

31 October 2011

Company Announcements Office  
Australian Securities Exchange  
20 Bridge St  
Sydney NSW 2000



# September 2011 Quarterly Activities Report

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## HIGHLIGHTS

### Torrecillas Gold Project, Peru

- 1,798 ozs sold for the Quarter at an average recovered grades of 16.3g/t Au from trial and remnant mining on the Torrecillas vein (June Quarter: 1,544 ozs at an average recovered grade of 18g/t Au).
- EBITDA of US\$1.38M for the Quarter from production of 1,798 ounces at a cash cost of US\$691/oz (June Quarter: EBITDA of US\$0.8m from production of 1,544 ozs at a cash cost of US\$940/oz)
- The surface and underground diamond drilling program continued with three surface and two underground diamond rigs. Program now 90% complete with only the two underground rigs remaining on site.
- Material assays delivered provide a high level of confidence on the continuation of the Torrecillas vein, with Torre Chico shaping up as a high grade target and Ady being the third potential ore source.
- Drilling of three water bores completed on site that confirmed the water wells have the capacity to provide sufficient water supply to the site for our long term aspirations.
- A substantial amount of the DFS work was completed prior to the DFS being placed on hold in late September. Whilst very promising, the initial JORC resource is unlikely to be sufficient to justify the construction of a standalone mill at this point, however further work in 2012 will seek to achieve this goal.

### Engenho Gold Mine, Brazil

- Restructure of the Engenho gold operations in Brazil was completed in response to operational challenges experienced in the June Quarter. 15% of the workforce was terminated as part of an overall cost reduction program.
- Engenho underground continued to deliver disappointing gold production of 3,174 ozs at a cash operating cost of A\$1,108/oz before restructuring costs. Declining grade and tonnes per vertical meter led to a decision subsequent to Quarter end to place the mine on care and maintenance by Dec 2011 or earlier.
- EBITDA from the Engenho operation of A\$0.69M for the Quarter, including A\$0.92m of restructuring costs.
- The delays in obtaining the Crista mine approvals continued, despite definitive timetables being put in place by the government officials. Lobbying and ongoing meetings with government officials continue to move this process forward, albeit slowly.

### Tocantins JV (51% owned by Mundo)

- Independent geological and geophysical review of the Tocantins JV concession commenced with a view to reestablishing this project as a priority project for Mundo.
- Option agreement entered into post Quarter end with BBX Holdings Ltd to sell our 51% interest in the Chapada concession, one of 38 concessions that form the Tocantins JV for \$50,000 upfront and \$800,000 in cash payable in two tranches on exercise of the option. This concession represented 3% of our concession package in the Tocantins region.

### Corporate – Restructure and recapitalising complete

- Two very experienced mining professionals, Mr Grant Dyker and Mr Alan Sexton were appointed CFO/Company Secretary and General Manager – South America respectively.
- Suspension of Company's shares continues pending the agreement on a positive result from standstill negotiations with our Brazilian banks over our term debt facilities in Brazil.

## Torrecillas Gold Project Peru (100%-owned)

*The Torrecillas Gold Project, which is located within a 16,000ha tenement package in a well-established gold belt in southern Peru, is emerging as Mundo Minerals' flagship gold production asset in South America. A strategy to ramp production up from this asset is underway through the development of a high-grade underground mining operation (targeted +15gt Au head grade).*

### **Gold Production – Trial/Remnant Mining and Financial Performance**

During the Quarter, further excellent progress was made with trial mining at the Torrecillas Project with recovered grades averaging 16.3g/t Au and production for the June Quarter saw 3,453 tonnes of ore mined compared with 2,668 tonnes @ 18gpt in the June Quarter.

Gold sales for the September Quarter were 1,798 ounces at an average price of US\$1,706 per ounce. The average cash cost of US\$691/oz

Trial mining at Torrecillas delivered earnings before interest, tax, depreciation and amortization (EBITDA) of US\$1.38 million for the Quarter.

### **Safety**

There was one safety issue that occurred during the Quarter. A contractor on site experienced one LTI. No further incidents have occurred.

### **Feasibility Study Update**

During the quarter, the following areas of the DFS were completed:

- A large metallurgical batch treatment of 750 tonnes of ore in conjunction with Ausenco and our toll treatment plant operators. This batch treatment provided all technical information required for Ausenco to complete the mill design and confirmed recoveries were 94.5%;
- The permitting process continued with significant regional support for the Torrecillas Project and without any protest or confrontation being experienced compared to other regions of Peru;
- All water well testing was completed and the infrastructure requirements designed to supply sufficient water to meet the requirements of the mill and camp;
- Infrastructure design and costing was completed, including a camp for 600 plus workers and contractors;
- Trial mining of a large stope using the proposed panel mining method delivered exceptional results with tonnes per man shift increasing from an average of 3 tonnes per man shift to 9 tonnes per man shift;
- Full commissioning of the consolidated back fill plant occurred during the quarter with old stopes being filled and the system now being used to supply ground support for the trial stope;
- the resource drill-out continued with excellent results being returned from assaying to date on the Torrecillas, Torre Chico and Ady veins;

While the DFS has given us certainty around the cost and availability of a host of key components such as the planned surface infrastructure, permitting, power, accommodation, water supply, suitable tailing storage facilities and mining methodologies, the resource drilling completed this year has not delivered uniform results.

The drilling has achieved excellent results on the Torrecillas, Torrechico and Ady veins, but it has not delivered the sort of results we hoped for on the 5 Noviembre vein. We still expect to be able to calculate an initial JORC resource estimate for this project, however it is unlikely to be of a size that would justify and support debt funding for a large-scale commercial. We remain confident of the projects potential and expect further exploration work will deliver the required result in the medium term.

We propose to announce an initial JORC resource in December 2011 that will be the support for a two-stage development strategy for Torrecillas.

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

*The Engenho Gold Project has been in production for approximately three years at an annualized level of 18,000oz per annum from a single underground mine (average head grade of ~2.5g/t Au). Recent exploration success has defined new emerging production centres at Crista and Olhos, located 2km north of the existing underground mine and processing facility. Once approved, the development of a new open pit mining operation at Crista (targeted head grade of ~4.1g/t Au) will replace production the Engenho underground operation that will be closed by 31 December 2011. Final development approvals for Crista are now expected in Q4 2011.*

### Gold Operations and Production

Gold production for the June Quarter was 3,174 ounces at an average cash operating cost of A\$1,108/ounce (June Quarter: 3,393 ounces at a cash operating cost of A\$997/ounce). Rising cash costs are a direct result of falling production and a relatively fixed cost base despite the July redundancies and restructuring effected by the Company.

Production statistics for the last 9 months also illustrate the negative trend the operations were encountering and are shown in the table below:

	Calendar 2011		
	Q1	Q2	Q3
<b>Ounces produced</b>	4,669	3,393	3,174
<b>Grade</b>	2.44	2.21	2.30
<b>Recovery</b>	94.1%	90.1%	93.6%
<b>Tonnes Milled</b>	62,633	55,322	45,822
<b>Cash Costs \$R</b>	1,619	1,703	1,915
<b>Cash Costs A\$</b>	980	997	1,108

It was reported in the June quarter that a positive aspect of the in-fill diamond drill program was that we had intersected two additional parallel ore bodies in the underground (195 and 199 ore bodies) that were seen in the early stages of mining and were thought to have disappeared.

It is noted that those ore bodies, whilst contributing additional tonnes and good grade in the current Quarter, were not sufficient to support the operations in the short to medium term. We have noticed though a widening of these ore bodies over the three levels mined. These ore bodies may be drill tested in the future should the Company undertake a new feasibility study to re-open the Engenho operations.

As advised to the ASX on 18 October 2011, the Directors of the Company 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 sill pillars that are easily accessible.

The decision was prompted by three key factors:

- the falling production profile 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.

## **Financial**

The Engenho underground mine delivered EBITDA of A\$1.61 million, before A\$0.92m of restructuring costs from gold production of 3,174oz at an average cash cost of A\$1,108/oz. The average gold price received for the quarter was A\$1,608/oz.

Subsequent to quarter end, the Company announced the planned closure of the Engenho underground mine. 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, the workforce in Brazil will be scaled back further to leave approximately 20 employees in total.

The planned mine closure has required the Company to seek 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 negotiations with its banks in this regard following numerous meetings held in Brazil the last two weeks.

## **Safety**

There was one LTI reported during the quarter on site which was disappointing. The Company is continuing to focus on implementing and maintaining a strong safety culture at the Engenho gold operations. At Quarter end, the Engenho operations were 63 days LTI-free.

## **Crista**

The Company has continued to keep the market informed on the lack of action being taken by the authorities in Brazil to resolve the Crista licensing issue, despite the 30 August 2011 passing without any real clarity on the situation.

The Company is in receipt of the revised park boundaries. We are however bound by confidentiality on those boundaries until they are formally ratified and publicized by the Governor of MG's office.

On release of the boundaries, Mundo will lodge requests with the licensing authorities for a special license to construct the haul road and commence the pre-strip. This document has been prepared for some time now. It is a realistic expectation that this process will be a matter of weeks.

Once in hand, our appointed contractors will commence construction of the haul road, including access to the allocated waste dump areas and pre-strip of the pit.

## **Olhos**

The planned drill program for Olhos continues to be caught up in the above approval process.

A 4,250m program is planned at Olhos to drill out the open pit resource. Drilling will commence following the receipt of approval by SUPRAM targeting a maiden JORC compliant Mineral Resource estimate.

During the quarter, Mundo undertook preliminary modeling of the Olhos pits based on exploration work done to date to assess preliminary pit designs and potential ounces per vertical metre expectations in the upper areas of the pits. This is a non JORC model and was compiled for internal assessment of the project only.

## **Corporate**

The Company announced the appointment of Mr Grant Dyker as CFO and Mr Alan Sexton as General Manager – South America. The Company is very pleased to have secured two high calibre executives to fill key roles within the organization as it prepared to enter a significant phase of growth.

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

For and on behalf of the Board,



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

**Competent Person's Statement**

The information in this report that relates to Exploration Results and Mineral Resources is based on information reviewed by Mr Daniel Saunders who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Saunders is employed by BMGS Perth Pty Ltd, who act as consulting geologists to Mundo Minerals Limited. Mr Saunders 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 Saunders consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.