MEDUSA MINING LIMITED

ABN 60 099 377 849

and Controlled Entities

CONSOLIDATED HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2004

MEDUSA MINING LIMITED
ABN 60 099 377 849
and Controlled Entities

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DIRECTORS' REPORT

Your directors present their report together with the consolidated financial report for the half year ended 31 December 2004.

DIRECTORS

The names of Directors who held office during or since the end of the half-year:

Dr Jeffrey C Schiller	Non-Executive Chairman
Mr Geoffrey J Davis	Managing Director
Mr Edward (Ted) S Mein	Non-Executive Director
Mr Simon K Cato	Non-Executive Director

REVIEW OF OPERATIONS

A summary of activities for the period is presented below:

1. EXPLORATION

1.1 Philippines

Philsaga Mining Corporation acquisition

On 23 December 2004 the Company advised the ASX it had signed a Letter Agreement with the principal shareholders of Philsaga Mining Corporation ("Philsaga") to acquire their shares and thereby ownership of all of Philsaga's assets in central eastern Mindanao, Republic of the Philippines.

The key terms of the acquisition are:

- the issue of 25,000,000 (twenty five million) fully paid shares in Medusa Mining Ltd to the vendors after the completion of capital raisings;
- a total of A$14,000,000 (approximately US$10,500,000) in cash. In addition Medusa will provide A$1,000,000 in each of the first and second years for contractors to purchase equipment for the provision of services to the mine;
- a payment of US$20 per ounce of recovered gold obtained from any extensions of the Co-O Mine mineralisation mined on the eastern side of the Oriental Fault limited to a maximum of US$10,000,000;
- a 10% share of any cash or shares received by Medusa in the event that a large deposit is discovered and subsequently acquired by a major company;
- the current Philsaga management will continue to manage the project.

The assets of Philsaga include:

- the Co-O Mine Central Vein resources as below using an 8g/t Au lower cut off grade and an upper cut off grade of 200g/t Au:

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

- the Co-O CIP plant with a rated capacity of 550 tpd and situated approximately 12 kilometres north of the mine.
- gold production at cash costs of less than US$200/oz;
- infrastructure including administration buildings, work shops, standby power house, assay laboratory, warehouses and inventories, messing and accommodation facilities, and associated equipment;
- a work force skilled in all facets of the operation;
- a large tenement holding comprising approximately 537 km² (53,700 hectares) over an approximate strike length of 70 km (or 20% of the strike length of Eastern Mindanao) of the unexplored but highly mineralised and prospective Diwata Range that has had no systematic modern exploration;
- the Medusa-Philsaga Saugon Joint Venture to the south of Co-O where Medusa has earned its 50% interest;
- the Tambis joint venture to the north of Co-O where Continental Goldfields Ltd is about to commence spending US$1,500,000 to earn a 50% interest;
- the Bunawan joint venture where Magnum Gold Ltd will earn a 50% interest through the expenditure of US$1,500,000.

Saugon Project (Medusa 50%)

At the First Hit Vein, work commenced in mid 2003 and it has been followed intermittently at the surface for over 600 metres and which is currently being explored underground via a 40 metre deep winze and 60 metres of level development.

Diamond drilling was suspended along the strike of the First Hit Vein but recommenced to further define the high grade shoot below the winze level.

At the Mabas prospect, drilling of the prospect was discontinued due to results showing that the mineralisation was discontinuous along strike and down dip away from and below the section of continuous vein located in the underground workings 23 metres below surface.

At Paradise Ridge, two drill holes have been completed below the original discovery area of silica capping with disseminated barite and barite-quartz veining. Both holes returned results below 1 g/t Au but demonstrated an extensive alteration system which requires additional surface exploration.

A program of regional stream sediment sampling has been completed over the Saugon Exploration Permit and the Company is currently awaiting assay results.

Dizon Tailings Project (Medusa 30%)

On 4 June 2004, the Company announced an option agreement with Dizon Copper and Silver Mines Inc., a public company listed on the Philippines Stock Exchange. On 13 September 2004, the Company announced signing a 50:50 Joint Venture MOU with BacTech Mining Corporation ("BacTech") of Canada whereby BacTech will provide its technology on an exclusive basis to the Joint Venture in the Philippines.

The drilling of twelve holes to 50 metre depth for the collection of tailings samples for metallurgical test work was completed. In addition five in-field manually produced heavy mineral concentrates were obtained. Approximately 800 kg of composited drill samples have been shipped to a metallurgical laboratory in Perth, Western Australia.

Key observations and results reported on 01 December 2004 were:

- bulk grades of 24 composited drill hole samples show good consistency in grades of elements analysed with average grades of 0.3 g/t Au, 0.6 g/t Ag and 740 ppm Cu. The tailings also contain approximately 4% magnetite indicating the total value of contained and potentially recoverable gold and magnetite is approximately US$5.90 per tonne. The Dizon Mine processed 110 million tonnes of ore during 18 years of operation;
- significant free gold and magnetite components are indicated in the initial results from metallurgical test-work on five manually produced heavy mineral concentrate "sighter" samples from the tailings, which contain between 2.7 and 11.6 g/t Au. These findings suggest a potentially viable project using gravity concentration to initially extract free gold and magnetite;
- the conceptual model being considered by Medusa is that of a low CAPEX (typically US$5 million to US$10 million) and OPEX (typically US$1.50 to US$2.00 per tonne) mineral sands mining and gravity processing operation to recover free gold, magnetite and sulphides. The former two products are readily saleable while test-work remains to be conducted on the potential for processing the sulphides to obtain saleable products.

Key observations and results reported on 2 February 2005 were that the first phase of the test- work has confirmed that:

- an average of 68% of the gold is extractable by conventional methods confirming the previously indicated high percentage of free gold;
- the bulk of the remaining gold is anticipated to be associated with the copper sulphide, chalcopyrite, and pyrite and therefore potentially extractable using other techniques on a sulphide-rich concentrate;
- it is anticipated that a small percentage of the gold is encapsulated in silicate minerals;
- test-work is continuing on size analysis and production of gravity concentrates containing free gold, magnetite and sulphides; and
- the results will be used for process design and optimisation of the conceptual flow sheet.
- metallurgical test work is on-going with completion expected during March.

Marian Gold Mine (option to joint venture 50%)

On 14 July 2004, the Company announced an Option Agreement with Vulcan Industrial and Mining Corporation ("Vulcan"), a public company listed on the Philippines Stock Exchange. An extension agreement has been agreed to by the companies extending the option period to early July 2005 for an extension fee of US$10,000.

Data entry and survey verification of the data for the four main vein systems has been completed. A detailed assessment of the remaining mineralisation as well as the potential for additional mineralisation is progressing.

1.2 Australia

Braemore Project (optioned)

As advised in the ASX release of 26 May 2004, the Company has reached agreement with Teck Cominco Australia Pty Ltd ("Teck") whereby Teck has acquired an option to purchase the Braemore Project after undertaking a RAB drilling program aimed mainly at exploring a 10 km long prospective contact which is known to contain gold mineralisation.

Teck Cominco has provided the following summary of activities:

"A first pass RAB drilling program consisting of seventy three holes for 3,491 metres was completed at the Braemore Project late in the quarter, testing the southern portion of the project, coincident with a NNW trending geochemistry anomaly. Drilling was completed on 200 metre spaced lines with holes centres every 100 metres over tenements P37/5330, P37/5333, P37/5333 and P37/5477. The majority of holes intersected felsic volcaniclastics (with minor sericite alteration) and fine grained clastics (with minor quartz-goethite veinlets).

Several anomalous assay results were returned from the program. The results are typically of a moderate tenor, with a peak result of 5 metres @ 0.258 ppm Au returned from BRAB048 at a depth of 45 metres, associated with quartz veining adjacent to the felsic/sediment contact. Other significant intercepts include 20 metres @ 0.16ppm Au in BRAB024 from 30 metres and 20 metres @ 0.106 ppm Au in BRAB032 from 25 metres. All holes are also associated with a strong arsenic anomalism which defines the entire length of the sediment/felsic contact (shear zone) targeted by drilling."

The option has been extended for another twelve months for an option payment of $10,000.

Kurnalpi and Anti Dam Projects

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

Under the terms of the joint venture, Newcrest may earn a 70% equity in the tenements by completing expenditure of $1 million within 4 years, with a minimum expenditure commitment of $100,000 within 12 months before Newcrest is entitled to withdraw from the joint venture.

Medusa then has the option of:

- contributing its 30% share of expenditure to maintain its 30% equity position, or up to a first decision to mine, Medusa may elect to dilute on a program by program basis, or
- reducing to a 20% carried equity position with project loans provided by Newcrest up to a first decision to mine to be repaid from operational cash flow, or
- providing Medusa's equity is not less than 10%, Medusa may elect to take a "free carried" interest of 10% up to a first decision to mine; or
- selling its equity at valuation.

Once any decision to mine is made the parties contribute according to their then held Participating Interests.

Joint venture partner Newcrest has advised as follows:

Halfway Hill (E28/465)

Historic drilling at Halfway Hill has outlined a NNW trending zone of anomalous mineralization that can be traced along strike for some 900 metres. Significant gold intercepts are confined to a discrete 200 to 300 metre long zone.

The mineralization appears to have a sub-vertical to steep easterly dip and shows a general shallow (6º to 10º) N-NNW plunge. The mineralization has not been adequately tested along strike, down dip and down plunge.

Newcrest is planning to drill two RC holes. The first hole is designed to test the down plunge potential of the known mineralization. The second hole is designed to test the northern strike extent and depth potential of the mineralization. A total of 500 metres of RC drilling is planned.

The drilling has been delayed due to drill rig availability. It is anticipated that drilling will commence in late February.

During the next quarter the RC drilling at Halfway Hill will be undertaken. A detail review of the Anti Dam area will also be conducted.

2. CORPORATE

- On 16 September 2004, the Company advised that it had raised a gross amount of $432,000, via the placement of 1,200,000 ordinary shares at $0.36 per share to two clients of Intersuisse Limited;
- Medusa on 11 October 2004, advised the ASX that it had concluded the purchase of the Kurnalpi Project with the payment of $20,000 and the issue of 400,000 fully paid Medusa shares and 400,000 options, exercisable at $0.20 each with an expiry date of 31 January 2007 to Total Mineral Resources Pty Ltd ("Total Mineral").

  In addition, the Company also paid Total Mineral $10,000 and issued 300,000 fully paid Medusa shares and 300,000 options, exercisable at $0.20 each with an expiry date of 31 January 2007 for additional tenements in the Kurnalpi Project;

- The Company on 10 December 2004 completed a placement with clients of State One Stockbrokers to raise $400,000 before any issue costs with the issue of 824,742 shares at $0.485 per share.

3. EVENTS SUBSEQUENT TO BALANCE DATE

- The Company on 09 February 2005, announced that it had negotiated the termination of its agreement with the vendors of the Mount Stirling Project with the issue of 60,000 fully paid Medusa shares;
- Medusa on 23 February 2005, advised that it had signed a Memorandum of Understanding ("MOU") with Pyro Copper Mining Corporation ("Pyro Copper") which owns granted Mining and Production Sharing Agreement ("MPSA") number 153-2000-1 with an area of 4,360 hectares that covers the old Barlo Copper Mine in Northern Zambales.

  Key terms of the MOU include:

  - Medusa and its joint venture partner BacTech Mining Corporation ("BacTech") have an option until 31 December 2006 to conduct due diligence to its absolute satisfaction;
  - Pyro Copper will receive a fee of US$10,000 upon signing of the MOU;
  - Medusa will be required to complete a minimum of 1,000 metres of drilling during the option period and ensure tenement expenditure obligations are maintained;
  - The parties will negotiate and execute a Mines Operating Agreement ("MOA") if Medusa elects to exercise its option;
  - Pyro Copper will be entitled to a 3% net smelter royalty on all minerals produced.

  The tenement is the subject of a pending case at the Mines Adjudication Board ("MAB") due to an overlapping exploration permit applied for after the MPSA was granted. This case before the MAB is not expected to be resolved for at least three to six months. As part of the MOU, Pyro Copper has authorised Medusa to pursue the case on its behalf;
- The funding arrangements for the Philsaga Transaction is currently being finalised and completion is expected sometime in late April 2005;
- There has not arisen in the interval between the end of the half-year and the date of this report any other item, transaction or event of a material 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 periods.

4. AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration to Directors of Medusa Mining Limited on page 10 forms part of the Directors' Report for the half-year ended 31 December 2004.

Signed in accordance with a resolution of the Board of Directors.

G J Davis
Managing Director

Dated this 14th day of March 2005.

The Board of Directors
Medusa Mining Ltd
PO Box 860
Canning Bridge WA 6153

Auditors Independence Declaration to the Directors of Medusa Mining Ltd

In relation to our review of the financial report of Medusa Mining Ltd for the half-year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

BENTLEYS MRI
Perth Partnership

J W VIBERT
Partner

14th March 2005

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF MEDUSA MINING LTD

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Medusa Mining Ltd (the company) and the consolidated entity, for the period ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

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.

Audit approach

We conducted an independent review of the financial report, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standards AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and the Corporations Act 2001, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cashflows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medusa Mining Ltd and controlled entities is not in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

BENTLEYS MRI
Perth Partnership

JW VIBERT
Partner

Dated at West Perth, WA on 14th March 2005

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, set out on pages 14 to 21:

   (a) comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and

   (b) give a true and fair view of the Economic Entity's financial position as at 31 December 2004 and of its performance for the half year ended on that date

2. 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.

GJ DAVIS
Managing Director

Dated this 14th day of March 2005.

MEDUSA MINING LIMITED
ABN 60 099 377 849
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CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
for the half-year ended 31 December 2004

	Note	ECONOMIC ENTITY	
		31 Dec 2004	**31 Dec 2003**
		$	**$**
Revenues from ordinary activities	3	81,563	12,657
Total Revenue		81,563	12,657
Employee benefits expense		(38,474)	-
Foreign exchange loss		(60,641)	-
Depreciation & amortisation expense		(1,038)	-
Other expenses from ordinary activities		(175,482)	(92,205)
(Loss) from ordinary activities before income tax expense		(194,072)	(79,548)
Income tax expense relating to ordinary activities		-	-
Net (loss) from ordinary activities after income tax expense		(194,072)	(79,548)
Net (loss) attributable to outside equity interests		-	-
Net (loss) attributable to members of the parent entity		(194,072)	(79,548)
Total changes in equity other than those resulting from transactions with owners as owners		(194,072)	(79,548)
Basic loss per share: ordinary shares		(0.005)	(.002)
Diluted loss per share: ordinary shares		(0.003)	(.002)

The accompanying notes form part of these financial statements

MEDUSA MINING LIMITED
ABN 60 099 377 849
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2004

	ECONOMIC ENTITY	
	31 Dec 2004	**30 Jun 2004**
	$	**$**
CURRENT ASSETS		
Cash	1,713,067	1,842,148
Receivables	73,589	46,577
Other	16,692	25,712
Total current assets	1,803,348	1,914,437
NON-CURRENT ASSETS		
Property, plant & equipment	57,935	27,581
Mineral properties	2,495,519	1,593,023
Other - capitalised acquisition costs	315,919	-
Total non-current assets	2,869,373	1,620,604
TOTAL ASSETS	4,672,721	3,535,041
CURRENT LIABILITIES		
Payables	241,837	301,375
Provisions	1,929	1,776
Total current liabilities	243,766	303,151
TOTAL LIABILITIES	243,766	303,151
NET ASSETS	4,428,955	3,231,890
EQUITY		
Contributed equity	5,320,744	3,929,606
Accumulated (losses)	(891,789)	(697,716)
TOTAL SHAREHOLDERS' EQUITY	4,428,955	3,231,890

The accompanying notes form part of these financial statements

MEDUSA MINING LIMITED
ABN 60 099 377 849
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CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ended 31 DECEMBER 2004

	ECONOMIC ENTITY	
	31 Dec 2004	**31 Dec 2003**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts in the course of operations	-	7,923
Payments in the course of operations	(1,284,702)	(91,074)
Interest received	40,986	4,734
Net cash (used in) operating activities	(1,243,716)	(78,417)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property plant & equipment	(31,392)	(2,607)
Payments for exploration expenditure and tenements	(50,000)	(187,884)
Payment for bond	-	(1,000)
Net cash (used in) investing activities	(81,392)	(191,491)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing	-	26,000
Proceeds from issue of shares	1,312,065	2,648,056
Transaction costs from issue of shares	(88,550)	-
Net cash provided by financing activities	1,223,515	2,674,056
Net increase/(decrease) in cash held	(101,593)	2,404,148
Cash at beginning of period	1,842,148	170,126
Exchange rate adjustments	(27,488)	-
Cash at end of period	1,713,067	2,574,274

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 31 DECEMBER 2004

Note 1: Basis of preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2004 and any public announcements made by Medusa Mining Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the Economic Entity and are consistent with those applied in the 30 June 2004 annual report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

	ECONOMIC ENTITY	
	31/12/2004	**31/12/2003**
	$	**$**
Note 2: Profit/(loss) from ordinary activities		
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
- Interest revenue	45,145	12,657
- Net foreign exchange loss	(24,223)	-
- Exploration expenses written off	(2,082)	-

Note 3: Segment information

Primary reporting - geographical segment

Segment Revenue		
– Australia	44,614	11,999
– Philippines	36,949	658
Total Revenue	81,563	12,657
Segment Results		
– Australia	(141,969)	(38,106)
– Philippines	(52,103)	(41,442)
Loss from ordinary activities	(194,072)	(79,548)

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 31 DECEMBER 2004

Note 4: Contributed Equity

	ECONOMIC ENTITY	
	31 Dec 2004	**30 Jun 2004**
	$	**$**
Share capital:		
39,549,292 ordinary shares (30 June 2004: 35,628,600)	5,568,774	4,122,584
20,676,343 listed options (30 June 2004: 17,809,793)	158,971	153,096
less - issue costs	(407,001)	(346,074)
Total contributed equity	**5,320,744**	**3,929,606**
(a) Ordinary shares		
Balance at beginning of period (35,628,600)	3,776,510	386,000
Ordinary shares issued during period		
22,478,000 shares at various prices during 2003/04	-	3,390,510
Jul 04: 1,175,000 shares @ $0.40 per share	470,000	-
Sep 04: 1,200,000 shares @ $0.36 per share	432,000	-
Sep 04: 700,000 vendor shares @ $0.20 per share	140,000	-
Dec 04: 824,742 shares @ $0.485 per share	400,000	-
20,950 options converted to shares @ $0.20 per share	4,190	-
less - Issue costs	(60,927)	-
Balance at end of period (39,549,292)	5,161,773	3,776,510
(b) Listed options		
Balance at beginning of period (17,809,793)	153,096	-
Listed options issued during period		
17,809,793 shares at various prices during 2003/04	-	153,096
Jul 04: 587,500 options @ $0.01 per option	5,875	-
Sep 04: 700,000 options issued at no cost	-	-
Sep 04: 1,600,000 options released from escrow	-	-
less - 20,950 options converted to shares	-	-
Balance at end of period (20,676,343)	158,971	153,096
TOTAL	**5,320,744**	**3,929,606**

These options expire 31 January 2007 exercisable at $0.20 each.

Note 4: Contributed Equity (continued)

(c) Unlisted options over ordinary shares
- 225,000 options expiring 31 January 2007 exercisable at $0.6072 each; and
- 600,000 options expiring 26 June 2010 exercisable at $0.4334 each.

The above options do not entitle the holders to participate in any share issue of the Company.

Note 5: Acquisition of subsidiary

During the period Medusa Mining Limited finalised the purchase of 100% of Newcoast Nominees Pty Ltd ("Newcoast") by the payment of $30,000 and the issue of 700,000 ordinary fully paid shares and 700,000 unlisted options exercisable at 20 cents per option on or before 31 January 2007 in Medusa Mining Limited.

Newcoast holds the tenements in the Kurnalpi gold project.

Note 6: Contingent Liability

There has been no change in contingent liabilities since the last annual reporting date.

Note 7: Events subsequent to balance date

- International Financial Reporting Standards

  For reporting periods beginning on or after 01 January 2005, the Economic Entity must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board.

  This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements ("Australian GAAP"). The difference between Australian GAAP and IFRS identified to date as potentially having a significant effect on the economic entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

  The Economic Entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

  The Company has commenced a project to achieve transition to IFRS reporting beginning with the half-year ended 31 December 2004. The Company's implementation project consists of three phases. The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

Note 7: Events subsequent to balance date (continued)

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The implementation phase will include implementation of identified changes to accounting and business procedures and systems and operational training for staff.

The key potential implications of the conversion to IFRS on the Economic Entity are as follows:

(i) *Income tax*

Under the Australian equivalent to AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and a tax based balance sheet. This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method. The Company is in the process of assessing any potential impact.

(ii) *Exploration and evaluation expenditure*

AASB 6 "Exploration for and Evaluation of Mineral Resources" will require the Company to apply "area of interest" accounting to their exploration and evaluation expenditures, effectively grandfathering the treatment currently used by the Company under AASB 1022 "Accounting for the Extractive Industries". Under AASB 6, if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the Company must perform impairment tests on those assets in accordance with AASB 136 "Impairment of Assets". Impairment of exploration and evaluation assets is to be assessed at a cash generating unit or group of cash generating units level provided this is no larger than an area of interest. Any impairment loss is to be recognised as an expense in accordance with AASB 136.

The Company is currently determining the impact of IFRS on the development costs and the amortisation of these costs.

The future financial effects of this change in accounting policy is not yet known.

(iii) *Financial instruments*

AASB 139 applies from 01 January 2005, meaning that the comparative period of 2005 is not required to be restated unlike the majority of other IFRS standards which require retrospective application. Under AASB 139 Financial Instruments:

Recognition and Measurement, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables - measured at amortised cost; financial assets held to maturity - measured at amortised costs; financial assets and liabilities held for trading - measured at fair value with fair value changes charged to net profit and loss; financial assets available for sale - measured at fair value with fair value changes taken to equity; and non-trading liabilities - measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments in this manner. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been completed.

Note 7: Events subsequent to balance date (continued)

(iv) Impairment of assets

Under AASB 136 Impairment of Assets, the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the current accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy, it is likely that impairment of assets will be recognised sooner and that the amount of any write-downs may be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

The financial effect of the above matter has not been recognised in these financial statements.

- The Company on 09 February 2005, announced that it had negotiated the termination of its agreement with the vendors of the Mount Stirling Project with the issue of 60,000 fully paid Medusa shares;

- Medusa on 23 February 2005, advised that it had signed a Memorandum of Understanding ("MOU") with Pyro Copper Mining Corporation ("Pyro Copper") which owns granted Mining and Production Sharing Agreement ("MPSA") number 153-2000-1 with an area of 4,360 hectares that covers the old Barlo Copper Mine in Northern Zambales.

  Key terms of the MOU include:

  - Medusa and its joint venture partner Bactech Mining Corporation ("Bactech") have an option until 31 December 2006 to conduct due diligence to its absolute satisfaction;
  - Pyro Copper will receive a fee of US$10,000 upon signing of the MOU;
  - Medusa will be required to complete a minimum of 1,000 metres of drilling during the option period and ensure tenement expenditure obligations are maintained;
  - The parties will negotiate and execute a Mines Operating Agreement ("MOA") if Medusa elects to exercise its option;
  - Pyro Copper will be entitled to a 3% net smelter royalty on all minerals produced.

  The tenement is the subject of a pending case at the Mines Adjudication Board ("MAB") due to an overlapping exploration permit applied for after the MPSA was granted. This case before the MAB is not expected to be resolved for at least three to six months. As part of the MOU, Pyro Copper has authorised Medusa to pursue the case on its behalf;

- The funding arrangements for the Philsaga Transaction is currently being finalised and completion is expected sometime in late April 2005;

- There has not arisen in the interval between the end of the half-year and the date of this report any other item, transaction or event of a material 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 periods.