



Mundo Minerals

Buy MUN around 31 cents

Advanced South American gold explorer

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SYMBOL DEFINITIONS			
 EXPLORER	 HIGH RISK	 MARKET CAP	\$31 million
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Mundo Minerals is a newly established Australian gold company focused on the exploration and development of a portfolio of advanced gold projects in South America, with the potential to position the company as a substantial new mid-tier gold production house. Mundo is aiming to commence initial production from its flagship Engenho Project in Brazil within 18 months.

"With \$15 million in the kitty, Mundo can effectively and aggressively evaluate its properties."

The recent float of Mundo Minerals caught our eye, due to the quality of its project portfolio and well-credentialed board and management team. We believe the relatively lackluster share price performance of Mundo since listing provides an investment opportunity for Members.

Members may recall that we saw a similar opportunity about 12 months ago with the then newly-listed Incremental Petroleum (IPM), which experienced a fairly lackluster market debut. Since our initial recommendation however, the stock has enjoyed a strong run and has generated a more than 50% gain for our Members.

What all of this shows is that the market can fail to fully appreciate many good new companies in their initial stages, which presents buying opportunities for astute investors.

The directors of Mundo Minerals formed the company to acquire and develop gold assets in South America, with a particular focus on Brazil and Peru. The corporate strategy is to focus on assets that can be brought into production in the near to medium term and that have a substantial mine life.

The decision to focus on South America is primarily due to the continent's largely under-explored status with respect to gold. According to Mundo, the gold mining industry in South America currently resembles that of Australia in the late 1970s. During that time, the Australian gold industry was dominated either by the extremely large mining operators with a production focus on multi-million ounce deposits or the smaller prospecting, low-tonnage high-grade private operators. Little attention was paid to the potential of medium grade, medium tonnage deposits.

In the early 1980s, the Australian gold industry, assisted by technical innovations, redirected its focus towards exploring for and exploiting these medium-sized deposits. There was a pronounced effect, with Australia moving from the world's 13th largest gold producer to number two by the mid-1980s.

Mundo believes the South American mining industry, in particular Brazil, is currently in a similar situation to Australia in the late-1970s. Brazil and Peru have substantial and long established mining industries with a clear legislative framework and secure mining tenure. Mining support infrastructure is also well established. Most of the major international resource companies are active in the countries.

The company raised \$15 million in its float with shares issued at 30 cents each, with around \$3.7 million allocated to capital and operational expenditure required to bring its Engenho Project in Brazil into production within an 18-month timeframe. AngloGold Ashanti previously operated the project until 2004, treating some 171,257 tonnes of ore from an open pit through a conventional gold treatment facility.

Mundo has recently completed a review of all data associated with its Engenho Project, including a remodeling of the resource, which has resulted in a 54% increase in estimated contained gold ounces. The previous resource estimate based on a 4g/t cut off was 1.13 million tonnes @ 5.82g/t Au for 211,600 contained ounces, but Mundo has revised this to 1.36 million tonnes @ 6.27g/t Au for 274,300 ounces - a 30% increase - using the same 4g/t cut off. If Mundo applies a 3g/t cut off, the resource jumps by 54% to 1.81 million tonnes @ 5.59g/t Au for 326,500 contained ounces.



Around 171,000 tonnes @ 5.5g/t Au lies within the existing open pit wall, meaning it will be easily accessible without significant development cost, providing initial ore feed for most of the first year's production based on a projected production rate of 150,000 tonnes per annum. Mundo is currently undertaking mine planning, in conjunction with obtaining mining and environmental approvals and subsequent development of on-site treatment facilities. Initial gold production could commence within 18 months, with plant capital costs estimated at US\$7.5 million.

A total of \$7.6 million of the float proceeds will be allocated towards exploration and acquisition costs associated with Mundo's other two assets, the Torrecillas Gold Project in Peru and the Tocantins Gold Project in Brazil. Mundo believes these projects have the potential to yield multiple resources to underpin the company's long-term growth.

At Torrecillas, Mundo has negotiated an option to explore some 9,000 ha of tenements with a history of high-grade gold production in southeastern Peru. This region hosts numerous small-to-medium sized gold mines with a production range of 25,000 to 80,000 ounces per annum. Under the option agreement, Mundo has a period of 14 months from February 2006 to prove up a minimum resource of 150,000 ounces of gold @ 12g/t Au. It can exercise the option and acquire a 100% stake in the project by paying a maximum of US\$2.25 million.



Source: MUN

The Tocantins Project is a joint venture where Mundo has agreed to spend US\$1.3 million to earn a 51% stake in tenements controlled by a Brazilian joint venture comprising AngloGold Ashanti and IAMGOLD. Mundo can increase this equity to 80% by taking any gold resource to a Bankable Feasibility Study. The Tocantins tenements are located in a highly prospective region that includes three greenstone belts (typically prospective for gold) with the potential to contain multiple mid-size gold deposits.

A key aspect of the Mundo float that cannot be over-emphasised is the strength of its board and management team. CEO John Langford headed up the corporate finance division for Deloitte in WA for ten years and has extensive resource sector experience. Chairman George Jones was the former Chairman of Portman Mining and is the current Chairman of emerging iron ore players Gindalbie Metals and Sundance Resources. Other high profile directors include Brian Hurley (ex-WMC) and Barry Eldridge (ex-Portman).

Michael Schmulian is the Managing Director of the company's South American operations. He is a geologist, who prior to joining Mundo Minerals was responsible for brownfields exploration for AngloGold Ashanti Limited in South America. WMC previously employed him as Country Manager for Brazil, where he was responsible for development of production assets in Brazil for WMC.



We believe that Mundo Minerals has the funding, projects and management team in place to be a success. We believe its initial lackluster performance since listing in no way reflects the company's potential to be a long term success story for Fat Prophets Mining & Resources Members.

We recommend Mundo Minerals as a Buy to all Members around 31 cents.

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