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Company Announcements Office  
Australian Securities Exchange Limited  
20 Bridge Street  
Sydney NSW 2000



## Market Update – Engenho Gold Mine, Brazil

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- Continued delays in securing final approvals for the Crista open pit results in a decision to immediately cease decline development at the Engenho underground mine.
  - The limited economic resource defined by recent drilling and declining production has resulted in a decision to close the Engenho underground mine by the end of December 2011.
  - As of tomorrow, 25% of the current workforce will be given termination notices with immediate effect. Most of the remaining workforce will be kept in place until the completion of remnant mining.
  - Production to continue from current accessible levels, including the pillars in the upper levels, for the next 3 months at ~1,000oz per month.
  - Annualised production target for 2012 therefore downgraded as a result of the underground mine closure.
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**Mundo Minerals Limited (ASX Code: MUN)** advises that the Directors have resolved to place the Engenho Gold Project in Brazil on care and maintenance by the end of this calendar year following the completion of mining activities at the Engenho underground mine on the current level and remnant mining from the upper levels, including parts of the pillars that are easily accessible.

The senior management team is currently completing a comprehensive estimation of the ounces that remain accessible to Mundo. It is envisaged though that these ounces will be mined at a relatively cheap cost per ounce with the net proceeds being allocated in priority to paying out employee termination costs, unsecured creditors and to provide additional working capital.

The decision was prompted by three key factors:

- the falling production profile over the last 8 weeks reflecting a decline in both grade and tonnes against the resource model;
- the limited resource inventory and therefore the need to make a substantial investment in an underground drilling program, which the Board believes cannot be justified; and
- continued delays by Brazilian authorities to:
  - (i) confirm the boundaries of the proposed national park;
  - (ii) the exclusion of part of the Engenho concession from the park, which includes the Crista deposit; and
  - (iii) issue the relevant license to commence construction of the haul road and pre-strip of the open cut mine.

While the decision to wind down the underground operations and place the Engenho processing operation on care and maintenance is regrettable, Mundo Minerals cannot continue to justify further capital investment in a 2gpt underground mine without sufficient technical geological support. Current resource modeling, which was based on the results of a recently completed 1,000m in-fill diamond drilling program, has downgraded the potential to extend the resource at depth, and therefore failed to justify further mine development beyond the current 480 Level.

As a result of the decision, Mundo Minerals now expects that the Engenho Gold Project will produce approximately 20,000oz for calendar 2012, subject to the receipt of approvals for the Crista open pit mine, located immediately north of the underground mine. While officials continue to advise of an imminent conclusion to this matter, which would enable final licensing to proceed, Mundo, together with the other companies affected by the national park, is required to wait for a formal resolution of this matter.

The closure of Engenho underground mine has unfortunately resulted in 50 employees being made redundant from the operations and the workforce in Brazil being scaled back to 150 employees. Following completion of the remnant mining program, it is highly probable that the underground mine will no longer be accessible and the workforce in Brazil will therefore be scaled back further to approximately 20 employees in total.

The planned mine closure now requires the Company to implement standstill agreements with its banks in Brazil while it executes the mine closure and awaits approval to develop the Crista deposit. Mundo is continuing positive negotiations with its banks in this regard following meetings held in Brazil last week. In addition to the standstill agreements, the Company is currently continuing to assess the refinancing of the secured debt in consultation with its consultants.

Given the uncertainty around the standstill agreements and the conditions of those agreements, it is the Board's intention to request that ASX keep the Company's shares suspended until further announcements are made in relation to secured debt position of the Company.

The Board appreciates the support and patience of its employees, service providers and shareholders through this process and looks forward to successfully concluding the mine closure, the standstill agreements and the Crista approvals. Mundo will continue to keep the market fully informed on other developments in the business in both Brazil and Peru.

For and on behalf of the Board

**Ashley Pattison**  
**Chief Executive Officer**  
**18 October 2011**

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