

# **Marengo Mining Limited**

**ACN 099 496 474**

## **Financial Statements**

**For the Period Ended 31 December 2005**

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2005 and any public announcements made by Marengo Mining Limited during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

# Marengo Mining Limited

For the Period Ended 31 December 2005

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# Marengo Mining Limited

## Directors' Report

31 December 2005

Your directors submit the financial report of the the Group for the financial half-year ended 31 December 2005.

### 1. General information

#### a Directors

The names of the directors in office at any time during, or since the end of, the period are:

##### Names

John Patrick Horan

Leslie Sidney George Emery

Ronald Smit

Dennis William Wilkins

Douglas Dunnet

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

#### b Principal Activities

The principal activities of the Group during the financial period were mineral exploration and development.

There have been no significant changes in the nature of the Group's principal activities during the financial period.

### 2. Business review

#### a Operating Results

The consolidated loss of the Group after providing for income tax and eliminating minority equity interests amounted to \$902,795 (31 December 2004: \$644,284).

### 3. Other items

#### a Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period.

#### b Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the group's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to IFRS is included on Note 8 to this report.

# Marengo Mining Limited

## Directors' Report

31 December 2005

### c After balance day events

Subsequent to period end:

1. On 13 March 2006, the Company issued 4,000,000 shares at 30 cents to Sempra Metals Corp together with 4,000,000 attaching, unlisted options, with a strike price of 40 cents, expiring on 30 November 2008. This issue raised to gross \$1.2 million in additional capital for the company and,
2. The company entered into a heads of agreement with the shareholder of Belvedere Limited, a PNG company, for the acquisition of that company which controls the remaining 50% interest in the company's Yandera project. The consideration for this transaction, payable to Belvedere shareholders, is as follows;
  - a. cash payment of A\$3 million,
  - b. the issue of 12,000,000 fully paid shares in Marengo Mining Limited, and
  - c. the issue of 6,000,000 listed options to acquire fully paid shares in Marengo Mining Limited exercisable at 20 cents on or before 28 February 2008.

The transaction is subject to shareholder approval. The company has not yet set a date for the meeting, however it is anticipated that this will occur during April 2006.

Apart from the above, no other matters or circumstances have arisen since the end of the financial period 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.

### d Future developments

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

### e Auditor's Independence Declaration

The auditor's independence declaration for the period ended 31 December 2005 has been received and can be found on page 24 of the financial report.

This report is signed in accordance with a resolution of the Board of Directors.

Director: .....

Dennis Wilkins

Dated this 16<sup>th</sup> day of March 2006

# Marengo Mining Limited

## Consolidated Income Statement

For the Period Ended 31 December 2005

	December 31	December 31
	2005	2004
	\$	\$
Other revenue	93,125	56,451
Depreciation	(5,919)	(4,241)
Occupancy costs	(28,716)	(35,070)
Investor relations	(11,973)	-
Salaries and wages	(116,509)	-
Non-cash benefit - Options	(146,459)	(864)
Administrative costs	(296,787)	(246,289)
Exploration costs	(389,557)	(414,271)
<b>(Loss) before income tax</b>	<b>(902,795)</b>	<b>(644,284)</b>
<b>(Loss) attributable to members of the parent entity</b>	<b>(902,795)</b>	<b>(644,284)</b>
<b>Basic Loss (cents Per Share)</b>	<b>(2.33)</b>	<b>(1.95)</b>

# Marengo Mining Limited

## Consolidated Balance Sheet

As at 31 December 2005

		December 31	June 30
	Note	2005 \$	2005 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	6,960,723	1,545,186
Trade and other receivables		76,557	9,926
Other assets		16,861	-
<b>Total current assets</b>		<b>7,054,141</b>	<b>1,555,112</b>
<b>Non-current assets</b>			
Property, plant and equipment		122,207	36,655
<b>Total non-current assets</b>		<b>122,207</b>	<b>36,655</b>
<b>TOTAL ASSETS</b>		<b>7,176,348</b>	<b>1,591,767</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		123,156	68,779
Provisions		82,293	44,398
<b>Total current liabilities</b>		<b>205,449</b>	<b>113,177</b>
<b>TOTAL LIABILITIES</b>		<b>205,449</b>	<b>113,177</b>
<b>NET ASSETS</b>		<b>6,970,899</b>	<b>1,478,590</b>
<b>EQUITY</b>			
Issued capital	6	10,679,763	4,437,958
Reserves		186,890	33,591
Accumulated losses		(3,895,754)	(2,992,959)
<b>TOTAL EQUITY</b>		<b>6,970,899</b>	<b>1,478,590</b>

# Marengo Mining Limited

## Consolidated Statement of Changes in Equity

For the Period Ended 31 December 2005

December 31 2005	Consolidated			Total \$
	Ordinary Shares \$	Accumulated Losses \$	Reserves \$	
Equity as at beginning of period	4,437,958	(2,958,873)	(495)	1,478,590
<b>Prior period adjustments (AIFRS)</b>	-	(34,086)	34,086	-
<b>Equity restated as at 30 June 2005</b>	<b>4,437,958</b>	<b>(2,992,959)</b>	<b>33,591</b>	<b>1,478,590</b>
<b>Changes</b>				
(Loss) attributable to members of the parent entity	-	(902,795)	-	(902,795)
Shares issued during the period	6,611,000	-	-	6,611,000
Transaction costs	(369,195)	-	-	(369,195)
<b>Transfers to and from reserves</b>				
Foreign currency translation reserve	-	-	6,839	6,839
Option reserve	-	-	146,460	146,460
<b>Sub-total</b>	<b>6,241,805</b>	<b>(902,795)</b>	<b>153,299</b>	<b>5,492,309</b>
<b>Equity as at 31 December 2005</b>	<b>10,679,763</b>	<b>(3,895,754)</b>	<b>186,890</b>	<b>6,970,899</b>

# Marengo Mining Limited

## Consolidated Statement of Changes in Equity

For the Period Ended 31 December 2005

December 31 2004	Consolidated			Total \$
	Ordinary Shares \$	Accumulated Losses \$	Option Reserve \$	
Equity as at beginning of period	4,191,958	(1,636,755)	-	2,555,203
<b>Prior period adjustments (AIFRS)</b>		(864)	864	-
<b>Equity restated as at 30 June 2004</b>	<b>4,191,958</b>	<b>(1,637,619)</b>	<b>864</b>	<b>2,555,203</b>
<b>Changes</b>				
(Loss) attributable to members of the parent entity	-	(643,420)	-	(643,420)
Shares issued during the period	148,500	-	-	148,500
<b>Sub-total</b>	<b>148,500</b>	<b>(643,420)</b>	<b>-</b>	<b>(494,920)</b>
<b>Equity as at 31 December 2004</b>	<b>4,340,458</b>	<b>(2,281,039)</b>	<b>864</b>	<b>2,060,283</b>

# Marengo Mining Limited

## Statement of Cash Flows

For the period ended 31 December 2005

	December 31	December 31
Note	2005 \$	2004 \$
<b>Cash from operating activities:</b>		
Payments to suppliers and employees	(210,785)	(245,855)
Payments for exploration	(473,048)	-
Interest received	93,125	56,451
<b>Total cash used in operating activities</b>	<b>(590,708)</b>	<b>(189,404)</b>
<b>Cash flows from investing activities:</b>		
Exploration expenditure	-	(269,267)
Payments to acquire property, plant and equipment	(91,471)	(2,348)
<b>Net cash used by investing activities</b>	<b>(91,471)</b>	<b>(271,615)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the issue of share capital	6,097,716	-
<b>Net cash from financing activities</b>	<b>6,097,716</b>	<b>-</b>
<b>Other activities:</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,415,537</b>	<b>(461,019)</b>
Cash and cash equivalents at beginning of period	1,545,186	2,577,560
<b>Cash and cash equivalents at end of period</b>	<b>6,960,723</b>	<b>2,116,541</b>

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 1 Statement of Significant Accounting Policies

#### 1. Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the interim half-year ended 31 December 2005 has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134: Interim Financial Reporting. This half-year report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2005 and public announcements made by Marengo Mining Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act, 2001.

The principal accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

This interim financial report is the first Marengo Mining Limited interim financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards ('AIFRSs'). AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ('AGAAP'). The conversion of the balance sheet at 30 June 2005 from AGAAP to AIFRS, which is disclosed in Note 8, has not resulted in any material financial impact on balance sheet carrying values or any alteration to the income statement or cash flow.

#### Principles of Consolidation

The consolidated financial statements comprise the financial statements of Marengo Mining Limited and its subsidiaries ('the Group'). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Marengo Mining Limited has control.

#### Taxation

Current tax is calculated by references to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 1 Statement of Significant Accounting Policies

#### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

The Group has not brought to account the estimated future income tax benefits attributable to tax losses and temporary differences as a deferred tax asset, as it is not yet considered probable that future taxable profit will be available for utilisation.

#### Impairment of Assets

The recoverable amount of an asset is determined as the higher of net selling price and value in use. Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses (the cost method). The fair value of property, plant and equipment, as determined by reference to observable prices, is not materially different to the carrying amount.

#### Exploration and Evaluation Costs

Exploration and evaluation costs are written off in the period they are incurred.

#### Comparative Figures

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

#### Property, Plant and Equipment

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

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 1 Statement of Significant Accounting Policies

#### Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

#### Depreciation

The depreciable amount of all fixed assets, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for depreciable assets vary between 20% and 40%.

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

#### Cash and Cash Equivalents

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

#### Employee Benefits

Provision is made for the Group's liability for employee benefits arising out of services rendered by the employees as at balance date. Employee benefits that are expected to be settled within one year have been measured by the amount expected to be paid when the liability is settled, plus any related on costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflow to be made for those benefits.

#### Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) for receivables and payables which are recognised inclusive of GST, the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

#### Revenue

##### Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 1 Statement of Significant Accounting Policies

#### Interest revenue

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

#### Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### Foreign currency translation

The functional and presentation currency of Marengo Mining Limited is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary (Marengo Mining (PNG) Limited) is Kina (K).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Marengo Mining Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

#### Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial 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 awards 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

# Marengo Mining Limited

## Notes to the Financial Statements

### For the Period Ended 31 December 2005

#### 1 Statement of Significant Accounting Policies

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.

#### Payables

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

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

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 2 Cash and Cash Equivalents

Reconciliation of Cash and cash equivalents

	31 December	30 June
	2005	2005
	\$	\$
Cash on hand	500	-
Bank balances	534,184	1,545,186
Short-term deposits	6,426,039	-
	<u>6,960,723</u>	<u>1,545,186</u>

### 3 Segment Information – Primary Segment

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

Geographic segments

#### Revenue

	Australia		Papua New Guinea		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
Segment Revenue	93,125	56,451	-	-	-	-	93,125	56,451
Segment Results	(970,033)	(643,420)	(191,273)	-	258,511	-	(902,795)	(643,420)

### 4 Contingent Liabilities

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

### 5 Dividends

No dividends have been paid or provided for in the half year.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 6 Issued capital

#### Summary Table

	31 December 2005 \$	30 June 2005 \$
61,678,712 (2005: 33,900,377) Ordinary fully paid shares	10,679,763	4,437,958
<b>Total</b>	<b>10,679,763</b>	<b>4,437,958</b>

Shares Issued	Number
Balance as at 1 July 2005	33,900,377
Capital raising on 1 August 2005	3,333,334
Conversion of options on 1 September 2005	5,000
Allotment of shares on 10 November 2005	24,440,001
Balance as at 31 December 2005	<u>61,678,712</u>

#### Options on issue as at 31 December 2005

Exercisable at 20 cents, on or before 28 February 2008	42,416,080
Exercisable at 20 cents, on or before 30 November 2008	2,900,000
Exercisable at 25 cents, on or before 30 November 2008	4,400,000
Exercisable at 30 cents, on or before 30 November 2008	2,900,000
Exercisable at 20 cents, on or before 31 December 2009	170,000
Exercisable at 25 cents, on or before 31 December 2010	170,000
Exercisable at 30 cents, on or before 31 December 2011	160,000
<b>Total</b>	<b><u>53,116,080</u></b>

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 7 Events Subsequent to Reporting Date

Subsequent to period end:

1. On 13 March 2006, the Company issued 4,000,000 shares at 30 cents to Sempra Metals Corp together with 4,000,000 attaching, unlisted options, with a strike price of 40 cents, expiring on 30 November 2008. This issue raised to gross \$1.2 million in additional capital for the company and,
2. The company entered into a heads of agreement with the shareholder of Belvedere Limited, a PNG company, for the acquisition of the company which controls the remaining 50% interest in the company's Yandera project. The consideration for this transaction, payable to Belvedere shareholders, is as follows;
  - a. cash payment of A\$3 million,
  - b. the issue of 12,000,000 fully paid shares in Marengo Mining Limited, and
  - c. the issue of 6,000,000 listed options to acquire fully paid shares in Marengo Mining Limited, exercisable at 20 cents on or before 28 February 2008.

The transaction is subject to shareholder approval. The company has not yet set a date for the meeting however it is anticipated that this will occur during April 2006.

Apart from the above, no other matters or circumstances have arisen since the end of the financial period 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.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 8 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

#### Reconciliation of Equity at 1 July 2004

	Previous GAAP as at 1 July 2004 \$	Adjustment on introduction of Australian equivalents to IFRS \$	Australian Equivalents to IFRS at 1 July 2004 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2,577,560	-	2,577,560
Trade and other receivables	14,184	-	14,184
<b>TOTAL CURRENT ASSETS</b>	<b>2,591,744</b>	<b>-</b>	<b>2,591,744</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	33,569	-	33,569
<b>TOTAL NON-CURRENT ASSETS</b>	<b>33,569</b>	<b>-</b>	<b>33,569</b>
<b>TOTAL ASSETS</b>	<b>2,625,313</b>	<b>-</b>	<b>2,625,313</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	49,857	-	49,857
Short-term provisions	20,253	-	20,253
<b>TOTAL CURRENT LIABILITIES</b>	<b>70,110</b>	<b>-</b>	<b>70,110</b>
<b>TOTAL LIABILITIES</b>	<b>70,110</b>	<b>-</b>	<b>70,110</b>
<b>NET ASSETS</b>	<b>2,555,203</b>	<b>-</b>	<b>2,555,203</b>
<b>EQUITY</b>			
Issued capital	4,191,958		4,191,958
Reserves	-	864	864
Accumulated losses	(1,636,755)	(864)	(1,637,619)
<b>TOTAL EQUITY</b>	<b>2,555,203</b>	<b>-</b>	<b>2,555,203</b>

Under AASB 2 (Share Based Payments), the Group has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 8 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

#### Reconciliation of Equity at 31 December 2004

	Previous GAAP as at 31 December 2004 \$	Adjustment on introduction of Australian equivalents to IFRS \$	Australian Equivalents to IFRS at 31 December 2004 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2,116,541	-	2,116,541
Trade and other receivables	17,699	-	17,699
<b>TOTAL CURRENT ASSETS</b>	<b>2,134,240</b>	<b>-</b>	<b>2,134,240</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	31,676	-	31,676
<b>TOTAL NON-CURRENT ASSETS</b>	<b>31,676</b>	<b>-</b>	<b>31,676</b>
<b>TOTAL ASSETS</b>	<b>2,165,916</b>	<b>-</b>	<b>2,165,916</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	75,270	-	75,270
Short-term provisions	30,363	-	30,363
<b>TOTAL CURRENT LIABILITIES</b>	<b>105,633</b>	<b>-</b>	<b>105,633</b>
<b>TOTAL LIABILITIES</b>	<b>105,633</b>	<b>-</b>	<b>105,633</b>
<b>NET ASSETS</b>	<b>2,060,283</b>	<b>-</b>	<b>2,060,283</b>
<b>EQUITY</b>			
Issued capital	4,340,458	-	4,340,458
Reserves	-	864	864
Accumulated losses	(2,280,175)	(864)	(2,281,039)
<b>TOTAL EQUITY</b>	<b>2,060,283</b>	<b>-</b>	<b>2,060,283</b>

Under AASB 2 (Share Based Payments), the Group has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 8 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

#### Reconciliation of Equity at 30 June 2005

	Previous GAAP as at 30 June 2005 \$	Adjustment on introduction of Australian equivalents to IFRS \$	Australian Equivalents to IFRS at 30 June 2005 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1,545,186	-	1,545,186
Trade and other receivables	9,926	-	9,926
<b>TOTAL CURRENT ASSETS</b>	<b>1,555,112</b>	<b>-</b>	<b>1,555,112</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	36,655	-	36,655
<b>TOTAL NON-CURRENT ASSETS</b>	<b>36,655</b>	<b>-</b>	<b>36,655</b>
<b>TOTAL ASSETS</b>	<b>1,591,767</b>	<b>-</b>	<b>1,591,767</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	68,779	-	68,779
Short-term provisions	44,398	-	44,398
<b>TOTAL CURRENT LIABILITIES</b>	<b>113,177</b>	<b>-</b>	<b>113,177</b>
<b>TOTAL LIABILITIES</b>	<b>113,177</b>	<b>-</b>	<b>113,177</b>
<b>NET ASSETS</b>	<b>1,478,590</b>	<b>-</b>	<b>1,478,590</b>
<b>EQUITY</b>			
Issued capital	4,437,958	-	4,437,958
Reserves	(495)	34,086	33,591
Accumulated losses	(2,958,873)	(34,086)	(2,992,959)
<b>TOTAL EQUITY</b>	<b>1,478,590</b>	<b>-</b>	<b>1,478,590</b>

Under AASB 2 (Share Based Payments), the Group has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### 8 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

#### Reconciliation of Profit and Loss by function (end of prior year)

Economic Entity

#### Reconciliation of Profit or Loss for year ended 30 June 2005

	Previous GAAP \$	Effect of Translation to Australian Equivalents to IFRS \$	Australian Equivalents to IFRS \$
Other income	111,182	-	111,182
Depreciation expense	(9,541)	-	(9,541)
Salaries and employee benefit expense	(302,238)	-	(302,238)
Exploration expenses	(779,902)	-	(779,902)
Recognition of share based payment expense	-	(33,224)	(33,224)
Other expenses	(341,619)	-	(341,619)
<b>(Loss) before income tax</b>	<b>(1,322,118)</b>	<b>(33,224)</b>	<b>(1,355,342)</b>
<b>Income tax</b>	-	-	-
<b>(Loss) after related income tax</b>	<b>(1,322,118)</b>	<b>(33,224)</b>	<b>(1,355,342)</b>
<b>(Loss) attributable to members of the parent entity</b>	<b>(1,322,118)</b>	<b>(33,224)</b>	<b>(1,355,342)</b>

Under AASB 2 (Share Based Payments), the Group has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

Economic Entity

### Reconciliation of Profit or Loss for the half year to 31 December 2004

	Previous GAAP \$	Effect of Translation to Australian Equivalents to IFRS \$	Australian Equivalents to IFRS \$
Other income	56,451	-	56,451
Depreciation and amortisation	(4,241)	-	(4,241)
Salaries and employee benefit expense	(110,619)	-	(110,619)
Exploration expenses	-	-	-
Recognition of share based payment expense	-	(864)	(864)
Other expenses	(585,011)	-	(585,011)
<b>(Loss) before income tax</b>	<b>(643,420)</b>	<b>(864)</b>	<b>(644,284)</b>
<b>Income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Loss) after related income tax</b>	<b>(643,420)</b>	<b>(864)</b>	<b>(644,284)</b>
<b>(Loss) attributable to members of the parent entity</b>	<b>(643,420)</b>	<b>(864)</b>	<b>(644,284)</b>

Under AASB 2 (Share Based Payments), the Group has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

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

# Marengo Mining Limited

## Notes to the Financial Statements

For the Period Ended 31 December 2005

### Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 3 to 20:

- (a) comply with Accounting Standard AASB 134:Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) give a true and fair view of the financial position as at 31 December 2005 and of the performance for the half year ended on that date of the consolidated entity.

2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director .....

Dennis Wilkins

Dated 16<sup>th</sup> March 2006



# STANTON PARTNERS

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WEST PERTH 6005  
WESTERN AUSTRALIA

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e-mail: australia@stanton.com.au

## **INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MARENGO MINING LIMITED**

### **Scope**

We have reviewed the financial report comprising the balance sheet, income statement, statement of cash flows, statement of changes in equity and accompanying notes of Marengo Mining Limited (the Company) for the half-year ended 31 December 2005 as set out on pages 3 to 21. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half year or from time to time during the half year. The disclosing entity's directors are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### **Review Approach**

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission and the Australian Stock Exchange.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### **Independence**

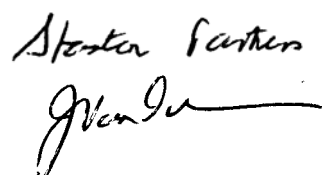
We are independent of the Company, and have met the independence requirements of Australian ethical pronouncements and the Corporations Act 2001. We have given the directors of the Company a written Auditor's Independence Declaration.

### **Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Marengo Mining Ltd is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

### **STANTON PARTNERS**



**J P Van Dieren**  
**Partner**

West Perth, Western Australia  
16 March 2006



## STANTON PARTNERS

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16 March 2006

The Directors  
Marengo Mining Ltd  
Level 2  
9 Havelock Street  
WEST PERTH WA 6005

Dear Sirs

**RE: MARENGO MINING LTD**

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 Ltd.

As Audit Partner for the review of the financial statements of Marengo Mining Ltd for the half year ended 31 December 2005, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely  
**STANTON PARTNERS**

**John Van Dieren**  
**Partner**