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<b>Company</b>	Medusa Mining Limited
<b>TIDM</b>	MML
<b>Headline</b>	Heads of Agreement
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**Medusa Mining Limited****Heads of Agreement and Investment in Sierra Mining Limited**

Medusa Mining Limited ("Medusa" or the "Company"), the Australian based company operating and developing gold mines in the Philippines, is pleased to advise that it has signed a Heads of Agreement with Sierra Mining Limited ("Sierra") whereby the Company, 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").

This is the last remaining significant parcel covering a total area of 88.8 square kilometres (8,800 hectares) which is contiguous to the Company's Co-O Project. Medusa will then control in excess of 800 sq km of tenements along the East Mindanao Ridge.

Upon completion of due diligence and signing of a Joint Venture Agreement ("JVA") between the companies' respective Filipino corporations, Medusa has agreed to acquire 4.85 million shares in Sierra representing 9.9% of the enlarged share capital. The shares are to be acquired at an issue price of A\$0.25 each, representing a total consideration of A\$1.21 million. Medusa has also been granted 2.425 million unlisted options over Sierra shares exercisable at A\$0.30 each with an expiry date of 4 years from the date of signing of the JVA.

Sierra is quoted on the ASX and its shares last traded at A\$0.22 per share giving the company a market capitalisation of A\$10.78 million.

The Company is of the opinion that the new parcel of land and investment in Sierra will significantly increase its exposure to the highly prospective geology of the East Mindanao Ridge, an area with known world class deposits.

Sierra also controls three projects totalling 263 square kilometres to the south of the Company's Co-O Project in recognised mineralised areas with known world class deposits. These tenements are prospective for porphyry copper deposits and high grade gold veins. Sierra also owns two groups of prospects in Papua New Guinea.

Geoffrey Davis, Managing Director of Medusa, commented:

*"We are very pleased to have concluded this agreement. Following completion, Medusa will have control of the all the tenements adjacent to its Co-O mine. This will allow the Company to evaluate fully an area that we believe to be highly prospective."*

**Joint Venture Terms**

The key terms of the Heads of Agreement with Sierra are as follows:

Medusa has the right to earn a 70% interest by:

- i) contributing a minimum of USD1,500,000 expenditure on exploration and/or development of the tenements in the Bunawan JV. This amount is to be spent over a period of three years from the date of granting of the necessary permits over the aforementioned Mindanao tenements,
  - ii) after Medusa has earned its 70% interest, Sierra has the right to contribute to ongoing expenditure or dilute to a 3% Net Smelter Royalty;
- Medusa is required to spend US\$300,000 within 1 year after granting of the

tenements; and

- Medusa is responsible for all costs incurred to progress the tenements to granting.

The Heads of Agreement will be replaced by a Joint Venture Agreement ("JVA") between the parties' respective Filipino entities in the near future. This agreement will be subject to the satisfaction of normal due diligence investigations within 30 days of signing the JVA.

#### Sierra's Co-O Area Tenements

The Company regards the Bunawan JV tenements as prospective for narrow vein gold deposits and potentially porphyry copper-gold deposits. The geology of these tenements is described in Sierra's prospectus, which can be viewed on [www.sierramining.com.au](http://www.sierramining.com.au). Several areas within Sierra's tenements are currently subject to small scale mining activities attesting to the presence of high grade gold mineralisation. No modern exploration has been conducted on the tenements.

#### Sierra's Southern Tenements

Sierra's prospectus describes the Ayan, Nabunturan and Bahayan Projects that it owns to the south of the Co-O Project and comprising 263.6 square kilometres of tenements at very prospective locations.

The Ayan Project comprises granted Exploration Permit 000001-06-XI and applications 118 and 131. These are situated predominantly southeast of the large undeveloped Kingking porphyry copper deposit (1 billion tonnes at 0.3% copper and 0.4 g/t gold) and with several blocks within close proximity to the south side of the Kingking Deposit.

The Nabunturan Project is located on the north-western edge of the well mineralised North Davao Mining District where there has been past production from porphyry copper deposits (including the Amacan Deposit where the remaining resources are 110 million tonnes at 0.3% copper and 0.4 g/t gold) and high grade, low sulphidation epithermal quartz veins, eg, the Hjo Vein. The mineralisation in this area is associated with a volcanic caldera complex and hot spring activity.

The Bahayan Project is contiguous with and on the northwest corner of the government controlled Diwalwal Deposit, which is nearing depletion. It is estimated that the Diwalwal high grade, low sulphidation, epithermal vein deposit has produced in excess of 7 million ounces of gold.

Maps and cross sections which accompany this announcement can be viewed in the ASX version of the announcement on the Company's website: [www.medusamining.com.au](http://www.medusamining.com.au)

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.

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