



QUARTERLY ACTIVITIES REPORT

PERIOD ENDING

30 SEPTEMBER 2005

MEDUSA MINING PROFILE

Medusa Mining Limited listed on the ASX on 23 December 2003 issuing 12,500,000 shares at \$0.20 each, raising \$2,500,000.

Medusa has:

- achieved its initial corporate objective of generating cash flow within 2 years from IPO with the Leasing of the Co-O Plant commencing 1 October 2005; and
- is targeting an increasing gold production profile during 2006.

Medusa's remaining objective with respect to the Philsaga Transaction is to complete the acquisition of Philsaga Mining Corporation ("Philsaga") which includes:

- Philsaga's Co-O gold mine with resources of 252,000 tonnes @ 29.7g/t Au containing 241,000 ozs of gold;
- associated plant & infrastructure; and
- 537 sq km of very prospective tenements over a strike length of 70 km.

Shares: 53,439,155 ASX code: MML
Listed options: 22,711,275 ASX code: MMLO
Unlisted options: 3,825,000

Further details: www.medusamining.com.au

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KEY POINTS

Co-O PLANT LEASE & OPTION

- Completion of Plant Lease & Option on 27 September 2005 with the payment of A\$3 million;
- Medusa becomes a producer from 1 October 2005; and
- Philsaga supplies ore to Medusa.
- Plant review completed with budget and refurbishment program being formulated for 550 tpd ball mill (on care and maintenance since 1991) to re-commence operation late Q2 '06.

PHILSAGA MINING CORPORATION TRANSACTION

- Awaiting satisfaction of Condition Precedent before proceeding.

PANAON GOLD PROJECT

- Rehabilitation of main adit and key cross-cuts almost completed, drilling planned; and
- Goldsearch Limited has executed conditional Heads of Agreement to fund first US\$1 million of expenditure for a 50% interest with due diligence extended to 31 October 2005.

ANTI DAM – KURNALPI PROJECTS

- The Company intends to JV or sell the project

CORPORATE

The Company in September 2005 completed the following raisings via:

- a fully underwritten Rights Issue that raised approximately \$6.1 million (before expenses); and
- a private placement that raised approximately \$1.4 million before costs.



PROJECT OVERVIEWS

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



Figure 1.

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 Mining Corporation ("Philsaga"), Philsaga has agreed to provide Medusa with a 3 year Lease and Option to acquire Philsaga's treatment plant and associated facilities ("Plant").

Lease and Option Agreement

The Lease and Option Agreement will enable Medusa to process ore and produce gold to generate cashflow (from 1 October 2005) and includes the right to acquire the Plant anytime during the 3 year period.

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

- Medusa has made a payment of A\$2,000,000;
- Medusa has provided A\$1,000,000 for the contractors to purchase equipment for the provision of services to the mine;
- Medusa has a 3 year lease of the Plant with an option to acquire the Plant anytime during the period; and
- A company associated with the Principal Shareholders of Philsaga and Philsaga will project manage all aspects of the Plant operations on a cost plus 15% basis.

Ore Supply Agreement

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

Summary of Plant included in the Lease and Option Agreement

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

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

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

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

- The Co-O Plant feed was dependant on ore mined and monthly production was variable between a maximum of 2,950 tonnes (91 tpd) for May 2003 and 1341 tonnes (45 tpd) for September 2003. The throughput for 2004 was steadily improved each month from 1,434 tonnes (46 tpd) in January 2004 to 2,603 tonnes (84 tpd) in September 2004, with a daily average of 59 tpd for the first half and 72 tpd for the second half year.
- The relationship between the calculated plant head grade and the ROM assigned head grades, which are based on face samples to the stopes and ore drives, was consistent whereby the ROM assigned grade was between 7% and 13% higher than the calculated head grade.
- The tails grade has been steadily improved such that the Co-O Plant is able to achieve a discharge grade of less than 1 g/t Au with resultant plant recovery of 96% for the fourth quarter to 2004.
- The Co-O Plant unit cash cost of production has been US\$20, US\$27 and US\$28 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant repair expense in 2004 that is not expected to re-occur.

- Administration to the Co-O Operations has been US\$16, US\$22 and US\$37 per tonne for the years 2002, 2003 and 2004 respectively. This expenditure reflects the increasing degree of exploration related administration, including tenement applications and court cases, particularly in 2004, that are not expected to be repeated.
- The Co-O Mine unit cash cost of production has been US\$67, US\$78 and US\$96 per tonne for the years 2002, 2003 and 2004 respectively. Included within this expenditure has been significant expense in 2004 for rehabilitation of the 3185 mL return airway, development costs on the 3150 mL to connect with the Tinago Shaft. The unit cost reflects the small scale mining contract rate for ore production that is to be reduced with the introduction of "bore & fire" operations.

Co-O Plant - Production Statistics

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

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

Benefits associated with the transaction

The transaction will deliver Medusa the following benefits:

- control of a profitable Plant that will treat high grade ore from the Co-O Gold Mine and potentially other ore sources;
- milling facilities which can be expanded as and when required depending on production increases; and
- an existing workforce, management and infrastructure that are working effectively and co-operatively with local communities.

Plant review and forward refurbishment program

A thorough plant review has been completed by an independent metallurgical consultant. The aim of the review was to determine the refurbishment program required to enable the large ball mill with nameplate capacity of 550 tpd to recommence operation late in the second quarter of 2006. This mill has been on care and maintenance since 1991. A thorough examination will be undertaken before recommencing operation.

The report and recommendations have been received with the budget and refurbishment program currently being formulated. This work is expected to commence during December 2005 and will include other repair and upgrade work elsewhere in the plant required to handle the anticipated increase in throughput.

During the refurbishment period, operation will continue utilising two smaller ball mills with combined capacity of approximately 150 tpd.

PHILSAGA TRANSACTION

The Company is still awaiting the satisfaction of an outstanding Condition Precedent ("CP") and have agreed in principle with the principal shareholders of Philsaga to discuss and revise the original terms of the Share Purchase Agreement upon resolution of the CP and the granting of a Mining Production Sharing Agreement ("MPSA") on the Co-O Gold Mine.

The period of satisfaction of the CP has been extended to 21 November 2005.

SAUGON GOLD-SILVER PROJECT (Medusa 50%)

Work during the period was limited to some field reconnaissance.

PANAON GOLD PROJECT (Divesting 50%)

Background

The Panaon Gold Project is located on Panaon Island (Fig.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 inter-island ferry.

Project Geology

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

The Pinut-an veins are associated with an alteration area of approximately 5 km². Stream sediment sampling carried out over an area of 200 km² in early 2003 by the a government to government Korean-Filipino joint venture team detected anomalous values in the Pinut-an, Bituon and Habay Fault areas.

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

Work Completed

Philsaga is nearing completion of the rehabilitation of the main adit and cross-cuts. An underground and surface drilling program is being planned to commence during the next quarter.

Joint Venture

On 28 September 2005, Goldsearch Limited ("Goldsearch") announced that they had signed a conditional Heads of Agreement with Medusa and its controlled Filipino entities under which Goldsearch will fund the first US\$1M of expenditure to earn a 50% interest in the project.

Goldsearch has subsequently requested Medusa to extend the period for due diligence to 31 October 2005.

BARLO COPPER-GOLD-ZINC PROJECT (Option to acquire 67%)

Background

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

Current Status

The Company was advised during the June quarter that Pyro lodged an appeal to the Office of the President on 15 July 2005 against the ruling of the Secretary of the DENR that was issued while the MAB case was in progress and consequently did not follow due process. In the meantime Montague or any other third party cannot validly apply for a tenement over the Pyro MPSA while the motions filed both with the MAB and the Office of the President are being addressed.

The Company has not been advised of any changes to the project status since the above filing.

BACTECH JOINT VENTURE

On 5 October 2005, Medusa advised that it had agreed with BacTech Mining Corporation ("BacTech") of Canada to receive the rights to one BacTech Technology Licence, free of licence fees and royalties, in exchange for Medusa forgiving all unpaid amounts due from metallurgical testwork carried out on the Dizon tailings project.

The license will be shared 50:50 with Independent Metallurgical Laboratories Pty Ltd of Perth, Western Australia who carried out the metallurgical testwork. The license can be used in any country other than those with exclusivity arrangements with third parties.

The settlement also involves cancellation of the Joint Venture between Medusa and BacTech for exclusive use of the BacTech technology in the Philippines.

BRAEMORE PROJECT (Optioned)

As advised to the ASX in an announcement dated 26 May 2004, the Company reached agreement with Teck Cominco Australia Pty Ltd ("Teck") whereby Teck acquired an Option to Purchase the Braemore Project for \$250,000. Due to delays in gaining access to some of the tenements, the Option was extended for a period of 12 months until February 2006 by Teck paying an extension fee of \$10,000 to Medusa. Teck has advised work completed during the quarter as follows:

Resplits of anomalous samples from the June RAB program have confirmed the presence of supergene Au in the northern portion of the project area. Best results include 6metres @ 1.08 g/t Au (including 1 metre @ 4.02 g/t) from 58 metres (BRAB142) and 8 metres @ 0.48 g/t Au 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. Follow up soil sampling and mapping is planned.

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

The Company is seeking parties to joint venture or acquire these projects.

CORPORATE

The Company successfully raised approximately \$7.5 million (before costs) in September 2005 via:

- a fully underwritten non-renounceable Rights Issue that raised approximately \$6.1 million (before expenses); and
- a private placement that raised approximately \$1.4 million before costs.

Yours faithfully



Geoff Davis
Managing Director

The information in the above announcement was compiled by Geoff Davis, who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Geoff Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Further Information:

For further information, please contact Geoff Davis on +618 9367 0601 or by email to admin@medusamining.com.au. Detailed descriptions can be viewed on www.medusamining.com.au

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

MEDUSA MINING LIMITED

ACN or ARBN

099 377 849

Quarter ended ("current quarter")

September 2005

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
1.1 Receipts from product sales and related debtors	3	3
1.2 Payments for (a) exploration and evaluation	(484)	(484)
(b) Lease & Option Agreement	(3,000)	(3,000)
(c) production	-	-
(d) administration	(169)	(169)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	8	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net operating cash flows	(3,642)	(3,642)
CASH FLOWS RELATING TO INVESTING ACTIVITIES		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(9)	(9)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(9)	(9)
1.13 Total operating and investing cash flows (carried forward)	(3,651)	(3,651)

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(3,651)	(3,651)
CASH FLOWS RELATING TO FINANCING ACTIVITIES			
1.14	Proceeds from issues of shares, options, etc.	7,653	7,653
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (issue expenses)	(298)	(298)
Net financing cash flows		7,355	7,355
Net increase (decrease) in cash held		3,704	3,704
1.20	Cash at beginning of quarter/year to date	331	331
1.21	Exchange rate adjustments to item 1.20	4	4
1.22	Cash at end of quarter	4,039	4,039

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

	Current quarter \$A'000
1.2 Aggregate amount of payments to the parties included in item 1.2	70
1.2 Aggregate amount of loans to the parties included in item 1.10	-

1.2 Explanation necessary for an understanding of the transactions

Salaries, management and consulting fees paid to Directors of the Company

Non-cash financing and investing activities

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

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

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	-
Total	250

Reconciliation of cash

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

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	462	126
5.2 Deposits at call	3,577	205
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,039	331

Changes in interests in mining tenements

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

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 +Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	53,439,155	39,238,555		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	13,387,363 150,000	13,387,363 150,000	\$0.60 \$0.20	\$0.60 \$0.20
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	26,536,275	22,711,275	<i>Exercise price</i> (see note 6)	<i>Expiry date</i> (see note 6)
7.8 Issued during quarter	3,183,012	3,183,012	\$0.20	31 January 2007
7.9 Exercised during quarter	(855,580)	(855,580)	\$0.20	\$0.20
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
2. This statement does give a true and fair view of the matters disclosed.



Sign here:

Date: 31 October 2005

Company Secretary

Print name:

Roy Daniel

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3. **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4. The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
5. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

6. Options:

<u>Number issued</u>	<u>Exercise price</u>	<u>Expiry date</u>
<i>(a) Options issued and quoted as at 30 September 2005</i>		
22,711,275	\$0.20	31 Jan 2007
<i>(b) Options issued but not quoted as at 30 September 2005</i>		
225,000	\$0.6072	31 Jan 2007
600,000	\$0.4334	26 Jun 2010
3,000,000	\$0.5764	16 Dec 2007