

# Mundo Minerals Limited

Securities Exchange Announcement – 30 October 2008

## Quarterly Report – 30 September 2008

### Mundo Minerals Limited

A.C.N 117 790 897

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#### Australian Stock Exchange:

Code: MUN

#### Board of Directors

*Non-executive Chairman:*

Barry Eldridge

*Chief Executive Officer:*

John Langford

*Managing Director – South America:*

Mike Schmulian

*Non-executive Directors:*

Brian Hurley

Rob McKenzie

#### Senior Management:

*Chief Financial Officer/Company Secretary:*

Joe Mobilia

*Joint Company Secretary:*

Paul Mason

*Mining Manager – South America:*

José Antonio Kurcewicz

*Exploration Manager – South America:*

Jean-Marc Lopez

*Project Manager – Engenho*

Lafayette Caporali

*Country Manager – Peru*

Sergio Zuniga

#### Capital Structure

Fully-Paid Shares on Issue:

146.39 million

Unlisted Options on Issue:

2.10 million

### HIGHLIGHTS

- Engenho underground development continues to access a major section of the main Galeria ore body below the open pit.
- Short-term production schedules revised following reinterpretation of a portion of the upper open pit wall Bola resource.
- Integrity of the main Galeria underground ore body confirmed by mining, with grades to date above expectations.
- Review of Engenho ore reserves confirms reinterpretation of the Bola ore body and robustness of the Galeria orebody.
- Development of decline and access to ore zones scheduled to be completed by the end of December with full production expected to be achieved by January 2009.
- Metallurgical recoveries continue to exceed budgeted level of 93% .
- Due diligence by AngloPacific Group completed successfully for the proposed A\$4 million debenture facility.
- Limited exploration at the newly identified Crista anomaly continues to yield strong gold assays, reinforcing this as a priority drilling target for 2009.
- A small quantity of development ore was mined from the Torrecillas Project in Peru through ongoing trial mining.

### OVERVIEW

During the September Quarter, Mundo Minerals maintained a strong focus on mine development and production at the 100% -owned **Engenho Gold Project** in Brazil. As announced on 8 September, the short-term production schedules at Engenho were revised following a review of the previously interpreted high-grade zone within the remnant Bola open pit wall resource.

The Company moved swiftly and effectively to put in place an appropriate financial, operational and corporate response to this, as well as to the current economic and market environment. Mundo Minerals' core focus will remain on delivering on its production objectives and managing cash flow from Engenho in order to strengthen the Company's balance sheet.

Accordingly, exploration activities during this period will continue to be restricted, and all other areas of expenditure will be reviewed, until the Company's financial position is firmly established.

#### **ENGENHO GOLD PROJECT, Brazil (Mundo 100%)**

During the Quarter, Mundo Minerals announced a revised short-term production schedule for the Engenho operation following a review of part of the remnant Bola ore zone within the open pit wall, which was being accessed while the major ore bodies below the existing open pit are developed. Production from this initial ore zone yielded lower grades than had been expected from the resource model, resulting in lower than expected output of gold from mining the ore in the open pit wall.

This has affected early cash flows from the Engenho Gold Project and, in order to maintain the Company's financial integrity, Mundo Minerals negotiated a \$4 million debenture facility during the Quarter from its major shareholder, AngloPacific Group. \$2 million was advanced immediately with the balance subject to final due diligence from a site visit by the Chief Operating Officer of AngloPacific Group and completion of final documentation.

The due diligence site visit was conducted early in October 2008. The feedback from this visit was positive with AngloPacific Group expressing satisfaction with the quality of the mine development work undertaken at Engenho and endorsing the Company's strategy for developing the balance of the ore body. Final documentation for the facility is currently being completed.

In addition, Mundo Minerals has recently completed a detailed review of the ore reserve base for the Engenho Project to cover the next three years of operational development and to provide comfort on the robustness of production targets. This reserve analysis has confirmed the integrity of the main Galeria underground ore body and confirmed that there will be a shortfall in tonnes yielded by the remnant Bola ore body, as reported during the Quarter.

It is expected that this shortfall will be substantially compensated for by an increase in grade from the Galeria ore body and a number of potential new ore sources from limb structures discovered during mine development which have not been included in the reserve calculations.

Development of mining levels immediately below the open pit floor continues to confirm the robustness of the reserve model, with grades encountered in the upper levels of the Galeria ore body so far above the reserve expectations. It is expected that completion of stope development within the Galeria ore body will allow full production to be achieved from January 2009 as previously anticipated.

This compares to previous expected production from Engenho of 34,000 ounces per annum which was based on the original resource including the potential limb structures. These additional ore sources have not been included in the reserve analysis, but are still expected to be encountered and mined, with the potential to increase annual production above 32,000 ounces.

## Mining, Processing and Production

The stoping method adopted at Engenho, combined with good ground conditions, continues to provide good productivity and the development of the mine below the open pit floor remains robust. The treatment facility continues to provide excellent metallurgical recoveries of 95% for the project to date, compared to a budget of 93%.

In order to ensure that plant productivity remains robust, the Company has decided to incorporate a tertiary crusher to complement the crushing circuit. While this was included in the original plant design, the crushing circuit was initially operated without a tertiary crusher to monitor its performance. The decision to incorporate the tertiary crusher will ensure maximum processing flexibility, with the ability to increase production rates to accommodate expected full production of approximately 20,000 tonnes per month.

During the September Quarter, a total of 4,005 ounces were produced. Cash costs are not considered representative of mine production as most of the production was from lower grade development ore.

## Exploration

As outlined above, exploration activities across the Company were scaled back while the review of short-term production schedules at Engenho was completed. However, limited exploration did continue at Engenho generating very positive results.

Trenching of the **Crista anomaly**, north of Engenho, continues to provide encouraging assays. Mineralisation identified at the surface has been traced over a 250 metre strike length. Trench results have been received for the the northern 200m of this zone averaging 6.5g/t over a mean width of 3.3 metres. The anomaly remains open to the south.

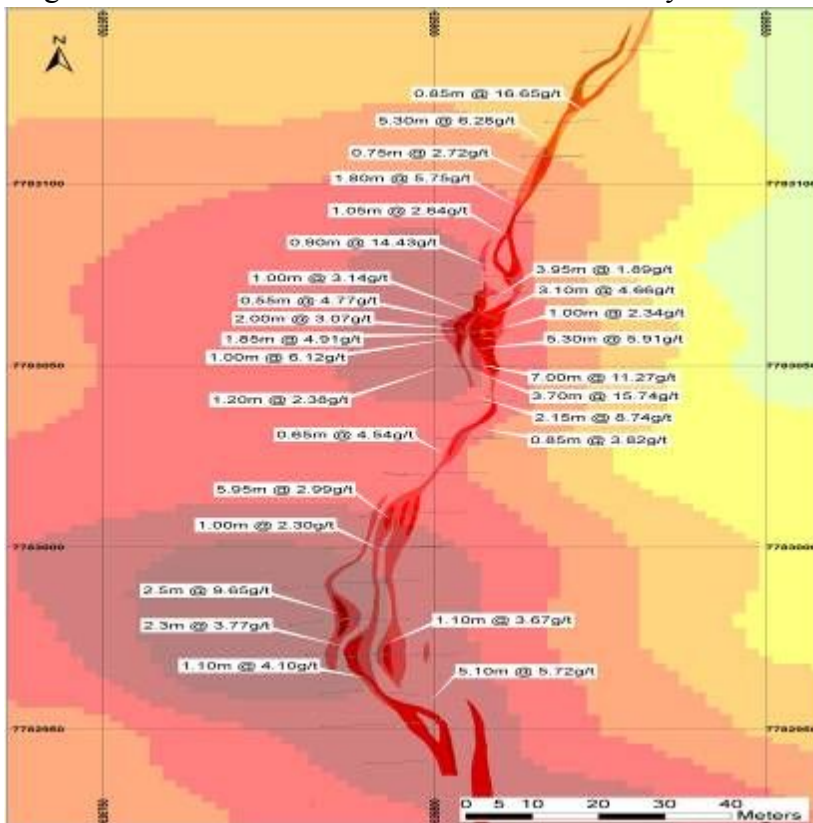


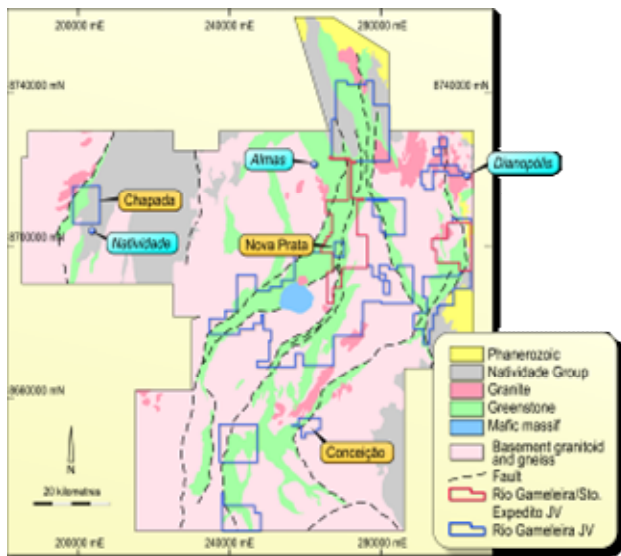
Figure 1: Channel sampling results, Crista anomaly

Sampling will continue during the December Quarter to test the potential strike length of the mineralisation in preparation for drill testing scheduled for early 2009.

### **TOCANTINS GOLD JOINT VENTURE, Brazil (Mundo 51%, right to earn up to 80%)**

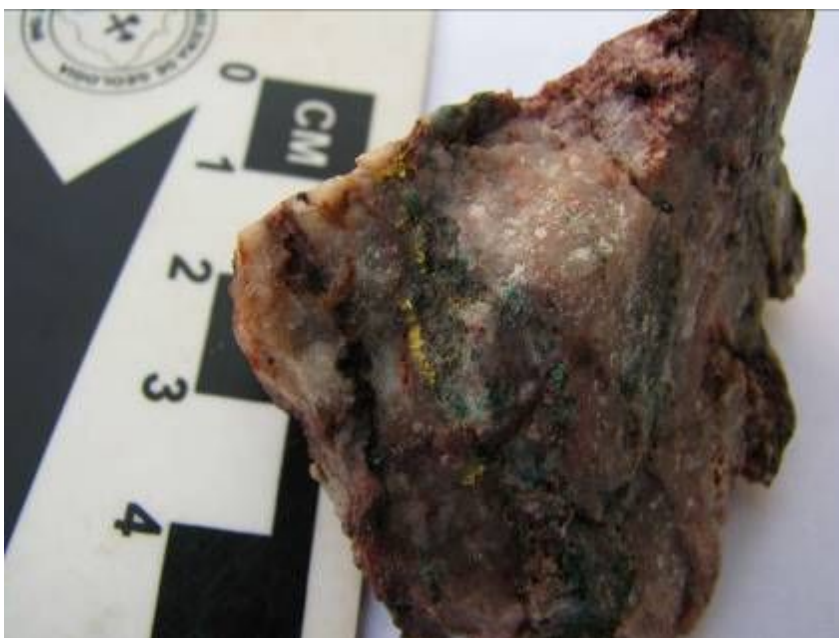
As outlined above, limited active exploration was carried out at the Tocantins Joint Venture during the Quarter due to the focus being placed on the Engenho Gold Project.

Regional soil sampling was undertaken on the Nova Prata tenement in preparation for a planned drilling programme in 2009. Samples have been sent to a laboratory for analysis.



**Figure 2: Tocantins tenements showing Nova Prata tenements**

Results received for surface samples from the **Espinheiro garimpo** area at Nova Prata include values of **25.38g/t Au**, **25.72g/t Au** and **52.32g/t** (see Fig. 3). Most of these samples are from narrow quartz veins exposed by garimpeiro activity, further enhancing the potential of the area to host bulk tonnage mineralisation based on multiple narrow quartz veins.



**Figure 3: Rock sample taken from Garimpo area at Nova Prata**

### **TORRECILLAS GOLD PROJECT, Peru (Mundo 100%)**

Development along the mineralised vein structure continued during the September Quarter as part of the ongoing assessment of the Torrecillas Gold Project in accordance with scheduled development programme. Initial trial stoping was undertaken yielding **445 tonnes of ore at an estimated grade of approximately 13 g/t Au.**

This low-tonnage mining activity is designed to test the effectiveness of different mining techniques on the narrow vein structures. The ore extracted from this trial mining exercise is being treated through a nearby treatment facility.

While the revenue is at this stage small, it does provide a subsidy to current operational expenditures in Peru.

### **JAQUEIRA GOLD PROJECT, Brazil (Option to Acquire 100%)**

No significant activity was undertaken during the Quarter.

### **UPDATED EXPLORATION TARGETS**

Following a company-wide review of its resource development activities completed during the Quarter, Mundo Minerals released a review of Exploration Targets for several of its projects during the Quarter. The Directors anticipate that, in time, the conversion of these Exploration Targets into JORC Code compliant resources will result in substantial value uplift for the Company moving forward.

In accordance with Clause 18 of the JORC Code, it is important to note that no JORC Mineral Resources or Ore Reserves have been established on these tenements and any current assessment remains subject to ongoing exploration work and drilling. The current

interpretation remains preliminary and is based on surface indicators, assays from underground channel samples, geological modelling, historical production records (in the case of Jaqueira and Torrecillas) and an assessment of the strike and width assessed from surface expressions.

Nonetheless, the Company's geologists have been able to establish conceptual Exploration Targets\* for both the newly identified Crista and Olhos anomalies at Engenho, and for the Jaqueira and Torrecillas Projects, as set out below:

Exploration Target	Tonnage Range	Grade Range (g/t Au)	Prospective Ounces\ '000
<b>Engenho</b>			
<i>Engenho – to 270m</i>	1.9-2.4M tonnes	4-5	244-385oz
<i>Engenho – 270m to 500m</i>	1.3–1.7M tonnes	4-5	167-273oz
<i>Crista / Olhos</i>	2.0-2.6M tonnes	5-6.5	321-543oz
<b>Total – Engenho</b>			<b>732-1,201oz</b>
<b>Jaqueira</b>			
<i>Jaqueira Tenement</i>	1.2-1.5M tonnes	8-10	308-482oz
<i>Other Tenements</i>	0.8-1.0M tonnes	8-10	205-321oz
<b>Total – Jaqueira</b>			<b>513-803oz</b>
<b>Torrecillas</b>			
<i>Torrecillas Vein</i>	270-300k tonnes	18-20	156-192oz
<i>Ady/Oly Vein</i>	0.9-1.0M tonnes	18-20	520-643oz
<i>5 de Novembre Vein</i>	700k-900k tonnes	12-15	270-434oz
<b>Total – Torrecillas</b>			<b>946-1,269oz</b>
<b>TOTAL – Exploration Targets</b>			<b>2,191-3,273oz</b>

Projects associated with the Tocantins Joint Venture remain at a stage where it is inappropriate to establish an exploration target. While these are highly prospective, exploration work is not yet at a stage where appropriate estimates can be attributed to specific targets and the Tocantins Project has therefore been excluded from this table.

*\* Note: It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information above relating to the exploration target 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 exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.*

Based on this interpretation and subject to future exploration, it is anticipated that the additional potential resources at Crista and Olhos, together with other potential additional resources including the previously announced Mazoca area, have the potential to support a future increase in production at Engenho.

The development of these Exploration Targets, combined with a recent assessment of the future production potential of the projects within its portfolio, supports the Company's medium term targeted potential production profile of approximately 200,000 ounces per annum.

This assessment is based on current interpretations from the assets and the current status of the projects. These are not based on JORC resources and further exploration is required to confirm the resources before production profiles can be based on JORC resource profiles.

Current schedules anticipate these projects being developed within the next five years, with new projects being brought into production on a regular basis.

## **SUMMARY**

The Directors of Mundo Minerals are mindful of current economic conditions and associated restrictions within equity and credit markets. For the immediate future, the Company will remain absolutely focused on ensuring the sustainability of mining operations at the Engenho Gold Project in Brazil to ensure that an efficient and profitable cash flow is established from this project. Work will also continue at Torrecillas in Peru, where a low-cost workforce has been established.

In light of these clear priorities, the Company will continue to restrict other exploration activity in order to focus on its core business at Engenho and to ensure that the financial robustness of the Company is properly established before spending substantial funds on developing other assets.

The Board of Mundo Minerals has always stated that it will take a pragmatic approach to the development of its assets and will operate primarily with strong commercial principles in order to ensure a sustainable future for the shareholders, employees and the asset base.

All of the Company's assets remain highly prospective and will be properly assessed and, where appropriate, developed to production assets; however, it is a proper commercial decision to ensure that the financial well-being of the company is the highest priority.

The development of Engenho will not be hindered by the current circumstances and appropriate expenditure is being maintained on forward mine development, which is a major priority in the ongoing effective management of any mine. Production is being scheduled to ensure that development of the mine is appropriate and no short-term strategies are being implemented that would compromise the longer term benefits to be derived from the mine.

All expenditures will be reviewed to ensure that the commercial management of all operations across the Company is effective.

These are difficult economic times and Mundo Minerals remains fortunate that it has funded development of the Engenho Gold Project from equity, has limited debt and remains leveraged to any upside in the gold price. While the Company is not exposed to significant debt, the Company is currently reviewing all management practises to ensure that it is operating its assets effectively.

**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 Jean-Marc Lopez who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Lopez is employed by Mundo Minerals Limited and is the Company Exploration Manager. Mr*

*Lopez 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 Lopez consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## **About Mundo Minerals**

Mundo Minerals is an Australian-domiciled international gold company with a portfolio of medium- sized gold projects in South America. Currently, the Company has four projects at different stages of development – three (including its first production asset) in Brazil and one in Peru.

Mundo Minerals' corporate strategy is based on the development of a sustainable production base of more than 250,000 ounces of gold per annum in the medium term. The Board has assessed all of the assets within the Mundo portfolio, at their current stage of development, as having strong potential to deliver a sustainable production base.

The Engenho Gold Project, which is located in the State of Minas Gerais in Brazil, is forecast to produce at an initial annualised rate of 32,000 ounces per annum. Mundo's other assets in South America include the 100%-owned **Torrecillas Gold Project** in Peru, and the **Tocantins Gold Project** and **Jaqueira Gold Project** in Brazil. These projects have the potential to yield multiple resources to underpin the Company's long-term growth.

The Board is pragmatic in its approach to developing the corporate asset base and all projects will be developed according to robust commercial parameters.

# Appendix 5B

## Mining exploration entity quarterly report

Name of entity

**Mundo Minerals Limited**

ABN

**97 117 790 897**

Quarter ended ("current quarter")

**30 September 2008**

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		Current quarter \$A'000	Year to date \$A'000
1.1	Receipts from product sales and related debtors	4,459	4,459
1.2	Payments for (a) exploration and evaluation	(1,435)	(1,435)
	(b) development	(971)	(971)
	(c) production	(3,910)	(3,910)
	(d) administration	(1,079)	(1,079)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	8	8
1.5	Interest and other costs of finance paid	(89)	(89)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	<b>Net Operating Cash Flows</b>	<b>(3,017)</b>	<b>(3,017)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	(719)	(719)
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
	<b>Net investing cash flows</b>	<b>(719)</b>	<b>(719)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(3,736)</b>	<b>(3,736)</b>

1.13	Total operating and investing cash flows (brought forward)	(3,736)	(3,736)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	3,634	3,634
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – share issue expenses	-	-
	<b>Net financing cash flows</b>	3,634	3,634
	<b>Net increase (decrease) in cash held</b>	(102)	(102)
1.20	Cash at beginning of quarter/year to date	1,353	1,353
1.21	Effects of foreign exchange rates	84	84
1.22	<b>Cash at end of quarter</b>	1,335	1,335

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	131
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

1.23 The payments to directors and director-related entities are for director fees, salaries and payments for consulting services from entities associated with directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not applicable.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not applicable.

## Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	5,634	3,634
3.2 Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,287
4.2 Development	853
<b>Total</b>	<b>2,140</b>

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,335	625
5.2 Deposits at call		728
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,335</b>	<b>1,353</b>

## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Not applicable	Not applicable	Not applicable
6.2	Interests in mining tenements acquired or increased			

## Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference + securities</b> <i>(description)</i>	-	-	-	-
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>+Ordinary securities</b>	146,390,006	146,390,006	n/a	n/a
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	- -	- -	-	-
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -		
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	1,300,000	-	\$0.30	9 Nov 2011
	400,000	-	\$0.30	11 Feb 2012
	400,000	-	\$0.45	1 Jul 2012
	650,000	-	\$0.80	29 Nov 2012
	50,000	-	\$0.80	10 Jan 2013
	<u>2,800,000</u>	-		
7.8 Issued during quarter		-		
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter	120,000	-	\$0.30	30 Sep 2008
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )	-	-
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date:  
(Director/Company secretary)

Print name: Joe Mobilia

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 Accounting Standards ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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