

Mundo Minerals

Buy MUN around 54 cents

Site visit confirms all is on track in Brazil

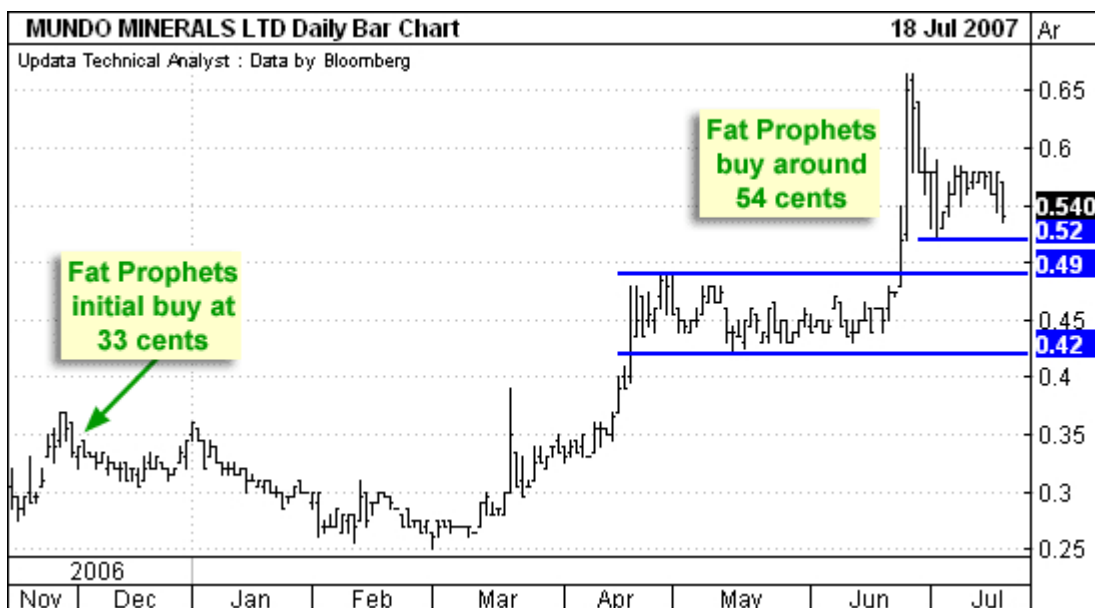
[Fat Mining 85](#), 19 Jul, 2007
[Printer Friendly](#)

SYMBOL DEFINITIONS			
	PRECIOUS METALS		HIGH RISK
	MARKET CAP	\$55 million	
CLICK FOR ALL SYMBOL DEFINITIONS			

Mundo Minerals remains focused on the development of its various gold projects in South America, with the potential to position itself as an emerging mid-tier gold production house. We had the opportunity to visit the company's Brazilian operations and came away comfortable that Mundo is well on track for commencement of first gold production in the first half of 2008. And on Wednesday Mundo announced an \$18 million capital raising that will fully fund its first gold mine.

"Full steam ahead for gold production in the first half of 2008."

Fat Prophets initially recommended buying Mundo Minerals at 33 cents in November (Fat Mining 51). Our last review of the stock was during April in Fat Mining 72.



Since our last review in April, Mundo has made a decisive break above the 49-cent barrier to achieve a new all-time high of 66.5 cents. This move saw the stock gain as much as 50% in just one month.

Following such a rapid rise, it is no surprise that prices have paused for consolidation over the last two weeks. However, given the proximity of initial support between 52 cents and 49 cents, we believe further downside risks are limited. The lower boundary of the recent consolidation range, at 42 cents, underpins the upward trend.

In the near term, we anticipate some additional consolidation. However, with the longer-term upward trend remaining intact, we predict that Mundo will extend to new highs beyond 66.5 cents in the months ahead.

We were recently given the opportunity to visit Mundo's Brazilian gold projects and see first-hand the

company's exploration and development activities. We came away mightily impressed with what we saw there and believe the company is well on track to achieve its stated goal of becoming a mid-cap gold producer.

But more on that later.

Mundo on Wednesday has announced a major \$7.2 million capital raising to sophisticated and professional investors, comprising 14.4 million shares at 50 cents each.

In addition, the company will seek shareholder approval to raise a further \$10.8 million through the placement of a second tranche of shares at the same price, amounting to a total capital raising of \$18 million.

The landmark capital raising, in conjunction with the company's existing cash reserves, will secure all of the necessary funding to allow development of Mundo's Engenho Gold Project in Brazil.

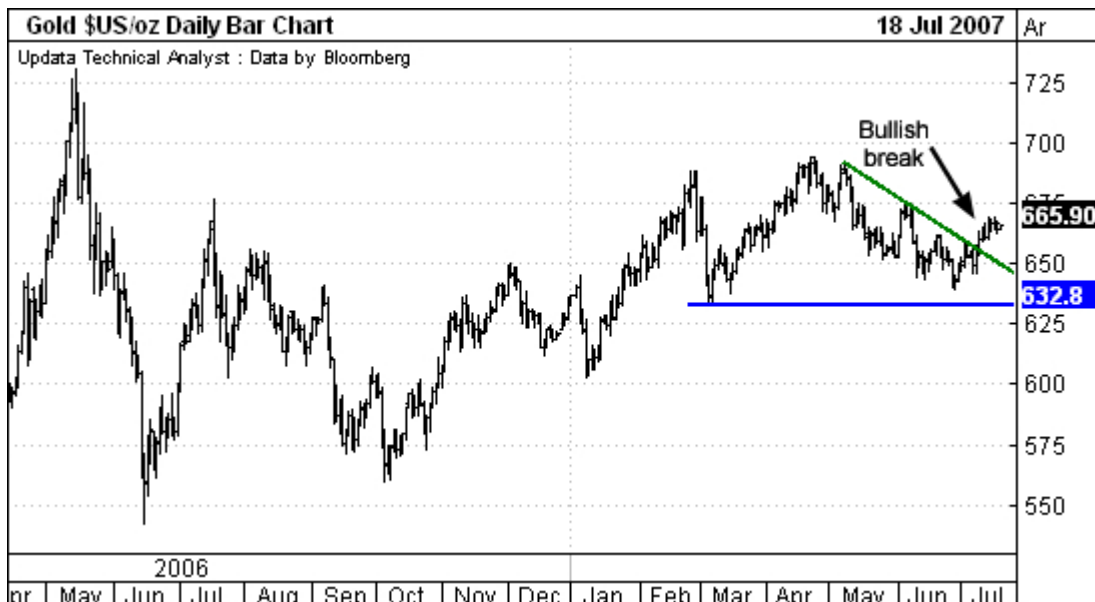
Importantly, it will facilitate development without the imposition of heavy gold hedging commitments by banks or any reduction in Mundo's equity position in the project.

Furthermore, it will also allow Mundo to accelerate exploration and evaluation activities at its two other South American gold projects in Brazil and Peru. This effectively reinforces Mundo's future development.

Mundo shareholders will be able to subscribe for up to \$5,000 worth of shares at 50 cents per share, providing them with the opportunity to increase their shareholdings on the same basis as sophisticated and professional investors participating in the placement.

The combined fund raising will boost Mundo's cash reserves to more than \$31 million.

This will provide all of the necessary funding for the development of the Engenho gold project during the first half of 2008; underpin the immediate commencement of the next phase of assessment of the Torrecillas Gold Project in Peru over the next 18-24 months; and finally, it will fund a major diamond drilling program next quarter on the Tocantins Gold Project in Brazil.



As we have previously stated, Mundo Minerals was a gold exploration float in late 2006 that caught our eye for three reasons: the quality of its project portfolio; its well-credentialed board and management team; and its promise of rapid exploration and evaluation of its portfolio.

As we pointed out in our last report on Mundo, the market can often fail to fully appreciate many better quality junior companies in their initial stages. This ignorance can present buying opportunities for astute

investors.

Mundo was formed to acquire and develop gold assets in South America, with a particular focus on Brazil and Peru. The corporate strategy focuses on assets that can be brought to production in the near to medium term and that have the potential for a reasonable mine life.

The decision to focus on South America is due primarily to the continent's largely under-explored status with respect to gold.

We had the opportunity to visit Mundo's Brazilian operations during the last week in June and we came away incredibly impressed. And what we were perhaps most impressed by was the quality of Mundo's Brazilian management team.

Development activities at Engenho, Mundo's first gold production asset in South America, are well advanced with installation of the crusher now underway on site.

We were able to witness the dewatering of the open-pit, which has commenced in anticipation of mine development commencing in October 2007. Regulatory approval has also been received for construction of the tailings dam, which is an important bonus as it will allow construction to be completed before the onset of heavy rainfall between November and February.

Mundo proposes an underground mining operation that will deliver around 200,000 tonnes of ore annually at a grade of almost 6 g/t Au, producing around 30,000 ounces of gold per annum over a 10-year mine from an on-site conventional CIP (carbon-in-pulp) gold treatment plant.

All-up, we anticipate production of at least 275,000 ounces of gold over the ten-year project life, assuming 93% recoveries.



Based on an assumed gold price of US\$640 per ounce, the Engenho Project is forecast to have a production cash cost of US\$272 per ounce (A\$344 per ounce) and a total production cost of US\$376 per ounce (A\$475 per ounce).

Projected life-of-mine free cash flow is estimated at \$88.4 million, with a Net Present Value (NPV) based on an 8% discount rate of A\$48.8 million and a very high Internal Rate of Return (IRR) of 60%. The Study estimates capital costs through to first production of \$15 million.

The recently completed Feasibility Study showed that an owner-operated mining development is the most efficient and cost effective method, with the majority of mining equipment expected to be sourced locally. Our site visit also highlighted the fact that there is extensive mining and development expertise that exists locally.

With financing now completed, we believe Mundo will have no difficulties in achieving its previously stated timetable of commencing initial ore processing and gold production by late-March 2008.

From discussions with Mundo's in-house Brazilian exploration team, it is apparent that the Engenho resource base remains open, with the mine plan based on the current resource of 1.82 million tonnes @ 5.59g/t Au for 326,500 ounces.

In our view, once Engenho is in production, Mundo will undertake a serious exploration program targeting extensions to the Engenho resource at depth.

It also became clear that the potential for the discovery of duplicate Engenho orebodies is high. The presentation by the in-house Mundo exploration team highlighted the potential of a significant exploration target, Mazoca, located 2km from the existing Engenho orebody.

The geochemical anomaly at Mazoca boasts distinct similarities to the Engenho resource. The boundaries of the anomaly remain open to the east and west, with highly anomalous gold and arsenic values extending to both the eastern and western limits of the sampled area, thus reinforcing its potential as an exploration target.

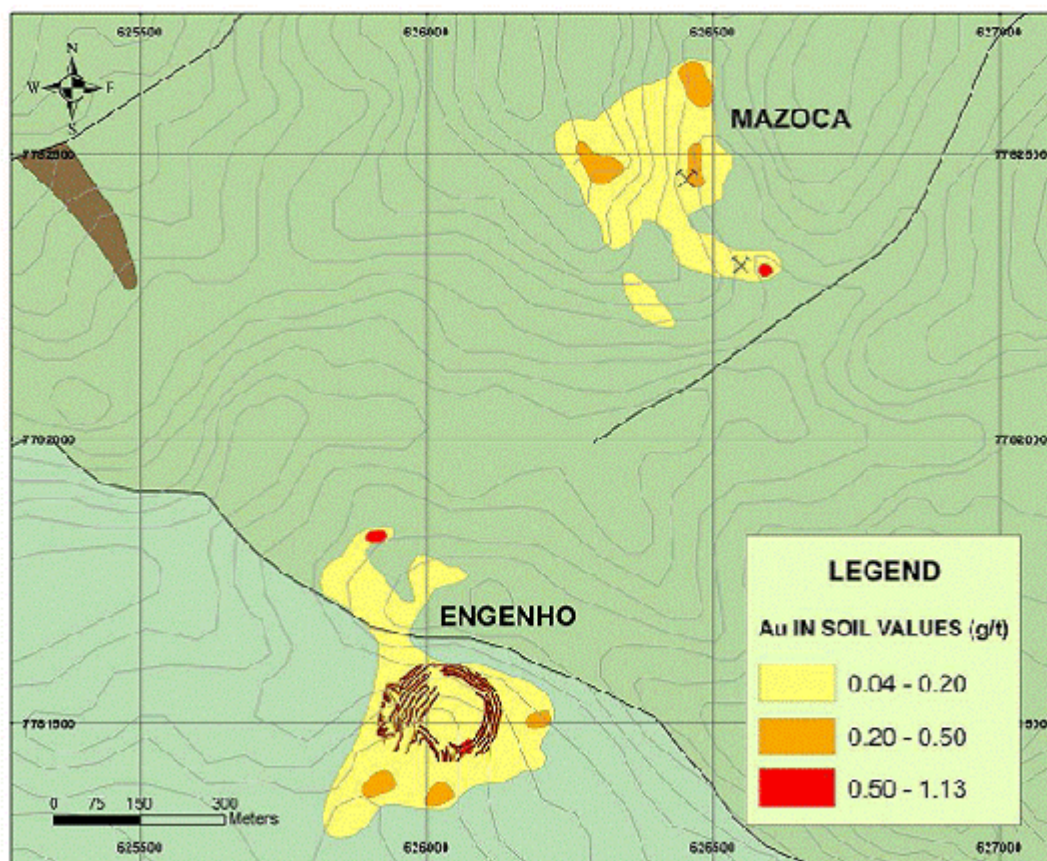


Fig. 1 Comparison of anomalies

Although drilling will be required to confirm the significance and potential of Mazoca as an exploration target, the work completed by Mundo so far has already provided significant encouragement for the concept of repeat ore bodies that could emerge as future additional ore production sources for Engenho.

Mundo intends to commence drilling to test the Mazoca anomaly later this year. Its immediate focus will remain on the development of mine infrastructure to bring Engenho into production on schedule by the second quarter of 2008.

Once the Engenho Project has been commissioned, Mundo will step up exploration to test the potential for additional ore sources within its tenements, with the longer term objective of increasing production above the initial 28-30,000oz per annum production profile.

Earthworks have now been completed at Engenho in preparation for the installation of the crusher, which is due to be delivered to site and installed during July 2007.

Encouragingly from a cost monitoring perspective, a significant portion of final contract tenders for the infrastructure development have now been received and are being assessed. Mundo does not expect any significant variations to its initial cost estimates.

Elsewhere in Brazil, initial results that were announced recently from ongoing RAB drilling work on the Tocantins Gold Project have upgraded the potential for a significant new gold discovery. These results include 2 metres @ 9.05g/t Au, 2 metres @ 4.34g/t Au, 0.7 metres @ 14.0g/t Au and 2.0 metres @ 3.47g/t Au.

Tocantins is a large greenfields gold exploration project located in Central Brazil and recent work has highlighted the prospectivity of a new exploration target, known as the Conceicao prospect.

The next phase of project assessment has already commenced, with the aim of establishing an initial resource and enable a decision on mining to be made within a 2-year timeframe.

It is our strong belief that Mundo Minerals has the funding, projects and management team in place to be a success. The development of Engenho will provide a low risk, sustainable cash flow over an extended period and provide a strong base from which to develop its other assets.

We also believe that Mundo has the potential to be a long term success story for Fat Prophets Mining & Resources Members.

Accordingly, Mundo Minerals will remain Held within the Fat Prophets Mining & Resources portfolio, but for Members with no current exposure we recommend the stock as a Buy around 54 cents.

Disclosure: Interests associated with Fat Prophets declare a holding in Mundo Minerals

Fat Prophets Mining & Resources Pty Ltd (ABN 68 102 986 327) is an authorised representative (no. 277996) of Mint Financial Group Pty Ltd.

Fat Prophets Mining & Resources (FPMR) and Mint Financial Group (MFG), have made every effort to ensure the reliability of the views and recommendations expressed in this report. FPMR research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect.

This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers.

To the extent permitted by law, FPMR, MFG and their employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, FPMR and MFG hereby limits their liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply.

As at the date at the top of this page, Directors and/or associates of Mint Financial Group Pty Ltd currently hold positions in Austal Ltd (LSB), ARGO Exploration (AXT), Australian Wealth Management (AUW), Avoca Resources (AVO), Avexa (AVX), Australian Worldwide Exploration (AWE), Babcock and Brown Capital (BCM), BHP Billiton (BHP), Babcock & Brown Japan Property Trust (BJT), Boart Longyear (BLY), Babcock & Brown Ltd (BNB), Clime Cap (CAM), Clime Investment Management (CIW), Calliden (CIX), Elkedra (EDN), Fat Prophets (FAT), Fat Prophets Options (FATO), Fosters Group (FGL), FoneZone (FZN), Global Mining Investments (GMI), Gold Bullion (GOLD), Infomedia (IFM), Intec (INL), Indophil

Resources (IRN), Invocare (IVC), Lihir Gold (LHG), Lion Selection Ltd (LST), Macarthur Coal Ltd (MCC), McGuigan Simeon Wines Limited (MGW), Mantra Resources Option (MRUO), Merrill Lynch Gold Fund, Mineral Securities (MSX), Mundo Minerals (MUN), Newmont (NEM), Oceana Gold (OGC), Oil Search (OSH), Newmont (NEM), Oxiana (OXR), Paladio Group (PDO), Platinum Japan Fund (Unlisted), Progen Pharmaceuticals (PGL), Platinum Australia (PLA), Platinum Asset Management (PTM), Red Back Mining (Canada) (RBI), Rio Tinto (RIO), Rubicon Japan Property Trust (RJT), Roc Oil (ROC), SP Telemedia (SOT), Scarborough Minerals Chess Dep Interests (SRB), Sirtex Med (SRX), Staging Connections Group (STG), Territory Resources (TTY), Telstra (TLS), Tox Free (TOX), View Resources (VRE), View Resources Options (VREO), Walter Diversified (WDS), Westonia Mining (WEZ), Woodside Petroleum (WPL), Zamia Gold (ZGM). These may change without notice and should not be taken as recommendations.

The above disclaimer does not apply to investments held by the Fat Prophets Australia Fund Limited ACN 111 772 359 (FPAFL).

The FPAFL Investment Portfolio is, pursuant to an agreement made between Fat Prophets Funds Management Australia Pty Ltd with Tidewater Asset Management Pty Limited, (as permitted pursuant to the management agreement that Fat Prophets Funds Management Australia Pty Ltd has with FPAFL), managed by Tidewater Asset Management Pty Limited with its own independently employed staff.

FPAFL is managed independently of management and staff which are employed by the Mint Financial Group in the preparation and electronic publication of the Fat Prophets Report. Management and staff employed by FPAFL and Tidewater Asset Management Pty Limited may however subscribe to the Fat Prophets Report and by the decisions made by management and employees of FPAFL and/or Tidewater Asset Management Pty Limited FPAFL may or may not acquire, hold and/or deal in marketable securities in a manner which is consistent with or contrary to recommendations published in the Fat Prophets Report.

Reference within the FPMR Report to the "Fat Prophets Mining & Resource Portfolio" remain as references to the hypothetical portfolio at <http://www.fatprophets.com.au/mining/content.aspx?page=Performance> and statements of performance of such hypothetical portfolio are not intended to be references to the performance of the portfolio established and maintained by FPAFL. Any enquires about FPAFL should be made direct to that company.

Copyright © 2002 Fat Prophets. All rights reserved.
No portion of this website may be reproduced, copied, or in anyway
reused without written permission from Fat Prophets.

DESIGNED BY **ENDORPHIN INTERACTIVE** POWERED BY **EONE - INTEGRATED BUSINESS SOLUTIONS**