Marengo Mining Limited

ABN 57 099 496 474

Annual Financial Report

for the year ended 30 June 2011

Corporate Information

ABN 57 099 496 474

Directors

John Horan (Non Executive Chairman)
Les Emery (Managing Director and Chief Executive Officer)
Douglas Dunnet (Non Executive Director)
Sir Rabbie Namaliu (Non Executive Director)
Susanne Sesselmann (Non Executive Director)
Elizabeth Martin (Non Executive Director)
John Hick (Non Executive Director)

Company Secretaries

John Ribbons
Dennis Wilkins

Registered Office

Level 1, 9 Havelock Street
WEST PERTH WA 6005 AUSTRALIA
Telephone: + 61 8 9429 0000
Facsimile: + 61 8 9429 0099

Postal Address

PO Box 289
WEST PERTH WA 6872
AUSTRALIA

Legal Counsel

Australia
Gilbert & Tobin
1202 Hay Street
WEST PERTH WA 6005

Canada
Fraser Milner Casgrain LLP
1 First Canadian Place
100 King Street West
TORONTO, ONTARIO, M5X 1B2

Papua New Guinea
Allens Arthur Robinson
Level 5, Pacific Place
Cnr Musgrave Street and Champion Parade
PORT MORESBY NCD

Bankers

National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005 AUSTRALIA

Westpac Banking Corporation
109 St Georges Terrace
PERTH WA 6000 AUSTRALIA

ANZ Banking Group (PNG) Limited
Harbour City, Poroporena Freeway
PORT MORESBY NCD

Share Registries

Australia
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
PERTH WA 6000
Telephone: 1300 550 839 (Australia)
+ 61 3 9415 4000 (Outside Australia)
Facsimile: + 61 8 9323 2033

Canada
Computershare Investor Services Inc
510 Burrand Street, 3rd Floor
VANCOUVER, BRITISH COLUMBIA, V6C 3B9
Telephone: 1800 564 6253 (North America)
+ 1 514 482 7555 (Outside North America)
Facsimile: 1866 249 7775 (North America)
+ 1 416 263 5924 (Outside North America)

Papua New Guinea
PNG Registries Ltd
Level 2, AON Haus, MacGregor Street
PORT MORESBY NCD
Telephone: + 675 321 6377

Facsimile: + 675 321 6379

Auditors

Stantons International
Level 1, 1 Havelock Street
WEST PERTH WA 6005

Internet Address

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marengo@marengomining.com

Stock Exchange Listings

Marengo Mining Limited shares are listed on Australian Securities Exchange (ASX) and Port Moresby Stock Exchange (POMSoX) under the code ‘MGO’ and Toronto Stock Exchange (TSX) under the code ‘MRN’.

Contents

Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Marengo Mining Limited (the Company) and the entities it controlled during the year ended 30 June 2011.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

John Horan, FCPA, FCIS (Non Executive Chairman, Member of Audit Committee, and Human Resource & Compensation Committee)

Mr John Horan is a Fellow of CPA Australia, a Fellow of the Chartered Institute of Secretaries in Australia, a Member of the Finance and Treasury Association Limited and a Member of the Australian Mining and Petroleum Law Association. He has many years' experience in the financial, corporate, technical and management areas of the mining industry.

Mr Horan has been a director of a number of mining and exploration companies in Australia and internationally. He is currently a director of Adelaide Resources Limited, listed on Australian Securities Exchange (ASX).

From 1987 until June 1993, Mr Horan was the finance director of Homestake Gold of Australia Limited (now Barrick Gold Corporation), one of Australia's largest gold producers. He first joined Homestake in 1978 and was responsible for financial, commercial and corporate management functions prior to 1987 when he played a substantial role in the float of the Australian subsidiary. He also fulfilled key responsibilities in subsequent very large debt and equity capital raisings. In July 1993, he established Adelaide Resource Management Pty Ltd to provide corporate advisory services to the mining industry.

From the early 1960s until the second half of the 1970s, he held various financial, corporate administrative and management positions in Poseidon Limited and CRA Limited (now Rio Tinto Limited), following initial technical experience in CRA's mining operations at Broken Hill.

Other Current Directorships: Adelaide Resources Limited.

Past Directorships (last 3 years): Nil.

Les Emery, (Managing Director, Member of Health Safety and Environment Committee)

Mr Les Emery has been involved in the Western Australian mining industry for more than 35 years and has experience in exploration, mining and corporate administration. Until June 2001, he was Managing Director of Lynas Corporation Limited (formerly Lynas Gold NL) for 15 years and was instrumental in the transition of that Company from explorer to gold producer with the development of the Lynas Find Gold Mine and the subsequent Paraburdoo Gold Project. In 1999, Mr Emery negotiated the entry of Lynas Corporation into that company's now core business, the Mt Weld rare earths and tantalum/niobium project.

In addition, Mr Emery has been an executive or managing director of a number of listed Australian resource companies and is a founding director of Marengo Mining Limited. In 2005, he identified the opportunity to acquire the Yandera Copper-Molybdenum-Gold Project in Papua New Guinea, now Marengo Mining's core asset.

Other Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Douglas Dunnet, B.Sc.(Hons), PhD. F.AusIMM (Non Executive Director, Chairman of Audit Committee)

Dr Doug Dunnet is a geologist with over 40 years experience. He has a strong background in management of mining project initiation and development in Australia and North America, including 14 years with the Anaconda (USA) group of companies, culminating as Exploration Manager for the Australian subsidiary during the period 1980-1983. He has extensive experience in the Archaean and Proterozoic rocks of Australia and North America.

In 1984, Dr Dunnet became a principal of Aurex Pty Ltd, a contracting and consulting company. In 1987, he initiated the listing of and became Managing Director of Orion Resources NL and a director of Ranger Minerals Ltd. He was subsequently instrumental in acquiring a 45% interest in the Yilgarn Star Gold Mine near Southern Cross and guiding Orion to a market capitalisation of over $130 million, prior to the takeover by Sons of Gwalia NL. This included the successful transition from significant open pit mining to major underground mining operations producing in excess of 100,000 ounces of gold per annum.

Dr Dunnet was formerly Chairman (Non Executive) of Paladin Energy Limited, a listed Australian uranium company.

Other Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Sir Rabbie Namaliu, GCL, CSM, KCMG, BA, MA, Hon.LLD (Non Executive Director, Chairman of Health Safety and Environment Committee)

Sir Rabbie Namaliu served as Foreign Affairs and Immigration Minister in the Government of Papua New Guinea from August 2002 to July 2006 and Minister for Treasury from July 2006 to August 2007. He served as Prime Minister between 1988-1992 and Speaker of the National Parliament between 1994-1997. He earlier served as Foreign Minister, 1982-1984 and has held several other senior Ministries including Primary Industry, and Petroleum and Energy since his first election to Parliament as MP for Kokopo (East New Britain) in 1982.

Directors' Report (continued)

As Foreign Minister for Papua New Guinea in 1984, Sir Rabbie was President of the ACP Council of Ministers and Co-President of the ACP-EU Council of Ministers with the Foreign Minister for Ireland. He also chaired the Pacific Islands Forum Ministerial Committee on the proposed amalgamation of the Forum and Pacific Community in 1984, the other members being the Foreign Ministers of New Zealand and Tonga.

Sir Rabbie had a distinguished public service career before entering Parliament. He was Chairman of the Public Services Commission from 1976-1979 and earlier served as Principal Private Secretary to the Chief Minister and then first Prime Minister, Sir Michael Somare from 1974-1975 and in 1976 he served as East New Britain Provincial Commissioner.

He was a Senior Tutor and later Lecturer in History at the University of Papua New Guinea, and was the first Papua New Guinean graduate to be appointed to the University's academic staff.

Sir Rabbie holds a Bachelor of Arts (BA) degree from UPNG, and a Master of Arts (MA) degree from the University of Victoria, British Columbia, Canada and an Honorary Doctorate of Laws (Hon.LLD) from the same University.

Sir Rabbie has been Chancellor of the University of Vudal (PNG) from August 2007.

Other Current Directorships: Bougainville Copper Limited and Kina Asset Management Limited.

Past Directorships (last 3 years): Nil.

Susanne Sesselmann (Non Executive Director)

Ms Sesselmann has 20 years experience in banking, including 10 years in investment banking and project finance throughout the world. She holds a Bachelor of Arts / Masters Degree in Languages from the University of Innsbruck in Austria and is currently a Director of the leading international private equity resource fund, The Sentient Group, and also the Meridiam Infrastructure Fund.

The Sentient Group manages over US$2.3 billion in the development of quality metal, mineral and energy assets across the globe through its Caymans-based, 10 year closed-end private equity Sentient Global Resources Funds. Sentient Global Resources Fund II is a 22.2% shareholder in Marengo.

Based in Munich, Germany, Ms Sesselmann headed up the Private Equity Funds Group for asset-based private equity funds at HypoVereinsbank until 2006, having first joined in 1987. As a project manager she was involved in a wide range of projects in Europe, the USA and Australia, where she focused particularly on transactions in the transportation and public private partnership ("PPP") sectors.

Since 1998, Ms Sesselmann has concentrated on the lead arranging of finance for projects including the new Athens Airport, various bridge and tunnel projects in France and major highway projects in Portugal.

Other Current Directorships: The Sentient Group Limited, Sentient Executive GP I Limited, Sentient Executive GP II Limited, Sentient Executive GP III Limited, Metals Recycling Limited, Sentient China Investments Ltd, Sentient Trustees PTC Limited and Sentient China Titanium Investments Limited.

Past Directorships (last 3 years): Meridiam Infrastructure Managers, Sentient Investments GP II Limited, MGH Limited, Sentient Resource Investments Limited and Sentient Trustees Limited.

Elizabeth Martin, C.M.A. ICD.D. (Non Executive Director, Member of Audit Committee, and Human Resources and Compensation Committee)

Ms Elizabeth Martin is a Toronto based, professional accountant with a strong background in international exploration and mining companies. She is a member of the Institute of Corporate Directors and has held senior and executive management roles in base metal and precious metal companies such as Northgate Mines Inc., Western Mining Corporation Limited, IAMGOLD Corporation and High River Gold Mines Ltd.

Ms Martin is currently on the Board of Aura Minerals Inc. She is past Chair of the Board of St. John's Rehabilitation Hospital and is currently on the Board of Directors of Sunnybrook Health Sciences Centre, Sunnybrook Research Institute as well as the HealthCare Insurance Reciprocal of Canada, all located in Toronto.

Other Current Directorships: Aura Minerals Inc.

Past Directorships (last 3 years): Goldbelt Resources Ltd. and Manicouagan Minerals Inc.

John Hick, B.A, LLB (Non Executive Director, Member of Human Resources and Compensation Committee, and Health Safety and Environment Committee)

Mr John Hick has over 30 years' of experience in the mining industry in both senior management positions and as an independent director, during which he has spent the majority of his time based in Toronto, Canada.

He is currently President and CEO of his own consulting company, John W. W. Hick Consultants Inc., and acts as an independent director of a number of TSX (or TSXV) listed companies.

Previously, Mr. Hick has held either senior management and/or board positions with a number of publically listed Canadian mining companies, including Medoro Resources Ltd., Rio Narcea Gold Mines Ltd, Defiance Mining Corp., Geomaque Explorations Ltd., TVX Gold Inc., Rayrock Resources Inc. and Placer Dome Inc.

Other Current Directorships: Aeroquest International Ltd., Carpathian Gold Inc, Eurotin Inc, First Uranium Corporation, Hudson Resources Inc., and Timminco Ltd.

Past Directorships (last 3 years): Silver Eagle Mines Inc**.,** Western Keltic Mines Inc, Revett Minerals Inc. and Tamaya Resources Ltd.

Directors' Report (continued)

COMPANY SECRETARY

John Ribbons, B.Bus., CPA, ACIS

Mr Ribbons is an accountant who has worked within the resources industry for over 15 years in the capacity of company accountant, group financial controller or company secretary.

Mr Ribbons has extensive knowledge and experience with ASX listed production and exploration companies. He has considerable site based experience with operating mines and has also been involved with the listing of several exploration companies on ASX. Mr Ribbons has experience in capital raising, ASX compliance and regulatory requirements.

Interests in the shares and options of the Company

As at the date of this report, the interests of the directors in the shares and options of Marengo Mining Limited were:

	Ordinary Shares	Unlisted Options
John Horan	1,360,000	1,250,000
Les Emery	5,935,000	1,500,000
Douglas Dunnet	567,869	500,000
Sir Rabbie Namaliu	210,200	1,000,000
Susanne Sesselmann	184,000	500,000
Elizabeth Martin	-	500,000
John Hick	-	500,000

PRINCIPAL ACTIVITIES

During the year, the Group carried out exploration on its tenements or tenements in which it has an interest and applied for or acquired additional tenements with the objective of identifying economic mineral deposits. The Group's main focus, during the year, was on progressing a Definitive Feasibility Study on the Yandera Copper-Molybdenum-Gold Project in Papua New Guinea.

DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

FINANCIAL AND OPERATING REVIEW

Financial Review

The Group began the financial year with cash reserves of $6,984,582. During the year, the Company raised an additional $80,727,788 (net of costs) by way of placements and exercise of options. Funds were used to actively advance the Group's projects located in Papua New Guinea.

The Group has recorded an operating loss after income tax for the year ended 30 June 2011 of $4,310,453 (2010: $3,718,510).

At 30 June 2011, working capital totalled $54,140,583.

Operating Results for the Year

Summarised operating results are as follows:

	2011	
	Revenues $	Results $
Geographic segments		
Australia	1,841,236	(34,288,831)
Papua New Guinea	-	(499,873)
Consolidation eliminations	-	30,478,251
Consolidated entity revenues and loss from ordinary activities before income tax expense	1,841,236	(4,310,453)

Shareholder Returns

	2011	2010
Basic loss per share (cents)	0.51	0.81

Further information on the Group's activities during the year is contained in the detailed Review of Activities section at the front of the Annual Report.

Directors' Report (continued)

Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- The Board approves all strategies, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of Board-approved operating plans and budgets and Board monitoring of progress against these plans and budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Report, no significant changes in the state of affairs of the Group occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No matters or circumstances, besides those disclosed at note 25, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations during the next 12 months.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation with respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved and, in doing so, as far as it is aware is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

Directors' Report (continued)

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of the Group has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Group is as follows:

- All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.
- Executives are also eligible to participate in the employee share and option arrangements.
- The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.
- All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.
- The Board policy is to remunerate non executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non executive directors is subject to approval by shareholders at the Annual General Meeting (currently $500,000). Fees for non executive directors are not linked to the performance of the Group. To align directors' interests with shareholder interests however, the directors are encouraged to hold shares in the Company.

Performance based remuneration

The Company currently has no performance based remuneration component built into director and executive remuneration packages.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and directors' and executives' performance. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. For details of directors and executives interests in options at year end, refer to note 18 of the financial statements.

Details of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of Marengo Mining Limited and the Group are set out in the following table.

The key management personnel of Marengo Mining Limited and the Group include the directors and company secretary as per pages 3 to 5 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the Group:

Bernard Bent (Appointed June 2011)	*Project Director*
Craig McGown (Appointed March 2010)	*Vice President – Corporate Development*
Grant Calderwood (Resigned July 2011)	*Operations Manager*
Peter Dendle	*Project Manager*

Given the size and nature of operations of Marengo Mining Limited and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

Directors' Report (continued)

Key management personnel and other executives of Marengo Mining Limited and the Group

	Short-Term		**Post Employment**	**Long-term**		**Share-based Payments**	**Total**	**Remuneration consisting of Options** (2)
	Salary & Fees (1)	Non Monetary	Super-annuation	Long Service Leave	Termination benefits	Options		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Directors								
John Horan								
2011	**96,600**	**4,407**	**-**	**-**	**-**	**15,629**	**116,636**	**13.4**
2010	94,298	3,652	-	-	-	29,247	127,197	23.0
Les Emery								
2011	**456,384**	**16,615**	**44,296**	**88,134**	**-**	**18,755**	**624,184**	**3.0**
2010	432,429	29,576	62,410	84,351	-	35,097	643,863	5.5
Douglas Dunnet								
2011	**52,500**	**4,407**	**4,725**	**-**	**-**	**6,252**	**67,884**	**9.2**
2010	51,250	3,652	4,612	-	-	11,699	71,213	16.4
Sir Rabbie Namaliu								
2011	**57,225**	**4,407**	**-**	**-**	**-**	**12,504**	**74,136**	**16.9**
2010	55,862	3,652	-	-	-	23,398	82,912	28.2
Susanne Sesselmann								
2011	**57,225**	**4,407**	**-**	**-**	**-**	**6,252**	**67,884**	**9.2**
2010	55,862	3,652	-	-	-	11,699	71,213	16.4
Elizabeth Martin								
2011	**57,225**	**4,407**	**-**	**-**	**-**	**6,252**	**67,884**	**9.2**
2010	55,862	3,652	-	-	-	11,699	71,213	16.4
John Hick								
2011	**57,225**	**4,407**	**-**	**-**	**-**	**6,252**	**67,884**	**9.2**
2010	55,862	3,652	-	-	-	11,699	71,213	16.4
Other key management personnel								
Bernard Bent (Appointed June 2011)								
2011	**19,500**	**-**	**1,755**	**-**	**-**	**-**	**21,255**	**-**
Craig McGown (Appointed March 2010)								
2011	**215,000**	**-**	**-**	**-**	**-**	**13,394**	**228,394**	**5.9**
2010	60,000	-	-	-	-	15,564	75,564	20.6
Grant Calderwood (Resigned July 2011)								
2011	**422,130**	**-**	**37,992**	**-**	**-**	**2,936**	**463,058**	**0.6**
2010	436,562	-	35,450	-	-	5,574	477,586	1.2
Peter Dendle								
2011	**300,000**	**-**	**27,000**	**-**	**-**	**2,936**	**329,936**	**0.9**
2010	274,805	-	22,098	-	-	5,574	302,477	1.8
John Ribbons								
2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2010	-	-	-	-	-	-	-	-
Total key management personnel compensation								
2011	**1,791,014**	**43,057**	**115,768**	**88,134**	**-**	**91,162**	**2,129,135**	**4.3**
2010	1,572,792	51,488	124,570	84,351	-	161,250	1,994,451	8.0

(1) Includes cash salary payments and annual leave entitlements.

(2) The percentage of the value of remuneration consisting of options, based on the value of options expensed during the year.

Directors' Report (continued)

Service agreements

The details of service agreements of the key management personnel and directors as applicable of Marengo Mining Limited and the Group are as follows:

John Horan, Chairman (Non Executive):

- Term of agreement – expiring on 1 September 2013.
- A fee for the year ended 30 June 2011 of $96,600, to be reviewed annually by the Board.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to the fee for the remaining term of the agreement.

Les Emery, Managing Director and Chief Executive Officer:

- Term of agreement – expiring on 1 September 2013.
- Base annual salary of $493,993 plus a superannuation contribution of $44,460 to be reviewed annually by the board.
- Mr Emery is also to be provided with a fully maintained Company motor vehicle with a deemed value of $18,500 per annum.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes any accrued long service leave and annual entitlements, superannuation, retiring allowance, superannuation gratuity to the value of which does not exceed the maximum amount ascertained in accordance with the formula set out in section 200G of the Corporations Act 2001.

Craig McGown, Vice President – Corporate Development:

- Term of agreement – unlimited commencing 1 March 2010.
- Monthly consulting fees of $30,000 for a time commitment of not less than 24 hours per week.
- Either party may terminate the agreement by providing three months' written notice.

Grant Calderwood, Operations Manager:

- Term of agreement – unlimited commencing 22 October 2007.
- Base annual salary of $404,250 plus a superannuation contribution of $36,382 to be reviewed annually. Four weeks' annual leave and two week's sick leave per annum.
- Either party may terminate the agreement by providing one month's written notice.
- Mr Calderwood resigned in July 2011.

Peter Dendle, Project Manager:

- Term of agreement – unlimited commencing 7 November 2005.
- Base annual salary of $300,000 plus a superannuation contribution of $27,000 to be reviewed annually. Four weeks' annual leave and two weeks sick leave per annum.
- The Company may terminate at 12 months' notice, for other than gross misconduct. The employee may terminate the contract by providing three months' written notice.

Share-based compensation

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Marengo Mining Limited to increase goal congruence between executives, directors and shareholders. The following options were granted to or vesting with key management personnel during the year:

	Grant Date	Number Granted	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Number Exercised	Percentage vested during the Year
Directors								
John Horan	15/08/2008	250,000	15/08/2010	15/08/2013	50	9.7	N/A	100
John Horan	15/08/2008	250,000	15/08/2011	15/08/2013	50	9.7	N/A	-
John Horan	15/08/2008	250,000	15/08/2012	15/08/2013	50	9.7	N/A	-
Les Emery	15/08/2008	300,000	15/08/2010	15/08/2013	50	9.7	N/A	100
Les Emery	15/08/2008	300,000	15/08/2011	15/08/2013	50	9.7	N/A	-
Les Emery	15/08/2008	300,000	15/08/2012	15/08/2013	50	9.7	N/A	-
Douglas Dunnet	15/08/2008	100,000	15/08/2010	15/08/2013	50	9.7	N/A	100
Douglas Dunnet	15/08/2008	100,000	15/08/2011	15/08/2013	50	9.7	N/A	-
Douglas Dunnet	15/08/2008	100,000	15/08/2012	15/08/2013	50	9.7	N/A	-

Directors' Report (continued)

	Grant Date	Number Granted	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Number Exercised	Percentage vested during the Year
Directors (continued)								
Sir Rabbie Namaliu	15/08/2008	200,000	15/08/2010	15/08/2013	50	9.7	N/A	100
Sir Rabbie Namaliu	15/08/2008	200,000	15/08/2011	15/08/2013	50	9.7	N/A	-
Sir Rabbie Namaliu	15/08/2008	200,000	15/08/2012	15/08/2013	50	9.7	N/A	-
Susanne Sesselmann	15/08/2008	100,000	15/08/2010	15/08/2013	50	9.7	N/A	100
Susanne Sesselmann	15/08/2008	100,000	15/08/2011	15/08/2013	50	9.7	N/A	-
Susanne Sesselmann	15/08/2008	100,000	15/08/2012	15/08/2013	50	9.7	N/A	-
Elizabeth Martin	15/08/2008	100,000	15/08/2010	15/08/2013	50	9.7	N/A	100
Elizabeth Martin	15/08/2008	100,000	15/08/2011	15/08/2013	50	9.7	N/A	-
Elizabeth Martin	15/08/2008	100,000	15/08/2012	15/08/2013	50	9.7	N/A	-
John Hick	15/08/2008	100,000	15/08/2010	15/08/2013	50	9.7	N/A	100
John Hick	15/08/2008	100,000	15/08/2011	15/08/2013	50	9.7	N/A	-
John Hick	15/08/2008	100,000	15/08/2012	15/08/2013	50	9.7	N/A	-
Other Key Management Personnel								
Bernard Bent	-	-	-	-	-	-	-	-
Craig McGown	25/03/2010	150,000	25/03/2011	31/03/2015	25	5.7	N/A	100
Craig McGown	25/03/2010	150,000	25/03/2012	31/03/2015	25	5.7	N/A	-
Craig McGown	25/03/2010	150,000	25/03/2013	31/03/2015	25	5.7	N/A	-
Grant Calderwood	18/12/2008	100,000	18/12/2010	18/12/2013	25	3.6	N/A	100
Grant Calderwood	18/12/2008	100,000	18/12/2011	18/12/2013	25	3.6	N/A	-
Grant Calderwood	18/12/2008	100,000	18/12/2012	18/12/2013	25	3.6	N/A	-
Peter Dendle	18/12/2008	100,000	18/12/2010	18/12/2013	25	3.6	N/A	100
Peter Dendle	18/12/2008	100,000	18/12/2011	18/12/2013	25	3.6	N/A	-
Peter Dendle	18/12/2008	100,000	18/12/2012	18/12/2013	25	3.6	N/A	-

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Marengo Mining Limited during the year. No previously granted options lapsed during the current year.

DIRECTORS' MEETINGS

During the year, the Company held 11 meetings of directors. The attendance of directors at meetings of the Board were:

	Directors' Meetings		Audit Committee Meetings		Human Resources & Compensation Committee Meetings		Health, Safety & Environment Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
John Horan	11	11	4	4	1	1	*	*
Les Emery	11	11	*	*	*	*	2	2
Douglas Dunnet	11	11	4	4	*	*	*	*
Sir Rabbie Namaliu	11	11	*	*	*	*	2	2
Susanne Sesselmann	11	11	*	*	*	*	*	*
Elizabeth Martin	10	11	4	4	1	1	*	*
John Hick	11	11	*	*	1	1	2	2

Notes

A - Number of meetings attended.

B - Number of meetings of held during the time the director held office or was a member of the Committee during the year.

* - Not a member of the relevant Committee.

Directors' Report (continued)

SHARES UNDER OPTION

At the date of this report, there are 74,762,050 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	18,280,000
Movements of share options during the year	
Issued, exercisable at C8.4 cents, on or before 11 August 2012	6,421,050
Issued, exercisable at C11.6 cents, on or before 11 August 2013	60,000,000
Issued, exercisable at 22 cents, on or before 25 October 2015	475,000
Issued, exercisable at 32 cents, on or before 23 February 2016	500,000
Exercised at C8.6 cents, on or before 31 August 2011	(1,293,750)
Exercised at C11.6 cents, on or before 31 August 2011	(1,794,000)
Exercised at 25 cents, on or before 31 December 2010	(170,000)
Cancelled (25 cents, 31 March 2014)	(50,000)
Cancelled (25 cents, 30 November 2014)	(100,000)
Cancelled (25 cents, 22 March 2015)	(25,000)
Cancelled (22 cents, 25 October 2015)	(25,000)
Total number of options outstanding as at 30 June 2011	**82,218,300**
Movements of share options subsequent to 30 June 2011	
Exercised at C8.6 cents, on or before 31 August 2011	(7,331,250)
Cancelled (22 cents, 25 October 2015)	(25,000)
Cancelled (25 cents, 31 March 2014)	(25,000)
Cancelled (25 cents, 30 November 2014)	(25,000)
Cancelled (32 cents, 23 February 2016)	(50,000)
Total number of options outstanding as at the date of this report	**74,762,050**

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
31 December 2011	30	160,000
11 August 2012	C8.4	6,421,050
11 August 2013	C11.6	58,206,000
15 August 2013	50	5,750,000
18 December 2013	25	1,800,000
31 March 2014	25	450,000
30 November 2014	25	325,000
22 March 2015	25	125,000
31 March 2015	25	650,000
25 October 2015	22	425,000
23 February 2016	32	400,000
Total number of options outstanding at the date of this report		**74,762,050**

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of the Company were issued during the year ended 30 June 2011, and to the date of this report, on the exercise of options. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
31 August 2009	C8.6 cents	8,625,000
11 August 2010	C11.6 cents	1,794,000
29 April 2004	25 cents	170,000
		10,589,000

Directors' Report (continued)

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums insuring all the directors of the Company against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the *Corporations Act 2001*,

as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid was $35,256.

NON-AUDIT SERVICES

The following non-audit services were provided by the Group's auditor, Stantons International or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Stantons International or associated entities received or are due to receive the following amounts for the provision of non-audit services:

	2011 $	2010 $
Prospectus review	**10,071**	13,784

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

Signed in accordance with a resolution of the directors.

L S G Emery
Managing Director
Perth, 23 September 2011

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Stantons International Audit and Consulting Pty Ltd
(ABN 84 144 581 519) trading as
Stantons International
Chartered Accountants and Consultants

23 September 2011

Board of Directors
Marengo Mining Limited
Level 1
9 Havelock Street
WEST PERTH WA 6005

Dear Directors

RE: MARENGO MINING LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Marengo Mining Limited.

As the Audit Director for the audit of the financial statements of Marengo Mining Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Martin Michalik
Director

Liability limited by a scheme approved under Professional Standards Legislation

Member of Russell Bedford International

Russell Bedford

Corporate Governance Statement

The Board of Directors

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

As and if the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the Board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to the Board's duties and physical ability to undertake the Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The Board has chartered separate committees for: Audit; Human Resources and Compensation; and Health Safety and Environment. The Committees each operate according to their own charter and provide recommendations for the consideration of the full Board as required. Directors are appointed to the committees, from time to time, as the Board considers necessary.

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Appointments to Other Boards

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

Independent Professional Advice

The Board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to directors' rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

ASX Principles of Good Corporate Governance

The Board has reviewed its current practices in light of the ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

The Board has adopted the Recommendations, and the following table sets out the Company's present position in relation to each of the revised Principles.

Corporate Governance Statement (continued)

	ASX Principle	Status	Reference/comment
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	**A**	Matters reserved for the Board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	**A**	Performance evaluation of senior executives is the responsibility of the Human Resources and Compensation Committee. Details of the Human Resources and Compensation Committee are contained in the Corporate Governance Statement on the Company's website and as noted in the financial report.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	**A**	
Principle 2:	**Structure the Board to add value**		
2.1	A majority of the Board should be independent directors	**A**	The Board comprises seven directors, six of whom are non executive and independent (including the Chairman).
2.2	The chair should be an independent director	**A**	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	**A**	
2.4	The Board should establish a nomination committee	**N**	The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for screening and appointing new directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to the process.
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors	**A**	Performance evaluation of the Board, directors and key management personnel is the responsibility of the Human Resources and Compensation Committee.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	**A**	The skills and experience of directors are set out in the Company's Annual Report and on the Company's website.
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	**A**	The Company has formulated a Code of Conduct, which can be viewed on the Company's website.
3.2	Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy	**A**	The Company has formulated a share trading policy, which can be viewed on the Company's website.

A = Adopted
N = Not adopted

Corporate Governance Statement (continued)

	ASX Principle	Status	Reference/comment
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3	**A**	
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	The Board should establish an audit committee	**A**	
4.2	The audit committee should be structured so that it:	**A**	
	• consists only of non-executive directors	**A**	
	• consists of a majority of independent directors	**A**	
	• is chaired by an independent chair, who is not chair of the Board	**A**	
	• has at least three members	**A**	
4.3	The audit committee should have a formal charter	**A**	The Company has formulated an Audit Committee Charter, which can be viewed on the Company's website.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	**A**	
Principle 5:	**Make timely and balanced disclosure**		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	**A**	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	**A**	The Board receives monthly updates on the status of the Company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each Board meeting.
Principle 6:	**Respect the rights of shareholders**		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	**A**	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including Annual Reports, Half Yearly Reports, Quarterly Reports, the Company website and the distribution of specific releases covering major transactions and events or other price sensitive information.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	**A**	The Company has formulated a Communication Policy as part of the Corporate Governance Statement which can be viewed on the Company's website.

A = Adopted
N = Not adopted

Corporate Governance Statement (continued)

	ASX Principle	Status	Reference/comment
Principle 7:	**Recognise and manage risk**		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	**A**	While the Company does not have formalised policies on risk management the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include: • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with Government laws and regulations • safety and the environment • continuous disclosure obligations • sovereign risk • share market conditions • economic risk
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	**N**	While the Company does not have formalised policies on risk management it recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors.
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	**A**	
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	**N**	
Principle 8:	**Remunerate fairly and responsibly**		
8.1	The Board should establish a remuneration committee	**A**	The Company has established a Human Resources and Compensation Committee which has a formal charter that can be viewed on the Company's website.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	**A**	
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	**A**	Refer to the Remuneration Report in the Company's Annual Report.

A = Adopted
N = Not adopted

Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2011

	Notes	2011 $	Restated 2010 $
REVENUE FROM CONTINUING OPERATIONS	5	**1,841,236**	160,772
EXPENDITURE			
Depreciation	11	**(240,830)**	(219,413)
Salaries and employee benefits expense		**(959,983)**	(962,504)
Exploration expenses	12	**(306,072)**	(397,308)
Corporate expenses		**(1,656,744)**	(888,446)
Occupancy expenses		**(253,562)**	(166,236)
Insurance expenses		**(217,340)**	(170,022)
Administration expenses		**(643,078)**	(648,646)
Share-based payment expense	28	**(284,579)**	(226,156)
Net foreign exchange losses		**(1,577,897)**	(190,925)
Other expenses		**(11,604)**	(9,626)
(LOSS) BEFORE INCOME TAX	27	**(4,310,453)**	(3,718,510)
INCOME TAX BENEFIT / (EXPENSE)	7	**-**	-
(LOSS) AFTER INCOME TAX		**(4,310,453)**	(3,718,510)
OTHER COMPREHENSIVE EXPENSE			
Exchange differences on translation of foreign operations	16(a)	**(655,119)**	(7,740,145)
Other comprehensive expense for the year, net of tax		**(655,119)**	(7,740,145)
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF MARENGO MINING LIMITED		**(4,965,572)**	(11,458,655)
Loss per share (cents per share)	27	**(0.51)**	(0.81)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Balance Sheet

AS AT 30 JUNE 2011

	Notes	2011 $	Restated 2010 $	Restated 2009 $
CURRENT ASSETS				
Cash and cash equivalents	8	**57,323,915**	6,984,582	5,088,081
Trade and other receivables	9	**1,687,846**	702,068	479,986
TOTAL CURRENT ASSETS		**59,011,761**	7,686,650	5,568,067
NON-CURRENT ASSETS				
Other financial assets	10	**514,793**	468,028	425,657
Plant and equipment	11	**970,631**	760,945	734,491
Mining properties	12	**86,741,633**	60,731,435	52,212,531
TOTAL NON-CURRENT ASSETS		**88,227,057**	61,960,408	53,372,679
TOTAL ASSETS		**147,238,818**	69,647,058	58,940,746
CURRENT LIABILITIES				
Trade and other payables	13	**3,892,348**	2,801,962	918,642
Provisions	14	**978,830**	524,249	485,586
TOTAL CURRENT LIABILITIES		**4,871,178**	3,326,211	1,404,228
TOTAL LIABILITIES		**4,871,178**	3,326,211	1,404,228
NET ASSETS		**142,367,640**	66,320,847	57,536,518
EQUITY				
Issued capital	15	**158,568,802**	78,109,416	58,511,763
Reserves	16(a)	**(392,005)**	(289,865)	6,804,949
Accumulated losses	16(b)	**(15,809,157)**	(11,498,704)	(7,780,194)
TOTAL EQUITY		**142,367,640**	66,320,847	57,536,518

The above Consolidated Balance Sheet should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2011	Notes	Issued Capital $	Options Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
BALANCE AT 1 JULY 2009		58,511,763	1,479,520	3,599,937	(42,669,220)	20,922,000
Adjustment on change in accounting policy	4	-	-	1,725,492	34,889,026	36,614,518
RESTATED BALANCE AT 1 JULY 2009		58,511,763	1,479,520	5,325,429	(7,780,194)	57,536,518
Loss after income tax	16(b)	-	-	-	(3,718,510)	(3,718,510)
Other comprehensive expense	16(a)	-	-	(7,740,145)		(7,740,145)
TOTAL COMPREHENSIVE LOSS		-	-	(2,414,716)	(11,498,704)	46,077,863
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year		22,013,760	-	-	-	22,013,760
Share transaction costs	15	(2,416,107)	-	-	-	(2,416,107)
Employees and consultants share options	16(a)	-	645,331	-	-	645,331
BALANCE AT 30 JUNE 2010		78,109,416	2,124,851	(2,414,716)	(11,498,704)	66,320,847
Loss after income tax	16(b)	-	-	-	(4,310,453)	(4,310,453)
Other comprehensive expense	16(a)	-	-	(655,119)	-	(655,119)
TOTAL COMPREHENSIVE LOSS		-	-	(3,069,835)	(15,809,157)	61,355,275
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS						
Shares issued during the year	15	86,504,656	-	-	-	86,504,656
Share transaction costs	15	(6,045,270)	-	-	-	(6,045,270)
Employees and consultants share options	16(a)	-	552,979	-	-	552,979
BALANCE AT 30 JUNE 2011		158,568,802	2,677,830	(3,069,835)	(15,809,157)	142,367,640

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2011

	Notes	2011 $	Restated 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		**(3,129,559)**	(2,991,270)
Interest received		**963,220**	84,589
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	26	**(2,166,339)**	(2,906,681)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of plant and equipment		**3,711**	14,683
Payments for plant and equipment		**(461,266)**	(294,309)
Payments for Definitive Feasibility Study expenses		**(27,749,302)**	(14,818,043)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		**(28,206,857)**	(15,097,669)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		**86,504,657**	22,013,760
Payment of share issue costs		**(5,776,869)**	(2,026,160)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**80,727,788**	19,987,600
NET INCREASE IN CASH AND CASH EQUIVALENTS		**50,354,592**	1,983,250
Cash and cash equivalents at the beginning of the financial year		**6,984,582**	5,088,081
Effects of exchange rate changes on cash and cash equivalents		**(15,259)**	(86,749)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8	**57,323,915**	6,984,582

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements
30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Marengo Mining Limited and its subsidiaries. The financial statements are presented in the Australian currency. The separate financial statements of the parent entity have not been presented with the financial report as permitted by amendments made to the Corporations Act effective as at 30 June 2010. Marengo Mining Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 23 September 2011. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the Marengo Mining Limited Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Marengo Mining Limited as at 30 June 2011 and the results of all subsidiaries for the year then ended. Marengo Mining Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all of those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Marengo Mining Limited.

(ii) Joint ventures

Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of joint venture activities have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in note 24.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Marengo Mining Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Marengo Mining Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the exchange rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange rate differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On consolidation, exchange rate differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange rate differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing exchange rate.

(e) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax however is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 21(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(k) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(l) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial assets are included in non-current assets, except for those with maturities less than twelve months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets - reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments is determined are disclosed in note 2(d).

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

Notes to the Consolidated Financial Statements (continued)
30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the prime cost method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 5% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(n) Exploration and evaluation expenditure

Exploration and evaluation expenditure is capitalised under AASB 6 *Exploration for and evaluation of Mineral Resources*. Mineral interest acquisition, exploration, evaluation and feasibility expenditure incurred is accumulated and capitalised in relation to each identifiable area of interest. Accumulated costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves. Refer to note 1(t) and note 4 for details on the change in this accounting policy.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect to that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production has commenced.

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(p) Employee benefits

(i) Wages and salaries, annual leave and long service leave

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 28. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(q) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) Change in accounting policy

Capitalisation of Exploration expenditure

The Group changed its accounting policy relating to the capitalisation of exploration expenditure for the financial year ending 30 June 2011. Previously exploration and evaluation costs were written off in the year they were incurred, with only acquisition and feasibility study costs being accumulated. The Group has now elected to capitalise all exploration, evaluation, acquisition and feasibility costs in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*. Mineral interest acquisition, exploration, evaluation and feasibility expenditure incurred is accumulated and capitalised in relation to each identifiable area of interest. Accumulated costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves.

The change in policy was made as the Board believes it will result in the financial statements providing reliable and more relevant information about the effects of these transactions on the Group's financial position and financial performance. The change in policy has been made in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Group has retrospectively applied the change in accounting policy as if it had always applied and therefore has restated exploration and evaluation expenditure in relation to each area of interest for comparative purposes, including adjustment to the opening balances to the 2010 financial year to show the full effect of this change in accounting policy.

The impact of the change in policy has been disclosed in note 4.

Notes to the Consolidated Financial Statements (continued)
30 JUNE 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Group.

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows.

(v) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 28.

Exploration, and evaluation costs

Exploration and evaluation costs are accumulated and capitalised in relation to each indentifiable area of interest where right of tenure of the area of interest is current and the area of interest has not, at reporting date, reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves. In the event that tenure is relinquished and/or economically recoverable resources are not assessed as being present, this expenditure will be expensed to profit and loss.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all Board members to be involved in this process. The Managing Director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Papua New Guinea Kina and Canadian Dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however, it monitors its foreign currency expenditure in light of exchange rate movements.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	2011		2010	
	PGK	CAD	PGK	CAD
Cash and cash equivalents	**1,040,603**	**6,749,480**	1,941,248	79,303
Trade and other receivables	**315,725**	-	910,883	-
Trade and other payables	**(2,010,993)**	-	(2,135,312)	-

Sensitivity analysis

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Group's post tax loss for the year would have been $674,947 lower/higher (2010: $10,000 lower/higher), and there would have been no movements to the Group's other equity for both years presented.

Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the Papua New Guinea Kina with all other variables held constant, there would have been nil impact on the Group's post-tax losses for the year (2010: Nil) and immaterial movements to the Group's other equity for both years presented.

(ii) Price risk

Given the current level of operations the Group is not exposed to price risk.

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group of $57,323,915 (2010: $6,984,582) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 5.7% (2010: 3.0%).

Sensitivity analysis

At 30 June 2011, if interest rates had changed by -/+ 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been $321,542 lower/higher (2010: $60,500 lower/higher on -/+ 100 basis points) as a result of lower/higher interest income from cash and cash equivalents

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

2. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

The Group does not have any significant concentrations of credit risk. The maximum exposure to credit risk at reporting date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements.

As the Group does not presently have any trade debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the statement of financial position. All trade and other payables are non-interest bearing and due within twelve months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the reporting date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2011 and 30 June 2010 are as follows:

	2011 $	2010 $
Cash and cash equivalents	**57,323,915**	6,984,582
Trade and other receivables	**1,687,846**	702,068
Trade and other payables	**(3,892,348)**	(2,801,962)
Provisions	**(978,830)**	(524,249)
Working capital position	**54,140,583**	4,360,439

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

3. SEGMENT INFORMATION

(a) Description of segments

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and balance sheet. The Group operates only in the exploration industry, both in Australia and overseas.

(b) Segment information provided to the Board of Directors

The segment information provided to the Board of Directors for the reportable segments for the years ended 30 June 2011 and 30 June 2010 is as follows:

	Australia		Papua New Guinea		Consolidated	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Segment revenue						
Other revenue	**(1,841,236)**	(160,772)	-	-	**(1,841,236)**	(160,772)
Total segment revenue	**(1,841,236)**	(160,772)	-	-	**(1,841,236)**	(160,772)
Intersegment elimination						-
Consolidated revenue					**(1,841,236)**	(160,772)
Segment result						
Segment result	**(34,288,831)**	(18,845,763)	**(499,873)**	(412,370)	**(34,788,704)**	(19,258,133)
Intersegment elimination					**30,478,251**	15,539,623
Loss before income tax					**(4,310,453)**	(3,718,510)
Income tax expense						
Loss for the year					**(4,310,453)**	(3,718,510)
Segment assets and liabilities						
Segment assets	**58,387,381**	11,309,015	**89,447,816**	62,406,592	**147,835,197**	73,715,607
Intersegment elimination					**(596,379)**	(4,068,549)
Total assets					**147,238,818**	69,647,058
Segment liabilities	**(2,765,416)**	(2,410,685)	**(5,299,197)**	(4,144,243)	**(8,064,613)**	(6,554,928)
Intersegment elimination					**12,935,791**	9,881,139
Total liabilities					**4,871,178**	3,326,211

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

4. CHANGE IN ACCOUNTING POLICY

(a) Capitalisation of Exploration Expenditure

The Group changed its accounting policy relating to the capitalisation of exploration expenditure for the financial year ending 30 June 2011 (refer to note 1(t)). Previously exploration and evaluation costs were written off in the year they were incurred, with only acquisition and feasibility study costs being accumulated. The Group has now elected to capitalise all exploration, evaluation, acquisition and feasibility costs.

The impact of the change in accounting policy is as follows:

	30 June 2009 $	Increase/(Decrease) $	1 July 2009 Restated $
BALANCE SHEET (EXTRACT)			
Mining properties	15,598,013	36,614,518	52,212,531
NET ASSETS	20,922,000	36,614,518	57,536,518
Accumulated losses	(42,669,220)	34,889,026	(7,780,194)
TOTAL EQUITY	20,922,000	36,614,518	57,536,518

	30 June 2010 $	Increase/(Decrease) $	1 July 2010 Restated $
BALANCE SHEET (EXTRACT)			
Mining properties	16,854,106	43,877,329	60,731,435
NET ASSETS	22,443,518	43,877,329	66,320,847
Accumulated losses	(58,498,313)	46,999,609	(11,498,704)
TOTAL EQUITY	22,443,518	43,877,329	66,320,847

Balance sheet amounts other than those mentioned above were not affected by the retrospective adoption of the revised accounting policy.

	June 2009 $	Increase/(Decrease) $	1 July 2009 Restated $
STATEMENT OF COMPREHENSIVE INCOME (EXTRACT)			
Exploration expenditure	11,927,121	(11,673,256)	253,865
LOSS FOR THE YEAR	15,270,043	(12,899,345)	2,370,698

	June 2010 $	Increase/(Decrease) $	1 July 2010 Restated $
STATEMENT OF COMPREHENSIVE INCOME (EXTRACT)			
Exploration expenditure	11,646,792	(11,249,484)	397,308
LOSS FOR THE YEAR	15,829,093	(12,110,583)	3,718,510

(b) Management fee charges

Expenses incurred due to the management of the Yandera project by the parent company have in previous years been written off as an expense in the profit and loss statement. The Group has now determined that these costs have a direct relationship to the Yandera project and as such should be re-stated in the exploration asset of the Group. The effect of this change is an increase in the exploration asset and reduction in losses in 2011 and prior years by following amounts:

	2006 **$**	**2007** **$**	**2008** **$**	**2009** **$**	**2010** **$**	**2011** **$**	**Total** **$**
Management fee reclassified as Exploration	360,844	574,411	1,046,111	1,226,086	861,094	1,689,497	5,758,043

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

	2011 $	2010 $
5. REVENUE		
From continuing operations		
Interest	**1,841,236**	160,772
	1,841,236	160,772
6. EXPENSES		
Loss before income tax includes the following specific expenses:		
Defined contribution superannuation expense	**238,553**	264,294
Net foreign exchange losses	**1,577,897**	190,925
Minimum lease payments relating to operating leases	**193,026**	214,966
Net loss on disposal of plant and equipment	**11,604**	9,626
7. INCOME TAX		
(a) Income tax expense/(benefit)		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) Reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense	**(4,310,453)**	(3,718,510)
Prima facie tax benefit at the Australian tax rate of 30% (2010: 30%)	**(1,293,136)**	(1,115,553)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	**85,374**	67,847
Other	**117,883**	8,023
	(1,089,879)	(1,039,683)
Future income tax benefit not brought to account	**1,089,879**	1,039,683
Income tax expense/(benefit)	-	-
(c) Unrecognised temporary differences		
Deferred Tax Assets (at 30%)		
Capital raising costs	**2,032,727**	905,015
Provision for employee benefits	**293,649**	157,275
Carry forward tax losses	**27,403,967**	18,145,954
	29,730,343	19,208,244
Deferred Tax Liabilities		
Capitalised exploration and evaluation costs	**(26,022,490)**	(18,219,430)
	(26,022,490)	(18,219,430)
Net Unrecognised Deferred Tax Asset	**3,707,853**	988,814

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

Notes to the Consolidated Financial Statements (continued)
30 JUNE 2011

	2011 $	2010 $

8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2011 $	2010 $
Cash at bank and in hand	**10,004,393**	1,660,704
Short-term deposits	**47,319,522**	5,323,878
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	**57,323,915**	6,984,582

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2011 $	2010 $
Sundry receivables	**1,040,135**	135,009
Prepayments	**647,711**	567,059
	1,687,846	702,068

None of the trade and other receivables is past due or impaired.

10. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	2011 $	2010 $
Loan – Director (a)	**1,000,000**	1,000,000
Unexpired interest	**(485,207)**	(531,972)
	514,793	468,028

None of the non-current other financial assets are impaired or past due.

(a) Loan - Director

A loan agreement was entered into with the Managing Director, Les Emery, for $1,000,000 on 11 June 2008. The purpose of the loan was to allow the Managing Director to exercise 4,000,000 unlisted options expiring on 30 November 2008. The loan is interest free, repayable within one month of cessation of employment, and any dividends received must be applied to repay the loan. The loan is a limited recourse loan; in the event the shares obtained under the loan are sold for an amount less than the amount of the loan, then the amount to be repaid is limited to the amount of the share sale proceeds. This agreement was approved by shareholders at the 28 November 2007 Annual General Meeting.

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

	2011	2010
	$	$

11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

	2011 $	2010 $
Plant and equipment		
Cost	**1,709,541**	1,276,262
Less accumulated depreciation	**(738,910)**	(515,317)
Net book amount	**970,631**	760,945
Plant and equipment		
Opening net book amount	**760,945**	734,491
Foreign exchange differences	**9,000**	(11,633)
Additions	**485,266**	294,309
Disposals	**(43,750)**	(36,809)
Depreciation expense	**(240,830)**	(219,413)
Closing net book amount	**970,631**	760,945

12. NON-CURRENT ASSETS – MINING PROPERTIES

	2011	2010	2009
	$	$	$
Exploration and evaluation costs carried forward in respect of mining areas of interest			
Opening net book amount	**60,731,435**	52,212,531	29,086,137
Exchange differences	**(4,835,684)**	(5,694,116)	8,367,608
Incurred during the year	**31,151,954**	14,610,328	15,012,651
Written off during the year	**(306,072)**	(397,308)	(253,865)
Closing net book amount	**86,741,633**	60,731,435	52,212,531

The ultimate recoupment of costs carried forward for mining properties is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production. Refer to note 4 for change in accounting policy.

13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2011	2010
	$	$
Trade payables	**3,555,903**	1,953,248
Other payables and accruals	**336,445**	848,714
	3,892,348	2,801,962

14. CURRENT LIABILITIES - PROVISIONS

Employee benefits	**978,830**	524,249

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

15. ISSUED CAPITAL

(a) Share capital

	2011 Number of shares	2011 $	2010 Number of shares	2010 $
Ordinary shares fully paid	**995,068,613**	**158,568,802**	498,810,862	78,109,418
Total issued capital	**995,068,613**	**158,568,802**	498,810,862	78,109,416

(b) Movements in ordinary share capital

	2011 Number of shares	2011 $	2010 Number of shares	2010 $
Balance at beginning of the year	**498,810,862**	**78,109,416**	268,016,975	58,511,763
Transactions during the year:				
– Issued on exercise of options	**3,257,750**	**3,633,116**	841,341	168,269
– Issued for cash at C8.4 cents per share	**240,000,001**	**21,600,000**	-	-
– Issued for cash at C8.6 cents per share	-	-	172,500,000	16,387,499
– Issued for cash at 9.5 cents per share	-	-	57,452,546	5,457,992
– Issued for cash at C25 cents per share	**253,000,000**	**61,271,540**	-	-
Less: Transaction costs	-	**(6,045,270)**	-	(2,416,107)
Balance at end of the year	**995,068,613**	**158,568,802**	498,810,862	78,109,416

(c) Movements in options on issue

	Number of options 2011	Number of options 2010
Balance at beginning of the year	**18,280,000**	10,301,915
Issued during the year:		
– Exercisable at C8.4 cents, on or before 11 August 2012	**6,421,050**	-
– Exercisable at C8.6 cents, on or before 31 August 2011	-	8,625,000
– Exercisable at C11.6 cents, on or before 11 August 2013	**60,000,000**	-
– Exercisable at 22 cents, on or before 25 October 2015	**475,000**	-
– Exercisable at 25 cents, on or before 30 November 2014	-	475,000
– Exercisable at 25 cents, on or before 22 March 2015	-	150,000
– Exercisable at 25 cents, on or before 31 March 2015	-	650,000
– Exercisable at 32 cents, on or before 23 February 2016	**500,000**	-
Exercised during the year:		
– C8.6 cents, 31 August 2011	**(1,293,750)**	-
– C11.6 cents, 11 August 2013	**(1,794,000)**	-
– C19 cents, 15 October 2009	-	(841,341)
– 25 cents, 31 December 2010	**(170,000)**	-
Expired during the year:		
– C19 cents, 15 October 2009	-	(360,574)
– 20 cents, 31 December 2009	-	(170,000)
Cancelled during the year:		
– 25 cents, 18 December 2013	-	(500,000)
– 25 cents, 31 March 2014	**(50,000)**	(25,000)
– 25 cents, 30 November 2014	**(100,000)**	(25,000)
– 25 cents, 22 March 2015	**(25,000)**	-
– 22 cents, 25 October 2015	**(25,000)**	-
Balance at end of the year	**82,218,300**	18,280,000

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Consolidated Financial Statements (continued)
30 JUNE 2011

	Note	2011 $	2010 $
16. RESERVES AND ACCUMULATED LOSSES			
(a) Reserves			
Foreign currency translation reserve (i)		**(3,069,835)**	(2,414,716)
Options and share based payments reserve (ii)		**2,677,830**	2,124,851
		(392,005)	(289,865)
Movements:			
(i) Foreign currency translation reserve			
Balance at beginning of the year		**(2,414,716)**	5,325,429
Currency translation differences arising during the year		**(655,119)**	(7,740,145)
Balance at end of the year		**(3,069,835)**	(2,414,716)
(ii) Options and share based payments reserve			
Balance at beginning of the year		**2,124,851**	1,479,520
Share-based payment expense		**552,979**	645,331
Balance at end of the year		**2,677,830**	2,124,851
(b) Accumulated losses			
Balance at beginning of the year		**11,498,704**	7,780,194
Net loss for the year	27	**4,310,453**	3,718,510
Balance at end of the year		**15,809,157**	11,498,704

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Options and share based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

17. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

	2011 $	2010 $
18. KEY MANAGEMENT PERSONNEL DISCLOSURES		
(a) Key management personnel compensation		
Short-term benefits	**1,834,071**	1,624,280
Post employment benefits	**115,768**	124,570
Other long-term benefits	**88,134**	84,351
Share-based payments	**91,162**	161,250
	2,129,135	1,994,451

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 10.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on pages 8 to 10.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below:

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of the Company							
John Horan	**1,250,000**	-	-	-	**1,250,000**	**750,000**	**500,000**
Les Emery	**1,500,000**	-	-	-	**1,500,000**	**900,000**	**600,000**
Douglas Dunnet	**500,000**	-	-	-	**500,000**	**300,000**	**200,000**
Sir Rabbie Namaliu	**1,000,000**	-	-	-	**1,000,000**	**600,000**	**400,000**
Susanne Sesselmann	**500,000**	-	-	-	**500,000**	**300,000**	**200,000**
Elizabeth Martin	**500,000**	-	-	-	**500,000**	**300,000**	**200,000**
John Hick	**500,000**	-	-	-	**500,000**	**300,000**	**200,000**
Other key management personnel of the Group							
Bernard Bent	-	-	-	-	-	-	-
Craig McGown	**650,000**	-	-	-	**650,000**	**350,000**	**300,000**
Grant Calderwood	**500,000**	-	-	-	**500,000**	**300,000**	**200,000**
Peter Dendle	**500,000**	-	-	-	**500,000**	**300,000**	**200,000**

All vested options were exercisable at the end of the year.

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of the Company							
John Horan	1,250,000	-	-	-	1,250,000	500,000	750,000
Les Emery	1,500,000	-	-	-	1,500,000	600,000	900,000
Douglas Dunnet	500,000	-	-	-	500,000	200,000	300,000
Sir Rabbie Namaliu	1,000,000	-	-	-	1,000,000	400,000	600,000
Susanne Sesselmann	500,000	-	-	-	500,000	200,000	300,000
Elizabeth Martin	500,000	-	-	-	500,000	200,000	300,000
John Hick	500,000	-	-	-	500,000	200,000	300,000

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Other key management personnel of the Group							
Craig McGown	-	650,000	-	-	650,000	200,000	450,000
Grant Calderwood	500,000	-	-	-	500,000	200,000	300,000
Peter Dendle	500,000	-	-	-	500,000	200,000	300,000

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of the Company				
Ordinary shares				
John Horan	**1,360,000**	**-**	**-**	**1,360,000**
Les Emery	**5,935,000**	**-**	**-**	**5,935,000**
Douglas Dunnet	**278,967**	**-**	**288,902**	**567,869**
Sir Rabbie Namaliu	**210,200**	**-**	**-**	**210,200**
Susanne Sesselmann	**184,000**	**-**	**-**	**184,000**
Elizabeth Martin	**-**	**-**	**-**	**-**
John Hick	**-**	**-**	**-**	**-**
Other key management personnel of the Group				
Ordinary shares				
Bernard Bent	**-**	**-**	**-**	**-**
John Ribbons	**60,000**	**-**	**-**	**60,000**
Craig McGown (appointed March 2010)	**340,000**	**-**	**-**	**340,000**
Grant Calderwood (resigned July 2011)	**150,000**	**-**	**-**	**150,000**
Peter Dendle	**150,000**	**-**	**-**	**150,000**

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of the Company				
Ordinary shares				
John Horan	1,360,000	-	-	1,360,000
Les Emery	5,935,000	-	-	5,935,000
Douglas Dunnet	278,967	-	-	278,967
Elizabeth Martin	-	-	-	-
Sir Rabbie Namaliu	110,200	-	100,000	210,200
Susanne Sesselmann	184,000	-	-	184,000
John Hick	-	-	-	-

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Other key management personnel of the Group				
Ordinary shares				
Craig McGown (appointed March 2010)	-	-	-	-
Grant Calderwood	150,000	-	-	150,000
John Ribbons	60,000	-	-	60,000
Peter Dendle (resigned July 2011)	150,000	-	-	150,000

(c) Loans to key management personnel

On 11 June 2008, the Company entered into a loan agreement with the Managing Director, Les Emery, to lend $1,000,000 interest free with a 10 year loan term. The purpose of the loan was for Mr Emery to exercise 4,000,000 unlisted options expiring 30 November 2008. This agreement was approved by shareholders at the 28 November 2007 Annual General Meeting.

(d) Other transactions with key management personnel

During the year ended 30 June 2010, the Company sold a motor vehicle to Mr Les Emery, Managing Director. The arm's length sale price of $12,500 was determined by an external valuation, with the value being deducted from Mr Emery's annual leave balance.

19. REMUNERATION OF AUDITORS

	2011 $	2010 $
During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
(a) Audit services		
Stantons International – audit and review of financial reports	**42,101**	47,576
Non-related audit firm for the audit or review of financial reports of any entity in the Group	**17,252**	15,599
Total remuneration for audit services	**59,353**	63,175
(b) Non-audit services		
Stantons International – review of prospectus	**10,071**	13,784
Total remuneration for other services	**10,071**	13,784

20. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Group and Company at reporting date.

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

	2011	2010
	$	$

21. COMMITMENTS

(a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

	2011 $	2010 $
Due within one year	**4,625,417**	23,683
Due later than one year but not later than five years	**287,500**	141,296
	4,912,917	164,979

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

	2011 $	2010 $
Minimum lease payments		
Due within one year	**2,625,971**	1,449,475
Due later than one year but not later than five years	**357,365**	133,580
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	**2,983,336**	1,583,055

The Group has two non-cancellable office leases, one for premises in Perth and the other for premises in Madang, expiring within two years. The leases have varying terms, escalation clauses and renewal rights. The Group has a non-cancellable operating lease for an item of office equipment expiring within two years, with rent payable monthly. The item is subject to a per unit usage charge, but there are no provisions for escalation or renewal within the lease agreement.

The Group also has a non-cancellable operating lease for a helicopter that is expiring on 31 December 2011.

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in the remuneration report on page 8 that are not recognised as liabilities and are not included in the key management personnel compensation.

	2011 $	2010 $
Due within one year	**1,099,008**	961,325
Due later than one year but not later than five years	**1,737,859**	705,747
	2,836,867	1,667,072

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

22. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Marengo Mining Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 18.

(d) Loans to related parties

Marengo Mining Limited has provided unsecured, interest free loans to its wholly owned subsidiaries, Yandera Mining Company Limited and Marengo Mining (PNG) Limited. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries and the market in which the subsidiaries operates to determine whether there is objective evidence that the subsidiaries are impaired. When such objective evidence exists, the Company recognises an allowance for the impairment loss. Details of the loans are set out in note 29.

For details of loans to key management personnel refer to note 18(c).

23. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b)(i):

Name	Country of Incorporation	Class of Shares	Equity Holding(1)	
			2011	2010
			%	%
Yandera Mining Limited	Papua New Guinea	Ordinary	**100**	100
Yandera Mining Company (Holdings) Pty Ltd(2)	Australia	Ordinary	**100**	-
Marengo Mining (PNG) Limited(2)	Papua New Guinea	Ordinary	**100**	-

(1) The proportion of ownership interest is equal to the proportion of voting power held.

(2) During the year, two new entities were incorporated. Yandera Mining Company (Holdings) Pty Ltd was incorporated on 12 November 2010 in Australia, and Yandera Mining Company Limited was incorporated on 4 December 2010 in Papua New Guinea. Both entities have been dormant since incorporation. Yandera Mining Company Limited subsequently changed its name to Marengo Mining (PNG) Limited and holds the non-Yandera assets. Marengo Mining (PNG) Limited subsequently changed its name to Yandera Mining Company Limited and holds the Yandera assets (tenement EL1335).

24. INTERESTS IN JOINT VENTURES

Bowgan Project

The Company previously farmed out its Bowgan Project to a subsidiary of Mega Uranium Limited ("Mega"). During August 2009, Mega further farmed out the project to Bowgan Minerals Limited ("Bowgan") whereby Bowgan can earn up to an 80% interest in the project, by expending $1.28 million, within five years. Upon completion of Bowgan's expenditure, the Company will retain a 10% interest. The joint venture is in relation to uranium and other minerals, and has a carrying value of nil.

25. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No other matter or circumstance has arisen since 30 June 2011, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

	2011 $	2010 $
26. STATEMENT OF CASH FLOWS		
Reconciliation of loss after income tax to net cash outflow from operating activities		
Net loss for the year	**(4,310,453)**	(3,718,510)
Non-Cash Items		
Depreciation of plant and equipment	**240,830**	219,413
Share-based payment expense	**284,579**	226,156
Interest income on loan to Managing Director	**(46,766)**	(42,371)
Net exchange differences	**1,094,678**	(1,338,032)
Sale of plant and equipment proceeds settled by deducting from employee entitlements	**-**	12,500
Net loss on disposal of plant and equipment	**11,604**	9,626
Change in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	**(985,778)**	(267,026)
Increase/(decrease) in trade and other payables	**1,090,386**	1,949,803
Increase in employee entitlements provision	**454,581**	41,760
Net cash outflow from operating activities	**(2,166,339)**	**(2,906,681)**

27. LOSS PER SHARE

(a) Reconciliation of earnings used in calculating loss per share		
Loss attributable to the owners of the Company used in calculating loss per share	**(4,310,453)**	(3,718,510)

	Number of shares	Number of shares
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating loss per share	**847,899,183**	458,013,971

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2011, all options on issue are considered anti-dilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

28. SHARE-BASED PAYMENTS

(a) Employees and Contractors Option Incentive Plan

The Group provides benefits to employees (including directors) and consultants of the Group in the form of share-based payment transactions, whereby employees or consultants render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from C9.5 cents to 50 cents per option. The expiry dates of options granted range from 31 December 2011 to 23 February 2016.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

	2011		2010	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	**18,280,000**	**25.6**	9,100,000	40.7
Granted	**975,000**	**27.1**	9,900,000	11.5
Forfeited	**(200,000)**	**25.0**	(550,000)	25.0
Exercised	**(170,000)**	**25.0**	-	-
Expired	**-**	**-**	(170,000)	20.0
Outstanding at the end of the year	**18,885,000**	**25.7**	18,280,000	25.6
Exercisable at the end of the year	**14,265,000**	**19.9**	13,300,000	19.3

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.48 years (2010: 2.32 years), and the exercise prices range from C9.5 cents to 50 cents.

The weighted average fair value of the options granted during the year was 19.0 cents (2010: 5.1 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2011	2010
Weighted average exercise price (cents)	27.3	11.5
Weighted average life of the options (years)	1.5	2.4
Weighted average underlying share price (cents)	28.7	10.8
Expected share price volatility	77%	75%
Weighted average risk free interest rate	5.5%	4.6%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

	2011 $	2010 $
Options issued to employees and contractors as part of:		
Share-based payment expense	**284,579**	226,156
Share issue transaction costs	-	419,175
	284,579	645,331

Notes to the Consolidated Financial Statements (continued)

30 JUNE 2011

	2011 $	Restated 2010 $

29. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Marengo Mining Limited, at 30 June 2011. The information presented here has been prepared using accounting policies consistent with those presented in note 1.

	2011 $	Restated 2010 $
Current assets	**57,655,433**	6,503,045
Non-current assets	**731,809**	4,805,970
Total assets	**58,387,242**	11,309,015
Current liabilities	**2,765,377**	2,410,685
Total liabilities	**2,765,377**	2,410,685
Issued capital	**158,568,806**	78,109,418
Share-based payments reserve	**2,677,830**	2,124,851
Accumulated losses	**(105,624,771)**	(71,335,938)
Net Assets	**55,621,865**	8,898,331
Loss for the year	**34,288,833**	18,845,763
Total comprehensive loss for the year	**34,288,833**	18,845,763

Movements in the loan to the Company's wholly owned subsidiary Yandera Mining Company Limited (formerly Marengo Mining (PNG) Limited) during the year were as follows:

Balance at beginning of the year	-	-
Loans advanced	**31,054,055**	16,400,718
Provision for impairment	**(31,054,055)**	(16,400,718)
Balance at end of the year	-	-

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 18 to 46 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

L S G Emery
Managing Director
Perth, 23 September 2011

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Chartered Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
MARENGO MINING LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Marengo Mining Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Marengo Mining Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 11 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Auditor's opinion
In our opinion the remuneration report of Marengo Mining Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)
Stantons International Audit & Consulting Pty Ltd

Martin Michalik

Martin Michalik
Director

West Perth, Western Australia
23 September 2011

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Chartered Accountants and Consultants

AUDITOR'S REPORT IN RESPECT OF COMPATIBILITY WITH CANADIAN GAAS

To the Board of Directors of Marengo Mining Limited (the "**Company**")

In accordance with the requirements contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("**Canadian GAAS**") and International Standards on Auditing.

We conducted our audit for the year ended 30 June 2011 in accordance with International Standards on Auditing. There are no material differences in the form or content of our report as compared to an auditor's report prepared in accordance with Canadian GAAS and if this report was prepared in accordance with Canadian GAAS it would not contain a reservation.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International)
(An Authorised Audit Company)

Martin Michalik

Martin Michalik
Director

23 September 2011

Liability limited by a scheme approved under Professional Standards Legislation

Member of Russell Bedford International Russell Bedford

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 20 September 2011.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Ordinary shares	
			Number of holders	Number of shares
1	-	1,000	139	55,863
1,001	-	5,000	655	2,192,293
5,001	-	10,000	646	5,555,874
10,001	-	100,000	1,943	72,211,242
100,001		and over	442	922,384,591
			3,825	1,002,399,863
The number of shareholders holding less than a marketable parcel of shares are:			323	393,118

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of shares
1	Canadian Register Control	464,653,032	46.35
2	HSBC Custody Nominees (Australia) Limited – A/C 2	146,788,363	14.64
3	HSBC Custody Nominees (Australia) Limited	26,542,623	2.65
4	National Nominees Limited	34,471,423	2.44
5	JP Morgan Nominees Australia Limited	13,558,544	1.35
6	Mr Simon Korua	13,129,618	1.31
7	Woonalee Pty Ltd <Sessios Family S/F A/C>	11,030,000	1.10
8	Pacific Nominees Limited	10,620,000	1.06
9	Bell Potter Nominees Ltd <BB Nominees A/C>	9,677,778	0.97
10	Mr Bernard Owen Stephens & Mrs Erin Josephine Stephens <Stephens Group S/F>	9,300,000	0.93
11	Bond Street Custodians Limited <Kret V05765 A/C>	6,200,000	0.62
12	Les Emery	6,023,958	0.60
13	Citicorp Nominees Pty Limited	4,984,220	0.50
14	Capital Nominees Limited	4,586,449	0.46
15	Papua New Guinea Reg Control	4,149,307	0.41
16	BT Portfolio Services Limited <N J Family Shares 1 A/C>	4,096,151	0.41
17	Jongila Nominees Pty Ltd <Pension Fund No2 A/C>	3,450,000	0.34
18	Mr Benedict Chan & Mrs Turid Chan <Turid Chan Super Fund A/C>	3,400,000	0.34
19	UBS Wealth Management Australia Nominees Pty Ltd	2,995,300	0.30
20	Gold earth Investments Pty Ltd	2,898,392	0.29
		772,555,158	77.07

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares	Percentage of Shares
Sentient Executive GP II Ltd	220,319,080	22.20%
Quantum Partners LDC	187,514,934	18.87%

ASX Additional Information continued

(d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Yandera (Papua New Guinea)	EL 1335	100
Yandera (Papua New Guinea)	EL 1416	100
Yandera (Papua New Guinea)	EL 1633	100
Yandera (Papua New Guinea)	EL 1665	100
Yandera (Papua New Guinea)	EL 1670	100
Yandera (Papua New Guinea)	EL 1771	100
Bowgan (Australia)	EL 24115	33 diluting to 10
Bowgan (Australia)	EL 24195	33 diluting to 10
Bowgan (Australia)	EL 24196	33 diluting to 10