MEDUSA
MINING LIMITED

ANNUAL REPORT 2006

GOLD PRODUCER WITH A PHILIPPINES FOCUS

Contents

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Non-Executive Chairman

Mr Geoffrey John Davis
Managing Director

Mr Roy Philip Daniel
Finance Director

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Non-Executive Director

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FELLOW SHAREHOLDERS,

It is with great pleasure that I present my inaugural Chairman's Review. This year has been one of considerable achievements for Medusa and our partner, Philsaga Mining Corporation ("Philsaga"). As you will have noted, our focus has been firmly set on becoming a significant gold producer and explorer in the Philippines.

As part of our strategy, we have consolidated an additional 150 km² of tenure around the Co-O Mine bringing our land holding to some 700 km². This has been a remarkable achievement in this highly prospective region due for the most part to relationships built over a period of years with local tenement holders and the local communities.

Whilst the Company has awaited the satisfaction of an outstanding tenement issue to complete the merger with Philsaga, it is clear that Medusa and Philsaga have been working together as a united team to achieve considerable project enhancements during the year.

In September 2005, a Plant Lease and Option agreement was signed between Medusa and Philsaga allowing Medusa to produce its first gold and cash flow from development work at the Co-O Mine commencing in October 2005. Initially, ore had to be won using hammer and tap, however in January 2006 our partner, Philsaga received a Special Mining Permit to allow full scale development of the Co-O Mine. The mine has now been re-developed as a drill and blast, rail extraction mine allowing for higher rates of extraction.

In line with the increased underground output we embarked on a refurbishment programme for the Co-O Plant and an upgrade to the on-site assay lab facilities. The refurbishment will allow the Company to achieve its stated production target of an annualised rate of 40,000 ounces of gold in the September Quarter of 2006. Furthermore, we are optimistic, that if underground exploration at the Tambis Banaghilig Deposit in particular is successful, then production levels will be increased during the year. It is noteworthy that because of the high grade of our ore, only small tonnages of ore are required for considerable ounces, hence the materials handling aspects of the project are miniscule compared to low grade open pits which produce a similar quantity of ounces.

I am optimistic that new high grade deposits in addition to the Co-O Mine will be developed. For example, drilling at the Banaghilig Deposit returned 188 intersections which at ≥1 metre at ≥5g/t gold, averaged 16.7 g/t gold (uncut). There is the possibility that significant ore will be mined after completion of the underground exploration development currently underway via an inclined shaft and two adits. At the Sinug-ang Prospect, which was also recently acquired, high-grade drill intersections were returned in the 1980s, including up to 5.46 metres at 52.4 g/t gold. The Anoling Project is also expected to develop as a source of high-grade ore for the centralised Co-O Plant.

In September 2005, the Company completed an A$7.5 million capital raising to initiate the Lease and Option Agreement over the Co-O Plant. These funds were also used for the mill refurbishment programme and Co-O Mine development.

In June 2006, the Company raised an additional A$3.3 million to fund underground exploration, develop new potential mines, increase resources and to step up exploration drilling.

Our tenements are in a region where high-grade epithermal gold veins co-exist with lower grade, large tonnage copper-gold porphyry systems. It is our intention in the future to continue with the exploration of the high-grade veins and to also embark on a programme of actively exploring the larger systems. To this end, we anticipate that the next year will see us embarking on extensive drilling campaigns to explore these targets.

As part of our growth strategy we have stated our objective to list on the Alternative Investment Market ("AIM") in London before the end of 2006, and to this end we have appointed a NOMAD and Broker to manage the process with documentation currently being finalised. Management is confident that the London listing will greatly enhance our company's exposure to a much larger investment community and we are delighted with the positive support shown during presentations earlier in the year with several UK and European investors joining the register.

It has been a truly satisfying year being involved with the Company's development from explorer to producer. I anticipate the next year will provide the Company with significant cashflow to accelerate exploration of its numerous high-grade veins and larger tonnage porphyry copper-gold targets which if successful could propel the company into mid-tier status.

Lastly, I express my thanks and gratitude to the Medusa team, in particular Geoff Davis and Roy Daniel as the executives who have moved the Company forward and to Sammy Afdal and Bill Phillips at Philsaga with whom we have developed a very special working relationship. I would also like to extend my thanks to previous Directors, Jeff Schiller, Ted Mein and Simon Cato for their valuable contributions, to all Philsaga employees, to the Philippine government and local communities, and to the investment community and shareholders who have been supporting us from inception. Without these contributions and relationships, our Company would not have achieved the milestones that it has and I am optimistic that there are many more achievements to come.

Here's looking forward to an increasing growth profile in the year ahead.

Best wishes,

Kevin Tomlinson

Chairman

> Philippines

- > Co-O
- > Tambis
- > Sinug-ang
- > Road 17
- > Gamuton
- > Das-Agan
- > Abacus
- > Anoling
- > Saugon
- > Apical
- > Masapelid
- > Panaon

PROJECTS OVERVIEW

During the year considerable progress was achieved with advancing the Company's Philippines objectives of achieving cash flow from gold production. Philsaga Mining Corporation ("Philsaga") and Medusa have formed a strong working relationship and have worked towards the goal of achieving an initial annualised production rate of 40,000 ounces of gold per annum from the September Quarter of 2006 and consolidating an extensive ground holding around the Co-O Gold Mine and processing plant.

On 10 August 2006 the Company announced to the Australian Stock Exchange ("ASX") that Medusa would proceed with the acquisition of Philsaga subsequent to Medusa listing on the Alternative Investment Market ("AIM") in London in the second half of this year.

Philippines

PHILSAGA TRANSACTION

Background

Until 3 August 2006, the Completion of the Philsaga Transaction was subject to a Condition Precedent concerning the overlapping of timber concessions, surface rights and underlying mineral rights. Under the Philippines constitution, the Regalian Doctrine applies which separates surface rights from mineral rights and under which all minerals are owned by the State. The case has been won by Philsaga in two lower courts and the litigant elevated the case to the Supreme Court in an attempt to prevent the government from issuing the Mineral Production Sharing Agreement ("MPSA").

Since Medusa and Philsaga have agreed to complete the Philsaga Transaction ("Completion"), the outstanding granting of the MPSA owned by Philsaga over the Co-O Mine is no longer a Condition Precedent for Completion. As Philsaga was granted a Special Mining Permit over the Co-O Mine in January 2006 allowing full scale mining to commence, the Philsaga Transaction will now proceed on a two stage basis as outlined below in Section 2.

On 1 October 2005, a Lease and Option to Purchase Agreement between Philsaga and Medusa over the Co-O Plant came into effect enabling Medusa to commence gold production, develop the Co-O Mine and refurbish the plant in preparation for the major step up in production in the September Quarter of 2006. The Lease and Option Agreement, which will be exercised upon Completion, is summarised below.

SUMMARY OF THE PHILSAGA TRANSACTION

The formal Share Purchase Agreement with the Philsaga vendors was signed on 19 February 2005. This has now been modified by a Variation Deed dated 29 July 2006 enabling Completion to proceed.

1. Background Information

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

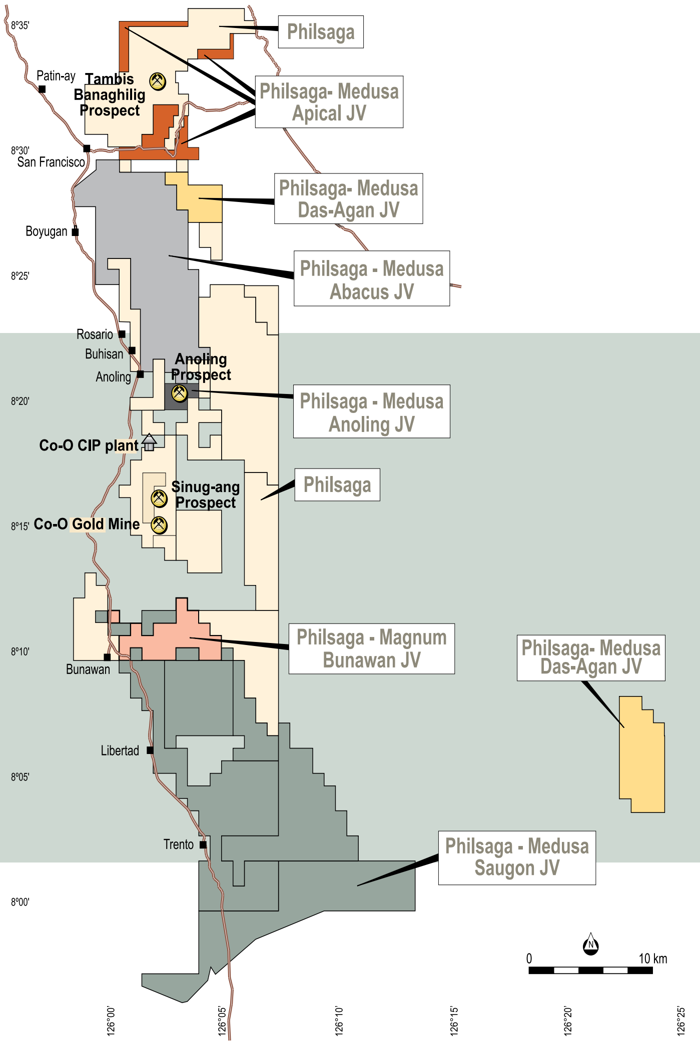
The project now comprises approximately 700 km² of tenements which cover approximately 70 km of strike length as shown on Figure 2.

2. Key terms of the Philsaga Transaction

Under the terms of the Variation Deed executed on 29 July 2006 by Medusa and Philsaga, the parties have extended the end date of the Philsaga Transaction to 31 March 2007. Medusa is proceeding towards a listing on AIM in the second half of 2006 concurrent with a capital raising.

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

Figure 2:
Tenement map for the Co-O area



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

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

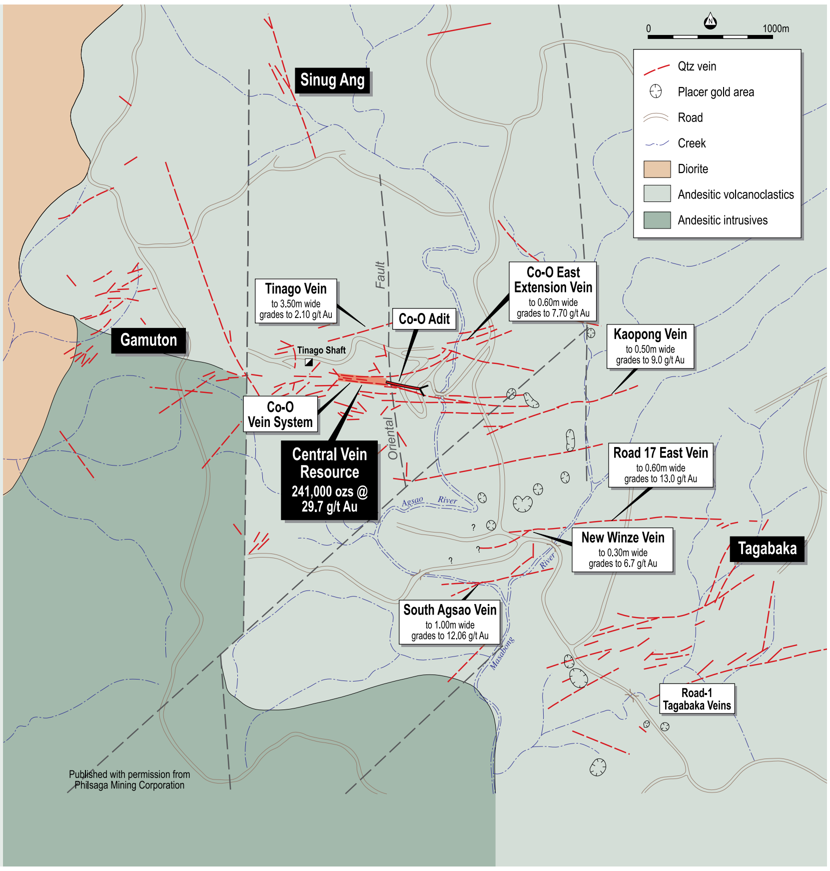


Figure 3:
Co-O Mine area vein map

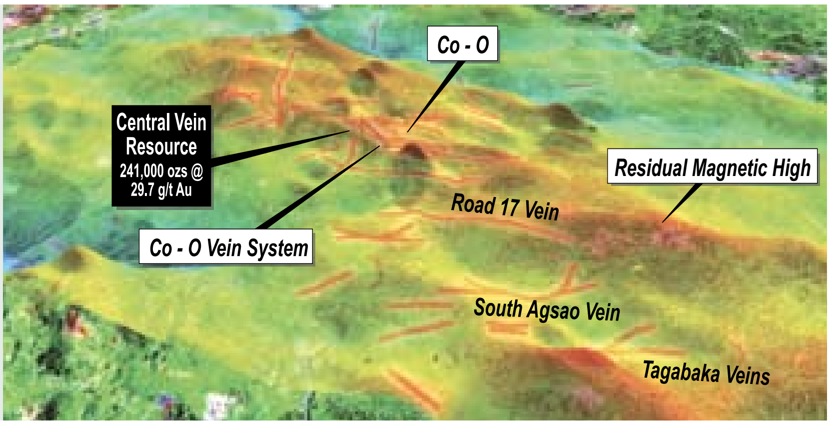


Figure 4:
Aeromagnetic image of the
Co-O Mine area.

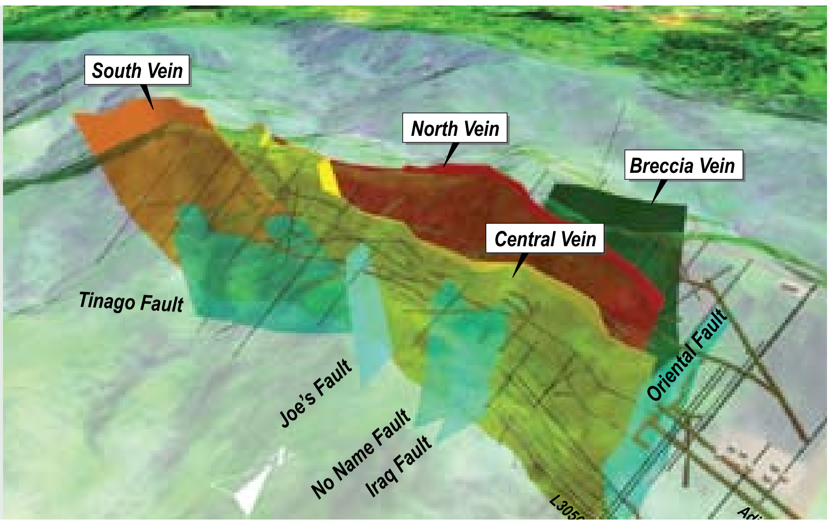


Figure 5:
Model of Co-O Mine vein system

3. THE PHILSAGA ASSETS

3.1 The Co-O Mine

The Co-O underground mine, which is shown on Figures 3, 4, 5 and 6, is developed on a series of low sulphide, epithermal quartz veins which strike west over a length of at least 600 metres and have been explored to a maximum depth of more than 200 metres from surface thus far. The veins are open to the west and east, and at depth.

On granting of the Special Mining Permit in January 2006, Philsaga commenced developing the mine as an airleg or drill and blast mine with ore haulage in one tonne ore trucks pulled by electric locomotives. Initial development has involved the sinking of two inclined shafts known as the 3W and 10W shafts as shown on Figure 6. The 3W shaft was completed on schedule however the 10W shaft was temporarily delayed by a winder breakdown and is planned to be completed in October 2006. Co-O Mine production will be initially optimised at 300 tonnes of ore per day.

At the 3050m level (which is 100 metres below the level at which Philsaga started mining), some of the gold bearing veins coalesce into one vein which averages 2.5 to 3 metres in width and contains an average grade of +20 g/t gold uncut. Current resources in the mine are listed in Table I based on an 8 g/t gold lower cut and a 200 g/t gold upper cut. Providing sufficient data become available, a re-estimation of resources is expected in September 2006. Reserves are likely to be calculated as a percentage of the resources which are expected to be mined.

Limited level development has been undertaken on the east side of the Oriental Fault as shown on Figure 6 due to restricted haulage capacity but has successfully confirmed the drill hole intersections (reported in 2005 Annual Report) previously achieved in this area.

The intersections in MD 1 (1.20 metres @ 13.46 g/t gold and 1.65 metres @ 28.54 g/t gold) correspond well with the driving on the 3080m level with the first 50 metres along the Central Vein achieving average vein width of 1.4 metres at an average grade of 14.4 g/t gold, and the first 32 metres of driving along the North Vein achieving an average vein width of 1.3 metres at an average grade of 4.8 g/t gold.

The intersections in MD 2 (2.60 metres @ 45.19 g/t gold and 11.70 metres @ 21.30 g/t gold) correspond well with the driving on the 3030m level as shown on Figure 6 with the first 70 metres along the Central Vein achieving an average vein width of 1.75 metres and an average grade of 24.6 g/t gold.

The concept of increasing grade and vein width with depth (as observed to the west of the Oriental Fault) is well supported by the results from the Central Vein 3080m and 3030m level drives to date.

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

Category	Tonnes	Gold (g/t)	Gold (ozs)
Indicated	110,000	32.2	114,000
Inferred	142,000	27.8	127,000
TOTAL	**252,000**	**29.7**	**241,000**

Note: lower cut off 8 g/t gold and upper cut off 200 g/t gold

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 2004 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.

3.2 Tenement Holdings and Joint Ventures

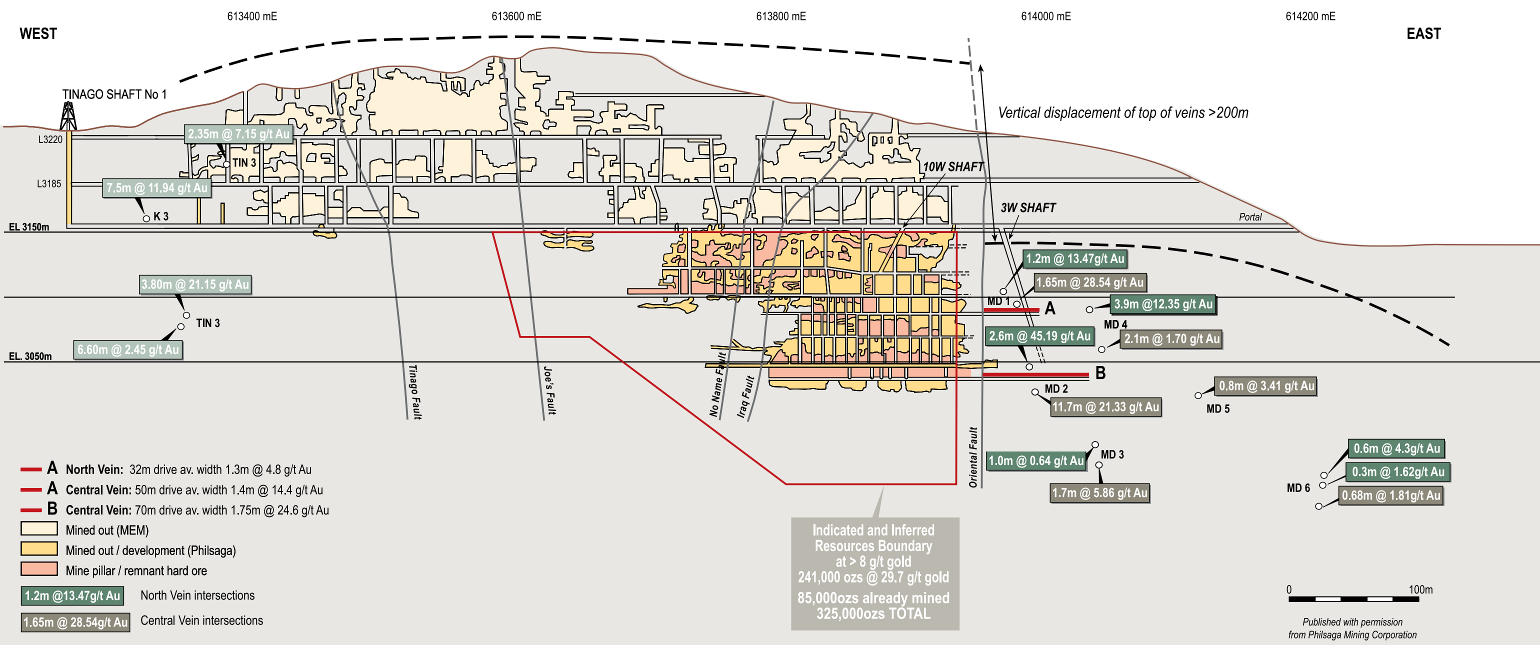
Since taking ownership of the Co-O Mine and Plant in August 2000, Philsaga commenced consolidating the region north and south of the plant by acquiring a number of tenements through direct ownership or effective ownership via agreements.

During the year, Philsaga in joint venture with Medusa, in the ratio of 50% each, have successfully increased the tenement holdings to over 700 km². As shown on Figure 2, this tenement holding is strategically located north and south of the Co-O milling facility and with a strike length of 70 km covers approximately 20% of the strike length of the highly prospective East Mindanao Ridge.

Philsaga has a direct joint venture with Magnum Gold Ltd whereby Magnum will spend US$1.5 million to earn a 50% interest in the Bunawan Project. Philsaga manages the joint venture and first pass drilling is planned to commence shortly.

The Medusa-Philsaga joint venture projects are described in the section below on Regional Tenement Consolidation.

Figure 6: Co-O Mine longitudinal projection of Central Vein



Co-O Plant Lease and Option

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

1. LEASE AND OPTION AGREEMENT

The Lease and Option Agreement will enable Medusa to process ore and produce gold to generate cash flow plus the right to acquire the Plant at anytime during the 3 year period. This option will be exercised on Completion.

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

- Medusa made a payment of A$2 million in September 2005;
- Medusa paid A$1 million to 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 at anytime during the period; and
- A company associated with the Principal Shareholders of Philsaga and Philsaga is project managing all aspects of the Plant operations on a cost plus 15% basis.

2. ORE SUPPLY AGREEMENT

Under an Ore Supply agreement between Medusa and Philsaga, Philsaga agreed to provide a minimum of 2,000 tonnes per month of ore feed for the Plant for a 3 year period at cost plus 15%. This agreement will be terminated on Completion.

3. SUMMARY OF PLANT INCLUDED IN THE LEASE AND OPTION AGREEMENT

The CIP plant is BHP designed and built and is situated approximately 12 km by road north of the Philsaga's Co-O Mine. During the period 1 October 2005 to 30 June 2006, the plant operated with a small ball mill capable of processing approximately 150 tonnes per day. During this period the large ball mill and ancilliary equipment were refurbished and tested and are awaiting delivery of grinding media. Using the current tankage, the plant has capacity for approximately 450 tpd depending on the grade of the ore feed. Additional tankage is planned to be installed in the near future as the tonnage supplied from mining increases;

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; and

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.

4. EXERCISE OF THE OPTION

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

5. PRODUCTION DURING THE MINE DEVELOPMENT STAGE

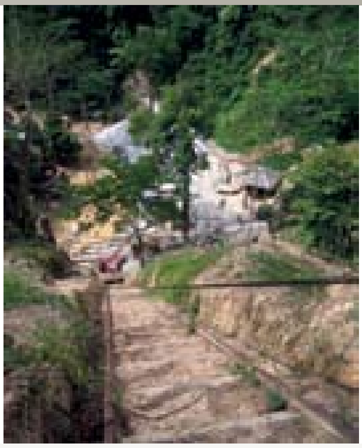
The Company has maintained a low level of gold production during the development phase from 1 October 2005 to 30 June 2006 which has offset some of the development costs. The production is summarised in Table II below.

Table II. Gold production summary

Period	Ore mined	Recovered		Cash costs	Gold sales	Comments
		grade	ounces			
	(tonnes)	(g/t gold)	(ozs)	(US$ per oz gold)	(US$ M)	
Oct to Dec 2005	5,476	12.3	2,323	250	1.14	Development ore
Jan to Mar 2006	5,609	8.90	1,613	307	0.89	Development ore
Apr to Jun 2006	9,342	8.0	2,503	334	1.62	Development ore
TOTAL	**20,427**	**9.6**	**6,439**	**297**	**3.65**	

Co-O Regional Tenement Consolidation

During the year the regional tenement holding was increased by over 150 km² (15,000 hectares) by consolidating tenements north and south of the Co-O Plant. A summary of the projects is presented below.



TAMBIS BANAGHILIG PROSPECT (Philsaga 100%)

Background

Philsaga advised in April that it had received all final approvals for Small Scale Mining Permits XIII-SDS-SSMP-002-05 & 003-05 within MPSA application 000022-XIII of 6,853 hectares (68.53 km^2) to conduct exploration on the Tambis Banaghilig Prospect located approximately 35 km by all weather road north of the Co-O Plant (Fig. 2).

The Tambis area has been a source of alluvial gold since Spanish times, and today alluvial mining is conducted in many creeks around the area. During the late 1970s to 1990s, several companies evaluated it as a bulk mining proposition. This resulted in the drilling of a total of 344 diamond and RC drill holes. Whilst significant tonnages of low grade material were defined, studies indicated it was subeconomic at that time.

Geology and mineralisation

The Banaghilig Prospect is exposed on a ridge where younger overlying limestones have been stripped by erosion. This erosion has exposed an area of several square kilometres of intensely sericitically and argillically altered volcanics, various breccias and possible andesitic intrusive rocks. Previous airborne radiometric surveys show this area exhibits an intense potassium anomaly.

To the south is a large area of younger limestone with some drill hole vein intersections positioned under the northern edge of this younger cover. There is little doubt that the intense alteration zone containing this extensive vein system will extend some distance to the south below the limestone cover.

A total of 29,477 metres of drilling in 344 holes has been previously completed comprising 117 diamond holes for 16,853 metres and 227 RC holes for 12,624 metres. A total of 81 intersections at a cut off of ≥1 metre at ≥10 g/t gold is contained within a much larger tabulation of 188 intersections of ≥1 metre at ≥5 g/t gold. A selection of these intersections is contained in Table III overleaf.

Table III. Selection of drill hole intersections from Tambis Banaghilig Prospect

Intercept (metres)	Grade (g/t gold)
2.00	61.00
8.00	22.76
1.00	68.61
3.50	27.19
2.00	21.70
2.40	38.63
2.43	186.51
3.00	21.84
1.28	60.94
13.86	13.52
8.9	18.99
2.0	50.30
1.00	94.89
1.00	188.90

The weighted average of all drill hole intersections ≥1 metre at ≥ 5 g/t gold is 16.63 g/t gold uncut and 14.66 g/t gold when a top cut of 100 g/t gold is applied.

Work is in progress to complete a maiden resource estimation during September 2006 providing sufficient data are available..

SINUG-ANG PROJECT (Philsaga 100%)

Philsaga recently gained access to the Sinug-ang Prospect adjacent to the north of the Co-O Mine as shown on Figures 2 and 3 by executing a Mines Operating Agreement ("MOA") with an underlying Small Scale Mining Permit owner in exchange for a 5% Net Smelter Royalty commencing from 20 metres below current underground workings.

The Sinug-ang Prospect was explored in the 1980s by surface sampling and drilling which is shown on Figure 6 and summarised in Tables IV and V. The vein zone is over 1,000 metres long trending in a NNW direction parallel to the Philippine Rift Fault trend. Some small scale mining activities of selected parts of the vein over a strike length of approximately 600 metres have been undertaken to a depth of approximately 175 metres below surface.

Table IV. Summary of assays from surface and shallow workings over a strike of 600 metres

Intercept (metres)	Grade (g/t gold)
1.20	27.6
0.84	21.8
0.95	25.0
0.60	32.5

Intercept (metres)	Grade (g/t gold)
0.75	225.0
1.00	240.0
0.80	14.8
1.00	20.8

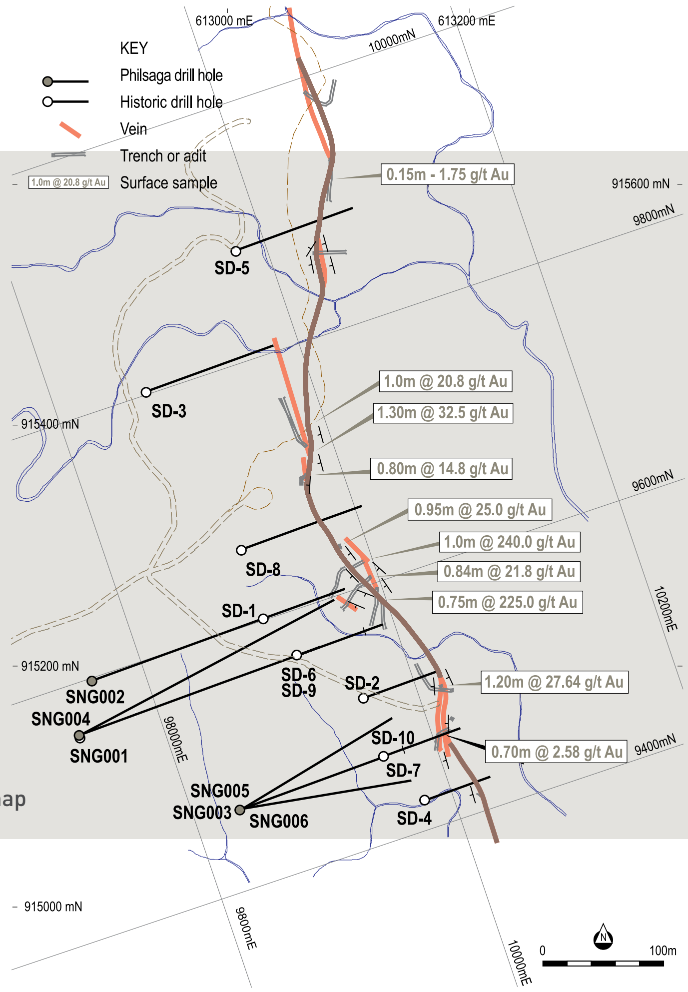


Figure 7.
Sinug-ang prospect surface geology map

Table V. Summary of drill hole intersections

Hole	North	East	Dip (º)	Azimuth (º)	From (metres)	Intercept (metres)	Grade- uncut (g/t gold)
SD 1	915238	613026	-60	070	125.28	1.38	45.28
SD 2	915173	613026	-60	070	122.00	1.50	4.49
SD 3	915428	612933	-60	070	27.73	1.27	7.57
					142.16	1.44	7.73
SD 4	915088	613162	-60	070	25.45	2.00	9.77
SD 5	915545	613007	-60		139.00	1.30	5.76
SD 6	915208	613057	-60	070	72.50	2.00	4.18
					102.15	3.32	11.88
					110.12	6.48	14.43
SD 7	915125	613129	-60	070	40.83	0.10	81.70
					58.03	0.20	16.76
SD 9	915208	613057	-75	070	127.29	0.44	7.02
					136.94	1.61	6.40
SD 10	915125	613129	-75	070	110.70	1.68	5.97
					114.78	5.46	52.41

Philsaga has commenced drilling below old workings with an initial three hole program.

DAS-AGAN PROJECT (Medusa 50%, Philsaga 50%)

An MOA was signed covering MPSA application number 000024-XIII situated in Surigao del Sur province in east Mindanao, consisting of two parcels, one to the north and one to the southeast of the Co-O Mine and mill site as shown on the accompanying map. The APSA covers approximately 8,019 hectares (80 km²) of the favourable geology of the east Mindanao ridge.

The project was located as a result of an aid program between Filipino and Japanese geologists and technicians in 1972 to 1974 over eastern Mindanao. An initial 3,000 km² prospective area was located by geological and geochemical surveys and was subject to additional geological mapping and geochemistry. A smaller 170 km² area was selected and subjected to detailed geological mapping and geochemistry followed by Induced Polarisation ("IP") geophysical surveys. Subsequently, a program of five holes was completed on five different targets with hole DDH1 intersecting quartz diorite porphyry containing:

0 - 100 metres	Altered rocks
100 - 200 metres	100 metres @ 0.40 % Cu
200 - 248 metres	48 metres @ 0.50 % Cu, 0.10 g/t gold
248 - 250 metres [End of Hole]	2 metres @ 4.93 % Cu, 0.50 g/t gold

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

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

In 1997 Barrick Gold Philippines assessed the project for its gold potential through mapping and collection of 110 rock samples. During this work a large circular quartz veined breccia plug measuring 750 metres x 1,200 metres and located approximately 1,500 metres south of drill hole DDH1 was identified and sampled returning gold values between 0.10 and 1.30 g/t gold.

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

The key terms of the MOA are:

- The Vendors are to be re-imbursed for past expenses totalling Php12 million (approximately A$318,000) with the issue of 601,367 Medusa shares based on an average price of $0.53 being 10% discount to market for the 5 days preceding 20 February, and issued in four equal tranches of 150,342 shares with first tranche within 30 days of signing the agreement, the second tranche on granting of the tenement, and the third and final tranches, on the 1st and 2nd anniversary after granting of the tenement;
- The agreement was subject to completion of tenement due diligence within 30 days which was completed successfully;
- Medusa will pay to the vendors a 3% gross royalty on all production from the tenement; and
- Medusa is responsible for all costs incurred to progress the APSA to granting.

The granting of the tenement is affected by the same Condition Precedent as outlined previously.

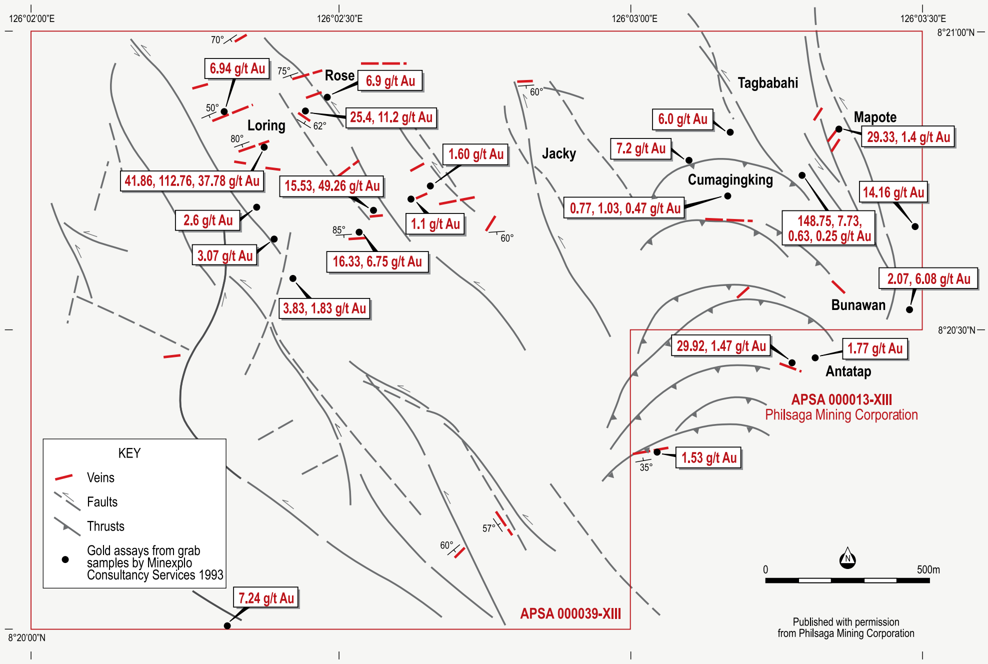


Figure 8: Anoling Prospect surface map and assays.

ANOLING PROJECT (Medusa 50%, Philsaga 50%)

An MOA was signed with Alcorn Gold Resources Corporation ("Alcorn") a company listed on the Philippines Stock Exchange. The MOA covers MPSA application number 039-XIII situated in the Agusan del Sur province in east Mindanao to the north of the Co-O Mine and millsite as shown on Figure 2. The MPSA comprises approximately 405 hectares (4.05 km²) and covers a high grade vein system as shown in Figure 8.

The key terms of the MOA are as follows:

- Medusa will pay Alcorn a 5% gross royalty on all production from the tenement to be shared with other parties to the MOA, and will pay the underlying claim owner a gross royalty of 3 % on all production from the tenement;
- Medusa will issue Alcorn or its nominee the equivalent of 3 million pesos (approximately A$75,000) in Medusa shares converted at a discount rate of 10 % to market, to reimburse Alcorn for past expenses;
- In addition, Medusa will pay Alcorn a 10 % Net Profit Interest capped at 11 million pesos (approximately A$275,000) as further reimbursement of exploration expenses;
- Medusa will be required to spend a minimum of US$50,000 in year 1 and US$100,000 in year 2;
- Medusa will be responsible for all costs incurred to progress the MPSA application to granting.

The map shown on Figure 7 summarises the known surface vein expressions and previous grab sampling results. A small underground gold mine was operated in the Loring area pre-WWII and more recently in the Mapote area where ore was mined from an inclined shaft and trucked approximately 100 km for treatment. Once surface work and drilling are undertaken it is expected that good continuity of veins along strike will be demonstrated.

The granting of the tenement is affected by the same Condition Precedent as outlined previously.

APICAL PROJECT (Medusa and Philsaga earning 70%)

A Joint Venture Agreement ("JVA") was signed which covers MPSA application number 0028-XIII situated in the provinces of Agusan del Sur and Surigao del Sur in east Mindanao to the north of the Co-O Mine and mill site as shown on Figure 2. The MPSA comprises approximately 2,084 hectares (20.84 km²) in the Tambis area. The JVA is with MRL Gold Phils., Inc. ("MRL") and an underlying claim owner. MRL is the Philippine operating company of Mindoro Resources Ltd, a company listed on the TSX Venture Exchange in Canada.

The key terms of the MOA are as follows:

- Medusa has the right to earn a 70% interest:
  - (i) In narrow vein deposits, by commencing narrow vein development and earning its interest by producing the first 500 tonnes of ore, after which MRL has the option to contribute to ongoing expenditure or reduce to a 3% Net Smelter Royalty ;
  - (ii) In large bulk tonnage deposits such as porphyry copper-gold deposits or disseminated gold deposits, by completing a Bankable Feasibility Study, after which MRL has the right to contribute to ongoing expenditure or dilute to a 3% NSR.
- Medusa is required to spend US$300,000 within 3 years of grant of the MPSA, and spend a minimum of US$150,000 per year subsequently;
- Medusa will issue to the underlying claim holder fully paid shares in Medusa to the value of US$50,000 once the project has been assigned to the joint venture company and registered with the Mines and Geosciences Bureau; and
- Medusa will be responsible for all costs incurred to progress the MPSA to granting.

ABACUS PROJECT (Medusa 50%)

An MOA was signed with Abacus Consolidated Resources and Holdings Inc., ("Abacus") a company listed on the Philippines Stock Exchange. The MOA covers Exploration Permit ("EP") application number 000028-XIII situated in Agusan del Sur province in east Mindanao to the north of the Co-O mine and millsite as shown on the accompanying map. The EP covers approximately 8,100 hectares (81 km²) as shown on Figure 2.

The key terms of the agreement are:

- The agreement was subject to completion of due diligence by Medusa within 30 days of 17 November 2005 before becoming unconditional which was completed satisfactorily;
- Medusa will pay to Abacus a 3% gross royalty on all production from the tenement;
- Medusa paid an advance against the royalty of Php500,000 (approximately A$12,500);
- Medusa will pay outstanding occupation fees and annual work obligations of approximately A$60,000; and
- Medusa is responsible for all costs incurred to progress the EP application to granting.

The granting of the tenement is affected by the same Condition Precedent as outlined previously.

SAUGON PROJECT (Medusa 50%, Philsaga 50%)

The prospect is situated approximately 10 km south of the Co-O Mine and 28 km by road from the Co-O Plant. 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 underground via a 40 metre deep winze, level development and drilling of 31 diamond drill holes.

Re-assessment of the regional stream sediment sampling results, investigation of an aeromagnetic anomaly parallel and south of the Saugon Fault and re-evaluation of previous drilling will be undertaken.

Other Philippines Projects

MASAPELID PROJECT (Medusa and Philsaga earning 84%)

A JVA was signed over the former Lacandola Gold Mine on Masapelid Island ("Masapelid Project") with Metals Exploration Plc ("MEP"), a company listed on the London Alternative Investment Market ("AIM") that has a purchase agreement with the Masapelid Project owner. Medusa has the right to earn an 84% interest in the Masapelid Project that is covered by granted MPSA No. 004-91-XIII.

The Masapelid Project has a history of narrow vein mining commencing pre-WW II and records indicate that 20,666 tonnes at 15 g/t gold were produced by the Km73 Mining Company from the Layong Vein on the eastern side of the island before the mine closed prematurely pre-WW II.

In early 1986 a four hole diamond drilling program was undertaken under a United Nations Development Program ("UNDP") in conjunction with the Mines and Geoscience Bureau ("MGB") to test the vein extensions on the western side of the island. These holes returned 1 metre @ 22.5 g/t gold in DDH 1, 1 metre @ 35.0 g/t gold in DDH 2 and 1 metre @ 72.0 g/t gold in DDH 4.

In the early 1990s Western Mining Corporation ("WMC") undertook extensive exploration focused on discovering porphyry copper-gold mineralisation involving stream sediment sampling, grid based soil sampling, 141 km of ground magnetics, a gravity survey, an IP survey in 3 areas, and 9 diamond drill holes. The soil sampling outlined coherent gold anomalies over 900 metres of strike corresponding to the projected strike of the Layong and No.6 Veins.

WMC's hole MSI-D1 on the western side of the island near the UNDP-MGB drilling described above also intersected vein mineralisation of 1.48 metres @ 11.81 g/t gold. Three diamond drill holes were completed by WMC in the Sampotan area at the southern tip of the island where porphyry copper mineralisation was intersected including 264.82 metres @ 0.32% copper in hole MSI-D7 with the last sample in the hole assaying 1% copper and 0.5 g/t gold over 0.5 metres

MASAPELID PROJECT (Medusa and Philsaga earning 84%) (continued)

The JVA provides for:

- the Medusa group to operate and earn an 84% interest by expending the first US$1 million and completing the purchase of the Masapelid Project;
- the purchase of the Masapelid Project in shares and cash will be shared 84% by Medusa and 16% by MEP as follows:
  - on or before 27 February 2006, a payment of US$25,000 cash and the issue of a number of shares determined to be equivalent to the value of 250,000 MEP shares with the value per share to be determined as the average price for the 5 days of trading on AIM preceding 24 January 2006;
  - on or before 27 January 2007, a payment of US$25,000 cash and the issue of 250,000 shares; and
  - on or before 27 January 2008, a payment of US$30,000 cash and the issue of 500,000 shares.
- on completion of the expenditure of US$1 million, MEP has the right to either contribute to 16% of the on-going expenditure or dilute to a 10% Net Profit Interest (in which case Medusa would own 100% of the Masapelid Project); and
- on commencement of production, the project owner will receive a 1.5% Net Smelter Royalty.

Data collation is in progress in preparation for drilling utilising the surface rig on completion of the drilling program at Panaon.

PANAON GOLD PROJECT (Goldsearch Limited earning 50%)

The Panaon Island Gold Project is located on Panaon Island, as shown on Figure 1, in Southern Leyte, immediately north of Surigao City which is reached 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.

The project consists of high grade epithermal veins hosted by andesitic porphyries intercalated with volcanic pyroclastics. 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 a 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, five E-W veins were sporadically mined but the mining was not developed to the same level as at Pinut-an.

Goldsearch Limited is earning 50% interest by expending US$1 million on exploration. A program of diamond drilling using an underground diamond rig and a surface diamond rig is in progress.

RELINQUISHED PROJECTS

The Barlo Project was relinquished after the claim owner was unsuccessful in consolidating his tenure.

Australia

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

On 8 February 2006, the Company announced to the ASX that it had entered into an Option to Purchase Agreement with an unlisted public company under the following terms:

- Payment of $15,000 on signing of the Option to Purchase Agreement
- The purchaser has to complete an IPO within 12 months at which time it will
  - Make a payment of A$50,000 cash, and
  - Issue the Company with shares to the value of A$250,000.

The purchaser will maintain the tenements in good standing until the purchase is completed.

BRAEMORE PROJECT (Medusa 100%)

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 A$250,000. 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 A$10,000 to Medusa.

Re-splits of anomalous samples from the June 2005 RAB program have confirmed the presence of supergene Au in the northern portion of the project area. Best results include 6 metres @ 1.08 g/t gold (including 1 metre @ 4.02 g/t gold) from 58 metres (BRAB142) and 8 metres @ 0.48 g/t gold from 31 metres (BRAB159). RC drilling is planned to test for bedrock sources of supergene mineralisation over both the southern and northern portions of the project.

Soil sampling over the western portion of the project failed to identify any coherent Au-As anomalism away from the known mineralised shear. A discrete Zn-Cu-Pb anomaly, 800 metres long by 250 metres wide (open to the north), occurs in association with felsic volcanics in the northern portion of the survey area.

A program of 5 RC holes was completed late 2005 which did not intersect significant values and Teck withdrew from the project in January 2006.

The Company has since relinquished all its interest and on-going liabilities in The Braemore Project as announced to the ASX on 19 September 2006.

Corporate

FUND RAISINGS

- The Company in September 2005, raised gross proceeds of $6,113,606 via a Non-Renounceable Rights Issue ("Issue"), with the allotment of 10,189,343 ordinary shares and 2,547,402 listed 20 cent options expiring 31 January 2007.

  The allotted shares, issued at 60 cents per share were based on shareholders being entitled to 1 new ordinary share for every 4 shares held. In addition, for every 4 shares subscribed in the Issue, there was an entitlement of 1 free option exercisable at 20 cents with an expiry date of 31 January 2007.

- Concurrent with the Issue in September 2005, the Company also 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 cent options with an expiry date of 31 January 2007.

- In June 2006, the Company raised $3,356,000 before costs by the issue of 5,593,334 shares at 60 cents to sophisticated investors from Australia and the UK.

ALTERNATIVE INVESTMENT MARKET ("AIM"), LONDON

In June 2006, the Company announced the appointment of Ambrian Partners Limited as Nomad and Broker to undertake Medusa's listing on AIM in the second half of 2006.

With the Company's activities focussed entirely in the Philippines, the Board believes that the secondary listing on AIM will generate investor interest and provide access to European investors who have expressed interest in Medusa achieve its corporate objectives.

Medusa Mining Limited

2006 Financials

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 2006, and the independent audit report thereon.

1. DIRECTORS

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

Mr Kevin Michael Tomlinson	- *appointed 10 October 2005*
Dr Jeffrey Christopher Schiller	- *resigned 31 January 2006*
Mr Geoffrey John Davis	
Mr Edward Stuart Mein	- *resigned 17 March 2006*
Mr Simon Kenneth Cato	- *resigned 13 April 2006*
Mr Roy Philip Daniel	- *appointed 13 April 2006*
Dr Robert Maurice Weinberg	- *appointed 1 July 2006*

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

2. DIRECTORS' INFORMATION

Mr Kevin Tomlinson

Grad Dip Finance, MSc, BSc (Hons), FSI,, ASIA

Non-Executive Chairman

(appointed 10 October 2005)

Mr Kevin Tomlinson, who was appointed to the Board of Medusa on 10 October 2005, is currently Managing Director – Investment Banking for Westwind Partners, a broking house in London.

Mr Tomlinson's 27 years of experience includes senior executive and management roles in several mining commodities including gold, nickel and base metals, plus a broad range of experience in other areas including corporate start-ups, capital raisings, company listings and project evaluation. He possesses strong conceptual and analytical capabilities and a thorough understanding of the market and corporate issues that affect growing companies.

As Head of Research, working for Hartleys Limited in Perth, he was involved in investment relationships with corporate clients, the facilitation of Australian and International introductions to institutions, broking houses and funds, as well as promotion through the media and road shows in Australia, Canada, UK and Europe. Mr Tomlinson brings a wealth of experience to the Company that will enhance the marketability of Medusa in the international resources market.

Dr Jeffrey Schiller

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

Non-Executive Chairman

(resigned on 31 January 2006)

Dr Jeffrey 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 that 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 who was Chairman of the Remuneration Committee and a current Non-Executive Director of Magnum Gold NL, a publicly listed company on the ASX resigned from the Board of Medusa on 31 January 2006.

2. DIRECTORS' INFORMATION (continued)

Mr Geoffrey Davis

M.Sc, Mining and Exploration Geology, B. Sc (Hons), Geology,

Member, Australian Institute of Geoscientists.

Managing Director

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 Mr Davis has also held Directorships and senior executive positions in a number of listed and unlisted Australian, Asian and London based exploration and mining companies. Mr Davis has been a Director of Medusa since its inception on 5 February 2002.

Philippines Experience:

Geoff 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 will be important for furthering the Company's business interests in the Philippines.

Mr Edward Mein

B.Eng (Mining), Member AusIMM.

Non-Executive Director

(resigned on 17 March 2006)

Mr Ted Mein is a mining engineer having had more than 26 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 study on prospects and/or develop resource projects into viable operations, or has been commissioned to review prospective projects for financing. Mr Mein who was a member of the Remuneration Committee, resigned as a Non-Executive Director of the Company on 17 March 2006.

Mr Simon Cato

B.A, MSDIA,

Non-Executive Director

(resigned on 13 April 2006)

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 stock broking 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 was a member of the Remuneration Committee, and currently serves as a Non-Executive Director on the Boards of Scarborough Equities Limited, Bentley International Limited and Chairman of Sofcom Limited and Gold Company Limited, all companies listed on the ASX, tendered his resignation from the Board of the Company on 13 April 2006.

Mr Roy Daniel

B.Com, UWA

Finance Director

(appointed on 13 April 2006)

Mr Roy Daniel who is also the Company Secretary of the Company was appointed Finance Director of the Company on 13 April 2006. He has been associated with the resource and mining industry for over 25 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 & modelling, feasibility studies, project funding, treasury management and company secretarial functions and will bring his expertise in these matters to the Company.

In his capacity as Finance Director, Mr Daniel is responsible for the day to day financial, company secretarial and administrative functions of the Company.

Philippines experience:
Mr Daniel also possesses work experience in the Philippines having streamlined the finance, administration and corporate activities of Filipino operations for an AIM listed entity.

Dr Robert Weinberg

BA (Hons) Geology, MA, DPhil

Non-Executive Director

(appointed 1 July 2006)

London based Dr Robert Weinberg who gained his doctorate in geology from Oxford University in 1973, has more than 30 years experience in the international mining industry and is an independent mining research analyst and consultant.

Dr Weinberg brings a wealth of gold marketing and investment banking experience to the Company having held executive positions that include being Managing Director, Institutional Investments at the World Gold Council, Director of Gold Bullion Securities, Director of the Investment Banking & Equities division at Deutsche Bank in London, Head of the Global Mining Research team at SG Warburg Securities. Robert has also held senior positions within Societe Generale and was head of the mining team at James Capel & Co. He was also formerly marketing manager of the gold and uranium division of Anglo American Corporation of South Africa Ltd.

Dr Weinberg who is currently a Non-Executive Director of Solomon Gold plc, Falkland Gold & Minerals Ltd and also Non-Executive Chairman of Great Bear Resources plc, was appointed to the Board on 1 July 2006.

3. COMPANY SECRETARY

Mr Roy Daniel who is also a Director was appointed Company Secretary on 6 December 2004 and held that position at the end of the financial year.

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*	
	Number of meetings held while in office	*Number of meetings attended while in office*
Kevin Tomlinson	6	5
Jeffrey Schiller	5	5
Geoffrey Davis	9	9
Edward Mein	6	4
Simon Cato	6	6
Roy Daniel	3	3
Robert Weinberg	-	-

At the date of this report, no Audit, Remuneration 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.

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 ($2,341,534) [2005: ($1,888,241)].

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 CHANGE IN STATE OF AFFAIRS

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

4 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%

4 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 $0.60 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 $0.20 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 issued 10,189,343 ordinary shares (being the maximum amount of shares allowed under the Issue) to raise gross proceeds of $6,113,606.

4 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").

4 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.

4 Mr Kevin Tomlinson was appointed to the Board of Medusa as Non-Executive Chairman on 10 October 2005

4 On 22 November 2005, Medusa advised the ASX that it had through its Filipino subsidiary and in joint venture with Philsaga Mining Corporation, signed a Mines Operating Agreement ("MOA") with Abacus Consolidated Resources and Holdings Inc. ("Abacus"), a company listed on the Philippines Stock Exchange.

The MOA covers Exploration Permit ("EP") application number 000028-XIII situated in the province of Agusan del Sur, in east Mindanao, north of the Co-O mine and mill site.

Under the terms of the MOA, Medusa will:

- pay Abacus a 3% gross royalty on all production from the tenement;
- pay Abacus an advance to be offset against future royalties of 500,000 pesos (approximately A$12,500);
- pay outstanding occupation fees and annual work obligations of approximately A$60,000; and
- be responsible for all costs incurred to progress the EP application to granting.

9. SIGNIFICANT CHANGE IN STATE OF AFFAIRS (continued)

4 Medusa on 14 December 2005 advised the ASX that it had through its Filipino subsidiary and in joint venture with Philsaga Mining Corporation, signed a Mines Operating Agreement ("MOA") with Alcorn Gold Resources Corporation ("Alcorn"), a company listed on the Philippines Stock Exchange.

The MOA covers Mining Production Sharing Agreement ("MPSA") application number 039-XIII situated in the province of Agusan del Sur, in east Mindanao, north of the Co-O mine and mill site.

Under the terms of the MOA, Medusa will:

- pay Alcorn a 5% gross royalty on all production from the tenement to be shared with other parties to the MOA;
- issue Alcorn the equivalent of 3 million pesos (approximately A$75,000) in Medusa shares converted at a discount rate of 10% to market, to re-imburse Alcorn for past expenses;
- be required to spend a minimum of US$50,000 in year 1 and US$100,000 in year 2;
- pay the underlying claim owner a gross royalty of 3% on all production from the tenement; and
- be responsible for all costs incurred to progress the MPSA application to granting

4 The Company on 23 January 2006 advised the ASX that it had received notification from Philsaga Mining Corporation ("Philsaga") that the Mines and Geosciences Bureau had granted Special Mining Permit ("SMP") number 05-2006 covering the Co-O Gold Mine while Philsaga awaits the approval of the Mining Production Sharing Agreement ("MPSA") application denominated as APSA No.000084-XIII.

Philsaga has advised that the SMP is independent and mutually exclusive and will be replaced by the MPSA when the MPSA is granted and that the SMP has identical terms and conditions as an MPSA, which will enable Philsaga to conduct commercial full scale mining operations at the Co-O Gold Mine for a period of one year, renewable for like period.

4 On 25 January 2006, the Company announced that it had in conjunction with Philsaga signed a Joint Venture Agreement ("JVA") over the former Lacandola Gold Mine on Masepelid Island (the "Masepelid Project") with Metals Exploration plc ("MEP"), a company listed on the Alternative Investment Market ("AIM") that has a purchase agreement with the Masepelid Project owner.

The Masepelid Project that is covered by granted Mining Production Sharing Agreement No.004-91-XIII.

The JVA provides for:

- the Medusa Group to operate the Masepelid Project and earn an 84% interest by expending the first US$1 million and completing the purchase of the Masepelid Project;
- the purchase of the Masepelid Project in shares and cash will be shared 84% by Medusa and 16% by MEP as follows:
  - on or before 27 February 2006, a payment of US$25,000 cash and the issue of a number of Medusa shares determined to be equivalent to the value of 250,000 MEP shares with the value per share to be determined as the average price for the 5 days of trading on AIM preceding 24 January 2006;
  - on or before 27 February 2007, a payment of US$25,000 cash and the issue of Medusa shares equivalent to 250,000 MEP shares as calculated above; and
  - on or before 27 February 2008, a payment of US$30,000 cash and the issue of Medusa shares equivalent to 500,000 MEP shares as calculated above.
- on completion of the expenditure of US$1 million, MEP has the right to either contribute 16% of the on-going expenditure or dilute to a 10% Net Profit Interest (in which case Medusa would own 100% of the Masepelid Project); and
- on commencement of production, the project owner will receive a 1.5% Net Smelter Royalty.

4 Dr Jeffrey Schiller tendered his resignation as a Non-Executive Director of the Company on 31 January 2006.

4 The Company advised the ASX on 8 February 2006, that it had entered into an Option to Purchase Agreement with an unlisted public company, on the Company's Kurnalpi and Anti-Dam Projects on the following terms:

- Payment of $15,000 on signing of the Option to Purchase Agreement;

- The Purchase has to complete an IPO within 12 months at which time it will:
  - Make a payment of $50,000 cash; and
  - Issue the Company with shares to the value of $250,000.

4 On 23 February 2006, Medusa advised the ASX that it had through its Filipino subsidiary and in joint venture with Philsaga Mining Corporation, signed a Mines Operating Agreement ("MOA") with private vendors of the Das-Agan Project.

The MOA covers Mining Production Sharing Agreement ("MPSA") application number 000024-XIII situated in the province of Surigao del Sur, in east Mindanao, consisting of two parcels, one to the north and one to the south-east of the Co-O mine and mill site.

Under the terms of the MOA, Medusa will:

- re-imburse the vendors for past expenses totalling Php12 million (approximately A$318,000) with the issue of 601,367 Medusa shares based on an average price of $0.53 being 10% discount to market for 5 days preceding 20 February 2006, and issued in four equal tranches of 150,342 shares with the first trance within 30 days of signing the agreement, the second trance on granting of the tenement, and the third and final trances, on the 1st and 2nd anniversary after granting of the tenement;
- pay to the vendors a 3% gross royalty on all production from the tenement; and
- be responsible for all costs incurred to progress the EP application to granting.

4 Mr Edward Mein (Non-Executive Director) resigned from the Board on 17 March 2006.

4 On 13 April 2006, Mr Roy Daniel was appointed Executive Director to replace Mr Simon Cato who had earlier tendered his resignation.

4 On 17 May 2006, Medusa advised the ASX that it had through its Filipino subsidiary and in joint venture with Philsaga Mining Corporation, signed a Joint Venture Agreement ("JVA") with MRL Gold Phils., Inc. ("MRL") and an underlying claim owner over the Apical Gold Project. MRL is the Philippine operating company of Mindoro Resources Limited, a company listed on the TSX Venture Exchange in Canada.

The JVA covers Mining Production Sharing Agreement ("MPSA") application number 0028-XIII situated in the provinces of Agusan del Sur and Surigao del Sur, in east Mindanao, to the north of the Co-O mine and mill site.

Under the terms of the JVA, Medusa will:

- earn the right to earn 70% interest:
  - In narrow vein deposits, by commencing narrow vein development and earning its interest by producing the first 500 tonnes of ore, after which MRL has the option to contribute to ongoing expenditure or reduce to a 3% Net Smelter Royalty ("NSR"); and
  - In large bulk tonnage deposits, such as porphyry copper-gold deposits or disseminated gold deposits, by completion of a Bankable Feasibility Study, after which MRL has the right to contribute to ongoing expenditure or dilute to a 3% NSR.
- be required to spend US$300,000 within 3 years of grant of the MPSA and spend a minimum of US$150,000 per year subsequently;
- issue to the underlying claim owner, fully paid Medusa shares to the value of US$50,000 once the Project has been assigned to the joint venture company and registered with the Mines and Geosciences Bureau;
- be responsible for all costs incurred to progress the EP application to granting.

4 The Company on 13 June 2006 announced to the market the appointment of Ambrian Partners Limited as the Company's Nominated Advisor and Broker in relation to the Company's proposed admission to the Alternative Investment Market ("AIM") of the London Stock Exchange in the second half of 2006.

4 The Company advised the ASX on 16 June 2006, that it had successfully raised $3.356 million (before expenses) via the placement of 5,593,334 ordinary shares at an issue price of $0.60 per share to sophisticated investors from the United Kingdom and clients of State One Stockbroking and Delta Securities.

10. EVENTS SUBSEQUENT TO BALANCE DATE

4 Dr Robert Weinberg was appointed to the Board as a Non-Executive Director on 1 July 2006.

4 On 3 August 2006, the Company advised that it had executed a Variation Deed with the Principal Shareholders of Philsaga Mining Corporation whereby Medusa will complete the Philsaga Transaction upon listing of Medusa on the Alternative Investment Market ("AIM") in London in the second half of 2006.

The key terms of the Variation Deed are:

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

4 On 15 September 2006, the Company advised that it had commenced trading of its shares on the Frankfurt Stock Exchange in Germany.

4 the Company advised the ASX on 19 September 2006, that it had relinquished all its interest and on-going liabilities in the Braemore Project.

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.

12. DIRECTORS' INTEREST

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
Kevin Tomlinson *(1)/(5)*	26,700	6,250	1,000,000
Jeffrey Schiller *(4)*	1,080,000	-	-
Geoffrey Davis *(2)*	3,256,000	1,446,500	2,600,000
Edward Mein *(4)*	1,850,000	727,500	-
Simon Cato *(4)*	760,000	-	-
Roy Daniel *(3)/(5)*	181,000	89,007	500,000
Robert Weinberg *(5)*	40,000	-	-

(1) - 250,000 unlisted options exercisable at 72.00 cents on or before 2 October 2008;
- 500,000 unlisted options exercisable at 90.00 cents on or before 2 October 2008; and
- 250,000 unlisted options exercisable at $1.50 on or before 2 October 2008

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

(3) - 500,000 unlisted options exercisable at 57.64 cents on or before 16 December 2007.

(4) Dr Schiller resigned from the Board on 31 January 2006;
Mr Mein resigned from the Board on 17 March 2006; and
Mr Cato resigned from the Board on 13 April 2006

(5) Messrs Tomlinson, Davis, Daniel and Weinberg remain on the Board at the date of this report.

13. REMUNERATION REPORT

(a) Details of Directors and Company Executives (including Key Management Personnel)

Other than the Executive Directors, no other person is concerned in or takes part in, the management of the Company; or have authority and responsibility for planning, directing and controlling the activities of the entity. As such, during the financial year, the Company did not have any person, other than Directors, that would meet the definition of " Key Management Personnel" for the purposes of AASB124 or "Company Executive or Relevant Group Executive" for the purposes of section 300A of the Coporations Act 2001 ("Act"). Remuneration details of the Company Secretary are discolosed as section 300A(1B)(a) of the Act defines a "Company Executive" to specifically include a secretary of the entity.

Directors and Key Management Personnel:

Kevin Tomlinson - Chairman (Non-Executive)

Geoffrey Davis - Managing Director

Roy Daniel - Director and Company Secretary

Robert Weinberg - Director (Non-Executive)

(b) 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 2006.

2006	*Primary*				*Equity options (1)*	*Total*
	Salary/fees	*Directors' fees*	*Bonus*	*Super*		
Kevin Tomlinson *(3)*	-	37,500	-	-	223,250	260,750
Jeffrey Schiller *(4)*	-	12,917	-	-	-	12,917
Geoffrey Davis	270,000	-	150,000	-	-	420,000
Edward Mein *(4)*	53,450	15,139	-	-	-	68,589
Simon Cato *(4)*	-	16,250	-	-	-	16,250
Roy Daniel *(3)*	130,000	-	30,000	20,775	-	180,775
Total	453,450	81,806	180,000	20,775	223,250	959,281

2005	*Primary*				*Equity options (2)*	*Total*
	Salary/fees	*Directors' fees*	*Bonus*	*Super*		
Jeffrey Schiller	-	25,000	-	-	-	25,000
Geoffrey Davis	180,000	-	-	-	691,600	871,600
Edward Mein	138,150	20,000	-	-	-	158,150
Simon Cato	-	20,000	-	-	-	20,000
Total	318,150	65,000	-	-	691,600	1,074,750

13. REMUNERATION REPORT (continued)

(b) Directors' remuneration (continued)

(1) On 27 Jan 2006, Kevin Tomlinson was granted 1,000,000 unlisted options (at no cost) over un-issued ordinary shares on the following terms:

Tranche	Number of options	Vesting criteria	Exercise price	Expiry date	Value/option
1st	250,000	Full vesting upon issue	$0.72	02/10/2008	$0.269
2nd	500,000	Full vesting upon issue	$0.90	02/10/2008	$0.234
3rd	250,000	Full vesting upon issue	$1.50	02/10/2008	$0.156

The estimated value per option for the three tranches at the date of grant is based on the Black and Scholes model.

(2) On 14 Jul 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 per option at the date of grant using a Black and Scholes model is $0.3458 per option.

(3) Mr Tomlinson was appointed Non-Executive Chairman on 10 October 2006; and

Mr Daniel was appointed Executive Director on 13 April 2006.

(4) Dr Schiller resigned from the Board on 31 January 2006;

Mr Mein resigned from the Board on 17 March 2006; and

Mr Cato resigned from the Board on 13 April 2006

(c) Executives' remuneration:

The following tables provide 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 2006.

2006	Primary		Equity options	Total
	Salary/fees	Superannuation		
Roy Daniel	-	-	-	-
Total	-	-	-	-

2005	Primary		Equity options (1)	Total
	Salary/fees	Superannuation		
Roy Daniel	17,500	13,475	148,200	179,175
Bruce Acutt (resigned in Dec 2004)	12,803	1,152	-	13,955
Total	30,303	14,627	148,200	193,130

(1) On 14 Jul 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 per option at the date of grant using a Black and Scholes model is $0.2964 per option.

(d) Remuneration options

Name	Vested number	Granted number	Grant date	Value per option at grant date	Exercise price	First exercise date	Last exercise date
Directors							
Kevin Tomlinson	1,000,000	1,000,000	03/10/05	$0.22325	various	-	03/10/08
Geoffrey Davis	1,500,000	2,000,000	16/12/04	$0.34580	$0.5764	16/12/04	16/12/07
Roy Daniel	250,000	500,000	16/12/04	$0.29640	$0.5764	16/12/05	16/12/07

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

The exercise price of Mr Tomlinson's options represents the following premiums to the issue price of the Company's Prospectus Rights Issue in August 2005 at $0.60 per share:

(i) 1st tranche of 250,000 options exercisable at $0.72 represents a premium of 20%;
(ii) 2nd tranche of 500,000 options exercisable at $0.90 represents a premium of 50%; and
(iii) 3rd tranche of 250,000 options exercisable at $1.50 represents a premium of 150%.

The exercise price for Messrs Davis' and Daniel's options is based on a 10% premium on the average closing price for 5 days prior to 16 December 2004. The vesting provision is 50% on 1st anniversary (16th December 2005) and the remaining 50% on 2nd anniversary 16 December 2006.

(e) Shares issued on exercise of remuneration options

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

(f) 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 01/07/05*	*Options granted as remuneration*	*Options sold, acquired, exercised*	*Options held at appointment*	*Balance 30/06/06*	*Vested & exercisable 30/06/06*	*Total not exercisable 30/06/06*
Directors							
Kevin Tomlinson	-	1,000,000	-	6,250	1,006,250	1,006,250	-
Jeffrey Schiller	500,000	-	20,000	-	520,000	520,000	-
Geoffrey Davis	4,092,500	-	-	-	4,092,500	3,592,500	500,000
Edward Mein	802,500	-	(12,500)	-	790,000	790,000	-
Simon Cato	430,000	-	(430,000)	-	-	-	-
Roy Daniel	500,000	-	-	89,007	589,007	339,007	250,000
Robert Weinberg	-	-	-	-	-	-	-

(g) 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, including their personally related entities is as follows:

Name	*Balance 01/07/05*	*Shares held at appointment*	*Shares purchased*	*Options exercised*	*Shares sold*	*Balance 30/06/06*
Directors						
Kevin Tomlinson	-	12,500	-	-	-	12,500
Jeffrey Schiller	1,000,000	-	80,000	-	-	1,080,000
Geoffrey Davis	3,240,000	-	-	-	-	3,240,000
Edward Mein	1,850,000	-	-	-	-	1,850,000
Simon Cato	1,060,000	-	-	-	(60,000)	1,000,000
Roy Daniel	-	181,000	-	-	-	181,000
Robert Weinberg	-	-	-	-	-	-

13. REMUNERATION REPORT (continued)

(h) Remuneration practices

Remuneration levels are competitively set by the Board to attract, retain and motivate appropriately qualified and experienced Directors and Senior Executives.

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:

The Company's aim is to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to :

- reward Executives for Company and individual performances; and
- ensure total remuneration is competitive by international market standards.

In determining the level and make-up of executive remuneration, the Board set remuneration levels that reflect the market salary for a position and individual of comparable responsibility and experience. As the Company is not of a size, nor are its financial affairs of such complexity, the formation of a separate remuneration committee is not considered appropriate. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles in resource based international corporations.

Remuneration consists of a fixed remuneration and long term incentive portion as considered appropriate.

Fixed Remuneration:

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board and the process involves the review of Company and individual performance, and relevant comparative remuneration in the international market. As stated, the Board may engage the services of an external consultant to provide independent advice.

The fixed remuneration is a base salary of monthly consulting fee.

Variable Pay/ Long Term Incentives:

The objective of long term incentives is to reward Executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. The incentive portion is payable based upon attainment of objectives related to the Executive's job responsibilities. The objectives vary, but all are targeted to relate directly to the Company's business and financial performance and thus to shareholder value.

Long term incentives granted to Executives are delivered in the form of bonuses and options. As part of the Executive remuneration package, bonuses are granted based on individual performances in achieving corporate goals.

Non-Executive remuneration packages:

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre.

Non-Executive Directors' fees are paid within the aggregate amount approved by shareholders from time to time. Total remuneration for all Non-Executive Directors, last voted upon by shareholders at a meeting held on 29 November 2005, is not to exceed $ 200,000 per annum. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers the amount of Director fees being paid by comparable international resource based companies with similar responsibilities and the experience of the Non-Executive Directors when undertaking the review process. Directors' fees cover all main Board activities.

No retirement benefits are provided for any Non-Executive Director's retirement or termination (other than in accordance with the rules set out in the Corporations Act).

Non-Executive Directors' remuneration may include an incentive portion consisting of options, as considered appropriate by the Board, subject to shareholder approval in accordance with ASX Listing Rules. The option incentive is targeted to add shareholder value by having a strike price considerably greater than the market price at the time of granting.

(i) Employment contracts

Managing Director

Mr Geoffrey Davis, is employed under a Consultancy Services Agreement, whereby Harvest Services Aust Pty Ltd ("Harvest Services"), a company associated with Geoffrey Davis, agrees to provide the services of Mr Davis to the Company, commensurate with that of a Managing Director for a fixed period expiring December 2008.

Under the terms of the Agreement, the remuneration of Mr Davis is reviewed annually and maintained at a level that reflects the progress of the Company as well as the maintenance of industry standards for similar positions and responsibilities. The annual review also takes into consideration the payment of bonuses as corporate objectives are achieved.

Mr Davis' employment may be terminated by:

(i) Expiry;

(ii) Mr Davis, at any time during the term of the agreement on giving 6 month's notice;

(iii) Medusa, at any time during the term of the agreement on giving 6 month's notice;

(iv) The Company, immediately in the event of serious misconduct or in other nominated circumstances;

(v) Change in control of the Company.

On termination of the agreement for any of the reasons outlined above, apart from the 'change of control' clause, Mr Davis will be entitled to any consultancy fee payable up to the date of termination.

In the event of Mr Davis' position becoming redundant (for which purpose, the termination by Medusa of this agreement, otherwise than pursuant to point (iv) above, within 2 years following a change in control of the Company will be deemed to be by reason of redundancy) the Company will pay Mr Davis a termination payment equal to:

- 12 months of fees; or
- If section 200B(1) of the Corporations Act 2001 applies, the maximum amount that could be paid under sections 200(3) or (4) of the Corporations Act 2001,

which ever is the lesser amount.

Mr Davis' consultancy agreement also contains provisions for the protection of Medusa's interests in areas such as confidential information, intellectual property and moral rights.

Finance Director

The employment contract of Mr Roy Daniel dates back to October 2004 when he was first engaged as Company Secretary and governs the employment terms of Mr Daniel. The Company and Mr Daniel are currently in discussions with respect to a new service agreement commensurate with that of an Executive Director, since the appointment of Mr Daniel as a Director in April 2006.

Under the terms of the employment contract, Mr Daniel may be terminated by:

(i) Mr Daniel, at any time on giving 1 month's notice;

(ii) Medusa, at any time on giving 1 month's notice;

(iii) The Company, immediately in the event of serious misconduct;

(iv) Change in control of the Company.

13. REMUNERATION REPORT (continued)

(i) Employment contracts (continued)

Finance Director (continued)

On termination of employment for any of the reasons outlined above, apart from the 'change of control' clause, Mr Daniel will be paid any outstanding wages and all statutory entitlements payable up to the date of termination.

In circumstances where Mr Daniel's employment is terminated by the Company as a direct result of change in the control of the Board or the takeover of the Company as defined in the Corporations Law, Medusa will pay Mr Daniel by way of redundancy payment the greater of 12 months pay or 4 weeks pay for each completed year of service. Alternatively, within a period not greater than 3 months after the change of control of the Board or takeover of the Company, Mr Daniel may give notice of termination, in which case, Medusa will pay Mr Daniel by way of redundancy payment the greater of 9 months pay or 4 weeks pay for each completed year of service.

Mr Daniel's employment contract also contains provisions for the protection of Medusa's interests in areas such as confidential information and business dealings.

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	$0.2000	22,640,398	Listed
31 January 2007	$0.6072	225,000	Unlisted
16 December 2007	$0.5764	3,000,000	Unlisted
02 October 2008	$0.7200	250,000	Unlisted
02 October 2008	$0.9000	500,000	Unlisted
02 October 2008	$1.5000	250,000	Unlisted
23 December 2009	$0.4334	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, no 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 fulfill 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 meeting 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.

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.

17. CORPORATE GOVERNANCE STATEMENT (continued)

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 25 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.

Notwithstanding the Council's recommendation 2.1 that the majority of the Board should be independent Directors, 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. The Board is of the opinion that the objectives and current strategy of the Economic Entity are best served and achievable by members of the current Board irrespective of their degree of independence. It is however 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

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 Remuneration Committee of the Board of Directors as recommended by the Council's recommendation 9.2.

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

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

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

Remuneration policies

Details on Remuneration policies of the Economic Entity are included in the Remuneration Report under section 13 (h) 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 Company Secretary (operating within the parameters of an Audit Committee Charter), reporting directly to the Board:

The role of the Company Secretary 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 Company Secretary 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.

17. CORPORATE GOVERNANCE STATEMENT (continued)

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.

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 23 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 26 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 is summarised as follows:

- Directors and employees must notify the CEO or in his absence the Chairman 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 Medusa's shares, with a view to derive profit related income is prohibited at all times.

17. CORPORATE GOVERNANCE STATEMENT (continued)

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 2006:

Service provided	*Amount ($)*
Taxation services	16,290
Total	16,290

20. AUDITOR'S INDEPENDENCE DECLARATION

The lead Auditor's Independence Declaration for the year ended 30 June 2006 has been received and can be found on page 46 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

Geoffrey Davis
Managing Director

Dated at Perth this 22nd day of September 2006.

CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

A MEMBER OF MOORES ROWLAND INTERNATIONAL

Bentleys mri
Thinking ahead

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AUDITOR'S 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 2006, 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

J W VIBERT
Partner

22nd September 2006
West Perth, WA

		ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
	Note	$	$	$	$
Revenue	3	4,981,682	61,428	79,301	60,250
Cost of sales		(3,077,978)	-	-	-
Depreciation expenses	4	(498,272)	(8,160)	(6,732)	(3,034)
Exploration & evaluation expenses	4	(263,829)	(463,539)	(179,841)	(53,639)
Employee benefits expense		(691,301)	(85,593)	(676,350)	(85,593)
Administration expenses		(741,152)	(119,726)	(84,709)	(101,232)
Other expenses		(1,499,864)	(680,161)	(1,235,179)	(1,182,106)
Share of net loss of joint venture accounted for using the equity method	10	(7,620)	(5,665)	-	-
Recognition of share based payments expense	4	(543,200)	(586,825)	(543,200)	(586,825)
Loss before income tax expenses		(2,341,534)	(1,888,241)	(2,646,710)	(1,952,179)
Income tax expense	5	-	-	-	-
Loss attributable to members of the parent entity	20	(2,341,534)	(1,888,241)	(2,646,710)	(1,952,179)
Basic earnings per share	6	($0.046)	($0.049)	($0.052)	($0.050)

The accompanying notes form part of these financial statements.

		ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
	Note	$	$	$	$
CURRENT ASSETS					
Cash & cash equivalents	21(a)	3,494,291	330,585	2,405,990	265,335
Trade & other receivables	7	199,043	114,722	29,456	66,257
Inventories	8	390,778	-	-	-
Other current assets	9	127,883	26,227	127,883	25,461
Total Current Assets		4,211,995	471,534	2,563,329	357,053
NON-CURRENT ASSETS					
Trade & other receivables	7	-	-	9,838,146	2,962,559
Investments accounted for using the equity method	10	-	473,395	-	-
Property, plant & equipment	11	6,745,014	61,821	58,820	31,975
Exploration and evaluation expenditure	12	3,506,635	2,631,394	-	-
Other financial assets	13	-	-	282,886	204,940
Total Non-Current Assets		10,251,649	3,166,610	10,179,852	3,199,474
TOTAL ASSETS		14,463,644	3,638,144	12,743,181	3,556,527
CURRENT LIABILITIES					
Trade & other payables	14	1,522,904	218,032	640,282	165,678
Total Current Liabilities		1,522,904	218,032	640,282	165,678
NON-CURRENT LIABILITIES					
Long term borrowings	15	30,538	-	-	-
Total Non-Current Liabilities		30,538	-	-	-
TOTAL LIABILITIES		1,553,442	218,032	640,282	165,678
NET ASSETS		12,910,202	3,420,112	12,102,899	3,390,849
EQUITY					
Issued capital	17	16,075,833	5,260,273	16,075,833	5,260,273
Reserves	18	1,885,280	869,216	1,412,416	869,216
Accumulated losses	20	(5,050,911)	(2,709,377)	(5,385,350)	(2,738,640)
TOTAL EQUITY		12,910,202	3,420,112	12,102,899	3,390,849

The accompanying notes form part of these financial statements.

	Share Capital Ordinary	*Accumulated Losses*	*Option Reserve*	*Foreign Currency Translation Reserve*	*Total*
ECONOMIC ENTITY					
Balance at 01.07.2004	3,776,510	(821,136)	276,516	-	3,231,890
Shares issued during the period	1,483,763	-	-	-	1,483,763
Loss attributable to members of parent entity	-	(1,888,241)	-	-	(1,888,241)
Share options issued during the period in accordance with AASB 2: Share based payments	-	-	592,700	-	592,700
Balance at 30.06.2005	5,260,273	(2,709,377)	869,216	-	3,420,112
Shares issued during the period	10,815,560	-	-	-	10,815,560
Share options issued during the period in accordance with AASB 2: Share based payments	-	-	543,200	-	543,200
Exchange differences arising on translation	-	-	-	472,864	472,864
Loss attributable to members of parent entity	-	(2,341,534)	-	-	(2,341,534)
Balance at 30.06.2006	16,075,833	(5,050,911)	1,412,416	472,864	12,910,202
PARENT ENTITY					
Balance at 01.07.2004	3,776,510	(786,461)	276,516	-	3,266,565
Shares issued during the period	1,483,763	-	-	-	1,483,763
Loss attributable to members of parent entity	-	(1,952,179)	-	-	(1,952,179)
Share options issued during the period in accordance with AASB 2: Share based payments	-	-	592,700	-	592,700
Balance at 30.06.2005	5,260,273	(2,738,640)	869,216	-	3,390,849
Shares issued during the period	10,815,560	-	-	-	10,815,560
Share options issued during the period in accordance with AASB 2: Share based payments	-	-	543,200	-	543,200
Loss attributable to members of parent entity	-	(2,646,710)	-	-	(2,646,710)
Balance at 30.06.2006	16,075,833	(5,385,350)	1,412,416	-	12,102,899

The accompanying notes form part of these financial statements.

		ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
	Note	$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		4,806,127	-	8,500	-
Payments to suppliers and employees		(3,881,546)	(388,645)	(949,377)	(336,473)
Interest received		72,742	61,129	70,417	59,951
Net cash provided by/(used in) operating activities	21(b)	997,323	(327,516)	(870,460)	(276,522)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(568,077)	(42,356)	(34,363)	(28,235)
Payments relating to Philsaga Transaction		(50,539)	(982,381)	(35,409)	(303,282)
Payments for exploration activities		(1,563,532)	(1,497,712)	(1,312,938)	(40,568)
Payments for lease		(3,000,000)	-	-	-
Payments for development		(3,261,070)	-	-	-
Loans to controlled and joint venture entities		-	-	(5,944,781)	(2,117,158)
Investment in controlled and joint venture entities		-	-	(263,176)	(20,000)
Net cash (used in) investing activities		(8,443,218)	(2,522,449)	(7,590,667)	(2,509,243)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		11,023,643	1,398,565	11,023,643	1,398,565
Transaction costs from issue of shares		(421,861)	(60,927)	(421,861)	(60,927)
Net cash provided by financing activities		10,601,782	1,337,638	10,601,782	1,337,638
Net increase/(decrease) in cash held		3,155,887	(1,512,327)	2,140,655	(1,448,127)
Cash at the beginning of the financial year		330,585	1,842,148	265,335	1,713,462
Exchange rate adjustment		7,819	764	-	-
Cash at the end of the financial year	21(a)	3,494,291	330,585	2,405,990	265,335

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 Australian Accounting Standards, Urgent Issues Group Interpretations, 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 of Medusa and controlled entities, and Medusa as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards ("AIFRS") in their entirety.

The financial statements were authorised for issue by the Directors on 22 September 2006.

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.

Basis of Preparation

First-time adoption of Australian Equivalents to International Financial Reporting Standards

Medusa and controlled entities, and Medusa as an individual parent entity have prepared financial statements in accordance with the AIFRS from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and economic entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Medusa to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilties for which the fair value basis of accounting has been applied.

(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 22 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 vale 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.

Gold and silver sales
Revenue from the production of gold and silver is recognised when the product is in the form in which it can be sold based on the delivered price.

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.

All revenue is stated net of the amount of goods and services tax ("GST").

(d) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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 the law.

(e) Plant and equipment

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

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 from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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*	*Deprecation rate (%)*
Plant and equipment	Straight line	20% to 33%
Leased plant and equipment	Straight line	20%
Office furniture and fittings	Straight line	7.5% to 20%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. The useful life of the leased mine plant and equipment is disclosed in Note 1(e).

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(h) 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.

(i) 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.

(j) Receivables

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

(k) 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.

(l) 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.

(m) 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.

(n) 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 income statement. 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.

(o) 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) Foreign currency transactions and balances

Functional and presentation currency
The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies
The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed

(r) 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.

(s) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(t) Interest in Jointly Controlled Entity

The economic entity's interests in jointly controlled entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in jointly controlled entities are bought to account using the cost method. Details of the economic entity's interest are shown in Note 10.

(u) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs.

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Equity at 30 June 2004

	Note	*Economic Entity* Previous AGAAP at 30.06.2004	*Economic Entity* Adjustments on introduction of Australian equivalents to IFRS	*Economic Entity* Australian equivalents to IFRS at 01.07.2004
CURRENT ASSETS				
Cash & cash equivalents		1,842,148	-	1,842,148
Trade & other receivables		46,577	-	46,577
Other current assets		25,712	-	25,712
TOTAL CURRENT ASSETS		1,914,437	-	1,914,437
NON-CURRENT ASSETS				
Property, plant & equipment		27,581	-	27,581
Exploration & evaluation expenditure		1,593,023	-	1,593,023
TOTAL NON-CURRENT ASSETS		1,620,604	-	1,620,604
TOTAL ASSETS		3,535,041	-	3,535,041
CURRENT LIABILITIES				
Trade & other payables		301,375	-	301,375
Short term provisions		1,776	-	1,776
TOTAL CURRENT LIABILITIES		303,151	-	303,151
TOTAL LIABILITIES		303,151	-	303,151
NET ASSETS		3,231,890	-	3,231,890
EQUITY				
Issued capital		3,776,510	-	3,776,510
Reserves	2(a)	153,096	123,420	276,516
Accumulated losses	2(a)	(697,716)	(123,420)	(821,136)
TOTAL SHAREHOLDERS' EQUITY		3,231,890	-	3,231,890

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Equity at 30 June 2005

	Note	*Economic Entity*		
	Note	*Previous AGAAP at 30.06.2005*	*Adjustments on introduction of Australian equivalents to IFRS*	*Australian equivalents to IFRS at 30.06.2005*
CURRENT ASSETS				
Cash & cash equivalents		330,585	-	330,585
Trade & other receivables		114,722	-	114,722
Other current assets		26,227	-	26,227
TOTAL CURRENT ASSETS		471,534	-	471,534
NON-CURRENT ASSETS				
Investments accounted for using the equity method		473,395	-	473,395
Property, plant & equipment		61,821	-	61,821
Exploration & evaluation expenditure		2,631,394	-	2,631,394
TOTAL NON-CURRENT ASSETS		3,166,610	-	3,166,610
TOTAL ASSETS		3,638,144	-	3,638,144
CURRENT LIABILITIES				
Trade & other payables		213,013	-	213,013
Short term provisions		5,019	-	5,019
TOTAL CURRENT LIABILITIES		218,032	-	218,032
TOTAL LIABILITIES		218,032	-	218,032
NET ASSETS		3,420,112	-	3,420,112
EQUITY				
Issued capital		5,260,273	-	5,260,273
Reserves	2(a)	158,971	710,245	869,216
Accumulated losses	2(a)	(1,999,132)	(710,245)	(2,709,377)
TOTAL SHAREHOLDERS' EQUITY		3,420,112	-	3,420,112

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Equity at 30 June 2004

		Parent Entity		
	Note	*Previous AGAAP at 30.06.2004*	*Adjustments on introduction of Australian equivalents to IFRS*	*Australian equivalents to IFRS at 30.06.2004*
CURRENT ASSETS				
Cash & cash equivalents		1,713,462	-	1,713,462
Trade & other receivables		44,887	-	44,887
Other current assets		25,328	-	25,328
TOTAL CURRENT ASSETS		1,783,677	-	1,783,677
NON-CURRENT ASSETS				
Property, plant & equipment		6,774	-	6,774
Exploration & evaluation expenditure		134,807	-	134,807
Other financial assets		1,437,132	-	1,437,132
TOTAL NON-CURRENT ASSETS		1,578,713	-	1,578,713
TOTAL ASSETS		3,362,390	-	3,362,390
CURRENT LIABILITIES				
Trade & other payables		94,049	-	94,049
Short term provisions		1,776	-	1,776
TOTAL CURRENT LIABILITIES		95,825	-	95,825
TOTAL LIABILITIES		95,825	-	95,825
NET ASSETS		3,266,565	-	3,266,565
EQUITY				
Issued capital		3,776,510	-	3,776,510
Reserves	2(a)	153,096	123,420	276,506
Accumulated losses	2(a)	(663,041)	(123,420)	(786,461)
TOTAL SHAREHOLDERS' EQUITY		3,266,565	-	3,266,565

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Equity at 30 June 2005

		Parent Entity		
	Note	*Previous AGAAP at 30.06.2005*	*Adjustments on introduction of Australian equivalents to IFRS*	*Australian equivalents to IFRS at 30.06.2005*
CURRENT ASSETS				
Cash & cash equivalents		265,335	-	265,335
Trade & other receivables		66,257	-	66,257
Other current assets		25,461	-	25,461
TOTAL CURRENT ASSETS		357,053	-	357,053
NON-CURRENT ASSETS				
Receivables		2,962,559	-	2,962,559
Property, plant & equipment		31,975	-	31,975
Other financial assets		204,940	-	204,940
TOTAL NON-CURRENT ASSETS		3,199,474	-	3,199,474
TOTAL ASSETS		3,556,527	-	3,556,527
CURRENT LIABILITIES				
Trade & other payables		160,659	-	160,659
Short term provisions		5,019	-	5,019
TOTAL CURRENT LIABILITIES		165,678	-	165,678
TOTAL LIABILITIES		165,678	-	165,678
NET ASSETS		3,390,849	-	3,390,849
EQUITY				
Issued capital		5,260,273	-	5,260,273
Reserves	2(a)	158,971	710,245	869,216
Accumulated losses	2(a)	(2,028,395)	(710,245)	(2,738,640)
TOTAL SHAREHOLDERS' EQUITY		3,390,849	-	3,390,849

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Profit and Loss for the full year to 30 June 2005

	Note	Economic Entity		
		Previous AGAAP	*Adjustments on introduct'n of Australian equivalents to IFRS*	*Australian equivalents to IFRS*
Revenue		61,428	-	61,428
Depreciation expenses		(8,160)	-	(8,160)
Exploration and evaluation expenses		(463,539)	-	(463,539)
Employee benefits expense		(85,593)	-	(85,593)
Administration expenses		(119,726)	-	(119,726)
Other expenses		(680,161)	-	(680,161)
Recognition of share based payments expense	2(a)	-	(586,825)	(586,825)
Share of net (loss) of joint venture accounted for using the equity method		(5,665)	-	(5,665)
Loss before income tax		(1,301,416)	(586,825)	(1,888,241)
Income tax expense		-	-	-
Net loss		(1,301,416)	(586,825)	(1,888,241)

Reconciliation of Profit and Loss for the full year to 30 June 2005

	Note	Parent Entity		
		Previous AGAAP	*Adjustments on introduct'n of Australian equivalents to IFRS*	*Australian equivalents to IFRS*
Revenue		60,250	-	60,250
Depreciation expenses		(3,034)	-	(3,034)
Exploration and evaluation expenses		(53,569)	-	(53,569)
Employee benefits expense		(85,593)	-	(85,593)
Administration expenses		(101,232)	-	(101,232)
Other expenses		(1,182,106)	-	(1,182,106)
Recognition of share based payments expense	2(a)	-	(586,825)	(586,825)
Loss before income tax		(1,365,354)	(586,825)	(1,952,179)
Income tax expense		-	-	-
Net loss		(1,365,354)	(586,825)	(1,952,179)

Note 2(a)
Share-based payment costs are charged to the income statement under AASB 2 "Share-based Payment: but not under AGAAP"

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
3. REVENUE				
Operating activities:				
Sales income	4,900,034	-	-	-
Non-operating activities:				
Interest revenue	73,148	61,428	70,801	60,250
Other	8,500	-	8,500	-
Total Revenue	4,981,682	61,428	79,301	60,250
4. EXPENSES				
Loss before income tax expense has been determined after charging/(crediting) the following items:				
Cost of Sales	3,077,978	-	-	-
Depreciation of non-current assets *(Note 11)*	498,272	8,160	6,732	3,034
Exploration and evaluation expenditure written off *(Note 12)*	263,829	463,539	179,841	53,569
Foreign exchange loss	-	107,062	-	-
Net expenses from movement in provision for:	-	-	-	-
- *employee benefits (Note 14)*	-	3,243	-	3,243
Impairment losses:				
- *trade receivables*	163,784	67,419	163,784	67,419
- *loan receivables*	739,565	-	588,480	631,520
- *other financial assets*	18,723	-	185,231	14,769
	922,072	67,419	937,495	713,708
Operating lease rental				
- *minimum lease payments*	38,532	22,298	38,532	22,298
Share based payments expense	543,200	586,825	543,200	586,825

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

5. TAXATION

(a) The prima facie tax on loss before income tax is reconciled to the income tax as follows:

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Operating loss before income tax	(2,341,534)	(1,888,241)	(2,646,710)	(1,952,179)
Prima facie income tax (expense)/credit at 30% (2005: 30%) on operating loss	702,460	566,472	794,013	585,654
less - tax effect of:				
Other deductible/(non-deductible) expenses	(1,754)	(285)	(29,477)	18,079
Provision of impairment loss of loans to controlled entities	-	-	(225,679)	(209,682)
Provision for impairment loss of investment in jointly controlled entity	(55,569)	-	(55,569)	(4,431)
Non-deductible prospectus costs written off	-	(90,985)	-	(90,985)
Non deductible reserve shares based payments	(162,960)	(176,048)	(162,960)	(176,048)
Deferred tax assets not brought to account due to not being probable of future tax profits being available against which deductible temporary differences and tax losses can be utilised	(482,177)	(299,154)	(320,328)	(122,587)
Income tax (expense)/benefit	-	-	-	-

(b) Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(d) occur:-

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
- temporary differences	537,427	249,007	537,427	249,007
- tax losses: operating losses	817,096	500,014	324,454	313,907
	1,354,523	749,021	861,881	562,914

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.

6. LOSS PER SHARE

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Weighted average number of ordinary shares used in the calculation of the basic earnings per share.	50,858,727	38,685,121	50,858,727	38,685,121

The following securities are classified as potential ordinary shares but have not been included in the calculation of diluted earning per share as they are not considered dilutive because the Economic Entity recorded an operating loss:

27,465,398 outstanding options *(Further details of these securities are contained in Note 18)*

	ECONOMIC ENTITY 2006	ECONOMIC ENTITY 2005	PARENT ENTITY 2006	PARENT ENTITY 2005
	$	$	$	$

7. TRADE & OTHER RECEIVABLES

Current:				
Trade receivables	337,055	149,235	167,468	100,770
less - provision for impairment of receivables	(163,784)	(67,419)	(163,784)	(67,419)
GST receivable	25,772	32,906	25,772	32,906
Total current receivables	199,043	114,722	29,456	66,257
Non-current:				
Loans to controlled entities	-	-	10,894,362	3,594,079
Loans to jointly controlled entities	739,565	-	163,784	-
less - provision for impairment of loans receivable	(739,565)	-	(1,220,000)	(631,520)
Total non-current receivables	-	-	9,838,146	2,962,559

Impairment losses:

The Directors of Medusa have reviewed the individual audited financial reports for each controlled and jointly controlled entity within the Economic Entity and where significant uncertainty exists as to the future capacity of the entity to repay advances from the parent entity, impairment losses are recognised based on the fair value of the advances.

8. INVENTORIES

Raw materials - at cost	360,376	-	-	-
Consumables - at cost	30,402	-	-	-
Total inventories	390,778	-	-	-

9. OTHER CURRENT ASSETS

Prepayments	127,883	26,227	127,883	25,461
Total other current assets	127,883	26,227	127,883	25,461

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Interest in joint venture entity	465,775	473,395	-	-
less - provision for impairment loss	(465,775)	-	-	-
	-	473,395	-	-

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

Impairment losses:

The Directors of Medusa have reviewed the individual audited financial reports for each controlled and jointly controlled entity within the Economic Entity and where significant uncertainty exists as to the recoverability of investments by the parent entity, impairment losses are recognised based on the fair value of the investments.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

Name	*Principal Activity*	*Ownership Interest*		*Economic Entity Carrying value of Investment*	
		2006	*2005*	*2006*	*2005*
PHSAMED Mining Corporation	Mineral exploration, evaluation and development	50%	50%	$0	$473,395

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Interest in Joint Venture Entity				
(i) Accumulated losses attributable to interest in the joint venture entity:				
Balance at the beginning of the financial year	(6,158)	-	-	-
Other adjustments	6,158	(493)	-	-
Share of loss after income tax	(7,620)	(5,665)	-	-
Balance at the end of the year	(7,620)	(6,158)	-	-
(ii) Carrying amount of investment in the joint venture entity:				
Balance at the beginning of the financial year	473,395	-	-	-
Share of loss after income tax	(7,620)	-	-	-
Provision for impairment loss	(465,775)	-	-	-
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:				
Current assets	67,327	-	-	-
Non-current assets	1,620,566	473,395	-	-
Total Assets	1,687,893	473,395	-	-
Current liabilities	7,238	-	-	-
Non-current liabilities	1,630,894	-	-	-
Total Liabilities	1,638,132	-	-	-
Net Assets	49,761	473,395	-	-
Revenue	6,782	230	-	-
Expenses	(14,402)	(5,895)	-	-
Loss before income tax expense	(7,620)	(5,665)	-	-
Income tax expense	-	-	-	-
Loss after income tax	(7,620)	(5,665)	-	-

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
11. PROPERTY, PLANT & EQUIPMENT				
Plant and Equipment:				
At cost	1,437,255	32,474	-	-
less - accumulated depreciation	(43,062)	(4,740)	-	-
Total plant and equipment at net book value	1,394,193	27,734	-	-
Leased Plant and Equipment:				
At cost	3,000,000	-	-	-
less - accumulated amortisation	(450,000)	-	-	-
Total leased plant and equipment at net book value	2,550,000	-	-	-
Furniture and Fittings:				
At cost	77,577	37,829	68,908	35,331
less - accumulated depreciation	(12,622)	(3,742)	(10,088)	(3,356)
Total furniture and fittings at net book value	64,955	34,087	58,820	31,975
Mining Property and Development:				
At cost	2,735,866	-	-	-
Total mining property and development at net book value	2,735,866	-	-	-
Total carrying amount at end of year	6,745,014	61,821	58,820	31,975
Reconciliations:				
Plant and Equipment:				
Carrying amount at beginning of year	27,734	18,309	-	-
plus - additions	1,405,851	14,165	-	-
less - depreciation	(39,392)	(4,740)	-	-
Carrying amount at end of year	1,394,193	27,734	-	-
Leased Plant and Equipment:				
Carrying amount at beginning of year	-	-	-	-
plus - additions	3,000,000	-	-	-
less - depreciation	(450,000)	-	-	-
Carrying amount at end of year	2,550,000	-	-	-
Furniture and Fittings:				
Carrying amount at beginning of year	34,087	9,272	31,975	6,774
plus - additions	39,748	28,235	33,577	28,235
less - depreciation	(8,880)	(3,420)	(6,732)	(3,034)
Carrying amount at end of year	64,955	34,087	58,820	31,975
Mining Property and Development:				
Carrying amount at beginning of year	-	-	-	-
plus - additions	2,735,866	-	-	-
Carrying amount at end of year	2,735,866	-	-	-
Total carrying amount at end of year	6,745,014	61,821	58,820	31,975

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

12. EXPLORATION & EVALUATION DEVELOPMENT EXPENDITURE

	2006	2005	2006	2005
Carrying amount at beginning of year	2,631,394	1,593,023	-	134,807
plus - costs incurred	1,139,070	1,503,742	179,841	53,569
less - expenditure written off	(263,829)	(463,539)	(179,841)	(53,569)
less - other adjustments	-	(1,832)	-	(134,807)
Carrying amount at end of year	3,506,635	2,631,394	-	-

The ultimate recoupment of cost 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.

13. OTHER FINANCIAL ASSETS

Available-for-sale financial assets:

	2006	2005	2006	2005
Unlisted investments, at cost				
- shares in controlled entities	-	-	456,787	193,610
- interest in joint venture entity	-	-	26,099	26,099
less - provision for impairment *(refer Note 4)*	-	-	(200,000)	(14,769)
	-	-	282,886	204,940

14. TRADE & OTHER PAYABLES

Current:

	2006	2005	2006	2005
Creditors and accrued expenses	1,486,629	213,013	604,007	160,659
Accrued employee benefits	36,275	5,019	36,275	5,019
	1,522,904	218,032	640,282	165,678
Number of employees	21	4	4	4

15. LONG-TERM BORROWINGS

Non-Current:

	2006	2005	2006	2005
Loan from joint venture entity	30,538	-	-	-

16. AUDITOR'S REMUNERATION

	2006	2005	2006	2005
Remuneration received or due and receivable by the Company's auditors, Bentleys MRI Perth Partnership for:				
• auditing or reviewing the financial reports	37,250	22,250	37,250	22,250
• other services:				
- due diligence investigations	-	33,175	3,625	33,175
- independent accountant's report for prospectus	-	17,710	-	17,710
• other services provided by related practice of auditor - taxation advice	16,290	16,190	16,290	16,190
Total auditor's remuneration	53,540	89,325	57,165	89,325
Remuneration of other auditors of the Company's Philippine subsidiaries for:				
• auditing or reviewing the financial reports	28,222	8,301	-	-

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

17. ISSUED CAPITAL

59,656,676 ordinary shares (30 Jun 2005: 40,041,792)	17,057,203	5,667,274	17,057,203	5,667,274
less - issue costs	(981,370)	(407,001)	(981,370)	(407,001)
	16,075,833	5,260,273	16,075,833	5,260,273
Ordinary shares				
Balance at beginning of year (40,041,792)	5,260,273	3,776,510	5,260,273	3,776,510
3,199,742 shares at various prices issued for working capital, less related costs	-	1,241,073	-	1,241,073
760,000 vendor shares at $0.20 each issued	-	152,000	-	152,000
453,000 listed options exercised at $0.20 each	-	90,690	-	90,690
Ordinary shares issued during period				
(i) 10,189,343 ordinary shares @ $0.60 each	6,113,606	-	6,113,606	-
(ii) 2,342,440 ordinary shares @ $0.60 each	1,405,464	-	1,405,464	-
(iii) 150,000 ordinary shares @ $0.20 each	30,000		30,000	
(iv 136,602 vendor shares @$0.5472 each	74,749	-	74,749	-
(v) 266,366 vendor shares @$0.65 each	173,138	-	173,138	-
(vi) 150,342 vendor shares @$0.53 each	79,681	-	79,681	-
(vii) 5,593,334 ordinary shares @ $0.60 each	3,356,000	-	3,356,000	
(viii) 786,457 options converted @ $0.20 each	157,291	-	157,291	-
less - issue costs	(574,369)	-	(574,369)	-
Balance at end of year (59,656,676)	16,075,833	5,260,273	16,075,833	5,260,273

(i) In September 2005, the parent entity issued 10,189,343 ordinary fully paid shares at $0.60 per share to raise gross proceeds of $6,113,606 via a Non-renounceable Rights Issue on the basis of I new ordinary share for every 4 ordinary shares held. In addition, for every 4 shares subscribed for in the issue, there was an entitlement of I free option exercisable at $0.20 with an expiry date of 31 January 2007;

(ii) In September 2005, the parent entity placed 2,342,440 ordinary shares at $0.60 per share with clients of State One Stockbroking and Intersuisse to raise gross proceeds of $1,405,464. Included in the placement at no cost was the grant of 585,610 listed 20 cent options expiring 31 January 2007;

(iii) In September 2005, the parent entity issued 150,000 fully paid ordinary shares at $0.20 per share to Joel Muyco as consideration in lieu of consultancy fees;

(iv) In January 2006, the parent entity issued 136,602 vendor shares fully paid at $0.5472 per share to Alcorn Gold Resources Corporation ("Alcorn") as re-imbursement of expenses under the terms of a Mines Operating Agreement between Medusa, Philsaga Mining Corporation Limited ("Philsaga") and Alcorn;

(v) In March 2006, the parent entity issued 266,366 vendor shares fully paid at $0.65 per share to a Claim Owner under the terms of a Joint Venture Agreement between Medusa, Philsaga and Metals Exploration plc, that has a purchase agreement with the Claim Owner over the Lacandola Mine on Masepelid Island;

(vi) In April 2006, the parent entity issued 150,342 vendor shares at $0.53 per share to Private Vendors as part re-imbursement of expenses under the terms of a Mines Operating Agreement between Medusa, Philsaga and the Private Vendors;

(vii) In June 2006, the parent entity placed 5,593,334 ordinary shares at an issue price of $0.60 per share to sophisticated investors from the United Kingdom and clients of State One Stockbroking and Delta Securities; and

(viii) A total of 786,457 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.

The Company has fully paid ordinary shares of no par value.

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
18. RESERVES				
(a) Option Premium Reserves				
22,640,398 listed options (30 June 2005: 20,243,843)	361,721	338,171	361,721	338,171
4,575,000 share based payment options (30 June 2005: 2,525,000)	1,050,695	531,045	1,050,695	531,045
	1,412,416	869,216	1,412,416	869,216
Listed $0.20 options (expiring 31 January 2007)				
Balance at beginning of year (20,243,843)	338,171	153,096	338,171	153,096
Listed options issued during the previous year				
587,500 pursuant to a rights issue to raise capital at 1 cent each less related costs	-	5,875	-	5,875
700,000 vendor options	-	179,200	-	179,200
Listed options issued during the year				
(i) 2,547,402 at no cost pursuant to Rights Issue	-	-	-	-
(ii) 585,610 at no cost pursuant to Placement	-	-	-	-
(iii) 50,000 in lieu of consulting fees	23,550	-	23,550	-
less - 786,457 options converted to shares	-	-	-	-
Balance at end of year (22,640,398)	361,721	338,171	361,721	338,171

(i) In September 2005, as part of a Non-renounceable Rights Issue, the parent entity issued 2,547,402 listed options at no cost, exercisable at $0.20 each on or before 31 January 2007;

(ii) In September 2005, as part of a placement, the parent entity issued 585,610 listed options at no cost to the placees, exercisable at $0.20 each on or before 31 January 2007; and

(iii) In September 2005, the parent entity issued 50,000 at no cost to Forrester Nominees Pty Ltd as consideration in lieu of consultancy fees. The options are exercisable at $0.20 each and expires on 31 January 2007.

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Unlisted options				
Unlisted options at beginning of year (1,825,000)	531,045	123,420	531,045	123,420
Unlisted options issued during the previous year				
225,000 unlisted employee options	-	37,125	-	37,125
1,000,000 employee options (vested)	-	370,500	-	370,500
Unlisted options issued during the year				
(i) 1,000,000 unlisted employee options (vested)	296,400	-	296,400	-
(ii) 1,000,000 unlisted employee options	223,250	-	223,250	-
Balance at end of year (3,825,000)	1,050,695	531,045	1,050,695	531,045
TOTAL	1,412,416	869,216	1,412,416	869,216

Unlisted options over ordinary shares at 30 June 2006 (unless otherwise stated, all unlisted options have full vesting rights)

- 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 (of which 2,000,000 is vested at balance date);
- 250,000 options expiring on 02 October 2008 and exercisable at 72.00 cents each;
- 500,000 options expiring on 02 October 2008 and exercisable at 90.00 cents each;
- 250,000 options expiring on 02 October 2008 and exercisable at $1.50 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.

(b) Foreign Currency Translation Reserves

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

19. SHARE-BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2006:

(i) On 23 June 2004, Mr Geoff Davis, Managing Director of Medusa became entitled to 600,000 options exercisable at $0.4334 per option. The grant of options which was approved at the Company's Annual General Meeting on 11 November 2004, hold no voting or dividend rights. The options which are fully vested expire on 23 December 2008. At balance date, no options have been exercised;

(ii) On 11 October 2004, the Company issued a total of 700,000 listed options over ordinary shares in the Company as consideration for the purchase of the Kurnalpi mineral tenements. The options which hold no voting or dividend rights have an expiry date of 31 January 2007 and are exercisable at $0.20 per option. There are no restrictions to prevent these options from being exercised over their life;

(iii) On 22 December 2004, the Company issued 225,000 unlisted options over the shares of the Company to employees. The options which hold no voting or dividend rights have an expiry date of 31 January 2007 and are exercisable at $0.6072 per option. At balance date, no options have been exercised. There are no restrictions to prevent these options from being exercised over their life;

(iv) Shareholders at a General Meeting on 16 May 2005, approved the issue of 3,000,000 unlisted options over ordinary shares in the Company as follows:

- 1,000,000 options to employees exercisable at $0.5764 per option. Under the terms of the issue, the employees would be required to remain in the employment of the Company at 31 December 2005 to achieve 50% vesting with full vesting achieved if they remain employees of the Company a year later on 16 December 2006. At balance date, 50% of the options have been vested. The options which hold no voting or dividend rights have an expiry date of 16 December 2007; and
- 2,000,000 options to Mr Geoff Davis, Managing Director of Medusa exercisable at $0.5764 per option. Under the terms of the issue, Mr Davis would have immediate vesting in 50% of the options but would be required to remain in the employment of the Company at 31 December 2005 to achieve a further 25% vesting with full vesting achieved if he remains an employee of the Company a year later on 16 December 2006. At balance date, 75% of the options have been vested. The options which hold no voting or dividend rights have an expiry date of 16 December 2007;

19. SHARE-BASED PAYMENTS (continued)

(v) On 21 September 2005, the Company issued 50,000 listed options over ordinary shares in the Company to an un-related party as consideration in lieu of consulting fee. The options which hold no voting or dividend rights have an expiry date of 31 January 2007 and are exercisable at $0.20 per option. There are no restrictions to prevent these options from being exercised over their life; and

(vi) On 3 October 2005, Mr Kevin Tomlinson, Non-Executive Chairman of Medusa became entitled to 1,000,000 unlisted options exercisable at the following prices:

- 250,000 exercisable at $0.72 per option;
- 500,000 exercisable at $0.90 per option; and
- 250,000 exercisable at $1.50 per option.

The grant of option which was approved at the Company's Annual General Meeting on 29 November 2005, hold no voting or dividend rights and expire on 2 October 2008. At balance date, no options have been exercised. There are no restrictions to prevent these options from being exercised over their life.

	Economic Entity				Parent Entity			
	2006		2005		2006		2005	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at the beginning of year	2,525,000	0.4408	600,000	0.4334	2,525,000	0.4408	600,000	0.4334
Granted	2,050,000	0.7763	1,925,000	0.4431	2,050,000	0.7763	1,925,000	0.4431
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Outstanding at year end	4,575,000	0.5911	2,525,000	0.4408	4,575,000	0.5911	2,525,000	0.4408
Exercisable at year end	4,575,000	0.5911	2,525,000	0.4408	4,575,000	0.5911	2,525,000	0.4408

There were no unlisted options exercised during the year ended 30 June 2006.

The options outstanding at 30 June 2006 had a weighted average exercise price of $0.5911 and a weighted average remaining contractual life of 1.725 years. Exercise prices range from $0.4334 to $1.50 in respect of options outstanding at 30 June 2006.

The weighted average fair value of options granted during the year was $0.6114.

This price was calculated by using a Black and Scholes option pricing model (using historical share price volatility measures) and applying the following inputs:

Weighted average exercise price - $0.7763
Weighted average life of option - 2.94 years
Average underlying share price - $0.653
Expected share price volatility - 70%
Average risk free interest rate - 5.35%

Included under share–based payment expense in the income statement is $543,200 (2005:$586,825) and relates, in full, to equity-settled share based payment transactions.

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

20. ACCUMULATED LOSSES

Accumulated losses at beginning of year	(2,709,377)	(821,136)	(2,738,640)	(786,461)
Net loss attributable to members of parent entity	(2,341,534)	(1,888,241)	(2,646,710)	(1,952,179)
Accumulated losses at end of year	(5,050,911)	(2,709,377)	(5,385,350)	(2,738,640)

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash:

For the purposes of the Cash Flow Statement, 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 Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:-

Cash at bank	3,494,041	330,335	2,405,740	265,085
Cash on hand	250	250	250	250
Total cash assets	3,494,291	330,585	2,405,990	265,335

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

Loss after income tax	(2,341,534)	(1,888,241)	(2,646,710)	(1,952,179)
add/(less) - non-cash items:				
- Depreciation	498,272	8,160	6,732	3,034
- Impairment losses on investments and receivables	922,072	67,419	937,495	713,708
- Share of net loss of joint venture accounted for using the equity method	7,620	-	-	-
- Exploration expenses written off	263,829	463,539	179,841	53,569
- Prospectus costs written off	100,108	303,282	100,108	303,282
- Recognition of share based expenses	543,200	586,825	543,200	586,825
- Foreign exchange (gains)/losses	372,004	107,062	(303,744)	-
	365,571	(351,954)	(1,183,078)	(291,761)
add/(less) - changes in assets and liabilities				
- (increase) in trade & other receivables	(180,686)	(46,527)	(59,564)	(44,632)
- (increase) in prepayments	(101,656)	(3,515)	(102,422)	(3,133)
- (increase) in inventories	(390,778)	-	-	-
- increase in trade & other payables	1,273,616	71,237	443,348	59,761
- increase in employee benefits	31,256	3,243	31,256	3,243
Net cash provided by/(used in) operating activities	997,323	(327,516)	(870,460)	(276,522)

22. INVESTMENT IN CONTROLLED ENTITIE

The following companies are controlled entities of Medusa Mining Limited:

Controlled Entities	*Date of incorporation*	*Country of incorporation*	*% interest held*	
			2006	*2005*
Medusa Overseas Holding Corporation *(Note 1)*	08 May 2003	Philippines	40%	40%
Medusa Exploration & Development Corporation *(Note 1)*	29 May 2003	Philippines	64%	64%
Mindanao Mineral Processing and Refining Corporation	3 Nov 2005	Philippines	100%	-
Montrose Minerals Pty Ltd	27 Aug 1998	Australia	100%	100%
Newcoast Nominees Pty Ltd	07 Dec 1992	Australia	100%	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.

Incorporation of Subsidiary

In November 2005, Medusa incorporated Mindanao Minerals Processing & Refining Corporation ("MMPRC"), a wholly owned Philippines subsidiary with an issued and paid up capital of 11,100,000 Philippine Pesos (approximately A$263,176).

MMPRC was specifically formed to process mineralised ore into refined products.

23. 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 2006 except for cash balances that earn interest at an average of 1% to 5% (2005: 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 impairment.

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 Philippines 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 as follows:

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 their net fair value.

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$

24. 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	100,000	79,695	-	55,320
- 1 year or later and no later than 5 years	100,000	-	-	-
	200,000	79,695	-	55,320

(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 2005 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	42,264	22,298	42,264	22,298
- 1 year or later and no later than 5 years	56,352	719	56,352	719
	98,616	23,017	98,616	23,017

(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	300,000	180,000	300,000	180,000
- 1 year or later and no later than 5 years	450,000	450,000	450,000	450,000
	750,000	630,000	750,000	630,000

25. DIRECTORS' AND EXECUTIVES REMUNERATION

Disclosures in relation to the above have been detailed in the Remuneration Report section of the Directors' Report.

26. RELATED PARTIES

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

(a) Key Management Personnel 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 Kevin Tomlinson, Geoffrey Davis, Edward Mein, Simon Cato and Roy Daniel.

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.

Related parties:	Dr Jeffrey Schiller, Geoffrey Davis, Edward Mein, Simon Cato, Kevin Tomlinson and Roy Daniel
Type of transaction:	Director Protection Deed ("Deed")
Transaction details:	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. 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. 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.
Related party:	Harvest Services Aust Pty Ltd
Nature of relationship:	Director related entity (Geoffrey Davis)
Type of transaction:	Consultancy Services Agreement
Transaction details:	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. Harvest Services will receive a consultancy fee (subject to annual reviews) of $25,000 per month (excluding GST) and the reimbursement of out of pocket expenses incurred in the course of providing services to the Company. 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. During the year, Harvest Services charged the Company $270,000 in fees and a bonus payment of $150,000. No amounts were outstanding at year-end.

Related party:	Harvest Services Aust Pty Ltd
Nature of relationship:	Director related entity (Geoffrey Davis)
Type of transaction:	Lease of office premises
Transaction details:	The Company occupies and leases its office premises (inclusive of parking bays) from Harvest Services at a rate of $3,211 per month. During the year, Harvest Services charged the Company $38,532 for the lease of office premises. No amounts were outstanding at year-end.
Related party:	Gempower Pty Ltd
Nature of relationship:	Director related entity (Edward Mein)
Type of transaction:	Consultancy Services
Transaction details:	Gempower Pty Ltd was paid $53,450 during the financial year for consulting services to the Company. No amounts were outstanding at year-end.
Related party:	Roy Daniel
Type of transaction:	Employment Contract
Transaction details:	Under the terms of this Employment Contract, Roy Daniel agrees to provide services to the Company, commensurate with that of a Chief Financial Officer/ Company Secretary. Mr Daniel will receive a monthly salary (subject to annual reviews) of $15,000 per month and the reimbursement of out of pocket expenses incurred in the course of providing services to the Company. In addition the Company will also make superannuation contributions of $2,000 per month to Mr Daniel. Either the Company or Mr Daniel may terminate the contract by providing 1 months written notice. During the year, Mr Daniel received salaries totalling $130,000, a bonus payment of $30,000 and superannuation contributions of $20,775. No amounts were outstanding at year-end.

27. EVENTS SUBSEQUENT TO BALANCE DATE

4 On 3 August 2006, the Company advised that it had executed a Variation Deed with the Principal Shareholders of Philsaga Mining Corporation whereby Medusa will complete the Philsaga Transaction upon listing of Medusa on the Alternative Investment Market ("AIM") in London in the second half of 2006.

The key terms of the Variation Deed are:

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

4 On 15 September 2006, the Company advised that it had commenced trading of its shares on the Frankfurt Stock Exchange in Germany.

27. EVENTS SUBSEQUENT TO BALANCE DATE (continued)

4 The Company advised the ASX on 19 September 2006, that it had relinquished all its interest and on-going liabilities in the Braemore Project.

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.

28. SEGMENT INFORMATION

The Economic Entity is involved in mining and exploration activity on mineral properties situated in Western Australia and the Philippines.

Secondary segment results, assets and liabilities include items directly attributable to geographical segments.

Geographical segments	Australia		Philippines		Consolidated	
	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$
Segment revenue	79,301	60,250	4,902,381	1,178	4,981,682	61,428
Segment result	(2,646,736)	(1,485,574)	305,202	(402,667)	(2,341,534)	(1,888,241)
Segment assets	2,100,310	389,028	12,363,334	3,249,116	14,463,644	3,638,144
Segment liabilities	640,282	165,678	913,160	52,354	1,553,442	218,032
Investments accounted for using the equity method	-	-	-	473,395	-	473,395
Acquisition of non-current segment assets	33,577	28,235	4,412,022	14,165	4,445,599	42,400
Depreciation of segment assets	6,732	3,034	491,540	5,126	498,272	8,160
Other non-cash segment expenses	1,652,942	123,693	76,159	3,414,366	1,729,101	3,538,059

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

All segment revenue is from sales to external customers. There are no inter-segment sales.

All impairment losses (refer Note 4) relate to the parent entity's investments in and loans to Philippines based controlled and jointly controlled entities.

29. FRANKING ACCOUNT

The Company has no franking credits available.

30. COMPANY DETAILS

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

Suite 7
11 Preston Street
Como
Western Australia 6152.
Telephone: +618 9367 0601
Facsimile: + 618 9367 0602
Email: admin@medusamining.com.au

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 47 to 78 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 2006 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.

Geoffrey Davis
Managing Director

Dated this 22nd day of September 2006.

CHARTERED
ACCOUNTANTS
& BUSINESS
ADVISORS

A MEMBER OF
MOORES ROWLAND
INTERNATIONAL

Bentleys mri
Thinking ahead

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INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF MEDUSA MINING LIMITED

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, 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 2006. 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"), required by Australian Accounting Standard AASB 124 "Related Party Disclosures, on pages 33 to 38 of the directors' report and not in the financial report, as permitted 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 adequate 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 AASB 124 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's and the consolidated entity's financial position, and of their performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 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 ethical pronouncements and the Corporations Act 2001.

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 consolidated entity's financial position as at 30 June 2006 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 33 to 39 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

BENTLEYS MRI PERTH PARTNERSHIP

J W VIBERT
Partner
Dated this 22nd day of September 2006.

The shareholder information set out below was applicable as at 22 September 2006.

1. SHAREHOLDING

(a) Distribution of shareholders

Distribution		Number of shareholders
1	- 1,000	24
1,001	- 5,000	203
5,001	- 10,000	194
10,001	- 100,000	411
100,001	and over	82
Total		914

(i) The number of shareholdings held in less than marketable parcels is 11;

(ii) The percentage of the total holding of the twenty largest holders of ordinary shares was 50.80 %.

(b) 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.

(c) Twenty largest shareholders

Total number of ordinary shares on issue – 59,656,676

Name of shareholders		Number of shares held	% held
1.	National Nominees Limited	4,538,784	7.61
2.	Forty Traders Limited	2,585,368	4.33
3.	Mr William Douglas Goodfellow	2,581,000	4.33
4.	Yarandi Investments Pty Ltd (Griffith Family No 2 A/C)	2,370,881	3.97
5.	Skiptan Pty Ltd (P & M Meurs Family A/C)	2,233,334	3.75
6.	Geoffrey Davis & Susan Davis	2,166,000	3.63
7.	Platinum Investment Corporation Pty Limited	1,853,333	3.11
8.	Mr Edward Stuart Mackey Mein	1,815,000	3.04
9.	Bruce Birnie Pty Ltd	1,538,750	2.58
10.	Harvest Services Aust Pty Ltd	1,090,000	1.83
11.	Jeffrey Schiller & Karen Schiller	1,080,000	1.81
12.	Mr Peter Bowman	1,000,000	1.68
13.	Yellowrock Pty Ltd	830,299	1.39
14.	Yellowrock Pty Ltd	771,720	1.29
15.	Rosemont Asset Pty Ltd	760,000	1.27
16.	KKH (Aus) Holdings Pty Ltd	711,707	1.19
17.	Goldsearch Limited	640,000	1.07
18.	Mr Patrick Butler	625,000	1.05
19.	Miss Yee Chin Tan	600,000	1.01
20.	Mr Richard Davis	520,000	0.87
Total		30,311,176	50.80

(d) On market buy back

There is no current on market buy back.

(e) 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	5,666,368	9.50%
Geoffrey & Susan Davis	3,256,000	5.46%

2. OPTIONHOLDING - LISTED OPTIONS EXPIRING 31 JANUARY 2007

(a) Distribution of optionholders

Distribution		Number of optionholders
1	- 1,000	46
1,001	- 5,000	109
5,001	- 10,000	101
10,001	- 100,000	175
100,001	and over	31
Total		462

(i) The number of optionholdings held in less than marketable parcels is 51;

(ii) The percentage of the total holding of the twenty largest holders of options was 61.24 %

(b) Twenty largest optionholders

Total number of 31 January 2007 options on issue - 22,640,398

Name of optionholders		Number of options held	% held
1.	National Nominees Limited	2,374,882	10.49
2.	Geoffrey Davis & Susan Davis	1,079,000	4.77
3.	Yarandi Investments Pty Ltd (Griffith Family No 2 A/C)	1,074,141	4.74
4.	Eclipse Resources Pty Ltd	1,031,550	4.56
5.	Forty Traders Limited	990,406	4.38
6.	Finance Associates Pty Ltd (Gregory Family A/C)	960,000	4.24
7.	Platinum Investment Corporation Pty Limited	875,834	3.87
8.	Mr William Douglas Goodfellow	805,750	3.56
9.	Mr Edward Stuart Mackey Mein	727,500	3.21
10.	Yellowrock Pty Ltd	545,000	2.41
11.	Finance Associates Pty Ltd (Super Fund A/C)	433,719	1.92
12.	Skiptan Pty Ltd (P & M Meurs Family A/C)	416,667	1.84
13.	Mr Mick Hearl	375,000	1.66
14.	Harvest Services Aust Pty Ltd	367,500	1.62
15.	Yellowrock Pty Ltd	360,000	1.59
16.	Shannon Corporate Nominees Pty Ltd	359,894	1.59
17.	Bruce Birnie Pty Ltd	295,938	1.31
18.	Mrs Abigail Fry	271,287	1.20
19.	Marford Nominees Pty Ltd	268,718	1.19
20.	Beneficial Investment Corporation Pty Limited	250,000	1.10
Total		13,862,786	61.24

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
• 225,000 unquoted options to subscribe for ordinary shares exercisable at 60.72 cents per share, with an expiry date of 31 January 2007:		
Persons holding 20% or more:		
- Glasgow Nominees Pty Ltd	75,000	33.33
- Kathleen Rowan	75,000	33.33
- Bruce Richard Acutt	75,000	33.33
• 600,000 unquoted options to subscribe for ordinary shares exercisable at 43.34 cents per share, with an expiry date of 23 December 2009:		
Persons holding 20% or more:		
- Harvest Services Australia Pty Ltd	600,000	100.00
• 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:		
Persons holding 20% or more:		
- Harvest Services Australia Pty Ltd	2,000,000	66.67
• 1,000,000 unquoted options to subscribe for ordinary shares exercisable at the following prices per share, with an expiry date of 2 October 2008: - 250,000 @ $0.72 per share; - 500,000 @ $0.90 per share; and - 250,000 @ $1.50 per share.		
Persons holding 20% or more:		
- Kevin Tomlinson	1,000,000	100.00

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, WA 6152

6. THE REGISTER OF THE COMPANY'S SECURITIES ARE HELD AT THE FOLLOWING ADDRESS IN WESTERN AUSTRALIA:

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, WA 6000
Telephone: +618 9323 2000
Facsimile: +618 9323 2033
Investor enquiries: 1300 557 010 (in Australia)

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.

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%
Kurnalpi North	EL28/465	Gold	100%
Kurnalpi North	MLA28/216 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/217 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/218 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/219 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/220 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/221 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/222 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/254 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/257 (EL28/465)	Gold	100%
Kurnalpi North	MLA28/258 (EL28/465)	Gold	100%
Kurnalpi South	MLA28/223 (EL28/465)	Gold	100%
Kurnalpi South	MLA28/224 (EL28/465)	Gold	100%
Kurnalpi South	MLA28/225 (EL28/465)	Gold	100%
Kurnalpi South	MLA28/253 (EL28/465)	Gold	100%
Kurnalpi South	MLA28/255 (EL28/465)	Gold	100%
Kurnalpi South	MLA28/256 (EL28/465)	Gold	100%
PHILIPPINES			
Saugon	EP 000064 - XIII	Gold	50%
Saugon	EPA 000069 - XIII	Gold	50%
Saugon	APSA 000088 - XIII	Gold	50%
Saugon	SSMP (X-ADS) 06-5942	Gold	50%
Saugon	SSMP (X-ADS) 06-6043	Gold	50%
Das Agan	APSA 0000024-XIII	Gold	50%
Anoling	APSA 0000039-XIII	Gold	50%
Abacus	APSA 0000028-XIII	Gold	50%
Masapelid	MPSA 004-91-XIII	Gold	Earn in 84% - 0%
Apical	MPSA0028-XIII	Gold	Earn in 70% - 0%
Panaon	EP-2005-00000VIII	Gold	Divesting 50% - 100%

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
MPSA	- Mineral Production Sharing Agreement

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