

Marengo Mining Limited

ABN 57 099 496 474

Annual Financial Report

for the year ended 30 June 2009

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

John Ribbons

Registered Office

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Facsimile: + 61 8 9429 0099

Postal Address

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WEST PERTH WA 6872
AUSTRALIA

Legal Counsel

Australia
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1202 Hay Street
WEST PERTH WA 6005

Canada
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Suite 1600 Cathedral Place
925 West Georgia Street
VANCOUVER, BRITISH COLUMBIA, V6C 3L2

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

Bankers

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

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

Share Registries

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

Canada
Computershare Investor Services Inc
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VANCOUVER, BRITISH COLUMBIA, V6C 3B9
Telephone: 1800 564 6253 (North America)
+ 1 514 482 7555 (Outside North America)
Facsimile: 1866 249 7775 (North America)
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Papua New Guinea
PNG Registries Ltd
Level 2, AON Haus, MacGregor Street
PORT MORESBY NCD
Telephone: + 675 321 6377
Facsimile: + 675 321 6379

Auditors

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

Internet Address

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marengo@marengomining.com

Stock Exchange Listing

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

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Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group or the Company) consisting of Marengo Mining Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

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).

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

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

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 Proterozoic rocks of Australia and North America.

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

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

Current Directorships: Nil.

Past Directorships (last 3 years): Nil.

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

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, 1982-1984 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.

Directors' Report continued

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)

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\$1.2 billion in the development of quality metal, mineral and energy assets across the globe through its Caymans-based, 10 year closed-end private equity Sentient Global Resources Funds. Sentient Global Resources Fund II is a 26.65% 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, Metals Recycling Limited, Sentient China Titanium Investments Ltd, Sentient China Silicon Investments Ltd, Sentient Trustees Limited and Meridiam Infrastructure Managers.

Past Directorships (last 3 years): Global Life Science Fund I, Sentient Investments GP II Limited, MGH Limited.

John Hick, B.A, LLB (Non Executive Director)

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

Previously, Mr. Hick has held either senior management and/or board positions with a number of 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: Aeroquest International Ltd., Carpathian Gold Inc, First Uranium Corporation, Hudson Resources Inc., Marengo Mining Ltd. and Timminco Ltd.

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

Elizabeth Martin, C.M.A. (Non Executive Director, Member of Audit Committee)

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.

Directors' Report continued

COMPANY SECRETARY

John Ribbons, B.Bus., CPA, ACIS – appointed 30 March 2009

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

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

Andrew Meloncelli was Company Secretary from the start of the year until 30 March 2009.

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 | 1,360,000 | 1,250,000 |
| Les Emery | 5,935,000 | 1,500,000 |
| Douglas Dunnet | 278,967 | 500,000 |
| Sir Rabbie Namaliu | 210,200 | 1,000,000 |
| Susanne Sesselmann | 184,000 | 500,000 |
| John Hick | - | 500,000 |
| Elizabeth Martin | - | 500,000 |

PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements or tenements in which it has an interest and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There was no significant change in the nature of the Group'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.

OPERATING AND FINANCIAL REVIEW

Finance Review

The Group began the financial year with a cash reserve of \$23,352,570. Funds were used to actively advance the Group's projects located in Papua New Guinea.

The Group has recorded an operating loss after income tax for the year ended 30 June 2009 of \$15,270,043 (2008: \$13,758,508).

At 30 June 2009 surplus funds available totalled \$5,088,081.

Operating Results for the Year

Summarised operating results are as follows:

| | 2009 | |
|--|------------------|---------------------|
| | Revenues | Results |
| | \$ | \$ |
| <i>Geographic segments</i> | | |
| Australia | 1,260,985 | (28,022,741) |
| Papua New Guinea | - | (12,301,878) |
| Consolidation eliminations | - | 25,054,576 |
| Consolidated entity revenues and loss from ordinary activities before income tax expense | <u>1,260,985</u> | <u>(15,270,043)</u> |

Directors' Report continued

Shareholder Returns

| | 2009 | 2008 |
|------------------------------|-------|-------|
| Basic loss per share (cents) | (5.7) | (7.3) |

Risk Management

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

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE 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 Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

REMUNERATION REPORT (AUDITED)

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

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 Group'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 Group.

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

- All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Directors' Report continued

- Executives are also eligible to participate in the employee share and option arrangements.
- The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.
- All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.
- The Board policy is to remunerate non executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$500,000). Fees for non executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Performance based remuneration

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

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

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

B Details of remuneration

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

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

| | |
|------------------|---------------------------|
| Grant Calderwood | <i>Operations Manager</i> |
| Peter Dendle | <i>Project Manager</i> |

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

Directors' Report continued

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

| | Short-Term | | Post Employment | | Share-based | Total | Remuneration consisting of Options ⁽¹⁾ |
|--|------------------------|--------------|-----------------|----------------------|------------------|-----------|---|
| | Salary & Fees | Non Monetary | Super-annuation | Termination benefits | Payments Options | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Directors | | | | | | | |
| John Horan | | | | | | | |
| 2009 | 92,000 | 2,915 | - | - | 68,224 | 163,139 | 41.8 |
| 2008 | 63,750 | 2,898 | - | - | - | 66,648 | - |
| Les Emery | | | | | | | |
| 2009 | 538,887 ⁽²⁾ | 16,339 | 43,930 | - | 81,869 | 681,025 | 12.0 |
| 2008 | 291,500 | 8,499 | 28,818 | - | - | 328,817 | - |
| Douglas Dunnet | | | | | | | |
| 2009 | 50,000 | 2,915 | 4,500 | - | 27,290 | 84,705 | 32.2 |
| 2008 | 45,000 | 2,898 | 4,050 | - | - | 51,948 | - |
| Sir Rabbie Namaliu | | | | | | | |
| 2009 | 55,625 | 2,915 | - | - | 54,579 | 113,119 | 48.2 |
| 2008 | 40,875 | 2,898 | - | - | - | 43,773 | - |
| Susanne Sesselmann | | | | | | | |
| 2009 | 59,799 | 2,915 | - | - | 27,290 | 90,004 | 30.3 |
| 2008 | 6,346 | 2,898 | - | - | - | 9,244 | - |
| John Hick | | | | | | | |
| 2009 | 56,736 | 2,915 | - | - | 27,290 | 86,941 | 31.4 |
| 2008 | 2,884 | 2,898 | - | - | - | 5,782 | - |
| Elizabeth Martin | | | | | | | |
| 2009 | 56,322 | 2,915 | - | - | 27,290 | 86,527 | 31.5 |
| 2008 | 2,884 | 2,898 | - | - | - | 5,782 | - |
| Dennis Wilkins (resigned 10 June 2008) | | | | | | | |
| 2008 | 98,685 | 2,898 | - | - | - | 101,583 | - |
| Other key management personnel | | | | | | | |
| John Ribbons (appointed 30 March 2009) | | | | | | | |
| 2009 | - | - | - | - | - | - | - |
| Andrew Meloncelli (resigned 30 March 2009) | | | | | | | |
| 2009 | 139,076 | - | 16,541 | 31,846 | 7,570 | 195,033 | 3.9 |
| 2008 | 108,141 | - | 9,732 | - | - | 117,873 | - |
| Grant Calderwood | | | | | | | |
| 2009 | 423,193 | - | 34,613 | - | 7,570 | 465,376 | 1.6 |
| 2008 | 247,471 | - | 22,272 | - | - | 269,743 | - |
| Peter Dendle | | | | | | | |
| 2009 | 272,809 | - | 21,517 | - | 7,570 | 301,896 | 2.5 |
| 2008 | 195,384 | - | 17,584 | - | - | 212,968 | - |
| Total key management personnel compensation | | | | | | | |
| 2009 | 1,744,447 | 33,829 | 121,101 | 31,846 | 336,542 | 2,267,765 | |
| 2008 | 1,102,920 | 28,785 | 82,456 | - | - | 1,214,161 | |

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

(2) Includes employee entitlements.

Directors' Report continued

C Service agreements

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

John Horan, Chairman (Non Executive):

- Term of agreement – expiring on 1 September 2012.
- 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 2012.
- 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.

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 with one month's 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

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

| | Grant Date | Granted Number | Vesting Date | Expiry Date | Exercise Price (cents) | Value per option at grant date (cents) | Exercised Number |
|--------------------|------------|----------------|--------------|-------------|------------------------|--|------------------|
| Directors | | | | | | | |
| John Horan | 15/08/2008 | 250,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| John Horan | 15/08/2008 | 250,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| John Horan | 15/08/2008 | 250,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| John Horan | 15/08/2008 | 250,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| John Horan | 15/08/2008 | 250,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |
| Les Emery | 15/08/2008 | 300,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| Les Emery | 15/08/2008 | 300,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| Les Emery | 15/08/2008 | 300,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| Les Emery | 15/08/2008 | 300,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| Les Emery | 15/08/2008 | 300,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |
| Douglas Dunnet | 15/08/2008 | 100,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| Douglas Dunnet | 15/08/2008 | 100,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| Douglas Dunnet | 15/08/2008 | 100,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| Douglas Dunnet | 15/08/2008 | 100,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| Douglas Dunnet | 15/08/2008 | 100,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |
| Sir Rabbie Namaliu | 15/08/2008 | 200,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| Sir Rabbie Namaliu | 15/08/2008 | 200,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| Sir Rabbie Namaliu | 15/08/2008 | 200,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| Sir Rabbie Namaliu | 15/08/2008 | 200,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| Sir Rabbie Namaliu | 15/08/2008 | 200,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |

Directors' Report continued

| | Grant Date | Granted Number | Vesting Date | Expiry Date | Exercise Price option at grant (cents) | Value per option at grant date (cents) | Exercised Number |
|---------------------------------------|------------|----------------|--------------|-------------|--|--|------------------|
| Directors (cont'd) | | | | | | | |
| Susanne Sesselmann | 15/08/2008 | 100,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| Susanne Sesselmann | 15/08/2008 | 100,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| Susanne Sesselmann | 15/08/2008 | 100,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| Susanne Sesselmann | 15/08/2008 | 100,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| Susanne Sesselmann | 15/08/2008 | 100,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |
| John Hick | 15/08/2008 | 100,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| John Hick | 15/08/2008 | 100,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| John Hick | 15/08/2008 | 100,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| John Hick | 15/08/2008 | 100,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| John Hick | 15/08/2008 | 100,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |
| Elizabeth Martin | 15/08/2008 | 100,000 | 15/08/2008 | 15/08/2013 | 50 | 9.7 | N/A |
| Elizabeth Martin | 15/08/2008 | 100,000 | 15/08/2009 | 15/08/2013 | 50 | 9.7 | N/A |
| Elizabeth Martin | 15/08/2008 | 100,000 | 15/08/2010 | 15/08/2013 | 50 | 9.7 | N/A |
| Elizabeth Martin | 15/08/2008 | 100,000 | 15/08/2011 | 15/08/2013 | 50 | 9.7 | N/A |
| Elizabeth Martin | 15/08/2008 | 100,000 | 15/08/2012 | 15/08/2013 | 50 | 9.7 | N/A |
| Other Key Management Personnel | | | | | | | |
| Andrew Meloncelli | 18/12/2008 | 100,000 | 18/12/2008 | 18/12/2013 | 25 | 3.6 | N/A |
| Andrew Meloncelli | 18/12/2008 | 100,000 | 18/12/2009 | 18/12/2013 | 25 | 3.6 | N/A |
| Andrew Meloncelli | 18/12/2008 | 100,000 | 18/12/2010 | 18/12/2013 | 25 | 3.6 | N/A |
| Andrew Meloncelli | 18/12/2008 | 100,000 | 18/12/2011 | 18/12/2013 | 25 | 3.6 | N/A |
| Andrew Meloncelli | 18/12/2008 | 100,000 | 18/12/2012 | 18/12/2013 | 25 | 3.6 | N/A |
| Grant Calderwood | 18/12/2008 | 100,000 | 18/12/2008 | 18/12/2013 | 25 | 3.6 | N/A |
| Grant Calderwood | 18/12/2008 | 100,000 | 18/12/2009 | 18/12/2013 | 25 | 3.6 | N/A |
| Grant Calderwood | 18/12/2008 | 100,000 | 18/12/2010 | 18/12/2013 | 25 | 3.6 | N/A |
| Grant Calderwood | 18/12/2008 | 100,000 | 18/12/2011 | 18/12/2013 | 25 | 3.6 | N/A |
| Grant Calderwood | 18/12/2008 | 100,000 | 18/12/2012 | 18/12/2013 | 25 | 3.6 | N/A |
| Peter Dendle | 18/12/2008 | 100,000 | 18/12/2008 | 18/12/2013 | 25 | 3.6 | N/A |
| Peter Dendle | 18/12/2008 | 100,000 | 18/12/2009 | 18/12/2013 | 25 | 3.6 | N/A |
| Peter Dendle | 18/12/2008 | 100,000 | 18/12/2010 | 18/12/2013 | 25 | 3.6 | N/A |
| Peter Dendle | 18/12/2008 | 100,000 | 18/12/2011 | 18/12/2013 | 25 | 3.6 | N/A |
| Peter Dendle | 18/12/2008 | 100,000 | 18/12/2012 | 18/12/2013 | 25 | 3.6 | N/A |

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

E Additional information

Performance income as a proportion of total compensation

No performance based bonuses have been paid to key management personnel during the financial year.

Directors' Report continued

DIRECTORS' MEETINGS

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

| | Directors Meetings | | Audit Committee Meetings | | Human Resources & Compensation Committee Meetings | | Safety, Health & Environment Committee Meetings | |
|--------------------|--------------------|----|--------------------------|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| John Horan | 10 | 10 | 5 | 5 | 1 | 1 | * | * |
| Les Emery | 10 | 10 | * | * | * | * | 1 | 1 |
| Douglas Dunnet | 9 | 10 | 5 | 5 | * | * | * | * |
| Sir Rabbie Namaliu | 10 | 10 | * | * | * | * | 1 | 1 |
| Susanne Sesselmann | 9 | 10 | * | * | * | * | * | * |
| John Hick | 10 | 10 | * | * | 1 | 1 | 1 | 1 |
| Elizabeth Martin | 10 | 10 | 5 | 5 | 1 | 1 | * | * |

Notes

A - Number of meetings attended.

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

* - Not a member of the relevant Committee.

SHARES UNDER OPTION

At the date of this report there are 10,301,915 unissued ordinary shares in respect of which options are outstanding.

| | Number of options |
|---|-------------------|
| Balance at the beginning of the year | 13,494,970 |
| Movements of share options during the year | |
| Issued, exercisable at 25 cents, on or before 18 December 2013 | 2,300,000 |
| Issued, exercisable at 25 cents, on or before 31 March 2014 | 550,000 |
| Issued, exercisable at 50 cents, on or before 15 August 2013 | 5,750,000 |
| Expired (20 to 30 cents, 30 November 2008) | (6,800,000) |
| Expired (40 cents, 30 November 2008) | (4,000,000) |
| Expired (36 cents, 15 February 2009) | (993,055) |
| Total number of options outstanding as at 30 June 2009 and the date of this report | 10,301,915 |

The balance is comprised of the following:

| Expiry date | Exercise price (cents) | Number of options |
|---|------------------------|-------------------|
| 15 October 2009 | C19 | 1,201,915 |
| 31 December 2009 | 20 | 170,000 |
| 31 December 2010 | 25 | 170,000 |
| 31 December 2011 | 30 | 160,000 |
| 15 August 2013 | 50 | 5,750,000 |
| 18 December 2013 | 25 | 2,300,000 |
| 31 March 2014 | 25 | 550,000 |
| Total number of options outstanding at the date of this report | | 10,301,915 |

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 has paid premiums insuring all the directors of Marengo Mining Limited against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

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

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

The total amount of insurance contract premiums paid is \$20,407.

Directors' Report continued

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Stantons International, or associated entities.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR'S INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the directors.



L S G Emery
Managing Director
Perth, 17 September 2009

Stantons International

ABN 41 103 088 697

LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
PH: 61 8 9481 3188 • FAX: 61 8 9321 1204
www.stantons.com.au

17 September 2009

Board of Directors
Marengo Mining Limited
Level 2
9 Havelock Street
WEST PERTH WA 6005

Dear Directors

RE: MARENGO MINING LIMITED

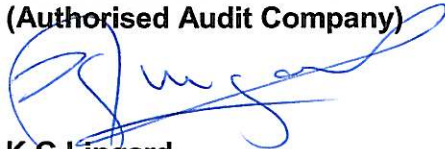
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Marengo Mining Limited.

As the Audit Director for the audit of the financial statements of Marengo Mining Limited for the year ended 30 June 2009, 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 has chartered separate committees for: Audit; Human Resources and Compensation; and, Safety, Health and Environment. The Committees each operate according to their own charter and provide recommendations for the consideration of the full Board as required. Directors are appointed to the Committees, from time to time, as the Board considers necessary.

Role of the Board

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

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

Appointments to Other Boards

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

Independent Professional Advice

The Board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to 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 revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Company's size and the resources it has available.

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

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

Corporate Governance Statement continued

| | ASX Principle | Status | Reference/comment |
|--|---|--------|--|
| Principle 1: Lay solid foundations for management and oversight | | | |
| 1.1 | Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions | A | Matters reserved for the Board are included on the Company's website. |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives | A | Performance evaluation of senior executives is the responsibility of the Human Resources and Compensation Committee. Details of the Human Resources and Compensation Committee are contained in the Corporate Governance Statement on the Company's website. |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle 1 | A | |
| Principle 2: Structure the Board to add value | | | |
| 2.1 | A majority of the Board should be independent directors | A | The Board comprises seven directors, six of whom are non executive and independent (including the Chairman). |
| 2.2 | The chair should be an independent director | A | |
| 2.3 | The roles of chair and chief executive officer should not be exercised by the same individual | A | 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 the process. |
| 2.5 | Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors | A | Performance evaluation of the Board, Directors and Key Executives is the responsibility of the Human Resources and Compensation Committee. |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2 | A | The skills and experience of Directors are set out in the Company's Annual Report and on the Company's website. |
| Principle 3: Promote ethical and responsible decision-making | | | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the Company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices | A | The Company has formulated a Code of Conduct which can be viewed on the Company's website. |
| 3.2 | Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy | A | The Company has formulated a share trading policy, which can be viewed on the Company's website. |
| 3.3 | Companies should provide the information indicated in the Guide to reporting on Principle 3 | A | |

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

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

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

| | ASX Principle | Status | Reference/comment |
|---------------------|--|--------|---|
| Principle 7: | Recognise and manage risk | | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies | A | While the Company does not have formalised policies on risk management the Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include: <ul style="list-style-type: none"> • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations • sovereign risk • share market conditions • economic risk |
| 7.2 | The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks | N/A | While the Company does not have formalised policies on risk management it recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at Board meetings and risk management culture is encouraged amongst employees and contractors. |
| 7.3 | The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks | A | |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7 | N/A | |
| Principle 8: | Remunerate fairly and responsibly | | |
| 8.1 | The Board should establish a remuneration committee | A | The Company has established a Human Resources and Compensation Committee which has a formal charter that can be viewed on the Company's website. |
| 8.2 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives | A | |
| 8.3 | Companies should provide the information indicated in the Guide to reporting on Principle 8 | A | Refer to the Remuneration Report in the Company's Annual Report. |

A = Adopted

N/A = Not adopted

Marengo Mining Limited

Income Statements

YEAR ENDED 30 JUNE 2009

| | Notes | Consolidated | | Parent Entity | |
|--|-------|---------------------|--------------|---------------------|--------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| REVENUE FROM CONTINUING OPERATIONS | 4 | 697,008 | 1,163,034 | 697,008 | 1,162,480 |
| Other income | 5 | 563,977 | 213,290 | 563,977 | 213,290 |
| EXPENDITURE | | | | | |
| Depreciation expense | 11 | (197,628) | (80,938) | (121,141) | (40,781) |
| Salaries and employee benefits expense | | (1,720,958) | (654,780) | (1,608,279) | (654,780) |
| Exploration expenditure | | (11,927,121) | (11,942,889) | (215,451) | (123,277) |
| Impairment expense | 6 | - | - | (25,054,576) | (12,217,063) |
| Corporate expenses | | (869,906) | (948,040) | (786,648) | (861,678) |
| Occupancy expenses | | (317,868) | (85,527) | (278,417) | (78,704) |
| Insurance expenses | | (241,516) | (97,947) | (127,313) | (57,398) |
| Administration expenses | | (897,962) | (1,033,342) | (733,832) | (920,357) |
| Share-based payment expense | 28 | (358,069) | - | (358,069) | - |
| Other expenses | | - | (291,369) | - | (291,369) |
| LOSS BEFORE INCOME TAX | | (15,270,043) | (13,758,508) | (28,022,741) | (13,869,637) |
| INCOME TAX BENEFIT / (EXPENSE) | 7 | - | - | - | - |
| NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF MARENGO MINING LIMITED | | (15,270,043) | (13,758,508) | (28,022,741) | (13,869,637) |
| Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share) | 27 | (5.7) | (7.3) | | |

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

Marengo Mining Limited

Balance Sheets

AS AT 30 JUNE 2009

| | Notes | Consolidated | | Parent Entity | |
|----------------------------------|-------|---------------------|--------------|---------------------|--------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 8 | 5,088,081 | 23,352,570 | 4,476,622 | 22,992,542 |
| Trade and other receivables | 9 | 479,986 | 828,723 | 163,199 | 581,086 |
| TOTAL CURRENT ASSETS | | 5,568,067 | 24,181,293 | 4,639,821 | 23,573,628 |
| NON-CURRENT ASSETS | | | | | |
| Other financial assets | 10 | 425,657 | 817,301 | 425,658 | 10,001,673 |
| Plant and equipment | 11 | 734,491 | 622,054 | 347,986 | 279,644 |
| Mining properties | 12 | 15,598,014 | 9,352,520 | - | - |
| TOTAL NON-CURRENT ASSETS | | 16,758,162 | 10,791,875 | 773,644 | 10,281,317 |
| TOTAL ASSETS | | 22,326,229 | 34,973,168 | 5,413,465 | 33,854,945 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 13 | 918,643 | 2,745,003 | 656,057 | 1,636,326 |
| Provisions | 14 | 485,586 | 240,608 | 463,753 | 231,062 |
| TOTAL CURRENT LIABILITIES | | 1,404,229 | 2,985,611 | 1,119,810 | 1,867,388 |
| TOTAL LIABILITIES | | 1,404,229 | 2,985,611 | 1,119,810 | 1,867,388 |
| NET ASSETS | | 20,922,000 | 31,987,557 | 4,293,655 | 31,987,557 |
| EQUITY | | | | | |
| Issued capital | 15 | 58,511,763 | 58,540,993 | 58,511,763 | 58,540,993 |
| Reserves | 16(a) | 5,079,457 | 845,741 | 1,479,520 | 1,121,451 |
| Accumulated losses | 16(b) | (42,669,220) | (27,399,177) | (55,697,628) | (27,674,887) |
| TOTAL EQUITY | | 20,922,000 | 31,987,557 | 4,293,655 | 31,987,557 |

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

Marengo Mining Limited

Statements of Changes in Equity

| YEAR ENDED 30 JUNE 2009 | Notes | Consolidated | | Parent Entity | |
|--|-------|---------------------|--------------|---------------------|--------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR | | 31,987,557 | 13,999,519 | 31,987,557 | 13,999,521 |
| Exchange differences on translation of foreign operations | 16(a) | 3,875,647 | (111,127) | - | - |
| NET INCOME/(LOSS) RECOGNISED DIRECTLY IN EQUITY LOSS FOR THE YEAR | | 3,875,647 | (111,127) | - | - |
| | | (15,270,043) | (13,758,508) | (28,022,741) | (13,869,637) |
| TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF MARENGO MINING LIMITED | | (11,394,396) | (13,869,635) | (28,022,741) | (13,869,637) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Shares issued during the year | 15 | - | 35,182,626 | - | 35,182,626 |
| Transaction costs | 15 | (29,230) | (3,516,857) | (29,230) | (3,516,857) |
| Employees and consultants share options | 16 | 358,069 | 191,904 | 358,069 | 191,904 |
| | | 328,839 | 31,857,673 | 328,839 | 31,857,673 |
| TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR | | 20,922,000 | 31,987,557 | 4,293,655 | 31,987,557 |

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

Marengo Mining Limited

Cash Flow Statements

| YEAR ENDED 30 JUNE 2009 | Notes | Consolidated | | Parent Entity | |
|---|-------|---------------------|--------------|---------------------|--------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 114,768 | 216,205 | 114,768 | 216,205 |
| Payments to suppliers and employees | | (3,915,577) | (2,077,665) | (3,446,088) | (1,423,134) |
| Interest received | | 804,762 | 1,031,573 | 804,762 | 1,031,019 |
| Expenditure on mining interests | | (10,978,550) | (10,913,913) | (215,451) | (123,277) |
| NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES | 26 | (13,974,597) | (11,743,800) | (2,742,009) | (299,187) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payments for bank guarantee | | - | (430,000) | - | (430,000) |
| Payments for plant and equipment | | (265,697) | (477,441) | (224,578) | (174,748) |
| Payments for DFS expenses | | (4,107,747) | (2,626,053) | - | - |
| Advances to related parties | | - | - | (15,549,333) | (14,494,715) |
| NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES | | (4,373,444) | (3,533,494) | (15,773,911) | (15,099,463) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issues of ordinary shares | | - | 34,169,655 | - | 34,169,655 |
| Payment of share issue costs | | - | (2,699,278) | - | (2,699,278) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | | - | 31,470,377 | - | 31,470,377 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (18,348,041) | 16,193,083 | (18,515,920) | 16,071,727 |
| Cash and cash equivalents at the beginning of the financial year | | 23,352,570 | 7,171,035 | 22,992,542 | 6,920,815 |
| Effects of exchange rate changes on cash and cash equivalents | | 83,552 | (11,548) | - | - |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | 8 | 5,088,081 | 23,352,570 | 4,476,622 | 22,992,542 |

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

Notes to the Financial Statements

30 JUNE 2009

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. The financial report is presented in the Australian currency. Marengo Mining Limited is a company limited by shares, domiciled and incorporated in Australia. The financial report was authorised for issue by the directors on 17 September 2009. The directors have the power to amend and reissue the financial report.

(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, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The financial report of Marengo Mining Limited also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

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

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Marengo Mining Limited ("Company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Marengo Mining Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group 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 Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 headings. Details of the joint ventures are set out in note 24.

(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.

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in 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 financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(iii) Group companies

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

- assets and liabilities for each 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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to 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 Group as lessee are classified as operating leases (note 21(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to 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 Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the 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.

(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.

(k) Trade and other receivables

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

(l) Investments and other financial assets

Classification

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

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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 reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity 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 reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial assets - reclassification

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

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

Change in accounting policy

The Group has adopted the policy of reclassifying financial assets out of the held-for-trading category from 1 July 2008, following amendments made to AASB 139 *Financial Instruments: Recognition and Measurement* in October 2008. Under the Group's previous policy reclassifications of financial assets were not permitted. The Group did not reclassify any financial assets in the current reporting period. Therefore, the change in accounting policy had no impact on the Group's financial statements.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the 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 Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the 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 Group's right to receive payments is established.

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

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Impairment

The Group 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.

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

(m) Plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the 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 or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 5% and 40% per annum.

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

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

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

(n) Exploration, evaluation and feasibility costs

Exploration and evaluation costs are written off in the year they incurred apart from acquisition costs and feasibility study costs which are accumulated. Accumulated costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where pre-feasibility activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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

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

(o) Trade and other payables

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

(p) Employee benefits

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

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

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

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(ii) Share-based payments

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

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at 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.

(q) Issued capital

Ordinary shares are classified as equity.

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

(r) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to 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.

(ii) Diluted earnings per share

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

(s) Goods and Services Tax (GST)

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

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

(t) New accounting standards and interpretations

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

(i) AASB 3: *Business Combinations*, AASB 127: *Consolidated and Separate Financial Statements*, AASB 2008-3: *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASB's 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 Si 139 and interpretations 9 & 1071 (applicable for annual reporting periods commencing from 1 July 2009)]* and AASB 2008-7: *Amendments to Australian Accounting Standards — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 1361 (applicable for annual reporting periods commencing from 1 January 2009)]*

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application, in this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

(ii) AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 (AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009)

AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

(iii) AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009)

The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

(iv) AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009)

The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

(v) AASB 2008-1: Amendments to Australian Accounting Standard — Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from January 2009)

This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

(vi) AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6)

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

(vii) AASB 2006-8: Amendments to Australian Accounting Standards — Eligible Hedged items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009)

This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.

Notes to the Financial Statements continued

30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

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

Exploration, evaluation and feasibility costs

Exploration and evaluation costs are written off in the year they incurred apart from acquisition costs and feasibility study 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 date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

2. FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

| | Consolidated | | | | Parent Entity | | | |
|-----------------------------|--------------|---------|-------------|-----------|---------------|---------|------|-----------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | PGK | CAD | PGK | CAD | PGK | CAD | PGK | CAD |
| Cash and cash equivalents | 1,264,391 | 191,682 | 917,245 | 9,129,812 | - | 191,682 | - | 9,148,442 |
| Trade and other receivables | 655,061 | - | 630,908 | - | - | - | - | - |
| Trade and other payables | (542,980) | - | (2,465,634) | - | - | - | - | - |

Sensitivity analysis

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Group's and the parent entity's post tax loss for the year would have been \$20,000 lower/higher (2008: \$941,001 lower/higher), and there would have been no movements to the Group's and parent entity's other equity for both years presented.

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the Papua New Guinea Kina with all other variables held constant, there would have been nil impact on the Group's and the parent entity's post-tax losses for the year (2008: Nil) and immaterial movements to the Group's and parent entity's other equity for both years presented.

(ii) Price risk

Given the current level of operations neither the Group nor the parent entity are exposed to price risk.

Notes to the Financial Statements continued

30 JUNE 2009

2. FINANCIAL RISK MANAGEMENT (cont'd)

(iii) Interest rate risk

The Group and the parent entity are exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$5,088,081 (2008: \$23,352,570) and the parent entity \$4,476,622 (2008: \$22,992,542) are subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 4.9% (2008: 5.8%) and by the parent entity 5.1% (2008: 5.8%).

Sensitivity analysis

At 30 June 2009, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for both the Group and the parent entity would have been \$110,000 lower/higher (2008: \$120,000 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

Neither the Group, nor the parent entity, have any significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the balance sheet and notes to the financial statements.

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

(c) Liquidity risk

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

The financial liabilities of the Group and the parent entity are confined to trade and other payables as disclosed in the Balance Sheet. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

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

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

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

Notes to the Financial Statements continued

30 JUNE 2009

3. SEGMENT INFORMATION

Description of segments

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

Primary reporting format – geographical segments

| | Australia | | Papua New Guinea | | Consolidated | |
|---|--------------|--------------|------------------|--------------|--------------|--------------|
| | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ | 2009 \$ | 2008 \$ |
| Segment revenue | | | | | | |
| Other revenue | 1,260,985 | 1,375,770 | - | 554 | 1,260,985 | 1,376,324 |
| Total segment revenue | 1,260,985 | 1,375,770 | - | 554 | 1,260,985 | 1,376,324 |
| Intersegment elimination | | | | | - | - |
| Consolidated revenue | | | | | 1,260,985 | 1,376,324 |
| Segment result | | | | | | |
| Segment result | (28,022,741) | (13,869,637) | (12,301,878) | (12,105,934) | (40,324,619) | (25,975,571) |
| Intersegment elimination | | | | | 25,054,576 | 12,217,063 |
| Loss before income tax | | | | | (15,270,043) | (13,758,508) |
| Income tax expense | | | | | - | - |
| Loss for the year | | | | | (15,270,043) | (13,758,508) |
| Segment assets and liabilities | | | | | | |
| Segment assets | 5,413,465 | 33,854,945 | 16,912,765 | 10,302,595 | 22,326,230 | 44,157,540 |
| Intersegment elimination | | | | | (1) | (9,184,372) |
| Total assets | | | | | 22,326,229 | 34,973,168 |
| Segment liabilities | 1,119,810 | 1,867,388 | 46,311,556 | 31,275,088 | 47,431,366 | 33,142,476 |
| Intersegment elimination | | | | | (46,027,137) | (30,156,865) |
| Total liabilities | | | | | 1,404,229 | 2,985,611 |
| Other segment information | | | | | | |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 189,483 | 174,748 | 35,162 | 302,693 | 224,645 | 477,441 |
| Depreciation expense | 121,141 | 40,781 | 76,487 | 40,157 | 197,628 | 80,938 |
| Impairment expense | 25,054,576 | 12,217,063 | - | - | 25,054,576 | 12,217,063 |
| Intersegment elimination | | | | | (25,054,576) | (12,217,063) |
| Total impairment expense | | | | | - | - |

Notes to the Financial Statements continued

30 JUNE 2009

| | Consolidated | | Parent Entity | |
|---|---------------------|------------------|---------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 4. REVENUE | | | | |
| From continuing operations | | | | |
| <i>Other revenue</i> | | | | |
| Interest | 697,008 | 1,160,119 | 697,008 | 1,159,565 |
| Other | - | 2,915 | - | 2,915 |
| | 697,008 | 1,163,034 | 697,008 | 1,162,480 |
| 5. OTHER INCOME | | | | |
| Net foreign exchange gains | 563,977 | 213,290 | 563,977 | 213,290 |
| 6. EXPENSES | | | | |
| Loss before income tax includes the following specific expenses: | | | | |
| Impairment of loans to controlled entity | - | - | 25,054,576 | 12,217,063 |
| Minimum lease payments relating to operating leases | 233,567 | 79,931 | 198,805 | 73,231 |
| 7. INCOME TAX | | | | |
| (a) Income tax expense/(benefit) | | | | |
| 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 | (15,270,043) | (13,758,508) | (28,022,741) | (13,869,637) |
| Prima facie tax benefit at the Australian tax rate of 30% (2008: 30%) | (4,581,013) | (4,127,552) | (8,406,822) | (4,160,891) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Share based payments | 107,421 | - | 107,421 | - |
| Other | 41,339 | 28,469 | 41,339 | 21,713 |
| | (4,432,253) | (4,099,083) | (8,258,062) | (4,139,178) |
| Movements in unrecognised temporary differences | (2,101,098) | (2,725,124) | 7,285,237 | 3,493,832 |
| Tax effect of current year tax losses for which no deferred tax asset has been recognised | 6,533,351 | 6,824,207 | 972,825 | 645,346 |
| Income tax expense/(benefit) | - | - | - | - |

Notes to the Financial Statements continued

30 JUNE 2009

| | Notes | Consolidated | | Parent Entity | |
|---|-------|--------------------|--------------------|-------------------|------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | \$ | \$ | \$ | \$ |
| 7. INCOME TAX (cont'd) | | | | | |
| (c) Unrecognised temporary differences | | | | | |
| Deferred Tax Assets (at 30%) | | | | | |
| <i>On Income Tax Account</i> | | | | | |
| Capital raising costs | | 532,313 | 730,707 | 532,313 | 730,707 |
| Provision for impairment | | - | - | 13,808,141 | 6,291,768 |
| Accruals | | 4,500 | 333,261 | 4,500 | 94,762 |
| Provision for employee benefits | | 145,676 | 72,182 | 139,126 | 69,318 |
| Carry forward tax losses | | 17,402,434 | 10,869,083 | 3,257,447 | 2,177,455 |
| | | 18,084,923 | 12,005,233 | 17,741,527 | 9,364,010 |
| Deferred Tax Liabilities (at 30%) | | | | | |
| Capitalised exploration and evaluation costs | | (4,679,404) | (2,763,488) | - | - |
| Accruals | | (180) | (151,971) | (180) | (45,591) |
| | | (4,679,584) | (2,915,459) | (180) | (45,591) |
| Net Unrecognised Deferred Tax Asset | | 13,405,339 | 9,089,774 | 17,741,347 | 9,318,419 |

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

8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

| | | | | | |
|---|--|------------------|-------------------|------------------|-------------------|
| Cash at bank and in hand | | 1,382,040 | 1,263,015 | 770,581 | 902,987 |
| Short-term deposits | | 3,706,041 | 22,089,555 | 3,706,041 | 22,089,555 |
| Cash and cash equivalents as shown in the balance sheet and the statement of cash flows | | 5,088,081 | 23,352,570 | 4,476,622 | 22,992,542 |

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

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

9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

| | | | | | |
|--------------------|--|----------------|----------------|----------------|----------------|
| Sundry receivables | | 82,425 | 407,858 | 25,480 | 296,744 |
| Prepayments | | 397,561 | 420,865 | 137,719 | 284,342 |
| | | 479,986 | 828,723 | 163,199 | 581,086 |

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

10. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

| | | | | | |
|--------------------------------|-----|----------------|----------------|----------------|-------------------|
| Shares in subsidiary – at cost | | - | - | 1 | 1 |
| Loans to controlled entities | | - | - | 46,027,137 | 30,156,932 |
| Provision for impairment | (a) | - | - | (46,027,137) | (20,972,561) |
| Bank Guarantee – suppliers | | - | 430,000 | - | 430,000 |
| Loan – Director | (b) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Unexpired interest | | (574,343) | (612,699) | (574,343) | (612,699) |
| | | 425,657 | 817,301 | 425,658 | 10,001,673 |

None of the non-current assets are impaired or past due but not impaired.

Notes to the Financial Statements continued

30 JUNE 2009

10. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS (cont'd)

(a) Impaired receivables

As at 30 June 2009 the parent entity's loan to subsidiary with a nominal value of \$46,027,137 (2008: \$30,156,932) has been provided for to the amount as shown below. Refer to note 22 for further information on the loan to subsidiary.

Movements in the provision for impairment of receivables are as follows:

| | Parent Entity | |
|---|-------------------|-------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| Balance at the beginning of the year | 20,972,561 | 8,755,498 |
| Provision for impairment recognised during the year | 25,054,576 | 12,217,063 |
| | 46,027,137 | 20,972,561 |

(b) Loan - Director

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 the 28 November 2007 General Meeting by shareholders.

11. NON-CURRENT ASSETS – PLANT AND EQUIPMENT

| | Consolidated | | Parent Entity | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Plant and equipment | | | | |
| Cost | 1,103,999 | 785,038 | 568,109 | 378,626 |
| Accumulated depreciation | (369,508) | (162,984) | (220,123) | (98,982) |
| Net book amount | 734,491 | 622,054 | 347,986 | 279,644 |
| Plant and equipment | | | | |
| Opening net book amount | 622,054 | 236,534 | 279,644 | 145,677 |
| Exchange differences | 85,420 | (10,983) | - | - |
| Additions | 224,645 | 477,441 | 189,483 | 174,748 |
| Depreciation charge | (197,628) | (80,938) | (121,141) | (40,781) |
| Closing net book amount | 734,491 | 622,054 | 347,986 | 279,644 |

12. NON-CURRENT ASSETS – MINING PROPERTIES

Tenement acquisition and feasibility study costs carried forward in respect of mining areas of interest

| | | | | |
|--------------------------|-------------------|------------------|----------|----------|
| Opening net book amount | 9,352,520 | 6,701,550 | - | - |
| Incurred during the year | 4,107,747 | 2,626,053 | - | - |
| Exchange differences | 2,137,747 | 24,917 | - | - |
| Closing net book amount | 15,598,014 | 9,352,520 | - | - |

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

13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

| | | | | |
|-----------------------------|----------------|------------------|----------------|------------------|
| Trade payables | 693,513 | 1,718,960 | 531,149 | 1,603,666 |
| Other payables and accruals | 225,130 | 1,026,043 | 124,908 | 32,660 |
| | 918,643 | 2,745,003 | 656,057 | 1,636,326 |

14. CURRENT LIABILITIES - PROVISIONS

| | | | | |
|-------------------|---------|---------|---------|---------|
| Employee benefits | 485,586 | 240,608 | 463,753 | 231,062 |
|-------------------|---------|---------|---------|---------|

Notes to the Financial Statements continued

30 JUNE 2009

15. ISSUED CAPITAL

(a) Share capital

| | Notes | Consolidated & Parent Entity 2009 | | Consolidated & Parent Entity 2008 | |
|----------------------------|--------------|--------------------------------------|-------------------|--------------------------------------|------------|
| | | Number of shares | \$ | Number of shares | \$ |
| Ordinary shares fully paid | 15(b), 15(d) | 268,016,975 | 58,511,763 | 268,016,975 | 58,540,993 |
| Total issued capital | | 268,016,975 | 58,511,763 | 268,016,975 | 58,540,993 |

(b) Movements in ordinary share capital

| | | | | | |
|--|--|--------------------|-------------------|-------------|--------------------|
| Beginning of the financial year | | 268,016,975 | 58,540,993 | 126,880,719 | 26,875,224 |
| Transactions during the year: | | | | | |
| – 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 |
| – 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 | | - | (29,230) | - | (3,516,857) |
| End of the financial year | | 268,016,975 | 58,511,763 | 268,016,975 | 58,540,993 |

(c) Movements in options on issue

| | Consolidated & Parent Entity Number of options | |
|--|---|--------------|
| | 2009 | 2008 |
| Beginning of the financial year | 13,494,970 | 63,682,574 |
| Issued during the year: | | |
| – Exercisable at 25 cents, on or before 18 Dec 2013 | 2,300,000 | - |
| – Exercisable at 25 cents, on or before 31 Mar 2014 | 550,000 | - |
| – Exercisable at 50 cents, on or before 15 Aug 2013 | 5,750,000 | - |
| – 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 |
| Exercised during the year: | | |
| – 20 cents, 28 Feb 2008 | - | (43,957,680) |
| – 20 cents, 30 Nov 2008 | - | (1,333,333) |
| – 25 cents, 30 Nov 2008 | - | (1,333,333) |
| – 30 cents, 30 Nov 2008 | - | (1,333,334) |
| Expired during the year: | | |
| – 20 cents, 30 Nov 2008 | (1,566,666) | - |
| – 25 cents, 30 Nov 2008 | (3,066,666) | - |
| – 30 cents, 30 Nov 2008 | (2,166,668) | - |
| – 36 cents, 15 Feb 2009 | (993,055) | - |
| – 40 cents, 30 Nov 2008 | (4,000,000) | - |
| – 20 cents, 28 Feb 2008 | - | (4,424,894) |
| End of the financial year | 10,301,915 | 13,494,970 |

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Financial Statements continued

30 JUNE 2009

| | Consolidated | | Parent Entity | |
|--|--------------|------|---------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |

15. ISSUED CAPITAL (cont'd)

(e) Capital risk management

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

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group and the parent entity at 30 June 2009 and 30 June 2008 are as follows:

| | | | | |
|-----------------------------|-----------|-------------|-----------|-------------|
| Cash and cash equivalents | 5,088,081 | 23,352,570 | 4,476,622 | 22,992,542 |
| Trade and other receivables | 479,986 | 828,723 | 163,199 | 581,086 |
| Trade and other payables | (918,643) | (2,745,003) | (656,057) | (1,636,326) |
| Provisions | (485,586) | (240,608) | (463,753) | (231,062) |
| Working capital position | 4,163,838 | 21,195,682 | 3,520,011 | 21,706,240 |

16. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

| | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Foreign currency translation reserve | 3,599,937 | (275,710) | - | - |
| Options reserve | 1,479,520 | 1,121,451 | 1,479,520 | 1,121,451 |
| | 5,079,457 | 845,741 | 1,479,520 | 1,121,451 |

Movements:

Foreign currency translation reserve

| | | | | |
|--|-----------|-----------|---|---|
| Balance at beginning of year | (275,710) | (164,583) | - | - |
| Currency translation differences arising during the year | 3,875,647 | (111,127) | - | - |
| Balance at end of year | 3,599,937 | (275,710) | - | - |

Options reserve

| | | | | |
|------------------------------|-----------|-----------|-----------|-----------|
| Balance at beginning of year | 1,121,451 | 929,547 | 1,121,451 | 929,547 |
| Share-based payment expense | 358,069 | 191,904 | 358,069 | 191,904 |
| Balance at end of year | 1,479,520 | 1,121,451 | 1,479,520 | 1,121,451 |

(b) Accumulated losses

| | | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| Balance at beginning of year | (27,399,177) | (13,640,669) | (27,674,887) | (13,805,250) |
| Net loss for the year | (15,270,043) | (13,758,508) | (28,022,741) | (13,869,637) |
| Balance at end of year | (42,669,220) | (27,399,177) | (55,697,628) | (27,674,887) |

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Options reserve

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

17. DIVIDENDS

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

Notes to the Financial Statements continued

30 JUNE 2009

| | Consolidated | | Parent Entity | |
|--|------------------|------------------|------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 18. KEY MANAGEMENT PERSONNEL DISCLOSURES | | | | |
| (a) Key management personnel compensation | | | | |
| Short-term benefits | 1,778,276 | 1,131,705 | 1,778,276 | 1,131,705 |
| Post employment benefits | 121,101 | 82,456 | 121,101 | 82,456 |
| Other long-term benefits | - | - | - | - |
| Termination benefits | 31,846 | - | 31,846 | - |
| Share-based payments | 336,542 | - | 336,542 | - |
| | 2,267,765 | 1,214,161 | 2,267,765 | 1,214,161 |

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 6 to 9.

(b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 9 and 10.

(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 Group, including their personally related parties, are set out below:

| 2009 | 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 | 900,000 | 1,250,000 | - | (900,000) | 1,250,000 | 1,250,000 | - |
| Les Emery | - | 1,500,000 | - | - | 1,500,000 | 1,500,000 | - |
| Douglas Dunnet | 300,000 | 500,000 | - | (300,000) | 500,000 | 500,000 | - |
| Sir Rabbie Namaliu | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | - |
| Susanne Sesselmann | - | 500,000 | - | - | 500,000 | 500,000 | - |
| John Hick | - | 500,000 | - | - | 500,000 | 500,000 | - |
| Elizabeth Martin | - | 500,000 | - | - | 500,000 | 500,000 | - |
| Other key management personnel of the Group | | | | | | | |
| Grant Calderwood | - | 500,000 | - | - | 500,000 | 500,000 | - |
| Peter Dendle | 500,000 | 500,000 | - | (500,000) | 500,000 | 500,000 | - |
| Andrew Meloncelli | - | 500,000 | - | (500,000) | - | - | - |

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

| 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 | - |
| Other key management personnel of the Group | | | | | | | |
| Peter Dendle | 500,000 | - | - | - | 500,000 | 500,000 | - |

Notes to the Financial Statements continued

30 JUNE 2009

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(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 Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2009

| | 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 |
|--|------------------------------|---|-------------------------------|----------------------------|
| <i>Directors of Marengo Mining Limited</i> | | | | |
| Ordinary shares | | | | |
| John Horan | 760,000 | - | 600,000 | 1,360,000 |
| Les Emery | 5,585,000 | - | 350,000 | 5,935,000 |
| Douglas Dunnet | 278,967 | - | - | 278,967 |
| Sir Rabbie Namaliu | - | - | 110,200 | 110,200 |
| Susanne Sesselmann | 184,000 | - | - | 184,000 |
| John Hick | - | - | - | - |
| Elizabeth Martin | - | - | - | - |
| <i>Other key management personnel of the Group</i> | | | | |
| Ordinary shares | | | | |
| John Ribbons (appointed 30 March 2009) | - | - | 60,000 | 60,000 |
| Grant Calderwood | - | - | 150,000 | 150,000 |
| Peter Dendle | 50,000 | - | 100,000 | 150,000 |
| Andrew Meloncelli (resigned 30 March 2009) | 100,000 | - | (100,000) | - |

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 |
|--|------------------------------|---|-------------------------------|----------------------------|
| <i>Directors of Marengo Mining Limited</i> | | | | |
| 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 |
| Susanne Sesselmann | - | - | 184,000 | 184,000 |
| <i>Other key management personnel of the Group</i> | | | | |
| Ordinary shares | | | | |
| Andrew Meloncelli | - | - | 100,000 | 100,000 |
| Grant Calderwood | - | - | - | - |
| Peter Dendle | - | - | 50,000 | 50,000 |

(c) Loans to key management personnel

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

(d) Other transactions with key management personnel

There were no other transactions with key management personnel.

Notes to the Financial Statements continued

30 JUNE 2009

| | Consolidated | | Parent Entity | |
|---|---------------|--------|---------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 19. 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 | | | | |
| Stantons International - audit and review of financial reports | 57,703 | 25,560 | 57,703 | 25,560 |
| Non-related audit firm for the audit or review of financial reports of any entity in the Group | 26,065 | 23,611 | - | 23,611 |
| Total remuneration for audit services | 83,768 | 49,171 | 57,703 | 49,171 |
| (b) Non-audit services | | | | |
| Stantons International – taxation compliance services | - | - | - | - |

20. CONTINGENCIES

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

21. COMMITMENTS

(a) Exploration commitments

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

| | | | | |
|---|----------------|-----------|---|---|
| within one year | 27,599 | 2,255,000 | - | - |
| later than one year but not later than five years | 205,820 | 5,000,000 | - | - |
| | 233,419 | 7,255,000 | - | - |

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

| | | | | |
|--|------------------|---------|----------------|---------|
| Minimum lease payments | | | | |
| within one year | 915,604 | 510,505 | 884,412 | 111,130 |
| later than one year but not later than five years | 86,649 | 58,343 | 23,079 | 58,343 |
| Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities | 1,002,253 | 568,848 | 907,491 | 169,473 |

The Group has two non-cancellable office leases, one for premises in Perth and the other for premises in Madang, expiring within six months and three years. The leases have varying terms, escalation clauses and renewal rights. The Group has a non-cancellable operating lease for an item of office equipment expiring within 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 Group also has a non-cancellable operating lease for a helicopter that is expiring on 31 December 2009.

(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 9 that are not recognised as liabilities and are not included in the key management personnel compensation.

| | | | | |
|---|------------------|-----------|------------------|-----------|
| within one year | 873,571 | 694,083 | 873,571 | 694,083 |
| later than one year but not later than five years | 1,250,167 | 1,058,500 | 1,250,167 | 1,058,500 |
| | 2,123,738 | 1,752,583 | 2,123,738 | 1,752,583 |

(d) Capital raising

The Company has entered into an agreement with Paradigm Capital (“Agent”) to act as agent for a potential capital raising in Canada. The Company is committed to costs and expenses, including the Agents’ reasonable out-of-pocket fees and expenses including the Agents’ legal counsel’s fees and expenses to a maximum C\$90,000, whether or not the capital raising is completed.

The Company has entered into an agreement with New Holland Capital Pty Ltd (“New Holland”) to manage and co-ordinate a potential capital raising. New Holland will be entitled to a fee of 5% on new equity introduced by them, and a management fee of 1.25% on the total value of shares issued by the Company.

Notes to the Financial Statements continued

30 JUNE 2009

| Consolidated | | Parent Entity | |
|--------------|------|---------------|------|
| 2009 | 2008 | 2009 | 2008 |
| \$ | \$ | \$ | \$ |

22. RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

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

(d) Loans to related parties

Loans to subsidiaries

| | | | | |
|--------------------------|---|---|--------------|--------------|
| Beginning of the year | - | - | 9,184,672 | 7,198,093 |
| Loans advanced | - | - | 15,869,904 | 14,203,642 |
| Loan repayments received | - | - | - | - |
| Provision for impairment | - | - | (25,054,576) | (12,217,063) |
| End of year | - | - | - | 9,184,672 |

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.

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

23. SUBSIDIARIES

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

| Name | Country of Incorporation | Class of Shares | Equity Holding ⁽¹⁾ | |
|------------------------------|--------------------------|-----------------|-------------------------------|------|
| | | | 2009 | 2008 |
| | | | % | % |
| Marengo Mining (PNG) Limited | Papua New Guinea | Ordinary | 100 | 100 |

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

24. INTERESTS IN JOINT VENTURES

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.

25. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

During August 2009 the Company successfully raised C\$14.835 million by the issue of 172,500,000 ordinary shares to Canadian investors, and a further \$5.458 million by the issue of 57,452,546 ordinary shares to institutional and sophisticated investors in Australia. Fees payable to Paradigm Capital Inc. and Canaccord Capital Corporation (together, the "Agents") on the Canadian raising totalled C\$890,100 cash and 8,625,000 options over ordinary shares, exercisable at C8.6 cents on or before 31 August 2011.

No other matter or circumstance has arisen since 30 June 2009, which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Notes to the Financial Statements continued

30 JUNE 2009

| | Consolidated | | Parent Entity | |
|--|---------------------|---------------------|--------------------|------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| 26. CASH FLOW STATEMENT | | | | |
| Reconciliation of net loss after income tax to net cash outflow from operating activities | | | | |
| Net loss for the year | (15,270,043) | (13,758,508) | (28,022,741) | (13,869,637) |
| Non-Cash Items | | | | |
| Depreciation of plant and equipment | 197,628 | 80,938 | 121,141 | 40,781 |
| Share-based payment expense | 358,069 | - | 358,069 | - |
| Interest income on loan to Managing Director | (38,356) | - | (38,356) | - |
| Foreign exchange loss | 2,174,226 | 291,369 | (449,210) | 291,369 |
| Impairment expense | - | - | 25,054,576 | 12,217,063 |
| Change in operating assets and liabilities | | | | |
| Decrease/(increase) in trade and other receivables | 406,206 | (367,095) | 193,080 | (451,927) |
| (Decrease)/increase in trade and other payables | (2,045,090) | 1,922,932 | (191,259) | 1,385,851 |
| Increase in employee entitlements provision | 242,763 | 86,564 | 232,691 | 87,313 |
| Net cash outflow from operating activities | <u>(13,974,597)</u> | <u>(11,743,800)</u> | <u>(2,742,009)</u> | <u>(299,187)</u> |

27. LOSS PER SHARE

| | Consolidated | |
|--|---------------------|---------------------|
| | 2009 | 2008 |
| | \$ | \$ |
| (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 | <u>(15,270,043)</u> | <u>(13,758,508)</u> |
| | 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 | <u>268,016,975</u> | <u>187,783,381</u> |

(c) Information on the classification of options

As the Group has made a loss for the year ended 30 June 2009, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

Notes to the Financial Statements continued

30 JUNE 2009

28. SHARE-BASED PAYMENTS

(a) Employees and Contractors Option Incentive Plan

The Group provides benefits to employees (including directors) and consultants of the Group in the form of share-based payment transactions, whereby employees or consultants render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from C19 cents to 50 cents per option. The expiry dates of options granted range from 15 October 2009 to 31 March 2014.

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

Set out below are summaries of the options granted:

| | Consolidated and Parent Entity | | | |
|--|--------------------------------|---------------------------------------|-------------------|---------------------------------------|
| | 2009 | | 2008 | |
| | 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 | 2,450,000 | 23.9 |
| Granted | 8,600,000 | 41.7 | - | - |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Expired | (1,950,000) | 23.9 | - | - |
| Outstanding at year-end | 9,100,000 | 40.7 | 2,450,000 | 23.9 |
| Exercisable at year-end | 9,100,000 | 40.7 | 2,450,000 | 23.9 |

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 4.10 years (2008: 0.48 years), and the exercise prices range from C19 cents to 50 cents.

The weighted average fair value of the options granted during the year was 7.5 cents (2008: Nil cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

| | 2009 | 2008 |
|---|------|------|
| Weighted average exercise price (cents) | 41.7 | - |
| Weighted average life of the option (years) | 5.0 | - |
| Weighted average underlying share price (cents) | 17.1 | - |
| Expected share price volatility | 89% | - |
| Weighted average risk free interest rate | 5.7% | - |

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

(b) Expenses arising from share-based payment transactions

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

| | Consolidated | | Parent Entity | |
|---|--------------|------|---------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$ | \$ | \$ | \$ |
| Options issued to employees and contractors as part of: | | | | |
| Share-based payment expense | 358,069 | - | 358,069 | - |

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 18 to 42 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 2009 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.

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, 17 September 2009

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

Report on the Financial Report

We have audited the accompanying financial report of Marengo Mining Limited, which comprises the balance sheet as at 30 June 2009, 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.

Directors' responsibility for the Financial 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, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Marengo Mining Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 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 also complies with International Financial Reporting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 10 of the directors' report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

Auditor's opinion

In our opinion the remuneration report of Marengo Mining Limited for the year ended 30 June 2009 complies 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
17 September 2009