# QUARTERLY ACTIVITIES REPORT
## PERIOD ENDING
## 31 DECEMBER 2007

MEDUSA

## COMPANY PROFILE:

- **Resources at Co-O Mine are 713,000 ounces @ 10.9 g/t gold in 2,034,000 tonnes;**
- **Reserves at Co-O Mine are 256,000 ounces @ 11.1 g/t gold in 717,000 tonnes;**
- **Centrally located mill, multiple mines;**
- **Major expansion in progress at Co-O to increase production;**
- **Estimated long term cash costs of approximately US$200 per ounce;**
- **Extensive exploration area of >800 km² along 70 km strike of the richly endowed East Mindanao ridge;**
- **Regional assessment confirms excellent prospectivity for gold and porphyry copper-gold deposits.**

**Share capital as at 31 December 2007:**

Shares: 145,057,548
Unlisted options: 12,801,446
ASX code: MML

**Listings**

Australian Stock Exchange (Home Exchange)
Alternative Investment Market (London)

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## KEY POINTS:

### Co-O MINE EXPANSION

- Major expansion, including two new shafts progressing well. Benefits anticipated to commence to flow in Q3 2008. On completion, mine production is expected to increase to approximately 60,000 ounces;
- Approximately 70% of the quarter's activities were focused on expansion with 821 metres of development completed;
- Major items ordered for installation of grid power to the mine.

### Co-O MINE PRODUCTION

- With the Company's main focus on expansion, gold production for the quarter totalled 3,686 ounces at an average grade of 10.46 g/t gold and average cash cost of US$263 per ounce.

### Co-O RESOURCE EXPANSION DRILLING

- Discovery of New Catto Veins to west of Oriental Fault extends vein system;
- Results include 3.30 metres at 26.09 g/t gold, 1.95 metres at 22.02 g/t gold and 1.40 meters at 20.62 g/t gold.

### LINGIG PORPHYRY DISCOVERY

- Preparations underway to commence drilling as soon as possible.

### ANOLING

- Drill results continue to define veins;
- Underground exploration continuing on the Alcorn Vein and underway on the Hope Vein via the completed Rose Shaft.

### TAMBIS-BAROBO AREA

- Completion of a soil sampling programme of approximately 4,500 samples;
- Soil results anticipated during Q2 2008.

### REGIONAL

- Joint venture with Bunawan Mining Corporation over an additional 88 $km^2$ of contiguous tenements expected to be finalised in the near future.

LISTED ON AUSTRALIAN STOCK EXCHANGE

## PROJECT OVERVIEW

The locations of the Company's projects are shown on Figures 1 and 2.

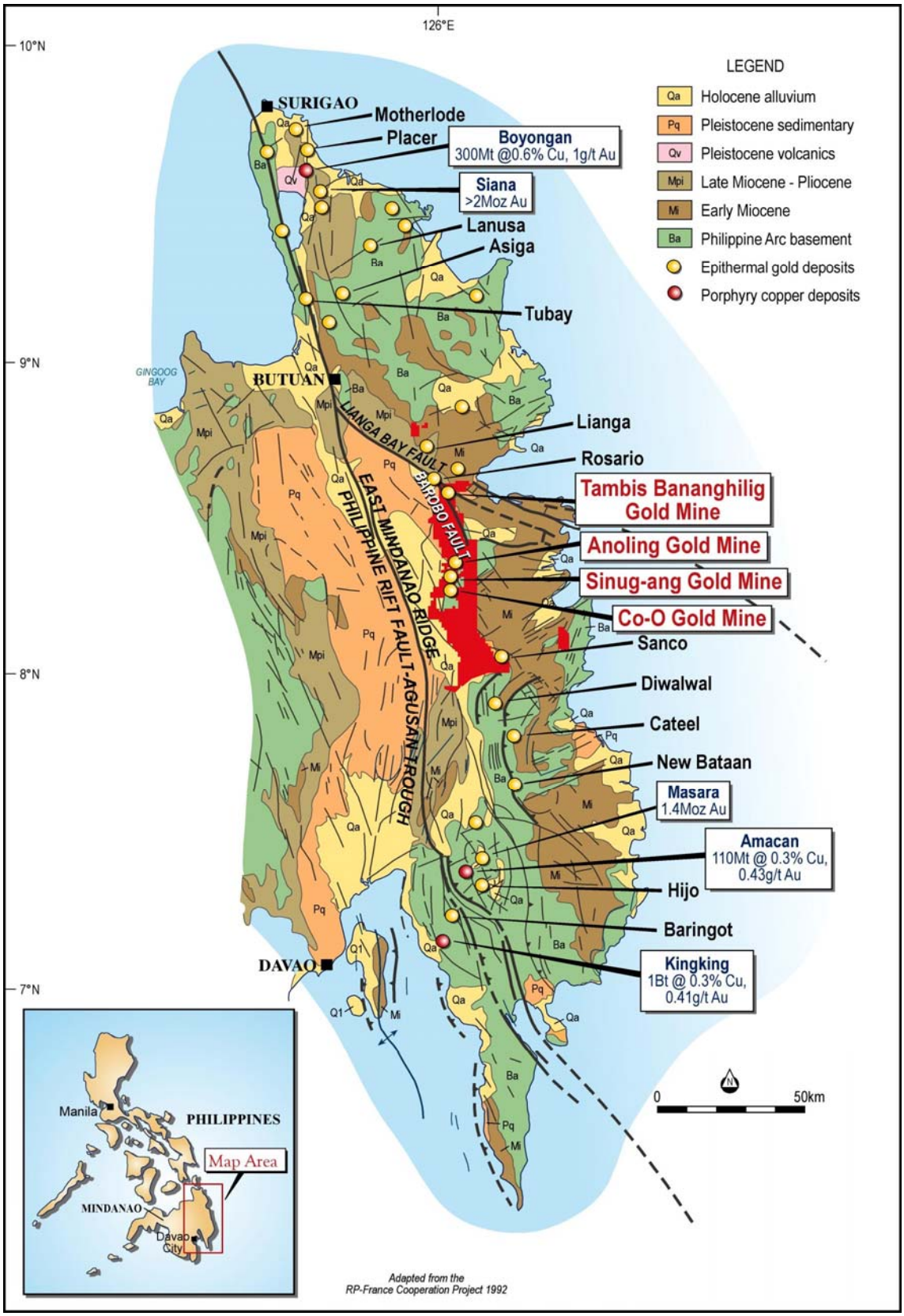


Figure 1. Location diagram

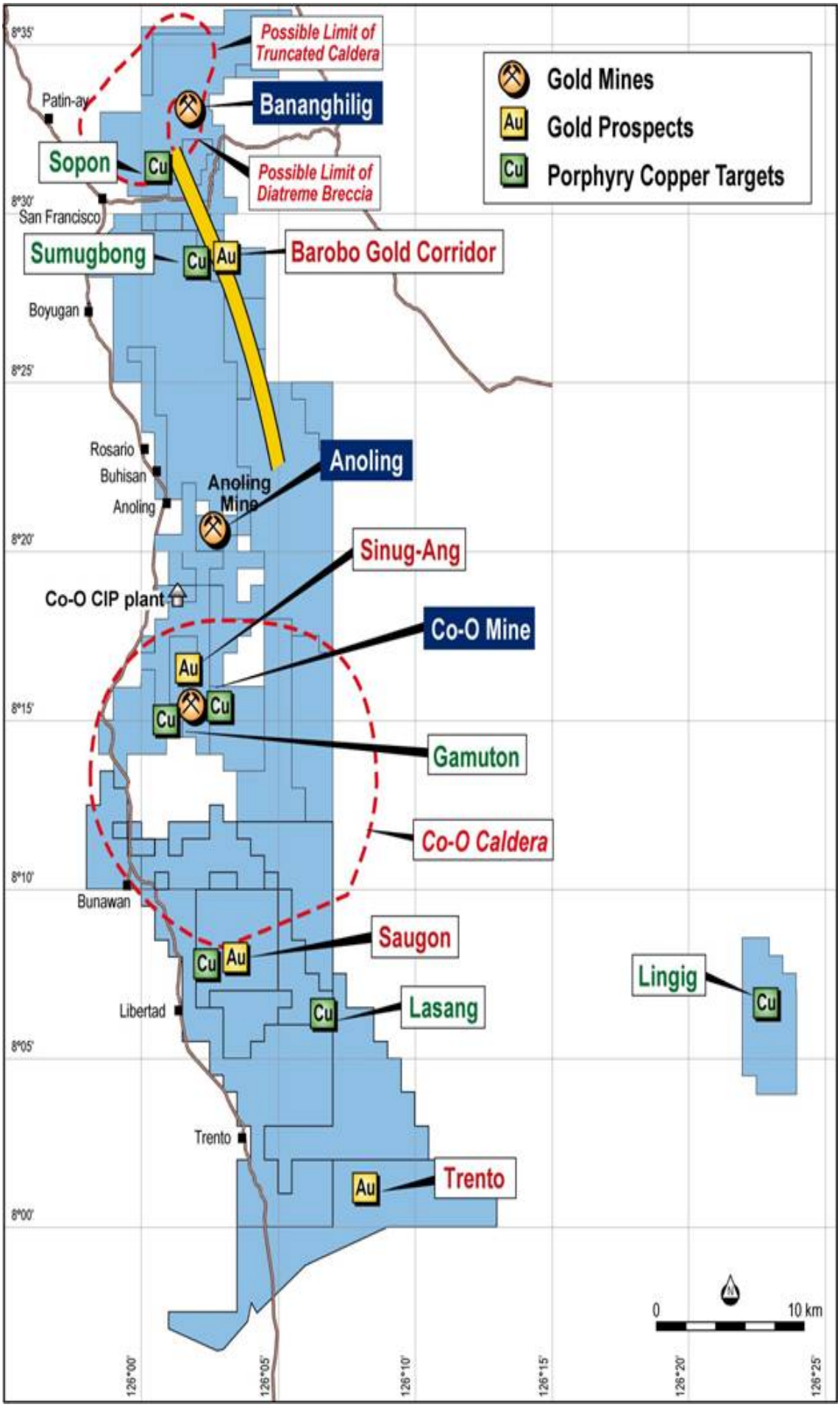


Figure 2. Regional tenement map showing mines and prospects.

## GOLD PRODUCTION

The production statistics for the current financial year are summarised in Table I.

**Table I: Gold Production**

| Period | Gold produced *(ozs)* | Head grade *(g/t gold)* | Cash costs *(US$ per oz)* | Comments |
|---|---|---|---|---|
| Jul to Sep 2007 | 5,050 | 9.45 | 248 | Stoping of accessible lower grades due to lack of development miners and re-assignment of some of workforce to the expansion projects |
| Oct to Dec 2007 | 3,686 | 10.46 | 263 | Expansion activities and shortage of miners results in reduced production as advised. |
| TOTAL | 8,736 | 9.85 | 254 | |

The Company produced 3,686 ounces of gold at an average grade of 10.46 g/t gold and average cash production costs of US$263 per ounce.

Approximately 70% of the Company's activities during the quarter focussed on expansion (see the following separate section on Mine Expansion). As previously advised, during the expansion phase reduced ore volumes are being sourced primarily from the more developed and readily accessible Central Vein. However, the benefits of the expansion are currently on track to start to flow through in the third quarter 2008.

## Co-O MINE

### Resource Expansion Drilling

The current resource estimation is shown in Table II. Drilling is continuing with four surface rigs and one underground rig.

**Table II: Resource estimation summary**

| Category | > 3 g/t gold | | |
|---|---|---|---|
| | tonnes | g/t gold | ounces |
| **Indicated** | 928,000 | 12.6 | 377,000 |
| **Inferred** | 1,106,000 | 9.5 | 336,000 |
| **Grand total** | **2,034,000** | **10.9** | **713,000** |

Notes:

- A lower cut-off of 3 g/t gold is the designated lower cut-off based on economic parameters;
- An uppercut of 300 g/t gold has been applied; and
- Resources are inclusive of reserves.

### Drilling programme and results

Figure 1 shows the location of the Co-O Mine and Figure 3 shows all the diamond drill holes drilled and in progress around the Co-O Mine since December 2006. Figure 4 shows the current three dimensional model of the vein system which will be updated in April 2008.

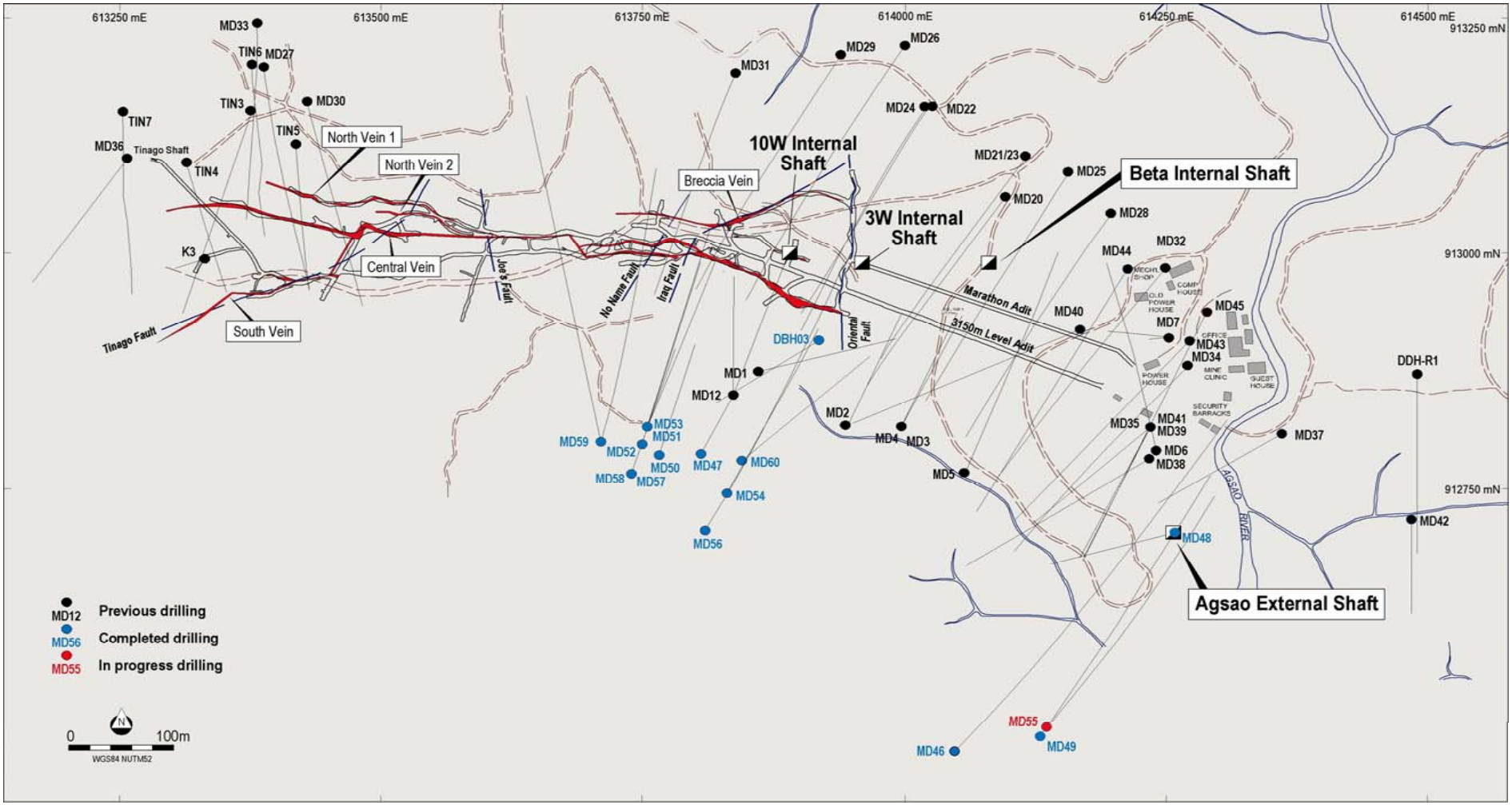


Figure 3. Map of the Co-O Mine area showing drill hole locations.

Since August 2007 a total of 13 new surface holes have been completed with assays awaited for hole MD 55. Hole MD 50 was abandoned due to bad ground conditions in a fault zone.

Table III lists the diamond drilling results from the Co-O Mine for drill holes MD 46 to MD 58 (excluding MD 50 and 55) and for underground drill hole DBH 03. Previous announcements on the Co-O drilling on 9 July, 15 May and 28 February 2007 contain information regarding drilling and surveying techniques, comments on vein interpretation and methodologies and assaying protocols.

**Table III: Drill hole results greater than 3g/t gold for holes MD 46 to 58 and DBH 03**

| Hole | East | North | Dip (°) | Azimuth (°) | From (metres) | Width (metres) | Grade (uncut) (g/t gold) |
|---|---|---|---|---|---|---|---|
| **EAST** | | | | | | | |
| MD 46 | 614,047 | 912,472 | -48 | 41 | 489.30 | 0.85 | 8.96 |
| | | | | | 501.40 | 0.40 | 4.50 |
| | | | | | 542.90 | 1.40 | 20.62 |
| MD 48 (Agsao Shaft pilot hole) | 614,257 | 912,704 | -60 | 253 | 212.45 | 1.95 | 22.02 |
| MD 49 | 614,129 | 912,487 | -50 | 40 | 449.85 | 0.85 | 14.69 |
| | | | | | 463.90 | 1.00 | 4.24 |
| **WEST** | | | | | | | |
| MD 47 | 613,805 | 912,788 | -55 | 30 | 153.30 | 1.10 | 7.01 |
| MD 51 | 613,749 | 912,798 | -53 | 17 | 130.50 | 0.85 | 9.31 (*) |
| | | | | | 155.75 | 0.25 | 41.06 |
| | | | | | 286.65 | 1.00 | 3.00 (*) |
| MD 52 | 613,754 | 912,816 | -50 | 14 | 75.25 | 0.55 | 3.53 |
| | | | | | 157.60 | 0.30 | 5.31 |
| | | | | | 170.40 | 0.30 | 14.93 |
| MD 54 | 613,830 | 912,745 | -47 | 29 | 174.00 | 1.80 | 14.59 |
| MD 56 | 613,809 | 912,706 | -54 | 29 | 390.85 | 1.00 | 3.11 |
| MD 57 | 613,739 | 912,767 | -54 | 16 | 191.90 | 3.30 | 26.09 |
| MD 58 | 613,739 | 912,767 | -58 | 16 | 176.10 | 0.40 | 43.13 (*) |
| | | | | | 207.00 | 0.70 | 7.15 (*) |
| | | | | | 280.40 | 0.90 | 6.20 (*) |
| DBH 03 | 613,918 | 912,909 | -0.2 | 236 | 29.05 | 1.05 | 6.58 |
| | | | | | 57.30 | 1.90 | 9.60 |
| | | | | | 72.20 | 0.40 | 17.21 |

**Notes:**

(i) (*) denotes Philsaga assays;
(ii) Independent laboratory McPhar assays are quoted in preference to Philsaga assays;
(iii) Grid coordinates based on the Philippine Reference System 92;
(iv) Intersection lower cut-off grade is 3 g/t gold in line with resource estimation parameters; and.
(v) MD 55 not yet assayed and MD 50 abandoned.

## Discussion

All drill holes completed by the end of February 2008 will be included in a new interim resource estimate that is expected to be completed in April 2008. However, drilling will continue after the resource estimate is completed.

### West of the Oriental Fault

The drilling has now successfully demonstrated that the three New Catto Veins continue to the west of the Oriental Fault for approximately 200 metres and may extend through to surface similar to the Central Vein. Consequently development is underway to intersect them on the 3150 metre or adit level, on the 3100 metre level, and on the 3050 metre level as intersected in underground drill hole DBH 3. It is anticipated that stoping should commence from the west New Catto Veins on these three levels in the third quarter of this year. These veins are still open along strike to the west and at depth.

### East of the Oriental Fault

Hole MD 48 (Agsao Shaft pilot hole) intersected one of the east New Catto Veins and returned confirmatory high grades. Hole MD 46 intersected 1.40 metres at 20.62 g/t gold at approximately 400 metres below surface which is one of the deepest intersections achieved to date.

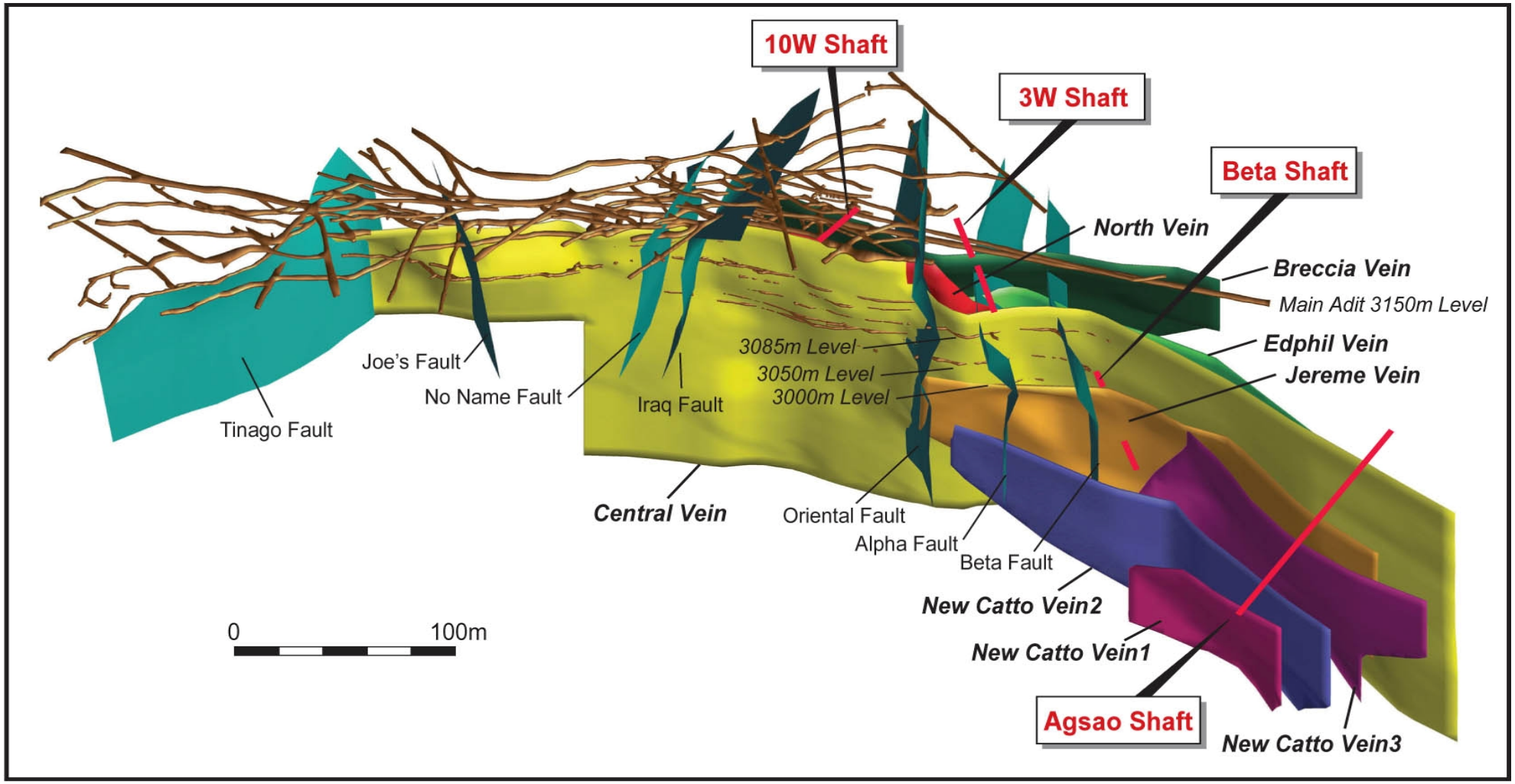


Figure 4. Co-O Mine 3D model looking north.

## Mine Expansion

Expansion works have proceeded well during the quarter with approximately 70% of the activities focussed on the expansion. A total of 821 metres of development was completed.

In the third quarter of 2008 it is anticipated that stope production should be underway from five levels in the mine, being the 3150, 3100, 3050, 3000 and 2950 metre levels.

### (a) Development of the New Catto Veins

A new drive following underground drill hole DBH 3 on the 3050 metre level is underway to initially intersect the New Catto Veins to the west of the Oriental Fault before driving to locate the Catto Veins on the east side of the Oriental Fault. It is anticipated that this drive will intersect the veins on the west side in February and that stopes should be set up for production in the third quarter of 2008.

### (b) Beta Shaft

The set-up for the new internal inclined Beta Shaft (footings, headframe and winder), to an inclined depth of 120 metres (100 metres vertical) is in progress following the drilling of the large diameter siter hole.

Provided ground conditions are reasonable, ore production through the Beta Shaft should commence in the last quarter of 2008.

### (c) Agsao Shaft

The new external Agsao Shaft, to an inclined depth of 240 metres (200 metres vertical) has commenced sinking following setting up of the head frame and associated infrastructure. The bottom of this shaft will be at the 2950 metre level and will be connected to the Beta internal inclined shaft at the same 2950 metre level. Plate 1 shows the Agsao Shaft headframe.

Provided ground conditions are reasonable, ore production through the Agsao Shaft should commence early in 2009.

### (d) 3150 metre level

Following the on-going success of the drilling for the Catto Veins to the west of the Oriental Fault, development is now underway to intersect these veins in March to the south of the Central Vein and to set up stopes. Stope production should commence in the third quarter of 2008.

## Co-O Mine Grid Power

The Company has ordered the long lead time items required for the power line. The timing of the completion of the power line will depend on the arrival of these items.

Plate 1. Agsao shaft headframe standing 7.3 metres high.

## TAMBIS–BAROBO AREA

The Company has recently completed a comprehensive ridge and spur soil sampling programme along the Barobo Corridor and around the Sopon area totalling approximately 4,500 samples from several soil horizons. These samples are currently being selectively processed with results anticipated in the second quarter of the 2008.

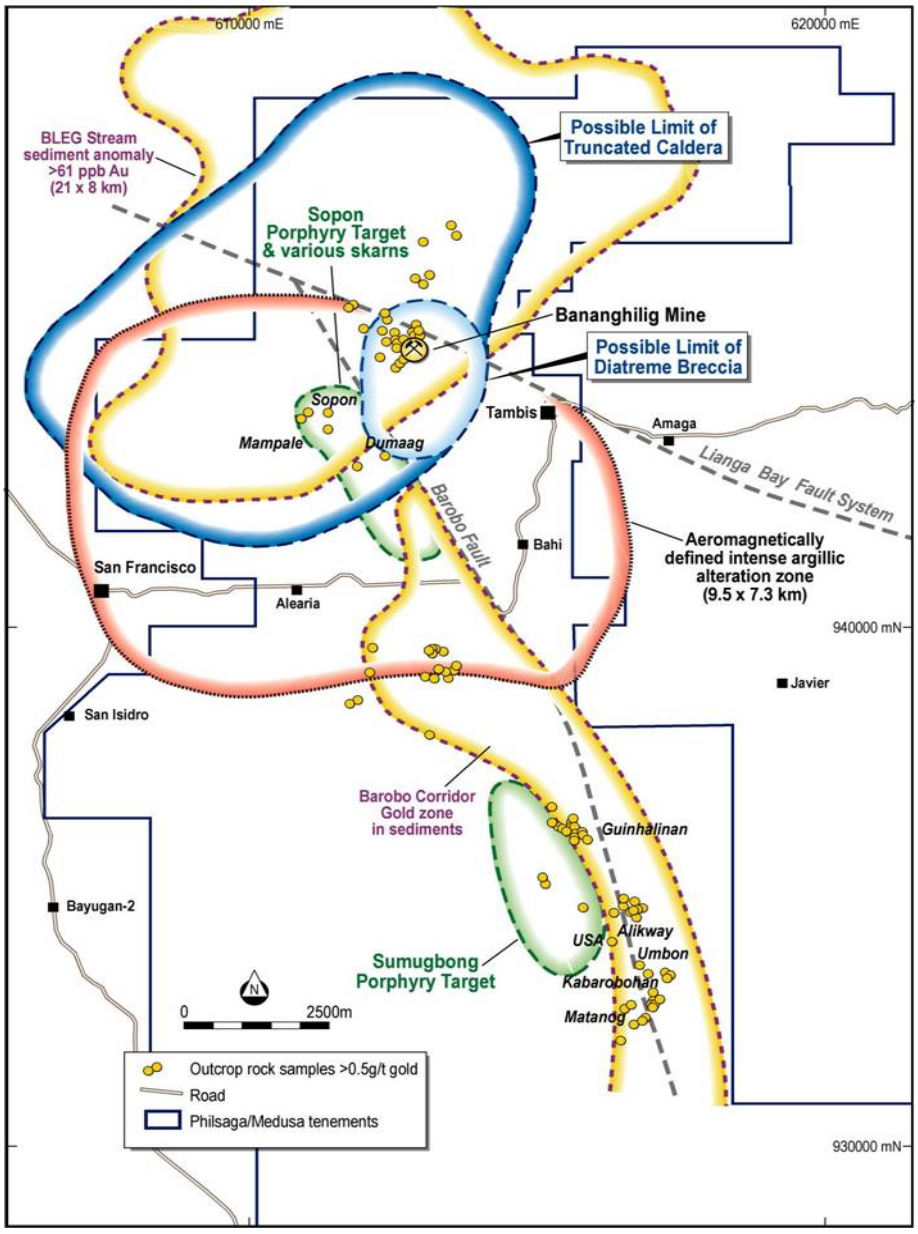


Figure 5. Barobo Corridor -Tambis District summary of significant features.

Drilling is continuing in the Bananghilig area targeting the vein systems specifically where they are hosted by intrusive, coarse-grained andesitic rocks. It has now been demonstrated that these competent rocks are superior host rocks for the formation of constrained high grade veins compared to the more permeable diatreme breccias where mineralisation is generally more diffused or disseminated.

## ANOLING

The Mines Operating Agreement ("MOA") with Alcorn Gold Resources Inc. covers Mining Production Sharing Agreement ("MPSA") application number 039-XIII situated approximately 8 kilometres north from the millsite as shown on Figure 2. Processing of the Anoling MPSA is in progress.

### Diamond Drilling and Geology

The two parallel Alcorn and Hope veins, when undeformed, consist of banded quartz carbonate with minor pyrite and base metal sulphides. The veins are controlled by shear zones with consequent brecciation of the vein material in some places. The shearing has also induced vein width variations due to pinch and swell characteristics. Both veins are open to the east.

Figure 6 shows the vein projections from surface mapping and sampling and the location of the all diamond drill holes completed to date. Table IV summarises all the diamond drillhole intersections greater than 2 g/t gold.

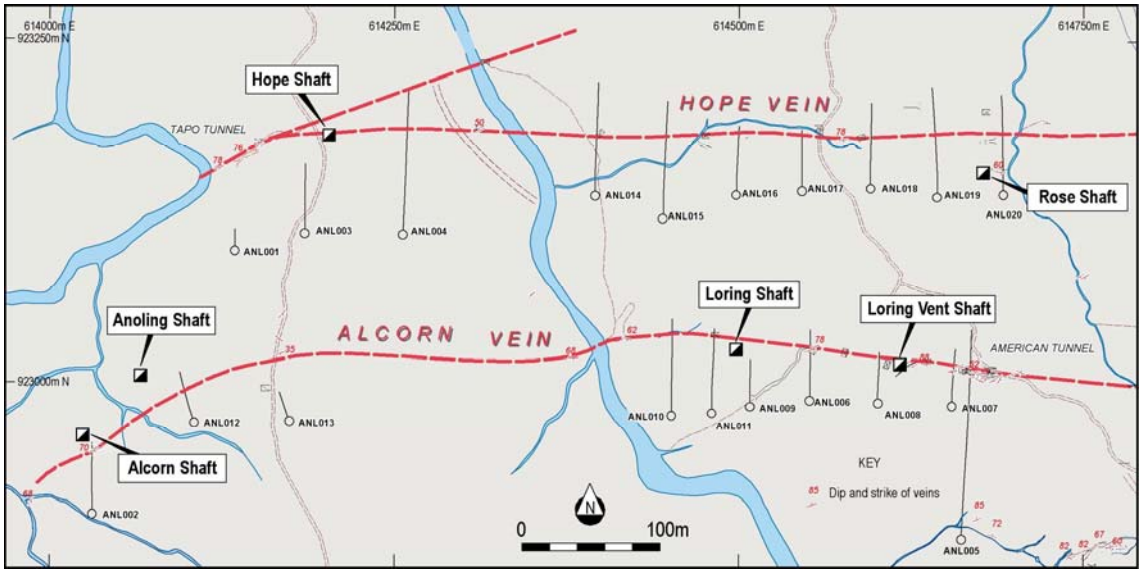

Figure 6. Surface geology and drill hole locations.

**Table IV: Summary of drilling results for holes ANL 01 to ANL 32 for intersection grades >2 g/t gold**

| Hole | East | North | Dip (°) | Azimuth (°) | From (metres) | Width (metres) | Grade (uncut) (g/t gold) |
|---|---|---|---|---|---|---|---|
| ANL 05 | 614662 | 922889 | -56 | 3 | 190.25 | 0.95 | 4.39 (*) |
| ANL 06 | 614552 | 922989 | -65 | 0 | 66.80 | 0.50 | 4.07 (*) |
| ANL 08 | 614601 | 922987 | -60 | 0 | 59.00 | 0.95 | 2.95 (*) |
| ANL 09 | 614508 | 922984 | -60 | 0 | 55.90 | 2.70 | 13.96 (*) |
| ANL 11 | 614480 | 922980 | -50 | 0 | 65.45 | 0.45 | 7.77 |
| ANL 14 | 614395 | 923137 | -55 | 0 | 84.50 | 1.90 | 2.86 |
| | | | | | 87.40 | 0.65 | 2.33 |
| ANL 15 | 614445 | 923123 | -55 | 0 | 99.40 | 0.60 | 13.10 |
| ANL 16 | 614498 | 923140 | -68 | 0 | 88.95 | 1.00 | 2.09 |
| ANL 17 | 614545 | 923143 | -70 | 0 | 57.30 | 1.40 | 4.20 |
| | | | | | 62.70 | 1.60 | 10.08 |
| ANL 18 | 614595 | 923143 | -60 | 0 | 59.70 | 0.90 | 9.30 |
| ANL 19 | 614644 | 923139 | -60 | 0 | 91.50 | 4.00 | 17.17 |
| | | | -60 | 0 | 147.70 | 0.55 | 7.26 |
| ANL 20 | 614692 | 923139 | -60 | 0 | 92.50 | 1.50 | 7.39 |
| | | | | | 104.60 | 0.30 | 24.30 |
| ANL 22 | 614696 | 923158 | -40 | 0 | 32.40 | 0.70 | 10.75 |
| ANL 26 | 614578 | 922972 | -50 | 0 | 74.85 | 0.60 | 9.84 |
| ANL 27 | 614743 | 923118 | -60 | 0 | 72.05 | 0.55 | 3.77 |
| ANL 28 | 614789 | 923117 | -60 | 0 | 102.15 | 3.35 | 13.14 (*) |
| ANL 30 | 614794 | 922947 | -50 | 0 | 101.90 | 3.00 | 2.35 |
| ANL 31 | 614744 | 922947 | -50 | 0 | 91.20 | 1.60 | 10.10 |
| ANL 32 | | | | | | | |
| | 614508 | 922971 | -68 | 0 | 28.65 | 0.50 | 5.35 |
| | | | | | 92.50 | 0.50 | 2.21 (*) |

Note: (*) denotes assays conducted by the Philsaga on-site laboratory.
All other assays undertaken by McPhar Geoservices Inc.

## Work in Progress

Underground exploration will continue from both the Rose and Loring Shafts to verify the drill results achieved to date and to assess mining conditions. Positive results from this work may justify production from these veins in the third quarter of 2008.

Drilling will continue along strike to outline additional zones of mineralisation that could justify underground exploration and assessment.

# OTHER PROJECTS

## ➢ Das-Agan (Lingig) Project

The MOA covering MPSA application number APSA 024-XIII comprises two parcels situated to the north and to the east (the Lingig porphyry copper prospect) of the Co-O Mine and millsite as shown on Figure 2.

As previously advised, drilling will commence as soon as possible, upon finalisation of permits. Road and bridge repairs for access are in progress.

A detailed compilation of previous work was recently completed and is detailed below:

The Lingig area was located as a result of an aid programme between Filipino and Japanese geologists and technicians in 1972 to 1974 over eastern Mindanao (Dept of Natural Resources, 1974). An initial 3,000 km² prospective area was located by geological and geochemical surveys and was subjected 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.

A programme of five holes with pre-set depths of 250 metres was completed on five different targets.

### Geology and drilling results

Figure 7 shows the current geology of the area as well as copper soil geochemistry and contoured resisitivity and frequency effect results of the Induced Polarisation survey. The surface mapping and drilling suggests that this is an intrusive complex with dacite, dolerite, diorite and quartz diorite rocks intruding a basaltic sequence.

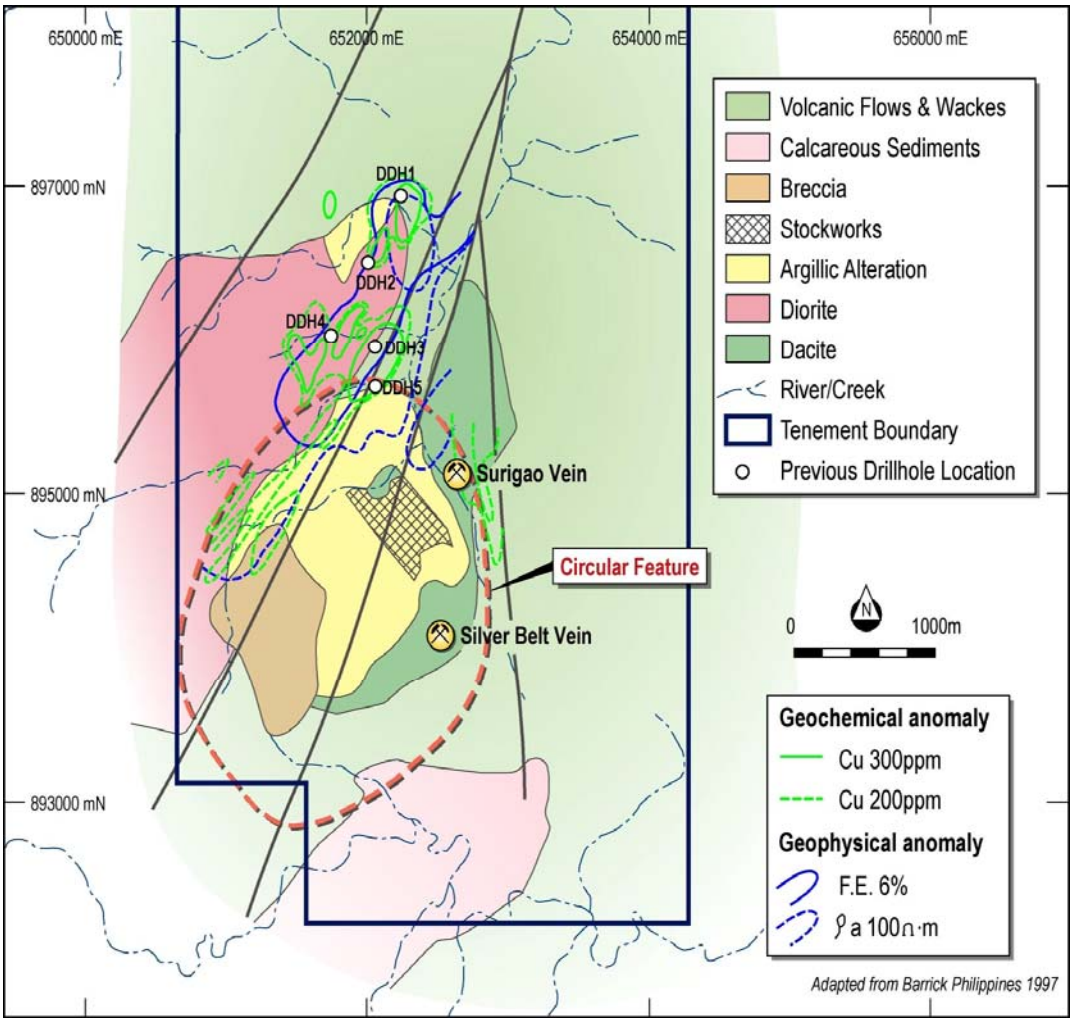


Figure 7. Geological map of the Lingig area

Epithermal veins up to 1 metre wide are generally gold poor and relatively base metal enriched. They have been worked sporadically by local prospectors.

In 1997 Barrick Gold Philippines assessed the project for its gold potential through mapping and the collection of 110 rock samples. This work identified a circular feature (Fig. 2) that contains most of the mapped argillic alteration and a large elongate quartz veined breccia measuring 750 metres x 1,200 metres and located approximately 1,500 metres south of drill hole DDH1.

Sampling returned gold values between 0.1 and 1.3 g/t gold. Fresh rocks with disseminated grains of sphalerite (zinc) and galena (lead) were found to have higher gold values ranging from 0.3 to 1.3 g/t gold than intensely weathered rocks. The lead-zinc association is consistent with generally accepted metal zoning that occurs around the periphery of porphyry copper deposits

In addition, within the circular feature, a second zone of silicified rocks with quartz stockworking was identified over an area of approximately 500 metres x 600 metres which assayed from 0.03 to 1.5 g/t gold.

Recent reconnaissance has located bleached and silica–clay altered rocks with quartz veinlets approximately 300 metres to the north of DDH1.

### Drill hole DDH1

After passing through 100 metres of propylitically and argillically altered doleritic and basaltic rocks with erratic copper mineralisation, drill hole **DDH1** intersected disseminated and stringer style pyrite and chalcopyrite mineralisation for 98 metres in increasingly argillically altered basaltic and doleritic rocks before entering higher grade mineralisation in phylitically altered quartz diorite porphyry. The graphic log of the drill hole is shown in Figure 8.

**Table V: Summary of intersections in drill hole DDH 1**

| Depth (metres) | Intersection | Host rocks, alteration & mineralisation |
|---|---|---|
| 0 to 100 | Erratic values to 0.89% Cu | Propylitically (chlorite and epidote) and argillically altered dolerite and basalt with disseminated and stringer pyrite, rare chalcopyrite. |
| 100 to 198 | 98 metres @ 0.27% Cu | Propylitically and argillically (clay) altered dolerite and basalt with a moderate increase of disseminated and stringer pyrite and chalcopyrite. |
| 198 to 250 | 52 metres @ 0.65% Cu | Phylitically altered (silica-sericite) quartz diorite porphyry with disseminated and stringer pyrite and chalcopyrite increasing with depth. |
| Incl. 248 to 250<br>[End of Hole] | 2 metres @ 4.93% Cu,<br>0.4g/t Au,10g/t Ag | |
| **TOTAL: 100 to 250** | **150 metres @ 0.40% Cu** | |

The DDH1 drill hole results bode well for a fully preserved porphyry copper deposit which is exhibiting increasing grades with depth, and suggests that DDH1's pre-set depth 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 intersected minor copper mineralisation.

### Drill holes DDH2 to DDH5

**DDH2** intersected quartz diorite intruded by diorite dykes from 11 metres to the bottom of the hole at 250 metres. Both rock types exhibit weak propyllitic alteration. Minor copper mineralisation of 0.16% was encountered from 16 to 20 metres and 0.24% from 48 to 50 metres.

**DDH3** intersected basaltic rocks from nine metres to the end of the hole at 250 metres and which have been intruded by doleritic and quartz diorite dykes. The rocks have been affected by weak chloritisation and rare epidotisation. Minor pyrite occurs along fractures and pyrite-chalcopyrite stringers are rare with the highest copper value of 0.99% at 12 to 14 metres and all other values are less than 0.1% copper.

**DDH4** intersected basaltic and doleritic rocks from 7.5 metres to 96 metres and quartz diorite to the bottom of the hole at 250 metres. The quartz diorite exhibits an upper chilled margin and is cut by quartz diorite dykes at 138 and 216 metres. Except for one assay of 0.69% copper at 128 metres, all other copper values are less than 0.1% copper.

**DDH5** intersected dolerite from 15.20 metres to 69 metres, quartz diorite to 210 metres and dolerite to the end of the hole at 250 metres. The dolerite's alteration is propylitic and of a similar intensity as in holes DDH3 and DDH4. Hydrothermal alteration of the quartz diorite is weak. Copper mineralisation was encountered from 15.20 metres to 34 metres with 18.80 metres at 0.34%, from 52 to 54 metres with 2 metres at 0.69%, 68 to 70 metres with two metres at 0.69% and four metres from 230 to 234 metres with 0.34%. All other intervals were less than 0.1% copper.

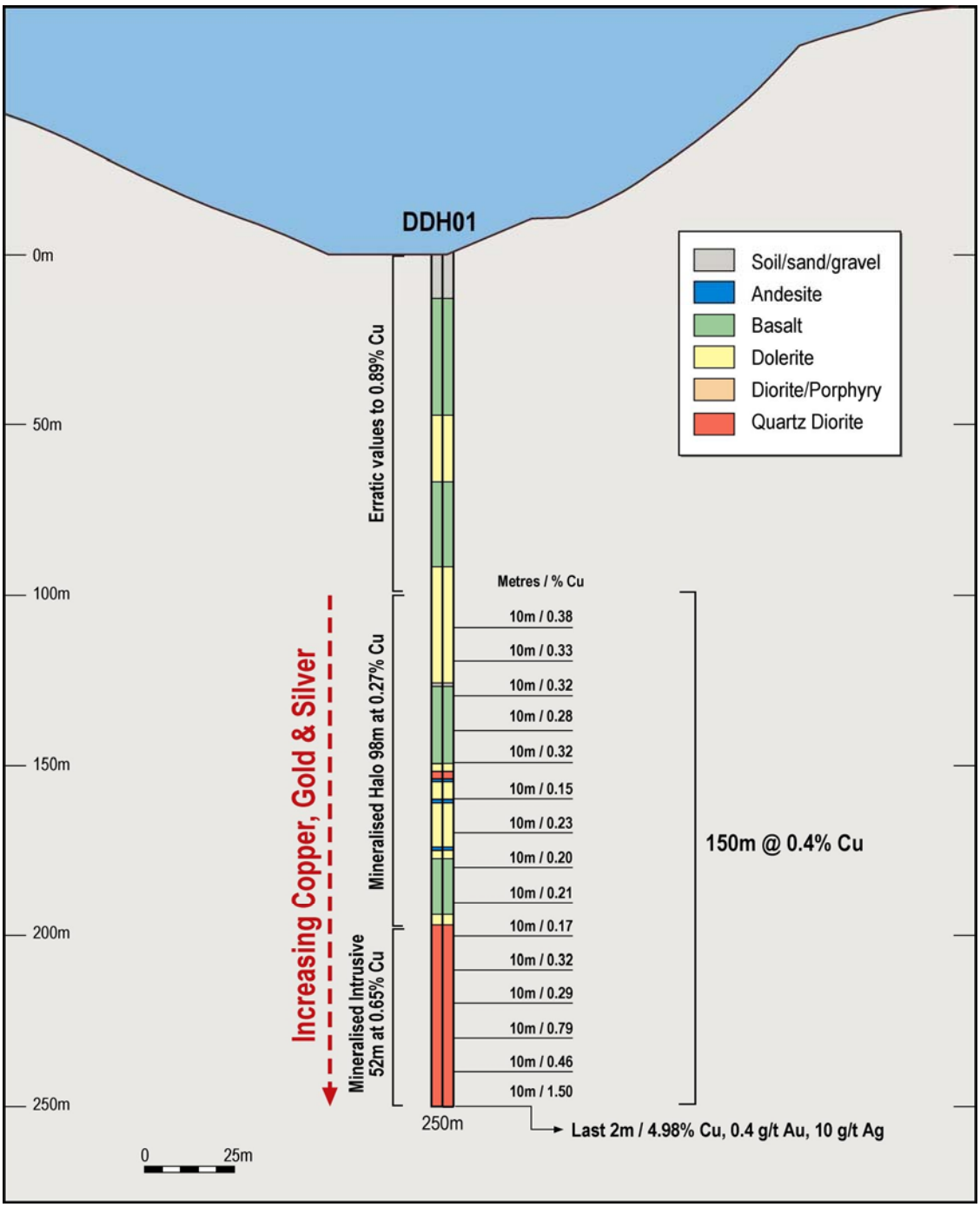

Figure 8. Lingig DDH 1 graphic log.

## Discussion

Drill hole DDH1 has intersected the top of a mineralised copper-gold-silver quartz diorite porphyry. The other drill holes indicate varying degrees of low intensity alteration and minor copper mineralisation probably associated with lithothogy boundaries and faults.

Of particular note is the 98 metre disseminated copper halo above the quartz diorite, suggestive of an intense mineralising system, as well as the erratic copper values in the propylitic alteration envelope above this disseminated zone. This has similarities to the Lutopan orebody of the Atlas Toledo Mine where ore grade replacement mineralisation is hosted in volcanics for a width of 120 metres along a strike length of 900 metres (Mines & Geosciences Bureau, 1986). The Atlas Toledo orebodies are also similarly bounded by two parallel northeast-trending faults as seen at Lingig.

Diorite and quartz diorite intrusive rocks are commonly closely associated with many porphyry copper deposits in the Philippines. Some examples are the Tampakan Deposit (resources of 2 billion tonnes at 0.59% copper and 0.23 g/t gold, www.indophil.com and Middleton et al., 2004), the Boyongan Deposit (resources of 300 million tonnes at 0.6% copper and 1.0 g/t gold, www.mgb.gov.ph, www.philexmining.com.ph), the Atlas Toledo deposits (resources of 1.53 billion tonnes at 0.41% copper and 0.24 g/t gold, www.atlasphilippines.com), the Hinoba-an Deposit (resources of 293 million tonnes at 0.36% copper, www.copperresources.com), and others.

It is also noteworthy that copper mineralisation is more common in DDH5 than DDH2 to DDH4 and that DDH5 is located on the edge of the circular feature and its contained extensive argillic alteration zone and large breccia and stockwork bodies.

- **Abacus Project**

  The Mines Operating Agreement ("MOA") with Abacus Consolidated Resources and Holdings Inc**.** covers Exploration Permit ("EP") application number 000028-XIII situated to the north of the Co-O mine and millsite as shown on Figure 2. The granting process for the Abacus EP is now being pursued.

  The ridge and spur soil sampling described in the Tambis-Barobo section above has covered the eastern parts of the tenement.

- **Saugon Project**

  The Saugon Exploration Permit has been renewed and a regional soil sampling programme is planned.

- **Philsaga-Magnum Project** (Magnum Gold NL earning 50%)

  No field work was conducted during the quarter.

- **Bunawan Mining Corporation JV** (Medusa earning 50%)

  The Company has signed a joint venture agreement("JVA") with Bunawan Mining Corporation ("Bunawan"), the Philippine operating company of ASX listed Sierra Mining Limited ("Sierra"), whereby Medusa, after completing satisfactory due diligence, will earn a 70% joint venture interest in Exploration Permit application ("EPA") 000037-XIII and Mineral Production Sharing Agreement application ("APSA") 000003-XIII (together the "Bunawan JV").

  Upon satisfactory completion of due diligence, which is expected in early February, Medusa has agreed to take a 9.9% placement in Sierra of 4.85 million shares (at an issue price of A$0.25, totalling A$1.21 million) with 2.425 million unlisted attaching options exercisable at A$0.30 each with an expiry date of 4 years from the date of completion of due diligence.

## SAMPLING AND ASSAYING PROTOCOLS

Samples are taken from mainly HQ sized and some NQ sized drill core. The selected sample intervals are halved by diamond saw and half the core is bagged, numbered and sent to the Company laboratory. In a small number of cases to confirm the geological logging, the selected interval was re-split and ¼ core re-submitted for assay.

Initial sample preparation and assaying is undertaken at the Company's on–site laboratory. Samples are dried at 105ºC for 6 to 8 hours, crushed to less than 1.25 cm by jaw crusher, re-crushed to less than 3 mm using a secondary crusher followed by ring grinding of 700 to 800 grams of sample to nominal particle size of less than 200 mesh. Barren rock wash is used between samples in the preparation equipment. The samples are assayed by fire assay with Atomic Absorption Spectrometer (AAS) finish on a 30 gram sample. All assays over 5 g/t gold are re-assayed using gravimetric fire assay techniques on a 30 gram sample.

The majority of samples which contain more than 0.5 metres at more than 2 g/t gold are re-assayed by McPhar Geoservices Phils Inc ("McPhar"), a NATA and ISO 9001/2000 accredited laboratory in Manila. The pulps are airfreighted to McPhar who fire assay 30 grams of sample using AAS finish and a selected number of samples are checked using gravimetric fire assay techniques. Duplicate samples and standards are included in each batch of check samples.

When reporting results, where available, as McPhar is an independent laboratory, McPhar assays are given priority over the Company laboratory's results.

Yours faithfully

Geoff Davis
Managing Director

## JORC COMPLIANCE – CONSENT OF COMPETENT PERSONS

**Medusa Mining Limited**

Information in this report relating to Exploration Results, is based on information compiled by Mr Geoff Davis, who is a member of The Australian Institute of Geoscientists. Mr Davis is the Managing Director of Medusa Mining Limited and has sufficient experience which is relevant to the style of mineralization and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Davis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**Cube Consulting Pty Ltd**

Information in this report relating to Mineral Resources has been estimated and complied by Mark Zammit of Cube Consulting Pty Ltd. Mr Zammit is a member of The Australasian Institute of Mining & Metallurgy and has sufficient experience that 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 "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Zammit consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Cube Consulting is an independent Perth based resource industry consulting firm specialising in geological modelling, resource estimation and information technology.

*Rule 5.3*

# 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 | Quarter ended ("current quarter") |
|---|---|
| **099 377 849** | **31 December 2007** |

### Consolidated statement of cash flows

| | | Current quarter $A'000 | Year to date (6 months) $A'000 |
|---|---|---|---|
| | **CASH FLOWS RELATING TO OPERATING ACTIVITIES** | | |
| 1.1 | Receipts from product sales and related debtors | 2,862 | 5,735 |
| 1.2 | Payments for (a) exploration and evaluation | (1,287) | (4,666) |
| | (b) operation | (1,725) | (4,503) |
| | (c) administration | (627) | (1,444) |
| 1.3 | Interest and other items of a similar nature received | 123 | 249 |
| 1.4 | Other | - | - |
| | **Net operating cash flows** | (654) | (4,629) |
| | **CASH FLOWS RELATING TO INVESTING ACTIVITIES** | | |
| 1.5 | Payments for (a) prospects | - | - |
| | (b) equity investment | 2,200 | (2,800) |
| | (c) fixed assets | (126) | (1,243) |
| | (d) development | (2,010) | (2,776) |
| 1.6 | Proceeds from sale of: (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) fixed assets | - | - |
| 1.7 | Loans to other entities | - | - |
| 1.8 | Other (provide details if material) | - | - |
| | **Net investing cash flows** | 64 | (6,819) |
| 1.9 | Total operating and investing cash flows (carried forward) | (590) | (11,448) |
| | **CASH FLOWS RELATING TO FINANCING ACTIVITIES** | | |
| 1.10 | Proceeds from issues of shares, options, etc. | 1,742 | 1,742 |
| 1.11 | Proceeds from borrowings | - | - |
| 1.12 | Repayment of borrowings | - | - |
| 1.13 | Other (issue expenses) | (1,811) | (1,811) |
| | **Net financing cash flows** | (69) | (69) |
| | Net increase (decrease) in cash held (carried forward) | (659) | (11,517) |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| | **Net increase (decrease) in cash held (brought forward)** | (659) | (11,517) |
| 1.14 | Cash at beginning of quarter/year to date | 9,314 | 20,168 |
| 1.15 | Exchange rate adjustments to item 1.14 | 134 | 138 |
| 1.16 | **Cash at end of quarter** | 8,789 | 8,789 |

## 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 |
|---|---|---|
| 1.17 | Aggregate amount of payments to the parties included in item 1.2 | 112 |
| 1.18 | Aggregate amount of loans to the parties included in item 1.7 | - |

1.19 Explanation necessary for an understanding of the transactions

Salaries and consulting fees paid to Directors of the Company

## Non-cash financing and investing activities

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

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

## 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 | 1,500 |
| 4.2 | Development | 600 |
| | **Total** | 2,100 |

## 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 | 2,564 | 1,784 |
| 5.2 | Deposits at call | 6,225 | 7,530 |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.16) | 8,789 | 9,314 |

## 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 | - | - | - | - |

## 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) | Amt paid up per security (see note 3) |
|---|---|---|---|---|---|
| 7.1 | **+Preference securities** *(description)* | | | | |
| 7.2 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 145,057,548 | 145,057,548 | | |
| 7.4 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs | 3,020,000 | 3,020,000 | | |
| 7.5 | **+Convertible debt securities** (*description)* | | | | |
| 7.6 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted | | | | |
| 7.7 | **Options** *(description and conversion factor)* | 12,801,446 | - | *Exercise price* (see note 6) | *Expiry date* (see note 6) |
| 7.8 | Issued during quarter | 2,000,000 | - | $1.25 | 01 Jun 2009 |
| 7.9 | Exercised during quarter | (3,020,000) | - | | |
| 7.10 | Expired during quarter | | | | |
| 7.11 | **Debentures** *(totals only)* | | | | |
| 7.12 | **Unsecured notes** *(totals only)* | | | | |

+ 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 January 2008

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. Unlisted options:

| Number issued | Exercise price | Expiry date |
|---|---|---|
| 250,000 | $0.7200 | 02 Oct 2008 |
| 1,500,000 | $0.9000 | 02 Oct 2008 |
| 500,000 | $1.5000 | 02 Oct 2008 |
| 151,446 | $0.6500 | 13 Nov 2008 |
| 7,000,000 | $1.6000 | 01 Feb 2009 |
| 2,000,000 | $1.2500 | 01 Jun 2009 |
| 800,000 | $0.7128 | 19 Dec 2009 |
| 600,000 | $0.4334 | 23 Dec 2009 |