

# Mundo Minerals Limited

ACN 117 790 897



The headframe at the Torrechico shaft, Peru

**Financial Report  
for the half-year ended 31 December 2010**

## Corporate Directory

### Directors

Barry Eldridge  
*Non-executive Chairman*

John Langford  
*Managing Director*

Brian Hurley  
*Non-Executive Director*

Robert McKenzie  
*Non-Executive Director*

### Company Secretary

Ashley Pattison

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### Share Registry

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Telephone (08) 9315 2333

### Auditors

Deloitte Touche Tohmatsu  
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### Legal Advisors

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### ASX Code

MUN



A sample of ore from the Torrecillas Gold Project, Peru

## Contents

	Page
Directors' Report	1
Auditor's Independence Declaration	7
Independent Review Report	8
Directors' Declaration	10
Condensed Consolidated Income Statement	11
Condensed Consolidated Statement of Comprehensive Income	12
Condensed Consolidated Statement of Financial Position	13
Condensed Consolidated Statement of Changes in Equity	14
Condensed Consolidated Statement of Cash Flows	15
Notes to the Financial Statements	16



Access to the 5 Noviembre incline shaft and ore pass, Peru

## Directors' Report

The directors of Mundo Minerals Limited submit herewith the financial report of Mundo Minerals Limited and its subsidiaries (the "Group") for the half-year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### DIRECTORS

The names of the directors of the company in office during or since the end of the half-year are:

Barry Eldridge	<i>Non-executive Chairman</i>
John Langford	<i>Managing Director</i>
Brian Hurley	<i>Non-executive Director</i>
Robert McKenzie	<i>Non-executive Director</i>

The above-named directors held office during and since the end of the half-year.

### RESULTS

The consolidated profit of the group after tax for the period amounted to \$1.05 million (2009: loss of \$1.268 million).

The Engenho gold project reported earnings before interest, taxation, depreciation and amortisation before overhead costs of \$4.64 million for the period (2009: \$3.8 million) and the Torrecillas gold project reported earnings before interest, taxation depreciation and amortisation before overhead costs of \$1.27 million for the period (2009: \$0.4 million).

### REVIEW OF OPERATIONS

Operationally, the period continued to substantially consolidate the potential of all assets to develop and grow the corporate production profile towards the expected 150,000 ounces in the medium future.

#### **Torrecillas Gold Project – Peru (100% owned)**

*The Torrecillas Gold Project, which is located within a 9,000ha tenement package in a well-established gold belt in southern Peru, is emerging as Mundo Minerals' flagship gold production asset in South America. A Feasibility Study is underway on development of a high-grade (targeted +15gt Au head grade) to support commercial mining operations.*

#### Safety

There were no significant safety issues experienced during the Period. The Company is focused on a program of continuous improvement in the safety culture which has recently been expanded in Peru; this will continue during 2011 to ensure that safety standards are operated at best practice.

#### Definitive Feasibility Study

The Definitive Feasibility Study (DFS) is due for completion in Q2 of CY 2011, together with a maiden JORC compliant Mineral Resource estimate. Mundo has established an initial Conceptual Exploration Target for the Torrecillas Project of 420-480,000t grading 15-20g/t Au for 220-250,000oz<sup>1</sup>. This resource will form the basis of the Definitive Feasibility Study with the aim of completing development of infrastructure and initiating commercial production before the end of 2012. Ongoing development of the vein structures subsequent to the commencement of commercial production is designed to significantly increase the initial resource delivered from the project, subject to the normal risks associated with exploration. Importantly, regional vein development supports the Company's view that the vein structures have strong continuity at depth.

<sup>1</sup> *JORC – Exploration Targets*

It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information relating to exploration targets should not be misunderstood or misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature, since there has been insufficient work completed to define them beyond exploration targets and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

During the period, work undertaken as part of the Torrecillas Feasibility Study continued to focus on infrastructure requirements, the approvals process and reviewing and planning ground support testing to establish best mining practice to minimise dilution and optimize recoveries.

The Company has previously advised that a possible water source may be located near the mine site which would allow plant infrastructure to be located near the mine rather than near the town of Chala, approximately 70km from the mine. Work completed during the period has confirmed the potential for a number of water aquifers located approximately 6 - 10km from the mine. These targets will require pump testing which will be undertaken in the next stage of the Study when the drill rigs are on site, however early indications from the consultants remain positive that these aquifers will deliver sufficient water to meet the project requirements.

Further progress was made on the various environmental and mining approvals required to allow the Torrecillas Gold Project to progress to commercial production. Progress to date is on schedule and no adverse issues have been identified or are expected.

Studies and trials have commenced on optimizing ground stabilization techniques in order to maximize productivity from stopes during commercial mining. Various bolting, grouting and shotcreting techniques will be tested as part of the normal feasibility process.

During the period, extensive desktop studies were completed on various narrow vein mines operating in Peru with a view to understanding productivities, cost and employee regimes. No significant differences were identified to what is expected from commercial operations at the Torrecillas Gold Project. As part of this process, site visits to a number were completed early in February 2011.

#### Trial Mining

During the period, excellent progress was made with trial mining at the Torrecillas Project with recovered grades averaging 19g/t Au for the Period and increasing to almost 26g/t Au for the month of December. Average tonnes and grades for the Period were consistent with the trial mining performance achieved over the past two years.

Grades during January and February continue to average above 23g/t with tonnes in line with budget with ore being mined from two different levels.

#### 15 Level Ore Shoot Discovery Update

As previously reported, underground development at Torrecillas intersected a new ore shoot on the 15 level. Development along the vein has indicated that the new ore shoot is 49m in strike length, averaging 0.6m in width and 35.11gpt in grade.

Rising undertaken during the period has now passed through the 14 level and continues to be in ore. This discovery is important as it not only increases the potential productivity of the Torrecillas ore system (through strike extension thus increasing the tonnes per vertical meter and ounces per vertical meter), it also strongly supports the geological theory that the vein shoots are pod like systems that may extend further over a greater strike than currently developed as is evidenced in surrounding historical gold mines in the Nazca-Ocona belt.



Sample of ore from the new ore shoot on the 15 level, Torrecillas, Peru

### Development

Development progress in the Torrecillas decline is currently sufficient to deliver the scheduled trial mine production for the 2011 calendar year and therefore further decline development has been suspended and the development team focused on the 5 Noviembre and Torrechico veins to allow the work required for the Feasibility Study to be progressed in the March 2011 quarter. This will not compromise the cash flow delivered from trial mining and the development teams can be rescheduled back to the Torrecillas vein if required at some stage during the year and budgeted ore sources.

Work commenced during the period in developing along the 5 Noviembre and Torrechico vein structures, being the other two veins that are subject to the DFS. Scheduled upgrading of infrastructure was also undertaken to efficiently develop these veins, such as upgrading hoisting systems to allow for increased expected mining activity in the near term.

Structurally, the development work continues to confirm what is expected and remains similar to that achieved on the Torrecillas vein.

The Company's geologists have completed planning for the proposed 10,000m drilling programme to focus on resource definition. Drilling contractors have been contacted and the preferred driller has been identified for the surface and underground drill programs. It is expected that up to 4 rigs will be drilling at Torrecillas by the end of April 2011.

### **Engenho Gold Project (Brazil) – 100% Owned**

#### Safety

During the Period, the Engenho gold project achieved a new lost time injury (LTI) safety record of 347 days without a lost time injury. This is a commendable achievement for an underground mining operation and a reflection of the focus of the safety team and strong commitment of the mine operating team to general safety.

As at the date of this report, the Engenho operation is 145 days LTI free.

#### Engenho Underground

The Engenho gold project in Brazil is delivering a lower than expected grade profile than was indicated in the work done when the feasibility study was completed resulting in a lower than expected annualised production base from the underground mining. Notwithstanding this, mine development, mining activities and the treatment facilities were managed appropriately and reconciliations between planned grades and delivered grades are strong.

A significant focus has been made on managing the production profile to compensate for the lower grade and significant progress was achieved during the period. The newly appointed management team are focusing very heavily on cost control and efficiency gains in the underground operation to support the long term operation.

#### Crista Approvals

The ongoing delays encountered with receiving the final approvals required for the Company to develop the Crista open cut mine have been frustrating. The primary delay encountered was for authorities to consider a general proposal to establish a National Park in the region that may affect a number of proposed mining projects including major proposed iron ore developments. During December 2010, ICMbio undertook a review of the Mundo proposal and on 21st December 2010 the local representatives advised Mundo that they agreed that the Mundo tenements and area that would be affected by mining would have minimal effect on any park and were not significant to any environmentally significant habitat that the proposed park was seeking to protect. They agreed that they would recommend that the Mundo tenement area be excised from any proposed park and would submit this recommendation to the President of ICMbio who has the authority to progress this matter. A meeting on 20 January 2011 with the President of ICMbio in Brasilia confirmed that he understands the requirement to develop Crista and has confirmed that he accepts the request for the Mundo tenements to be excluded from any National Park proposal to be reasonable and expects this to be included in the final recommendations which are due to be finalised in the immediate future. This will provide the basis for the final road approvals to be achieved and it is not expected that

there will be further inhibiting issues to allowing Crista road be developed. The ICMbio report is expected to be finalised in the near term.

Despite the delays in the approval, works were undertaken during the period to expand the milling capacity on site, increasing this to approximately 440,000 tonnes per annum when commissioned. The new ball mill is installed and finalisation of the mill upgrade and commissioning of the mill will take place on receipt of the final Crista approval.

In addition, the first stage construction of a new tailings dam was completed in early March 2011 that will provide an initial 14 months of tailings storage for the combined production of the Engenho underground and the Crista open pit operations.

#### Olhos Exploration

Work has continued on the initial assessment of the Olhos anomaly which is located between the existing Engenho underground mine and the emerging Crista open pit. The Olhos zone of mineralisation now has a strike in excess of 400 metres and remains open to the south. This compares to Crista and Engenho which are approximately 200 metres in strike as are many of the known deposits in the Iron Quadrangle where the Engenho gold project is located.

The company proposes to undertake its maiden diamond drill program on this deposit commencing in the first half of 2011.

### **Corporate**

#### Operating Results

- **Torrecillas**

The Torrecillas gold project in Peru produced an EBITDA of \$1.27 million before corporate overheads (2009: \$0.41 million). The Torrecillas gold project, after all corporate costs, reported a net operating profit before tax for the period of \$0.64 million. During the period the Torrecillas gold project sold 2,345 ounces of gold.

- **Engenho**

The Engenho gold project in Brazil produced an EBITDA of A\$4.64 million (2008: A\$3.84 million) before corporate overheads. The Engenho gold project, after all corporate costs, reported a net operating profit before tax for the period of \$0.68 million (2009: 0.23 million). The 2010 result was interrupted by extended planned shutdowns of the mill for the mill expansion project. During the period the Engenho gold project produced 10,177 ounces of gold and sold 9,983 ounces of gold.

- **Consolidated**

Mundo Minerals Limited reported a consolidated EBITDA for the six months ended 31 December 2010 of \$3.46 million (2009: \$2.1 million) and a consolidated net operating profit of \$1.05 million (2009: Loss of \$1.27 million).

This result reflects the interruptions to production and some positive contribution from operating inefficiencies that have largely been rectified. An ongoing programme of operational reviews continues to drive better financial and operational performance. The production and financial profile of the corporate performance will further be enhanced when the Crista gold deposit is brought into production by mid 2011.

Comprehensive Income Adjustment in the Income Statement

Shareholders will note in the Condensed Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2010 a line item called “Exchange differences arising on translation of foreign operations”. The line item relates to unrealised losses on the foreign exchange translation of Mundo’s wholly owned subsidiaries in Brazil and Peru.

The unrealised loss at 31 December 2010 is substantial for two reasons:

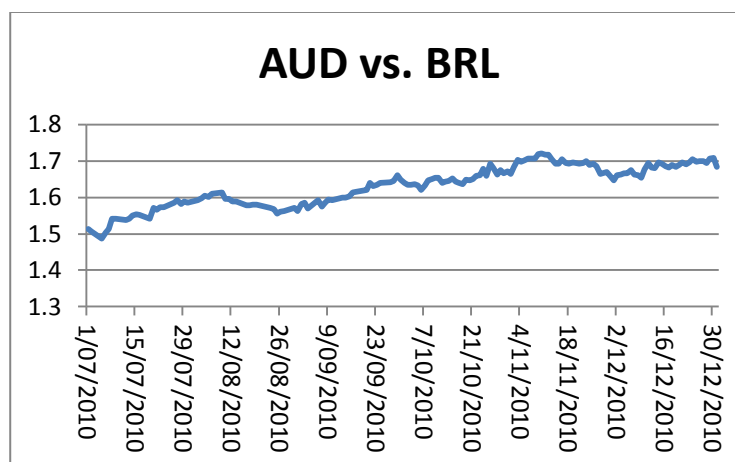
1. The strength of the US dollar versus the Australian Dollar during the reporting period

At 31 December 2010, the AUD:USD exchange rate was \$1.016 versus a rate at 30 June 2010 of \$0.852. During the six months to 31 December 2010, the Australian dollar appreciated approximately 18%.

The financial statements of our operations in Peru are accounted for in US dollars. Therefore, on consolidation of the Peru operations at 31 December 2010, we have accounted for a foreign exchange loss for the unrealised decrease in the net assets of our Peru subsidiary when translated to Australian dollars.

2. The deliberate weakening of the Brazil Real against the US Dollar during the reporting period

At 31 December 2010, the AUD:BRL exchange rate was \$1.693 versus a rate at 30 June 2010 of \$1.535. During the six months to 31 December 2010, the Australian dollar appreciated approximately 9 as illustrated in the chart below:



The financial statements of our operations in Brazil are accounted for in Brazilian Real. Therefore, on consolidation of the Brazil operations at 31 December 2010, we have accounted for a foreign exchange loss for the unrealised decrease in the net assets of our Brazil subsidiary when translated to Australian dollars.

The weakening of the Real versus the US Dollar has been a deliberate monetary policy initiated by the Brazilian government over the past six months. The new capital control measures are designed to weaken the Real through an increase in the IOF tax on foreign investment in fixed income investments to 6% from 4%, and a hike in the tax on margin deposits for currency operations to 6% from 0.38%, again only for foreigners.

The actions of the Brazilian government stem from “very weak monetary policies in the US and the impact on Brazilian exporters, namely mining and agricultural producers, which is being undermined by a strong real”.

Whilst the unrealised losses are accounted for at 31 December 2010, it is noted that at this point in time, no losses are being realised as net assets of our subsidiaries (namely cash) are not being transferred from Peru and Brazil to Australia. The current appreciation of the Australia dollar against the US dollar and the Brazilian Real is actually benefiting Mundo when we are transferring capital to our subsidiaries for project expansion and development.

It is also noted that any future depreciation of the Australian dollar against these currencies will result in a positive foreign exchange adjustment on translation of the subsidiaries financial statements to Australian dollars.

Equity Raising

Subsequent to the period end, the Directors resolved to undertake a \$10 million capital raising by way of a placement of shares to Australian and US institutional investors.

The placement was undertaken following the directors reviewing the corporate strategy and development programme for the company and formed the view that it was appropriate to realign the company finances with:

- Completion of the DFS and the initial JORC resource for the Torrecillas Gold Project
- Exploration drilling at Olhos, Crista Deeps, Ampar and Engenho Underground to build a substantial JORC compliant resource bank throughout 2011
- Working capital for the Crista open cut mine
- Repayment of short term debt
- General working capital

In addition to the placement, the Directors have also resolved to undertake a Share Purchase Plan on the same terms as the placement to raise up to a maximum of \$5 million. This plan will be effected post the receipt of shareholder approval for the placement in early April 2011.

The combined raisings will provide a solid financial base from which the company can drive the asset development in 2011.

**AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's Independence Declaration is included on page 7 of the half-year financial report.

**ROUNDING OFF OF AMOUNTS**

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the directors' report and the financial report are rounded off to the nearest \$1,000, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



J Langford  
Managing Director

Perth, 14 March 2010

## Auditor's Independence Declaration

**Deloitte.**

Deloitte Touche Tohmatsu  
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The Board of Directors  
Mundo Minerals Limited  
45 Ventnor Avenue  
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14 March 2011

Dear Board Members

**Mundo Minerals Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Mundo Minerals Limited.

As lead audit partner for the review of the financial statements of Mundo Minerals Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



Leanne Karamfiles  
Partner  
Chartered Accountants

# Independent Review Report



Deloitte Touche Tohmatsu  
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## Independent Auditor's Review Report to the Members of Mundo Minerals Limited

We have reviewed the accompanying half-year financial report of Mundo Minerals Limited, which comprises the condensed statement of financial position as at 31 December 2010, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 10 to 21.

### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Mundo Minerals Limited's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mundo Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Deloitte

## *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Mundo Minerals Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mundo Minerals Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU



**Leanne Karamfiles**  
Partner  
Chartered Accountants  
Perth, 14 March 2011

## Directors' Declaration

The directors declare that:

- (a) in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Board



J Langford  
Managing Director

Perth, 14 March 2010

## Condensed Consolidated Income Statement for the half-year ended 31 December 2010

	Consolidated Half-year ended	
	31 December 2010 \$'000s	31 December 2009 \$'000s
<b>Continuing Operations</b>		
Revenue from sale of goods	16,793	15,894
Cost of sales	(10,895)	(11,669)
Gross profit	5,898	4,225
Other revenue	17	33
Occupancy costs	(284)	(330)
Administration expense	(2,167)	(1,691)
Depreciation and amortisation	(2,901)	(2,442)
Finance costs – Interest	(536)	(436)
Finance costs - Fair value adjustment	1,754	(57)
Other expenses	(150)	(178)
<b>PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE</b>	1,631	(876)
Income tax expense	(578)	(392)
<b>PROFIT / (LOSS) FOR THE PERIOD</b>	1,053	(1,268)
<b>Loss per share</b>		
Basic (cents per share)	0.53	(0.9)
Diluted (cents per share)	0.51	(0.9)

Notes to the condensed financial statements are included on pages 16 to 21

## Condensed Consolidated Statement of Comprehensive Income for the half-year ended 31 December 2010

	Consolidated Half-year ended	
	31 December 2010 \$'000s	31 December 2009 \$'000s
<b>PROFIT / (LOSS) FOR THE PERIOD</b>	1,053	(1,268)
<b>OTHER COMPREHENSIVE INCOME</b>		
Exchange differences arising on translation of foreign operations	(6,612)	(519)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	(5,559)	(1,787)

Notes to the condensed financial statements are included on pages 16 to 21

## Condensed Consolidated Statement of Financial Position as at 31 December 2010

	Notes	Consolidated	
		31 December 2010 \$'000s	30 June 2010 \$'000s
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,561	3,514
Trade and other receivables		638	1,584
Prepayments		1,112	818
Inventories		2,184	2,270
<b>TOTAL CURRENT ASSETS</b>		<b>5,495</b>	<b>8,186</b>
<b>NON-CURRENT ASSETS</b>			
Other Receivables		1,074	350
Property, plant and equipment		17,007	17,193
Mine assets		17,733	18,305
Exploration expenditure	5	15,000	15,305
Tax assets		-	110
<b>TOTAL NON-CURRENT ASSETS</b>		<b>50,814</b>	<b>51,263</b>
<b>TOTAL ASSETS</b>		<b>56,309</b>	<b>59,449</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		2,540	2,816
Borrowings	3	4,430	4,991
Tax liability		167	242
Provisions		1,410	2,095
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,547</b>	<b>10,144</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables		-	430
Tax liability		-	670
Borrowings	3	7,767	3,946
Provisions		2,792	1,575
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>10,559</b>	<b>6,621</b>
<b>TOTAL LIABILITIES</b>		<b>19,106</b>	<b>16,765</b>
<b>NET ASSETS</b>		<b>37,203</b>	<b>42,684</b>
<b>EQUITY</b>			
Issued capital	4	48,749	48,762
Reserves		(4,050)	2,471
Accumulated losses		(7,496)	(8,549)
<b>TOTAL EQUITY</b>		<b>37,203</b>	<b>42,684</b>

Notes to the condensed financial statements are included on pages 16 to 21

## Condensed Consolidated Statement of Changes in Equity for the half-year ended 31 December 2010

	Issued Capital	Equity Settled Employee Benefits Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
<b>At 1 July 2009</b>	40,907	1,330	337	(5,601)	36,973
Exchange differences arising on translation of foreign operations	-	-	(519)	-	(519)
Loss for the period	-	-	-	(1,268)	(1,268)
Total comprehensive income	-	-	(519)	(1,268)	(1,787)
Issue of shares	60	-	-	-	60
Recognition of share-based payments	-	108	-	-	108
<b>At 31 December 2009</b>	<b>40,967</b>	<b>1,438</b>	<b>(182)</b>	<b>(6,869)</b>	<b>35,354</b>
<b>At 1 July 2010</b>	48,762	1,462	1,009	(8,549)	42,684
Exchange differences arising on translation of foreign operations	-	-	(6,612)	-	(6,612)
Profit for the period	-	-	-	1,053	1,053
Total comprehensive income	-	-	(6,612)	1,053	(5,559)
Issue of shares	(13)	-	-	-	(13)
Recognition of share-based payments	-	91	-	-	91
<b>At 31 December 2010</b>	<b>48,749</b>	<b>1,553</b>	<b>(5,603)</b>	<b>(7,496)</b>	<b>37,203</b>

Notes to the condensed financial statements are included on pages 16 to 21

## Condensed Consolidated Statement of Cash Flows for the half-year ended 31 December 2010

	Notes	Consolidated Half-year ended	
		31 December 2010 \$'000s	31 December 2009 \$'000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from gold sales		16,706	16,058
Payments to suppliers and employees		(15,102)	(14,467)
Interest and other costs of finance paid		(356)	(367)
Income tax paid		(470)	(172)
<b>NET CASH PROVIDED BY/(USED) IN OPERATING ACTIVITIES</b>	5	778	1,052
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for property, plant & equipment		(3,290)	(1,036)
Payments of exploration and evaluation costs		(326)	(1,749)
Payment for mine assets		(3,833)	(1,807)
Interest received		15	3
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(7,434)	(4,589)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		(13)	60
Proceeds from borrowings		5,508	3,816
Repayment of borrowings		(573)	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>		4,922	3,876
Net Increase/(Decrease) in cash and cash equivalents		(1,733)	339
Cash and cash equivalents at the beginning of the period		3,514	1,170
Effects of exchange rate changes on the balance of cash held in foreign currencies		(220)	(51)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		1,561	1,458

Notes to the condensed financial statements are included on pages 16 to 21

# Notes to the Condensed Consolidated Financial Statements

## 1 SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 “Interim Financial Reporting”. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 “Interim Financial Reporting”. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

### Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian Dollars unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998 and, in accordance with that Class Order, amounts in the directors’ report and the financial report are rounded off to the nearest \$1,000, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company’s 2010 annual financial report for the financial year ended 30 June 2010.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the company includes:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Group’s accounting policies and have no affect on the amounts reported for the current or prior periods. However, the only amendment that has had a material impact and resulted in changes to the Group’s presentation of, or disclosure in, its half-year financial statements is the presentation of development costs in the statements of cash flows. AASB 107 Statement of Cash Flows has been amended through AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statements of cash flows.

### Going Concern

The financial statements have been prepared on the basis that the Consolidated Entity will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Consolidated Entity has generated a profit after tax of \$1.1m for the half year ended 31 December 2010 (2009: loss \$1.3m) and experienced operating cash inflows of \$0.8m (2009: outflows \$1.1m). As at 31 December 2010 the Consolidated Entity has a working capital deficiency of \$3.1m (2009 deficiency \$2.0m).

It is the opinion of the board of directors that there are reasonable grounds to believe that the operational and financial plans in place are achievable and accordingly the Consolidated Entity will be able to continue as a going concern and meet its debts as and when they fall due. In arriving at this position, the directors have considered the following pertinent matters:

**- Capital Raising**

In March 2011, the Consolidated Entity received \$3.53 million from the placement of 28.2 million shares and is planning to raise a further \$6.47 million following the receipt of shareholder approval at a shareholder meeting to be convened on or about 14 April 2011 (refer note 6). In addition to the placement, the Directors have also resolved to undertake a Share Purchase Plan on the same terms as the placement to raise up to a maximum of \$5 million. This plan will be effected post the receipt of shareholder approval for the placement in early April 2011.

**- Exploration and evaluation expenditure**

Management will continue to manage the level of exploration and evaluation expenditure to ensure it is in line with funds available to the Consolidated Entity.

**- Gold production**

The Consolidated Entity received \$16.8 million revenue from Gold sales for the six months ending 31 December 2010. Revenue from future gold sales is expected to be sufficient to meet future expenditure commitments.

**- Gold in Circuit**

At 31 December 2010, the Consolidated Entity held an estimated 801 ounces of gold in circuit and in stockpiles plus 211 ounces in refined gold.

**- Future Expenditure**

The Consolidated Entity has the flexibility of reducing the levels of mine development expenditure if required.

The directors believe that at the date of signing the financial report there are reasonable grounds to believe that, having regard to the matters set out above, the Consolidated Entity will have sufficient funds to meet its obligations as and when they fall due.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts, or to the amounts or classifications of liabilities that might be necessary should the Consolidated Entity and Company not be able to continue as going concerns.

## 2 SEGMENT INFORMATION

The Group has adopted AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is focused on the area of interest for mining activities, being Brazil and Peru. Information regarding these segments is presented below.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Revenue		Segment Result	
	Half-year ended		Half-year ended	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	\$'000s	\$'000s	\$'000s	\$'000s
<b>Continuing operations</b>				
Brazil	13,570	12,916	680	624
Peru	3,222	2,978	642	(21)
	16,972	15,894	1,322	603
Investment revenue			17	33
Corporate administration			(920)	(1,019)
Finance costs / Fair value adjustment			1,212	(493)
Profit / (loss) before income tax expense			1,631	(876)
Income tax expense			(578)	(392)
Consolidated segment revenue and profit / (loss) for the period	16,792	15,894	1,053	(1,268)

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. Segment result represents the profit or loss earned by each segment without allocation of corporate administration costs, investment revenue and finance costs or income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by reportable operating segment:

	31 December 2010 \$'000s	30 June 2010 \$'000s
Brazil	45,258	46,410
Peru	10,767	11,098
Total segment assets	56,025	57,508
Unallocated assets	285	1,831
Total assets	56,310	59,336

**3 BORROWINGS**

	Consolidated	
	Half-year ended	
	31 December 2010 \$'000s	30 June 2010 \$'000s
Secured:		
<i>Current</i>		
Brazilian Bank facilities at amortised cost <sup>(i)</sup>	1,253	2,037
Loan from related party at amortised cost <sup>(ii)</sup>	1,897	1,439
Hire purchase facilities at amortised cost <sup>(iii)</sup>	468	478
Convertible debenture at fair value <sup>(iv)</sup>	823	1,037
	4,430	4,991
<i>Non-current</i>		
Brazilian Bank facilities at amortised cost <sup>(i)</sup>	5,770	159
Hire purchase facilities at amortised cost <sup>(iii)</sup>	723	812
Convertible debenture at fair value <sup>(iv)</sup>	1,299	2,975
	7,767	3,946

**(i) Brazilian Bank facilities**

The Banco Do Brasil granted Mundo Mineracao Ltda a Line of Credit facility for 7.89 million Reals. The interest rate on any outstanding balance is 1.51% per month and the facility has been secured by various plant and equipment. Repayment of this facility commences in July 2011 and is repayable through monthly instalments.

The Banco Do Brasil granted Mundo Mineracao Ltda an export finance facility for 1.5 million Reals. The facility is repayable or renewable in January 2012. Interest is payable monthly at the annual rate of 5.5%.

The Banco Itau granted Mundo Mineracao Ltda a Line of Credit facility for 2.5 million Reals. The interest rate on any outstanding balance is 1.47% per month and the facility is unsecured. Repayment of this facility commenced in February 2011 and is repayable through 25 monthly instalments.

The Banco Do Brasil has provided two loans under a special government scheme to assist Brazilian companies in purchasing plant and equipment. The total amount borrowed under the scheme was 394,000 Reals. The effective interest rate is 4.25% per annum calculated monthly and paid quarterly. Repayments began in November 2009 and final payments are due in December 2015.

All facilities are used for working capital and capital expenditure commitments.

**(ii) Loan from related party**

These facilities have been provided to the Company by the Managing Director, Mr John Langford, on the following terms:

- \$1,331,843 provided on a cost reimbursement basis and is repayable on or before 31 December 2011 or such later date as the Company and Mr. Langford agree. Mr. Langford has borrowed this amount from the National Australia Bank for the purpose of on lending the money to the Company. The Company is liable to pay interest of 7.88% per annum, as at 31 December 2010, and fees which Mr. Langford incurs on his corresponding loan from the bank.
- \$565,169 provided as a short term loan, with interest applicable to the outstanding amounts on a quarterly basis equal to the NAB prime rate at the commencement of the quarter plus 2%. The facility is repayable on or before 30 June 2011.

(iii) Hire purchase facilities

The facility has been provided to the Company by Santander Bank and has been used to acquire two near new underground trucks. The term of the facility is 36 months and repayments commenced in May 2010. An upfront deposit of 10% of the purchase price was paid by the Group and a balloon payment of 15% is payable at the end of the term.

(iv) Convertible debenture

The convertible debenture was issued to Anglo Pacific plc in November 2008 at a face value of A\$4 million, with interest applicable to the outstanding amounts on a quarterly basis equal to the NAB prime rate at the commencement of the quarter plus 2%. The debenture entitles the holder to the number of ordinary shares, at a cost of \$0.35 per share, that total the value of the outstanding principal of the debenture on the conversion date. Conversion may occur at any time between the date of issue of the debenture and the end of mining activity at the Engenho mine and the surrounding tenement.

Interest and principal repayments are made via a royalty of 2.5% of the net smelter return on gold production from the Engenho mine and the surrounding tenement. The royalty payments continue to be made until the earlier of the conversion of the debenture or the end of mining activity at the Engenho Mine and surrounding tenement.

The debenture has been treated as an instrument measured at fair value through profit and loss as it contains an embedded derivative in relation to the future payments linked to the future production profile and future gold price. Accordingly the instrument has been remeasured at 31 December 2010 and will be remeasured at each reporting date until extinguished.

At 31 December 2010, the fair value of the loan was determined by calculating the Net Present Value of estimated future repayments using a discount rate of 15.7%. A fair value finance charge in addition to the interest charge was incurred as a result of recording the loan amount at fair value.

The convertible debenture is secured by the mining rights related to Engenho tenements.

#### **4 ISSUANCE OF EQUITY SECURITIES**

During the period, there were no movements in the ordinary share capital of the Company.

During the period the Company issued 4,350,000 unlisted share options over ordinary shares under the employee share option plan (2009: 50,000). These share options had a weighted average fair value at grant date of \$0.045 per share option (2009: \$0.08). The Company also cancelled 2,450,000 unlisted share options over ordinary shares under the employee share option plan following the restructure of our management teams in Brazil and Peru and the resignation of senior management members.

#### **5 EXPLORATION EXPENDITURE**

The ultimate recoupment of costs carried forward for exploration expenditure is dependent upon successful development and commercial exploitation, or sale, of the respective areas of interest.

#### **6 CONTINGENCIES AND COMMITMENTS**

There were no material changes in any contingent liabilities or commitments of the consolidated entity since the last annual reporting date.

## 7 SUBSEQUENT EVENTS

### Option Issue

On the 20<sup>th</sup> January 2011, the company announced the issue of the following unlisted options:

- 2,000,000 options to our US Corporate advisors. The options have a 3 year term and are exercisable in four equal tranches of 500,000 options at strike prices of \$0.20, \$0.40, \$0.60 and \$0.80.
- 200,000 options were issued to new members of the senior management team under the Mundo Minerals Ltd Employee Share Option plan. These options have a 5 year term and a strike price of \$0.40.

### Withdrawal from Nova Prata Joint Venture

On 8 February 2011, the company formally advised its joint venture partners on the Nova Prata joint venture in Brazil that the company was not going to incur any additional expenditure of the project and was formally withdrawing from the joint venture given the limited prospectively of the concessions in our view.

Expenditure incurred on the joint venture was not substantial as the work conducted related to reconnaissance work including soil sampling, rock chips sampling and limited trenching.

The amounts capitalised will be expensed in the second half of the 2011 financial year.

### Share Placement

On the 4<sup>th</sup> March 2011, the company announced that it would undertake a capital raising to raise approximately \$10,000,000 before issue costs. The placement comprised the issue 80 million shares at 0.125 cents to raise A\$10 million. For each share subscribed for, investors received one free attaching unlisted option with a strike price of \$0.18 and exercisable within 3 years from the date of issue.

The Placement was structured as two tranches.

#### - Share Placement – Tranche 1

The company announced the successful placement of 28.2 million shares at 12.5 cents to raise A\$3.5 million. For each share subscribed for, investors received one free attaching unlisted option with a strike price of \$0.18 and exercisable within 3 years from the date of issue. Approximately \$2.37 million in funds were received on 10<sup>th</sup> March 2011 and shares were allotted on 11<sup>th</sup> March 2011. The balance of the funds (approximately \$1.15 million) are expected to be received on or before 15 March 2011.

#### - Share Placement – Tranche 2

Subject to the receipt of shareholder approval at a shareholder holder meeting to be convened on or about 14<sup>th</sup> April 2011, the company will issue 51.8 million shares at 12.5 cents to raise A\$6.5 million. For each share subscribed for, investors received one free attaching unlisted option with a strike price of \$0.18 and exercisable within 3 years from the date of issue.

In addition to the placement, the Directors have also resolved to undertake a Share Purchase Plan on the same terms as the placement to raise up to a maximum of \$5 million. This plan will be effected post the receipt of shareholder approval for the placement in early April 2011.

No other matters or circumstances have arisen since the end of the financial period, which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.