



Working to unlock the mineral treasures of Papua New Guinea

## QUARTERLY REPORT

for the period ending 30 June 2006

### Key points for the quarter

- 🔍 *Diamond drilling commences at Yandera Copper-Molybdenum Project (Papua New Guinea).*
- 🔍 *First two drill holes intersect disseminated sulphides (results awaited).*
- 🔍 *Technical staff appointments, including copper porphyry expert Johan Smit.*
- 🔍 *Field work commences at Yomi Gold Prospect (near Yandera).*
- 🔍 *PNG Mining Minister visits Yandera Project.*
- 🔍 *Cash balance (at quarter end) of A\$6.5M with 66M shares on issue.*

### contact us

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## PNG – PROJECT LOCATION MAP (Figure 1)



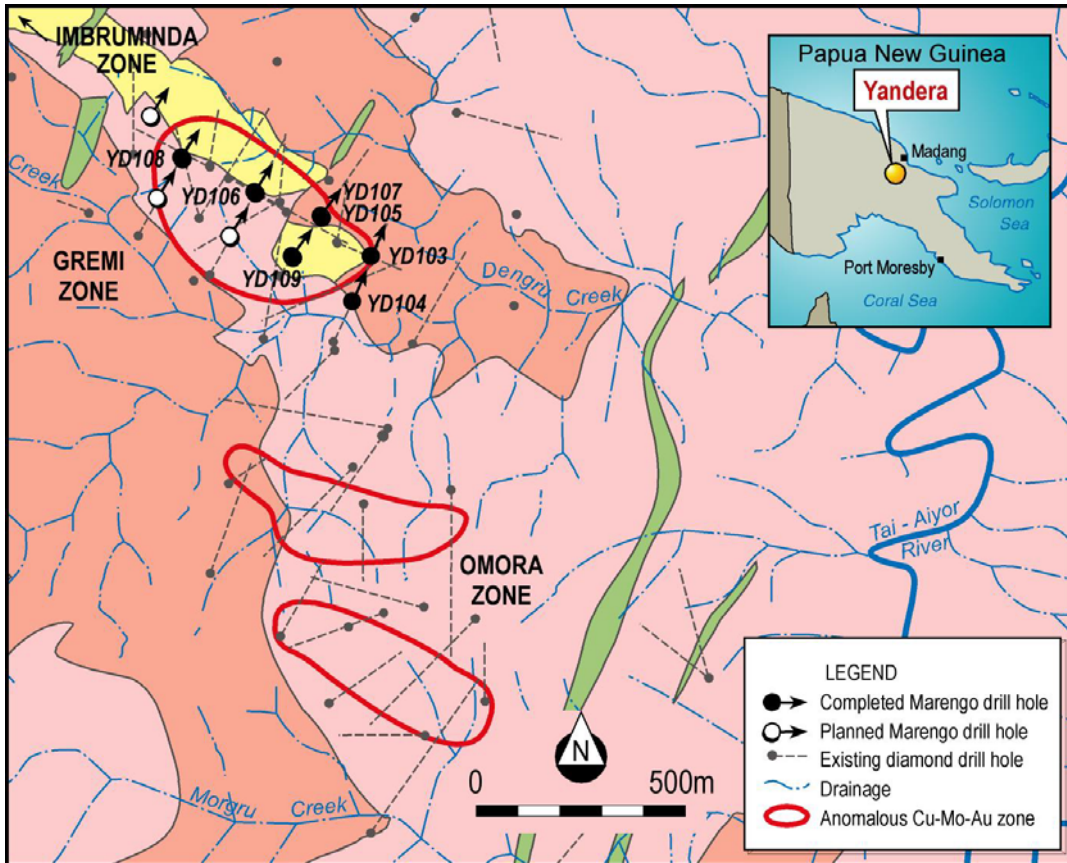
**YANDERA PROJECT, MADANG PROVINCE, PNG**  
(MARENGO MINING (PNG) LIMITED – ACQUIRING A 100% INTEREST)  
Target – Porphyry Cu-Mo, Epithermal Au

On 24 May 2006, Marengo reached a significant milestone at Yandera, with the commencement of diamond drilling by the first of two drill rigs mobilised to site during the quarter by drilling contractor, United Pacific Drilling (UPD) of Madang.

As at the date of this report five drill holes have been completed (YD 103 to YD 107) for a total of 1660.7 metres, with drill holes YD 108 and YD 109 currently being drilled at the Gremi Zone (see plan below).

### Drill Hole Details

Hole ID	Easting (m)	Northing (m)	Collar	Total Depth (m)	Status
YD 103	293256	9364790	-60 @ 030° mag	250.0	Complete
YD 104	293256	9364706	-60 @ 030° mag	417.6	Complete
YD 105	293154	9364866	-60 @ 030° mag	294.9	Complete
YD 106	293116	9364946	-60 @ 030° mag	307.5	Complete
YD 107	293154	9364866	Vertical	246.7	Complete
YD 108	292956	9364580	-60 @ 030° mag	117.0	In progress
YD 109	293114	9364810	-80 @ 030° mag	27.0	In progress



**YANDERA PROJECT, MADANG PROVINCE, PNG (cont.)**

result, the Gremi Zone remains open in that direction.



The aim of the current drilling program (up to 10,000 metres), which is expected to continue until at least October, is to increase Marengo's confidence in the Gremi and Omora mineralised zones. Of the eight mineralised zones previously identified at Yandera, these two zones were selected for the initial work, as they have good near surface copper-molybdenum mineralisation and with expected low strip ratios, could form the basis for a likely "starter pit" scenario.

Samples from drill holes YD 103 and YD 104 are currently in the laboratory with results from these holes expected shortly. Preliminary inspection of the drill core from these holes has confirmed that both holes have successfully intersected broad zones of disseminated copper-molybdenum mineralisation. Results from this drilling will be released to the market as soon as they are received.



Evidence of mineralisation in holes YD 103 and YD 104 is considered significant, as they were drilled on what was previously determined to be the south-eastern limit of the Gremi Zone. As a



## YANDERA PROJECT, MADANG PROVINCE, PNG (cont.)

In addition, drilling will be carried out over the nearby Imbruminda Zone (north-west of Gremi) where deeper, but higher grade mineralisation has been previously outlined. The focus in this area will be to test a previously undrilled section, between the Gremi and Imbruminda Zones.

Marengo has engaged Golder Associates to assist it with the Yandera Project, principally in the generation of an initial JORC compliant resource for the Gremi and Omora Zones. Golder Associates is an internationally recognised leader in all aspects of earth engineering, with over 80 offices worldwide.

Over US\$20M was spent on exploration at Yandera during the 1960s and 1970s, by companies such as Kennecott Exploration and BHP (including 102 diamond drill holes for 33,000 metres), resulting in a number of non-JORC resource estimates and the completion of a mining scoping study.

First discovered by Australian Government geologists in the 1950s, the Yandera Project is located some 95km south-west of the coastal town of Madang, PNG and represents one of the South West Pacific region's largest undeveloped copper-molybdenum porphyry deposits.

### Yomi Gold Prospect

This prospect is located approximately 20km north-west of the Yandera porphyry project, near the headwaters of the Yomi River.

Free gold can be readily panned from the river and small scale gold mining has reportedly taken place in the area in the past. 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 8km downstream.

This is the highest priority gold target identified to date from within the project area.

Field inspection at Yomi has identified parallel quartz veins within fine grained sediments in zones up to 14 metres wide.



During the quarter, a field team was mobilised to the site and a local base camp established. Channel chip and grab sampling of known gold bearing outcrops were taken and submitted for analysis (results awaited).

Also, since the end of the quarter a 600 x 200 metre grid has been completed and soil samples have been collected from each 100 metre crossline at 10 metre spacings. These samples will shortly be submitted for analysis.

Subject to the results of this work, it is expected that a program of trenching will be carried out during the current quarter.

Whilst the Yandera copper-molybdenum mineralisation continues to be Marengo's priority, more regional field work will continue during the field season, in order to locate other gold and base metal targets from within the Yandera project area.

### Staff Appointments

With the ramp up in activity at Yandera, Marengo has significantly increased its site personnel with the appointment of an additional four geologists to support Yandera Project Manager, Mr Peter Dendle.

As part of a deliberate local employment policy, Marengo has been successful in engaging PNG nationals for these positions and in addition has accepted two third year geology students from the University of Papua New Guinea, who are currently undertaking the field work experience component of their studies.

**YANDERA PROJECT, MADANG PROVINCE, PNG (cont.)**



These appointments are in addition to the other site staff engaged in site administration and logistics support.

During the quarter, Marengo was also pleased to announce the appointment of Mr Johan Smit as Principal Consulting Geologist to the Company.

Mr Smit is a senior exploration and mining executive, with over 40 years international experience, in both exploration and mining. He worked at the Yandera Project with BHP in the 1970s and has an intimate knowledge of this project and PNG, having held senior positions with BHP, Niugini Mining and Triako Mines.

In addition to extensive experience in PNG, Mr Smit has worked on numerous porphyry copper deposits around the world, including having spent the past three years as the principal consultant for Monterrico Metals plc, working on the Rio Blanco porphyry copper-molybdenum project in northern Peru.

The appointment of Mr Smit is an important addition to the Marengo team, adding further significant technical depth and experience to the Company.

**Ministerial Site Visit**

Since the end of the quarter Marengo has had the privilege to host a visit to the Yandera Project by The Hon Sam Akoitai MP, PNG Minister for Mining and Mr Peter Yama MP, Leader of the People's Labour Party and the local member for the Yandera district (Usino Bundi) in the PNG national parliament.

This visit was an opportunity for them to view Marengo's activities and to gain an understanding of the strong local support Marengo has secured, since entering into the Yandera Project in 2005.



**Yandera Acquisition Agreement**

As previously announced, Marengo has reached agreement to acquire its Yandera joint venture partner (Belvedere Limited), to move to 100% ownership of the Yandera Project.

Various conditions precedent for the agreement with the shareholders of Belvedere Limited were satisfied during the quarter, with only two remaining.

- a) **Renewal of Exploration Licence 1335**  
Application was previously lodged for an additional two year extension of term of this licence (as provided for under the PNG Mining Act).

Recommendation for this extension was made by the PNG Mining Advisory Board, after receipt of the necessary environmental permits for the current drilling programme.

This recommendation has now been forwarded to the PNG Minister for Mining for approval.

- b) **Bank of Papua New Guinea Approval**  
Application has been lodged with the Bank of Papua New Guinea (the PNG central bank) for currency exchange approvals to complete this transaction. Approval is awaited.

Marengo expects to complete this transaction shortly, which will see Belvedere Limited become a wholly owned subsidiary of Marengo's PNG operating company, Marengo Mining (PNG) Limited.

**Exploration Licence Approval**

During the quarter application for Exploration Licence 1416 was approved by the PNG Minister for Mining. This licence surrounds the central Yandera tenement (Exploration Licence 1335), giving Marengo control over some 1,200 square kilometres of ground in the region.

**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 exploration (mapping, rock chip and soil sampling) is planned to commence during the current quarter.

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.

No work was conducted by Hindmarsh Resources during this quarter.

**OTHER PROJECTS (WESTERN AUSTRALIA)**

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\$10,000/tonne), due to this strong level of 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\$26/lb (A\$75,000/tonne).



## Corporate

### DIRECTOR RETIREMENT

During the quarter, Mr Ron Smit announced his intention to step down from the Board (effective from 30 June 2006) for family reasons.

Mr Smit has held the position of Exploration Manager since Marengo listed on the ASX in November 2003 and was appointed to the Board in January 2005.

The Board thanks him for his efforts and contribution to Marengo over the past three years.

### ASX WAIVER GRANTED

Since the end of the quarter, the ASX has granted a waiver from Listing Rule 14.7, to the extent necessary to permit

- a) Marengo to issue 12 million Ordinary Shares, and,
- b) Marengo to issue 6 million listed Options to acquire Ordinary Shares, exercisable at A\$0.20, on or before 28 February 2008

on the terms and conditions consistent with those approved by shareholders at the General meeting held on 28 April 2006, no later than 27 August 2006.

Marengo requested ASX grant the waiver to enable completion of conditions precedent for the acquisition of all the issued capital in Papua New Guinea company, Belvedere Limited, in order to complete the 100% acquisition of the Yandera Project.

### 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\$6.5M.

## Corporate Directory

### BOARD OF DIRECTORS

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

### COMPANY SECRETARY

Dennis Wilkins

### SUBSIDIARIES

Marengo Mining (PNG) Limited – 100%

### ISSUED SHARE CAPITAL (AS AT 30 JUNE 2006)

Fully Paid Shares:	65,682,218
	(ASX Code: MGO)
Listed Options (20 cents expiring 28/02/08):	42,412,574
	(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%
Elemental Minerals Ltd	5.09%
Yellowrock Pty Ltd	4.60%
Allundy Pty Ltd	4.58%

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**Les Emery**  
Managing Director

27 July 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.

