Marengo Mining Limited

ABN 57 099 496 474

Annual Financial Report

for the year ended 30 June 2008

Corporate Information

ABN 57 099 496 474

Directors

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

Company Secretary and Chief Financial Officer

Andrew Meloncelli

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Legal Counsel

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AUSTRALIA

Canada
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CANADA

Papua New Guinea
Allens Arthur Robinson
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Port Moresby
PAPUA NEW GUINEA

Bankers

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

Bank of Western Australia Limited
108 St Georges Terrace
PERTH WA 6000 AUSTRALIA

Share Registries

Australia
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Telephone: 1300 550 839 (Australia)
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CANADA
Telephone: 1800 564 6253 (North America)
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Papua New Guinea
PNG Registries Ltd
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Port Moresby NCD
PAPUA NEW GUINEA
Telephone: + 675 321 6377
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Auditors

Stantons International
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WEST PERTH WA 6005 AUSTRALIA

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Stock Exchange Listings

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

Contents

Directors' Report

Your directors submit their report on the Consolidated Entity (referred to hereafter as the Consolidated Entity) consisting of Marengo Mining Limited and the entities it controlled at the end of, or during, the year ended 30 June 2008.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

John Horan, FCPA, FCIS (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.

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

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. In July 1993 he established Adelaide Resource Management Pty Ltd to provide corporate advisory services to the mining industry.

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

Current Directorships: Adelaide Resources Limited.

Past Directorships (last 3 years): Golden China Resources Corporation.

Les Emery (Managing Director, member of safety and environment committee)

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

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

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

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

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

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

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

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

Directors' Report (continued)

Sir Rabbie Namaliu, GCL, CSM, KCMG, BA, MA, Hon.LLD (Non Executive Director, chairman of safety and environment committee) – appointed 11 February 2008

Sir Rabbie Namaliu served as Foreign Affairs & Immigration Minister in the Government of Papua New Guinea from August 2002 to July 2006 and Minister for Treasury from July 2006 to August 2007. He served as Prime Minister between 1988-1992 and Speaker of the National Parliament between 1994-1997. He earlier served as Foreign Minister, 1982-84 and has held several other senior Ministries including Primary Industry, and Petroleum & Energy since his first election to Parliament as MP for Kokopo (East New Britain) in 1982.

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

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

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

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

Sir Rabbie is currently Chancellor of the University of Vudal (PNG) from August 2007.

Current Directorships: Kina Asset Management Limited.

Past Directorships (last 3 years): Nil.

Susanne Sesselmann (Non Executive Director) – appointed 15 May 2008

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

The Sentient Group, a major shareholder in Marengo, manages over US$900 million in the development of quality metal, mineral and energy assets across the globe through its Caymans-based, 10 year closed-end private equity Sentient Global Resources Funds. Sentient Global Resources Fund II is a 23.78% shareholder in Marengo.

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

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

Current Directorships: The Sentient Group Limited, Sentient Executive GP II Limited, Sentient Executive GP III Limited, Sentient Investments GP II Limited, MGH Limited, Metals Recycling Limited, Sentient China Titanium Investments Ltd, Sentient China Silicon Investments Ltd and Meridiam Infrastructure Managers.

Past Directorships (last 3 years): Global Life Science Fund I.

John Hick, B.A, LLB (Non Executive Director) – appointed 10 June 2008

Mr John Hick has over 25 years of experience in the mining industry in both senior management positions and as an independent director, during which he has spent the majority of his time based in Toronto, Canada.

He is currently the Non-Executive Chairman of Silver Eagle Mines Inc - a TSX listed mining company - which is currently developing a silver-base metal property in Mexico. He is also an independent director of a number of TSX (or TSXV) listed mining companies including First Uranium Corporation, Carpathian Gold Inc, Revett Minerals Inc. and Hudson Resources Inc, as well as ASX-listed mining company, Tamaya Resources Limited.

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

Current Directorships: Silver Eagle Mines Inc, First Uranium Corporation, Carpathian Gold Inc, Revett Minerals Inc., Hudson Resources Inc and Tamaya Resources Limited.

Past Directorships (last 3 years): Rio Narcea Gold Mines Ltd, Western Keltic Mines Inc, Queenstake Resources Limited and Cambior Inc.

Directors' Report (continued)

Elizabeth Martin, C.M.A. (Non Executive Director, member of audit committee) – appointed 10 June 2008

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

Ms Martin is currently on the Board of Aura Minerals Inc. and Manicouagan Minerals Inc. She is past Chair of the Board of St. John's Rehabilitation Hospital and is currently on the Board of Directors of Sunnybrook Health Sciences Centre, both located in Toronto.

Current Directorships: Aura Minerals Inc. and Manicouagan Minerals Inc.

Past Directorships (last 3 years): Goldbelt Resources Ltd.

Dennis Wilkins was a Non Executive Director of the Company from 1 July 2007 to 10 June 2008 and Company Secretary from 1 July 2007 to 28 April 2008.

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Andrew Meloncelli, B.Com, CA, FCIS, F.Fin – appointed 28 April 2008

Mr Andrew Meloncelli has extensive experience working for public companies listed on both the ASX and AIM in the areas of corporate compliance, finance, prospectus fundraisings, taxation and as Assistant Company Secretary for an ASX 200 company.

He holds a Commerce Degree from the University of Western Australia and is an Associate Member of the Institute of Chartered Accountants in Australia, and a Fellow of Chartered Secretaries Australia and the Financial Services Institute of Australasia.

Mr Meloncelli joined the Company on 12 November 2007 as Manager – Finance and Treasury and was subsequently appointed as Company Secretary and Chief Financial Officer on 28 April 2008.

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 Horan	760,000	900,000
Les Emery	5,585,000	-
Douglas Dunnet	278,967	300,000
Sir Rabbie Namaliu	-	-
Susanne Sesselmann	184,000	-
John Hick	-	-
Elizabeth Martin	-	-

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.

DIVIDENDS

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

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW

Group Overview
During the year, the Consolidated Entity undertook feasibility studies and mineral exploration in Papua New Guinea ("PNG").

In July 2007 the Consolidated Entity completed a Conceptual Mining Study on the Yandera Copper-Molybdenum Project in PNG and commenced a Definitive Feasibility Study ("DFS") on the Project.

In September 2007 the Company announced the completion of a share placement raising gross proceeds of $15,000,000.

In April 2008 the Company announced the completion of a public offering of shares in the Company, raising C$9,775,000 and the subsequent listing of the Company's shares on the Toronto Stock Exchange ("TSX") in Canada.

In May 2008 the Consolidated Entity finalised the completion of Phase 1 of the Yandera DFS and the immediate move to Phase 2 of the DFS, scheduled for completion in June 2009.

In addition during the year the Consolidated Entity undertook further field exploration in the Yandera region, however this was limited to ground mapping and sampling.

During the year the Consolidated Entity did not undertake any exploration within Australia.

Finance Review
The Consolidated Entity began the financial year with cash reserves of $7,171,035. During the year the Company raised an additional $34.169 million by way of placements and exercise of options. Funds were used to actively advance the Consolidated Entity's projects located in Papua New Guinea.

During the year total exploration expenditure incurred by the Consolidated Entity amounted to $13,539,966 (2007: $13,405,390). In line with the Consolidated Entity's accounting policies, all exploration expenditure other than acquisition and feasibility costs, are written off as incurred resulting in a write off of $11,942,889 (2007: $6,355,390) during the year. This has resulted in an operating loss after income tax for the year ended 30 June 2008 of $13,758,508 (2007: $7,881,418).

At 30 June 2008 consolidated cash reserves available totalled $23,352,570.

Operating Results for the Year
Summarised operating results are as follows:

	2008	
	Revenues $	Results $
Geographic segments		
Australia	1,375,770	(13,869,637)
Papua New Guinea	554	(12,105,934)
Consolidation eliminations	-	12,217,063
Consolidated entity revenues and loss from ordinary activities before income tax expense	1,376,324	(13,758,508)

Directors' Report (continued)

Shareholder Returns

	2008	2007
Basic loss per share (cents)	(7.3)	(7.6)

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

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows:

- The Company listed on the TSX on 16 April 2008 raising $10.378 million in the offering. In addition the Company raised an additional $23.791 million by way of placements and the exercise of options. In total $34.169 million in equity was raised for the financial year.
- The Consolidated Entity commenced the DFS in October 2007 and is expected to conclude in June 2009.
- Sir Rabbie Namaliu, Susanne Sesselmann, John Hick and Elizabeth Martin were appointed as directors of the Company during the year, whilst Dennis Wilkins resigned during the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Consolidated Entity will continue to complete the Definitive Feasibility Study on the Yandera Copper-Molybdenum Project (Papua New Guinea), which is scheduled for completion in June 2009.

The Consolidated Entity will also continue to explore areas adjacent to the area the subject of the DFS and to review other resource opportunities within Papua New Guinea.

Subject to a positive outcome from the DFS and securing the necessary finance, and approvals, the Consolidated Entity will continue to move the Yandera Project into the development phase.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

The Consolidated Entity 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 and the Consolidated Entity are not aware of any breach of environmental legislation for the year under review.

Directors' Report (continued)

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

E Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 1024 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

A Principles used to determine the nature and amount of remuneration

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 Consolidated 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 Consolidated Entity.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated 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 Consolidated 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 and retain 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 the Black-Scholes methodology.

- The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee option plan.

Performance based remuneration

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

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

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and directors and executives performance. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. 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 to note 17 of the financial statements.

B Details of remuneration (audited)

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

Directors' Report (continued)

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

- Andrew Meloncelli – *Company Secretary and Chief Financial Officer*
- Grant Calderwood – *Operations Manager*
- Peter Dendle – *Project Manager*

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

Key management personnel and other executives of Marengo Mining Limited and the Consolidated Entity

	Short-Term		**Post Employment**		**Share-based Payments**	**Total**
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits	Options	
	$	$	$	$	$	$
Directors						
John Horan						
2008	**63,750**	**2,898**	**-**	**-**	**-**	**66,648**
2007	45,000	5,068	-	-	-	50,068
Les Emery						
2008	**291,500**	**8,499**	**28,818**	**-**	**-**	**328,817**
2007	218,000	27,469	25,167	-	-	270,636
Douglas Dunnet						
2008	**45,000**	**2,898**	**4,050**	**-**	**-**	**51,948**
2007	35,000	5,068	3,150	-	-	43,218
Sir Rabbie Namaliu (appointed 11 February 2008)						
2008	**40,875**	**2,898**	**-**	**-**	**-**	**43,773**
2007	-	-	-	-	-	-
Susanne Sesselmann (appointed 15 May 2008)						
2008	**6,346**	**2,898**	**-**	**-**	**-**	**9,244**
2007	-	-	-	-	-	-
John Hick (appointed 10 June 2008)						
2008	**2,884**	**2,898**	**-**	**-**	**-**	**5,782**
2007	-	-	-	-	-	-
Elizabeth Martin (appointed 10 June 2008)						
2008	**2,884**	**2,898**	**-**	**-**	**-**	**5,782**
2007	-	-	-	-	-	-
Dennis Wilkins (resigned 10 June 2008)						
2008	**98,685**	**2,898**	**-**	**-**	**-**	**101,583**
2007	98,123	5,068	1,837	-	-	105,028
Other key management personnel						
Andrew Meloncelli (appointed 12 November 2007)						
2008	**108,141**	**-**	**9,732**	**-**	**-**	**117,873**
2007	-	-	-	-	-	-
Grant Calderwood (appointed 21 October 2007)						
2008	**247,471**	**-**	**22,272**	**-**	**-**	**269,743**
2007	-	-	-	-	-	-
Peter Dendle						
2008	**195,384**	**-**	**17,584**	**-**	**-**	**212,968**
2007	112,500	-	13,500	-	-	126,000
Total key management personnel compensation						
2008	**1,102,920**	**28,785**	**82,456**	**-**	**-**	**1,214,161**
2007	508,623	42,673	43,654	-	-	594,950

Directors' Report (continued)

Directors' shareholdings

The following table sets out each director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

	Ordinary Shares	Options over Ordinary Shares
John Horan	760,000	900,000
Les Emery	5,585,000	-
Douglas Dunnet	278,967	300,000
Sir Rabbie Namaliu	-	-
Susanne Sesselmann	184,000	-
John Hick	-	-
Elizabeth Martin	-	-

C Service agreements (audited)

The details of service agreements of the key management personnel of Marengo Mining Limited and the Consolidated Entity are as follows:

John Horan, Chairman:

- Term of agreement – expiring on 1 September 2009.
- A fee for the year ended 30 June 2009 of $92,000, 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.

Les Emery, Managing Director:

- Term of agreement – expiring on 1 September 2011.
- Base annual salary of $422,850 plus a superannuation contribution of $43,650 to be reviewed annually by the board.
- Mr Emery is also to be provided with a fully maintained Company motor vehicle with a deemed value of $18,500 per annum.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, includes any accrued long service leave and annual entitlements, superannuation, retiring allowance, superannuation gratuity to the value of which does not exceed the maximum amount ascertained in accordance with the formula set out in section 200G of the Corporations Act 2001.

Andrew Meloncelli, Company Secretary and Chief Financial Officer:

- Term of agreement – unlimited commencing 12 November 2007.
- Base annual salary of $184,000 plus a superannuation contribution of $16,560 to be reviewed annually. Four weeks annual leave and two weeks sick leave per annum.
- Either party may terminate the agreement at one months written notice.

Grant Calderwood, Operations Manager:

- Term of agreement – unlimited commencing 22 October 2007.
- Base annual salary of $385,000 plus a superannuation contribution of $34,650 to be reviewed annually. Four weeks annual leave and two weeks sick leave per annum.
- Either party may terminate the agreement at one months written notice.

Peter Dendle, Project Manager:

- Term of agreement – unlimited commencing 7 November 2005.
- Base annual salary of $240,000 plus a superannuation contribution of $21,600 to be reviewed annually. Four weeks annual leave and two weeks sick leave per annum.
- The Company may terminate at 12 months notice for other than gross misconduct (from Peter Dendle) otherwise three months written notice.

D Share-based compensation (audited)

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. There were no options granted to or vesting with key management personnel during the year.

During and since the end of the financial year no share options were granted to the directors and other key management personnel as part of their remuneration – refer note 25.

Directors' Report (continued)

E Additional information - unaudited

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 seven meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		**Audit Committee Meetings**	
	A	**B**	**A**	**B**
John Horan	7	7	1	1
Les Emery **	7	7	*	*
Douglas Dunnet	7	7	1	1
Sir Rabbie Namaliu **	3	3	*	*
Susanne Sesselmann	1	1	*	*
John Hick	1	1	*	*
Elizabeth Martin	1	1	-	-
Dennis Wilkins	6	6	*	*

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.

** - Safety and Environment Committee Member (was established on 31 July 2008).

SHARES UNDER OPTION

At the date of this report there are 13,494,970 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	63,682,574
Movements of share options during the year	
Issued, exercisable at 36 cents, on or before 15 February 2009	993,055
Issued, exercisable at C19 cents, on or before 15 October 2009	1,201,915
Options exercised (20 cents, 28 February 2008)	(43,957,680)
Options exercised (20 cents, 30 November 2008)	(1,333,333)
Options exercised (25 cents, 30 November 2008)	(1,333,333)
Options exercised (30 cents, 30 November 2008)	(1,333,334)
Options expired (20 cents, 28 February 2008)	(4,424,894)
Total number of options outstanding as 30 June 2008 and at the date of this report	**13,494,970**

The balance is comprised of the following:

Expiry date	**Exercise price (cents)**	**Number of options**
30 Nov 2008	20.0	1,566,666
30 Nov 2008	25.0	3,066,666
30 Nov 2008	30.0	2,166,668
30 Nov 2008	40.0	4,000,000
15 Feb 2009	36.0	993,055
15 Oct 2009	C19.0	1,201,915
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		**13,494,970**

Directors' Report (continued)

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.

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company 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 paid is $23,185.

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 2001. 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:

	2008 $	2007 $
Tax compliance services	-	331

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING OF AMOUNTS

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 98/100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.

L S G Emery
Managing Director

Perth, 13 August 2008

Stantons International
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LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
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www.stantons.com.au

13 August 2008

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 the Audit Director for the audit of the financial statements of Marengo Mining Limited for the year ended 30 June 2008, 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)

K G Lingard
Director

Corporate Governance Statement

The Board of Directors

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

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

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to 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 with a view to making amendments where applicable after considering the Company's size and the resources it has available.

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

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

Corporate Governance Statement (continued)

	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 an expanded board, comprising seven directors, six 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 at least every two months. 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	**A**	The Company has an expanded board, comprising seven directors, six of whom are non-executive (including the Chairman).
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**	The skills and experience of directors are set out in the Company's Annual Report and on its website.
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: 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	**A**	The Company has formulated a Code of Conduct which can be viewed on the Company's website.

A = Adopted
N/A = Not adopted

Corporate Governance Statement (continued)

	ASX Principle	Status	Reference/comment
Principle 3:	**Promote ethical and responsible decision-making**		
(continued)			
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees	**A**	The Company has formulated a securities trading policy which can be viewed on its website.
3.3	Provide the information indicated in Guide to reporting on Principle 3	**A**	The Company has established an audit committee which comprises three 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**	
	• Only non-executive directors	✔	
	• A majority of independent directors	✔	
	• An independent chairperson who is not the chairperson of the board	✔	
	• At least three members	**A**	
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**	
Principle 5:	**Make timely and balanced disclosure**		
5.1	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	**N/A**	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Provide the information indicated in Guide to Reporting on Principle 5	**N/A**	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.

A = Adopted
N/A = Not adopted

Corporate Governance Statement (continued)

	ASX Principle	Status	Reference/comment
Principle 6:	**Respect the rights of shareholders**		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings	**A**	In line with adherence to continuous disclosure requirements of ASX all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Company website and the distribution of specific releases covering major transactions or events.
6.2	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	**A**	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	The board or appropriate board committee should establish policies on risk oversight and management	**N/A**	While the Company does not have formalised policies on risk management the board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include: • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations • sovereign risk
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that: 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 polices 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	**A**	
7.3	Provide information indicated in Guide to Reporting on Principle 7	**A (part)**	

A = Adopted
N/A = Not adopted

Corporate Governance Statement (continued)

	ASX Principle	Status	Reference/comment
Principle 8:	**Encourage enhanced Performance**		
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives	**A**	The Company does not consider it appropriate to have a sub-committee of the board to consider remuneration matters. 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. 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.
Principle 9:	**Remunerate fairly and responsibly**		
9.1	Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance	**A**	The Company discloses remuneration-related information in its Annual Report to shareholders in accordance with the Corporations Act 2001. 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.
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	**N/A**	
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**	The Company's Code of Conduct is set out in the Company's website. The board continues to review existing procedures over time to ensure adequate processes are in place. 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.

A = Adopted
N/A = Not adopted

Income Statement

FOR THE YEAR ENDED 30 JUNE 2008	Notes	Consolidated		Company	
		2008	2007	2008	2007
		$	$	$	$
REVENUE FROM CONTINUING OPERATIONS	4	**1,376,324**	395,914	**1,375,770**	395,914
EXPENDITURE					
Depreciation expense	5	**(80,938)**	(46,788)	**(40,781)**	(25,453)
Salaries and employee benefits expense		**(654,780)**	(560,166)	**(654,780)**	(540,240)
Exploration expenditure	5	**(11,942,889)**	(6,355,390)	**(123,277)**	(104,966)
Doubtful debts expense	5	**-**	-	**(12,217,063)**	(7,037,583)
Corporate expenditure		**(948,040)**	(316,324)	**(861,678)**	(296,286)
Occupancy expenditure		**(85,527)**	(73,067)	**(78,704)**	(67,003)
Insurance expenditure		**(97,947)**	(70,918)	**(57,398)**	(59,961)
Administration costs		**(1,033,342)**	(279,845)	**(920,357)**	(181,052)
Share based payment expense	28	**-**	(10,220)	**-**	(10,220)
Other expenses		**(291,369)**	(564,614)	**(291,369)**	(344,084)
LOSS BEFORE INCOME TAX		**(13,758,508)**	(7,881,418)	**(13,869,637)**	(8,270,934)
INCOME TAX BENEFIT / (EXPENSE)	6	**-**	-	**-**	-
NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF MARENGO MINING LIMITED		**(13,758,508)**	(7,881,418)	**(13,869,637)**	(8,270,934)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	27	(7.3)	(7.6)		

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

Balance Sheet

AS AT 30 JUNE 2008	Notes	Consolidated		Company	
		2008	2007	2008	2007
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	7	**23,352,570**	7,171,035	**22,992,542**	6,920,815
Trade and other receivables	8	**828,723**	461,688	**581,086**	129,159
TOTAL CURRENT ASSETS		**24,181,293**	7,632,723	**23,573,628**	7,049,974
NON-CURRENT ASSETS					
Other financial assets	9	**817,301**	-	**10,001,673**	7,198,094
Plant and equipment	10	**622,054**	236,534	**279,644**	145,677
Mining properties	11	**9,352,520**	6,701,550	**-**	-
TOTAL NON-CURRENT ASSETS		**10,791,875**	6,938,084	**10,281,317**	7,343,771
TOTAL ASSETS		**34,973,168**	14,570,807	**33,854,945**	14,393,745
CURRENT LIABILITIES					
Trade and other payables	12	**2,745,003**	417,244	**1,636,326**	250,475
Provisions	13	**240,608**	154,044	**231,062**	143,749
TOTAL CURRENT LIABILITIES		**2,985,611**	571,288	**1,867,388**	394,224
TOTAL LIABILITIES		**2,985,611**	571,288	**1,867,388**	394,224
NET ASSETS		**31,987,557**	13,999,519	**31,987,557**	13,999,521
EQUITY					
Contributed equity	14	**58,540,993**	26,875,224	**58,540,993**	26,875,224
Reserves	15(a)	**845,741**	764,964	**1,121,451**	929,547
Accumulated losses	15(b)	**(27,399,177)**	(13,640,669)	**(27,674,887)**	(13,805,250)
TOTAL EQUITY		**31,987,557**	13,999,519	**31,987,557**	13,999,521

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2008	Notes	Consolidated		Company	
		2008	2007	2008	2007
		$	$	$	$
TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR		**13,999,519**	6,229,380	**13,999,521**	6,461,735
Exchange differences on translation of foreign operations	15	**(111,127)**	(157,163)	-	-
NET INCOME/(LOSS) RECOGNISED DIRECTLY IN EQUITY		**(111,127)**	(157,163)	-	-
LOSS FOR THE YEAR		**(13,758,508)**	(7,881,418)	**(13,869,637)**	(8,270,934)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF MARENGO MINING LIMITED		**(13,869,635)**	(8,038,581)	**(13,869,637)**	(8,270,934)
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the year	14(b)	**35,182,626**	15,658,125	**35,182,626**	15,658,125
Transaction costs	14(b)	**(3,516,857)**	(549,625)	**(3,516,857)**	(549,625)
Employees and consultants share options	15(a)	**191,904**	10,220	**191,904**	10,220
Options issued as part consideration for the acquisition of Belvedere Limited	15(a)	**-**	690,000	**-**	690,000
		31,857,673	15,808,720	**31,857,673**	15,808,720
TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR		**31,987,557**	13,999,519	**31,987,557**	13,999,521

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

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2008	Notes	Consolidated		Company	
		2008	2007	2008	2007
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**216,205**	-	**216,205**	-
Payments to suppliers and employees		**(2,077,665)**	(1,755,924)	**(1,423,134)**	(1,400,290)
Interest received		**1,031,573**	377,749	**1,031,019**	377,749
Expenditure on mining interests		**(10,913,913)**	(6,627,910)	**(123,277)**	(204,029)
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	26(a)	**(11,743,800)**	(8,006,085)	**(299,187)**	(1,226,570)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for bank guarantee		**(430,000)**	-	**(430,000)**	-
Payments for plant and equipment		**(477,441)**	(111,140)	**(174,748)**	(84,645)
Payments for DFS expenses		**(2,626,053)**	-	-	-
Payment for purchase of subsidiary, net of cash acquired		-	(3,000,000)	-	-
Advances to related parties		-	-	**(14,494,715)**	(9,976,853)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		**(3,533,494)**	(3,111,140)	**(15,099,463)**	(10,061,498)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		**34,169,655**	12,205,625	**34,169,655**	12,205,625
Payment of share issue costs		**(2,699,278)**	(457,125)	**(2,699,278)**	(457,125)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**31,470,377**	11,748,500	**31,470,377**	11,748,500
NET INCREASE IN CASH AND CASH EQUIVALENTS		**16,193,083**	631,275	**16,071,727**	460,432
Cash and cash equivalents at the beginning of the financial year		**7,171,035**	6,554,474	**6,920,815**	6,460,383
Effects of exchange rate changes on cash and cash equivalents		**(11,548)**	(14,714)	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**23,352,570**	7,171,035	**22,992,542**	6,920,815

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

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.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Interpretations and the Corporations Act 2001.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Marengo Mining Limited comply with International Financial Reporting Standards (IFRS).

Historical cost convention

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Marengo Mining Limited ("Company") as at 30 June 2008 and the results of all subsidiaries for the year then ended. Marengo Mining Limited and its subsidiaries together are referred to in this financial report as the Consolidated Entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Consolidated Entity (refer note 1(h)).

The Consolidated Entity applies a policy of treating transactions with minority interests as transactions with parties external to the Consolidated Entity. Disposals to minority interests result in gains and losses for the Consolidated Entity that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

(ii) Joint ventures

Jointly controlled assets

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

(e) Revenue recognition

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

(f) Income tax

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Leases

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

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Consolidated Entity as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill (refer to note 22). If the cost of acquisition is less than the Consolidated Entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(i) Impairment of assets

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Cash and cash equivalents

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

(k) Trade and other receivables

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

(l) Investments and other financial assets

Classification

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

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Consolidated Entity's management has the positive intention and ability to hold to maturity. If the Consolidated Entity were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

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

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

Subsequent measurement

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fair value

The fair values of quoted investments are based on last trade prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

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

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Consolidated Entity is the last trade price.

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

(n) Plant and equipment

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

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

Depreciation of plant and equipment is calculated using the prime cost method to allocate their cost, net of their residual values, over their estimated useful lives. The rates vary between 5% and 40% per annum.

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 (note 1(i)).

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 Consolidated Entity policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(o) Exploration, evaluation and feasibility costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs and feasibility study 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid on normal commercial terms.

(q) Employee benefits

(i) Wages and salaries, annual leave and other 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.

(ii) Share-based payments

The Consolidated Entity provides benefits to employees (including directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’), refer to note 28.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Consolidated Entity, 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.

(r) Contributed equity

Ordinary shares are classified as equity.

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

(s) Earnings per share

(i) Basic earnings per share

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Diluted earnings per share

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

(t) Goods and Services Tax (GST)

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

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

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

(u) Rounding of amounts

The Consolidated Entity is a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest $1.

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Consolidated Entity's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Consolidated Entity has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Consolidated Entity's and the parent entity's financial instruments.

(ii) AASB-I 10 Interim Financial Reporting and Impairment

AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Consolidated Entity has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Consolidated Entity's or the parent entity's financial statements.

(w) Critical accounting judgements, estimates and assumptions

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

Share based payment transactions

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

Exploration and evaluation costs

Exploration and evaluation costs are 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 (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2. SEGMENT INFORMATION

Description of segments

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

Primary reporting format – geographical segments

	Australia		Papua New Guinea		Consolidated	
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Segment revenue						
Other revenue	**1,375,770**	395,914	**554**	-	**1,376,324**	395,914
Total segment revenue	**1,375,770**	395,914	**554**	-	**1,376,324**	395,914
Intersegment elimination					-	-
Consolidated revenue					**1,376,324**	395,914
Segment result						
Segment result	**(13,869,637)**	(8,270,934)	**(12,105,934)**	(6,648,067)	**(25,975,571)**	(14,919,001)
Intersegment elimination					**12,217,063**	7,037,583
Loss before income tax					**(13,758,508)**	(7,881,418)
Income tax expense					-	-
Loss for the year					**(13,758,508)**	(7,881,418)
Segment assets and liabilities						
Segment assets	**33,854,945**	14,393,745	**10,302,595**	7,375,156	**44,157,540**	21,768,901
Intersegment elimination					**(9,184,372)**	(7,198,094)
Total assets					**34,973,168**	14,570,807
Segment liabilities	**1,867,388**	394,224	**31,275,088**	15,113,109	**33,142,476**	15,507,333
Intersegment elimination					**(30,156,865)**	(14,936,045)
Total liabilities					**2,985,611**	571,288
Other segment information						
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	**174,748**	84,645	**302,693**	6,728,045	**477,441**	6,812,690
Depreciation expense	**40,781**	25,453	**40,157**	21,335	**80,938**	46,788
Doubtful debts expense	**12,217,063**	7,037,583	-	-	**12,217,063**	7,037,583
Intersegment elimination					**(12,217,063)**	(7,037,583)
Total doubtful debts expense						-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

The Consolidated Entity and Company 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 and Company'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:

Consolidated

2008		**Fixed interest rate maturing in:**					
	Floating interest rate	**1 year or less**	**1 to 5 years**	**More than 5 years**	**Non interest bearing**	**Total carrying amount as per the balance sheet**	**Weighted average effective interest rate**
Financial instrument	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Financial assets							
Cash and cash equivalents	**1,263,015**	**22,089,555**	**-**	**430,000**	**-**	**23,782,570**	**5.78**
Trade and other receivables	**-**	**146,711**	**-**	**-**	**261,146**	**407,857**	**-**
Other financial assets	**-**	**-**	**-**	**-**	**387,301**	**387,301**	**-**
Total financial assets	**1,263,015**	**22,236,266**	**-**	**430,000**	**648,447**	**24,577,728**	
Financial liabilities							
Trade creditors	**-**	**-**	**-**	**-**	**(1,718,960)**	**(1,718,960)**	**-**
Other creditors and accruals	**-**	**-**	**-**	**-**	**(1,026,043)**	**(1,026,043)**	**-**
Total financial liabilities	**-**	**-**	**-**	**-**	**(2,745,003)**	**(2,745,003)**	

2007		**Fixed interest rate maturing in:**					
	Floating interest rate	**1 year or less**	**1 to 5 years**	**More than 5 years**	**Non interest bearing**	**Total carrying amount as per the balance sheet**	**Weighted average effective interest rate**
Financial instrument	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Financial assets							
Cash and cash equivalents	602,027	6,566,120	-	-	2,888	7,171,035	6.23
Trade and other receivables	-	18,165	-	-	443,523	461,688	-
Total financial assets	602,027	6,584,285	-	-	446,411	7,632,723	
Financial liabilities							
Trade creditors	-	-	-	-	(244,404)	(244,404)	-
Other creditors and accruals	-	-	-	-	(172,840)	(172,840)	-
Total financial liabilities	-	-	-	-	(417,244)	(417,244)	

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Company

2008		Fixed interest rate maturing in:					
	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
Financial instrument	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Financial assets							
Cash and cash equivalents	**902,987**	**22,089,555**	**-**	**430,000**	**-**	**23,422,542**	**5.78**
Trade and other receivables	**-**	**146,711**	**-**	**-**	**9,334,404**	**9,481,115**	**-**
Other financial assets	**-**	**-**	**-**	**-**	**387,301**	**387,301**	**-**
Total financial assets	**902,987**	**22,236,266**	**-**	**430,000**	**9,921,705**	**33,290,958**	
Financial liabilities							
Trade creditors	**-**	**-**	**-**	**-**	**(1,462,776)**	**(1,462,776)**	**-**
Other creditors and accruals	**-**	**-**	**-**	**-**	**(173,550)**	**(173,550)**	**-**
Total financial liabilities	**-**	**-**	**-**	**-**	**(1,631,326)**	**(1,631,326)**	

2007		Fixed interest rate maturing in:					
	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
Financial instrument	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Financial assets							
Cash and cash equivalents	414,266	6,505,356	-	-	1,193	6,920,815	6.23
Trade and other receivables	-	18,165	-	-	7,309,088	7,327,253	-
Total financial assets	414,266	6,523,521	-	-	7,310,281	14,248,068	
Financial liabilities							
Trade creditors	-	-	-	-	(173,049)	(173,049)	-
Other creditors and accruals	-	-	-	-	(77,426)	(77,426)	-
Total financial liabilities	-	-	-	-	(250,475)	(250,475)	

(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 Consolidated Entity and Company 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 Consolidated Entity and Company does not presently have any debtors arising from sales, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

3. FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign currency risk management

The Consolidated Entity and Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the Consolidated Entity's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	$	$	$	$
Papua New Guinea Kina	**115,294**	71,355	**607,666**	692,557
Canadian Dollar	**-**	-	**9,410,041**	-

(e) Foreign currency sensitivity analysis

The Consolidated Entity and Company are exposed to the Canadian Dollar and Papua New Guinea Kina. The following table details the Consolidated Entity's and Company's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant currencies.

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Papua New Guinea Kina (increase)				
Profit or Loss	**(11,529)**	(7,135)	**60,766**	69,255
Other Equity	**-**	-	**-**	-
Papua New Guinea Kina (decrease)				
Profit or Loss	**11,529**	7,135	**(60,766)**	(69,255)
Other Equity	**-**	-	**-**	-
Canadian Dollar (increase)				
Profit or Loss	**-**	-	**941,001**	-
Other Equity	**-**	-	**-**	-
Canadian Dollar (decrease)				
Profit or Loss	**-**	-	**(941,001)**	-
Other Equity	**-**	-	**-**	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
4. REVENUE				
From continuing operations				
Other revenue				
Interest	**1,160,119**	395,914	**1,159,565**	395,914
Other	**216,205**	-	**216,205**	-
	1,376,324	395,914	**1,375,770**	395,914
5. EXPENSES				
Loss before income tax includes the following specific expenses:				
Depreciation of plant and equipment	**80,938**	46,788	**40,781**	25,453
Doubtful debts - controlled entities	**-**	-	**12,217,063**	7,037,583
Exploration expenditure	**11,942,889**	6,355,390	**123,277**	104,966
6. INCOME TAX				
(a) Income tax benefit/(expense)				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Adjustments for current tax of prior years	-	-	-	-
	-	-	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	**(13,758,508)**	(7,881,418)	**(13,869,637)**	(8,270,934)
Prima facie tax benefit at the Australian tax rate of 30% (2007: 30%)	**(4,127,552)**	(2,364,425)	**(4,160,891)**	(2,481,280)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	**-**	3,066	**-**	3,066
Sundry items	**28,469**	68,351	**21,713**	5,735
	(4,099,084)	(2,293,008)	**(4,139,179)**	(2,472,479)
Movements in unrecognised temporary differences	**(2,725,123)**	(47,838)	**3,493,833**	2,031,725
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**6,824,207**	2,340,846	**645,346**	440,754
Income tax expense	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008	Notes	Consolidated		Company	
		2008	2007	2008	2007
		$	$	$	$
6. INCOME TAX (continued)					
(c) Unrecognised temporary differences					
Deferred Tax Assets (at 30%)					
On Income Tax Account					
Capital raising costs		**730,707**	249,570	**730,707**	249,570
Provision for diminution		**-**	-	**6,291,768**	2,626,649
Accruals		**333,261**	39,132	**94,762**	10,508
Provision for employee benefits		**72,182**	46,213	**69,318**	43,125
Carry forward tax losses		**10,869,083**	4,044,876	**2,177,455**	1,532,109
		12,005,233	4,379,791	**9,364,010**	4,461,961
Deferred Tax Liabilities (at 30%)					
Capitalised exploration expenditure		**(2,763,488)**	-	**-**	-
Accruals		**(151,971)**	-	**(45,591)**	-
		(2,915,459)	-	**(45,591)**	-
Net Unrecognised Deferred Tax Asset		**9,089,774**	4,379,791	**9,318,419**	4,461,961
7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS					
Cash at bank and in hand		**1,263,015**	604,915	**902,987**	415,460
Short-term deposits		**22,089,555**	6,566,120	**22,089,555**	6,505,355
Cash and cash equivalents as shown in the balance sheet and the statement of cash flows		**23,352,570**	7,171,035	**22,992,542**	6,920,815

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Consolidated Entity, and earn interest at the respective short-term deposit rates.

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES					
Sundry receivables		**407,858**	76,202	**296,744**	45,171
Prepayments		**420,865**	385,486	**284,342**	83,988
		828,723	461,688	**581,086**	129,159
9. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS					
Shares in subsidiary – at cost	23	**-**	-	**1**	1
Deposit on acquisition of subsidiary		**-**	-	**-**	-
Loans to controlled entities	21	**-**	-	**30,156,932**	15,953,591
Provision for diminution	21	**-**	-	**(20,972,561)**	(8,755,498)
Bank Guarantee – suppliers		**430,000**	-	**430,000**	-
Loan – Director		**1,000,000**	-	**1,000,000**	-
Unexpired interest		**(612,699)**	-	**(612,699)**	-
		817,301	-	**10,001,673**	7,198,094

Loan Agreement dated 11 June 2008 was entered into with Les Emery – Managing Director for $1,000,000. The purpose of the loan was to exercise 4,000,000 unlisted options and was approved at 28 November 2007 General Meeting by shareholders.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008	Notes	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
10. NON-CURRENT ASSETS - PLANT AND EQUIPMENT					
Plant and equipment					
Cost		**785,038**	321,152	**378,626**	203,878
Accumulated depreciation		**(162,984)**	(84,618)	**(98,982)**	(58,201)
Net book amount		**622,054**	236,534	**279,644**	145,677
Plant and equipment					
Opening net book amount		**236,534**	188,068	**145,677**	86,485
Exchange differences		**(10,983)**	(15,886)	**-**	-
Additions		**477,441**	111,140	**174,748**	84,645
Depreciation charge		**(80,938)**	(46,788)	**(40,781)**	(25,453)
Closing net book amount		**622,054**	236,534	**279,644**	145,677

11. NON-CURRENT ASSETS – MINING PROPERTIES

Tenement acquisition costs carried forward in respect of mining areas of interest				
Opening net book amount	**6,701,550**	-	**-**	-
Incurred during the year	**2,626,053**	7,050,000	**-**	-
Exchange differences	**24,917**	(348,450)	**-**	-
Closing net book amount	**9,352,520**	6,701,550	**-**	-

The ultimate recoupment of tenement acquisition costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not being charged pending the commencement of production.

12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	**1,718,960**	244,404	**1,603,666**	173,049
Other payables and accruals	**1,026,043**	172,840	**32,660**	77,426
	2,745,003	417,244	**1,636,326**	250,475

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008	Notes	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
13. CURRENT LIABILITIES - PROVISIONS					
Employee benefits		**240,608**	154,044	**231,062**	143,749

14. CONTRIBUTED EQUITY

(a) Share capital

		2008 Number of shares	2008 $	2007 Number of shares	2007 $
Ordinary shares fully paid	14(b), 14(d)	**268,016,975**	**58,540,993**	126,880,719	26,875,224
Total contributed equity		**268,016,975**	**58,540,993**	126,880,719	26,875,224

(b) Movements in ordinary share capital

	2008 Number of shares	2008 $	2007 Number of shares	2007 $
Beginning of the financial year	**126,880,719**	**26,875,224**	65,682,218	11,766,724
Issued during the year:				
– Issued as part consideration on acquisition of subsidiary @ 28 cents per share	**-**	**-**	12,000,000	3,360,000
– Issued for cash @ 25 cents per share	**-**	**-**	49,168,501	12,292,125
– Issued for cash @ 36 cents per share	**41,666,667**	**15,000,000**	-	-
– Issued on conversion of options (20 cents per share)	**43,957,680**	**8,791,536**	30,000	6,000
– Issued for cash @ C19 cents per share	**51,447,369**	**10,378,118**	-	-
– Issued in lieu of placement fees	**64,540**	**12,972**	-	-
– Issued for loan @ 20 cents per share	**1,333,333**	**266,667**	-	-
– Issued for loan @ 25 cents per share	**1,333,333**	**333,333**	-	-
– Issued for loan @ 30 cents per share	**1,333,334**	**400,000**	-	-
Less: Transaction costs	**-**	**(3,516,857)**	-	(549,625)
End of the financial year	**268,016,975**	**58,540,993**	126,880,719	26,875,224

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

14. CONTRIBUTED EQUITY (continued)

(c) Movements in options on issue

	Number of options	
	2008	**2007**
Beginning of the financial year	**63,682,574**	57,612,574
Issued during the year:		
– Exercisable at 36 cents, on or before 15 Feb 2009	**993,055**	-
– Exercisable at C19 cents, on or before 15 Feb 2009	**1,201,915**	-
– Exercisable at 20 cents, on or before 28 Feb 2008	-	6,000,000
– Exercisable at 30 cents, on or before 30 Nov 2008	-	100,000
Less: Options exercised (20 cents, 28 Feb 2008)	**(43,957,680)**	(30,000)
Options exercised (20 cents, 30 Nov 2008)	**(1,333,333)**	-
Options exercised (25 cents, 30 Nov 2008)	**(1,333,333)**	-
Options exercised (30 cents, 30 Nov 2008)	**(1,333,334)**	-
Options expired (20 cents, 28 Feb 2008)	**(4,424,894)**	-
End of the financial year	**13,494,970**	63,682,574

(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.

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
15. RESERVES AND ACCUMULATED LOSSES				
(a) Reserves				
Foreign currency translation reserve	**(275,710)**	(164,583)	-	-
Share-based payments reserve	**1,121,451**	929,547	**1,121,451**	929,547
	845,741	764,964	**1,121,451**	929,547
Movements:				
Foreign currency translation reserve				
Balance at beginning of year	**(164,583)**	(7,420)	-	-
Currency translation differences arising during the year	**(111,127)**	(157,163)	-	-
Balance at end of year	**(275,710)**	(164,583)	-	-
Share-based payments reserve				
Balance at beginning of year	**929,547**	229,327	**929,547**	229,327
Option expense	**191,904**	700,220	**191,904**	700,220
Balance at end of year	**1,121,451**	929,547	**1,121,451**	929,547
(b) Accumulated losses				
Balance at beginning of year	**(13,640,669)**	(5,759,251)	**(13,805,250)**	(5,534,316)
Net loss for the year	**(13,758,508)**	(7,881,418)	**(13,869,637)**	(8,270,934)
Balance at end of year	**(27,399,177)**	(13,640,669)	**(27,674,887)**	(13,805,250)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

15. RESERVES AND ACCUMULATED LOSSES (continued)

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Share-based payments reserve

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

16. DIVIDENDS

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

17. 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 Horan	Non Executive Chairman
Les Emery	Managing Director
Douglas Dunnet	Non Executive Director
Sir Rabbie Namaliu	Non Executive Director (since 11 February 2008)
Suanne Sesselmann	Non Executive Director (since 15 May 2008)
John Hick	Non Executive Director (since 10 June 2008)
Elizabeth Martin	Non Executive Director (since 10 June 2008)
Dennis Wilkins	Non Executive Director (resigned 10 June 2008)

(ii) Other Key Management Personnel

The following person also had authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity, directly or indirectly, during the financial year:

Andrew Meloncelli	Company Secretary and Chief Financial Officer (since 12 November 2007)
Grant Calderwood	Operations Manager (since 22 October 2007)
Peter Dendle	Project Manager

(b) Key management personnel compensation

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Short-term benefits	**1,131,705**	551,296	**1,131,705**	551,296
Post employment benefits	**82,456**	43,654	**82,456**	43,654
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	-	-	-	-
	1,214,161	594,950	**1,214,161**	594,950

The Consolidated Entity has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 8 to 10.

(c) Equity instrument disclosures relating to key management personnel

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(ii) Option holdings

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

2008	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Marengo Mining Limited							
John Horan	**925,000**	**-**	**(25,000)**	**-**	**900,000**	**900,000**	**-**
Les Emery	**4,000,000**	**-**	**(4,000,000)**	**-**	**-**	**-**	**-**
Douglas Dunnet	**300,000**	**-**	**-**	**-**	**300,000**	**300,000**	**-**
Sir Rabbie Namaliu	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Susanne Sesselmann	**-**	**-**	**-**	**-**	**-**	**-**	**-**
John Hick	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Elizabeth Martin	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other key management personnel of the Consolidated Entity							
Andrew Meloncelli	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Grant Calderwood	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Peter Dendle	**500,000**	**-**	**-**	**-**	**500,000**	**500,000**	**-**

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

2007	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Marengo Mining Limited							
John Horan	**925,000**	**-**	**-**	**-**	**925,000**	**925,000**	**-**
Les Emery	**4,000,000**	**-**	**-**	**-**	**4,000,000**	**4,000,000**	**-**
Dennis Wilkins	**1,500,000**	**-**	**-**	**-**	**1,500,000**	**1,500,000**	**-**
Doug Dunnet	**300,000**	**-**	**-**	**-**	**300,000**	**300,000**	**-**
Other key management personnel of the Consolidated Entity							
Peter Dendle	**500,000**	**-**	**-**	**-**	**500,000**	**500,000**	**-**

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Marengo Mining Limited and other key management personnel of the Consolidated Entity, including their personally related parties, are set out on the next page. There were no shares granted during the reporting period as compensation.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

17. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2008	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Marengo Mining Limited				
Ordinary shares				
John Horan	**510,000**	**25,000**	**225,000**	**760,000**
Les Emery	**1,485,000**	**4,000,000**	**100,000**	**5,585,000**
Douglas Dunnet	**178,967**	**-**	**100,000**	**278,967**
Sir Rabbie Namaliu	-	-	-	-
Susanne Sesselmann	**-**	**-**	**184,000**	**184,000**
John Hick	-	-	-	-
Elizabeth Martin	-	-	-	-
Other key management personnel of the Consolidated Entity				
Ordinary shares				
Andrew Meloncelli	**-**	**-**	**100,000**	**100,000**
Grant Calderwood	-	-	-	-
Peter Dendle	**-**	**-**	**50,000**	**50,000**

2007	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Marengo Mining Limited				
Ordinary shares				
John Horan	310,000	-	200,000	510,000
Les Emery	1,485,000	-	-	1,485,000
Dennis Wilkins	104,193	-	-	104,193
Doug Dunnet	178,967	-	-	178,967
Other key management personnel of the Consolidated Entity				
Ordinary shares				
Peter Dendle	-	-	-	-

(d) Loans to key management personnel

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

(e) Other transactions with key management personnel

DW Corporate Pty Ltd, a business of which Mr Dennis 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 included as part of Mr Wilkins compensation.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $

18. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Audit services

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Stantons International - audit and review of financial reports	**25,560**	26,427	**25,560**	26,427
Non-related audit firm for the audit or review of financial reports of any entity in the Consolidated Entity	**23,611**	11,664	**23,611**	-
Total remuneration for audit services	**49,171**	38,091	**49,171**	26,427

(b) Non-audit services

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Stantons International - tax compliance services	-	331	-	331

19. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Consolidated Entity and Company at balance date.

20. 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 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
within one year	**2,255,000**	850,710	-	-
later than one year but not later than five years	**5,000,000**	1,215,300	-	-
	7,255,000	2,066,010	-	-

The Consolidated Entity is also committed to additionally spend approximately $13.7 million within the next 12 months in relation to the completion of the Definitive Feasibility Study.

(b) Lease commitments: Consolidated Entity as lessee

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Operating leases (non-cancellable):				
Minimum lease payments				
within one year	**510,505**	75,096	**111,130**	75,096
later than one year but not later than five years	**58,343**	163,403	**58,343**	163,403
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	**568,848**	238,499	**169,473**	238,499

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 Consolidated Entity 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.

The Consolidated Entity has entered into an operating lease, to lease helicopters for the next six months.

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report on page 10 that are not recognised as liabilities and are not included in the key management personnel compensation.

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
within one year	**694,083**	349,000	**694,083**	349,000
later than one year but not later than five years	**1,058,500**	642,500	**1,058,500**	642,500
	1,752,583	991,500	**1,752,583**	991,500

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$

21. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Consolidated Entity is Marengo Mining Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 17.

(d) Loans to related parties

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Loans to subsidiary				
Beginning of the year	**-**	-	**7,198,093**	94,085
Loans advanced	**-**	-	**14,203,642**	14,141,591
Loan repayments received	**-**	-	**-**	-
Provision for doubtful debts	**-**	-	**(12,217,063)**	(7,037,583)
End of the year	**-**	-	**9,184,672**	7,198,093
Loan to Les Emery – refer note 9	**1,000,000**	-	**1,000,000**	-

Marengo Mining Limited has provided an unsecured, interest free loan to its wholly owned subsidiary, Marengo Mining (PNG) Limited. 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.

22. BUSINESS COMBINATION

(a) Summary of acquisition

2008

There were no acquisitions in the year ended 30 June 2008.

2007

On 25 August 2006 Marengo Mining (PNG) Limited, 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. In accordance with the *Companies Act 1997* of Papua New Guinea, on 27 June 2006 Marengo Mining (PNG) Limited and Belvedere Limited amalgamated, with the name of the amalgamated Company being Marengo Mining (PNG) Limited. In essence, this involved Marengo Mining (PNG) Limited taking up all the assets and liabilities of Belvedere Limited, with Belvedere Limited being dissolved.

The acquired business contributed nil revenue and net loss of $77,392 to the Consolidated Entity for the period from 25 August 2006 to 27 June 2007. If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated loss for the year ended 30 June 2007 would not be different to the balances reported in the income statement.

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

	$
Purchase consideration (refer to (b) below):	
Cash paid	**3,000,000**
Issue of 12,000,000 ordinary shares at 28 cents each (market price on the date of exchange)	**3,360,000**
6,000,000 options expiring 28 February 2008 exercisable at 20 cents each, issued at 11.5 cents each (market price on the date of exchange)	**690,000**
Total purchase consideration	**7,050,000**
Fair value of net identifiable assets acquired (refer to (c) below)	**7,050,000**
Goodwill	**-**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

22. BUSINESS COMBINATION (continued)

(b) Purchase consideration

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Cash consideration and outflow of cash to acquire subsidiary	-	3,000,000	-	3,000,000

(c) Assets and liabilities acquired

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

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

23. SUBSIDIARIES

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* 2008 %	Equity Holding* 2007 %
Marengo Mining (PNG) Limited	Papua New Guinea	Ordinary	**100**	100

*The proportion of ownership interest is equal to the proportion of voting power held.

24. INTERESTS IN JOINT VENTURES

(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 Ltd (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 were entitled to earn up to a 90% interest in the Yandera Project, by sole funding to completion of a bankable feasibility study (subject to Belvedere Ltd not electing to contribute).

In August 2006 this agreement was superseded by the acquisition of all of the issued capital of Belvedere Ltd by Marengo Mining (PNG) Limited, a 100% owned subsidiary of the Company. Refer to note 22 for details of the acquisition.

(b) Bowgan Project

In April 2006, the Company entered into an agreement to farm out an initial 51% interest (now earned) 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

25. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the end of the financial year, the following event had occurred:

- On 31 July 2008, the Company held a General Meeting where the following resolutions were passed:
  - Approval of issue of options – directors;
  - Approval of increase in non executive directors fees to $500,000 per annum effective 1 July 2008; and
  - Approval of Marengo Mining Limited Employee Share Option Plan.

26. CASH FLOW STATEMENT

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
(a) Reconciliation of net loss after income tax to net cash outflow from operating activities				
Net loss for the year	**(13,758,508)**	(7,881,418)	**(13,869,637)**	(8,270,934)
Non-Cash Items				
Depreciation of non-current assets	**80,938**	46,788	**40,781**	25,453
Option expense	**-**	10,220	**-**	10,220
Foreign exchange loss	**291,369**	219,660	**291,369**	-
Doubtful debts expense	**-**	-	**12,217,063**	7,037,583
Change in operating assets and liabilities, net of effects from purchase of controlled entity				
(Increase) in trade and other receivables	**(367,095)**	(381,813)	**(451,927)**	(72,141)
(Decrease)/increase in trade and other payables	**1,922,932**	(102,782)	**1,385,851**	(29,716)
Increase in employee entitlement provisions	**86,564**	83,260	**87,313**	72,965
Net cash outflow from operating activities	**(11,743,800)**	(8,006,085)	**(299,187)**	(1,226,570)

(b) Non-cash investing and financing activities

Details of equity securities issued as part consideration for the acquisition of a subsidiary are shown in note 22(a).

27. LOSS PER SHARE

	Consolidated 2008 $	Consolidated 2007 $
(a) Reconciliation of earnings used in calculating loss per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted loss per share	**(13,758,508)**	(7,881,418)

	Number of shares	Number of shares
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	**187,783,381**	103,780,299

(c) Information on the classification of options

As the Consolidated Entity has made a loss for the year ended 30 June 2008, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. SHARE-BASED PAYMENTS

Employees and consultants options

The Consolidated Entity provides benefits to employees (including directors) and consultants of the Consolidated Entity 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 30 November 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 Company			
	2008		2007	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	**2,450,000**	**23.9**	2,350,000	23.6
Granted	-	-	100,000	30.0
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	**2,450,000**	**23.9**	2,450,000	23.9
Exercisable at year-end	**2,450,000**	**23.9**	2,450,000	23.9

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 0.48 years (2007: 1.48 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 0 cents (2007: 10.2 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2008	2007
Weighted average exercise price (cents)	-	30.0
Weighted average life of the option (years)	-	2.05
Weighted average underlying share price (cents)	-	26.5
Expected share price volatility	-	70%
Risk free interest rate	-	6.25%

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

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		Company	
	2008	2007	2008	2007
	$	$	$	$
Options issued to employees and consultants	-	10,220	-	10,220

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 19 to 46 are in accordance with the Corporations Act 2001, including:

- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; 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; and

(c) the audited remuneration disclosures set out on pages 8 to 10 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

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

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

L S G Emery
Managing Director

Perth, 13 August 2008

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

Report on the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of Marengo Mining Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' Report under the heading "remuneration report" on pages 8 to 10.

Directors' responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

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

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in pages 8 to 10 of the Directors' Report comply with section 300 A of the *Corporations Act 2001.*

STANTONS INTERNATIONAL
(An Authorised Audit Company)
Stantons International

K G Lingard
Director

West Perth, Western Australia
13 August 2008