



## December 2010 Quarterly Activities Report

### HIGHLIGHTS

#### Torrecillas Gold Project, Peru (100%)

- Outstanding grades achieved from trial mining on the Torrecillas vein with recovered grades through the mill averaging 18g/t Au for the Quarter and exceeding 25 g/t achieved in December 2010
- EBITDA of A\$0.9m for the quarter from production of 1,385 ounces at a cash cost of A\$820/oz
- Continued progress made on development of other vein structures (Torrechico and 5 Noviembre)
- The previously announced New Ore Shoot discovered on the 15 level has been extended vertically into the 14 level and is now moving towards the 13 level
- Technical work as part of the Feasibility Study focused on mine productivity strategies and infrastructure requirements (water, etc)

#### Engenho Gold Mine, Brazil (100%)

- Significant progress made in resolving final approvals for the Crista haulage road
- Excellent continued exploration progress at Olhos and planning finalized for a deeper drilling programme
- Stable operations continue at Engenho underground mine with gold production of 4,563 oz at a cash operating cost of A\$928/oz. EBITDA from the Engenho operation was A\$2.2m for the quarter
- Operations review at Engenho underground project initiated and due for completion at the end of the March 2011 Quarter

#### **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.*

The Definitive Feasibility Study (DFS) is due for completion in Q2 of CY 2011, together with a maiden JORC compliant Mineral Resource estimate. Mundo Minerals 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.

**Gold Production – Trial Mining**

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

Production each month was as follows:

	<b>Mined tonnes</b>	<b>Recovered grade g/t</b>
October	640	16.98
November	822	19.47
December	864	26.56

Grades during January continue to average above 23g/t.

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.

**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 quarter 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.

**Safety**

There were no significant safety issues experienced during the Quarter. 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.

**Financial Performance**

Trial mining at Torrecillas delivered an EBITDA of A\$0.9m for the quarter from production of 1,385 oz. The average realized gold price during the quarter was US\$1,367/oz at an average cash cost of \$820/oz. This cost structure reflects the low level of production from trial mining and is no reflective of the operating costs expected from commercial operations which should be substantially lower.

**Development Progress – 5 Noviembre and Torrechico Vein Structures**

Work continued during the Quarter in developing along the 5 Noviembre and Torrechico vein structures. Development was a little slower than the previous Quarter as the focus was more on scheduled upgrading of infrastructure required to 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 drilling programme to focus on resource definition once the initial development has been progressed a little further. Drilling contractors have been contacted and the required rigs will be available when required.

In February 2011, the Mundo exploration team from Brazil will spend time in Peru further developing the exploration programme and conducting additional mapping and surface work required for the ongoing vein assessment.

### **Feasibility Study Update**

During the Quarter, 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 practice to optimize recoveries.

In the previous Quarterly Report, the Company 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 Quarter has confirmed the potential of a water aquifer located approximately 6km from the mine. This 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 this aquifer will deliver sufficient water to meet the project requirements.

Further progress was made during the Quarter on the various 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 are also about to commence 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. This will commence in February 2011.

During the Quarter, 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 of mines have been initiated and will be completed early in February 2011.

### **Engenho Gold Project, Brazil (100%-owned)**

*The Engenho Gold Project has been in production for approximately two years at a stable annualized level of 25,000oz per annum from a single underground mine (average head grade of ~3g/t Au), providing stable and consistent cash flow. Recent exploration success has defined new emerging production centres at Crista and Olhos, located 2km north of the existing underground mine and processing facility. The imminent development of a new open pit mining operation at Crista (targeted head grade of ~5g/t Au) is expected to double production from the Engenho operation to ~43,000oz per annum. Final development approvals for Crista are expected in Q1 2011.*

### **Gold Operations and Production**

Gold production for the December Quarter was 4,563 ounces at an average cash operating cost of A\$928/ounce (September 2010 Quarter: 5,614 ounces at a cash operating cost of A\$876/ounce).

The production profile from the mine was stable and consistent with projected mine plans. Ounces produced were as anticipated due to interruptions to the treatment plant while some upgrades continued in preparation for treatment of the emerging Crista ore body. This disruption has been reflected in the higher unit costs for the

Quarter. The underground mining cost structure will be substantially enhanced when the Crista open pit contributes to the project economics as previously advised.

Operating costs at the Engenho underground mine are currently the subject of a mine optimization study that has been initiated by the new management team. This study is due for completion at the end of the March 2011 Quarter. Driving efficiency from our people, equipment and mining practices is the key objective of this study. This work is being completed prior to the Crista open cut mine coming online this year which is expected to further deliver substantial milling and overhead efficiencies to the Engenho operations.

Production statistics for the December Quarter compared to previous Quarters are shown in Table 1 below:

<b>Calendar 2010</b>				
	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Ounces produced</b>	4,281	5,148	5,614	4,563
<b>Grade</b>	3.24	2.92	2.9	2.81
<b>Recovery</b>	93.6%	93.6%	93.3%	92.4%
<b>Tonnes Milled</b>	49,103	58,527	61,040	54,322
<b>Cash Costs \$R</b>	1,290	1,383	1,402	1,490
<b>Cash Costs A\$</b>	789	862	887	928

### **Financial**

The Engenho underground mine delivered an EBITDA of A\$2.2m from gold production of 4,563 oz. The average gold price received for the quarter was A\$1,482/oz.

Cashflow from our mining operations continues to be monitored closely. For the December 2010 Quarter the Engenho operations continued to cover operating and corporate costs in Brazil. Budgeted gold sales for the March 2011 quarter are expected to continue to cover forecast operating and capital cash outflows, including all overheads in Brazil.

The Company notes that all cash from the operations is currently retained in Brazil and therefore foreign currency movements are not realized at this point in time nor expected in the foreseeable future as funds earned are scheduled for ongoing asset development.

Debt facilities have continued to be drawn down for the Engenho infrastructure upgrades

Gold in circuit and finished gold at year end was 820 ounces.

### **Safety**

There were no significant safety incidents during the Quarter. The Company is continuing to focus on implementing and maintaining a strong safety culture at the Engenho gold operations.

### **Crista**

During the Quarter, Mundo advised that the final approvals for the haulage road to allow the Crista open pit to be brought to production had been delayed while authorities considered 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.

The relevant department (Supram) responsible for the various mining approvals advised in late November that it was deferring all approvals until the park issue had been resolved. It was generally acknowledged that mining can and should coexist with the proposed park. It was also acknowledged that the Mundo tenement was of little

significance to the proposed park and Supram initiated discussions between Mundo and the relevant environmental authority (ICMbio).

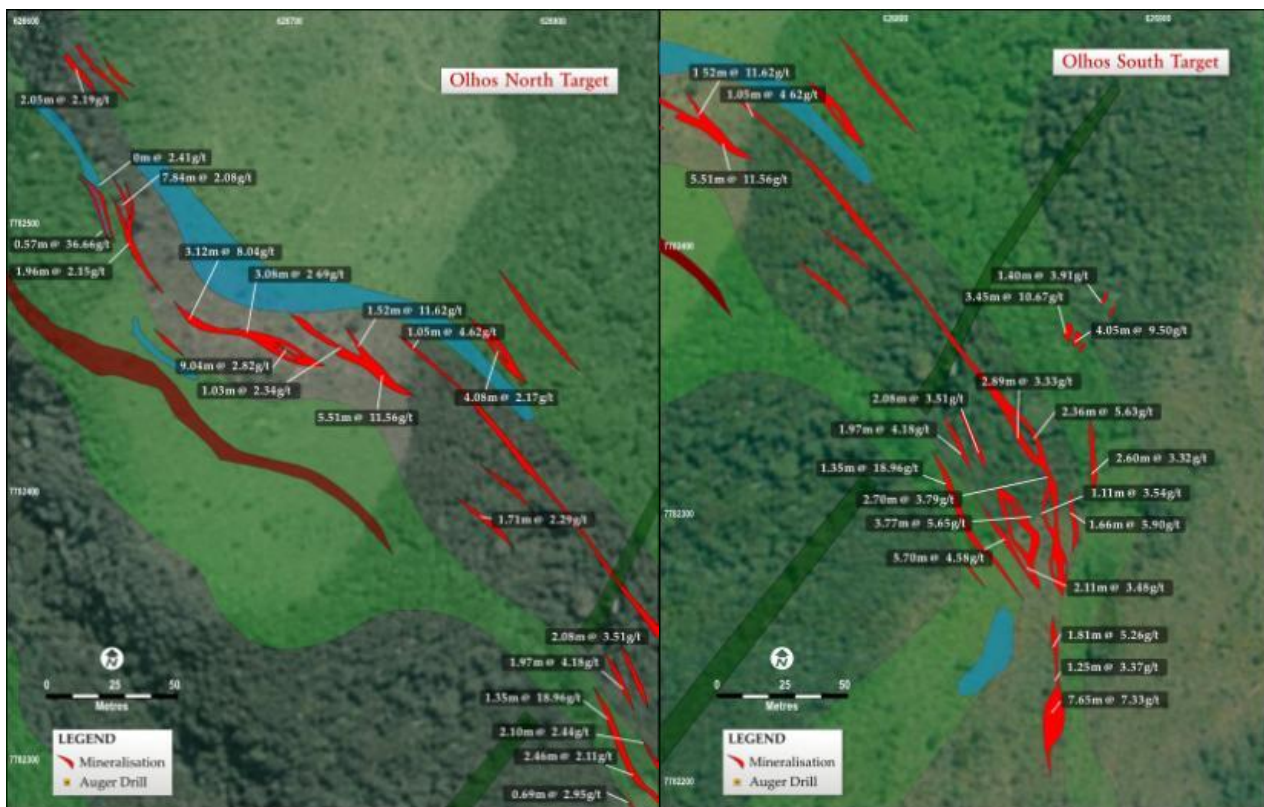
During December, ICMbio undertook a review of the Mundo proposal and on 21<sup>st</sup> December the local representatives advised Mundo that they agreed that the Mundo tenements and area that would be affected by mining would have minimal affect on any park and were not significant to any environmentally 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.

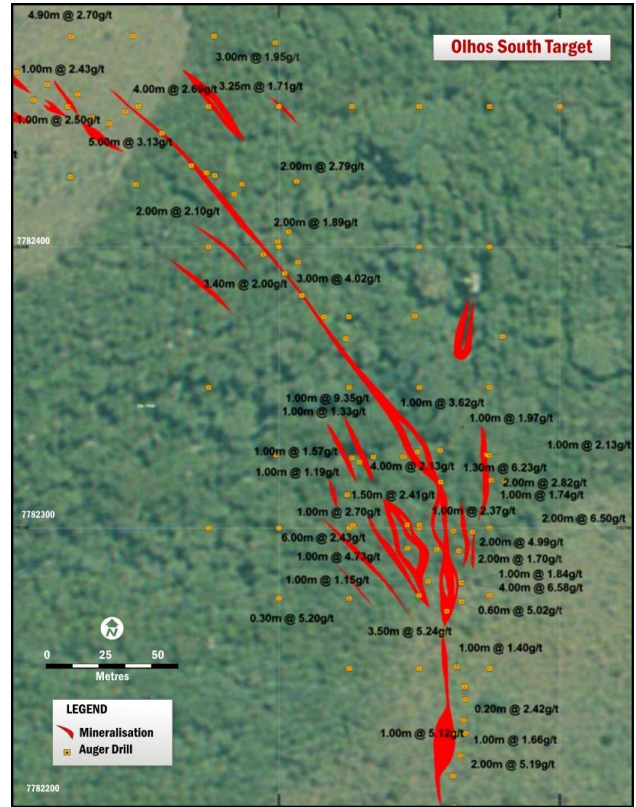
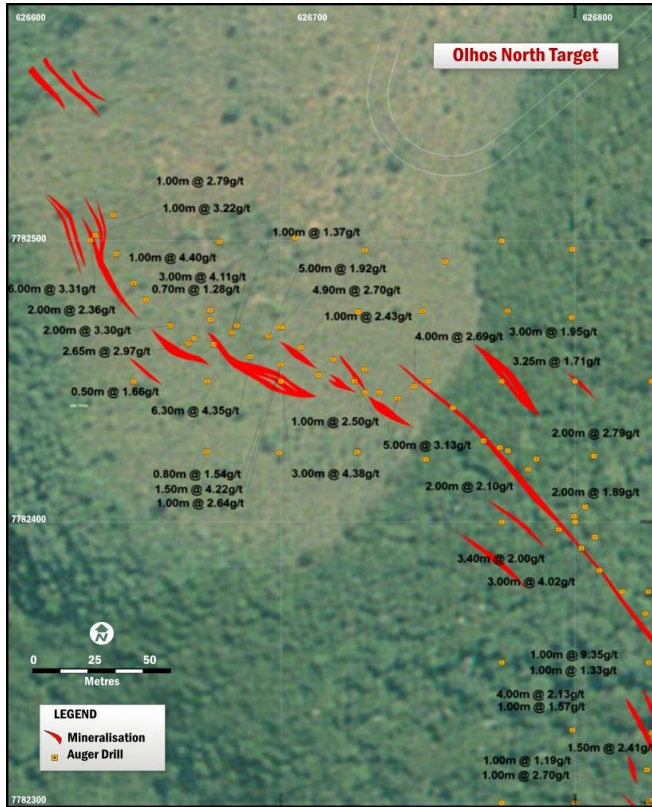
**Olhos**

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.

Work achieved in channel sampling and auger drilling has confirmed the continuity of the mineralized region and includes numerous impressive intersections as shown in the maps below.



**Olhos Channel Sample results**



**John Langford**  
**Chief Executive Officer**

**Competent Person's Statement**

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Armando Massucatto who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Massucatto is employed by Mundo Minerals Limited and is the Company Exploration Manager. Mr Massucatto has sufficient experience which is relevant to the style of mineralisation and the 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 "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Massucatto consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.