



MARENGO
MINING LIMITED



Annual Report | 2006



Working to unlock
the mineral treasures of
Papua New Guinea.

Corporate Directory

DIRECTORS

John Patrick Horan, *Chairman*
Leslie Sidney George Emery, *Managing Director*
Dennis William Wilkins, *Finance Director*
Douglas Dunnet, *Non-Executive Director*

COMPANY SECRETARY

Dennis William Wilkins

REGISTERED OFFICE

Level 2, 9 Havelock Street
WEST PERTH WA 6005
Telephone: (61 8) 9429 0000
Facsimile: (61 8) 9429 0099

POSTAL ADDRESS

PO Box 289
WEST PERTH WA 6872

EMAIL

marengo@marengominig.com

WEBSITE

www.marengominig.com

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (61 8) 9315 2333
Facsimile: (61 8) 9315 2233

AUSTRALIAN COMPANY NUMBER

ACN 099 496 474

AUDITORS

Stanton Partners
Level 1
1 Havelock Street
WEST PERTH WA 6005

SOLICITORS

Blakiston & Crabb
1202 Hay Street
WEST PERTH WA 6005

ASX CODES

Shares
Options (28 February 2008)

MGO
MGOO



Contents

Chairman's Letter	5
Review of Activities	9
Directors' Report	24
Corporate Governance Statement	32
Income Statements	36
Balance Sheets	37
Statement of Changes in Equity	38
Statements of Cash Flows	39
Notes to the Financial Statements	40
Directors' Declaration	63
Independent Audit Report	64
Audit Independence Report	66
ASX Additional Information	67

NOTE: To assist shareholders in reading this report a Glossary of Technical Terms is set out on page 23.



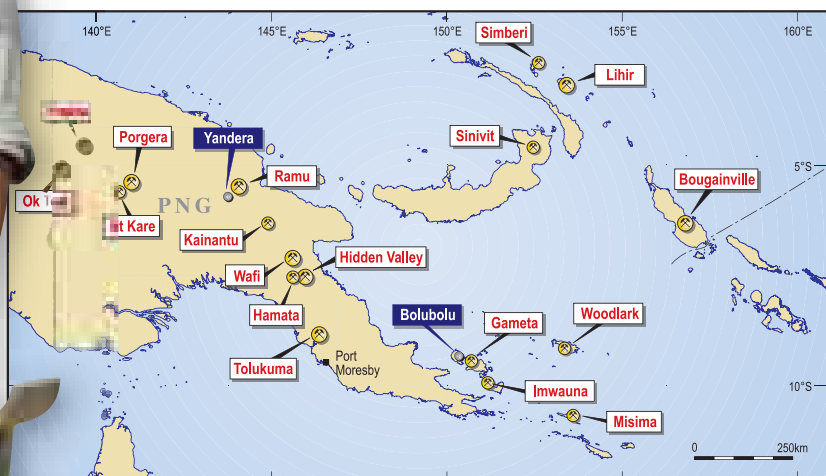
Papua New Guinea



As Australia's nearest neighbour (some 150 kilometres 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 which successfully operate both exploration and mining projects in PNG, a trend which is gaining momentum. Marengo, through its subsidiary Marengo Mining (PNG) Limited, is concentrating its efforts on this richly endowed region.





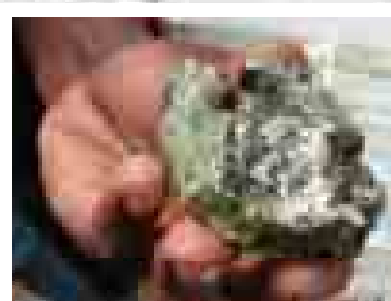
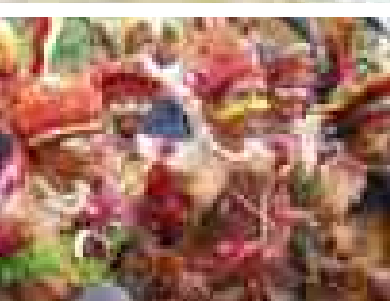
Diamond drilling is currently underway and will focus on three of the eight mineralised zones previously identified at Yandera.



Highlights

- Marengo moves to 100% ownership of the Yandera Project (PNG)
- Major diamond drilling program of Yandera copper-molybdenum porphyry in progress.
- Historical drilling database digitised for the generation of an initial JORC compliant resource for the Yandera porphyry.
- Strong international support for share placements to fund PNG activities, including a leading global commodities trading company.
- Focus on the gold endowment of the Yandera Project confirms the potential for significant epithermal gold systems
- Marengo's technical team enhanced with key appointments.
- Application for listing on the Port Moresby (PNG) Stock Exchange.





The Yandera Project is known to contain one of the largest undeveloped porphyry copper-molybdenum systems in the south-west pacific.



Chairman's Letter

The past year has been the most fulfilling in the brief history of Marengo Mining Limited with encouraging momentum-building progress, and some important achievements.

The Company continued the substantial shift away from its traditional exploration activity in Western Australia and is now firmly focused on expanding its base in Papua New Guinea ("PNG").

The Company's flagship is the Yandera Project in Madang Province. It contains, among other things, one of the largest undeveloped copper-molybdenum porphyry systems of its type in the south-west pacific.

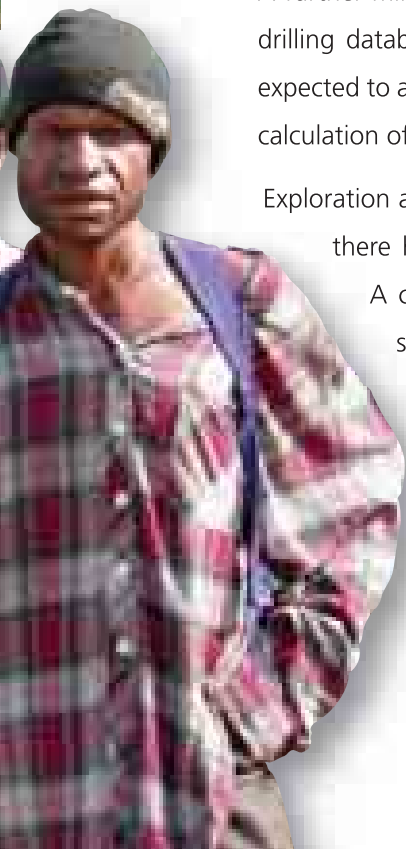
Marengo took a significant step forward early in 2006. Through its wholly owned subsidiary, Marengo Mining (PNG) Limited, it moved from fifty percent to total ownership of the Yandera Project by agreeing to acquire all the issued capital of its joint venturer in the Project, Belvedere Limited, a privately owned PNG company.

A further milestone was reached in late May. Following the successful digitising of the historical drilling database, diamond drilling commenced with two drill rigs on a major program that is expected to achieve up to 10,000 metres of drilling by October of this year. This should lead to the calculation of an initial JORC compliant resource for part of the Yandera Project.

Exploration activity has increased. Mr Peter Dendle has been appointed as Project Manager and there has been a significant increase in geological and technical support at the Project.

A camp and operations base have been established along with the recruitment of a significant number of PNG nationals in professional, skilled and unskilled capacities.

Although the primary PNG focus has been on Yandera, field work was directed to the Yomi gold prospect 20 kilometres north-west of Yandera towards the end of June, while preliminary exploration at Bolubolu has now commenced.





The Yandera site has undergone a significant expansion to handle the increase in activity over the past year.



Marengo is now on the march. The Company has firmly established its presence in Papua New Guinea mainly through the direction, management and expertise of our Managing Director, Les Emery. His ongoing contribution to the growth and future success of the Company is immeasurable.

The successful integration of Marengo into the PNG resources industry is continuing, with strong relationships being established with government, business and our peers.

An indication of the profile that Marengo and the Yandera Project have gained during the year, was the recent visit to site by The Hon Sam Akoitai MP, PNG Minister for Mining and Mr Peter Yama, Leader of The People's Labour Party and the local member for the Yandera district in the PNG national parliament.

The Company's profile has also risen with strong international support from Australia, the United Kingdom and PNG based investors and institutions. Two strategic share placements to raise \$A7.2 million were completed during the year.

The Company is also developing a strategy to expand its PNG shareholder base, including an application for a secondary listing of its shares on the Port Moresby Stock Exchange.

Marengo has now joined the band of local and international companies which are successfully conducting both exploration and mining operations in PNG. There are positive indications that the trend towards a greater PNG focus by others is continuing.

We have swung into the 2006-2007 reporting year with continuing confidence – and the necessary determination and endeavour to reward our shareholders.

I therefore, along with my fellow directors and staff, look forward to meeting with as many shareholders as possible at our Annual General Meeting on 9 November 2006. Details are included in the enclosed Notice of Meeting.

Yours sincerely



John Horan
Chairman





Marengo reached a significant milestone at Yandera on 24 May 2006, with the commencement of diamond drilling by the first of two drill rigs mobilised to site.



Review of Activities

CAPITAL RAISINGS

During the year Marengo was successful in gaining the support of a group of Australian, British and PNG-based investors and institutions, to ensure that the momentum established with its move to PNG could be maintained.

In October 2005 the Company agreed to place 24 million fully-paid ordinary shares at 25 cents each, together with a free attaching (20 cent 28 February 2008) option, to various parties, including RAB Capital (UK) and National Superannuation Fund of PNG, raising A\$6 million.

In March 2006 the Company made a strategic A\$1.2 million placement to leading global commodities trading company Sempra Metals & Concentrates Corp, with the issue of 4 million fully-paid ordinary shares at 30 cents each, together with a free attaching, unlisted (40 cents – 30 November 2008) option.

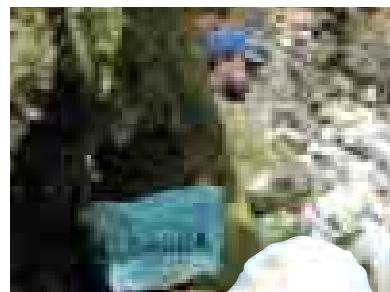
In addition Marengo agreed to grant Sempra a first right of refusal to negotiate an off-take agreement for metals concentrate from Marengo's Yandera Project.

The Marengo board will ensure that a sufficient level of liquidity is maintained to enable the Company to continue to carry out its planned programs, whilst all times being conscious of shareholder dilution.

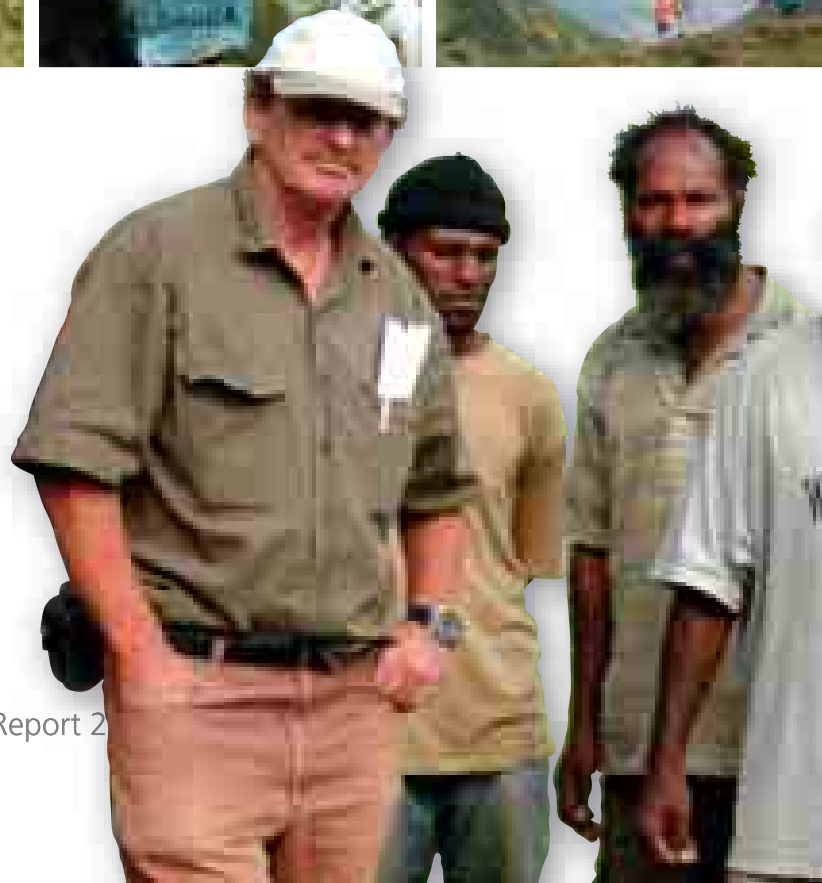
As part of a strategy to expand its PNG shareholder base, Marengo has recently made application for the secondary listing of its shares on the Port Moresby Stock Exchange (POMSoX).

The POMSoX was established in 1999 and has a number of high profile PNG focused companies (including Lihir Gold Limited, Oil Search Limited and Highlands Pacific Ltd) as members.

It is expected that a listing on the POMSoX will see a greater proportion of the Marengo shareholder base being PNG institutions and private investors.



As part of a strategy to expand its PNG shareholder base, Marengo has recently made application for a secondary listing on the Port Moresby Stock Exchange.



YANDERA PROJECT Madang Province, PNG – Marengo 100%

Since April 2005, Marengo Mining Limited has focused its attention on the highly significant Yandera Project, located 95 kilometres southwest of the coastal town of Madang.

The Yandera Project, which comprises two granted exploration licences and covers some 1200 square kilometres, was the subject of an intensive, drill based, exploration program during the 1970's by a number of companies, including Kennecott and BHP.

This activity, which in 1976 culminated in the preparation of a mining study by BHP identified the Yandera porphyry as containing one of the largest undeveloped porphyry copper-molybdenum systems in the south-west Pacific.

Although a number of resource estimates were generated, by competent geoscientists using the best estimation tools available at the time, these estimates pre-date the JORC Code and as such cannot be reported at this time.

Diamond drilling is currently underway and will focus on three of the eight mineralised zones previously identified within the Yandera porphyry, principally the Gremi, Omora and Imbruminda zones. These zones have good, near surface copper-molybdenum mineralisation and with expected low strip ratios, could form the basis for a likely "starter pit" scenario.

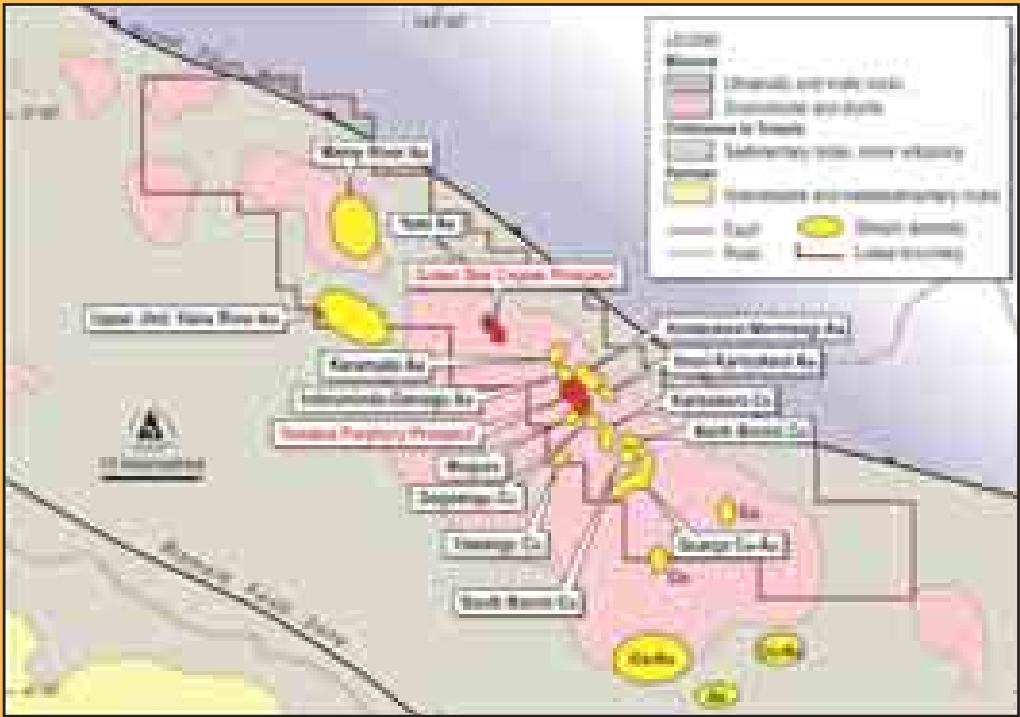
Acquisition of 100% Interest

Marengo first entered the Yandera project in April 2005, by reaching agreement with project owner, Belvedere Limited, a private PNG Company, to earn an initial 50% interest by spending A\$500,000 on exploration of the project.

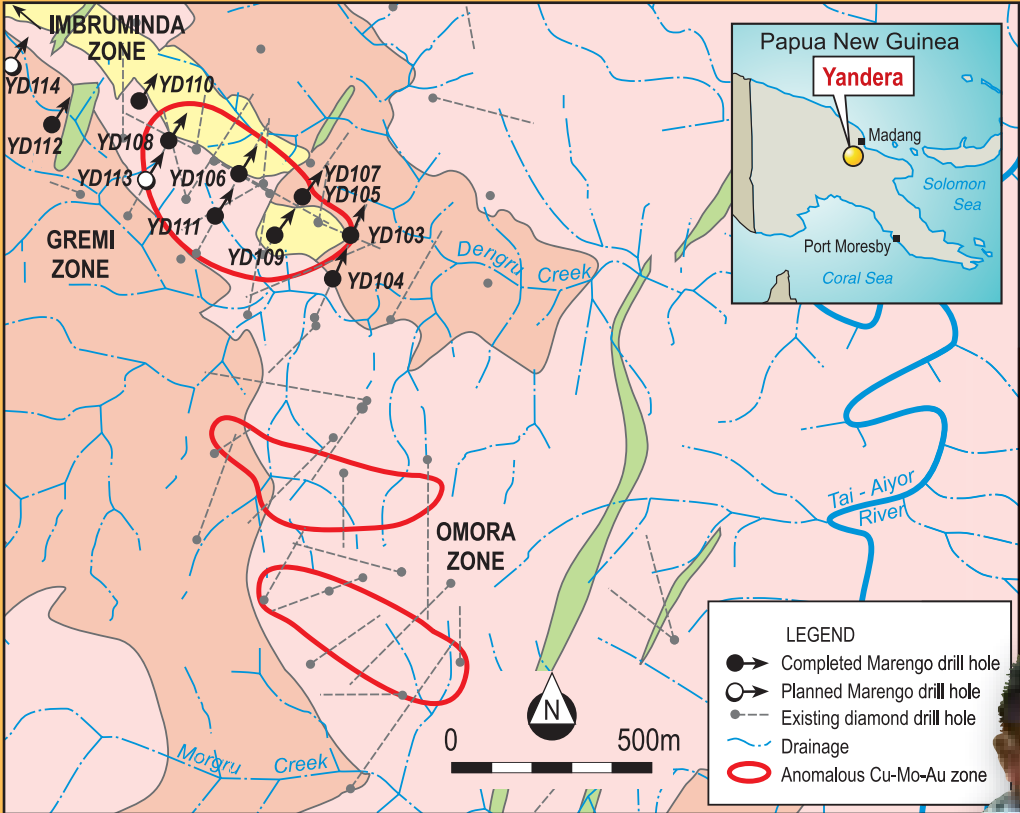
Upon reaching this expenditure threshold in early 2006, Marengo, through its wholly owned subsidiary, Marengo Mining (PNG) Limited, agreed with the shareholders of Belvedere Limited, to acquire all of the issued capital in Belvedere on the following terms:

- payment of A\$3 million
- the issue of 12,000,000 fully paid ordinary shares in Marengo Mining Limited, and
- 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.





Yandera Project – Prospect Locations



Yandera Project – Central Porphyry Zone



The transaction was subject to a number of conditions, which have recently been satisfied, allowing completion to take place. As a result Belvedere Limited has become a wholly owned subsidiary of Marengo Mining (PNG) Limited.

Data Digitisation

During the year the process of digitising drilling results from the pre-existing drill database was completed. This work was undertaken by the PNG arm of Perth based Terra Search Pty Ltd and has involved the digital capture of all historical diamond drill data from the Yandera porphyry.

The database contains the assay results from 102 diamond drill holes, totalling 33,000 metres and comprising some 11,000 diamond drill core samples, which were with some exceptions analysed for copper, molybdenum, silver and gold.

From the data digitisation, a three dimensional model of the drill hole positions and assay results was produced, forming the basis for selection of drill sites in the current program.

In addition to the drilling data, the database has captured over 11,000 stream sediment samples, 7,700 soil /contour samples and 5,200 rock chip / float samples. This data will provide a comprehensive database for regional exploration, designed to locate repetitions of the Yandera porphyry and epithermal gold systems.

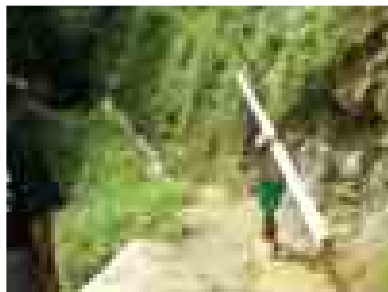
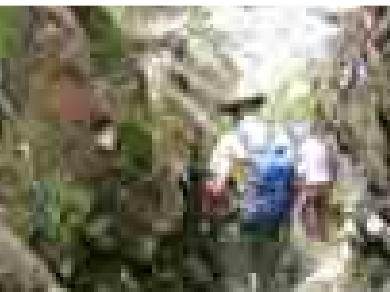
Diamond Drilling

Marengo reached a significant milestone at Yandera on 24 May 2006, with the commencement of diamond drilling by the first of two drill rigs mobilised to site.

These rigs are supplied and operated by United Pacific Drilling (UPD) of Madang, with helicopter support services supplied by Hevilift Helicopters.

To date ten holes have been completed (YD 103 to YD 112) for a total of 3,366 metres at the Gremi Zone, with further holes planned for this zone together with the nearby Omora and Imbruminda Zones. Subject to weather and drilling conditions it is planned to drill up to 10,000 metres during the current field season.





Results received to date are as follows:

Yandera Resource Drilling - Diamond Drilling Results

Hole ID	Zone	From (m)	To (m)	Interval (m)	Cu (%)	Mo (ppm)	Copper Equivalent (%)
YD 103	Gremi	21	57	36	0.51	<100	0.51
		115	151	36	0.46	130	0.59
		160	187	27	0.44	<100	0.44
YD 104	Gremi	9	72	63	0.48	230	0.71
		108	174	66	0.38	282	0.66
		186	249	63	0.27	900	1.17
YD 105	Gremi	30	84	54	0.38	243	0.62
		96	150	54	0.40	336	0.74
		192	214	22	0.42	278	0.70
YD 106	Gremi	0	180	180	0.50	238	0.74
YD 107	Gremi	9	246*	237	0.83	531	1.36
including		39	120	81	1.35	1037	2.39
including		153	186	33	1.24	684	1.92

Note: (1) copper equivalent grade is based on a molybdenum/copper price ratio of 10:1.

Note: (2) interval boundaries based on a 0.2% Cu cut-off.

* Denotes end of hole.

Epithermal Gold

Work commenced on a review of the project area's ability to host commercial epithermal gold projects.

The first target area is the Yomi gold prospect, located approximately 20 kilometres 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 sediment sampling was carried out by Marengo during the later part of 2005.

This work confirmed the potential of this prospect when highly anomalous gold results were returned from sample sites, located up to 8 kilometres downstream. Field inspection at Yomi has identified parallel quartz veins within fine grained sediments, in zones up to 14 metres wide.

More recently a local base camp was established and a field team commenced rock chip sampling of the gold bearing outcrop, together with a systematic soil sampling program over the area. Results of this work are expected shortly and will dictate the future activity at Yomi.

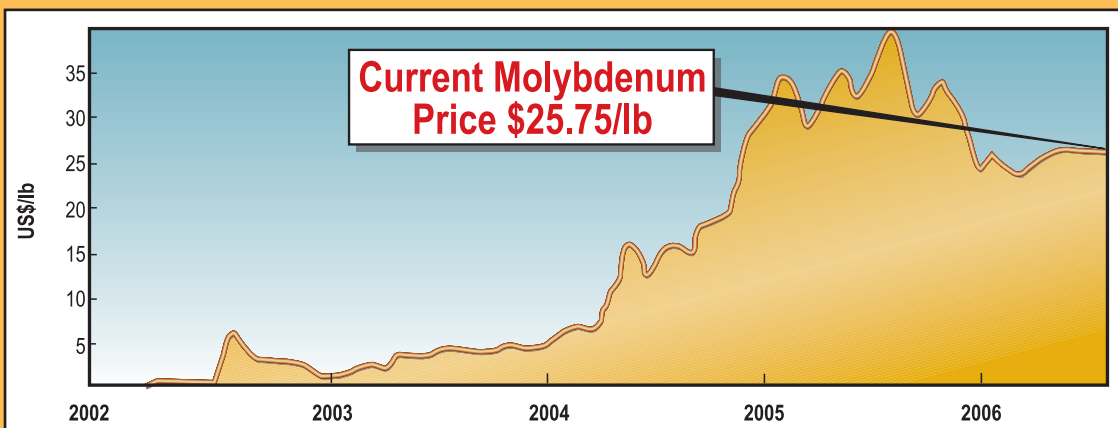
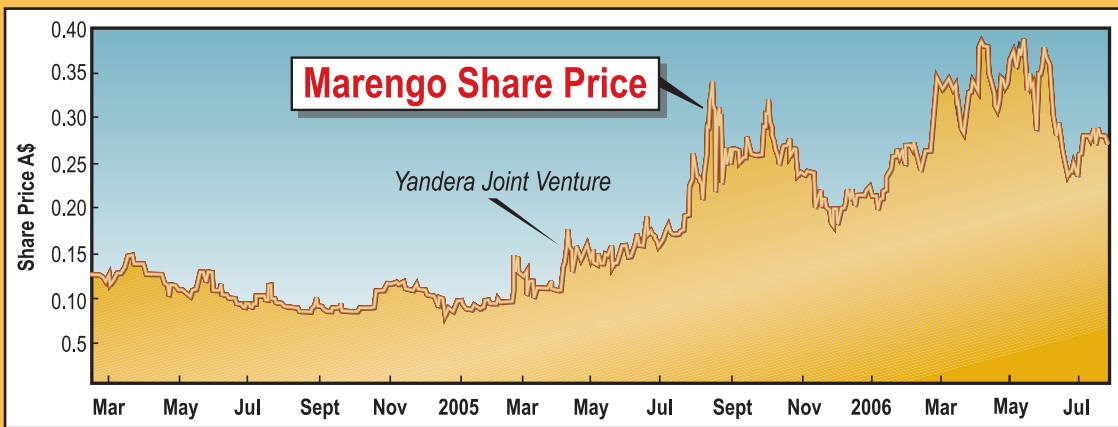
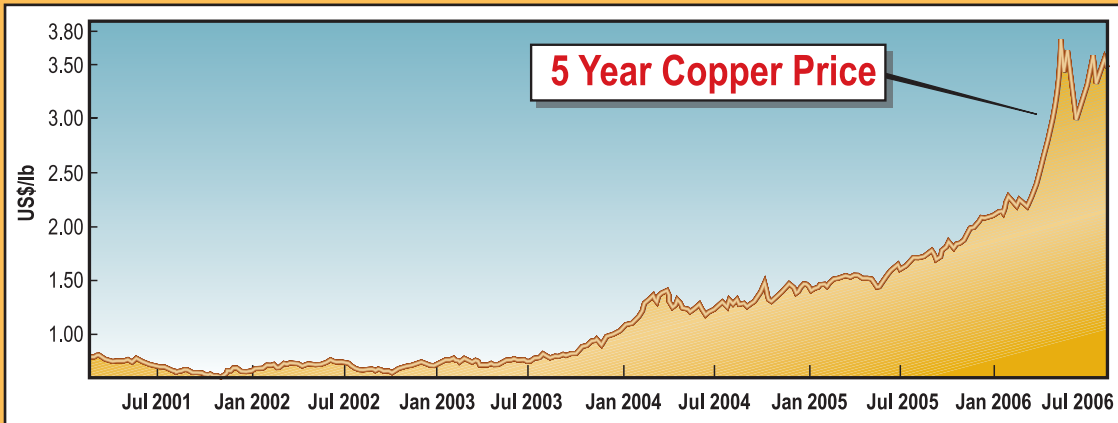
JORC Compliant Resource

The Yandera porphyry is an extremely large mineralised system, where previous exploration outlined eight coherent zones, identified from 102 holes for a total of 33,000 metres.

Previously published resource estimates produced by other operators, from this information pre-date the JORC Code and as such cannot be reported in their present form.

Marengo's efforts at Yandera are to produce sufficient data to enable the establishment of an initial JORC compliant resource on at least two of the mineralised zones (Gremi and Omora) by the end of calendar 2006.

Golder Associates were engaged to assist in this task and are currently working through the information which has been assembled by Marengo. Golder is an internationally recognised organisation, with over 80 offices worldwide, which can bring the necessary skills and independence to this task.



* As molybdenum trioxide (M_0O_3).

Staff Appointments

With the ramp up in activity at Yandera, Marengo has significantly increased its site personnel to support our Yandera Project Manager, Mr Peter Dendle, who was appointed during the year.

As part of a deliberate local employment policy, Marengo has been successful in engaging PNG nationals for the Project and, in addition, has accepted a number of third year geology students from the University of Papua New Guinea, to undertake the field work component of their studies.

In addition Marengo also announced the appointment of Mr Johan Smit to the newly created position of Principal Consulting Geologist. Mr Smit is a senior exploration and mining executive, with over 40 years of experience, in both exploration and mining.

Mr Smit has worked on numerous porphyry copper projects around the world and in fact worked on the Yandera Project for BHP, during the 1970's.

Site Logistics

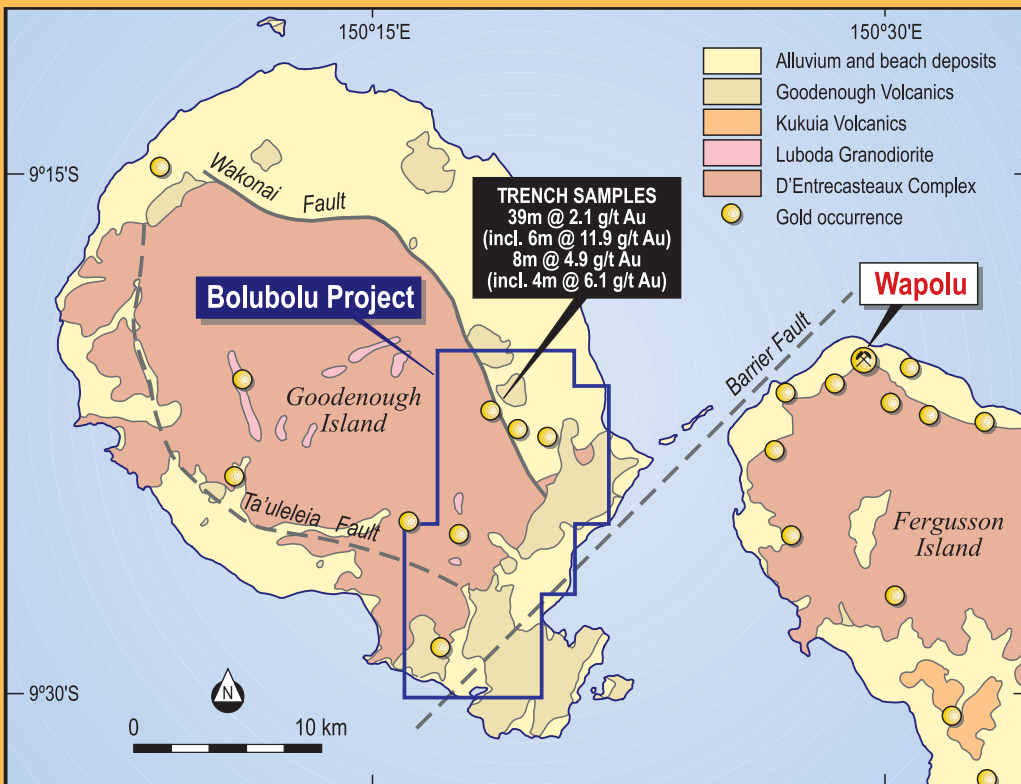
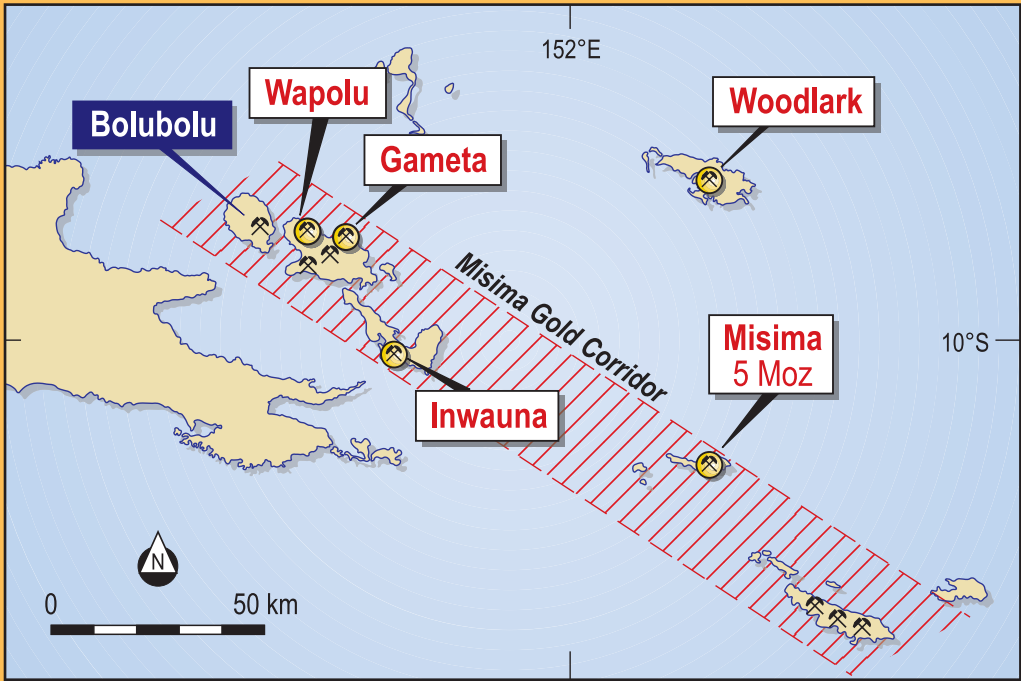
The Yandera site has undergone a significant expansion to handle the increase in activity over the past year.

Using local labour, the site is now fully equipped with office, accommodation and mess facilities for the expanded workforce, and in addition has established a functional drill core facility to handle the cutting, sampling, logging and storage of the extensive quantity of core now being produced.

Marengo also reached agreement during the year to utilise the Brahman Mission, situated some 20 kilometres from Yandera in the Ramu Valley. This location serves as a "staging post" for the delivery of supplies and shipping of drill samples, as it is accessible by road from the provincial capital of Madang, and the seaports of Madang and Lae.

Copper Market

Due to substantial world demand for metals, particularly from China, copper has enjoyed record prices. Forecasts are for this strong copper price to continue, due to this demand and shrinking stockpiles.



Molybdenum Uses and Market

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

Molybdenum is a metallic element (number 42 on the Periodic Table of Elements), 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 trioxide), molybdenum has seen sustained price growth over the past four years. Currently molybdenum trioxide is trading at around US\$26/lb.

BOLUBOLU PROJECT Goodenough Island, Milne Bay Province, PNG – Marengo 100%

Located some 350 kilometres east of the PNG capital, Port Moresby, the Bolubolu Project consists of a granted exploration licence covering 157 square kilometres.

Goodenough Island is the most northerly island in the D'Entrecasteaux island chain, which contains a number of significant gold deposits including the now completed Misima gold mine and the Wapolu, Gameta and Inwauna gold deposits. These deposits are aligned along a trend termed the "Misima Gold Corridor".

The geological and structural setting of the Bolubolu Project has many similarities to the Wapolu and Gameta deposits, located on neighbouring Fergusson Island. Gold mineralisation is associated with shallow detachment fault zones, developed along the margin of a metamorphic core complex.

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 values.

This prospect was discovered in the mid 1980's by Esso/City Resources and has never been drill tested. Stream pan concentrate samples up to 35 g/t Au and rock float samples up to 25 g/t Au were reported. The best mineralised zones from trench sampling were:

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

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

During the year Marengo was successful in obtaining a grant of the project licence, following very positive site meetings with the local landowners.

Preliminary exploration commenced during August 2006 and comprises, geological mapping, soil and rock chip sampling to generate additional drill targets.

BOWGAN PROJECT Northern Territory – Marengo diluting to 25%

During the year Marengo completed a nineteen hole reverse circulation drilling program to test various geophysical and structural targets, along the Fish River Fault. This drilling failed to indicate any alteration or mineralisation associated with these features.

The Company has since entered into a joint venture agreement with Hindmarsh Resources Limited, with Hindmarsh being entitled to earn a 51% interest by expending \$200,000.

Hindmarsh may increase to a 75% interest by expending a further \$400,000 on exploration, which is targeted towards testing the project's uranium potential.

OTHER PROJECTS (WESTERN AUSTRALIA)

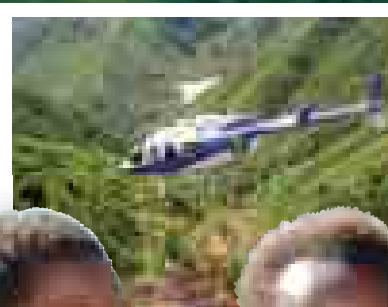
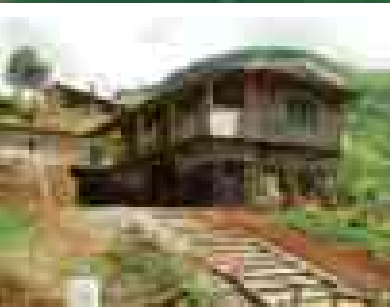
Marengo retains a royalty interest (for iron ore) in the Ashburton Project (Ashburton Mineral Field) from Poondano Exploration Pty Ltd.

The Blanche and Minigwal Projects were relinquished after Marengo failed to attract farm-in partners to these projects.

TENEMENT SCHEDULE As at 6 September 2006

Papua New Guinea	
Yandera	EL 1335 EL 1416
Bolubolu	EL 1394
Northern Territory	
Bowgan	EL 24115 EL 24195 EL 24196
Western Australia	
Ashburton	E52/1628 (application) E52/1644 (application)

The information in this report is based on information compiled by Mr Peter Dendle, who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of Marengo Mining Limited. Mr Dendle 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 Dendle consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.



GLOSSARY OF TECHNICAL TERMS

<i>Airborne magnetics/Aeromagnetics</i>	Measurement of the earth's magnetic field from a surveying aircraft for the purpose of recording the magnetic characteristics of rocks.
<i>Anomalism/Anomaly</i>	Said of geochemical and geophysical data which deviates from regularity.
<i>Au</i>	The chemical symbol for gold.
<i>Base metals</i>	A metal substance, commonly refers to metals lead, copper, zinc, nickel.
<i>Core complex</i>	Geological structure formed by thermal upswelling from within the Earth's crust.
<i>Cu</i>	The chemical symbol for copper.
<i>Diamond drilling</i>	Method of obtaining cylindrical core by drilling with diamond-set or diamond-impregnated-bit.
<i>Drilling</i>	A technique or process of making a circular hole in the ground with drilling machine to obtain geological information and/or sample material.
<i>Epithermal</i>	Said of hydrothermal mineral deposit formed within about 1km of the Earth's surface, occurring mainly as veins.
<i>Fault zone</i>	Major fractures in rock formations caused by relative movements in geological features.
<i>g/t</i>	Grams per tonne.
<i>Granite</i>	An intrusive felsic rock.
<i>JORC Code</i>	Joint Ore Reserves Committee - Australasian Code for Reporting of Mineral Resources and Ore Reserves.
<i>Metamorphism or Metamorphic</i>	The mineralogical, structural and chemical changes induced within solid rocks through the actions of heat, pressure or the introduction of new chemicals.
<i>Mineralisation</i>	The concentration of metals and their chemical compounds within a body of rock.
<i>Mo</i>	The chemical symbol for molybdenum.
<i>Porphyry</i>	An igneous rock of any composition that contains conspicuous mineral crystals in a fine grained groundmass.
<i>Porphyry Copper Deposit</i>	A large body of rock, typically porphyry, that contains disseminated chalcopyrite and other sulphide minerals. Such deposits are mined in bulk on a large scale, generally in open pit, for copper and by-product molybdenum.
<i>ppb</i>	Parts per billion (1000 million)
<i>ppm</i>	Parts per million
<i>Quartz</i>	A common rock forming mineral with the chemical composition of silicon dioxide.
<i>Reverse circulation (RC) drilling</i>	A percussion drilling technique in which the cuttings are recovered through the drill rods thus minimizing sample losses and contamination.
<i>Rock chip sampling</i>	The collection of representative samples of rock fragments within a limited area.
<i>Rotary percussion drilling</i>	Rotary drilling technique in which the sample is produced using a hammer and brought to surface outside the rod string by compressed air.
<i>Sediments</i>	Rocks formed by the deposition of the weathered remains of other rocks.
<i>Soil sampling</i>	The determination of relative or absolute abundance of elements in soil.
<i>Stream sediment sampling</i>	The determination of relative or absolute abundance of elements in stream sediments.
<i>Strip ratio</i>	The ratio of waste rock to ore in the open pit mining process.
<i>Sulphide</i>	A mineral compound characterized by the linkage of sulphur and metal.



Directors' Report

Your directors submit their report for the year ended 30 June 2006.

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 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 Patrick Horan, FCPA, FCIS (Chairman, member of audit 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.

In July 1993 he established Adelaide Resource Management Pty Ltd to provide corporate advisory services to the mining industry. He has been a director of a number of Australian Stock Exchange listed companies and is currently Chairman of Michelago Limited (since 1995) and a director of Adelaide Resources Limited (since 1994).

Mr Horan was the Finance Director of Homestake Gold of Australia Limited (now Barrick Gold Corporation), one of Australia's largest gold producers, from 1987 until June 1993. 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. Mr Horan has not held any former directorships in the last 3 years.

From the early 1960s until the second half of the 1970s he held various financial accounting, 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.

Leslie Sidney George Emery (Managing Director)

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 relocation of the Lynas Find treatment plant to the Paraburdoo region to form and operate the Paraburdoo Gold Project in joint venture with Sipa Exploration NL. In 1999 Mr Emery negotiated the entry of Lynas Corporation into that company's now core business, the Mt Weld rare earths & tantalum/niobium project.

In addition to Lynas Corporation Limited, Mr Emery has previously been a director of a number of listed Australian resource companies, including Herald Resources Limited (as Managing Director), Sundowner Minerals NL, Roebuck Resources NL and Acclaim Exploration NL. From 1975-1981 he was employed by the Western Australian Department of Mines (now the Department of Industry and Resources). Prior to this he was employed by Western Mining Corporation Limited. Mr Emery has not held any former directorships in the last 3 years.

Mr Emery is a past Vice President and Executive Councillor of the Association of Exploration and Mining Companies Inc (AMEC) and has served as a commissioned officer in the Australian Citizen Military Forces (now the Army Reserve).

Dennis William Wilkins, B.Bus, AICD, ACIS (Finance Director)

Mr Dennis Wilkins is an accountant who has been a director, company secretary or acted in a corporate advisory capacity to listed resource companies for over 20 years.

Mr Wilkins previously served as the Finance Director and Company Secretary for a mid tier gold producer and also spent five years working for a leading merchant bank in the United Kingdom. Resource postings to Indonesia, South Africa and New Zealand in managerial roles has broadened his international experience.

Mr Wilkins has extensive experience in capital raising specifically for the resources industry and is the principal of DWCorporate which provides advisory, funding and administrative management services to the resource sector. Mr Wilkins is a director of Bonaparte Diamond Mines NL and South Boulder Mines Limited. Mr Wilkins has not held any former directorships in the last 3 years.

Douglas Dunnet, B.Sc.(Hons), PhD. F.AusIMM (Non Executive Director, chairman of audit committee)

Dr Doug Dunnet is a geologist with over 30 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 Resources Limited, a listed Australian mineral exploration company. Dr Dunnet has not held any former directorships in the last 3 years.

Ronald Smit was a director from the start of the financial year until his resignation on 30 June 2006.

COMPANY SECRETARY

Dennis William Wilkins, B.Bus, AIDC, ACIS

Interests in the shares and options of the company and related bodies corporate

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

	Ordinary Shares	Options over Ordinary Shares
John Patrick Horan	310,000	925,000
Leslie Sidney George Emery	1,485,000	4,000,000
Dennis William Wilkins	104,193	1,500,000
Douglas Dunnet	178,967	300,000

DIVIDENDS

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

CORPORATE INFORMATION

Nature of operations and principal activities

During the year the consolidated entity carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying gold, copper, iron and other economic mineral deposits.

There was no significant change in the nature of the consolidated entity's activities during the year.

A Review of Operations and the Chairman's Report are contained elsewhere in the annual report.

Employees

The consolidated entity had 6 employees as at 30 June 2006 (2005: 3 employees).

OPERATING AND FINANCIAL REVIEW

Group Overview

During the year, Marengo Mining Limited (the company), undertook mineral exploration and evaluation on projects located in Papua New Guinea ("PNG"), Northern Territory and Western Australia.

In April 2005, the company entered into an agreement to earn an initial 50% interest in the Yandera Project in the Madang Province of PNG, from Belvedere Limited (a private PNG company) ("Belvedere"), by expending A\$500,000 on exploration of the project area. During the year the company completed its farm-in commitment to earn a 50% interest in the project.

Directors' Report

During the past year the company also entered into an agreement with the shareholders of Belvedere Limited to acquire all of the issued capital in Belvedere for the following consideration;

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

The purchase was subject to various conditions precedent, including approval from the company's shareholders and various statutory approvals. Following receipt of all approvals settlement took place on 25 August 2006. As a result of this transaction the company now holds a 100% interest in the Yandera Project in Papua New Guinea.

The Yandera Project, is a porphyry copper molybdenum project, which also has potential for epithermal gold mineralisation, and has been the company's primary focus during the past year. In May 2006 the first of two diamond drills commenced work at Yandera to undertake up to 10,000 metres of drilling, to enable the completion of a JORC compliant resource, by the end of calendar 2006. First results from this drilling, which indicated broad zones of mineralisation have been reported to the Australian Stock Exchange.

The company's application for an exploration licence on Goodenough Island (PNG), where previous exploration identified gold mineralisation from trench sampling, was granted during the year and since year end the company has commenced exploration activity on this project ("Bolubolu").

At the Bowgan Project (Northern Territory) a percussion drilling campaign to test a geophysical anomaly for uranium and gold potential was completed. No significant mineralisation was encountered. And the company subsequently entered into an agreement with Hindmarsh Resources Limited, whereby Hindmarsh is entitled to earn a 51% interest in the Bowgan Project, by expending \$200,000 on exploration, within three years.

The Minigwal Project (Western Australia) was drill tested and intersected high grade magnetite ilmenite mineralisation. The company sought a joint venture partner without success and the project has subsequently been relinquished.

The company also drilled the Blanche Project (Western Australia), to test an intense magnetic feature, which was subsequently identified as non diamondiferous. The company subsequently relinquished this project.

Finance Review

Marengo Mining Limited (the company) began the financial year with a cash reserve of \$1,484,888. Funds were used to actively advance the company's projects located in Western Australia, Northern Territory and Papua New Guinea.

During the year total exploration expenditure incurred by the group amounted to \$1,908,807. In line with the company's accounting policies, all exploration expenditure was written off at year end. Net administration expenditure incurred amounted to \$1,143,383. This has resulted in an operating loss after income tax for the year ended 30 June 2006 to be \$2,766,292 (2005: \$1,355,342).

At 30 June 2006 surplus funds available totalled \$6,554,474.

Operating Results for the Year

Summarised operating results are as follows:

	2006	
	Revenues \$	Results \$
<i>Geographic segments</i>		
Australia	285,898	(2,533,105)
Papua New Guinea	-	(1,696,795)
Consolidation eliminations	-	1,463,608
Consolidated entity revenues and loss from ordinary activities before income tax expense	285,898	(2,766,292)
Shareholder Returns		
	2006	2005
Basic loss per share (cents)	(5.1)	(4.1)

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:

- Board approval of a strategic plan, 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 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 company occurred during the financial year.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the group's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to IFRS is included on Note 2 of the financial statements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 19, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The entity is subject to significant environmental regulation in respect to its exploration activities.

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

SHARE OPTIONS

Unissued shares

At the date of this report there are 63,612,574 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	24,347,746
Share options issued during the year	
Exercisable at 40 cents, on or before 30 November 2008	4,000,000
Exercisable at 25 cents, on or before 30 November 2008	600,000
Exercisable at 20 cents, on or before 28 February 2008	28,673,334
Options exercised (20 cents, 28 February 2008)	(8,506)
Total number of options outstanding as at 30 June 2006 and the date of this report	57,612,574
Issued subsequent to year end	6,000,000
Total number of options outstanding at the date of this report	63,612,574

Directors' Report

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
28 Feb 2008	20.0	48,412,574
30 Nov 2008	20.0	2,900,002
30 Nov 2008	25.0	4,399,999
30 Nov 2008	30.0	3,399,999
30 Nov 2008	40.0	4,000,000
31 Dec 2009	20.0	170,000
31 Dec 2010	25.0	170,000
31 Dec 2011	30.0	160,000
Total number of options outstanding at the date of this report		63,612,574

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.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums insuring all the directors of Marengo Mining Limited 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 to be paid is \$7,365.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and other key management personnel of Marengo Mining Limited (the company).

Remuneration policy

The remuneration policy of Marengo Mining Limited 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 economic entity's financial results. The board of Marengo Mining Limited 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 economic entity.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. 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 economic entity'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 the highest calibre of executives and reward them for performance that results in long term growth in shareholder wealth.

Executives are also entitled 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 either the Black Scholes or Binomial methodologies.

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 \$200,000). Fees for non executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plan.

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 goal congruence between shareholders and directors and executives. 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. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer note 22 of the financial statements.

Employment contracts of key management personnel

For details of service agreements between key management personnel and Marengo Mining Limited, refer note 22 of the financial statements.

Compensation of key management personnel for the year ended 30 June 2006

	Short-Term Salary & Fees	Non Monetary	Post Employment Super- annuation	Retirement benefits	Share Based Payments Options	Total
Directors						
John Patrick Horan						
2006	33,333	1,473	-	-	-	34,806
2005	30,000	-	-	-	-	30,000
Leslie Sidney George Emery						
2006	145,000	1,473	14,450	-	-	160,923
2005	110,000	-	9,900	-	-	119,900
Dennis William Wilkins						
2006	87,333	1,473	2,100	-	-	90,906
2005	84,000	-	1,800	-	-	85,800
Douglas Dunnet						
2006	23,333	1,473	2,100	-	-	26,906
2005	20,000	-	1,800	-	-	21,800
Ronald Smit (resigned 30 June 2006)						
2006	150,409	1,473	12,745	-	-	164,627
2005	100,000	-	9,000	-	-	109,000
Executives						
Peter Dendle						
2006	68,521	-	6,167	-	90,150	164,838
Total						
2006	507,929	7,365	37,562	-	90,150	643,006
2005	344,000	-	22,500	-	-	366,500

Directors' Report

Compensation options granted during the year ended 30 June 2006

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 issued during the period to key management personnel:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date	Exercised Number	% of Remuneration
Executives								
Peter Dendle	12/04/2006	500,000	12/04/2006	30/11/2008	30.0	18.0	N/A	54.7%

Performance Income as a proportion of total compensation

No performance based bonuses have been paid to key management personnel during the financial year. It is the intent of the board to include performance bonuses as part of remuneration packages when mine production commences.

DIRECTORS' MEETINGS

During the year the company held 12 meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
John Patrick Horan	12	12	2	2
Leslie Sidney George Emery	12	12	*	*
Dennis William Wilkins	11	12	*	*
Douglas Dunnet	11	12	1	2
Ronald Smit (resigned 30 June 2006)	10	12	*	*

Notes

A Number of meetings attended.

B Number of meetings held during the time the director held office during the year.

* - Not a member of the Audit Committee

ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE AND NON AUDIT SERVICES

The auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 48.

NON AUDIT SERVICES

The following non audit services were provided by the entity'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. The nature and scope of each type of non audit service provided means that auditor independence was not compromised.

Stantons International received or are due to receive the following amount for the provision of non audit services:

Tax compliance services \$2,034

Signed in accordance with a resolution of the directors.

Leslie Sidney George Emery
Director

Perth, 7 September 2006

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 board's duties and physical ability to undertake 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, and only one managing director where the position is jointly held) 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 considers that the company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees (other than an Audit Committee) at this time. The board as a whole is able to address the governance aspects of the full scope of the company's activities and to ensure that it adheres to appropriate ethical standards.

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 director's 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 Principles of Good Corporate Governance and Best Practice Guidelines 2004 with a view to making amendments where applicable after considering the company's size and the resources it has available.

Corporate Governance Statement

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 following table sets out the company's present position with regard to adoption of these Principles.

ASX Principle	Status	Reference/comment
Principle 1: Lay solid foundations for management and oversight		
1.1	Formalise and disclose the functions reserved to the board and those delegated to management	N/A The company has not adopted this recommendation to formalise and disclose the functions reserved to the board and those delegated to management. The company has a small board, comprising four directors, two of whom are non executive (including the Chairman). The company considers the expense of sourcing additional directors at this stage of its development is unwarranted. The roles and functions within the company must remain flexible in order for it to best function within its level of available resources. The full board currently meets every month. In addition, strategy meetings and any extraordinary meetings are held at such other times as may be necessary to address any specific significant matters that may arise. The board believes the alignment of the interests of directors with those of shareholders as being the most efficient way to ensure shareholders interests are protected.
Principle 2: Structure the board to add value		
2.1	A majority of board members should be independent directors	N/A Given the company's background, the nature and size of its business and the current stage of its development, the board comprises four directors, two of whom are non executive (including the independent Chairman). The board believes that this is both appropriate and acceptable at this stage of the company's development.
2.2	The chairperson should be an independent director	A
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual	A The positions of Chairman and Managing Director are held by separate persons.
2.4	The board should establish a nomination committee	N/A 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 this process.
2.5	Provide the information indicated in Guide to reporting on Principle 2	A (in part) The skills and experience of directors are set out in the company's Annual Report and on its website.

ASX Principle	Status	Reference/comment
Principle 3: Promote ethical and responsible decision making		
3.1		
Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:	A	The company has formulated a Code of Conduct which can be viewed on the company's website.
3.1.1 the practices necessary to maintain confidence in the company's integrity		
3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices		
3.2		
Disclose the policy concerning trading in company securities by directors, officers and employees	A	
3.3		
Provide the information indicated in Guide to Reporting on Principle 3	A	The company has established an audit committee which comprises two non executive directors. The charter for this committee is disclosed on the company's website. Sourcing alternative or additional directors to strictly comply with this Principle is considered expensive with costs outweighing potential benefits. In addition, the board as a whole addresses the governance aspects of the full scope of the company's activities to ensure that it adheres to appropriate ethical standards. All matters which might properly be dealt with by special committees are subject to regular scrutiny at full board Meetings.
Principle 4: Safeguard integrity in financial reporting		
4.1		
Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards	A	
4.2		
The board should establish an audit committee	A	
4.3		
Structure the audit committee so that it consists of:	A	
<ul style="list-style-type: none"> • Only non executive directors • A majority of independent directors • An independent chairperson who is not the chairperson of the board • At least three members 	(in part)	
		The company only has two non executive directors.
4.4		
The audit committee should have a formal charter	A	
4.5		
Provide the information indicated in Guide to reporting on Principle 4	A	

A = Adopted

N/A = Not adopted

Corporate Governance Statement

ASX Principle	Status	Reference/comment
Principle 5: Make timely and balanced disclosure		
5.1	N/A	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance 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	N/A	Provide the information indicated in Guide to Reporting on Principle 5 The board receives monthly reports 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	A	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings 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 the Annual Report, Quarterly Reports, the company website and the distribution of specific releases covering major transactions or events.
6.2	A	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report Shareholders are encouraged to exercise their right to vote, either by attending meetings, or by lodging a proxy. The company's auditors attend all shareholders' meetings.
Principle 7: Recognise and manage risk		
7.1	N/A	The board or appropriate board committee should establish policies on risk oversight and management 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: <ul style="list-style-type: none"> • 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
7.2	A	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that: <ul style="list-style-type: none"> 7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects

	ASX Principle	Status	Reference/comment
7.3	Provide information indicated in Guide to Reporting on Principle 7	N/A	
Principle 8: Encourage enhanced Performance			
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives	N/A	<p>The company does not consider it appropriate to have a sub committee of the board to consider remuneration matters.</p> <p>The remuneration of executive and non executive directors is reviewed by the board with the exclusion of the director concerned. The remuneration of management and employees is reviewed by the board and approved by the chairman.</p> <p>Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues including the identification of matters that may have a material effect on the price of the company's securities. Whenever relevant, any such matters are reported to ASX.</p>
Principle 9: Remunerate fairly and responsibly			
9.1	Provide disclosure in relation to the company's remuneration policies and benefits to these policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	N/A	<p>The company discloses remuneration related information in its Annual Report to shareholders in accordance with the Corporations Act 2001.</p> <p>Remuneration levels are determined by the board on an individual basis, the size of the company making individual assessment more appropriate than formal remuneration policies. In doing so, the board seeks to retain professional services as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary.</p>
9.2	The board should establish a remuneration committee	N/A	
9.3	Clearly distinguish the structure of non executive directors remuneration from that of executives	A	
9.4	Ensure that payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders	A	
9.5	Provide information indicated in ASX Guide to Reporting on Principle 9	A (in part)	
Principle 10: Recognise legitimate interests of Stakeholders			
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders	A	<p>The company's Code of Conduct is set out in the company's website.</p> <p>The board continues to review existing procedures over time to ensure adequate processes are in place.</p> <p>All directors, employees and contractors are expected to act with the utmost integrity and objectivity in their dealings with other parties, striving at all times to enhance the reputation and performance of the company.</p>

A = Adopted

N/A = Not adopted

Income Statements

Year Ended 30 June 2006

	Notes	Consolidated		The Company	
		2006 \$	2005 \$	2006 \$	2005 \$
REVENUE FROM CONTINUING OPERATIONS	3	285,898	111,182	285,898	111,182
EXPENDITURE					
Depreciation expense	4	(22,780)	(9,541)	(14,692)	(9,541)
Salaries and employee benefits expense		(386,312)	(302,238)	(383,963)	(302,238)
Exploration expenditure	4	(1,908,807)	(779,902)	(286,102)	(553,135)
Doubtful debts expense	4	-	-	(1,463,611)	(254,305)
Corporate expenditure		(166,556)	(84,496)	(166,002)	(83,297)
Occupancy expenditure		(59,600)	(48,995)	(59,600)	(48,995)
Insurance expenditure		(31,816)	(33,182)	(25,436)	(33,182)
Administration costs		(129,240)	(77,809)	(112,155)	(66,594)
Share based payment expense	26	(100,739)	(33,224)	(100,739)	(33,224)
Other expenses from ordinary activities		(246,340)	(97,137)	(206,703)	(90,265)
LOSS BEFORE INCOME TAX		(2,766,292)	(1,355,342)	(2,533,105)	(1,363,594)
INCOME TAX BENEFIT / (EXPENSE)	5	-	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF MARENGO MINING LIMITED		(2,766,292)	(1,355,342)	(2,533,105)	(1,363,594)
Basic loss per share (cents per share)	20	(5.1)	(4.1)		

The above Income Statements are to be read in conjunction with the Notes to the Financial Statements.

Balance Sheets

At 30 June 2006

	Notes	Consolidated		The Company	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash and cash equivalents	16(b)	6,554,474	1,545,186	6,460,383	1,484,888
Trade and other receivables	7	84,112	9,926	57,018	9,278
TOTAL CURRENT ASSETS		6,638,586	1,555,112	6,517,401	1,494,166
NON CURRENT ASSETS					
Other financial assets	8	50,000	-	144,086	40,001
Plant and equipment	10	188,068	36,655	86,485	36,655
TOTAL NON CURRENT ASSETS		238,068	36,655	230,571	76,656
TOTAL ASSETS		6,876,654	1,591,767	6,747,972	1,570,822
CURRENT LIABILITIES					
Trade and other payables	11	572,740	68,779	211,703	55,591
Provisions	12	70,784	44,398	70,784	44,398
TOTAL CURRENT LIABILITIES		643,524	113,177	282,487	99,989
NON CURRENT LIABILITIES					
Payables	13	3,750	-	3,750	-
TOTAL NON-CURRENT LIABILITIES		3,750	-	3,750	-
TOTAL LIABILITIES		647,274	113,177	286,237	99,989
NET ASSETS		6,229,380	1,478,590	6,461,735	1,470,833
EQUITY					
Issued capital	14	11,766,724	4,437,958	11,766,724	4,437,958
Reserves	15(a)	221,907	33,591	229,327	34,086
Accumulated losses	15(b)	(5,759,251)	(2,992,959)	(5,534,316)	(3,001,211)
TOTAL EQUITY		6,229,380	1,478,590	6,461,735	1,470,833

The above Balance Sheets are to be read in conjunction with the Notes to the Financial Statements.

Statements of Changes in Equity

Year Ended 30 June 2006

	Notes	Consolidated		The Company	
		2006 \$	2005 \$	2006 \$	2005 \$
TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR		1,478,590	2,555,203	1,470,833	2,555,203
Exchange differences on translation of foreign operations	15	(6,925)	(495)	-	-
NET INCOME RECOGNISED DIRECTLY IN EQUITY LOSS FOR THE YEAR		(6,925)	(495)	-	-
		(2,766,292)	(1,355,342)	(2,533,105)	(1,363,594)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF MARENGO MINING LIMITED		(2,773,217)	(1,355,837)	(2,533,105)	(1,363,594)
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the year	14	7,811,701	246,000	7,811,701	246,000
Transaction costs	14	(482,935)	-	(482,935)	-
Employees and consultants share options	15	195,241	33,224	195,241	33,224
		7,524,007	279,224	7,524,007	279,224
TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR		6,229,380	1,478,590	6,461,735	1,470,833

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

Statements of Cash Flows

Year Ended 30 June 2006

	Notes	Consolidated		The Company	
		2006 \$	2005 \$	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(986,615)	(565,380)	(914,332)	(558,140)
Interest received		285,898	111,182	285,898	111,182
Expenditure on mining interests		(1,480,259)	(565,549)	(294,516)	(338,782)
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	16(a)	(2,180,976)	(1,019,747)	(922,950)	(785,740)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(174,611)	(12,627)	(64,522)	(12,627)
Payments for other financial assets		(50,000)	-	(50,000)	-
Advances to related parties		-	-	(1,410,299)	(294,305)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(224,611)	(12,627)	(1,524,821)	(306,932)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		7,701,701	-	7,701,701	-
Payment of share issue costs		(278,435)	-	(278,435)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		7,423,266	-	7,423,266	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,017,679	(1,032,374)	4,975,495	(1,092,672)
Add opening cash and cash equivalents brought forward		1,545,186	2,577,560	1,484,888	2,577,560
Effects of exchange rate changes on cash and cash equivalents		(8,391)	-	-	-
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	16(b)	6,554,474	1,545,186	6,460,383	1,484,888

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

Notes to the Financial Statements

30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Marengo Mining Limited as an individual entity and the consolidated entity consisting of Marengo Mining Limited and its subsidiaries. Marengo Mining Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on Australian Stock Exchange Limited.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensures that the financial report, comprising the group's financial statements and notes and the parent entity financial statements and notes of Marengo Mining Limited, comply with IFRSs.

Except for the revised AASB 119 Employee Benefits (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1: First-time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings Per Share, AASB 139: Financial Instruments: Recognition and Measurement, AASB 1: First-time adoption of AIFRS	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
New standard	AASB 7: Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the Group and therefore have no impact:

AASB Amendment	Affected Standard(s)
2005-4	AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time adoption of AIFRS
2005-9	AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Marengo Mining Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Marengo Mining Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRSs. When preparing Marengo Mining Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRSs. The comparative figures in respect of 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the group's equity and its net income are given in note 2.

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

The consolidated financial statements are those of the consolidated entity, comprising Marengo Mining Limited (the parent entity) and all entities which Marengo Mining Limited controlled from time to time during the year and at balance date. A controlled entity is any entity Marengo Mining Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in note 9.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

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

(c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts. The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the assets 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Depreciation of plant and equipment is calculated on a reducing balance basis so as to write off the net costs of each asset over the expected useful life. The rates vary between 20% and 40% per annum.

Notes to the Financial Statements

30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. 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.

(d) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(e) Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which 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 exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of 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 commences.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(i) Foreign currency translation

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Notes to the Financial Statements

30 June 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee benefits

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 their nominal amounts based on remuneration rates which are expected to be paid when the liability is 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. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

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').

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 balance 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.

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.

(l) Revenue recognition

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

(m) Issued capital

Ordinary shares are classified as equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Earnings per share (EPS)

Basic earnings per share

Basic EPS is calculated as the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS 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.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

(p) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(q) Interests in joint ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated income statement and balance sheet. Details of the economic entity's interests are shown in note 27.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

(r) Critical accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period 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 26.

Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current.

These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Notes to the Financial Statements

30 June 2006

	Previous AGAAP \$	Consolidated Effect of transition to AIFRS \$	AIFRS \$	Previous AGAAP \$	The Company Effect of transition to AIFRS \$	AIFRS \$
2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS						
Reconciliation of Equity at 1 July 2004						
CURRENT ASSETS						
Cash and cash equivalents	2,577,560	-	2,577,560	2,577,560	-	2,577,560
Trade and other receivables	14,184	-	14,184	14,184	-	14,184
TOTAL CURRENT ASSETS	2,591,744	-	2,591,744	2,591,744	-	2,591,744
NON CURRENT ASSETS						
Receivables	-	-	-	-	-	-
Other financial assets	-	-	-	-	-	-
Plant and equipment	33,569	-	33,569	33,569	-	33,569
TOTAL NON CURRENT ASSETS	33,569	-	33,569	33,569	-	33,569
TOTAL ASSETS	2,625,313	-	2,625,313	2,625,313	-	2,625,313
CURRENT LIABILITIES						
Trade and other payables	49,857	-	49,857	49,857	-	49,857
Provisions	20,253	-	20,253	20,253	-	20,253
TOTAL CURRENT LIABILITIES	70,110	-	70,110	70,110	-	70,110
TOTAL LIABILITIES	70,110	-	70,110	70,110	-	70,110
NET ASSETS	2,555,203	-	2,555,203	2,555,203	-	2,555,203
EQUITY						
Issued capital	4,191,958	-	4,191,958	4,191,958	-	4,191,958
Reserves	-	864	864	-	864	864
Accumulated losses	(1,636,755)	(864)	(1,637,619)	(1,636,755)	(864)	(1,637,619)
TOTAL EQUITY	2,555,203	-	2,555,203	2,555,203	-	2,555,203

Under AASB2 (Share Based Payments), the company has recognised the fair value of options granted to employees as remuneration as an expense on a pro rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs were not recognised under AGAAP.

	Previous AGAAP \$	Consolidated Effect of transition to AIFRS \$	AIFRS \$	Previous AGAAP \$	The Company Effect of transition to AIFRS \$	AIFRS \$
2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)						
Reconciliation of Equity at 30 June 2005						
CURRENT ASSETS						
Cash and cash equivalents	1,545,186	-	1,545,186	1,484,888	-	1,484,888
Trade and other receivables	9,926	-	9,926	9,278	-	9,278
TOTAL CURRENT ASSETS	1,555,112	-	1,555,112	1,494,166	-	1,494,166
NON CURRENT ASSETS						
Receivables	-	-	-	40,000	-	40,000
Other financial assets	-	-	-	1	-	1
Plant and equipment	36,655	-	36,655	36,655	-	36,655
TOTAL NON CURRENT ASSETS	36,655	-	36,655	76,656	-	76,656
TOTAL ASSETS	1,591,767	-	1,591,767	1,570,822	-	1,570,822
CURRENT LIABILITIES						
Trade and other payables	68,779	-	68,779	55,591	-	55,591
Provisions	44,398	-	44,398	44,398	-	44,398
TOTAL CURRENT LIABILITIES	113,177	-	113,177	99,989	-	99,989
TOTAL LIABILITIES	113,177	-	113,177	99,989	-	99,989
NET ASSETS	1,478,590	-	1,478,590	1,470,833	-	1,470,833
EQUITY						
Issued capital	4,437,958	-	4,437,958	4,437,958	-	4,437,958
Reserves	(495)	34,086	33,591	-	34,086	34,086
Accumulated losses	(2,958,873)	(34,086)	(2,992,959)	(2,967,125)	(34,086)	(3,001,211)
TOTAL EQUITY	1,478,590	-	1,478,590	1,470,833	-	1,470,833

Under AASB2 (Share Based Payments), the company has recognised the fair value of options granted to employees as remuneration as an expense on a pro rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs were not recognised under AGAAP.

Notes to the Financial Statements

30 June 2006

	Previous AGAAP \$	Consolidated Effect of transition to AIFRS \$	AIFRS \$	Previous AGAAP \$	The Company Effect of transition to AIFRS \$	AIFRS \$
2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)						
Reconciliation of Profit or Loss for year ended 30 June 2005						
REVENUE FROM ORDINARY ACTIVITIES	111,182	-	111,182	111,182	-	111,182
EXPENDITURE FROM ORDINARY ACTIVITIES						
Depreciation expense	(9,541)	-	(9,541)	(9,541)	-	(9,541)
Salaries and employee benefits expense	(302,238)	-	(302,238)	(302,238)	-	(302,238)
Exploration expenditure	(779,902)	-	(779,902)	(553,135)	-	(553,135)
Corporate expenditure	(84,496)	-	(84,496)	(83,297)	-	(83,297)
Occupancy expenditure	(48,995)	-	(48,995)	(48,995)	-	(48,995)
Insurance expenditure	(33,182)	-	(33,182)	(33,182)	-	(33,182)
Administration costs	(77,809)	-	(77,809)	(66,594)	-	(66,594)
Share based payment expense	-	(33,224)	(33,224)	-	(33,224)	(33,224)
Other expenses from ordinary activities	(97,137)	-	(99,137)	(340,570)	-	(340,570)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	(1,322,118)	(33,224)	(1,355,342)	(1,330,370)	(33,224)	(1,363,594)
INCOME TAX BENEFIT / (EXPENSE) RELATING TO ORDINARY ACTIVITIES	-	-	-	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF MARENGO MINING LIMITED	(1,322,118)	(33,224)	(1,355,342)	(1,330,370)	(33,224)	(1,363,594)

Under AASB2 (Share Based Payments), the company has recognised the fair value of options granted to employees as remuneration as an expense on a pro rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Share based payment costs were not recognised under AGAAP.

No material impacts have occurred to the Cash Flows presented under AGAAP on adoption of AIFRS.

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
3. REVENUE FROM CONTINUING OPERATIONS				
Revenues from non operating activities				
Interest				
Bank interest	285,898	111,182	285,898	111,182
Total revenues from continuing operations	285,898	111,182	285,898	111,182
4. EXPENSES AND LOSSES/(GAINS)				
(a) Expenses				
Depreciation of plant and equipment	22,780	9,541	14,692	9,541
Doubtful debts – controlled entities	-	-	1,463,611	254,305
Exploration expenditure	1,908,807	779,902	286,102	553,135
(b) Losses/(gains)				
Net foreign currency translation losses	-	4,082	-	-
5. INCOME TAX				
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Under (over) provided in prior years	-	-	-	-
	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from ordinary activities before income tax expense	(2,766,292)	(1,355,342)	(2,533,105)	(1,363,594)
Prima facie tax benefit on loss from ordinary activities at 30% (2005: 30%)	(829,888)	(406,602)	(759,931)	(409,078)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	30,222	9,967	30,222	9,967
Movements in unrecognised temporary differences	(61,780)	(24,144)	377,302	52,148
Sundry items	3,034	1,151	2,854	1,151
	(858,412)	(419,628)	(349,553)	(345,812)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	858,412	419,628	349,553	345,812
Income tax expense	-	-	-	-
(c) Unrecognised temporary differences				
Deferred Tax Assets (at 30%)				
On Income Tax Account				
Capital raising costs	186,295	110,051	186,295	110,051
Provision for diminution	-	-	515,375	76,292
Provisions	10,335	7,244	10,335	7,244
Other	21,235	11,395	21,235	11,395
Carry forward tax losses	1,704,030	845,618	1,121,355	771,802
	1,921,895	974,308	1,854,595	976,784
Deferred Tax Liabilities (at 30%)	-	-	-	-

Notes to the Financial Statements

30 June 2006

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$

6. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

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

7. TRADE AND OTHER RECEIVABLES (CURRENT)

Sundry receivables	21,624	9,926	3,770	9,278
Prepayments	62,488	-	53,248	-
	84,112	9,926	57,018	9,278

8. OTHER FINANCIAL ASSETS (NON CURRENT)

Shares in subsidiary – at cost	9	-	-	1	1
Deposit on acquisition of subsidiary		50,000	-	50,000	-
Loan to controlled entities	23	-	-	1,812,001	294,305
Provision for diminution	23	-	-	(1,717,916)	(254,305)
		50,000	-	144,086	40,001

9. INTERESTS IN CONTROLLED ENTITIES

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

Name	Country of incorporation	Class of shares	Equity Holding*	
			2006 %	2005 %
Marengo Mining (PNG) Ltd	Papua New Guinea	Ordinary	100	100

*Percentage of voting power is in proportion to ownership

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Plant & equipment				
At cost	229,322	54,711	119,233	54,711
Accumulated depreciation	(41,254)	(18,056)	(32,748)	(18,056)
Total plant and equipment	188,068	36,655	86,485	36,655

(a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

Plant & equipment

Carrying amount at beginning of year	36,655	33,569	36,655	33,569
Exchange differences	(418)	-	-	-
Additions	174,611	12,627	64,522	12,627
Depreciation expense	(22,780)	(9,541)	(14,692)	(9,541)
Carrying amount at end of year	188,068	36,655	86,485	36,655

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
11. TRADE AND OTHER PAYABLES (CURRENT)				
Trade payables	172,930	6,776	161,643	6,776
Other payables and accruals	399,810	62,003	50,060	48,815
	572,740	68,779	211,703	55,591

12. PROVISIONS (CURRENT)

Employee benefits	70,784	44,398	70,784	44,398
	70,784	44,398	70,784	44,398

13. TRADE AND OTHER PAYABLES (NON-CURRENT)

Other payables	3,750	-	3,750	-
	3,750	-	3,750	-

14. ISSUED CAPITAL**(a) Issued and paid up capital**

		2006		2005	
		Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	14(b), 14(d)	65,682,218	11,766,724	33,900,377	4,437,958
		65,682,218	11,766,724	33,900,377	4,437,958

(b) Movements in ordinary share capital

Beginning of the financial year		33,900,377	4,437,958	31,750,377	4,191,958
Issued during the year:					
– Shares issued for cash @ 15 cents per share		3,333,334	500,000	-	-
– Shares issued for cash @ 25 cents per share		24,000,001	6,000,000	-	-
– Shares issued for cash @ 30 cents per share		4,000,000	1,200,000	-	-
– Issue to satisfy underwriting fee @ 25 cents per share		440,000	110,000	-	-
– Shares on conversion of options		8,506	1,701	-	-
– Shares issued @ 9.9 cents each to acquire tenements		-	-	1,500,000	148,500
– Shares issued @ 15 cents each to acquire tenements		-	-	250,000	37,500
– Shares issued @ 15 cents each to acquire tenements		-	-	400,000	60,000
less transaction costs		-	(482,935)	-	-
End of the financial year		65,682,218	11,766,724	33,900,377	4,437,958

(c) Movements in options on issue

	Number of options	
	2006	2005
Beginning of the financial year	24,347,746	22,597,746
Issued during the year:		
– Exercisable at 20 cents, on or before 28 Feb 2008	28,673,334	250,000
– Exercisable at 25 cents, on or before 30 Nov 2008	600,000	1,500,000
– Exercisable at 40 cents, on or before 30 Nov 2008	4,000,000	-
Less: Options exercised (20 cents, 28 Feb 2008)	(8,506)	-
End of the financial year	57,612,574	24,347,746

(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.

Notes to the Financial Statements

30 June 2006

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
15. RESERVES AND ACCUMULATED LOSSES				
(a) Reserves				
Foreign currency translation reserve	(7,420)	(495)	-	-
Share-based payments reserve	229,327	34,086	229,327	34,086
	221,907	33,591	229,327	34,086
Movements:				
<i>Foreign currency translation reserve</i>				
Balance at beginning of year	(495)	-	-	-
Currency translation differences arising during the year	(6,925)	(495)	-	-
Balance at end of year	(7,420)	(495)	-	-
<i>Share-based payments reserve</i>				
Balance at beginning of year	34,086	862	34,086	862
Option expense	195,241	33,224	195,241	33,224
Balance at end of year	229,327	34,086	229,327	34,086
(b) Accumulated losses				
Balance at beginning of year	(2,992,959)	(1,636,755)	(3,001,211)	(1,636,755)
Net loss attributable to members of Marengo Mining Limited	(2,766,292)	(1,355,342)	(2,533,105)	(1,363,594)
Balance at end of year	(5,759,251)	(2,992,959)	(5,534,316)	(3,001,211)

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Share-based payments reserve

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

16. STATEMENT OF CASH FLOWS

(a) Reconciliation of the net loss after income tax to net cash flows from operating activities

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Net loss for the year	(2,766,292)	(1,355,342)	(2,533,105)	(1,363,594)
Non Cash Items				
Depreciation of non current assets	22,780	9,541	14,692	9,541
Option expense	100,739	33,224	100,739	33,224
Exploration expenditure issue of shares	-	246,000	-	246,000
Net exchange differences	141	(495)	-	-
Doubtful debts expense	-	-	1,463,611	254,305
Changes in operating assets and liabilities				
(Increase)/decrease in trade and other receivables	(74,276)	5,206	-	5,853
(Decrease)/increase in trade and other payables	509,546	17,974	4,727	4,786
Increase in employee entitlement provisions	26,386	24,145	26,386	24,145
Net cash outflow from operating activities	(2,180,976)	(1,019,747)	(922,950)	(785,740)

(b) Reconciliation of cash and cash equivalents

Cash and cash equivalents comprises:

- cash at bank and in hand	121,420	188,674	27,329	128,376
- short-term deposits	6,433,054	1,356,512	6,433,054	1,356,512
Closing cash and cash equivalents balance	6,554,474	1,545,186	6,460,383	1,484,888

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 three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(c) Non-cash financing and investing activities

Options issued to employees and consultants for no consideration or as settlement for expenses are shown in note 26.

17. EXPENDITURE 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:

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
not later than one year	1,181,440	161,758	125,000	161,75
later than one year and not later than five years	1,008,420	939,000	-	939,000
	2,189,860	1,100,758	125,000	1,100,758

(b) Lease expenditure commitments

Operating leases (non cancellable):

Minimum lease payments				
- not later than one year	53,140	24,867	53,140	24,867
- later than one year and not later than five years	32,775	23,750	32,775	23,750
Aggregate lease expenditure contracted for at reporting date	85,915	48,617	85,915	48,617

The property lease is a non-cancellable lease currently within the first two-year renewal option term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by \$10 per square metre per annum. No further option periods exist at the termination of the current two-year period. The lease allows for subletting of all lease areas. The Group also has a non-cancellable operating lease for an item of office equipment expiring within five 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.

Notes to the Financial Statements

30 June 2006

17. EXPENDITURE COMMITMENTS (continued)

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in note 22(b) that are not recognised as liabilities and are not included in the key management personnel compensation.

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
not later than one year	275,500	291,075	275,500	291,075
later than one year and not later than five years	79,313	97,088	79,313	97,088
	354,813	388,163	354,813	388,163

18. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no material contingent liabilities or contingent assets of the company at balance date.

19. SUBSEQUENT EVENTS

(a) Acquisition of Belvedere Limited

On 28 August 2006 Marengo Mining (PNG) Ltd, a 100% owned subsidiary of the company, acquired 100% of the issued share capital of Belvedere Limited, a private company incorporated in Papua New Guinea.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$
Purchase consideration:	
Cash paid	3,000,000
Issues of 12,000,000 ordinary shares at 28 cents each	3,360,000
6,000,000 options expiring 28 February 2008 exercisable at 20 cents each, issued at 11.5 cents each	690,000
Total purchase consideration	7,050,000
Fair value of net identifiable assets acquired	7,050,000
Goodwill	-

(b) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$	Fair value \$
Receivables	794	794
Security deposit	2,790	2,790
Incorporation costs	1,207	-
Tenement acquisition and exploration expenditure	88,835	7,046,416
Borrowings	(104,872)	-
Net identifiable assets acquired	(11,246)	7,050,000

The financial effects of the above transaction have not been brought to account at 30 June 2006. The operating results and assets and liabilities of the company will be consolidated from 28 August 2006.

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
20. LOSS PER SHARE				
(a) Reconciliation of earnings to profit or loss				
Net loss			(2,766,292)	(1,355,342)
Loss used in calculating basic loss per share			(2,766,292)	(1,355,342)
			Number of	Number of
			shares	shares
(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share				
Weighted average number of ordinary shares used in calculating basic loss per share			53,732,944	33,259,829

(c) Effect of dilutive securities

There were no dilutive potential ordinary shares on issue at balance date. Accordingly diluted loss per share has not been disclosed.

21. AUDITORS' REMUNERATION

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Amounts received or due and receivable by Stantons International for:				
– an audit or review of the financial report of the consolidated entity	14,294	13,500	14,294	13,500
– other services in relation to the consolidated entity tax compliance	2,034	3,500	2,034	3,500
	16,328	17,000	16,328	17,000

22. KEY MANAGEMENT PERSONNEL DISCLOSURES**(a) Details of key management personnel***(i) Directors*

The following persons were directors of Marengo Mining Limited during the financial year:

John Patrick Horan	Chairman	
Leslie Sidney George Emery	Managing Director	
Dennis William Wilkins	Finance Director	
Douglas Dunnet	Non Executive Director	
Ronald Smit	Exploration Director	<i>Resigned 30 June 2006</i>

(ii) Executives

Peter Dendle	Project Manager	<i>Appointed 7 November 2005</i>
--------------	-----------------	----------------------------------

(b) Remuneration policy of key management personnel

The objective of the company's executive reward framework is set to attract and retain the most qualified and experienced directors and senior executives. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness
- Acceptability to shareholders
- Performance linkage
- Capital management

Notes to the Financial Statements

30 June 2006

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Non Executive Directors

The constitution of the company provides that the non executive directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate maximum sum per annum from time to time determined by the company in general meeting (currently \$200,000). The Chairman's fees are determined independently to the fees of non executive directors based on comparative roles in the external market. The remuneration policy has been tailored to increase goal congruence between shareholders and directors. Currently, this is facilitated through the issue of free options to directors to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced.

Directors fees

A director may be paid fees or other amounts as the directors determine where a director performs special duties or otherwise performs service outside the scope of the ordinary duties of a director. A director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Service agreements

The agreements relating to remuneration are set out below:

John Horan, Chairman:

- Term of agreement 4 years commencing 13 November 2003.
- A fee for the year ended 30 June 2006 of \$35,000, 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.

Leslie Emery, Managing Director:

- Term of agreement 4 years commencing 13 November 2003.
- Base salary, inclusive of statutory superannuation, for the year ended 30 June 2006 of \$176,500 to be reviewed annually by the board.
- 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.

Dennis Wilkins, Director/Company Secretary:

- Term of agreement – 12 months commencing 1 July 2006.
- Directors fees, inclusive of statutory superannuation, for the year ended 30 June 2006 is \$25,000. In addition Mr Wilkins' firm, DWCorporate, is paid a fixed annual fee of \$64,000 for the provision of book keeping, accounting and company secretarial services.

Ronald Smit, Exploration Director (resigned 30 June 2006):

- Term of agreement 3 years commencing 13 November 2004.
- Base salary, inclusive of statutory superannuation, for the year ended 30 June 2006 of \$170,000 to be reviewed annually by the board.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to the base salary for the remaining term of the agreement.

Retirement benefits

Other retirement benefits may be provided directly by the company if approved by shareholders.

(c) Compensation of key management personnel by category

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Short-term	515,294	344,000	515,294	344,000
Post employment	37,562	22,500	37,562	22,500
Other long-term	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	90,150	-	90,150	-
	643,006	366,500	643,006	366,500

(d) Compensation of key management personnel by individual

	Short-Term		Post Employment Super- annuation	Share Based Payments Retirement benefits	Share Based Payments Options	Total
	Salary & Fees	Non Monetary				
Directors						
John Patrick Horan						
2006	33,333	1,473	-	-	-	34,806
2005	30,000	-	-	-	-	30,000
Leslie Sidney George Emery						
2006	145,000	1,473	14,450	-	-	160,923
2005	110,000	-	9,900	-	-	119,900
Dennis William Wilkins						
2006	87,333	1,473	2,100	-	-	90,906
2005	84,000	-	1,800	-	-	85,800
Douglas Dunnet						
2006	23,333	1,473	2,100	-	-	26,906
2005	20,000	-	1,800	-	-	21,800
Ronald Smit (resigned 30 June 2006)						
2006	150,409	1,473	12,745	-	-	164,627
2005	100,000	-	9,000	-	-	109,000
Executives						
Peter Dendle (appointed 7 November 2005)						
2006	68,521	-	6,167	-	90,150	164,838
Total						
2006	507,929	7,365	37,562	-	90,150	643,006
2005	344,000	-	22,500	-	-	366,500

(e) Compensation options: Granted and vested during the year

Compensation options issued to key management personnel in 2006 and vesting during the year are shown below. No key management personnel compensation options were granted or vested during 2005. Further details on the terms and conditions of these options are contained in note 26.

	Vested Number	Granted Number	Grant Date	Terms & Conditions for Each Grant			
				Value per option at grant date (cents)	Exercise Price per share (cents)	First Exercise Date	Last Exercise Date
Executives							
Peter Dendle	500,000	500,000	12 Apr 2006	18.0	30.0	12 Apr 2006	30 Nov 2008

(f) Shares issued on exercise of compensation options

There were no shares issued on exercise of compensation options during the year.

Notes to the Financial Statements

30 June 2006

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(g) Option holdings of key management personnel

	Balance at beginning of year 1 July 2005	Granted	Options Exercised	Net Change Other	Balance at end of year 30 June 2006	Vested at 30 June 2006		
						#	Total	Not exercisable
Directors								
John Patrick Horan	925,000	-	-	-	925,000	925,000	-	925,000
Leslie Sidney George Emery	4,000,000	-	-	-	4,000,000	4,000,000	-	4,000,000
Dennis William Wilkins	2,000,000	-	-	(500,000)	1,500,000	1,500,000	-	1,500,000
Douglas Dunnet	600,000	-	-	(300,000)	300,000	300,000	-	300,000
Executives								
Peter Dendle	-	500,000	-	-	500,000	500,000	-	500,000
Total	7,525,000	500,000	-	(800,000)	7,225,000	7,225,000	-	7,225,000

(h) Shareholdings of key management personnel

	Balance 1 July 2005		Granted		On Exercise of Options		Net Change Other		Balance 30 June 2006	
	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Directors										
John Patrick Horan	260,000	-	-	-	-	-	50,000	-	310,000	-
Leslie Sidney George Emery	1,485,000	-	-	-	-	-	-	-	1,485,000	-
Dennis William Wilkins	1,104,193	-	-	-	-	-	(1,000,000)	-	104,193	-
Douglas Dunnet	365,907	-	-	-	-	-	(186,940)	-	178,967	-
Executives										
Peter Dendle	-	-	-	-	-	-	-	-	-	-
Total	3,215,100	-	-	-	-	-	(1,136,940)	-	2,078,160	-

(i) Loans to key management personnel

There were no loans to key management personnel during the year.

(j) Other transactions and balances with key management personnel

Services

DWCorporate, a business of which Mr Wilkins is principal, provided company secretarial and other corporate services to Marengo Mining Limited during the year. The amounts paid were at arms length and are disclosed at note 22 above.

23. RELATED PARTY DISCLOSURES

(a) Parent entity

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

(b) Wholly owned group transactions

Loans

Marengo Mining Limited has provided an unsecured, interest free loan to its wholly owned subsidiary, Marengo Mining (PNG) Limited totalling \$1,812,001 (2005: \$294,305) at balance date. There were no repayments made during the year (2005: Nil).

For the year ended 30 June 2006 the company has made an allowance for doubtful debts relating to the amounts owed by its subsidiary of \$1,717,916 (2005: \$254,305). An impairment assessment is undertaken each financial year by examining the financial position of the subsidiary and the market in which the subsidiary operates to determine whether there is objective evidence that the subsidiary is impaired. When such objective evidence exists, the company recognises an allowance for the impairment loss.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 22 and the Directors Report.

24. SEGMENT INFORMATION

Description of segments

The consolidated entity's operations are in the mining industry. Geographically, the group operates in two predominant segments, being Australia and Papua New Guinea. The head office and investment activities of the group take place in Australia.

Geographic segments	Australia		Papua New Guinea		Eliminations		Consolidated	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Revenue								
Sales to customers outside the consolidated entity	-	-	-	-	-	-	-	-
Other revenues from customers outside the consolidated entity	285,898	111,182	-	-	-	-	285,898	111,182
Intersegment revenues	-	-	-	-	-	-	-	-
Share of net profit of equity accounted investments	-	-	-	-	-	-	-	-
Total segment revenue	285,898	111,182	-	-	-	-	285,898	111,182
Non segment revenues								
Unallocated revenue							-	-
Total consolidated revenue							285,898	111,182
Results								
Segment result	(2,533,105)	(1,363,594)	(1,696,795)	8,252	1,463,608	-	(2,766,292)	(1,355,342)
Non segment expenses								
Unallocated expenses							-	-
Consolidated entity loss from ordinary activities before income tax expense							(2,766,292)	(1,355,342)
Income tax expense							-	-
Consolidated entity loss from ordinary activities after income tax expense							(2,766,292)	(1,355,342)
Extraordinary item							-	-
Net loss							(2,766,292)	(1,355,342)
Assets								
Segment assets	6,747,972	1,570,822	222,770	20,945	(94,088)	-	6,876,654	1,591,767
Non segment assets								
Unallocated assets							-	-
Total assets							6,876,654	1,591,767
Liabilities								
Segment liabilities	286,237	99,989	2,287,895	13,188	(1,926,858)	-	647,274	113,177
Non segment liabilities:								
Non allocated liabilities							-	-
Total liabilities							647,274	113,177
Other segment information:								
Equity accounted investments included in segment assets	-	-	-	-	-	-	-	-
Acquisition of property, plant and equipment, intangible assets and other non current assets	114,522	12,627	110,089	-	-	-	224,611	12,627
Depreciation	14,692	9,541	8,088	-	-	-	22,780	9,541
Non cash expenses other than depreciation and amortisation	1,564,350	287,529	-	-	(1,463,611)	-	100,739	287,529

Notes to the Financial Statements

30 June 2006

25. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Interest rate risk

The consolidated entity is exposed to movements in market interest rates on short-term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial instruments	Floating interest rate		Fixed interest rate maturing in:					Non interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate	
	2006	2005	1 year or less	Over 1 to 5 years	More than 5 years	2006	2005				2006
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>(i) Financial assets</i>											
Cash	3,407,393	1,544,686	3,146,581	-	-	-	500	500	6,554,474	1,545,186	5.5
Trade and other receivables	-	-	-	-	-	-	84,112	9,926	84,112	9,926	-
Total financial assets	3,407,393	1,544,686	3,146,581	-	-	-	84,612	10,426	6,638,586	1,555,112	5.4
<i>(ii) Financial liabilities</i>											
Trade creditors	-	-	-	-	-	-	(172,930)	(6,776)	(172,930)	(6,776)	-
Other creditors and accruals	-	-	-	-	-	-	(403,560)	(62,003)	(403,560)	(62,003)	-
Total financial liabilities	-	-	-	-	-	-	(576,490)	(68,779)	(576,490)	(68,779)	-

(b) Net fair values

All financial assets and liabilities have been recognised at the balance date at amounts approximating their carrying value.

(c) Credit risk exposures

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision of doubtful debts) of those assets as disclosed in the balance sheet and notes to the financial statements.

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

(d) Foreign currency risk

The Group is exposed to fluctuations in foreign currencies arising from exploration commitments in currencies other than the group's measurement currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the Papua New Guinea Kina.

The Group has not formalised a foreign currency risk management policy, however it monitors its foreign currency expenditure in light of exchange rate movements, and retains the right to withdraw from the foreign exploration commitments after the minimum expenditure targets have been met.

26. SHARE-BASED PAYMENTS

Employees and consultants options

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 20 cents to 30 cents per option. All options granted to employees are exercisable at any time from the date of issue until 30 November 2008. Options granted to consultants have expiry dates ranging from 28 February 2008 to 31 December 2011.

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

Set out below are summaries of granted options:

	Consolidated and The Company			
	2005	2005	2006	2006
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	850,000	23.5	600,000	24.9
Granted	1,500,000	23.7	250,000	20.0
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	2,350,000	23.6	850,000	23.5
Exercisable at year-end	2,350,000	23.6	690,000	20.5

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.71 years (2005: 4.41 years), and the exercise prices range from 20 cents to 30 cents.

Expenses arising from share-based payment transactions

The weighted average fair value of the options granted during the year was 16.4 cents. The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

Weighted average exercise price (cents)	29.2
Weighted average life of the option (years)	2.74
Weighted average underlying share price (cents)	32.2
Expected share price volatility	70%
Risk free interest rate	5.50%

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

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

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

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Options issued to employees and consultants	100,739	33,224	100,739	33,224

Notes to the Financial Statements

30 June 2006

27. JOINT VENTURE

(a) Yandera Project

In April 2005, the company entered into an agreement to earn an initial 50% interest in the Yandera Project in the Madang Province of PNG, from Belvedere Limited (a private PNG company), by expending A\$500,000 by April 2007 on exploration of the project area. Following completion of the first stage, the company can earn up to a 90% interest in the Yandera Project, by sole funding to completion of a bankable feasibility study (subject to Belvedere Limited not electing to contribute). The joint venture is in relation to all minerals including copper, molybdenum and gold, and has a carrying value of nil.

In August 2006 this agreement was superseded by the acquisition of all of the issued capital of Belvedere Limited by Marengo Mining (PNG) Ltd, a 100% owned subsidiary of the company. Refer to note 19 for details of the acquisition.

(b) Bowgan Project


In April 2006, the company entered into an agreement to farm out an initial 51% interest in the Bowgan Project in the Northern Territory to Hindmarsh Resources Limited (an Australian publicly listed company), for expenditure of \$200,000 within 3 years on exploration of the project area. Hindmarsh are entitled to earn up to a 75% interest in the Bowgan Project by contributing a further \$400,000 for expenditure on exploration of the project area within a further 2 years. The joint venture is in relation to uranium and other minerals, and has a carrying value of nil.

Directors' Declaration

In accordance with a resolution of the directors of Marengo Mining Limited, I state that:

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (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.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2006.

On behalf of the Board



Leslie Sidney George Emery
Director

Perth, 7 September 2006

Independent Audit Report

To the members of Marengo Mining Limited

SCOPE

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Marengo Mining Limited (the Company) and the consolidated entity for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the year. The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 50 of the financial report has not changed as at the date of providing our audit opinion.

AUDIT OPINION

In our opinion, the financial report of Marengo Mining Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

STANTONS INTERNATIONAL
(Authorised Audit Company)



J P Van Dieren
Director

Perth, Western Australia
7 September 2006

Audit Independence Report

Of Marengo Mining Limited

7 September 2006

Board of Directors
Marengo Mining Limited
Level 2
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 Audit Director for the audit of the financial statements of Marengo Mining Limited for the year ended 30 June 2006, 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 sincerely

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 7 September 2006.

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

	Ordinary shares		Options	
	Number of holders	Number of shares	Number of holders	Number of options
1 - 1,000	105	45,531	26	14,066
1,001 - 5,000	128	423,632	38	99,447
5,001 - 10,000	165	1,384,442	30	274,457
10,001 - 100,000	395	15,598,723	200	9,215,525
100,001 - and over	95	60,229,890	65	38,809,079
	888	77,682,218	359	48,412,574
The number of shareholders holding less than a marketable parcel of shares are:	125	75,144	54	63,513

(b) Twenty largest shareholders

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

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	Westpac Custodian Nominees Limited	8,002,520	10.30
2	Sempra Metals & Concentrates Corp	4,000,000	5.15
3	Kiali M	3,900,000	5.02
4	Elemental Minerals Ltd	3,219,016	4.14
5	Allundy Pty Ltd	3,008,811	3.87
6	Yellowrock Pty Ltd	2,852,811	3.67
7	Spence J	2,600,000	3.35
8	McIntyre N	2,600,000	3.35
9	Smedley I	2,600,000	3.35
10	Smit R	1,500,000	1.93
11	Ruthless Pty Ltd (Emery Super Fund a/c)	1,260,000	1.62
12	Goldearth Investments Pty Ltd	1,150,000	1.48
13	Capital Nominees Limited	1,105,832	1.42
14	Macfam Pty Ltd (McDonald Pension Fund a/c)	1,001,769	1.29
15	National Superannuation Fund Ltd	1,000,000	1.29
16	Todarello A	735,000	0.95
17	Broken Ridge Pty Ltd (Mining Monthly S/fund a/c)	700,000	0.90
18	McIlree R (McIlree Super Fund a/c)	680,000	0.88
19	ANZ Nominees Limited (Cash Income a/c)	541,877	0.70
20	Thomas N (Thomas Family a/c)	517,357	0.67
		42,974,993	55.33

ASX Additional Information

(c) Twenty largest option holders

The names of the twenty largest holders of quoted options are:

		Listed options
		Number of options
		Percentage of total options
1	Westpac Custodian Nominees Limited	8,000,000
2	Allundy Pty Ltd	4,410,000
3	Yellowrock Pty Ltd	2,626,667
4	Kiali M	2,000,000
5	French C	1,450,000
6	Spence J	1,333,334
7	McIntyre N	1,333,333
8	Smedley I	1,333,333
9	National Superannuation Fund Ltd	1,000,000
10	Cardaci M (The MD Cardaci Family a/c)	787,500
11	Worldpower Pty Ltd	754,923
12	Elemental Minerals Ltd	700,000
13	Alluvial Resources Pty Ltd	669,167
14	Key International Pty Ltd	600,000
15	Terra Firma Investments Pty Ltd (Down Super Fund No 2 a/c)	600,000
16	Oregon Pty Ltd	467,500
17	McIlfree R	458,250
18	Greenlaw A	355,000
19	Horseshoe Holdings Pty Ltd (Horseshoe Super Fund a/c)	335,000
20	Sanco (WA) Pty Ltd	335,000
		29,549,007
		61.04

(d) 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
Westpac Custodian Nominees Limited	8,002,520
Sempra Metals & Concentrates Corp	4,000,000
Kiali M	3,900,000

(e) Voting rights

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





MARENGO
MINING LIMITED



Marengo Mining Limited
Level 2, 9 Havelock Street
WEST PERTH WA 6005
Telephone: (61 8) 9429 0000
Facsimile: (61 8) 9429 0099
Email: marengo@marengominig.com
Website: www.marengominig.com