



MEDUSA

MEDUSA MINING LIMITED

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The Manager
Australian Stock Exchange Limited
Level 4, 20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

HEADS OF AGREEMENT AND PLACEMENT WITH SIERRA MINING LIMITED

Medusa Mining Limited ("Medusa" or the "Company") is pleased to advise that it has signed a Heads of Agreement with Sierra Mining Limited ("Sierra"), an ASX listed company, 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").

This is the last remaining significant parcel covering a total area of 88.8 km² (8,800 hectares) which is contiguous to the Company's Co-O Project. The Company will now control in excess of 800 km² (8,800 hectares) 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 take a 9.9% placement in Sierra of 4.85 million shares (at an issue price of A\$0.25 each, 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 signing the JVA.

Medusa is of the opinion that the new parcel of land and the placement will significantly increase its exposure to the highly prospective geology of the East Mindanao Ridge in areas with known world class deposits.

Sierra also controls three projects totalling 263 km² 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.

Joint Venture Terms

Figure 1 shows the location of the tenements now controlled by Medusa and Figure 2 shows the Bunawan JV tenements in the Co-O area. The key terms of the Heads of Agreement are:

- Medusa has the right to earn a 70% interest by:
 - (a) 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,
 - (b) 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.

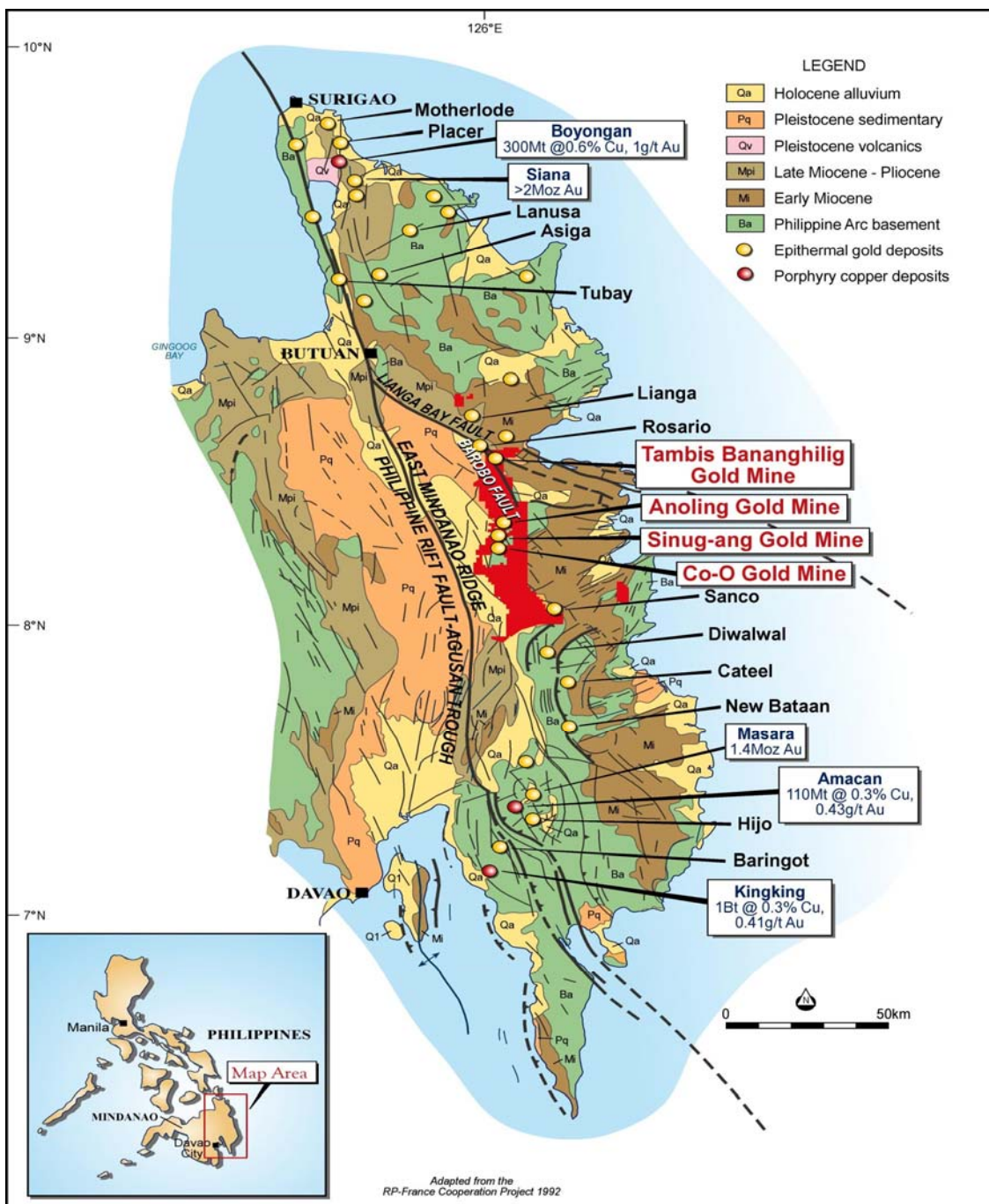


Figure 1: East Mindanao Ridge showing the location of the Co-O Project tenements.

Sierra's Co-O Area Tenements

The Company regards the Bunawan JV tenements shown on Figure 2 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. 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.

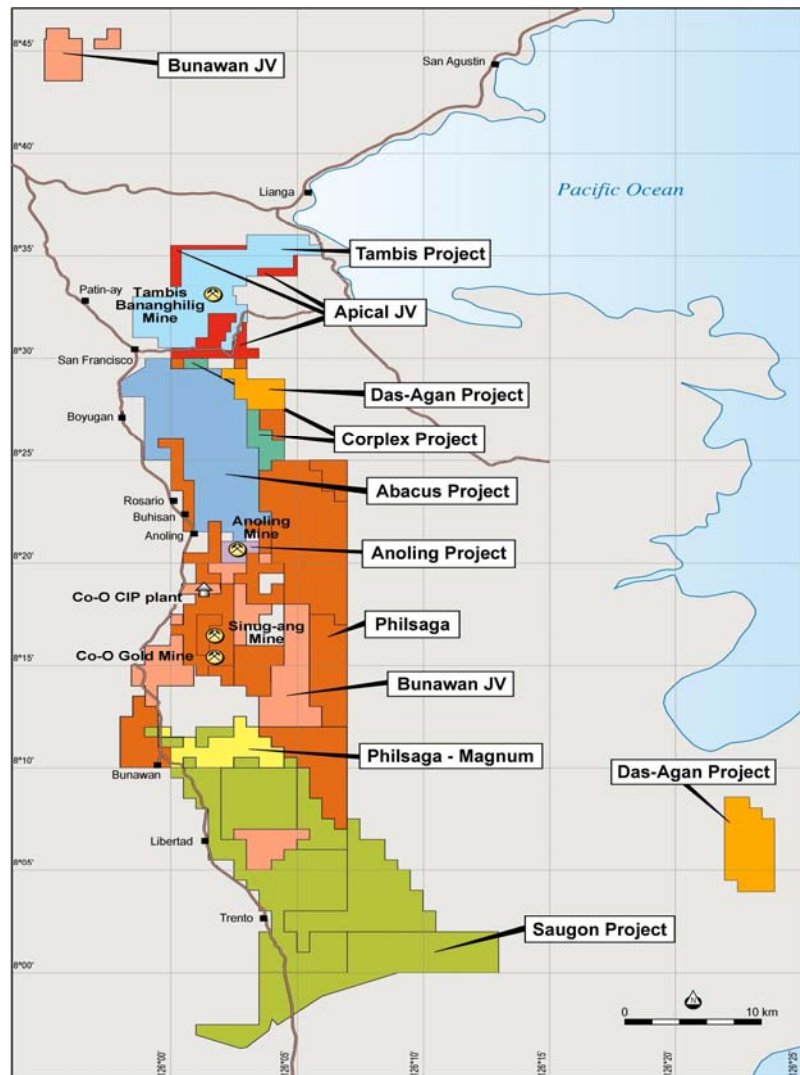


Figure 2: Detailed tenement map. (Note: the two excised areas immediately east of the Co-O Mine and mill are small scale mining reservations)

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 km² 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 south-east of the large undeveloped Kingking porphyry copper deposit shown on Figure 1 (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 shown on Figure 1 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 Hjio 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, shown on Figure 1 and 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.

Sierra Placement

Upon completion of due diligence and signing the JVA, 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 (at no cost) 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.

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.