



Working to unlock the mineral treasures of Papua New Guinea

# QUARTERLY REPORT

for the period ending 31 March 2006

## Key points for the quarter

- ☺ *Marengo to move to 100% ownership of its Yandera Project.*
- ☺ *Diamond drilling rig mobilisation for Yandera scheduled for early May 2006.*
- ☺ *A\$1.2million placement made to leading global commodities trading company (Sempra Metals Corporation).*
- ☺ *Re-interpretation of stream sediment data highlights a much larger footprint for the Yandera copper porphyry (8kms x 2 kms).*
- ☺ *Focus on the gold endowment of the Yandera project confirms the excellent potential for significant epithermal gold systems, within the project area.*
- ☺ *Cash balance (at quarter's end) of \$7.4M with 66M shares on issue.*

## contact us

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**PNG – PROJECT LOCATION MAP  
(Figure 1)**



**YANDERA PROJECT, MADANG PROVINCE, PNG**

*(MARENGO MINING (PNG) LIMITED – ACQUIRING A 100% INTEREST)  
Target – Porphyry Cu-Mo, Epithermal Au*

During the quarter, most of Marengo’s efforts were focused on the Yandera Project, in preparation for an aggressive program of infill diamond drilling, scheduled to commence shortly.

All logistical support facilities were completed, including the completion of the camp buildings (office, accommodation and mess facilities).

This work was carried out under the supervision of Marengo Project Manager, Mr Peter Dendle.



**100% Project Interest Secured**

During the quarter, Marengo made a significant step forward on the Yandera Project, by reaching agreement to move to 100% ownership.

Marengo, through its wholly owned subsidiary, Marengo Mining (PNG) Limited, will acquire all of the issued capital of Belvedere Limited, a private PNG company and Marengo’s joint venture partner at Yandera.

The consideration for this transaction, payable to Belvedere shareholders, will be:

- a) cash payment of A\$3 million,
- b) the issue of 12,000,000 fully paid shares in Marengo Mining Limited, and
- c) the issue of 6,000,000 listed options to acquire fully paid shares in Marengo Mining Limited, exercisable at 20 cents on or before 28 February 2008.

The purchase will be subject to the execution of a formal share sale and purchase agreement, which will contain the following conditions precedent;

- a) approval of the PNG Investment Promotion Authority for the re-certification of Belvedere as a foreign owned enterprise,

- b) the renewal of Exploration Licence 1335 (Yandera),
- c) the approval of the shareholders of Marengo Mining Limited, and
- d) any other required statutory approvals.

This transaction is expected to be completed during the current quarter.

### **Diamond Drilling**

All arrangements are now in place for the commencement of the infill diamond drilling program.

Although some delays have been experienced, as a result of seasonal weather conditions, confirmation has now been received that rig mobilisation will take in early May 2006.

As previously advised, Marengo had engaged United Pacific Drilling (PNG) Limited ("UPD") to provide diamond drill rigs (initially two), for a program of up to 10,000 metres, centered on the existing Gremi and Omora zones of copper-molybdenum mineralisation. Based in Madang (only some 100km from Yandera), UPD have been providing drilling services in PNG since 1969 and are well equipped to provide Marengo with the services required.

During the quarter drill pad preparation was carried out at the Gremi zone, where drilling will commence. First results from this program are expected to be available during June and will be progressively reported thereafter.

### **Regional Stream Data Interpretation**

A review of the regional geochemistry captured by Terra Search Pty Ltd has been completed.

The stream copper geochemistry is very striking and the Yandera copper porphyry shows a very large footprint which extends for more than 8kms in a NW-SE orientation and is at least 2kms wide. Stream copper values are consistently greater than 250 ppm in this area with many copper values exceeding 1000 ppm. This area is the stand-out feature in the region and will be the focus of the company's copper exploration.

The stream gold geochemistry indicates four main zones of interest.

- Yumi gold prospect – this prospect is located in the headwaters of Yumi River. Free gold can readily be panned from the river and small scale hardrock gold mining has reportedly taken place in this area in the past. This is the

highest priority gold target in the project area and will be examined late in the next quarter. Limited stream sampling by Marengo, late in 2005, confirmed the potential of this prospect when highly anomalous gold results were returned from sample sites located up to 8kms downstream.

- Bundi gold prospect – there exists a line of anomalous gold values related to a major north-west trending structure hosted by the Asai Shale. The structure is part of the Markam Fault Zone which is a major plate boundary. Sampling is scheduled for the second half of the year.
- Megu gold prospect – this anomalous zone occurs immediately north of the Yandera porphyry and is associated with the contact zone of the Bismarck Granodiorite and limestone of the Mt Goroka Formation. Alluvial gold workings exist in this district and follow-up sampling is scheduled for the second half of the year.
- Yandera copper porphyry – historical diamond drilling has shown that background gold levels in the mineralised porphyry are generally around 0.1 g/t gold. Some supergene zones within the porphyry have returned higher gold levels up to 0.5 g/t. In addition, alluvial gold is being worked at a number of localities within and peripheral to the porphyry. Gold specific exploration will be undertaken in the second half of the year.

### **Exploration Licence Renewal**

During the quarter the Yandera Project Exploration Licence 1335 underwent a Warden's hearing, to allow for an additional two year extension of the term of the licence (as provided for in the PNG Mining Act).

The hearing was held during February at the Yandera village, with a large attendance by the community. The community was very supportive of Marengo's site activities and a recommendation for renewal has been returned to the Department of Mining and will subsequently be forwarded to the Minister for Mining for approval. It is expected that this process will be completed during the current quarter.

At the same time the Warden's hearing for surrounding application for Exploration Licence 1416 was heard at Yandera (and earlier at the nearby village of Bundi). This application also obtained the strong support of the respective communities and has moved forward with a positive recommendation.

### **BOLUBOLU PROJECT, GOODENOUGH ISLAND, PNG**

*(MARENGO MINING (PNG) LIMITED – 100%)*

*Target - Gold*

The Bolubolu Project is located on Goodenough Island, Milne Bay Province, Papua New Guinea. It is located 350km east of Port Moresby.

The project consists of a granted exploration licence, covering some 157km<sup>2</sup>, on the eastern side of Goodenough Island.

Preliminary field activities will commence during the 2006 field season, to better define the existing drill targets.

Previous exploration at the Bolubolu Project area indicates that significant potential exists for the discovery of gold mineralisation.

The main target is the Bolubolu North prospect, located along the faulted contact of the metamorphic core complex and an area characterised by anomalous gold, and a zone of magnetic destruction and structural complexity. This prospect was discovered in the mid 1980's (Esso/City Resources) and has never been drill tested. Stream pan concentrate samples up to 35 g/t Au and float samples up to 25 g/t Au were reported. The best mineralised zones (trench sampling) from a fault breccia were:

- 39m at 2.1 g/t Au including 6m at 11.9 g/t Au (horizontal zone);
- 8m at 4.9 g/t Au including 4m at 6.1 g/t Au (vertical zone)

Other prospects in the area include Bolubolu South, Motouya and Goila. These prospects have anomalous gold along with highly elevated arsenic and antimony levels.



### **BOWGAN PROJECT, NORTHERN TERRITORY (MARENGO DILUTING TO 25%)**

*Target – Uranium, Gold & Diamonds*

Marengo has entered into a joint venture agreement with Hindmarsh Resources Limited, whereby Hindmarsh will be entitled to earn a 51% interest in the project, by expending \$200,000 on exploration, within 3 years.

Hindmarsh can increase its equity to 75% for a further \$400,000 of expenditure.

### **OTHER PROJECTS (WESTERN AUSTRALIA)**

Following Marengo's decision in 2005 to fully focus on Papua New Guinea, a decision was made to divest its interest in the various Western Australian projects held (ie. Blanche and Minigwal).

During the quarter discussions were held with third parties, however no agreements were entered into.

In addition, Marengo retains a royalty interest (for iron ore) in its farmed out Jamie Bore Project (Ashburton), from Poondano Exploration Pty Ltd.

### **Copper Market**

Due to substantial world demand for metals, particularly from China, copper has enjoyed prices not seen since the 1980's. Forecasts are for strong copper prices to continue (currently A\$9,000/tonne), due to this demand and shrinking stockpiles.

### **Molybdenum**

Whilst copper is relatively well understood, molybdenum (the co-product in the Yandera project) is less well known.

Molybdenum is a metallic element, most frequently used as an alloying additive in stainless steels. Its alloying versatility is unmatched because its addition enhances strength, hardness and corrosion resistance.

With forecasts for continuing strong growth in the stainless steel market, molybdenum demand is set to mirror this growth, as it is intimately linked to iron and steel demand.

After a number of years of relatively flat prices (around US\$5/lb for molybdenum oxide), molybdenum has seen sustained price growth over the past three years. Currently molybdenum oxide is trading at around US\$24/lb (A\$70,000/tonne).

## Corporate

### PLACEMENT TO MAJOR INTERNATIONAL INVESTOR

During the quarter Marengo secured a new major international investor with leading global commodities trading company, Sempra Metals and Concentrates Corp., agreeing to take up a strategic A\$1.2million placement in Marengo.

Marengo has issued 4,000,000 fully paid shares (ASX Code: MGO) at 30 cents to Sempra Metals, together with 4,000,000 attaching, unlisted options, with a strike price of 40 cents, expiring on 30 November 2008 (ASX Code: MGOAQ). This placement was made under Marengo's 15% placement capacity, under the ASX Listing Rules.

In addition, Marengo has granted Sempra Metals a first right of refusal to negotiate an off-take agreement for metals concentrate from Marengo's Yandera Copper-Molybdenum project in Papua New Guinea.

### GENERAL MEETING OF SHAREHOLDERS

A general meeting of shareholders, held earlier today (28 April 2006), approved the acquisition of all of the issued shares in Belvedere Limited (refer to Yandera Project section).

In addition, the meeting ratified the share placement to Sempra Metals Corp (see above).

### ONLINE SHARE REGISTER

Shareholders can access their share details at Security Transfer Registrar's website at [www.securitytransfer.com.au](http://www.securitytransfer.com.au).

## Finance

### CASH AT BANK

At the end of the quarter the company had cash reserves of A\$7.4M.

## Corporate Directory

### BOARD OF DIRECTORS

John Horan	Chairman
Les Emery	Managing Director (Email: <a href="mailto:lese@marengominig.com">lese@marengominig.com</a> )
Ron Smit	Exploration Director (Email: <a href="mailto:rons@marengominig.com">rons@marengominig.com</a> )
Dennis Wilkins	Finance Director
Doug Dunnet	Non-Executive Director

### COMPANY SECRETARY

Dennis Wilkins

*The information in this report is based on information compiled by Mr Ron Smit, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Smit has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves. Mr Smit consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

### SUBSIDIARIES

Marengo Mining (PNG) Limited – 100%

### ISSUED SHARE CAPITAL (AS AT 28 APRIL 2006)

Fully Paid Shares:	65,679,209 (ASX Code: MGO)
Listed Options (20 cents expiring 28/02/08):	42,415,583 (ASX Code: MGOO)
Unlisted Options (20-30 cents expiring 30/11/08)	14,200,000 (ASX Code: MGOAQ)
Unlisted Options (30 cents expiring 30/11/08)	500,000 (ASX Code: MGOAQ)
Unlisted Options (20-30 cents expiring various dates)	500,000 (ASX Code: MGOAS)

### MAJOR SHAREHOLDERS

Current major shareholders are:	
RAB Special Situations Fund (UK)	13.00%
Sempra Metals and Concentrates Corp.	6.09%
Directors	5.62%
Elemental Minerals Ltd	5.09%
Yellowrock Pty Ltd	4.60%
Allundy Pty Ltd	4.58%

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**Les Emery**  
Managing Director

28 April 2006



Working to unlock the mineral treasures of Papua New Guinea.

## PAPUA NEW GUINEA

Marengo has positioned itself with projects in Papua New Guinea (PNG) which have the potential to grow into world class metal mines. A tight capital structure and funds on hand give shareholders excellent leverage to the future success of Marengo.

As Australia's nearest neighbour (some 150km from Cape York Peninsula) PNG has a long history of mining, dating back to 1878 and has historically been amongst the world's largest copper and gold producers.

Located on one of the world's most dynamic tectonic zones, PNG has and continues to produce world class ore deposits, such as Bougainville, Lihir, Misima, Ok Tedi and Porgera. In addition, recent developments have seen the discovery of medium size ore deposits, including Tolukuma, Kainantu, Hidden Valley and Simberi.

Since gaining independence in 1975, PNG has, along with other nations, suffered periods of downturn in mineral exploration investment. However, in recent years there has been a strengthening of investment back into PNG. This has occurred as a result of increasing world demand for commodities (with resultant price increases), together with a change to a more favourable fiscal regime for investment.

PNG operates a parliamentary democracy, based on the Westminster model, where all major parties support private enterprise and foreign investment.

Marengo is pleased to join many existing Australian and international companies who successfully operate both exploration and mining projects in PNG, a trend which is seen gaining momentum.

Marengo, through its subsidiary Marengo Mining (PNG) Limited, is concentrating its efforts on this richly endowed nation.

