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ANNOUNCEMENT

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FUTURE POWER SECURITY

(ASX: MML)

Medusa Mining Limited (“Medusa” or the “Company”), through its Philippine operating company, Philsaga Mining Corporation (“PMC”), wishes to advise that PMC has today signed contracts with the Department of Energy (“DOE”) for 9,000 hectares of Coal Operating Contracts (“COCs”) containing well-defined coal measures immediately to the east of the Co-O gold mining and milling operations, and has formed a strategic alliance with Swan Energy Pty Ltd of Perth, Western Australia, to own, finance, build and operate a 30MW power station and be the exclusive supplier of power to the Company’s operations.

Based on current usage (which may change in future years), all power in excess of approximately 10MW will be transmitted to the local grid which will assist in providing electricity for regional and local communities and businesses.

Strategy

Mindanao Island has a shortage of available power and despite new power stations coming on line, this shortage which results in power outages at the Company’s operations is predicted to continue into the future due to rapid regional growth.

The Company identified the opportunity to control its own future power sources several years ago and has been working towards the granting of these COCs which are subject to a bidding process conducted every 3 years by the Department of Energy.

The first step towards ensuring a reliable power supply for the long term operations of the Company is the granting of these COCs.

The second step is to develop a strategic alliance to construct and operate a power station, and to achieve this, the Company has completed a Heads of Agreement (“HOA”) with Swan Energy Pty Ltd of Perth (“Swan”), Western Australia, to build, own and operate a 30MW power station as the exclusive power supplier to the Company’s operations. The key terms of the HOA are:

- (i) PMC will undertake the exploration, feasibility studies and mining operations on the COCs. PMC has the option to transfer the COCs to a new qualified corporation to undertake these activities, subject to approval by the Department of Energy;
- (ii) The COCs will be required to produce the coal required to feed a 30MW power station which will be owned, financed, built and operated by Swan;
- (iii) The power station will be of the Circulating Fluidised Bed (CFB) boiler type which is a clean, efficient, reliable and fuel-flexible solution, and which will produce ash in a form suitable for use as fertiliser by local farming communities.
- (iv) Reliable power will be supplied to the Company's operations for initially 10 years at a fixed cost per Kwh;
- (v) Reliable power will be supplied to local communities at a reduced tariff;
- (vi) Excess power will be sold to the grid by Swan; and
- (vii) The Company will be paid a royalty for any coal exported from the COCs.

Geology of the COCs

Philsaga has been granted 9,000 hectares of Concessions by the Department of Energy covering sections of the known coal measures in the sedimentary basin in two sections, Area 6 (COCs numbered 40-L-123, -124, -125 and -126) and Area 7 (COCs numbered 40-L-204, -205, -243, -244 and -283) as shown in Figure 1.

The sedimentary basin contains a regionally extensive, dominantly late Oligocene to Pleistocene carbonate sequence overlapping the late Eocene to early Pliocene magmatic and volcanic complex basement rocks containing the Company's gold mining tenements and operations on the west, and Cretaceous to Eocene basement rocks on the east containing the Company's Lingig copper prospect.

The coal measures contain multiple coal seams which are contained in the basal parts of the sequence within the the late Oligocene to early Miocene Bislig Formation comprising basal conglomerates, sandstones, limestone and carbonaceous mudstones.

The coal measures have been scout drilled by at least 5 diamond holes, test pitted in 4 locations and outcrop sampled in numerous locations by previous explorers. As the coal seams outcrop, it is anticipated that sufficient volumes of open pitable material will be available for the duration of the initial power supply agreement.

The coal in Area 6 has been previously classified as sub-bituminous B to high volatile bituminous A coal rank using the American Society for Testing and Materials ("ASTM") classification scheme. On average the coal in Area 6 has heating values of 6,500BTU/lb as returned by samples from 2 drill holes and 27 outcrops. Seam thicknesses of economic importance are commonly between 1 and 2 metres.

The coal in Area 7 has been previously classified as sub-bituminous B to high volatile bituminous A coal rank using the ASTM classification scheme. Outcrops with a thickness of more than 1 metre have heating values of 7,000 to 8,200 BTU/lb. Samples from 1 drill hole returned heating values of 6,499 BTU/lb and 7,994 BTU/lb.

This quality of coal is suitable for coal fired power stations.

Geoff Davis, CEO of Medusa, commented:

“This is another strategic step in building a long term future for the Company’s long life operations by planning for power supply security. We are very pleased to have the relationship with Swan Energy who have strong associations with international power station technology and construction companies.”

For further information please contact:

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DISCLAIMER

This announcement contains certain forward-looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan' and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Medusa, and its officers, employees, agents and associates, that may cause actual results to differ materially from those expressed or implied in such statements. Actual results, performance or outcomes may differ materially from any projections and forward-looking statements and the assumptions on which those assumptions are based. You should not place undue reliance on forward-looking statements and neither Medusa nor any of its directors, employees, servants or agents assume any obligation to update such information.

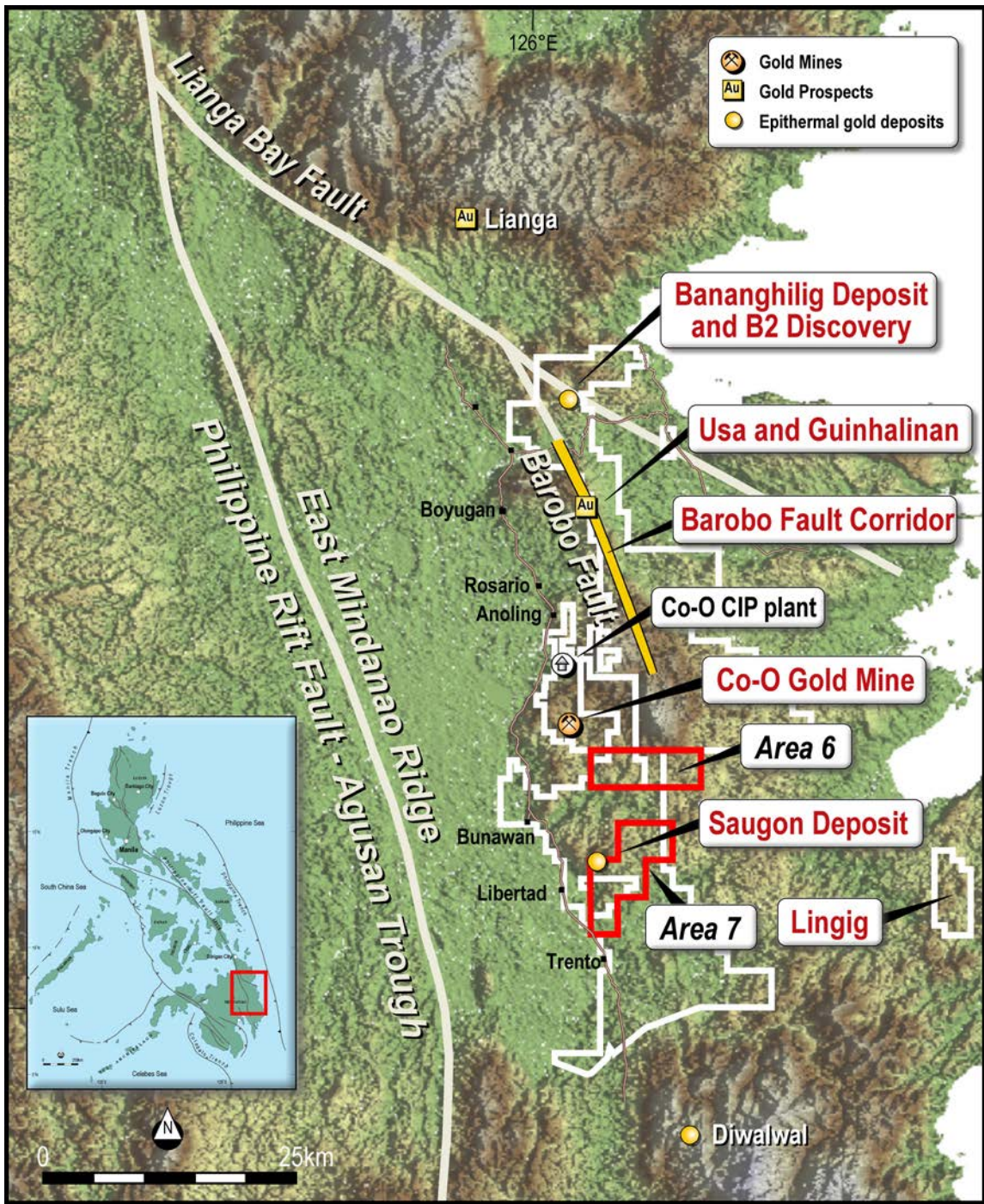


Figure 1. Regional tenement map showing the COCs in relation to the Co-O Mine and Mill and the Company's mineral tenements.