2004 that is not expected to re-occur.
- Administration to the Co-O Operations has been US\$16, US\$22 and US\$37 per tonne for the years 2002, 2003 and 2004 respectively. This expenditure reflects the increasing degree of exploration related administration, including tenement applications and court cases, particularly in 2004, that are not expected to be repeated.
- The Co-O Mine unit cash cost of production has been US\$67, US\$78 and US\$96 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant expense in 2004 for rehabilitation of the 3185 MRL return airway, development costs on the 3150 mL to connect with the Tinago Shaft. The unit cost reflects the small scale mining contract rate for ore production that is to be reduced with the introduction of "bore & fire" operations.



Philsaga Transaction

Co-O minesite office

PHILSAGA TRANSACTION (continued)**2. The Philsaga Assets** (continued)**2.3 Infrastructure and facilities** (continued)

Co-0 Plant production statistics - 2002 to 2004:

Item	Unit	2002	2003	2004
ROM production	tonne	17,032	22,580	21,416
	g/t Au	32.0	27.54	26.3
Plant feed	tonne	18,772	22,901	21,736
	g/t Au	29.9	23.4	22.3
Tails grade	g/t Au	2.57	1.89	1.18
Recovered gold	ozs Au	16,709	17,590	15,530
Unit cash cost - Mining	US\$/tonne	67	78	96
Unit cash cost - Processing	US\$/tonne	20	27	28
Unit cash cost - Administration	US\$/tonne	16	22	37
Total unit cash costs:	US\$/tonne	103	127	161

Under the terms of the Ore Supply Agreement, Philsaga has to provide a minimum ore feed of 2,000 tonnes of gold bearing ore per month.

LEASE AND OPTION AGREEMENT TO ACQUIRE THE Co-0 PLANT

Under the terms of the Lease and Option agreement executed on 5 August 2005 between Medusa and Philsaga, Philsaga agreed to provide Medusa with a 3 year Lease and Option to acquire Philsaga's treatment plant and associated facilities.

1. Lease and Option Agreement

The Lease and Option Agreement will enable Medusa to process ore and produce gold to generate cashflow and includes the right to acquire the Plant anytime during the 3 year period.

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

- Medusa to make a payment of A\$2,000,000;
- Medusa to provide 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 and Philsaga will project manage 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 has 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%.

Lease and Option Agreement

Co-0 treatment plant

3. Summary of Plant included in the Lease and Option Agreement

Refer section 2.3 under "Philsaga Transaction" on pages 11 and 12 of this report.

4. Benefits associated with the Transaction

Completion of the transaction will give Medusa the following benefits:

- immediate cash flow from the completion date of the transaction;
- control of a profitable Plant that will treat high grade ore from the Co-O Mine and potentially other ore sources;
- milling facilities which can be expanded as and when required depending on production increases;
- an increasing gold production profile during 2006; and
- access to an existing skilled workforce, management and infrastructure that are working effectively and co-operatively with local communities.

5. Completion

The transaction was not subject to any mandatory and regulatory approvals, however the Company was required to raise a minimum of \$4.5 million to complete the financial requirements of the transaction.

Settlement of the transaction was effected on 27 September 2005.

SAUGON GOLD-SILVER PROJECT (Medusa 50%)

1. First Hit Vein

Work commenced in mid 2003 on the First Hit Vein which has been followed intermittently at the surface over 600 metres and which has been explored by surface drilling and underground via a 40 metre deep winze and level development. The prospect is situated approximately 10 km south of the Co-O Gold Mine and 28 km by road from the Co-O treatment plant.

The First Hit Vein is associated with a major north-east trending fault zone and as a consequence has been extensively brecciated and overprinted by secondary gold-poor silica and carbonate leaving rafts of high grade material within the breccia zone. Whilst the exploration winze and a number of drill holes (Table III) have been completed, at this stage the continuity of the mineralisation indicates that mining is unlikely in this part of the vein system.

Diamond drilling and further work was suspended at the end of the first quarter of 2005.

Table III: Summary of First Hit Vein diamond drilling results >0.5 metres @ >1 g/t Au

Hole	East	North	Azimuth	Dip	From	Intersection g/t Au, g/t Ag
SDDH 2B	616,944	899,267	316°	55°	108.50	1.00 metre @ 35.95, 541.2
SDDH 3	616,977	899,305	316°	55°	222.15	0.50 metre @ 1.42, 27.6
SDDH 4	616,912	899,318	290°	60°	64.55	1.00 metre @ 1.37, 19.8
SDDH 5	616,964	899,344	345°	54°	71.80	0.95 metre @ 3.20, 31.8
SDDH 9	616,979	899,250	319°	81°	170.50	0.65 metre @ 2.31, 34.5
SDDH 27	616,921	899,334	300°	73°	75.50	0.90 metre @ 10.14, 146.8
SDDH 28	616,922	899,307	300°	70°	89.95	1.75 metre @ 19.05
SDDH 29	616,961	899,315	300°	72°	112.25	0.90 metre @ 15.32
SDDH 31	616,922	899,254	315°	75°	146.80	2.20 metre @ 3.88



SAUGON GOLD-SILVER PROJECT (Medusa 50%) (continued)

2. Mabas and Paradise prospects

The Mabas prospect, a cherty-chalcedonic vein with accessory lead and zinc mineralisation, is located approximately 3 km north of the First Hit Vein. Previous underground workings were re-opened, mapped and sampled indicating potentially economic mineralisation over a length of more than 25 metres. Four diamond drill holes were completed along strike and under the workings but failed to delineate sufficient mineralised vein to justify further work.

The Paradise prospect is located approximately 1.5 km north of the First Hit Vein consisting of a silica cap with disseminated barite and barite veins with anomalous gold values. Two diamond drill holes failed to locate significant mineralisation at depth.

3. Regional stream sediment sampling

A program of regional stream sediment sampling was completed over the Saugon Exploration Permit. Results have highlighted the known mineralisation with limited follow-up work warranted.

PANAON GOLD PROJECT (Divesting 50%)

1. Background

Medusa and Philsaga, via an incorporated joint venture have signed a Mines Operating Agreement ("MOA") with Vulcan Industrial and Mining Corporation ("Vulcan"), a company listed on the Philippines Stock Exchange, on the following key terms and conditions:

- that the Medusa group will operate the Panaon Gold Project ("Project") and provide Vulcan with a 3% Net Refinery Return royalty on gold and silver if the resource is less than 2 million ounces and 4% if the resource is greater than 2 million ounces;
- that the Medusa group will pay Vulcan a signing fee of US\$10,000 and a further US\$10,000 as an advance against future royalties; and
- Vulcan has the right to buy back 20% of the Project when it has achieved continuous production of 100 tonnes per day for a period of 3 months. To acquire the equity, Vulcan will pay a 100% premium on the pro-rata project expenditure to that date.

The Project is located on Panaon Island (Fig. 1) in Southern Leyte, immediately north of Surigao City which is accessible by domestic flights from Manila. Access from Surigao City is by passenger boat for 1 to 2 hours or by drive-on drive-off inter-island ferry.

The Project consists of Exploration Permit EP-2005-000004-VIII which was granted on 5 March 2005 totalling 1,646 hectares. Geologically the Project is part of the northern Surigao district mineralisation. The gold mineralisation on Panaon Island was discovered during Spanish times and subsequently mined by the Americans pre-World War II and by several Filipino groups since World War II.

Most past mining activities appear to have used crude mining and processing techniques which required grades generally well in excess of 20 g/t Au to be profitable. An attempt to modernise the mining in the 1980s to 100 tonnes per day production appears to have failed due to a lack of management control and expertise. However, as a result of this activity, plant foundations and several cyanide leach tanks in good condition are still on site and usable.

The main veins discovered are located at Pinut-an, Bituon and Habay. The Pinut-an veins are the main veins mined to date. Detailed production records are yet to be located.

2. Project geology

The Project consists of high grade epithermal veins hosted by andesitic porphyries intercalated with volcanic pyroclastics. The island is confined east and west by branches of the Philippine Rift Fault which have sculptured the elongated topography of the island.

At Pinut-an, the epithermal veins are confined to the eastern side of the island where the vein system consists of five major zones with strike lengths up to 1 km. Records indicate that the most productive veins have an E-W orientation. Several adits of up to 300 metres in length, cross-cuts and other drives are indicated on old plans which have to be verified through re-opening, mapping and sampling.

The Pinut-an veins are associated with an alteration area of approximately 5 km². Stream sediment sampling carried out over an area of 200 km² in early 2003 by the government to government Korean-Filipino joint venture team detected anomalous values in the Pinut-an, Bituon and Habay Fault areas. No further follow-up work appears to have been undertaken.

At Bituon, 5 E-W veins were sporadically mined but the mining was not developed to the same level as at Pinut-an. However the potential of these veins at this stage is thought to be similar to those at Pinut-an.

3. Work completed

Philsaga has commenced rehabilitation of the main access adit which is approximately 300 metres deep. Work has progressed to a depth of 250 metres and rail has been laid almost to the face, with further rail to be laid along some of the cross-cuts.

Once the adit rehabilitation is completed as well as some of the cross-cuts, it and all other accessible openings will be systematically mapped and sampled in preparation for an underground drilling program and additional exploration.

4. Joint venture

Field inspections have been undertaken by a third party to determine if they will fund the first US\$1 million of expenditure for exploration and development of the Panaon Project. It is anticipated that this amount should be sufficient for underground re-habilitation, exploration and development, and provided exploration results are satisfactory, the construction of a plant of approximately 100 tonnes per day capacity utilising tankage and foundations already in place. All costs of acquiring the project and work to date are to be reimbursed by the third party.



Panaon Gold Project

Remnant infrastructure
Old leaching tanks

BARLO COPPER-GOLD-ZINC PROJECT (Option to acquire 33.33%)**1. Background**

Barlo Mine is located approximately 320 km by road northwest of Manila (Fig. 1) and approximately 170 km north of Subic Bay and Olongapo being a 5 to 6 hour drive on bitumenised highways.

The prospect is located approximately 44 km north of Candaleria, and then approximately 10 km inland in a north-easterly direction from Dasol which is 27 km north from Santa Cruz. The mine site is located approximately 6 km inland, such that the China Sea is visible from the former treatment plant site. All weather access to the mine area from Dasol is initially on concreted and then gravelled roads.

2. Mine history

The project was operated by Acoje Mining Company ("Acoje") from 1974 to October 1984.

The Barlo deposit was discovered as a result of high grade supergene copper outcrops which were mined by tunnels and adits to produce shipping grade ore totalling approximately 55,000 tonnes at 3 to 7% Cu.

In 1976 Acoje constructed a 1,000 tonnes per day mill for a 10 year mine life resulting in total production of approximately 3,000,000 tonnes of ore. Previous senior mine management interviewed by Medusa have advised that during the life of the mine when a mine cut-off grade of 0.3% Cu was applied, a head grade of approximately 1.5% Cu was achieved as well as containing approximately 1% zinc (not recovered), 5 to 10 g/t Ag and unanalysed amounts of gold. The previous mine management has also advised that no systematic gold assaying was ever undertaken during exploration or mining, even though significant gold was reported and paid for in concentrates.

The mine closed prematurely due to a combination of low copper prices and management issues. It is understood that significant amounts of ore remain in the walls of the pit and in the pit floor.

*Crocodile Rock!*

Outcropping brecciated vein
South-east Co-0

3. Geology, mineralisation and exploration potential

The deposits are described in the literature as Kuroko style massive sulphide deposits which characteristically form on the sea floor around submarine hot spring vents and commonly exhibit strong metal zoning.

At Barlo the sulphide deposits occur at an essentially sub-horizontal interface between an underlying andesite/basaltic volcanic sequence and overlying basaltic pillowed flows, breccia and fragmental sequence with minor interbedded limestone bands. The overlying rocks commonly attain thicknesses of 20 to 40 metres and are commonly altered. The upper pillowed sequence is overlain, mainly to the west, by >20 metres of bedded limestones, which are in turn overlain by modern unconsolidated deposits.

It is understood that previous geochemical sampling outlined high order stream sediment coincident Cu-Zn anomalies with coincident soil Cu-Zn anomalies away from the mined area, reflecting mineralisation most likely at least partly exposed through erosion and indicative of additional readily identifiable targets.

Medusa has been advised that an IP survey undertaken after the Barlo pit was well advanced has shown up a large number of conductive anomalies. One of the weaker anomalies outside the pit area and to the west of the mill site has been drilled, reputedly intersecting 40 metres of sulphides with significant copper values, but it is understood that no other anomalies were drilled as the mine closed. This demonstrates that the IP has successfully located copper mineralised sulphides.

The project has excellent potential for the discovery of significant additional tonnages in new deposits, and as extensions at depth and laterally to the known deposits.

4. Memorandum of Understanding

Medusa has signed an MOU with Pyro Copper ("Pyro") over MPSA 153-2000-1 with an area of 4,360 hectares whereby Medusa has an Option to undertake work until 31 December 2006.

The Barlo Mines Production Sharing Agreement ("MPSA") was the subject of a case lodged on 27 August 2004 at the Mines Adjudication Board ("MAB") due to an overlapping Exploration Permit applied for by Montague Resources Phils Inc ("Montague"). The MAB ruled on 19 May 2005 that the Regional Panel of Arbitrators did not have authority to cancel the MPSA to make way for an application by Montague. Pending the results of the MAB deliberation, an order was issued on 1 February 2005 by the Secretary of the Department of Environment and Natural Resources ("DENR") cancelling Pyro's MPSA, and subsequently a motion for re-consideration was filed by Pyro on 26 April, 2005. A letter dated 9 June 2005 as issued by the Under Secretary of the DENR, favourably endorsed to the Secretary of the DENR the cancellation of Pyro's MPSA and subsequently a second letter of cancellation was issued by the Secretary on 14 June 2005.

The Company's consultants have advised that Pyro lodged an appeal to the Office of the President on 15 July 2005 against the ruling of the Secretary of the DENR which was initially issued while the MAB case was in progress and consequently did not follow due process. In the meantime Montague cannot validly apply for a tenement over the Pyro MPSA while the motions are filed both with the MAB and the Office of the President.

The key terms of the MOU are as follows:

- Pyro Copper will receive a payment of US\$10,000 upon signing of MOU. Pyro Copper has authorised Medusa to assist in pursuing the MAB case on its behalf;
- Medusa will be required to complete up to 1,000 metres of drilling during the Option period, as well as comply with tenement expenditure obligations;
- on resolution of the MAB case, the parties will negotiate a further payment to Pyro Copper to be paid on signing of the MOA below; and
- on decision to exercise the Option, the parties will negotiate and execute an MOA.

Key terms of the MOA are as follows:

- Pyro Copper will receive the payment to be determined as described above;
- Pyro Copper will be entitled to a 3% Net Smelter returns royalty on all minerals produced; and
- the parties then intend to vend the project into a new corporation for a consideration to be determined by an independent valuation. The consideration received by the three parties will be divided equally.



AUSTRALIA

BRAEMORE PROJECT (Optioned)

As advised to the ASX in an announcement dated 26 May 2004, the Company reached agreement with Teck Cominco Australia Pty Ltd (“Teck”) whereby Teck acquired an option to purchase the Braemore Project for \$250,000.

During the last quarter of 2004, Teck completed a first pass RAB drilling program consisting of 73 holes for 3,491 metres which tested the southern portion of the project, coincident with a NNW trending geochemistry anomaly. Drilling was completed on 200 metre spaced lines with holes centres every 100 metres over tenements P37/5330, P37/5333, P37/5333 and P37/5477. The assay results returned a peak value of 5 metres @ 0.258 ppm Au from BRAB048 at a depth of 45 metres. Other significant intercepts include 20 metres @ 0.16 ppm Au in BRAB024 from 30 metres and 20 metres @ 0.106 ppm Au in BRAB032 from 25 metres. All holes are also associated with strong arsenic anomalism.

Due to delays in gaining access to some of the tenements, the Option was extended for a period of 12 months until February 2006 by Teck paying an extension fee of \$10,000 to Medusa.



Locations of
Australian projects

During the second quarter of 2005, a total of 92 RAB holes for 5,804 metres were completed in mid June to test the northern strike extent of the mineralised shear zone and to follow-up encouraging results from the 2004 RAB drilling. Results from the infill drilling included a best intercept of 10 metres @ 0.38 g/t Au from 35 metres in BRAB092. Drilling in the southern portion of the project has now defined an area of Au-As anomalism 800 metres in strike and up to 450 metres wide, on a drill spacing of 100 metres, including the presence of supergene Au mineralisation within the northern portion of the target shear zone with best intercepts of 25 metres @ 0.25 g/t Au from 55 metres (BRAB142) and 10 metres @ 0.38 g/t Au from 30 metres (BRAB159). An RC program testing this anomalism is planned for later in 2005. Close spaced soil sampling (150 metres x 50 metres) has also been completed in the southern portion of the project with assay results pending at the time of this report.

KURNALPI and ANTI DAM PROJECTS (Medusa 100% and 90% respectively)

On 27 October 2004, the Company advised the ASX that it (together with its wholly owned subsidiary Newcoast Nominees Pty Ltd) had entered into a joint venture with Newcrest Operations Limited ("Newcrest") to explore the Kurnalpi (E28/465) and Anti Dam Projects (E28/699, Ps28/789, 958, 993 and 994).

Under the terms of the JV, Newcrest had the right to earn 70% equity in the tenements by completing expenditure of \$1 million within 4 years, with a minimum expenditure commitment of \$100,000 within 12 months and before Newcrest was entitled to withdraw. Medusa retained various options to contribute or dilute.

Newcrest focused its work near the Halfway Hill Prospect at the northern end of E28/465 where drilling previously returned encouraging results including 27 metres at 4.9 g/t gold, 20 metres at 3.9 g/t gold and 26 metres at 3.2 g/t gold.

On 21 June 2005, Newcrest advised that it was withdrawing from the Kurnalpi and Anti Dam Projects due to drill results that did not indicate a mineralised system of sufficient size for Newcrest. A new mineralised zone was discovered west of Halfway Hill which subsequently did not return additional encouraging results from deeper drilling.

At the Halfway Hill prospect during the first quarter 2005, four RC holes (KNRC 004-007 totalling 1000 metres) were completed to test the down plunge potential to the north and down dip potential of the mineralised zones. Three holes at the Halfway Hill prospect did not intersect values > 1 g/t Au, with a fourth hole (KNRC 7) to the west of Halfway Hill intersecting a new zone containing 8 metres at 1.79 g/t Au from 56 metres.

During the second quarter 2005, a deep RC hole was drilled to 335 metres below KNRC 7 intersecting a best result of 4 metres @ 0.21 g/t Au from 56 metres. The mineralisation and veining at the Halfway Hill prospect and the new western zone in KNRC007, appear to be restricted to the oxide zone. This suggests that mineralisation controls may be sub-horizontal.

Australia



RELINQUISHED PROJECTS

During the year, the Company also assessed and relinquished the following projects:

▶ **Dizon Project, Philippines**

The Company completed a detailed metallurgical testwork program on the Dizon tailings consisting of 110 million tonnes of material with a calculated head grade of 0.33g/t Au. The test work indicated that cyanidation of the whole of the tailings was the only viable treatment option after exhaustive testing showed that the abundant free gold was too fine to be concentrated by physical methods. The cyanide extraction test work results were reviewed by an independent consultant with considerable tailings treatment experience. The conclusions of the consultant were that the project was marginal at current gold prices and that, in his opinion, few options existed for increasing its viability.

The Company advised the ASX on 29 July 2005 that it had withdrawn from the project.

▶ **Marian Gold Project, Philippines**

The Company undertook an exhaustive digital data entry program for the Marian Mine. Assessment of the data indicated that the high grade shoots remaining in the mine had short strike lengths, and that based on these characteristics, the potential in the mine at depth and along strike did not warrant continuing with evaluation of the mine.

The Company advised the ASX on 6 April 2005 that it had withdrawn from the project.

▶ **Mt Stirling Project, Australia**

As advised to the ASX on 9 February 2005, the Mt Stirling Project Sale and Purchase Agreement was cancelled by issuing the vendors with 60,000 fully paid escrowed shares and returning the project to the vendors. This decision was taken due to extensive delays in a native title dispute between native title parties and the government and the changing focus of the Company.

▶ **Montacute Project, Australia**

As advised in the September 2004 quarterly report, the Company has withdrawn and relinquished all rights to the Montacute Project.

CORPORATE

The Company on 12 August 2005, lodged a prospectus with ASIC and the ASX, seeking to raise approximately A\$6 million via a non-renounceable Rights Issue ("Issue") of approximately 10 million ordinary shares at an issue price of 60 cents per share on the basis of 1 new ordinary share for every 4 ordinary shares held. In addition, for every 4 shares subscribed for in the Issue, there would be an entitlement of 1 free option exercisable at 20 cents with an expiry date of 31 January 2007.

The funds raised under the Issue was used to provide the cash consideration of A\$3 million that was required to complete the Lease and Option Agreement with Philsaga Mining Corporation in respect of Philsaga's Treatment Plant and associated facilities (as detailed on page 13 of this report) and also to provide working capital for the Company's other exploration projects and general overheads.

To ensure a successful outcome in the Issue, the Company secured commitments for several parties to take up any shortfalls in the Issue, which closed on 8 September 2005.

Medusa raised a total of A\$ 6,113,606 (before any issue and underwriting expenses) from the Issue and allotted 10,189,343 new ordinary shares and 2,547,336 new options exercisable at 20 cents with an expiry date of 31 January 2007 in the process.

Your Directors present their report together with the financial report of Medusa Mining Limited ("Medusa" or the "Company") and the consolidated financial report of the Economic Entity, being the Company and its controlled entities, for the year ended 30 June 2005, and the auditor's report thereon.

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1. DIRECTORS

The names of Directors in office at any time during or since the end of the year are:

Dr Jeffrey Christopher Schiller;
Mr Geoffrey John Davis;
Mr Edward (Ted) Stuart Mackey Mein; and
Mr Simon Kenneth Cato

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

2. DIRECTORS' INFORMATION

Dr Jeffrey Christopher Schiller

B.Sc. (Hons), Ph.D., Member AusIMM

Non-Executive Chairman

Dr Schiller is a geologist with 30 years experience in the Australian mineral exploration and mining industry. During his career Dr Schiller has held a number of senior technical and corporate management positions in exploration and mining companies. His professional background covers the full spectrum from grass roots exploration to project evaluation, feasibility studies and mining operations.

Dr Schiller was a founding Director of Independence Gold NL, a mineral exploration company that was listed on the ASX in 2002 and has since become a profitable nickel miner. Prior to Independence Gold NL, he was Chief Executive Officer and a Director of Geographe Resources Limited, an Australian listed exploration and gold mining company. Dr Schiller has made key contributions to a number of Western Australian exploration successes, including the discovery of gold at the Jupiter and Hannan South deposits, and a platinoid discovery at Weld Range.

Dr Schiller, a member of the Remuneration Committee, is also a Non-Executive Director of Magnum Gold NL, a publicly listed company on the ASX. Dr Schiller joined the Board of Magnum Gold NL in October 2004.

Mr Geoffrey John Davis

**M.Sc, Mining and Exploration Geology, B. Sc (Hons), Geology,
Member, Australian Institute of Geoscientists.**

Managing Director/Chief Executive Officer

Mr Geoff Davis worked initially with BHP for 10 years following his graduation in 1972, before becoming a consultant to a wide range of mining and exploration companies in Australia, Asia and South America. This work specialised in epithermal precious metal and porphyry copper-gold opportunities, and included project acquisition, assessment and exploration. Since 1990, most of his work has been with junior explorers where he has been Exploration Manager to a number of these companies. In this role he has also been extensively involved in company presentations and numerous capital raisings. He has established working relationships within both the technical and share market sectors of the business.

In more recent times he has held Directorships and senior executive positions in a number of listed and unlisted Australian, Asian and London based exploration and mining companies. Mr Davis is currently the Non-Executive Chairman of an ASX listed company, Integra Mining Limited, having joined the Board of Integra on 24 March 2004.

Philippines Experience:

Mr Davis first started work in the Philippines in 1980 until late 1981 as the Regional Manager for an international mining house based in Manila. This work concentrated on exploring for epithermal gold deposits under the guidance of an internationally recognised consultant who specialised in the field of epithermal gold deposits. During this period he had the opportunity to visit major gold and gold-copper deposits. During the 1980s and 1990s he was involved in consulting to companies in the Philippines as well as assisting companies to source projects and personnel. During the period 1999-2000 he managed the restructure and recovery of a group of companies to the point of financial stability. As part of the restructuring of this group, he managed the sale of the Co-O Gold Project to Philsaga in August 2000. Over the 25 years of experience in the Philippines, he has developed a network of contacts in the mining, exploration, legal and tenement management sectors of the industry which are important for furthering the Company's business interests in the Philippines.

Mr Simon Kenneth Cato**B.A, MSDIA,***Non-Executive Director*

Mr Simon Cato has had more than 20 years capital markets experience in both broking and regulatory roles. He has been employed by the ASX in Sydney and in Perth in the Companies Department, which oversees the activities of listed companies. Over the last twelve years he has been an Executive Director of two stockbroking firms and in these roles he has been involved in many aspects of broking, including management issues such as credit control and reporting to regulatory bodies in the securities industry. As a broker he has also been involved in the underwriting of a number of floats and has been through the process of an initial listing in a dual role of broker and Director.

Mr Cato who is a member of the Remuneration Committee, currently serves as a Non-Executive Director on the Boards of Altera Capital Limited, Sofcom Limited, Elemental Minerals Limited and Bentley International Limited, all companies listed on the ASX.

Mr Edward (Ted) Stuart Mackey Mein**B.Eng (Mining), Member AusIMM.***Non-Executive Director*

Mr Ted Mein is a mining engineer having had more than 25 years of resource industry experience culminating as resident operations manager and since 1990 practicing as an independent consulting engineer. Mr Mein's expertise ranges from conceptual planning, project feasibility and due diligence studies through to commissioning, operation and decommissioning of numerous projects for copper, zinc and nickel sulphides, nickel and cobalt laterite, gold, bauxite, kaolin, salt, magnesium, vanadium and platinum group metals.

As an independent consulting engineer he has predominantly worked as a project manager for both exploration and producing resource companies to conduct feasibility studies on prospects and/or develop resource projects into viable operations, or has been commissioned to review prospective projects for financing.

Mr Mein, who currently provides operations experience to the board's evaluation and development of the Company's projects, is a member of the Remuneration Committee.

3. COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year.

Mr Roy Daniel (B.Com UWA) who was appointed Company Secretary on 6 December 2004, has been associated with the resource and mining industry for over 24 years and has held various senior management and accounting positions with overseas and Australian companies.

Mr Daniel has considerable experience in accounting matters, business development, financial evaluations and modelling, feasibility studies, project funding, treasury management and company secretarial functions and brings his expertise in these matters to the Company.

Philippines experience:

Mr Daniel also possess work experience in the Philippines having streamlined the finance, administration and corporate activities of the Filipino operations for an Alternative Investment Market listed entity.

4. MEETINGS OF DIRECTORS

The number of meetings held during the year by Company Directors and the number of those meetings attended by each Director was:

Name of Director	Board of Directors Meetings		Remuneration Committee Meetings	
	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended
Dr Jeffrey Schiller	13	12	-	-
Geoffrey Davis	13	13	-	-
Edward (Ted) Mein	13	12	-	-
Simon Cato	13	11	-	-

At the date of this report, neither an Audit Committee nor Nomination Committee of the Board of Directors exist, as the Company is not currently of a size nor are its affairs of such complexity as to warrant the establishment of such committees. Accordingly, all matters capable of delegation to such committees are considered by the full Board of Directors.

The Remuneration Committee which comprises Dr Schiller (Chairperson) and Messrs Mein and Cato did not hold any meetings during the year.

5. PRINCIPAL ACTIVITIES

The principal activities of the Economic Entity during the course of the financial year were mineral exploration, evaluation and development. There were no significant changes in the nature of the activities of the Economic Entity during the year.

6. OPERATING RESULTS

The net consolidated (loss) for the financial year attributable to members of Medusa Mining Limited after provision of income tax was (\$1,301,416) [2004: (\$473,498)].

7. REVIEW OF OPERATIONS

A review of operations and exploration activities of the Economic Entity for the year are set out in the Chairman's Review and Review of Operations which are included with these financial statements.

8. DIVIDENDS

There was no dividend paid or declared by the Company since the end of the previous financial year and the Directors do not recommend the payment of a dividend in respect of the current financial year.

9. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Economic Entity during the financial year were as follows:

- ▶ In July 2004 the Company completed the placement of 1,225,000 ordinary shares at 40 cents each with 612,500 listed options (exercisable at 20 cents with an expiry date of 31 January 2007) at a cost of 1 cent each to sophisticated clients to raise \$496,125 before expenses;
- ▶ On 14 July 2004, the Company announced that it had signed a Memorandum of Understanding ("MOU") for a six month option over the Marian Gold Mine with Vulcan Industrial and Mining Corporation ("Vulcan").

The MOU provided for:

- a six month option period for Medusa (at its own cost) to undertake evaluation of the Project;
- payment of US\$10,000 to Vulcan upon receipt of a tenement report by independent tenement consultants that the tenement can proceed to granting;

- on exercise of the option, the MOU would be converted to a Mines Operating Agreement under which Medusa and Vulcan would form a 50-50 joint venture ("JV") in the Project with Vulcan having the right to convert or dilute to a 3% Net Smelter Royalty; and
- Under the JV, Medusa as operator must within two years determine the commercial viability of the Project.

Following comprehensive data entry, collation and assessment, the Company on 7 April 2005, advised the ASX that it had formally notified Vulcan of its decision to withdraw from the Marian Gold Mine Project.

- ▶ The Company on 18 August 2004, announced that it had earned its 50% interest in the Saugon Project in the Philippines by sole funding A\$1,200,000.
- ▶ On 13 September 2004, Medusa advised that it had signed a 50-50 joint venture ("JV") MOU with BacTech Mining Corporation of Canada ("BacTech"), whereby BacTech agreed to provide its technology on an exclusive basis to the JV in the Philippines for the treatment of refractory gold-copper ores or gold-copper ores with high penalty element components for a period of 3 years.
- ▶ The Company advised the ASX on 16 September 2004, that it had placed 1,200,000 ordinary shares (to clients of Intersuisse Limited) at 36 cents per share to raise \$432,000 before expenses.
- ▶ Pursuant to the Company's Prospectus dated 20 November 2003, the Company concluded the acquisition of the Kurnalpi Project on 11 October 2004 with the payment of \$20,000 and the issue of 400,000 ordinary shares and 400,000 20 cent options exercisable on or before 31 January 2007 to Total Mineral Resources Pty Ltd ("Total Mineral").
Medusa subsequently purchased additional tenement equity at Kurnalpi from Total Mineral for \$10,000 and the issue of 300,000 ordinary shares and 300,000 20 cent options exercisable on or before 31 January 2007.
- ▶ On 26 October 2004, the Company advised that it signed a Heads of Agreement with the principal shareholders ("Shareholders") of Philsaga Mining Corporation ("Philsaga") to acquire their shares in Philsaga and thereby control of all of Philsaga's assets in central eastern Mindanao, Philippines.
 - Following completion of an independent expert's valuation and due diligence on all accounting, tenement, legal and environmental aspects plus the historical mining and production statistics of Philsaga, Medusa and the Shareholders on 16 December 2004, finalised the transaction on the following terms and conditions:
 - issue of 25 million ordinary Medusa shares to the Shareholders at completion;
 - cash consideration of \$14 million payable to the Shareholders at completion;
 - provision of \$1 million in each of the first and second years for contractors to purchase equipment for the provision of services to the mine;
 - a payment of US\$20 per ounce of recovered gold obtained from any extensions of the Co-O mine mineralization mined on the eastern side of the Oriental Fault limited to a maximum of US\$10 million;
 - 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;
 - the current Philsaga management team will continue to manage the project.
 - The Shareholders executed a Variation Agreement with Medusa in January 2005, agreeing to defer \$5 million of the \$15 million previously payable at completion. Under the terms of the Variation Agreement, the Shareholders have agreed to be paid in 2 instalments of \$2.5 million at the end of each of the next 2 years.
 - The Company on 11 April 2005, advised the ASX that it had arranged and secured funding commitments (comprising a mixture of debt and equity) to complete the Philsaga Transaction.
 - Medusa had received commitments for \$6 million in an Equity Raising via the issue of 8.6 million shares at an issue price of \$0.70 per share;
 - Medusa executed an agreement with LinQ Capital Limited for the provision of a \$6 million unsecured loan facility;
 - One of the Shareholders of Philsaga had agreed to defer a further \$2 million for a period of 13 months; and
 - The Shareholders had agreed for the 25 million shares to be placed in voluntary escrow for a period of 18 months.
 - Medusa lodged a Prospectus with ASIC and ASX on 26 April 2005, seeking to raise a minimum of \$6 million and up to \$8 million via the issue of a maximum of 11,428,571 shares at an issue price of \$0.70 per share.
 - The Company's securities were suspended from trading on 16 May 2005, pending outcome of shareholders' meeting and Medusa complying with Chapters 1 and 2 of the ASX Listing Rules.

9. SIGNIFICANT CHANGES IN STATE OF AFFAIRS (continued)

- All resolutions pertaining to the Philsaga Transaction put to Shareholders of the Company at a Meeting of Shareholders on 16 May 2005, were approved.
- The Company on 25 May 2005, advised the ASX that the remaining condition precedent in the Philsaga Transaction remained outstanding.
- On 30 June 2005, the Company advised the ASX that the Philsaga Transaction will not be proceeding in its current format due to delays experienced with the remaining condition precedent relating to title issue not being satisfied. Accordingly, the Equity Raising via the Prospectus dated 26 April 2005 was withdrawn and the debt raising terminated.
- ▶ In a release to ASX on 27 October 2004, the Company advised that Newcrest Operations Limited ("Newcrest") had entered in a joint venture ("JV") with the Company to explore the Company's Kurnalpi and Anti Dam Projects.
Under the terms of the JV, Newcrest had the right to earn a 70% equity in the tenements by expending \$1 million over 4 years, with a minimum expenditure commitment of \$100,000 within 12 months before being able to withdraw its interest.
On 21 June 2005, the Company advised the ASX that Newcrest was withdrawing from the JV as the drill results to date did not indicate a mineralised system of sufficient size for Newcrest.
- ▶ The Company advised the ASX on 10 December 2004, that it had raised \$400,000 (before issue costs) via the placement of 824,742 ordinary shares at \$0.485 per share to clients of State One Stockbrokers.
- ▶ The Company announced on 7 April 2005 that it had executed a Memorandum of Understanding ("MOU") over the former Pinut-an Gold Mine and surrounding areas on Panoan Island ("Panoan Project") with Vulcan Industrial and Mining Corporation ("Vulcan").
The MOU provides for:
 - the Medusa Group to operate the Panoan Project and provide a 3% Net Refinery Return royalty to Vulcan on all gold and silver production;
 - Vulcan is entitled to buy back 20% of the Panoan Project when it has been operating for more than 3 months at a rate of 100 tonnes per day. Vulcan will pay a 100% premium on the pro-rata expenditure to that date for its 20% interest; and
 - Vulcan being paid US\$10,000 as a signing fee and a further US\$10,000 advance against future royalty payments.

10. EVENTS SUBSEQUENT TO BALANCE DATE

- ▶ The Company after conducting extensive studies and metallurgical testworks, advised the ASX on 29 July 2005 that it had formally withdrawn from the Dizon Project in the Philippines.
- ▶ On 10 August 2005, the Company advised the ASX that it had executed a Lease and Option Agreement with Philsaga Mining Corporation ("Philsaga") and its principal shareholders to acquire Philsaga's Treatment Plant and associated facilities ("Plant") under the following terms and conditions:
 - Medusa to make a payment of \$2 million;
 - Medusa to provide \$1 million for contractors to purchase equipment for the provision of services to the mine;
 - Medusa has the option to acquire the Plant within 3 years;
 - A company associated with the principal shareholders of Philsaga and Philsaga will project manage all aspects of the Plant operations on a cost plus 15% basis; and
 - Philsaga has agreed to supply feed for the Plant under an Ore Supply Agreement for a 3 year period at cost plus 15%.
 This agreement was completed on 27 September 2005.
- ▶ The Company on 12 August 2005, lodged a Prospectus with ASIC and ASX, seeking to raise approximately \$6 million via a Non-renounceable Rights Issue ("Issue") of approximately 10 million ordinary shares at an issue price of 60 cents per share on the basis of 1 new ordinary share for every 4 ordinary shares held. In addition, for every 4 shares subscribed for in the Issue, there will be an entitlement of 1 free option exercisable at 20 cents with an expiry date of 31 January 2007.
Subsequent to several announcements advising the status of the Issue, the Company on 20 September 2005, announced that it had raised gross proceeds of \$6,113,606 (being the maximum allowed under the Issue) with the allotment of 10,189,343 ordinary shares and 2,547,402 listed 20 cent options expiring 31 January 2007.

- ▶ Medusa advised the ASX on 16 August 2005 that it had reached agreement with the principal shareholders of Philsaga Mining Corporation to extend the end date of the Philsaga Transaction to 21 November 2005.

The parties also agreed in principle to discuss and revise the original terms of the Philsaga Transaction upon resolution of the condition precedent and granting of a Mining Production Sharing Agreement ("MPSA").

- ▶ The Company advised the ASX on 22 September 2005, that it had placed 2,342,440 ordinary shares to clients of State One Stockbroking at 60 cents per share to raise \$1,405,464 before expenses.

Included in the placement for no cost was the grant of 585,610 listed 20 cents options expiring 31 January 2007.

Other than the matters described above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and/or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity in subsequent financial years.

11. FUTURE DEVELOPMENTS

The Economic Entity will continue to pursue its policy of acquiring and testing attractive mineral properties with a view to developing properties capable of economic mineral production in the Philippines. Joint venture partners will be sought where appropriate for the Australian mineral properties.

12. DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the Economic Entity, as notified by the Directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act 2001 at the date of this report, is as follows:

Name of Director	Number of fully paid ordinary shares	Number of listed options over ordinary shares	Number of unlisted options over ordinary shares (Note 1)
Dr Jeffrey Schiller	1,080,000	520,000	-
Geoffrey Davis	3,256,000	1,446,500	2,600,000
Edward (Ted) Mein	1,850,000	790,000	-
Simon Cato	1,090,000	437,500	-

Note 1:

- 2,000,000 options exercisable at 57.64 cents on or before 16 December 2007; and
- 600,000 options exercisable at 43.34 cents on or before 23 December 2009.

13. REMUNERATION REPORT

(a) Directors' remuneration

The following tables provide the details of all Directors of the Company and the nature and amount of the elements of their remuneration for the year ended 30 June 2005 and 30 June 2004.

2005	Primary			Equity	Total
	Salary / fees	Directors' fees	Superannuation	Options (1)	
Dr Jeffrey Schiller	-	25,000	-	-	25,000
Geoffrey Davis	180,000	-	-	691,600	871,600
Edward (Ted) Mein	138,150	20,000	-	-	158,150
Simon Cato	-	20,000	-	-	20,000
Total	318,150	65,000	-	691,600	1,074,750

2004	Primary			Equity	Total
	Salary / fees	Directors' fees	Superannuation	Options (2)	
Dr Jeffrey Schiller	-	20,833	-	-	20,833
Geoffrey Davis	114,000	-	-	123,420	237,420
Edward (Ted) Mein	-	16,667	-	-	16,667
Simon Cato	-	15,703	964	-	16,667
Total	114,000	53,203	964	123,420	291,587

- (1) On 16 May 2005, Geoffrey Davis was granted 2,000,000 options (at no cost) over un-issued ordinary shares at an exercise price of \$0.5764 with an expiry date of 16 December 2007. The estimated value at the date of grant using a Black and Scholes model is \$0.3458 per option.
- (2) On 23 June 2004, Geoffrey Davis was granted 600,000 options (at no cost) over un-issued ordinary shares at an exercise price of \$0.4334 with an expiry date of 23 December 2009. The estimated value at the date of grant using a Black and Scholes model is \$0.2057 per option.

(b) Executives' remuneration:

The following tables provides the details of all Executives of the Company with the greatest authority and the nature and amount of the elements of their remuneration for the year ended 30 June 2005

2005	Primary			Equity	Total
	Salary / fees	Directors' fees	Superannuation	Options (3)	
Roy Daniel	17,500	-	13,475	148,200	179,175
Bruce Acutt	12,803	-	1,152	-	13,955
Total	30,303	-	14,627	148,200	193,130

2004	Primary			Equity	Total
	Salary / fees	Directors' fees	Superannuation	Options (3)	
Bruce Acutt	14,040	-	1,264	-	15,304
Total	14,040	-	1,264	-	15,304

- (3) On 16 May 2005, Roy Daniel was granted 500,000 options (at no cost) over un-issued ordinary shares at an exercise price of \$0.5764 with an expiry date of 16 December 2007. The estimated value at the date of grant using a Black and Scholes model is \$0.2964 per option.

(c) Remuneration options

Name	Vested number	Granted number	Grant date	Value per option at grant date	Exercise price	First exercise date	Last exercise date
<i>Directors</i>							
Geoffrey Davis	1,000,000	2,000,000	16/12/04	\$0.3458	\$0.5764	16/12/04	16/12/07
<i>Executives</i>							
Roy Daniel	-	500,000	16/12/04	\$0.2964	\$0.5764	16/12/05	16/12/07

The service and performance criteria set to determine remuneration are included per note (g).

The exercisable price for the above Director and Executive options are based on a 10% premium on the average closing price for 5 days prior to the date of the Philsaga transactions on 16 December 2004. The vesting provision is 50% on the 1st anniversary (16 December 2005) and the remaining 50% on the 2nd anniversary being 16 December 2005.

(d) Shares issued on exercise of remuneration options

No options previously granted as remuneration were exercised during the year.

(e) Option holdings

The movement during the year in the number of options over ordinary shares in Medusa Mining Limited held directly, indirectly or beneficially, by each Director and Executive, including their personally related entities is as follows:

Name	Balance 01/07/04	Options granted as remuneration	Options exercised	Other changes (*)	Balance 30/06/05	Vested & exercisable 30/06/05	Total not exercisable 30/06/05
<i>Directors</i>							
Dr Jeffrey Schiller	500,000	-	-	-	500,000	500,000	-
Geoffrey Davis	2,092,500	2,000,000	-	-	4,092,500	3,092,500	1,000,000
Edward (Ted) Mein	802,500	-	-	-	802,500	802,500	-
Simon Cato	430,000	-	-	-	430,000	430,000	-
<i>Executives</i>							
Roy Daniel	-	500,000	-	-	500,000	-	500,000

(*) Other changes represent options that expired or were forfeited during the year.

(f) Share holdings

The movement during the year in the number of ordinary shares in Medusa Mining Limited held directly, indirectly or beneficially, by each Director and Executive, including their personally related entities is as follows:

Name	Balance 01/07/04	Shares purchased	Options exercised	Shares sold	Balance 30/06/05
<i>Directors</i>					
Dr Jeffrey Schiller	1,000,000	-	-	-	1,000,000
Geoffrey Davis	3,240,000	-	-	-	3,240,000
Edward (Ted) Mein	1,850,000	-	-	-	1,850,000
Simon Cato	1,060,000	-	-	-	1,060,000
<i>Executives</i>					
Roy Daniel	-	-	-	-	-

13. REMUNERATION REPORT (continued)

(g) Remuneration practices

Remuneration levels are competitively set by the Board to attract, retain and motivate appropriately qualified and experienced Directors and Senior Executives with a remuneration considered competitive within the resource industry for the level of activity entered into by the Company.

The remuneration policy has been tailored to increase goal congruence between shareholders and Senior Executives (including Executive Directors) and includes the payment of bonuses based on the achievement of specific goals related to the performance of the Economic Entity and also the issue of options encourage the alignment of personal and shareholder interests.

The Board believes the remuneration policy it has in place will be effective in increasing shareholder wealth.

Executive remuneration packages:

- involve a balance between fixed and incentive pay, reflecting short and long term performance objectives appropriate to the Company's circumstances and objectives;
- is structured in a manner designed to link reward to corporate and individual performances;
- recommendations are made with respect to the quantum of bonuses to be paid; and
- contracts of employment requiring more than twelve months notice are brought to the attention of the Board.

Non-Executive remuneration packages:

- fees paid are within the aggregate amount approved by shareholders;
- recommendations are made to the Board with respect to this aggregate amount at the Company's Annual General Meeting;
- remuneration is made by way of fees (in the form of cash and superannuation benefits);
- retirement benefits (other than statutory superannuation benefits are not provided for); and
- there is no entitlement for participation in equity based remuneration schemes designed for Executives.

Total remuneration for all Non-Executive Directors, last voted upon by shareholders at a meeting held on 23 November 2003, is not to exceed \$ 100,000 per annum.

Directors' fees cover all main Board activities.

14. OPTIONS

Unissued shares under option

At the date of this report, the following options remain over unissued ordinary shares:

Expiry date	Exercise price	Number of options	Type
31 January 2007	20.00 cents	22,711,275	Listed
31 January 2007	60.72 cents	225,000	Unlisted
16 December 2007	57.64 cents	3,000,000	Unlisted
23 December 2009	43.34 cents	600,000	Unlisted

There are no unissued shares under option at the date of this report other than those referred to above and these options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

Since the end of the financial year, 715,580 options were converted to ordinary shares at the exercise price of 20 cents per share.

15. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Indemnification

The Company entered into an Agreement with each Director of the Company, indemnifying them against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, with the exception of conduct involving a wilful breach of duty or improper use of information to gain a personal advantage.

Insurance premiums

No details of the nature of the liabilities covered and the amount of premium paid in respect of the Directors' and Officers' Liability Insurance policy has been disclosed, as such disclosure is prohibited under the terms of the policy.

16. ENVIRONMENTAL REGULATIONS

The Economic Entity's operations are subject to environmental regulations in relation to its exploration activities. The Directors are not aware of any significant breaches during the period covered by this report.

17. CORPORATE GOVERNANCE STATEMENT

The Australian Stock Exchange ("ASX") Listing Rules ("Listing Rules") require a listed entity to include in its annual report, a statement on Corporate Governance practices disclosing the extent to which it has followed the "best practice" corporate governance recommendations set by the ASX Corporate Governance Council ("Council").

The concept of "corporate governance" is the systems, policies and procedures under which an entity is directed and managed. The benefits of good corporate governance are accountability, systems of control and the encouragement to create value. There is no single model of good corporate governance. Corporate governance will evolve as an entity's circumstances change and must be tailored to its circumstances.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with Council's recommendation, unless otherwise stated.

Board of Directors

Role of the Board

The Board's primary role is to guide and monitor the business and affairs of the Economic Entity on behalf of the shareholders by whom they are elected and to whom they are accountable.

To fulfil this role, the Board is responsible for the overall corporate governance of the Economic Entity including its strategic direction, approving and monitoring financial reports, capital expenditures, setting remuneration, appointing, removing and creating succession policies for Directors and Senior Executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

The Board has delegated responsibility for the day to day operational, corporate and administrative activities of the Economic Entity to the Managing Director who is also the Chief Executive Officer ("CEO"). The Company complies with the Council's recommendations 2.2 and 2.3, which recommends that the Chairperson should be independent and that the role of the Chairperson and CEO should not be the same individual.

Board process

The Board currently holds six scheduled meetings each year, plus any extraordinary meetings at such other times as may be necessary to address significant matters that may arise and Executives are regularly invited to participate in Board discussions.

The agenda for meetings is prepared by the Company Secretary in conjunction with the Managing Director and includes standing items such as financial and operational reports, strategic matters, governance and compliance. Board papers are circulated to the Directors in advance of all scheduled meetings.

17. CORPORATE GOVERNANCE STATEMENT (continued)

Board of Directors (continued)

Independent professional advice and access to company information

In fulfilling their obligations, each Director has the right of access to all relevant company information and to the Company's Executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the Economic Entity's expense.

The Director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation which will not be unreasonably withheld. A copy of the advice received by the Director is made available to all members of the Board.

Composition of the Board

The names of the Directors of the Economic Entity in office at the date of this report are set out in the Directors' Report on page 21 of this report.

The composition of the Board is determined applying the following principles and guidelines:

- Directors appointed by the Board are subject to election by shareholders at the following Annual General Meeting and thereafter are subject to re-election every 3 years;
- the Board shall comprise at least three Directors, increasing where additional expertise is considered desirable in certain areas, or when an outstanding candidate is identified; and
- the Board should comprise Directors with an appropriate range of qualifications and expertise.

The Board will review its composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with the relevant qualifications, skills and experience.

The Company complies with the Council's recommendation that the majority of the Board should be independent Directors, and whilst the Board believes that the current size and stature of the Economic Entity does not warrant the addition of any new independent Directors to the Board, it is the Board's intention to continually review and assess the benefits associated with the introduction of external independent Non-Executive Directors.

Nomination Committee

The Board believes that the Economic Entity is not of a size, nor are its financial affairs of such complexity to justify the establishment of a Nomination Committee of the Board of Directors as recommended by the Council's recommendation 2.4.

Notwithstanding its reasons for not establishing a Nomination Committee, the Board resolved that it would be beneficial to adopt and implement a formal Charter that clearly sets out the Nomination Committee's role and responsibilities, composition, structure and membership requirements.

All matters which might properly be dealt with by a Nomination Committee are considered at full Board of Directors meetings.

The Board will meet annually to review the necessity to establish a Nomination Committee.

Remuneration Committee

As per the Council's recommendation 9.2, the Board has established a Remuneration Committee comprising non-executive members of the Board - Dr Schiller (Chairperson) and Messrs Mein and Cato.

All reviews of remuneration packages and policies applicable to Executive Directors, Non-Executive Directors and Senior Executives normally conducted on an annual basis by a Remuneration Committee are handled by the Board of Directors.

There is a formal Charter that clearly sets out the Remuneration Committee's role and responsibilities, composition, structure and membership requirements.

Remuneration policies

Details on Remuneration policies of the Economic Entity are included in the Remuneration Report under section 13 (g) within this Directors' Report.

Audit Committee

The Board believes that the Economic Entity is not of a size, nor are its financial affairs of such complexity to justify the establishment of an Audit Committee of the Board of Directors as recommended by the Council's recommendation 4.2.

Notwithstanding its reasons for not establishing an Audit Committee, the Board resolved that it would be beneficial to adopt and implement a formal Charter that clearly sets out the Audit Committee's role and responsibilities, composition, structure and membership requirements.

The Board will meet annually to review the necessity to establish an Audit Committee.

All issues and matters normally dealt with by an Audit Committee are assigned to the CEO (operating within the parameters of an Audit Committee Charter), reporting directly to the Board:

The role of the CEO in discharging his responsibilities will include:

- reviewing the annual and half-year financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing corporate risk assessment processes;
- reviewing the Economic Entity's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence;
- reviewing the nomination and performance of the external auditor. The external auditors were appointed on October 2004. The external audit engagement partner will be rotated after the 30 June 2010 audit;
- assessing the adequacy of the internal control framework and the Company's code of conduct;
- monitoring the procedures to ensure compliance with the Corporations Act 2001, ASX Listing Rules and other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The CEO also reviews the performance of the external auditors on an annual basis and meets with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- finalise half-year and annual reporting to:
 - review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made; and
 - review the draft financial reports and recommend Board approval of the financial reports; and
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

The CEO and Company Secretary declare annually in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Risk Management

Oversight of the risk management system

The Board monitors and receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.

Operational, financial reporting and compliance risks are continually assessed, monitored and managed at management level and any specific areas of risk which are classified material are considered and dealt with at Board level.

Whilst the Board acknowledges that it is responsible for the overall internal control framework, it is also cognizant that no cost effective internal control system will preclude all errors and irregularities.

Areas of major risks faced by Medusa, include matters of financial reporting, the use of information systems, environmental and safety with respect to exploration activities and optimisation of returns on funds and listed securities.

17. CORPORATE GOVERNANCE STATEMENT (continued)

Risk Management (continued)

To better manage Medusa's risk profile, the Board has established an internal control framework that can be described as follows:

- financial reporting accuracy and compliance with the financial reporting regulatory framework :-
 - there is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the remainder of the year prepared when necessary;
 - cash flow statements are also prepared on a regular basis;
 - convergence with IFRS is a key financial reporting issue and the Company is at a design stage where it will be identifying and assessing the potential impact on its financial statements in the next financial year and beyond; and
 - half-yearly and annual statutory accounts which are reviewed and audited respectively by the Company's Auditors are reported to the ASX;
- financial exposures, which include interest rate management are controlled. Details on interest rates are included in Note 19 to the financial statements;
- all business transactions of a material nature are properly authorised and executed;
- the quality and integrity of personnel; and
- environmental regulation compliance - the Economic Entity is aware and committed to ensuring that sound environmental management and safe practices are carried out on its exploration activities in compliance with relevant statutory requirements relating to the environment.

The CEO and Company Secretary declare on an annual basis to the Board in writing that the financial reporting risk management framework and associated compliance and controls have been assessed and found to be operating effectively.

Ethical Standards

All Directors and employees are expected to act with the utmost integrity and objectivity and to comply at all times with the existing laws governing its operations. In addition, they are also expected to conduct the Company's activities in keeping with the highest legal, moral, ethical standards.

Conflict of interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company.

Where the Board believes that a significant conflict exists for a Director on a board matter, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Details of Director related entity transactions with the Company and Economic Entity are set out in Note 22 to the financial statements.

Code of conduct

All employees (including Directors) are required at all times to act ethically, honestly, responsibly and diligently by:

- complying with existing laws and regulations;
- protecting Company assets;
- maintaining proper accounting policies, practices and disclosures;
- avoiding any conflicts of interest;
- maintaining confidentiality;
- not indulging in any alcohol or drug abuse;
- avoiding discriminatory acts; and
- being responsible to the community, such as environmental protection policies, supporting community activities and sponsorship and donations.

Share trading

Whilst the Board encourages its Directors and employees to own securities in the Company, it is also mindful of its responsibility that the Economic Entity comply with the Corporation Act 2001 pertaining to “insider trading” and “its proper duties in relation to the use of inside information”.

To ensure that the above issues comply with the requirements of the Corporation Law, the Board has established a policy on share trading in the Company’s securities by Directors and employees.

Restrictions imposed by the Board with respect to share trading are summarised as follows:

- Directors and employees must notify the CEO or in his absence the Chairperson of their intent to trade the Company’s shares and confirm that they are not aware of any inside information;
- trading in the Company’s shares is prohibited at the following times:
 - 10 days prior to the release of any Quarterly report by the Company, which is normally one month following the end of each calendar quarter; and
 - when in possession of unpublished price sensitive information (“inside information”) which might or might not be generally available, that will materially affect the price or value of the Company’s shares; and
- active trading in the Company’s shares, with a view to derive profit related income is prohibited at all times.

Communication with Shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company’s securities, notifying them to the ASX, posting them on the Company’s website and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- the CEO and Company Secretary are responsible for interpreting the Company’s policy and where necessary inform the Board;
- the CEO is the only authorized spokesperson for the Economic Entity and is also responsible for all communications with the ASX;
- the annual report which includes relevant information about the operations and financials of the Economic Entity during the year, changes in the state of affairs and details of future developments is distributed to all shareholders in October each year (unless a shareholder has specifically requested not to receive the document);
- the half-yearly report which contains summarised financial information and a brief review of the operations of the Economic Entity during the period is lodged with the ASX in March each year and electronically delivered to any shareholders who request a copy;
- the quarterly report containing a review of the operations and cash flow statement of the Economic Entity for the relevant period;
- proposed major changes in the Economic Entity which may impact on share ownership rights are submitted to a vote of shareholders;
- all announcements made to the market and related information are placed on the Company’s website after their release to the ASX;
- the full texts of notices of meetings and associated explanatory material are placed on the Company’s website; and
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the contents of the auditor’s report.

All of the above information including that of the previous three years, is made available on the Economic Entity’s website within two days of the public release and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company is available on the Company’s website.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Economic Entity’s strategy and goals. Important issues are presented to the shareholders as single resolutions.

18. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

19. NON-AUDIT SERVICES

The Board, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- a) all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- b) the nature of services provided do not compromise the general principle relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2005:

Service provided	Amount (\$)
- Taxation services	16,190
- Due diligence investigation	33,175
- Independent accountant's report (re: prospectus)	17,710
Total	67,075

20. AUDITOR'S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration for the year ended 30 June 2005 has been received and can be found on page 37 of the Directors' Report.

21. ROUNDING OFF AMOUNTS

Amounts have been rounded to the nearest dollar.

Signed in accordance with a resolution of the Board of Directors



Dr Jeffrey Schiller

Chairman

Dated at Como this 30th day of September 2005



Chartered
Accountants &
Business Advisor

ABN 17 735 544 518

Level 1, 10 Kings Park Rd
West Perth WA 6005
AUSTRALIA

(Correspondence to
PO Box 570 West Perth WA

Telephone (08) 9480 200
Facsimile (08) 9322 7767

Email: admin@perth.bentleys.com.au
Internet: www.bentleys.com.au

**AUDITORS' INDEPENDENCE DECLARATION
Under Section 307C of the Corporations Act 2001**

To the Directors of Medusa Mining Limited

I declare that, to the best of my knowledge and belief during the year ended 30 June 2005, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit

BENTLEYS MRI PERTH PARTNERSHIP

A handwritten signature in black ink, appearing to read "J W Vibert". The signature is written in a cursive, flowing style.

J W VIBERT
Partner

30th September 2005

West Perth, WA

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2005 \$	2004 \$	2005 \$	2004 \$
Total revenue from ordinary activities	2	61,428	110,674	60,250	93,307
Depreciation expenses	3	(8,160)	(322)	(3,034)	(322)
Directors' fees		(73,471)	(54,291)	(65,000)	(49,170)
Doubtful debts	3	(67,419)	-	(698,939)	-
Exploration & development expenses	3	(463,539)	(331,430)	(53,569)	(331,430)
Employee expenses		(85,593)	(74,838)	(85,593)	(69,617)
Insurance		(32,288)	(19,123)	(32,288)	(19,123)
Professional/consulting fees		(22,309)	(11,610)	-	-
Prospectus costs		(303,282)	-	(303,282)	-
Other expenses from ordinary activities		(301,118)	(92,558)	(169,130)	(65,471)
Provision for diminution in investments	3	-	-	(14,769)	-
Share of net loss of joint venture accounted for using the equity method	8	(5,665)	-	-	-
Loss from ordinary activities before income tax expenses		(1,301,416)	(473,498)	(1,365,354)	(441,826)
Income tax expense relating to ordinary activities	4	-	-	-	-
Loss from ordinary activities after income tax expense attributed to members of the parent entity	16	(1,301,416)	(473,498)	(1,365,354)	(441,826)
Total changes in equity other than those resulting from transactions with owners as owners		(1,301,416)	(473,498)	(1,365,354)	(441,826)
Basic earnings per share	5	(\$0.034)	(\$0.013)	(\$0.035)	(\$0.014)
Diluted earnings per share	5	(\$0.021)	(\$0.010)	(\$0.022)	(\$0.010)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

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	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2005 \$	2004 \$	2005 \$	2004 \$
CURRENT ASSETS					
Cash	17(a)	330,585	1,842,148	265,335	1,713,462
Receivables	6	114,722	46,577	66,257	44,887
Other	7	26,227	25,712	25,461	25,328
Total Current Assets		471,534	1,914,437	357,053	1,783,677
NON-CURRENT ASSETS					
Receivables	6	-	-	2,962,559	1,317,423
Investments accounted for using the equity method	8	473,395	-	-	-
Property, plant & equipment	9	61,821	27,581	31,975	6,774
Exploration, evaluation & development expenditure	10	2,631,394	1,593,023	-	134,807
Other financial assets	11	-	-	204,940	119,709
Total Non-Current Assets		3,166,610	1,620,604	3,199,474	1,578,713
TOTAL ASSETS		3,638,144	3,535,041	3,556,527	3,362,390
CURRENT LIABILITIES					
Payables	12	213,013	301,375	160,659	94,049
Provisions	13	5,019	1,776	5,019	1,776
Total Current Liabilities		218,032	303,151	165,678	95,825
TOTAL LIABILITIES		218,032	303,151	165,678	95,825
NET ASSETS		3,420,112	3,231,890	3,390,849	3,266,565
EQUITY					
Contributed equity	15	5,419,244	3,929,606	5,419,244	3,929,606
Accumulated losses	16	(1,999,132)	(697,716)	(2,028,395)	(663,041)
TOTAL EQUITY		3,420,112	3,231,890	3,390,849	3,266,565

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2005	2004	2005	2004
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		-	15,926	-	29,281
Payments to suppliers		(388,645)	(523,613)	(336,473)	(502,247)
Interest received		61,129	49,703	59,951	48,728
Net cash (used in) operating activities	17(b)	(327,516)	(457,984)	(276,522)	(424,238)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(42,356)	(27,903)	(28,235)	(7,096)
Payments relating to Philsaga Transaction		(982,381)	-	(303,282)	-
Payments for exploration activities		(1,497,712)	(1,385,697)	(40,568)	(134,807)
Loans to controlled and joint venture entities		-	-	(2,117,158)	(1,277,331)
Investment in controlled and joint venture entities		-	-	(20,000)	(83,099)
Net cash (used in) investing activities		(2,522,449)	(1,413,600)	(2,509,243)	(1,502,333)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		1,398,565	3,543,606	1,398,565	3,543,606
Transaction costs from issue of shares		(60,927)	-	(60,927)	-
Net cash provided by financing activities		1,337,638	3,543,606	1,337,638	3,543,606
Net increase/(decrease) in cash held		(1,512,327)	1,672,022	(1,448,127)	1,617,035
Cash at the beginning of the financial year		1,842,148	170,126	1,713,462	96,427
Exchange rate adjustment		764	-	-	-
Cash at the end of the financial year	17(a)	330,585	1,842,148	265,335	1,713,462

The accompanying notes form part of these financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the Economic Entity of Medusa Mining Limited ("Medusa") and controlled entities, and Medusa as an individual parent entity. Medusa is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Costs are based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the Economic Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of consolidation

A controlled entity is any entity controlled by Medusa. Control exists where Medusa has the capacity to dominate the decision making in relation to financial and operating policies of another entity so that the other entity operates with Medusa to achieve the objectives of Medusa. A list of controlled entities is contained in Note 18 to the financial statements.

All inter-company balances and transactions between entities in the Economic Entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the Economic Entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Comparative figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax. Exchange of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Interest revenue

Interest income is recognised as it accrues, taking into account the interest rates applicable to the financial assets.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Dividends

Dividend revenue (net of franking credits) is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting and recognised when the dividends are received.

(d) Income tax

The Economic Entity adopts the income statement liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(d) Income tax (continued)

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit ("FITB") at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

FITBs are not brought to account unless realisation of the asset is assured beyond reasonable doubt. FITBs in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Economic Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

Medusa and its wholly owned Australian subsidiaries will be forming an income tax consolidation group under the Tax Consolidation System effective from or before 30 June 2004. Medusa is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(e) Plant and equipment

Each class of plant and equipment are carried at cost or fair value, less where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

All plant and equipment have limited useful lives and are depreciated applying the straight line method over their estimated useful lives, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation method	Depreciation rate (%)
- Plant and equipment	Straight line	20.0% to 33.0%
- Office furniture and fittings	Straight line	7.5% to 20.0%

(f) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Economic Entity. Accounts payable are normally settled within 60 days.

(g) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

(h) Receivables

The collectibility of debts is assessed at the balance date and specific provision is made for any doubtful accounts.

(i) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs incurred are accumulated in respect of each identifiable area of interest.

Exploration and evaluation costs are only carried forward to the extent where right of tenure of the area of interest is current and that they are expected to be recouped through sale or successful development and exploitation of that area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are only carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

Receipts from farm-in agreements are accounted for as a recoupment of exploration expenditure.

(j) Rehabilitation costs

Rehabilitation costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure and other costs associated with the rehabilitation of the site. These estimates of the rehabilitation obligation are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. Any changes in the estimates are adjusted on a progressive basis. In determining the rehabilitation obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to rehabilitation of such minerals projects in the future.

(k) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within 12 months together with entitlements arising from wages, salaries, annual leave and sick leave which will be settled after 12 months, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Other employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Economic Entity to several employee superannuation funds and are charged as expenses when incurred.

(l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

1. STATEMENT OF ACCOUNTING POLICIES (continued)**(m) Segment reporting**

Segment revenues and expenses are those directly attributable to the segments and include any joint venture revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consists principally of cash, receivables, other financial assets, property, plant and equipment, net of allowances and accumulated depreciation and mineral properties. Segment liabilities consists principally of accounts payable and provisions.

Individual business segments have been identified on the basis of grouping individual products or services subject to similar risks and returns.

The geographical segments reported are, Australia and the Philippines.

(n) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with potential ordinary shares, by the weighted average number of ordinary shares and potential ordinary shares adjusted for any bonus issue.

(o) Foreign currency transactions and balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date. The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit or loss from ordinary activities as they arise.

The assets and liabilities of the overseas controlled entities, are translated at year end rates. Likewise operating results are also translated at the rates ruling at the end of the year. Gains and losses arising on translation are included in profit or loss from ordinary activities at year end.

Exchange differences arising on hedged transactions undertaken to hedge foreign currency exposures, other than those for the purchase and sale of goods and services, are brought to account in the profit from ordinary activities when the exchange rates change. Any material gain or loss arising at the time of entering into hedge transactions is deferred and brought to account in the profit or loss from ordinary activities over the lives of the hedges.

Costs or gains arising at the time of entering hedged transactions for the purchase and sale of goods and services and exchange differences that occur up to the date of purchase or sale are deferred and included in the measurement of the purchase or sale. Gains and losses from speculative foreign currency transactions are brought to account in the profit or loss from ordinary activities when the exchange rate changes.

(p) Cash

For the purpose of the statements of cash flows, cash includes:

- cash on hand and at call deposits with bank or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

(q) Investments

Shares in listed companies held as current assets are valued by Director at those shares' market value at each balance date. The gains or losses, whether realised or unrealised, are included in profit or loss from ordinary activities before income tax.

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts. Investments in controlled and joint venture entities are carried in the Company's financial statements at the lower of cost and recoverable amount

(r) Interest in Joint Venture

The Economic Entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method. Details of the economic entity's interest are shown in Note 8.

(s) Impact of adoption of Australian Equivalents to International Financial Reporting Standards

The Company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards ("AIFRS") effective for the financial years commencing 1 January 2005. The adoption of AIFRS will be reflected in the Economic Entity's and parent entity's financial statements for the year ending 30 June 2006. On the first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Economic Entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the Economic Entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First time adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material differences in the Economic Entity's accounting policies on conversion to AIFRS and the financial effect of those differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of AIFRS requirements changes from the continuing work of the Economic Entity's AIFRS committee.

(i) Exploration and evaluation expenditure:

AASB 6 "Exploration for and Evaluation of Mineral Resources" will require the Company to apply "area of interest" accounting to its exploration and evaluation expenditures, effectively grandfathering the treatment currently used by the Company under AASB 1022 "accounting for Extractive Industries". Under AASB 6, if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the Company must perform impairment tests on those assets in accordance with AASB 136 "Impairment of Assets". Impairment of exploration and evaluation assets is to be assessed at a cash generating unit or group of cash generating units level provided this no larger than an area of interest. Any impairment loss is to be recognised as an expense in accordance with AASB 136. The Company has analysed its deferred exploration and evaluation expenditure and is satisfied that no expenses were deferred which were incurred before licence was granted. As a result of this analysis there is no impact from adopting AASB 6.

(ii) Rehabilitation provision:

The treatment of environmental restoration and rehabilitation obligations under the AIFRS requirements will require measurement of the provision as the present value of future rehabilitation expenditures. Under AIFRS, a corresponding rehabilitation asset will be required to be recognised at the commencement of disturbance activities, based on a cost of disturbance created. The rehabilitation asset will be amortised to the profit and loss account progressively. The ongoing charge to profit and loss will be reflected as amortisation expense together with any specific charges arising through changes in the present value calculation over time. Under AIFRS, at 30 June 2005 no rehabilitation asset or corresponding provision for rehabilitation would be recognised in the Statement of Financial Position.

(iii) Impairment of assets:

Under AASB 136: Impairment of assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating level' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or group of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The Economic Entity has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. On transition, the financial effect of this impact is assessed as nil.

1. STATEMENT OF ACCOUNTING POLICIES (continued)**(s) Impact of adoption of Australian Equivalents to International Financial Reporting Standards** (continued)**(iv) Non-current investments:**

Under AASB 139 "Financial instruments: Recognition and Measurement", financial assets are required to be classified into four categories, which determines the accounting treatment of the item. The categories and various treatments are:

- held to maturity, measured at amortised cost;
- held for trading, measured at fair value with unrealised gains or losses charged to the profit and loss;
- loans and receivables, measured at amortised costs; and
- available for sale instruments, measured at fair value with unrealised gains or losses taken to equity.

AASB1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year, and the first time adoption of this standard will apply from 1 July 2005. The economic entity has decided that it will not be restated comparative information for the 30 June 2005 financial year. As a result, the financial effect of this impact is assessed as nil.

(v) Income tax:

Currently, the Economic Entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profits.

On transition, the financial effect of this impact is assessed as nil.

(vi) Derivative financial instruments:

The Economic Entity does not currently recognise derivative financial instruments in the financial statements. AASB 139: Financial Instruments: Recognition and Measurement, requires a change to the method of accounting for derivative financial instruments and hedging activities so that they are recorded in the financial statements. AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year and the first time adoption of this standard will apply from 1 July 2005. The Economic Entity has decided that it will adopt this election and will not restate comparative information for the financial year ended 30 June 2005.

On transition, the financial effect of this impact is assessed as nil.

(vii) Share based payments:

Under AASB 2: Share Based Payments, the Economic Entity would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs are not recognised under AGAAP.

Under the entity's current accounting policy, the fair value of any options granted to employees are not recognised as remuneration and expensed to the income statement.

On transition, the financial effect of this impact is assessed as increasing on the net loss for the year ended 30 June 2005 by \$370,500.

(viii) Reconciliation of net loss and equity as presented under AGAAP to that under AIFRS

Refer Note 24 of "Notes to and forming part of the Financial Statements".

	ECONOMIC ENTITY		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
2. REVENUE FROM ORDINARY ACTIVITIES				
Non-operating activities:				
Interest revenue	61,428	53,008	60,250	52,033
Gross proceeds from sale of mineral properties	-	10,000	-	10,000
Net foreign exchange gain	-	47,666	-	31,274
Total revenue from ordinary activities	61,428	110,674	60,250	93,307
3. LOSS FROM ORDINARY ACTIVITIES				
Loss from ordinary activities before income tax expense has been determined after charging/(crediting) the following items:				
Depreciation of non-current assets (<i>Note 9</i>)	8,160	322	3,034	322
Exploration expenditure written off (<i>Note 10</i>)	463,539	331,430	53,569	331,430
Net foreign exchange loss	107,062	-	-	-
Net expenses from movement in provision for:				
- employee entitlements (<i>Note 13</i>)	3,243	1,776	3,243	1,776
- doubtful debts (<i>Note 6</i>)	67,419	-	698,939	-
- diminution in investment in controlled entities (<i>Note 11</i>)	-	-	14,769	-
Operating lease rental	22,298	15,900	22,298	15,900
4. TAXATION				
Operating loss before income tax	(1,301,416)	(473,498)	(1,365,354)	(441,826)
Prima facie income tax (expense)/credit at 30% (2004: 30%) on operating loss	390,425	142,049	409,606	132,548
<i>less</i> - tax effect of:				
Other non-deductible expenses	(285)	-	(285)	-
Provision of non-recoverability of loans to controlled entities	-	-	(189,456)	-
Provision for diminution of investment in controlled entities	-	-	(4,431)	-
Non-deductible prospectus costs written off	(90,985)	-	(90,985)	-
Future income tax benefits ("FITB") not brought to account due to not virtually certain of recoverability in future periods	(299,155)	(142,049)	(124,449)	(132,548)
Income tax (expense)/benefit	-	-	-	-
FITB not taken to account:				
The potential FITB at 30 June 2005 arising from tax losses and timing differences has not been recognised as an asset because the recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:				
	508,469	209,314	323,362	198,913
The benefit of tax losses will only be obtained if:				
(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised; or the benefit can be utilised by another company in the Economic Entity in accordance with Division 170 of the Income Tax Assessment Act 1997;				
(ii) the Company and/or Economic Entity continues to comply with the conditions for deductibility imposed by the law; and				
(iii) no changes in tax legislation adversely affect the Company and/or the Economic Entity in realising the benefit.				

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
5. LOSS PER SHARE				
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	38,685,121	35,628,600	38,685,121	35,628,600
Weighted average number of ordinary shares used in the calculation of the diluted earnings per share.	62,753,964	45,333,600	62,753,964	45,333,600
<p>The following securities are classified as potential ordinary shares but have not been included in the calculation of diluted earning per share in 2005 as they are not considered dilutive because the Economic Entity recorded an operating loss: - 24,068,843 outstanding options (Further details of these securities are contained in Note 15)</p>				
6. RECEIVABLES				
Current:				
Debtors	146,235	16,655	97,770	14,965
<i>less</i> - provision for doubtful debts	(67,419)	-	(67,419)	-
GST receivable	32,906	29,922	32,906	29,922
Amounts receivable from director of parent entity	3,000	-	3,000	-
Total current receivables	114,722	46,577	66,257	44,887
Non-current:				
Loans to controlled entities	-	-	3,594,079	1,317,423
<i>less</i> - provision for doubtful debts	-	-	(631,520)	-
Total non-current receivables	-	-	2,962,559	1,317,423
7. OTHER				
Current:				
Prepayments	26,227	25,712	25,461	25,328

ECONOMIC ENTITY		PARENT ENTITY	
2005	2004	2005	2004
\$	\$	\$	\$

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Interest in joint venture entity	473,395	-	-	-
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A 50% interest in a joint venture entity is held in PHSAMED Mining Corporation, incorporated in the Philippines.

Name	Principal Activity	Ownership Interest		Economic Entity carrying value of Investment	
		2005	2004	2005	2004
PHSAMED Mining Corporation	Mineral exploration, evaluation and development	50%	50%	\$473,395	-

ECONOMIC ENTITY		PARENT ENTITY	
2005	2004	2005	2004
\$	\$	\$	\$

Interest in Joint Venture Entity

(i) Retained earnings attributable to interest in joint venture:

Balance at the beginning of the financial year	-	-	-	-
Other adjustments	(493)	-	-	-
Share of loss from ordinary activities after income tax	(5,665)	-	-	-
Balance at the end of the year	(6,158)	-	-	-

(ii) Carrying amount of investment in the joint venture entity:

Balance at the beginning of the financial year	-	-	-	-
Additional investments made during the year	473,395	-	-	-
Balance at the end of the financial year	473,395	-	-	-

(iii) Share of joint venture entity's results and financial position

Non-Current Asset	473,395	-	-	-
Revenue	230	-	-	-
Expenses	(5,895)	-	-	-
Loss from ordinary activities before income tax expense	(5,665)	-	-	-
Income tax expense	-	-	-	-
Loss from ordinary activities after income tax	(5,665)	-	-	-

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
9. PROPERTY, PLANT & EQUIPMENT				
Plant and Equipment:				
At cost	32,474	18,309	-	-
<i>less</i> - accumulated depreciation	(4,740)	-	-	-
Total plant and equipment at net book value	27,734	18,309	-	-
Furniture and Fittings:				
At cost	37,829	9,594	35,331	7,096
<i>less</i> - accumulated depreciation	(3,742)	(322)	(3,356)	(322)
Total furniture and fittings at net book value	34,087	9,272	31,975	6,774
Total property, plant & equipment	61,821	27,581	31,975	6,774
Reconciliations:				
<i>Plant and Equipment:</i>				
Carrying amount at beginning of year	18,309	-	-	-
<i>plus</i> - additions	14,165	18,309	-	-
<i>less</i> - disposals	-	-	-	-
<i>less</i> - depreciation	(4,740)	-	-	-
Carrying amount at end of year	27,734	18,309	-	-
<i>Furniture and Fittings:</i>				
Carrying amount at beginning of year	9,272	-	6,774	-
<i>plus</i> - additions	28,235	9,594	28,235	7,096
<i>less</i> - disposals	-	-	-	-
<i>less</i> - depreciation	(3,420)	(322)	(3,034)	(322)
Carrying amount at end of year	34,087	9,272	31,975	6,774
Total carrying amount at end of year	61,821	27,581	31,975	6,774
10. EXPLORATION, EVALUATION & DEVELOPMENT EXPENDITURE				
Carrying amount at beginning of year	1,593,023	-	134,807	-
<i>plus</i> - costs incurred	1,503,742	1,924,453	53,569	466,237
<i>less</i> - expenditure written off	(463,539)	(331,430)	(53,569)	(331,430)
<i>less</i> - other adjustments	(1,832)	-	(134,807)	-
Carrying amount at end of year	2,631,394	1,593,023	-	134,807

The ultimate recoupment of costs carried forward is dependent upon the successful development and commercial exploitation, or sale of the respective areas of interest at an amount greater than or equal to the carrying value.

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
11. OTHER FINANCIAL ASSETS				
Non-current:				
Unlisted investments, at cost				
- shares in controlled entities	-	-	193,610	119,709
- interest in joint venture entity	-	-	26,099	-
<i>less</i> - provision for diminution in value	-	-	(14,769)	-
Total non-current unlisted investments	-	-	204,940	119,709
12. PAYABLES				
Current:				
Creditors and accrued expenses	213,013	301,375	160,659	94,049
13. PROVISIONS				
Current:				
Employee benefits	5,019	1,776	5,019	1,776
Number of employees	4	4	4	4
14. AUDITOR'S REMUNERATION				
Remuneration received or due and receivable by the Company's auditors, Bentleys MRI Perth Partnership (2004: Mack & Co) for:				
• auditing or reviewing the financial reports	22,250	15,500	22,250	15,500
• other services:				
- due diligence investigations	33,175	-	33,175	-
- independent accountant's report for prospectus	17,710	-	17,710	-
• other services provided by related practice of auditor				
- taxation advice	16,190	-	16,190	-
Total auditor's remuneration	89,325	15,500	89,325	15,500
Remuneration of other auditors of the Company's Philippine subsidiaries for:				
• auditing or reviewing the financial reports	8,301	1,719	-	-

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
15. CONTRIBUTED EQUITY				
Share Capital:				
40,041,792 ordinary shares (30 Jun 2004: 35,628,604)	5,667,274	4,122,584	5,667,274	4,122,584
20,243,843 listed options (30 Jun 2004: 17,809,793)	158,971	153,096	158,971	153,096
<i>less</i> - issue costs	(407,001)	(346,074)	(407,001)	(346,074)
Total contributed equity	5,419,244	3,929,606	5,419,244	3,929,606
(a) Ordinary shares				
Balance at beginning of period (35,628,604)	3,776,510	386,000	3,776,510	386,000
7,175,000 shares at various prices issued as seed capital, <i>less</i> - related costs	-	415,806	-	415,806
14,100,000 shares at \$0.20 each issued for the Initial Public Offering, <i>less</i> related costs	-	2,521,726	-	2,521,726
1,200,000 shares at \$0.40 each issued for working capital, <i>less</i> - related costs	-	452,378	-	452,378
3,000 listed options exercised at \$0.20 each	-	600	-	600
Ordinary shares issued during period:				
(i) 1,175,000 ordinary shares @ \$0.40 each	470,000	-	470,000	-
(ii) 1,200,000 ordinary shares @ \$0.36 each	432,000	-	432,000	-
(iii) 700,000 vendor shares @ \$0.20 each	140,000	-	140,000	-
(iv) 824,742 ordinary shares @ \$0.485 each	400,000	-	400,000	-
(v) 60,000 vendor shares @ \$0.20 each	12,000	-	12,000	-
(vi) 453,450 options converted @ \$0.20 each	90,690	-	90,690	-
<i>less</i> - issue costs	(60,927)	-	(60,927)	-
Balance at end of period (40,041,792)	5,260,273	3,776,510	5,260,273	3,776,510

- (i) In July 2004, as part of a Rights Issue, the parent entity issued 1,175,000 ordinary fully paid shares at \$0.40 per share raising \$470,000.
- (ii) In September 2004, the parent entity placed 1,200,000 ordinary shares at \$0.36 per share with clients of Intersuisse to raise gross proceeds of \$432,000.
- (iii) In October 2004, the parent entity issued 700,000 vendor shares fully paid at \$0.20 per share to Total Mineral Resources Pty Ltd to fund the acquisition of Newcastle Nominees Pty Ltd.
- (iv) In December 2004, the parent entity placed 824,742 ordinary fully paid shares to clients of State One stockbrokers at \$0.485 per share raising \$400,000 before expenses.
- (v) In February 2005, the parent entity issued 60,000 vendor shares at \$0.20 per share to Mount Stirling as consideration in exchange for extinguishment of an escrow agreement.
- (vi) A total of 453,450 options were converted to shares at \$0.20 per share at various times during the year.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

	ECONOMIC ENTITY		PARENT ENTITY	
	2005 \$	2004 \$	2005 \$	2004 \$
(b) Listed options				
Balance at beginning of period (17,809,793)	153,096	-	153,096	-
17,212,793 20 cent 31 January 2007 options issued pursuant to a rights issue to raise capital at 1 cent each				
<i>less</i> - related costs	-	147,096	-	147,096
600,000 20 cent 31 January 2007 options issued pursuant to a share placement to raise capital at 1 cent each	-	6,000	-	6,000
Listed options issued during period:				
(i) 587,500 options at \$0.01	5,875	-	5,875	-
(ii) 700,000 vendor options at no cost	-	-	-	-
(iii) 1,600,000 options released from escrow	-	-	-	-
<i>less</i> - 453,450 options converted to shares	-	-	-	-
Balance at end of period (20,243,843)	158,971	153,096	158,971	153,096
Total	5,419,244	3,929,606	5,419,244	3,929,606

- (i) In July 2004, as part of a Rights Issue, the parent entity issued 587,500 listed options at a cost of \$0.01 per option, exercisable at \$0.20 each on or before 31 January 2007.
- (ii) In October 2004, the parent entity issued 700,000 listed options to Total Resource Minerals Pty Ltd exercisable at \$0.20 expiring on 31 January 2007. These options were issued as consideration for the acquisition of Newcoast Nominees Pty Ltd which owned the Kurnalpi Project.
- (iii) In September 2004, 1,600,000 listed options, exercisable at \$0.20 each with an expiry date of 31 January 2007 were released from escrow.

(c) Unlisted options over ordinary shares

- 225,000 options expiring on 31 January 2007 and exercisable at 60.72 cents each;
- 3,000,000 options expiring 16 December 2007 and exercisable at 57.64 cents each; and
- 600,000 options expiring 23 December 2009 and exercisable at 43.34 cents each.

The above options (listed & unlisted) do not entitle the holders to participate in any share issue of the Company.

Note:

Shareholders at a meeting on 13 May 2005 approved the issue of 2,000,000 December 2007 options to Mr Geoffrey Davis. Following the approval by shareholders, Mr Davis subsequently relinquished his interest in 2,400,000 December 2009 options (that have not yet vested) for cancellation by the Company.

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
Accumulated losses at beginning of year	(697,716)	(224,218)	(663,041)	(221,215)
Net loss attributable to members of parent entity	(1,301,416)	(473,498)	(1,365,354)	(441,826)
Accumulated losses at end of year	(1,999,132)	(697,716)	(2,028,395)	(663,041)

16. ACCUMULATED LOSSES

17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash:

For the purposes of the statements of cash flows, cash includes cash on hand and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:-

Cash at bank	330,335	1,841,898	265,085	1,713,212
Cash on hand	250	250	250	250
Total cash assets	330,585	1,842,148	265,335	1,713,462

(b) Reconciliation of loss from ordinary activities after income tax to net cash provided by operating activities:

Loss from ordinary activities after income tax

add/(less) - non-cash items:

- Depreciation	8,160	322	3,034	322
- Doubtful debts	67,419	-	698,939	-
- Provision for diminution in investments	-	-	14,769	-
- Employee entitlements	3,243	1,776	3,243	1,776
- Exploration expenses written off	463,539	-	53,569	-
- Prospectus costs written off	303,282	-	303,282	-
- Foreign exchange losses	107,062	-	-	-
	(348,711)	(471,400)	(288,518)	(439,728)

add/(less) - changes in assets and liabilities:

- increase in receivables	(46,527)	(43,921)	(44,632)	(42,231)
- (decrease) in prepayments	(3,515)	(25,712)	(3,133)	(25,328)
- increase in accounts payable	71,237	83,049	59,761	83,049

Net cash (used in) operating activities

(327,516) (457,984) (276,522) (424,238)

(c) Non-cash investing activities

During the financial year, the Economic Entity acquired 100% of the issued capital of a controlled entity with existing mineral properties with the payment of \$20,000 and the issuance of 400,000 ordinary shares at 20 cents each and 400,000 options exercisable at 20 cents with an expiry date of 31 January 2007. The issue of the above securities, are not reflected as investing activities in the Statements of Cash Flows.

At the time the parent entity acquired Newcoast Nominees Pty Ltd, no other assets or liabilities were assumed.

18. INVESTMENT IN CONTROLLED ENTITIES

The following companies are controlled entities of Medusa Mining Limited:

Controlled Entities	Date of incorporation	Country of incorporation	% interest held	
			2005	2004
Medusa Overseas Holding Corporation (Note 1)	08 May 2003	Philippines	40%	40%
Medusa Exploration & Development Corporation (Note 1)	29 May 2003	Philippines	64%	64%
Montrose Minerals Pty Ltd	27 Aug 1998	Australia	100%	100%
Newcoast Nominees Pty Ltd	07 Dec 1992	Australia	100%	-

Note 1:

Although the Philippines controlled entities Medusa Overseas Holding Corporation and Medusa Exploration and Development Corporation are respectively 40% and 64% owned by Medusa Mining Limited ("Medusa"), they are considered to be controlled by Medusa by virtue of agreements which deal with the relationship between Medusa and the other shareholders of the Philippines controlled entities. Therefore the assets and liabilities of these entities have been attributed 100% to the shareholders of Medusa.

Acquisition and disposal of subsidiary

In October 2004, Medusa finalised the purchase of 100% of Newcoast Nominees Pty Ltd ("Newcoast") with the payment of \$20,000 and the issue of 400,000 ordinary fully paid shares at 20 cents each and 400,000 unlisted options exercisable at 20 cents on or before 31 January 2007 in Medusa to the vendors.

Newcoast holds the tenements in the Kurnalpi gold project.

19. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposure

The Economic Entity is exposed to interest risk on its cash balances and term deposits held with financial institutions in Australia.

The Economic Entity is not exposed to interest rate risk on any class of financial assets and financial liabilities at 30 June 2005 except for cash balances that earn interest at an average of 1% to 5% (2004: 1% to 5%) per annum.

(b) Credit risk exposure

Credit risk represents the loss that would be recognised if counter-parties failed to perform as contracted.

The credit risk on financial assets, excluding investments, of the Economic Entity which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The Economic Entity's transactions occur in Australia and the Philippines. It is not, however, materially exposed to an individual customer.

The Economic Entity has minimal credit risk relating to trade debtors and term debtors due to the nature of its business.

(c) Foreign exchange risk

The Economic Entity may be exposed to foreign exchange risk in dealings with its Philippine controlled entities.

(d) Net fair values of financial assets and liabilities

Net fair values of financial assets and liabilities are determined by the Economic Entity on the following basis:

The net fair value of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the value of contractual or expected future cash flows on amounts due from customers or other corporations reduced for expected credit losses) or due to suppliers. The carrying amounts of bank term deposits, trade debtors, term debtors, listed securities and accounts payable approximate net fair value.

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$
20. COMMITMENTS				
(a) Exploration commitments:				
The Company has certain obligations to perform minimum exploration work to maintain rights of tenure to its exploration tenements. These obligations may vary from time to time in accordance with tenements held and are expected to be fulfilled in the normal course of operations of the Economic Entity so as to avoid forfeiture of any tenement.				
These obligations are not provided in the financial report and are payable:				
- no later than 1 year	79,695	520,000	55,320	520,000
- 1 year or later and no later than 5 years	-	-	-	-
Total	79,695	520,000	55,320	520,000
(b) Operating lease expense commitments:				
Non-cancellable operating lease contracted for but not capitalised in the financial statements. The Economic Entity leases office premises under 2 separate operating leases expiring in April 2006 and August 2006 respectively. Under the terms of the operating leases, the Economic Entity is provided with a right of renewal and the lessor has the right to increments in lease payments on an annual basis based on movements in the Consumer Price Index.				
These obligations are not provided in the financial report and are payable:				
- no later than 1 year	22,298	15,900	22,298	15,900
- 1 year or later and no later than 5 years	719	9,380	719	9,380
Total	23,017	25,280	23,017	25,280
(c) Other commitments:				
There is a consultancy agreement with Harvest Services Aust Pty Ltd ("Harvest"), a Company associated with a Director, whereby Harvest has agreed to provide the services of Geoffrey Davis to act as Managing Director of the Company for a period of 5 years, terminating in December 2008				
These commitments are not provided in the financial report and are payable:				
- no later than 1 year	180,000	180,000	180,000	180,000
- 1 year or later and no later than 5 years	450,000	630,000	450,000	630,000
Total	630,000	810,000	630,000	810,000

21. DIRECTORS' AND EXECUTIVES REMUNERATION

Disclosures in relation to the above have been detailed in the Remuneration Report section of the Directors' Report on pages 28 to 30 of this report.

22. RELATED PARTIES

Related parties transactions of Medusa Mining Limited fall into the following categories:-

(a) Director related parties

The names of each person holding the position of Director of Medusa Mining Limited during the financial year were Dr Jeffrey Schiller and Messrs Geoffrey Davis, Edward (Ted) Mein & Simon Cato.

Details of Directors' remuneration, shareholdings and option holdings are set out in the Remuneration Report section of the Directors' Report.

Apart from Director related transaction with the Company or its controlled entities disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

<i>Related parties:</i>	Dr Jeffrey Schiller, Geoffrey Davis, Edward (Ted) Mein, Simon Cato
<i>Type of transaction:</i>	Director Protection Deed ("Deed")
<i>Transaction details:</i>	<p>The Deed entered into by the Company with each of the Directors of the Company, indemnifies the Directors to the extent permitted by law, against any liability, which he may incur whilst carrying out his duties as a Director of the Company and against any costs and expenses incurred in defending legal proceedings brought against him as a Director.</p> <p>The Deed requires the Company to maintain in force Directors' and Officers' Liability Insurance, with an agreed cover level, for the duration of the Directors' term of office and a period of 7 years thereafter.</p> <p>The Deed also provides for the Directors to have access to the Company's documents (including Board papers) for a period of 7 years after he ceases to be a Director, subject to certain confidentiality and other requirements being observed.</p>

<i>Related party:</i>	Harvest Services Aust Pty Ltd
<i>Nature of relationship:</i>	Director related entity (Geoffrey Davis)
<i>Type of transaction:</i>	Consultancy Services Agreement
<i>Transaction details:</i>	<p>Under the terms of this Consultancy Services Agreement, Harvest Services Aust Pty Ltd ("Harvest Services"), a Company associated with Geoffrey Davis, agrees to provide the services of Geoffrey Davis to the Company, commensurate with that of a Managing Director for a period of 5 years from December 2003, the date the Company's Shares were first quoted on the ASX.</p> <p>Harvest Services will receive a consultancy fee (subject to annual reviews) of \$15,000 per month (excluding GST) and the reimbursement of out of pocket expenses incurred in the course of providing services to the Company.</p> <p>Either of the Company, Harvest Services or Mr Davis as the parties to the consultancy services contract may terminate the contract by providing 6 months written notice to the other parties.</p> <p>During the year, Harvest Services charged the Company \$180,000 in fees.</p>

<i>Related party:</i>	Harvest Services Aust Pty Ltd
<i>Nature of relationship:</i>	Director related entity (Geoffrey Davis)
<i>Type of transaction:</i>	Lease of office premises
<i>Transaction details:</i>	<p>The Company occupies and leases its office premises (inclusive of parking bays) from Harvest Services, a Company associated with Geoffrey Davis at a rate of \$2,086 per month.</p> <p>During the year, Harvest Services charged the Company \$23,993 in fees.</p>

22. RELATED PARTIES (continued)

(a) Director related parties (continued)

<i>Related party:</i>	Gempower Pty Ltd ("Gempower")
<i>Nature of relationship:</i>	Director related entity (Edward (Ted) Mein)
<i>Type of transaction:</i>	Consultancy Services
<i>Transaction details:</i>	Gempower Pty Ltd was paid \$138,150 during the financial year for consulting services to the Company.

(b) Non-Director related parties

The class of Non-Director related parties is that of wholly owned entities.

Details of transactions between the reporting entity and its related parties are as follows:

<i>Related party:</i>	Medusa Exploration and Development Corporation ("MEDC")
<i>Nature of relationship:</i>	Controlled entity
<i>Type of transaction:</i>	Intercompany loans
<i>Transaction details:</i>	During the year, the Company provided interest free loans totalling \$1,361,945 to MEDC to fund its ongoing exploration commitments and general administration overheads in the Philippines.

<i>Related party:</i>	Medusa Overseas Holdings Corporations ("MOHC")
<i>Nature of relationship:</i>	Controlled entity
<i>Type of transaction:</i>	Intercompany loans
<i>Transaction details:</i>	During the year, the Company provided interest free loans totalling \$679,099 to MOHC to fund expenses associated with the proposed acquisition of Philsaga Mining Corporation in the Philippines.

<i>Related party:</i>	Montrose Minerals Pty Ltd ("Montrose")
<i>Nature of relationship:</i>	Controlled entity
<i>Type of transaction:</i>	Intercompany loans
<i>Transaction details:</i>	During the year, the Company provided interest free loans totalling \$19,266 to Montrose to fund its ongoing exploration commitments in Australia.

<i>Related party:</i>	Newcoast Nominees Pty Ltd ("Newcoast")
<i>Nature of relationship:</i>	Controlled entity
<i>Type of transaction:</i>	Intercompany loans
<i>Transaction details:</i>	During the year, the Company provided interest free loans totalling \$95,109 to Newcoast to fund its ongoing exploration commitments in Australia.

23. EVENTS SUBSEQUENT TO BALANCE DATE

- ▶ The Company after conducting extensive studies and metallurgical test works, advised the ASX on 29 July 2005 that it had formally withdrawn from the Dizon Project in the Philippines.
- ▶ On 10 August 2005, the Company advised that it had executed a Lease and Option Agreement with Philsaga Mining Corporation ("Philsaga") and its principal shareholders to acquire Philsaga's Treatment Plant and associated facilities ("Plant") under the following terms and conditions:
 - Medusa to make a payment of \$2 million;
 - Medusa to provide \$1 million for contractors to purchase equipment for the provision of services to the mine;
 - Medusa has the option to acquire the Plant within 3 years;
 - A company associated with the principal shareholders of Philsaga and Philsaga will project manage all aspects of the Plant operations on a cost plus 15% basis; and
 - Philsaga has agreed to supply feed for the Plant under an Ore Supply Agreement for a 3 year period at cost plus 15%.

This agreement was completed on 27 September 2005.

- ▶ The Company on 12 August 2005, lodged a Prospectus with ASIC and ASX, seeking to raise approximately \$6 million via a Non-renounceable Rights Issue ("Issue") of 10,010,448 ordinary shares at an issue price of 60 cents per share on the basis of 1 new ordinary share for every 4 ordinary shares held. In addition, for every 4 shares subscribed for in the Issue, there will be an entitlement of 1 free option exercisable at 20 cents with an expiry date of 31 January 2007.

Subsequent to several announcements advising the status of the Issue, the Company on 20 September 2005, announced that it had raised gross proceeds of \$6,113,606 (being the maximum allowed under the Issue) with the allotment of 10,189,343 ordinary shares and 2,547,402 listed 20 cent options expiring 31 January 2007.

- ▶ Medusa advised the ASX on 16 August 2005 that it had reached agreement with the principal shareholders of Philsaga Mining Corporation to extend the end date of the Philsaga Transaction to 21 November 2005.

The parties also agreed in principle to discuss and revise the original terms of the Philsaga Transaction upon resolution of the condition precedent and granting of a Mining production Sharing Agreement ("MPSA").

- ▶ The Company advised the ASX on 22 September 2005, that it had placed 2,342,440 ordinary shares to clients of State One Stockbroking at 60 cents per share to raise \$1,405,464 before expenses.

Included in the placement for no cost was the grant of 585,610 listed 20 cents options expiring 31 January 2007.

24. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

On transition to AIFRS, the estimated cumulative financial effect of the reliably known differences on the parent and Economic Entity's reported net loss and equity as at 30 June 2005 is summarised below. As note above, these amounts represents management's best estimates and could differ from actuals.

	<i>Note</i>	ECONOMIC ENTITY 2005 \$	PARENT ENTITY 2005 \$
Reconciliation of net (loss)			
Net (loss) reported under Australian Accounting Standards		(1,301,416)	(1,365,354)
<i>Key transitional adjustments:</i>			
- recognition of share based payments expense	1	(370,500)	(370,500)
- income tax	2	-	-
Total transitional adjustments		(370,500)	(370,500)
Net (loss) under AIFRS		(1,671,916)	(1,735,854)
Reconciliation of equity			
Total equity reported under Australian Accounting Standards		3,420,112	3,390,849
<i>Key transitional adjustments:</i>			
- increase in current year loss resulting from transition to AIFRS		(370,500)	(370,500)
- establishment of option premium reserve		(617,500)	(617,500)
- increase in contributed equity		988,000	988,000
Total equity under AIFRS		3,420,112	3,390,849

Note:

- Under AASB 2: share based payments, the Company would recognise the fair value of options granted to employees as remuneration as an expense on a pro rata basis over the vesting period in the income statement with a corresponding adjustment to equity;
- AASB 112: Income taxes, requires the Company to use a balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Currently deferred tax balances are not recognised by the Company due to the existence of carried forward tax losses.

25. SEGMENT INFORMATION

The Economic Entity is involved in exploration activity on mining tenements situated in Western Australia and Philippines. Secondary segment results, assets and liabilities include items directly attributable to geographical segments.

Geographical segments	Australia		Philippines		Consolidated	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$
Segment revenue	60,250	93,307	1,178	17,367	61,428	110,674
Segment result	(898,749)	(441,826)	(402,667)	(31,672)	(1,301,416)	(473,498)
Segment assets	389,028	1,783,677	3,249,116	1,751,364	3,638,144	3,535,041
Segment liabilities	165,678	95,825	52,354	207,326	218,032	303,151
Other	-	-	-	-	-	-
Investments accounted for using the equity method	-	-	473,395	-	473,395	-
Acquisition of non-current segment assets	28,235	7,096	14,165	20,807	42,400	27,903
Depreciation of segment assets	3,034	322	5,126	-	8,160	322
Other non-cash segment assets	123,693	70,215	3,414,366	1,622,678	3,538,059	1,692,893

The Economic Entity operates in two geographical segment being Australia and the Philippines.

26. FRANKING ACCOUNT

The Company had no franking credits available.

27. COMPANY DETAILS

The registered office and principal place of business of the Company is:

Suite 7, 11 Preston Street
Como, Western Australia 6152.

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 38 to 61 are in accordance with the Corporations Act 2001; and
 - (a) comply with Accounting Standards and the Corporations Regulation 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the Company and Economic Entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Dr Jeffrey Schiller
Chairman

Dated this 30th day of September 2005.



**Chartered
Accountants &
Business Advisors**

AFN 17 735 041 510

Level 11, 110 Kings Park Road
West Perth, WA 6005
AUSTRALIA

(Correspondence to:
PO Box 570 West Perth WA 6002)

Telephone (08) 9480 2000
Facsimile (08) 9688 7787

E-mail: adm.in@perthbentleys.com.au
Internet: www.bentleys.com.au

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF MEDUSA MINING LIMITED

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report summarises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements and the directors' declaration for Medusa Mining Limited (the company) and Medusa Mining Limited (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives ('remuneration disclosures'), as required by Accounting Standard AASB 1046 Directors and Executive Disclosures by Disclosing Entities, under the heading 'Remuneration Report' in pages 28 to 30 of the directors' report, as admitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of accurate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement, and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows, and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethics pronouncements and the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of the company on 30 September 2005, would be in the same terms if provided to the directors as at the date of this audit report.

Audit Opinion

In our opinion, the financial report of Medusa Mining Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and the consolidated entities' financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001
- (b) other mandatory professional reporting requirements in Australia; and
- (c) the remuneration disclosures that are contained in pages 28 to 30 of the directors' report comply with Accounting Standard AASB 1248 and the Corporations Regulations 2001.

BENTLEYS (MIRI) PERTH PARTNERSHIP

J W VIBERT
Partner

Dated the 20th day of September 2005.

1. SHAREHOLDING

(a) Distribution of shareholders

Distribution	Number of shareholders
1 - 1,000	10
1,001 - 5,000	70
5,001 - 10,000	122
10,001 - 100,000	336
100,001 and over	86
Total	624

- (i) The number of shareholdings held in less than marketable parcels is 5;
(ii) The percentage of the total holding of the twenty largest holders of ordinary shares was 47.084 %.

(b) Twenty largest shareholders

Total number of ordinary shares on issue - 53,439,155

Name of shareholders	Number of shares held	% held
1. Forty Traders Limited	4,251,368	7.955
2. Geoffrey Davis & Susan Davis	2,166,000	4.053
3. Mr Edward Stuart Mackey Mein	1,815,000	3.396
4. Yarandi Investments Pty Ltd (Griffith Family No 2 A/C)	1,809,583	3.386
5. Skiptan Pty Ltd (P & M Meurs Family A/C)	1,666,667	3.118
6. Platinum Investment Corporation Pty Limited	1,650,000	3.087
7. Mr William Douglas Goodfellow	1,218,750	2.280
8. Harvest Services Aust Pty Ltd	1,090,000	2.039
9. Jeffrey Schiller & Karen Schiller	1,080,000	2.020
10. Rosemont Asset Pty Ltd	1,040,000	1.946
11. Mr Peter Bowman	1,000,000	1.871
12. Mr William Henry Hernstadt	901,000	1.686
13. Bruce Birnie Pty Ltd	818,750	1.532
14. Yellowrock Pty Ltd	771,720	1.444
15. Zelman Pty Ltd	760,640	1.423
16. Tasco Development Limited	640,000	1.197
17. Forbar Custodians Limited (Forsyth Barr Ltd-Nominee A/C)	631,875	1.182
18. Mr Roderick Claude Mcillree	630,000	1.178
19. Mr Patrick Butler	625,000	1.169
20. Miss Yee Chin Tan	600,000	1.122
Total	25,166,353	47.084

(c) Substantial shareholders

An extract of the Company's register of substantial shareholders is set out below:

Name	Ordinary shares held	
	Number of shares	Percentage
Forty Traders Limited	5,166,368	9.670%
Geoffrey & Susan Davis	3,256,000	6.092%

1. SHAREHOLDING (continued)

(d) Voting rights

The voting rights attaching to ordinary shares are, on a show of hands, every member present in person or by proxy shall have one vote and upon a poll, each share shall have a vote.

(e) On market buy back

There is no current on market buy back.

2. OPTIONHOLDING - LISTED OPTIONS EXPIRING 31 JANUARY 2007
(a) Distribution of optionholders

Distribution	Number of optionholders
1 - 1,000	68
1,001 - 5,000	151
5,001 - 10,000	102
10,001 - 100,000	198
100,001 and over	42
Total	561

(i) The number of optionholdings held in less than marketable parcels is 73;

(ii) The percentage of the total holding of the twenty largest holders of options was 50.024 %

(b) Twenty largest optionholders

Total number of 31 January 2007 options on issue - 22,711,275

Name of optionholders	Number of options held	% held
1. Forty Traders Limited	1,355,342	5.967
2. Geoffrey Davis & Susan Davis	1,079,000	4.750
3. Platinum Investment Corporation Pty Limited	825,000	3.632
4. Yarandi Investments Pty Ltd (Griffith Family No 2 A/C)	791,147	3.483
5. Mr Edward Stuart Mackey Mein	772,500	3.401
6. Mr Cameron John French	658,778	2.900
7. Mr William Douglas Goodfellow	548,438	2.414
8. Yellowrock Pty Ltd	545,000	2.399
9. Mr Peter Bowman	530,000	2.333
10. Finance Associates Pty Ltd (Gregory Family A/C)	523,127	2.303
11. Jeffrey Schiller & Karen Schiller	520,000	2.289
12. Horseshoe Holdings Pty Ltd (Horseshoe Super Fund A/C)	435,270	1.916
13. Rosemont Asset Pty Ltd	420,000	1.849
14. Harvest Services Aust Pty Ltd	417,500	1.838
15. Skiptan Pty Ltd (P & M Meurs Family A/C)	416,667	1.834
16. Mr Roderick McIlree (McIlree Super Fund A/C)	391,099	1.722
17. Mr Mick Hearl	375,000	1.651
18. Mrs Abigail Fry	271,287	1.194
19. Beneficial Investment Corporation Pty Limited	250,000	1.100
20. KHH (Aus) Holdings Pty Ltd	238,353	1.049
Total	11,098,507	50.024

3. UNQUOTED EQUITY SECURITIES AND RESTRICTED SECURITIES

The following classes of unquoted equity securities and restricted securities are on issue:

Type of securities	Number of securities	% held
<p>▶ 225,000 unquoted options to subscribe for ordinary shares exercisable at 60.72 cents per share, with an expiry date of 31 January 2007:</p> <p><i>Persons holding 20% or more:</i></p> <ul style="list-style-type: none"> - Glasgow Nominees Pty Ltd - Kathleen Rowan - Bruce Richard Acutt 	<p>75,000</p> <p>75,000</p> <p>75,000</p>	<p>33.33</p> <p>33.33</p> <p>33.33</p>
<p>▶ 600,000 unquoted options to subscribe for ordinary shares exercisable at 43.34 cents per share, with an expiry date of 23 December 2009:</p> <p><i>Persons holding 20% or more:</i></p> <ul style="list-style-type: none"> - Harvest Services Aust Pty Ltd 	<p>600,000</p>	<p>100.00</p>
<p>▶ 3,000,000 unquoted options to subscribe for ordinary shares exercisable at 57.64 cents per share, with an expiry date of 16 December 2007:</p> <p><i>Persons holding 20% or more:</i></p> <ul style="list-style-type: none"> - Harvest Services Aust Pty Ltd 	<p>2,000,000</p>	<p>66.67</p>
<p>▶ 14,200,600 ordinary shares restricted from trading until 23 December 2007:</p> <p><i>Persons holding 20% or more:</i></p>	<p>Nil</p>	<p>Nil</p>

4. The name of the Company Secretary is:

Roy Daniel

5. The address of the the Company's principal place of business and registered office in Australia is:

Suite 7, 11 Preston Street,
Como, Western Australia 6152

Telephone: (08) 9367 0601
Facsimile: (08) 9367 0602
Email: admin@medusamining.com.au

6. The Register of the Company's securities are held at the following address in Western Australia:

Advanced Share Registry Services
110 Stirling Highway, Nedlands, WA 6009

Telephone: (08) 9389 8033
Facsimile: (08) 9389 7871

7. Stock Exchange Listing

Quotation has been granted for all the ordinary shares and listed options of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

SCHEDULE OF TENEMENTS

AS AT 27 SEPTEMBER 2005

Project Name	Tenement Number	Mineral	Medusa's Interest
WESTERN AUSTRALIA			
Anti Dam	EL28/699	Gold	90%
Anti Dam	PL28/789	Gold	90%
Anti Dam	MLA28/152 (PL28/789)	Gold	90%
Anti Dam	PL28/958	Gold	90%
Anti Dam	MLA28/285 (EL28/699 & PL28/958)	Gold	90%
Anti Dam	PL428/993	Gold	90%
Anti Dam	PL428/994	Gold	90%
Braemore	PL37/4106	Gold	50-70% earn in
Braemore	MLA37/566 PL37/4106	Gold	50-70% earn in
Braemore	PL37/5330	Gold	50-70% earn in
Braemore	MLA37/1059 (PL37/5330)	Gold	50-70% earn in
Braemore	PL37/5331	Gold	50-70% earn in
Braemore	MLA37/1059 (PL37/5331)	Gold	50-70% earn in
Braemore	PL37/5332	Gold	50-70% earn in
Braemore	MLA37/1059 (PL37/5332)	Gold	50-70% earn in
Braemore	PL37/5333	Gold	50-70% earn in
Braemore	MLA37/1059 (PL37/5333)	Gold	50-70% earn in
Braemore	PL37/5477	Gold	50-70% earn in
Braemore	MLA37/1059 (PL37/5477)	Gold	50-70% earn in
Braemore	PL37/6316	Gold	80%
Braemore	PL37/6317	Gold	80%
Braemore	PL37/6318	Gold	80%
Braemore	PL37/6523	Gold	100%
Braemore	PL37/6524	Gold	Option to buy
Braemore	PL37/6525	Gold	Option to buy
Braemore	PL37/6526	Gold	Option to buy
Kurnalpi North	EL28/465-North	Gold	100%
Kurnalpi North	MLA28/216 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/217 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/218 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/219 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/220 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/221 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/222 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/254 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/257 (EL28/465N)	Gold	100%
Kurnalpi North	MLA28/258 (EL28/465N)	Gold	100%

Project Name	Tenement Number	Mineral	Medusa's Interest
WESTERN AUSTRALIA			
Kurnalpi South	EL28/465-South	Gold	100%
Kurnalpi South	MLA28/223 (EL28/465S)	Gold	100%
Kurnalpi South	MLA28/224 (EL28/465S)	Gold	100%
Kurnalpi South	MLA28/225 (EL28/465S)	Gold	100%
Kurnalpi South	MLA28/253 (EL28/465S)	Gold	100%
Kurnalpi South	MLA28/255 (EL28/465S)	Gold	100%
Kurnalpi South	MLA28/256 (EL28/465S)	Gold	100%

Project Name	Tenement Number	Mineral	Medusa's Interest
PHILIPPINES			
Saugon	EP (XIII) 000064	Gold	50%
Saugon	EPA (XIII) 000069	Gold	50%
Saugon	APSA (XIII) 000088	Gold	50%
Saugon	SSMP (X-ADS) 06-5942	Gold	50%
Saugon	SSMP (X-ADS) 06-6043	Gold	50%

Abbreviations:

APSA	Application for Production Sharing Agreement
EL	Exploration Licence
EP	Exploration Permit
EPA	Exploration Permit Application
MLA	Mining Lease Application
PL	Prospecting Licence
SSMP	Small Scale Mining Permit

